INTRODUCTION

"To spend money is easy, to spend it well is hard," wrote economist Wesley Mitchell in the pages of the *American Economic Review* in 1912, elaborating on the "backward art of spending money" that characterized most Americans.[1] Mitchell contrasted the American consumer's "ignorance" with the big industrialist's efficient expenditure based upon accumulated empirical knowledge. As the founding director of the National Bureau of Economic Research, a think tank the newly created Commonwealth Fund bankrolled in 1919, Mitchell soon became the beneficiary of another kind of expenditure that reflected the exploratory habit of mind of some contemporary industrialists and other Americans of means.[2] They were investing large sums in new philanthropic foundations and endowments designed to foster social progress in which they believed.

Andrew Carnegie, who conducted large-scale philanthropy with the same obsession with which he streamlined steel operations, remembered late in his life the day when he "resolved to stop accumulating" and began "the infinitely more serious and difficult task" of what he termed "wise distribution."[3] Certainly, he wanted everybody to know that he had reached his decision to become a philanthropist as a matter of duty. In his own words, he was following a "gospel of wealth" that obligated him to return to society what he had taken, but he was determined to do so by following the same intelligent managerial principles that had made him a rich man. Carnegie's approach to philanthropy gained currency. Over the course of the next century, philanthropists and their advisers followed in Carnegie's footsteps, perfecting the art of spending money for the common good.

Carnegie and his peers clearly felt exhilaration at putting their fortunes to work for large causes at home and abroad. They enjoyed the exercise of power entailed in building entirely new philanthropic institutions—most notably the general-purpose foundation—and underwriting important experiments in higher education, science, and medicine. Their innovation was to conceive of philanthropic funding as yet another financial investment and to use the skills they had acquired in business to minimize the risk of their speculations, and to vastly enlarge the scope of their charitable giving. Traditional charitable givers had more modest goals and did not expect much in return for their generosity. What may have been true of the traditional giver, however, was no longer true of the modern philanthropic funder. American philanthropy would be a capitalist venture in social betterment, not an act of kindness as understood in Christianity.

Carnegie and other wealthy industrialists, however, were not the only ones who invested in the greater good. Philanthropic practice grew ever more inclusive after the turn of the century as new forms of giving attracted donations from millions of Americans of modest means. At his new economic institute, Mitchell measured the ways in which Americans spent their income, and that included contributing to the new mass philanthropy. Community chests, community foundations, and national health organizations such as the American Cancer Society superseded America's tradition of small-scale, local associations with national, mass appeals aimed at tackling increasingly ambitious causes like curing major diseases or pressing for social reform.

The rise in disposable income among the middle and working classes dramatically increased the number of Americans who could join in such causes. Speaking of the comparatively high wages skilled workers were receiving in American industry, German economist Werner Sombart famously wrote in 1906 that "all Socialist utopias came to nothing on roast beef and apple pie."[4] Sombart opened a long debate as to whether high wages had killed class consciousness in America. Whether they had or not, Americans were clearly ready to contribute a portion of their "roast beef and apple pie" to promote the social good. By the 1950s, mass philanthropy was so well integrated into everyday life in the United States that one could identify the season by the door-to-door collection in progress—winter and spring for health agencies and the Red Cross, fall for community chests. A large part of the American population understood that their small gifts cumulatively enhanced the life of the nation and in turn their own.

In this book, I tell the story of the convergence of big-money philanthropy and mass giving that has sustained civil society initiatives over a long twentieth century. From Andrew Carnegie to Bill Gates, and from ordinary people who purchased Christmas seals to fight tuberculosis to those who wear pink ribbons to battle breast cancer, the nation has come to view philanthropy as both a quintessential part of being American and another means of achieving major objectives. Foundations originating in large private fortunes have collaborated with institutions of mass philanthropy in promoting scientific research, supporting educational institutions, and fighting for human rights. Together they have forged a philanthropic sector that donors, beneficiaries, and the state recognize as a critical source of ideas as well as of funding.

American philanthropists' most important innovation, made possible by the multiplication of large fortunes in the late nineteenth century, was to envision an unlimited agenda of works, in which participants redefined goals as circumstances changed. In partnership with reformers, philanthropists no longer confined themselves to narrowly defined causes, as both tradition and the existing legal framework of charity required. They promoted instead nothing less than "the well-being of mankind," a phrase that came to be increasingly used in foundation charters and bequests. Mass philanthropy added size to the scope of this new and uniquely American open-ended philanthropy—the outcome of a silent but major legal revolution that I detail in this book.

Throughout the nineteenth century, the influence of philanthropy over public affairs had been limited by the "dead hand" of the donor—the legal obligation for trustees to follow strictures only because they were the donor's wishes. Julius Rosenwald, the man who built Sears, Roebuck and devoted his fortune to building thousands of elementary schools for African-Americans in the South in the early twentieth century, made just that point in an article in the *Atlantic Monthly* in 1929. Rosenwald produced a long list of trusts that had become quickly irrelevant because they were narrowly defined. As an example, he pointed to a trust set up to ensure that the female students at Bryn Mawr College be sufficiently nourished. The donor had created a fund to provide the young women with a baked potato at every meal, but when Rosenwald wrote young women were worried more about overindulgence than malnutrition.[5] Rosenwald himself expressed his strong opposition to the dead hand by putting a time limit on the large fund he had created for his philanthropic ventures. Others have chosen to design trust instruments more creatively, making it possible for trustees to update goals according to shifting conditions. Their foundations would be able to tackle new problems as they emerged rather than being tied to the original wishes of the founder or the letter of an outdated charter.

The more ambitious the philanthropic projects, the more inextricably they became linked with national affairs. Politicians and regulators, confronted by a myriad of innovations and by the leverage philanthropists applied, formalized the federal government's recognition of philanthropic institutions as public assets through its revenue acts. After Congress ratified the Sixteenth Amendment instituting the income tax in 1913, the Treasury Department created a single category in the tax code for exempting philanthropies, whether originating in big money, mass appeals, or communities. Tax exemption has not only nurtured philanthropy in society, it has entrenched it. Equally important, it encourages an otherwise very diverse group of institutions that have dispersed and/or solicited private funds for the public good to work together, in essence fostering a nonprofit sector of groups with similar interests and privileges.

The nonprofit sector is the outcome of this unique encounter between philanthropy and the state. It is a hybrid capitalist creation that operates tax free so long as profits are reinvested in the common good. Otherwise, it retains many of the characteristics of for-profit enterprises. For instance, funds that remain in endowment are managed according to market principles, though revenues are designated for the support of beneficiaries rather than for the profit of stockholders. Over its history, the nonprofit sector has become a distinct and pervasive part of the American political economy. Taken together, its funding from four principal sources—annual gifts including monies solicited through fund-raising campaigns, returns on a variety of endowments, net income earned in performing not-for-profit functions, and government subsidies, all tax exempt—is today comparable to that of the Pentagon.[6]

Despite the continued recognition of philanthropy as a public asset, its history has been contentious. Philanthropists have invested their resources in the greater American fight over the definition of the common good. They have taken sides in all the partisan encounters that have divided our society and have strategically intervened in essential debates on citizenship, opportunity, and rights.

The federal government, however, has been eager to encourage the creation of philanthropic resources only to the extent that it could simultaneously prevent their application to the political process and preserve the prerogatives of the executive and legislative branches. The most commonly heard rationale for keeping philanthropy at bay, or for proscribing some of its activities, is that the state cannot subsidize through tax exemption philanthropic lobbying of politicians and political campaigns that not only would impinge upon its own functions but also would give an unfair advantage to some. Courts and government officials have therefore built an often arbitrary divide between a political-neutral field of "education," which they allow to philanthropy, and political "action," which is off limits. How Americans have managed this theoretical divide over the course of the twentieth century is a big part of the history I am about to tell.

Thus philanthropists were allowed to finance schools for African-American children in the South but were subject to a host of legal hurdles when they attempted to desegregate them, assist in voter registration, or otherwise help minorities fight for their civil rights. Nonprofits regularly ran up against this barrier. Even when they tried hard to avoid political controversy, philanthropists have not easily separated their good works or even theoretically value-neutral science from the larger political context surrounding them. As a result, they have campaigned for changes in the law.

In recounting ideological confrontations, court battles, and institutional reorganizations aimed at applying large private resources to the common good, I retrace systematically the ways in which nonprofit and government sectors have joined forces and competed with one another. I pay special attention to how different administrations have used regulation of nonprofits as strategy in partisan battles over larger social issues. I see not the uninterrupted growth of a leviathan but a dynamic succession of experiments in government–civil society cooperation. Different administrations have attempted dissimilar ways of constructing a mixed political economy of giving. Herbert Hoover tried to integrate a self-financing nonprofit sector into a well-defined federal chain of command, first in the "associative state" of his years as secretary of commerce, then in his attempt as president to contain the Great Depression. President Roosevelt and his "relief czar" Harry Hopkins took a completely different approach, insisting on full autonomy for the federal government to distribute its own resources across the country and to that end excluded philanthropy from New Deal federal-state relations. In the Great Society, President Johnson created an original fusion of private and public funds to deliver social services to the poor, many of which emerged from philanthropic pilot programs. His mixed political economy of giving has survived even the recent challenges of what President George W. Bush called "compassionate conservatism."

Philanthropists and government officials have cooperated more readily when working together on international rather than domestic affairs. Private funding of humanitarian rescue operations and development work has remained throughout most of the century an adjunct of American diplomacy, especially in war zones, and during the long Cold War with the Soviet Union. While deep conflicts between conservatives and liberals at home have often faded in the larger terrain of the Pax Americana, there have been very significant exceptions when philanthropic organizations have shown enough autonomy to alter the course of foreign policy. Most recently, American philanthropic organizations were instrumental in generating global means of economic development and humanitarian intervention. They took the lead in combining state and private resources in global funds to provide indispensable resources of food, medicine, and agricultural implements directly to populations in need around the globe. By setting the terms of its partnership with state and international organizations, philanthropy is today funding a global civil society.

The book you are about to read is therefore a history of how and why philanthropy has mattered in the American century. I ask whether philanthropy, despite some openly conservative manifestations, should be understood as part of the American progressive tradition. I show how philanthropic institutions have contributed enormously to democratic society without ever achieving an uncontested place within the political system. Most importantly, I show how Americans of all classes have invested enormous energy in philanthropy, and how the resulting network of foundations and community institutions has enlarged American democracy.