NAEPC
Journal
of Estate & Tax Planning

Click here to view Issue 32

What Did Bill Gates and Warren Buffett Learn from Andrew Carnegie?

Recently, I was reflecting on a report by the Center on Wealth and Philanthropy at Boston College that estimates that $59 trillion in today's dollars will be transferred from one American generation to another from 2007 to 2061. This will be the greatest wealth transfer in human world history.

I have long agreed that material wealth is not a crime, it is a blessing. Humans are born to toil and to reap what we have sown. I am always mindful that you can't keep what you have not rightfully earned. Thus, when a person invests effort, they earn their reward and when they don't they won't. It can be persuasively argued that everything in life is just rented and transient such as cars, homes and even businesses. The sages tell us in Psalms 49: "people, despite their wealth, do not endure; they are like the beasts that perish." The exceptions to this rule are the accumulated experiences we acquire and friendship and love we give to others while we inhabit this temporal plane of existence.

For those who have been blessed with material wealth, one should regard themselves privileged to have earned and then been entrusted with the responsibility for dispensing with it.

The $59 Trillion question is how will this wealth be distributed equitably?

Sir Isaac Newton wrote that *"If I have seen further it is only by standing on the shoulders of giants,"* and such a giant in the world of philanthropy like no other before or since was Andrew Carnegie. When Carnegie attacked this problem of how he would distribute his wealth in his 1898 classical essay *The Gospel of Wealth*, at that moment he was the world's richest man alive. He had risen from such humble beginnings from when he first arrived on the shores of the United States as a poor Scottish immigrant kid. In his treaty Carnegie defined a universal problem, "the proper administration of wealth, so that the ties of brotherhood may still bind together the rich and poor in harmonious relationships."

It is Andrew Carnegie's essay that inspired both Bill Gates and Warren Buffett to pledge most of their wealth for philanthropic causes. And to approach other billionaires to pledge their wealth to go towards charitable causes when they are no longer walking this earth.

A main tenet of Carnegie's well-articulated belief system was to give smartly while one was alive so they would participate in witnessing the benefits created by their wealth for others before they departed. That it is better to give with a warm hand than with a cold one. Knowing that a wealthy miser and a fat steer are only of value to society when they are both dead. When Carnegie contributed his money, time and resources to those in need, he believed he was not being benevolent, generous or charitable. He was doing what was right and just.

Like Maimonides the great medieval philosopher centuries before him, Carnegie believed the highest level of giving which there is no greater is to support a fellow human being by endowing them with a gift or a loan, or to enter into partnership with them, or to find them employment, in order to strengthen their hand until they need no longer be dependent upon others. So the receiver of this help will be empowered to continue this chain of good deeds by assisting others reach their full potential.

No one can argue that Carnegie failed to put his money where his mouth was. By the time of his death in 1919 Carnegie had strategically given away over 90% of his wealth. He valued universal education because how it had benefited him through the generosity he had received from others. He honored this commitment to learning by funding scientific research and the establishment of a teachers' pension. Before his death he had financed over 2,000 public libraries and countless universities, colleges and schools. Carnegie's highest value was that of universal justice and opportunity for all. He helped realize this belief by building The Hague Palace of Peace, which today houses the World Court, in the Netherlands.

Carnegie described that there are "three modes in which surplus wealth can be disposed of. It can be left to the families of the deceased; or it can be bequeathed for public purposes; or, finally, it can be administered during their lives by its possessors."

In the first mode of leaving one's fortune solely to family Carnegie observed that leaving great sums of wealth to children is more of a burdened to them than a gift. Carnegie believed providing beyond moderate sources of income to family members "often worked more for the injury than for the good of the recipients."

Carnegie remarked that the aim of a parent is to make their children healthy contributors to society. With this concept in mind he suggests inheritance should be modest, and only provide for unostentatious living and the avoidance of extravagance. He understood that there must be different standards of inheritance for different conditions and not all are equal. An example of this is a disabled dependent child will need more resources left to them than a sibling with a Harvard Law Degree that is the senior partner at a Wall Street law firm. Carnegie believed giving too much money to healthy family members was more of a curse than a blessing. Doing so was "not in the welfare of the children, but family pride, which inspires these enormous legacies."

If one allowed for the second mode of leaving great sums of wealth at death for public use Carnegie felt that these bequests only create monuments for the dead. This method according to him proved ones failure in life by not creating value while they were alive. Carnegie said "men who leave vast sums in this way may fairly be thought men who would not have left it at all, had they been able to take it with them."

Carnegie advocated for and lived out the third method for distributing great wealth that of attending to the administration and distribution of it to worthy causes during one's lifetime. He emphasized that "the man who dies leaving behind many millions of available wealth which was his to administer during his life, will pass away unwept, unhonored, and unsung, no matter to what uses he leaves the dross which he cannot take with him."

In any society the Pareto Principle also referred to as the 80/20 Rule is always in play that the greatest concentrated of wealth finds its way into the hands of the few. But through the hands of the few, Carnegie believed they had the opportunity for mindful giving to be a potent force for the elevation of societal good. He personally recommended that the main consideration of giving should be “to help those who will help themselves. To provide part of the means by which those who desire to improve may do so.” Giving that intends to do the most good in repairing the world by making it a better place to live for all.

And if extremely wealthy clients don’t want to heed Andrew Carnegie’s advice about honoring their life’s fortunes by continuously distributing it worthily while they are here, he believed this is why there are huge taxes at death, to compensate for what these financially rich but morally poor could have accomplished while alive but chose not to do.

Peter J. Merrick, FMA, CFP, TEP, FCSI is a trust and estate practitioner and a Canadian/ US Cross Boarder Consultant at TheIceSolution.com, an exit planning firm with offices in San Diego and Toronto. He is the author of four books, ASK - Advisors Seeking Knowledge, The TASK – The Trusted Advisor’s Survival Kit, The Essential Individual Pension Plan Handbook and The King of Main Street. He can be reached at Peter@TheIceSolution. com or 416-854-1776.