“Gifts and Bequests: Family or Philanthropic Organizations?”

Paul G. Schervish and John J. Havens
Published in *Death and Dollars*
Edited by Alicia Munnell and Annika Sunden
ABOUT BROOKINGS
The Brookings Institution is a private nonprofit organization devoted to research, education, and publication on important issues of domestic and foreign policy. Its principal purpose is to bring knowledge to bear on current and emerging policy problems. The Institution maintains a position of neutrality on issues of public policy: Interpretations or conclusions in Brookings publications should be understood to be solely those of the authors.

Copyright © 2003
THE BROOKINGS INSTITUTION
1775 Massachusetts Avenue, N.W., Washington, D.C. 20036
www.brookings.edu
All rights reserved

Library of Congress Cataloging-in-Publication data
Death and dollars: the role of gifts and bequests in America / Alicia H. Munnell and Annika Sundén, editors.
p. cm.
Includes bibliographical references and index.
1. Inheritance and succession—United States. 2. Wealth—United States. 3. Charitable uses, trusts and foundations—United States. 4. Charitable bequests—United States. I. Munnell, Alicia Haydock. II. Sundén, Annika E.
HB715.D4 2003
339.22--dc21 2002156373

9 8 7 6 5 4 3 2 1


Typeset in Adobe Garamond
Composition by
Betsy Kulamer
Washington, D.C.

Printed by
R. R. Donnelley
Harrisonburg, Virginia

Contents

1 Introduction
Alicia H. Munnell

Part 1. The U.S. Experience in Perspective

2 A History of Bequests in the United States
J. Bradford DeLong
Comments by Peter A. Diamond and Jonathan Skinner 53

3 The Role of Gift and Estate Transfers in
the United States and in Europe
Pierre Pette Jou
Comment by Peter R. Orszag 86

Part 2. How Do People Make Gifts and Bequests?

4 Bequests: By Accident or by Design?
Michael D. Hurd
Comments by Andrew B. Abel and Jonathan Gruber 118
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Gifts and Bequests: Family or Philanthropic Organizations?</td>
<td>130</td>
</tr>
<tr>
<td></td>
<td><em>Paul G. Schervish and John J. Havens</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>Comments by James Andreoni and Charles Clotfelter</em></td>
<td>159</td>
</tr>
<tr>
<td>6</td>
<td>Private Transfers within the Family: Mothers, Fathers, Sons, and Daughters</td>
<td>168</td>
</tr>
<tr>
<td></td>
<td><em>Donald Cox</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>Comments by Theodore Bergstrom and Kathleen McGarry</em></td>
<td>197</td>
</tr>
</tbody>
</table>

### Part 3. Taxes, Pension Benefits, and Wealth Transfers

| 7       | Tax Consequences on Wealth Accumulation and Transfers of the Rich    | 213  |
|         | *Wojciech Kopczuk and Joel Slemrod*                                  |      |
|         | *Comments by Ray D. Madoff and James Poterba*                       | 249  |
| 8       | The Impact of Defined Contribution Plans on Bequests                | 265  |
|         | *Alicia Munnell, Annika Sundén, Mauricio Soto, and Catherine Taylor* |      |
|         | *Comments by Amy Finkelstein and Olivia S. Mitchell*                | 307  |

### Part 4. Wealth Transfers and the Economy

| 9       | The Impact of Gifts and Bequests on Aggregate Saving and Capital Accumulation | 319  |
|         | *William G. Gale and Samara Potter*                                   |      |
|         | *Comments by Peter A. Diamond and Laurence J. Kotlikoff*             | 336  |
| 10      | The Impact of Gifts and Bequests on the Distribution of Wealth       | 345  |
|         | *Edward N. Wolff*                                                    |      |
|         | *Comments by John Laitner and John Karl Scholz*                     | 378  |

References | 389 |
Contributors | 411 |
Index | 413 |

Introduction

**ALICIA H. MUNNELL**

Strong economic growth, a stock market boom in the 1990s, and the shift toward defined contribution pension plans means that more and more individuals will have significant wealth upon retirement. How they use that wealth will determine not only their own well-being, but also the living standards of their children, the resources available to philanthropies, and the level of investment capital in the economy. To predict the impact of policy changes on future wealth accumulation, it is important to understand not only the disposition of wealth, but also why people save in the first place. Do they accumulate wealth to support themselves in retirement or do they save to leave a bequest to their children?

This volume explores the reasons why people save, how they decide to allocate their wealth once they retire, and how givers select their beneficiaries. It also assesses the extent to which the estate tax and annuitization of retirement wealth affects the amount and nature of wealth transfers. Finally, it looks at the impact of wealth transfers—first on the amount of aggregate saving and capital accumulation, and then on the distribution of wealth among households. To place the U.S. experience in context, the analysis begins with a historical and an international perspective.

Several important issues appear repeatedly throughout the volume: The first is the motive for saving. The big question is whether bequests result from a deliberate bequest motive or from unpredictable deaths that occur
The growth in wealth over the past decades and the projected wealth transfer over the next half century of at least $41 trillion from estates of final decedents means that the decisionmaking process behind the allocation of transfers—both \textit{inter vivos} and by bequest—to heirs and charity has become of great interest in many quarters. The forthcoming wealth transfer is of significance not just to heirs, but to charities, financial planners, financial institutions, state and federal governments, and wealth holders themselves. It is this latter group, and how they decide to allocate their transfers to heirs and charity, that are the special interest of this chapter. We draw on our theoretical and empirical research on wealth and philanthropy to elaborate two new directions for understanding transfers to family and charity. The first is to suggest that identification with the fate of others is the primary variable that explains transfers to both family and charity for individuals across the economic spectrum. The second and newer direction is to argue that there is a major change in the decisionmaking dynamics of transfers when individuals reach a self-defined level of financial security. When wealth holders have redundant resources, that is, a substantially large enough lifetime resource stream to provide whatever they desire for themselves and their heirs, then the trade-offs between self and family, on the one hand, and charity, on the other, are obviated. If the first aspect of our argument is about continuity in underlying motivation, the second is about discontinuity in decisionmaking dynamics. Both aspects are sociopsychological in that they introduce and rely on behavioral explanations about the meanings and motivations that generate transfer decisions.

In the first section of this paper, we focus on the identification theory and supporting evidence for it, especially from the yearlong Boston Area Diary Study. Incorporating the identification theory into explanations of transfers to heirs and charity has the advantage of serving as a more general theory within which economic theories can be understood, and as a way to integrate aspects of economic theories of motivation. In the second section, we present empirical evidence concerning the relationship of income and wealth to charitable contributions and to interpersonal transfers. The findings suggest that the very wealthy make such substantial and disproportionate contributions to charity that some additional element, over and above identification, is at play in motivating their charitable giving. In the third section, we identify financial security as the additional factor that provides an impetus for greater charitable giving and helps explain why wealth holders at the high end of the wealth spectrum are disproportionately inclined toward charitable giving. Although the motivation of identification explains giving by individuals across the economic spectrum, the allocation of gifts is different for those individuals who have solved what Keynes calls "the economic problem (of scarcity)" and those who have not. If, due to financial security, the dynamics of wealth-transfer decisions are different for the very wealthy, then devising models that better fit their actual decisionmaking processes may contribute to better interpreting, if not clarifying, the contradictory or ambiguous findings about the determinants of transfer decisions, especially in regard to the role of tax considerations in charitable giving. In the fourth section of the paper, we explore a new direction in financial planning that wealth holders are employing. Financial planning procedures are an intervening behavioral variable that contributes to changing the decisionmaking process for wealth

2. Primarily out of necessity, we join other researchers in identifying wealth holders as those persons having at least $1,000,000 in family net worth. Few large data sets have a sufficient sample of wealthier individuals to focus solely on the extremely wealthy of $5 million or more, among whom, as we have confirmed in our interview studies, the trends we present here are even more strongly evident.
holders in relation to allocating transfers, often resulting in a greater priority being given to charitable giving. In the conclusion, we suggest that as a result of material wherewithal, identification with the fate of others, and new directions in financial planning, wealth holders may be shifting their wealth allocations toward philanthropy rather than heirs, in general, and toward inter vivos charitable contributions and transfers rather than bequests, in particular.

The Identification Theory

This section reviews the identification theory and suggests that it provides a general theoretical framework that shares elements with economic explanations of wealth-transfer decisions; that explains transfer decisions to family and philanthropy as similar in motivation; and that is applicable to decisions by individuals from across the economic spectrum. Most recent economic research concerning transfers to adult family members and philanthropic organizations relies on one of three competing motivational paradigms: altruism, exchange, and warm glow. The altruism paradigm assumes that the family, as an institution, functions to equalize the income of its members and that interpersonal (including intrafamilial) transfers are motivated by altruism, or more generally, that charitable contributions are motivated by altruism. The exchange paradigm assumes some quid pro quo motivates both interpersonal transfers and charitable contributions. The warm glow paradigm assumes that interpersonal transfers and charitable contributions may make the giver feel good and experience a psychological benefit. Each of these paradigms has its proponents and each has some evidence in its favor; however, none has emerged as the single valid motivation to explain either interpersonal transfers or charitable donations. Without denying the validity of any of these paradigms, we offer the identification theory as a broad, empirically derived motivational paradigm that integrates all three economic motivations.

The identification theory is developed from our extensive ethnographic and survey research on charitable giving, although its roots may be found in the religious and philosophical traditions of the practice of human love. The central tenet of the theory posits that self-identification with others in their needs, rather than selflessness, motivates transfers to individuals and to phil-

anthropic organizations and provides givers the satisfaction of fulfilling those needs.

Based on intensive interviews with 130 millionaires in 1986 and 1987 in the Study on Wealth and Philanthropy, we developed and subsequently refined the identification theory as a general framework for understanding interpersonal transfers and charitable behavior. The theory has two major components: First, philanthropic behavior, including both charitable donations and transfers to families, is a manifestation of the broader concept of caritas or care—what Toner defines as meeting the true needs of another person. Care radiates from the self and care of self is part of caritas. Care is first learned in the relationships of family, and expands to encompass friends, neighbors, associates, and others, and is expressed either directly through interpersonal care, or indirectly through nonprofit organizations. Care may

9. Schervish and Herman (1988); Schervish, Coutsoukis, and Lewis (1994). We do not hold that this theory is completely novel or that it contradicts the economic paradigms; indeed, its explicit antecedents can be traced at least as far back as Thomas Aquinas. Rather it provides a broader and perhaps richer context within which to understand transfer behavior, which may at times appear to reflect altruistic behavior, at other times reflect exchange behavior, and at yet other times, reflect warm glow. In fact, the theory has a precursor in economics. More than a quarter-century ago, an iconoclastic economist, Kenneth Boulding, foreshadowed the identification theory when he hypothesized that self-identification motivates both charitable and intrafamilial transfers. Examining the motivation for philanthropic giving, Boulding wrote in 1962: "The name philanthropy itself, which means of course, the love of man, is a clue to the essential nature of the genuine article. When we make a true gift, it is because we identify ourselves with the recipient . . . It is the capacity for empathy—or putting oneself in another's place, for feeling the joys and sorrows of another as one's own—which is the source of the genuine gift. It is because 'no man is an island,' because the very realization of our own identity implies in some sense that there is a common identity in humanity, that we are willing to 'socialize' our substance and to share with the afflicted . . . Obviously, the more an individual identifies with some cause, community, or organization, the more likely he is to support it and the greater will be his donations to it. This is why the immediate face-to-face group and the reference groups with which he has identified himself always figure largely in the amounts given by an individual. When he gives to his children, for instance, he gives in a sense to an extension of himself. When he gives to a church of which he is a member, he is expressing his identity with a community a little larger than the family but fulfilling some of the same functions. As he contributes toward it, therefore, he is contributing in a sense toward part of his larger self." Boulding (1962, pp. 61–2).

also extend to people collectively organized in groups, communities, and nations.

The second major component and the essence of the identification theory of caritas is the principle that caring behavior does not reflect selflessness or the absence of self; rather, a self-identification with others. Care results from a recognition that the needs of others are similar to what oneself or one's family has or could have personally experienced. As such, caring for others fulfills the needs of the caregiver as well as the needs of the recipient, providing the caregiver with a kind of emotional satisfaction akin to the "warm glow" motivation specified by some economists. In our research, we find that identification with others develops and is applied primarily through networks of association that bring donors into contact with potential recipients. Through the various constellations of formal and informal associations, some of which we seek out and some of which are thrust upon us, we learn about people in need and come to identify with them. It is not surprising, therefore, that we tend to give, at least at first, to those organizations and individuals we frequently associate with in our daily lives. One of the most consistent findings from our research is that the greatest portion of giving and volunteering takes place in a donor's own community and church, and helps support activities with which the donor is directly associated, and as is often the case, from which the donor directly benefits. Over the course of our research, it has become increasingly clear that differences in levels of giving of time and money are due less to differences in income, wealth, religion, gender, or race, and more to the mix and intensity of one's network of formal and informal associations, and hence to one's identifications, ranging from immediate family to extended family, friends, associates, community groups, and eventually beyond these groups.11

Identification in Practice: The Boston Area Diary Study

Evidence that the identification theory is a robust model for understanding the caring behavior of a wide spectrum of individuals at all levels of income and wealth—as well as age, ethnicity, gender, and marital status—comes from the Boston Area Diary Study (BADS) which we conducted during 1995 and 1996. To our knowledge, this is the first methodologically rigorous diary study focusing primarily on giving and volunteering.12 The BADS involved repeated intensive interviews with forty-four randomly selected people who were contacted weekly by telephone to report on care given and care received over the course of a year. The study collected information from participants concerning money and goods given to and received from charitable organizations and other persons, except for spouses and dependent children. The study also inquired about time both given and received in unpaid assistance, emotional support, and volunteer activity from organizations and other persons, excluding spouses and dependent children. The findings show that care is a unity or seamless continuum which does not distinguish between recipients except in regard to immediacy of need; and that the individuals and causes that received the most care were those with which our interviewees identified in a personal way.

Table 5-1 summarizes respondents' donations of time and resources given on a regular basis. Care is provided in an array of ways: some are relatively passive, such as praying for others or treating others with civility and respect; others involve direct action, such as taking care of an elderly relative, driving friends and acquaintances who are in need of transportation to a variety of appointments and activities, helping others take care of their children, and providing emotional support to those facing both common and extraordinary tribulations. The statistical findings combined with the additional personal information garnered during the interviews produce three findings:

First, above and beyond the care respondents expressed through contributions of money, goods, and time to and through charitable organizations, the participants spent a considerable amount of money, goods, resources, time, and energy on informal care for individuals other than their spouses and dependent children. Second, formal philanthropy represents merely the surface of the total amount of care that the members of society extend to each other on an informal basis. Third, participants contributed the largest amounts of care to those individuals and charitable causes with which they were most closely identified and involved; for example, giving to family and relatives generally took precedence over friends and acquaintances, and giving to organizations that helped the participants, their family, or their friends generally took precedence over organizations and causes that did not.

Findings on Identification and Wealth Holders

The findings of the BADS are consistent with the findings of our previous and subsequent research based on in-depth interviews with wealth holders.13

12. The study was funded by the W. K. Kellogg Foundation and the T. B. Murphy Foundation Charitable Trust. For details on the research methodology and interview protocols see Schervish and Havens (2001a). For further interpretation of the findings see Havens and Schervish (1997); and Schervish and Havens (2002b).
Table 5.1: Contributions of Money, Goods, and Time, Boston Area Diary Study

<table>
<thead>
<tr>
<th>Organization or person</th>
<th>Contribution as percentage of income (percent)</th>
<th>Mean annual contribution of money and goods ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All organizations</td>
<td>1,490</td>
<td>7,779</td>
</tr>
<tr>
<td>Religious</td>
<td>1,350</td>
<td>6,175</td>
</tr>
<tr>
<td>Nonreligious</td>
<td>1,450</td>
<td>7,673</td>
</tr>
<tr>
<td>All interpersonal</td>
<td>1,450</td>
<td>7,673</td>
</tr>
<tr>
<td>Relatives</td>
<td>1,450</td>
<td>7,673</td>
</tr>
<tr>
<td>Adult child or grandchild</td>
<td>1,450</td>
<td>7,673</td>
</tr>
<tr>
<td>Parent</td>
<td>1,350</td>
<td>6,175</td>
</tr>
<tr>
<td>Other relative</td>
<td>1,350</td>
<td>6,175</td>
</tr>
<tr>
<td>Nonrelative</td>
<td>1,350</td>
<td>6,175</td>
</tr>
</tbody>
</table>

Source: Social Welfare Institute, Boston College, 1996.

Even at higher levels of wealth and income than we encountered in the diary study, we find that behind any charitable gift is a story of identification and association. For example, among the younger philanthropists who were interviewed in our 2001 high-tech donors study, the primary impediments to greater charitable involvement were the relative youth of the interviewees, their lack of religious connection, their recent arrival in their communities, and their ownership or participation in a business which depended on national and international, rather than local, markets. Such sparse networks of association simply did not provide them with extensive or intensive outlets for their care or many opportunities for identification. But as their connections grew through peer organizations like Social Venture Partners, or through involvement in their children's schools, so too did their involvement and financial support of charitable causes. After taking care of their families, for example, through outright transfers of capital, scholarships, or living trusts for health care, they looked for outside opportunities to use their wealth to express their personal and family values. Throughout the interviews, we found that, as with the BADS respondents, high-tech donors tended to support the causes which addressed the concerns that they, their families, and those with whom they had been associated, had experienced, often in their childhood. Experiencing the benefits of a good elementary school or college education leads to a concern in later life with early childhood education or research at a university. A lifelong participation in hiking and mountain climbing generates a special care for preserving the environment. The death of a loved one from cancer leads to establishing an oncology center at a hospital. Being a musician leads to contributions to the arts. Explicitly or just beneath the surface of their narratives is an account of how the people and events that have materially and emotionally affected high-tech donors and their loved ones are recapitulated in the people and causes they most care about. Respondents made it clear that their moments of identification extended the sentiments of family feeling to the realms of fellow feeling and respondents often recounted the motives and meanings of their philanthropy in the language of surrogate kinship. Regardless of other differences, those they seek to help are like them, they say, like their parents, and like the people they once knew.

Implications for the Allocation of Transfers

There are important implications of the findings from our BADS and wealth-holder studies for understanding the allocation of transfers between family and charitable organizations. First, individuals across the economic

spectrum allocate their financial resources to the people and organizations with whose needs they identify. Allocations for self, family, and charity are all motivated by identification. Second, there tends to be a hierarchical ordering of such identifications and allocations such that personal and family needs generally take priority over the needs of friends and acquaintances, and the needs of organizations with which one has been associated take priority over other organizations. Third, as the needs of the people and organizations to which one has given initial priority become fulfilled, the needs of other individuals and organizations are moved up in priority.

In sum, our research on the philanthropic behavior of the very wealthy, the wealthy, and the nonwealthy has repeatedly shown that the dichotomy of formal and informal philanthropy, or giving to and through formal philanthropic organizations as opposed to giving to family and friends, is a false dualism. Most individuals do not make such sharp distinctions, but perceive their transfers of time, money, and emotional support as occurring in concentric circles of care, beginning with those who are closest to them and extending to others beyond immediate family and friends. Furthermore, our research suggests that the allocation decisions between family and charity spring from a dynamic relationship among social, economic, and demographic variables, which can be influenced, altered, and expanded for all individuals regardless of their socioeconomic and demographic status, especially as they are dependent on moments of identification and connection.

Empirical Relationship between Transfers and Family Income and Wealth

People can give to charitable causes during their lifetime (inter-vivos giving) or at their death (charitable bequests). Similarly, they can transfer financial resources to relatives and friends through inter-vivos transfers or bequests to heirs. In both cases, such a striking upswing in giving among those in the upper tiers of income and wealth has taken place that it is important to identify not only the fact of such an upswing but also what it implies.

Charitable Inter-Vivos Giving and Bequests

In aggregate, for the year 2000 Giving USA estimates that charitable contributions amounted to $203 billion from all sources. Three-quarters of this total was contributed by individuals in their lifetime, and another 7.8 percent consisted of charitable bequests.15 During the past twenty years, aggregate giving by individuals has grown 79 percent in real terms and aggregate charitable bequests by 168 percent. This section presents data on charitable giving and on transfers to relatives and friends. Table 5-2 presents data from the 1998 Survey of Consumer Finances (SCF) and the 1998 General Social Survey (GSS) on the distribution of inter-vivos charitable giving.16 The data show that the share of families making charitable contributions increases by income and net worth. The results also indicate that a small fraction of high-income families or high-wealth families make a disproportionately large share of the charitable inter-vivos contributions. Families in the top 5 percent of the income distribution made 39.7 percent of the total charitable contributions in 1997, with an average donation of $8,926. Similarly, families in the top 5 percent of the wealth distribution made 41.6 percent of the charitable contributions in 1997 with an average donation of $9,644.

One apparent anomaly is that charitable contributions as a share of net worth decrease with net worth. Families in the bottom half of the wealth distribution contribute about 1 percent of their net worth, while families in the top 5 percent of the distribution contribute only 0.3 percent (not shown). However, as shown in table 5-3, there is a strong positive relationship between charitable bequests and wealth that contrasts sharply with the nega-

---

15. American Association of Fundraising Counsel (AAFRC) (2001). The remaining 17 percent was contributed by foundations and corporations.

Table 5-3. Charitable Bequests, Taxes, and Bequests to Heirs and Others, by Asset Value of Estate for 1999 Filings

<table>
<thead>
<tr>
<th>Gross estate category (millions)</th>
<th>Net worth (thousands)</th>
<th>Available estate (billions)</th>
<th>Amount (billions)</th>
<th>Amount (percent)</th>
<th>Share of estate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.6-10</td>
<td>56.9</td>
<td>49.9</td>
<td>1.7</td>
<td>1.1</td>
<td>3.6</td>
</tr>
<tr>
<td>11-20</td>
<td>111.3</td>
<td>108.6</td>
<td>1.7</td>
<td>1.1</td>
<td>3.6</td>
</tr>
<tr>
<td>20-30</td>
<td>204.9</td>
<td>200.0</td>
<td>1.7</td>
<td>1.1</td>
<td>3.6</td>
</tr>
<tr>
<td>30-40</td>
<td>316.9</td>
<td>312.0</td>
<td>1.7</td>
<td>1.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Total</td>
<td>1040.9</td>
<td>1000.0</td>
<td>4.0</td>
<td>2.3</td>
<td>65.0</td>
</tr>
</tbody>
</table>

Source: Calculated by John Havens, Boston College, Social Welfare Research Institute, based on tabulated data available in the 1998 SCF.

Inter-Vivos Transfers to Relatives and Friends

High-income and high-wealth families also make a disproportionate share of transfers to relatives and friends. According to the 1998 SCF, approximately 12 million households made inter-vivos transfers to relatives and friends for financial support amounting to $64 billion during 1997. These transfers range from as little as $20 to more than $1,000,000. The typical transfer for households making transfers is $3,000 and is most often given to the respondent's own children. Households in the top 5 percent of the wealth distribution make 35 percent of all the transfers in dollar terms. 17 Previous research has shown a strong relationship, comparable to transfers to charity, between income and wealth on one hand and the frequency and magnitude of intrafamilial transfers on the other. 18 For very wealthy decedents, the wealth of the decedent is strongly related to both the frequency of making inter-vivos gifts and the value of those gifts. 19

The data in this section may be summarized as follows: A small percentage of wealthy and very wealthy families makes a disproportionate amount of the transfers both to charitable causes and to friends and relatives. These transfers are made both during life and at death. As wealth increases, the share of...
Table 5.4. Amount and Allocation of Estates Less Fees and Bequests to Spouse, 1992–99

<table>
<thead>
<tr>
<th>Year</th>
<th>Available estate (^a)</th>
<th>Charitable bequest Amount</th>
<th>Share of available estate (percent)</th>
<th>Taxes Amount</th>
<th>Share of available estate (percent)</th>
<th>Bequest to heirs Amount</th>
<th>Share of available estate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>74.4</td>
<td>8.1</td>
<td>10.9</td>
<td>15.7</td>
<td>21.1</td>
<td>50.6</td>
<td>68.0</td>
</tr>
<tr>
<td>1995</td>
<td>79.8</td>
<td>9.5</td>
<td>11.9</td>
<td>17.1</td>
<td>21.4</td>
<td>53.2</td>
<td>66.7</td>
</tr>
<tr>
<td>1997</td>
<td>106.89</td>
<td>14.8</td>
<td>13.8</td>
<td>22.8</td>
<td>21.3</td>
<td>69.3</td>
<td>64.8</td>
</tr>
<tr>
<td>1999</td>
<td>129.3</td>
<td>14.6</td>
<td>11.3</td>
<td>30.3</td>
<td>23.4</td>
<td>84.4</td>
<td>65.3</td>
</tr>
</tbody>
</table>

Panel B: Estates of $20 million or more

<table>
<thead>
<tr>
<th>Year</th>
<th>Available estate (^a)</th>
<th>Charitable bequest Amount</th>
<th>Share of available estate (percent)</th>
<th>Taxes Amount</th>
<th>Share of available estate (percent)</th>
<th>Bequest to heirs Amount</th>
<th>Share of available estate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>8.6</td>
<td>2.9</td>
<td>33.7</td>
<td>3.3</td>
<td>38.4</td>
<td>2.4</td>
<td>27.9</td>
</tr>
<tr>
<td>1995</td>
<td>8.6</td>
<td>2.9</td>
<td>33.7</td>
<td>3.3</td>
<td>38.4</td>
<td>2.4</td>
<td>27.9</td>
</tr>
<tr>
<td>1997</td>
<td>8.6</td>
<td>2.9</td>
<td>33.7</td>
<td>3.3</td>
<td>38.4</td>
<td>2.4</td>
<td>27.9</td>
</tr>
<tr>
<td>1999</td>
<td>20.4</td>
<td>6.8</td>
<td>33.3</td>
<td>7.9</td>
<td>38.7</td>
<td>5.7</td>
<td>27.9</td>
</tr>
</tbody>
</table>

Source: Boston College, Social Welfare Research Institute, based on data from Johnson and Mikow (1999), Eller (1996–97), and the web page of the Statistics of Income Division of the IRS.

\(^a\) Available estate is the estate after fees and transfer to surviving spouse.

---

Financial Security and Philanthropy

We argue that those who are financially secure enter a new realm of decisionmaking concerning charitable transfers. By financial security, we mean that individuals have reached a level of wealth and can provide the standard of living that their financial security is the material and emotional foundation of living charity. In other words, why do wealth holders who are financially secure tend to allocate a greater proportion of their wealth to charity than those who are not financially secure? Findings from a survey of 112 individuals highlight the level of financial security does not occur at some objective level. They consider the financial security needed to reach financial security. Although 96 percent of the respondents placed themselves above the midpoint on a scale from zero to ten (from not at all secure to extremely secure), only a relatively few of those who are not financially secure had enough income to give to charity. While the donor's giving can, in part, be explained by the fact that the donor's giving is given to charity while the donor is alive, it also increases, but the share of wealth transfers as the asset value given to charity while the donor is alive falls. However, wealthy people have traditionally given to charity through charitable bequests, and as the asset value given to charity increases through charitable bequests, the share of that value devoted to charitable bequests rises substantially. Although the finding confirms that the motivation of both wealth holders and nonwealth holders in making financial security is the material and emotional foundation of living charity, we hypothesize that this factor in the matrix of criteria is the one that wealth holders have traditionally given to charity while the donor is alive. We hypothesize that this factor in the matrix of criteria is the one that wealth holders have traditionally given to charity while the donor is alive.
financial security was $20 million, or 67 percent more than current wealth, while the mean amount needed was $44 million, or 76 percent more than current wealth. These amounts, of course, vary by how financially secure someone currently feels. Respondents who felt completely financially secure indicated that they would require about 44 percent of their current level of wealth to maintain that security. Respondents who rated themselves as eight or nine indicated that they would require an average additional 60 percent of their current net worth in order to feel completely financially secure, and respondents who rated themselves lower than eight on the scale indicated they would require an average increase of 285 percent in their net worth in order to feel completely financially secure. Another indicator of the psychological dimension of financial well-being is that on average, respondents at moderately high levels of income (up to $10 million family income) and wealth (up to $50 million family net worth) indicated they would require additional wealth in order to feel completely financially secure. Only at very high levels of income ($10 million or more in family income) and wealth ($50 million or more in family net worth) did respondents indicate, on average, that they would feel completely financially secure with less than their current level of wealth.

Despite these perhaps surprising findings about the level of financial resources deemed necessary to guarantee financial independence, the same study shows there is a strong positive relationship between perceived financial security and charitable giving, measured in amount, percentage of income, and percentage of wealth. Table 5-5 shows those with higher net worth give substantially more to charity on average than those with less (although substantial) net worth, and this holds in terms of absolute dollars, as well as in terms of percentage of income contributed and percentage of net worth contributed. More importantly, the table also shows that financial security has a very strong positive relation to charitable giving. The more financially secure a respondent feels, the more is given to charity, not just in absolute amounts but also as a percentage of income and net worth.

Given the positive relationship between financial security and charitable giving, just how does financial security translate into charitable giving? Thomas B. Murphy, an actuary, business owner, and wealth holder, has sought to conceptualize the usually implicit combination of financial and psychological reckoning that he and other wealth holders go through, formally or informally, in determining how much of their resources to donate to charity. Murphy describes a process in which wealth holders determine a stream of resources; a stream of expenditures for self, family, and investment; and a stream of truly discretionary resources that is simply the positive difference, if any, between the stream of resources and the stream of expenditures.

This decisionmaking scenario outlined by Murphy regarding the meaning of financial security and how it translates into charitable transfers reflects what we have repeatedly heard wealth holders report in their intensive interviews. For example, an interview with one wealthy respondent in our 2001

<table>
<thead>
<tr>
<th>Level of financial security*</th>
<th>Less than 8</th>
<th>8 or 9</th>
<th>10</th>
<th>All levels</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A: Net worth of $15 million or less</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average charitable donation</td>
<td>32,114</td>
<td>69,036</td>
<td>369,778</td>
<td>116,778</td>
</tr>
<tr>
<td>Average share of income contributed</td>
<td>5.0</td>
<td>6.6</td>
<td>23.4</td>
<td>9.5</td>
</tr>
<tr>
<td>Average share of net worth contributed</td>
<td>0.4</td>
<td>0.5</td>
<td>3.0</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Panel B: Net worth of more than $15 million</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average charitable donation</td>
<td>228,333</td>
<td>1,044,265</td>
<td>3,779,159</td>
<td>2,234,681</td>
</tr>
<tr>
<td>Average share of income contributed</td>
<td>7.6</td>
<td>19.2</td>
<td>51.0</td>
<td>32.9</td>
</tr>
<tr>
<td>Average share of net worth contributed</td>
<td>0.7</td>
<td>2.0</td>
<td>3.9</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Panel C: All levels of net worth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average charitable donation</td>
<td>58,872</td>
<td>603,839</td>
<td>2,598,988</td>
<td>1,108,707</td>
</tr>
<tr>
<td>Average share of income contributed</td>
<td>5.4</td>
<td>13.5</td>
<td>41.5</td>
<td>20.4</td>
</tr>
<tr>
<td>Average share of net worth contributed</td>
<td>0.5</td>
<td>1.3</td>
<td>3.6</td>
<td>1.8</td>
</tr>
</tbody>
</table>


* Respondents were asked to rate their sense of financial security on a scale of 0–10 from completely insecure to completely secure.
high-tech donors study, a forty-five-year-old, cashed-out equity partner of a venture capital firm, confirms Murphy's analysis of the transition from accumulation to charitable allocation and demonstrates our view that a substantial behavioral change is taking place in the decisionmaking dynamics of the very wealthy concerning charitable involvement. He defines financial security as "basically having a very, very low chance that you will go broke even if you don't have a job, given an acceptable lifestyle. I have a computer model that I built that reaches out to when we're (he and his wife) ninety years old that factors in inflation, and that plays out all this growth stuff and what the random fluctuations of the stock market could possibly be. And it lays out a thousand versions of the way the world might play out and in only one time out of a thousand will we go broke given the life-style that we've chosen. And that's financial independence." 22

He goes on to explain that as a mathematician and computer programmer, and as one who is exceptionally risk averse when it comes to long-term financial independence, the elaborate model he has constructed "randomly simulates the way the stock market will play out over the years, using history as a guide for what numbers you should put in there. And the question for me was, do you have enough squirreled away so that basically we can maintain the life-style that we've chosen through our old age and have a very low probability of having either inflation or a lack of appreciation in the stock market make us go broke?"

For the respondent, the amount designed for financial security is a present value resource stream of $6 million, net of prospective taxes, net of inflation, and net of potential negative stock-market shocks.

More important for our argument here is how, in the light of meeting his goals for financial independence, the interviewee has turned to philanthropy as the realm in which he has now begun to focus his intellectual, emotional, and financial capital. Before declaring himself materially and psychologically financially secure, the respondent was already a small contributor to charities, but upon cutting back on his business activity and cashing out his equity share in his venture capital firm, he began in earnest to investigate ways to use his money, skills, and time in a more qualitatively systematic and quantitatively substantial manner. It was now time, he recounts, to pursue more wholeheartedly something in the realm of philanthropy that fits the "ideal" of being unambiguously social. 23 The respondent makes it clear, however, that a serious pursuit of philanthropy would have been a "romantic" rather than a "pragmatic" ideal had he not first achieved financial independence. 24

It is instructive that even with financial security certain, the transition to a sharper focus on philanthropy is neither for the respondent, nor for his financial peers, an automatic step. Financial security, even when understood to be assured, leads to philanthropy only in combination with other motivational vectors. This array of motivations includes identification, gratitude, the prospect of entrepreneurial effectiveness, and the desire to limit bequests to heirs.

Identification

We have already discussed the motivation of identification at some length. But its ability to animate the philanthropy of a wealth holder is clear by a brief look at how the respondent described above connects what he considers to have been the comparative advantage of being well educated with the plight of those whose lack of quality education excludes them from the knowledge

23. As our respondent puts it, "I've always kind of rolled my eyes a little bit when I hear about do-gooders because I have this image in my mind—not grounded at all on any experience—they will be lightweight type of stuff, full of petty politics. So I've always steered away from the world of philanthropy or nonprofit and pooh-poohed it somewhat. But there is a side of me that says that maybe I can tune in a little bit more and do something that is unambiguously socially positive and see how that feels. I would like to see how that feels and if I find myself getting up in the morning very excited about how I am spending my time, if indeed I do find something that is unambiguously socially positive. This is something that struck me really very profoundly: those simple pleasures of being a contributor and being able to map how those contributions fit into the larger scheme of things. Kind of the social welfare, if you will." Schervish, O'Herlihy, and Havens (2001).

24. "You need wealth to actually act on that ideal because, I'm sorry, I enjoy so much the lifestyle you can achieve with wealth. The pragmatist in me, like the squirrel, says, 'save your chestnuts and the sooner you get that done, the sooner you can rise up a Maslovian level and do the other things. And beware trying to rise up the Maslovian level before you are ready to do it. Be very, very sure that you are ready to do it because it is tough to turn back.'"
economy. The respondent recounts that both he and his wife have gotten ahead in life as a result of the intellectual capital they garnered from their extensive top-tier university studies and, because of the many educators in the family, a concern for education has been “imprinted in us.” As he puts it:

“I’m very concerned about a bifurcation of the educated and the educated-nots in our society because I see increasingly that our economy is driven by knowledge-worker types, problem solvers. So I have real concerns about how to democratize education.” Especially for the poor, “education is very important ‘cause what we’re talking about is people who would otherwise be burger-flippers.” As was true for him, “the comparative advantage to poor children is an affordable education, which in turn allows them to get jobs in the knowledge economy.”

Gratitude

The motivation of identification is complemented by a particularly strong sense of gratitude for unmerited advantages or, as some say, “blessings,” in reaching financial success. In our 2001 high-tech donors study we find that most participants do not credit their wealth solely to their own efforts and skills. They understand that at various points in their careers there was always risk of failure. Thus some credit their wealth at least in part to luck and good fortune, or if they are religiously inclined, to God’s will or God’s blessing. Such experience of blessing and gratitude further animates them to seek ways to help individuals and causes with which they identify.

The dynamics of gift and gratitude leading to care for others is precisely what our respondent describes as motivating his concern for the vocation of education as a “noble thing.” “The other piece of it,” he continues, moving from identification to gratitude, “is I personally got so much out of my education. It has enriched me beyond measure. Not only the practical aspects of it, for instance in my career, but also to have a sense of irony, and to build an intellectual richness in life that for me has just meant so much as a gift.”

Hyperagency

In addition to identification and gratitude, another motivation derives from the particularly active way high-net-worth individuals have made their money; namely, the desire to be as entrepreneurially productive in the realm of philanthropy as they have been in the realm of commerce. The majority (approximately 93 percent) of wealth holders acquired most of their wealth through their own skills and efforts (including investments) rather than through inheritance (7 percent). Their major road to wealth has been business, in the sense that they have owned and operated their own businesses, most often as entrepreneurs. Those who have not been directly involved in business see themselves as active investors. Our research findings confirm that the fundamental common trait of wealth holders is what we call hyperagency. Hyperagency is the ability to be a producer and a creator of the organizational life of a society rather than simply a supporter and participant. As institution-builders in commerce, politics, and philanthropy, hyperagents do not simply seek to find the best environment within which to work, live, or give. Rather, hyperagents are able to do alone or with a few other individuals what would take others a substantial social, political, or fund-raising movement to achieve. When they choose to do so, hyperagents on their own can start new ventures, apply new ideas and methods, and set new institutional directions for existing organizations; and, as we have often seen in recent years, they can jump into electoral politics, leapfrogging established candidates. The wealthy thus bring to their philanthropy not just an overarching expectation and confidence about being effective, but also a wide range of skills revolving around what our respondent called “questions of how to manage change.” Such skills include an understanding of finance, management, investment leverage, personal connections, leadership talent, and a can-do attitude bred by success. In particular, the longer wealthy individuals are members of a community, the more likely they are to have assembled an


26. “The gift of knowledge you might say—the gift of how to think, how to write, how to communicate, how to analyze as well as the gift of all the touchstones that an education gives you—the building of commonality in a community. You know, if everybody has read Shakespeare, there’s a commonality that comes out of that which makes for better life. I do believe in having touchstones—that communities have points of reference that are rich and deep which can be commonly held and therefore allow people to not feel alone and to have confidence in the likemindedness of their fellows.” Schervish, O’Herlihy, and Havens (2001).

27. These estimates are based on data from the 1998 Survey of Consumer Finances of the National Opinion Research Center, which asks respondents detailed questions concerning inheritance. The current value of all inheritances was estimated by adjusting the value of inheritances received for inflation and by assuming a real secular growth rate of 3 percent. This value was at least 50 percent of current total net worth for only 7 percent of families whose net worth was $1,000,000 or more.

28. Based on data from the 1998 SCF we estimate that of the 4.6 million families with a net worth of one million dollars or more, 53 percent owned one or more businesses, as contrasted with the 11 percent of families with less than one million dollars in net worth.
array of informal and formal associations within their communities, and to have become, through board memberships and other leadership positions, intimately knowledgeable about, interested in, and responsible for philanthropic initiatives and nonprofit management and innovation. When coupled to the fact of earlier financial security and longer life expectancy, many wealth holders have both the time and energy to devote deeper thinking and vigor to the people and causes about which they care.

In philanthropy, as in commerce, politics, and civic life in general, the desire to be productive hyperagents is an active motivation that is part of the general inclination of wealth holders to be as publicly purposeful in allocating their wealth as they were privately purposeful in accumulating it. The respondent we describe above demonstrates this third motivation in addition to those of identification and gratitude. His disposition to be involved in philanthropy requires working through a “high performance culture.” He says: “I want strong intellectual problem-solvers who are also interested in really getting a lot done. It’s not just getting a lot done, but I am just a more cerebrally oriented person, I think, and will find it difficult being effective and happy in a more politically oriented culture or in a more ideologically oriented culture than maybe other people will be.” His objective to make a far-reaching impact leads him to look first at local education but, speaking as a hyperagent, he says, “At the end of the day I have an ambition to be able to look at the magnitude, how far reaching the things are that I do. I’d like to see if I could affect thousands of people positively and meaningfully.”

Limiting Transfers to Heirs

As noted above, a decline in the shift of bequests from heirs to charity took place between 1997 and 1999. It is difficult to know whether this reversal is a random fluctuation in the 1999 data, a decline in overall giving to charities, or the beginning of a shift among the wealthiest individuals from giving through bequests to *inter-vivos* giving through one of several vehicles for charitable giving. Certainly, in recent years, some reports indicate (although do not thoroughly document) that, as a result of planned giving strategies, wealth holders are moving toward increased *inter-vivos* giving as part of a consolidated lifetime financial plan. The increase in the variety and popularity of planned giving vehicles for donors, as well as the growth in the number and size of private foundations, including personal and family foundations, and donor-advised funds are indicators of this shift.29 Moreover, our inter-

29. Between 1999 and 2000, the Fidelity Gift Fund assets grew 41 percent, the amount distributed to charities grew 53 percent, and the number of donor-advised

views with high-tech wealth holders and some informal interviews with financial planners and fund-raisers reveal that increasingly upper-tier wealth holders are actively pursuing opportunities to implement their philanthropy while they are alive, rather than largely through their estates.

In addition, for the very wealthy, the allocation of wealth to heirs is already being limited by considerations such as the potentially negative effects of large inheritances on children; and allocations to philanthropy are more frequently occurring by means of a family foundation or through the involvement of the wealth holder and heirs in philanthropy, as a good way to resolve the moral dilemmas that surround the best use of excess wealth.

In the *Wealth with Responsibility Study 2000*, 112 respondents worth $5 million or more were asked about the effect of the estate tax on their allocation of wealth between charitable bequests and heirs.30 The distribution of responses indicates that if estate taxes were eliminated as a consideration, wealth holders would give more to charity rather than giving all the tax savings to heirs. For example, when asked how they expected to and how they would like to allocate their estates to heirs, taxes, and charity, on average the respondents expected 47 percent of assets from their estates to go to heirs, 37 percent to go to taxes and 16 percent to go to charities. Their desired allocation, however, was to see 64 percent of their assets go to heirs and 26 percent to charity, with taxes unsurprisingly trailing a distant third priority at 9 percent (unspecified other purposes made up the remaining 1 percent). In other words, in their ideal scenario, their 76 percent reduction in taxes would result

funds grew 39 percent. In 2001, the Fidelity Gift Fund became the second largest charity on the *Chronicle of Philanthropy’s* Philanthropy 400, its assets growing to over one billion dollars. In recent years, there has been a huge growth in private foundations, showing that gifts are being made in life rather than at death: 40 percent of U.S. foundations are family foundations; two-thirds of family foundations were formed in the 1980s and 1990s (Foundation Center [2000b]). Independent (not corporate or community) foundations accounted for more than four-fifths of the overall increase in foundation giving in 2000; the number of independent foundations grew 7.2 percent between 1998 and 1999; and the number of operating foundations grew 8.3 percent over the same period (Foundation Center [2000a]). Donors have been taking advantage of charitable vehicles that meet their needs. Just 2 percent of the total population has established a charitable remainder trust (National Committee on Planned Giving [2001]). However, the 1998 *US Trust Survey of the Affluent*, which interviewed 150 people in the top 1 percent of income and wealth, found that 15 percent of respondents had set up a charitable remainder trust and 25 percent were likely to do so in the future (U.S. Trust [1998]).

in a 63 percent increase in bequests to charity. The Wealth with Responsibility Study 2000 also shows that the desire to reallocate money from taxes to charity is even stronger at the upper levels of wealth: respondents with a net worth at or above $50 million envisioned an even greater shift to charity than those with a net worth below that amount.

Additional evidence that the wealthy are purposely limiting transfers to heirs is provided by this respondent in our 2001 high-tech donors study. He speaks for the majority of those we interviewed in citing his fear that the burden of wealth would overwhelm his children and attest to his intention to limit the resources made available to his heirs, seeing overly abundant inheritances as an extravagance, if not downright injury. The respondent grew up funding for himself with several small entrepreneurial ventures and struck it rich when a larger firm bought his company. Although he is just thirty-five years old and has four children under the age of eight, he is already concerned about ensuring their financial virtue. The fact that his children will grow up affluent is “a bitch,” something that is “really scary” and “haunts” him, in part because his own childhood was so different from theirs that he feels simultaneously inadequate and yet determined to deal with the issue of their affluence.

He recalls his own upbringing, where “you had to make your own way. . . . There wasn’t some rich uncle somewhere who would keep bailing you out of university or anything like that. There are decisions you make and consequences to each one of them and that’s really frightening.” before turning to his kids, and wondering aloud how he should eventually talk to them about “all the challenges that wealth is going to bring to them.” Although his kids are “damn well going to” be taught how to handle wealth responsibly, he is simply clearer about the problems than the solutions for such training. Educating the children about wealth is “really a difficult area for us to think about and we are only a year into this and we certainly don’t have the answers there yet.” One thing the respondent does know is that he “just can’t see anything beneficial” from simply transferring all his wealth to his kids. That would turn out to be “just mostly downside for them; more complexities.” At the same time, he has begun to think that involving his kids in philanthropy offers some “practical” potential for teaching his kids how to handle their wealth.

“I think the Social Venture Partners Fund (my wife and I founded) is a good example. If we build this thing right, our kids are going to grow up knowing us as people that took our own unique gifts and got back involved in the community. Not someone that just kind of got a wing of the music college named after them for a couple million dollars or something easy like that. But that we rolled up our sleeves and took our unique gifts and tried to build something where something didn’t exist.”

Neither the survey nor ethnographic evidence just presented proves that financial security changes the decisionmaking dynamics for those who have solved “the economic problem” for themselves and their families. However, the foregoing statistical and interview evidence does indicate that the allocation of wealth between family and philanthropy may take on a different character for the financially secure, one that does not depend primarily upon estate-tax avoidance, but depends more upon a logic that inclines the very wealthy to view philanthropy as both a positive alternative to bequeathing wealth to heirs and a way to combine philanthropy with the transmission of financial morality through the creation of foundations and philanthropic trusts that will involve the next generation.

New Directions in Financial Planning and Their Impact on Wealth Allocation

Like many of us, wealth holders (especially those who are self-made) typically concentrate on accumulating wealth early in their careers. Only later do they focus as attentively on the allocation and distribution of the wealth they have accumulated. During this subsequent phase they usually seek information and advice about allocation strategies, often from financial or estate planners and sometimes from development officers and fund-raisers for charitable organizations to which they may potentially contribute. This section describes a relatively new methodology used by some financial planners, as well as some fund-raisers, to guide wealth holders through the planning process for allocating redundant resources. We have coined the term “discernment process” as a descriptive name for this new methodology.

Discernment means insight, perception, or sagacity. The discernment method is an approach that helps wealthy individuals gain insight into their finances and their needs with a view to identifying their personal level of financial security and their desires for using their financial resources to express their personal and family values. The goal is to enable individuals to make wise choices concerning the allocation of their redundant financial resources. The discernment process has three subprocesses. The first subprocess


Guides wealth holders through an examination and discernment of their financial resources. The second subprocess invites wealth holders to examine their values, goals, desired life-style, and ideals in order to discern their psychological inventory of subjective factors that affect the allocation of their financial resources. The third subprocess involves the development and implementation of a plan, including specific financial instruments, to allocate their resources consistently with their subjective values, goals, and desired life-style for themselves and for their families. More specifically, the discernment methodology of financial planning seeks to enable wealth holders to estimate an expense stream, to view wealth and income as together providing the resources to meet and exceed that expense stream, and to estimate what is left over after financial security has been achieved. It helps obviate the anxiety wealth holders feel about providing for self and family, settles the issue of inheritance for children, and opens up remaining resources (that is, redundant financial resources) to create a social capital legacy composed of explicitly directed transfers to taxes and to philanthropy.

These financial planning processes actually formalize the discernment that many wealthy people go through privately. As implied by Murphy’s description of the dynamics of financial security, many high-net-worth individuals are already inclined away from leaving an inheritance to children that exceeds their needs, away from excessive taxation, and toward charity as the best disbursement of their financial legacy. The practice of a discernment model of financial planning reinforces this inclination, since participants arrive at greater clarity both about their financial potential and personal predilections for charitable giving. The positive role of the discernment process in helping the wealth holders identify financial security cannot be underestimated, for it is only when wealth holders reach financial security that they can become confident about the existence, and therefore deployment, of redundant resources. As we have already noted, the Wealth with Responsibility Study 2000 clearly shows that feeling financially secure is a function of psychological comfort as well as of the level of material wealth. The discernment process, because it involves deep personal reflection in relation to values and money, can give donors the confidence to determine, locate, and allocate financial resources to achieve financial and psychological security for self and spouse and to provide what wealth holders want to give their heirs; then it can give them the freedom to embrace ways to be effective in the public sphere by responding to the following four questions:

- Is there anything you want to do?
- That you consider important to do to meet the needs of others?
- That you can do more efficiently than government or commerce?
- And that enables you to express your identification with others and gratitude for advantages, and to achieve greater effectiveness and deeper personal happiness?

A discernment-led approach to allocation differs from traditional financial planning in two major respects: First, values rather than tax considerations drive allocation decisions for those who go through the process. Second, rather than accepting a predetermined plan, the wealth holders are at the center of the process and are encouraged to develop their own plan based on their own perceptions of their financial resources and future financial needs, based on their own values, and based on their own philanthropic objectives and priorities.

Will a more self-reflective wealth allocation decisionmaking process lead to a noticeable effect on charitable giving on an aggregate level? Our hypothesis is that the effect will be substantial; it may already be visible in the statistics. First, a large number of families that are already wealthy (in 1998 approximately 5 percent of families, more than 5 million families, had a net worth of at least $1 million). The rapid growth in wealth during the last decade has meant that more and more people are achieving high levels of wealth and confronting in daily life what we call "the spiritual secret of wealth": how to best disburse redundant resources when financial security has been achieved and guaranteed. We expect the trend to continue as personally held wealth continues to grow over the next fifty-five years, though perhaps at a lower rate than during the 1990s. In our 1999 report Millionaires and the Millennium, we present projections for wealth transfer through the year 2053. The most conservative estimate of economic growth of just 2 percent produces projections of wealth transfer of $41 trillion, of which at least $6 trillion could be allocated to charity. According to recent calculations, and based on a low estimate of secular growth of just 2 percent, we project that individuals will donate $3.3 trillion in lifetime giving to nonprofit organizations in the next twenty years, or $13.2 trillion in lifetime giving over the next fifty years. Clearly, independent of the effects of the discernment process, there is a boon for charity in the offering.

Second, the behavioral indicators from intensive interviews, from statisti-

34. See Fichian (2000) for an elaboration of these ideas.
nal trends, and from the Wealth with Responsibility Study 2000 imply that both charitable bequests and inter-vivos gifts will increase to the extent that the practice of financial planning offers a methodology that reinforces the behavior already evident. We have seen a growing interest in the wider variety of charitable vehicles available to donors, evidence of donors more frequently using their wealth to have an impact in life rather than after death, the involvement of heirs in philanthropy, and a reluctance to burden heirs with a large legacy in excess of their needs. As more and more donors have the opportunity for self-reflection about their wealth and values in an atmosphere of liberty and inspiration, we expect these trends to continue, resulting in more inter-vivos giving to charity and a continuing shift in bequests from heirs to charity.

In sum, the new practices of financial planning revolving around developing and implementing a financial plan by means of a structured set of meetings between client and professionals have the following effects: First, they reduce uncertainty concerning current and future financial status and increase clients’ psychological sense of financial security, if for no other reason than that doubt about one’s own and one’s family’s current and prospective financial condition is mitigated. Second, the new planning methods encourage clients to contemplate their own lives and their values in a way that brings identification to a conscious level. Finally, the new planning approach provides expert information concerning the alternative uses of any excess financial resources that clients may have, including how to allocate excess resources to charity in a manner that meets the needs of others, fulfills the inclinations of donors to be socially constructive, and opens an opportunity for the philanthropic education of heirs.

Conclusion

Our purpose has been to set out some new thinking about the motivations for giving to heirs and charity and the dynamics of those transfers among upper-tier wealth holders; that is, among those who are self-consciously financially secure. We argue that the meaning and practice of wealth transfer among the very wealthy need to be understood in a new way, one that reveals why so many current research findings involving the very wealthy are at best, ambiguous, and at worst, mistaken.

We pose an argument with two motifs: The first theme revolves around locating elements of continuity in the wealth-transfer dynamics of wealth holders and the nonwealthy. Wealth holders share with others across the economic spectrum a common motivational matrix for allocating financial resources, which we have termed identification. Individuals’ caring behaviors are motivated by a convergence of interest with the fate of others, not along the axis of altruism as opposed to self-interest, but along the axis of identification as opposed to isolation. It is not the absence of self but the engagement of self that motivates care for others in need. Moreover, in the identification theory, because care of self, family, and others is viewed by the caregiver as arising from the same underlying dynamics, it is not necessary to attribute different motivations for wealth transfers to different recipients. Rather, what is needed is to uncover the relative amount of financial care people are inclined to allocate to self, heirs, and social needs. The decision-making dynamics of this second process are the paper’s second motif.

If the dynamics of identification delineate a common motivation for allocations to self, heirs, and others—and do so for individuals across the economic spectrum—the dynamics of financial security reflect consequential discontinuities in the content and categories of wealth-transfer decisionmaking. It is not so much differences in fundamental motivation as differences in capacity that result in the distinct way the wealthy allocate their financial resources. Research on wealth and philanthropy reveals that those who are both materially and psychologically financially secure eliminate those budget constraints that would entail trade-offs between their own material well-being and that of their heirs, on the one hand, and the well-being of others, on the other. Such wealth holders are increasingly disinclined to simply maximize transfers to heirs, minimize taxes, and treat charitable transfers as a byproduct of the other two. Rather, because of enhanced material capacity combined with new methods of self-reflective financial advisement, increasing numbers of wealth holders, at an earlier age and at more realistic levels of wealth, understand themselves as enjoying redundant resources. The implications for behavior and hence for theory, research, and policy are several and notable:

First, economic theories and evidence from analysis of estates across the entire spectrum of wealth and income brackets are indeterminate regarding the motivations behind the allocation of transfers between philanthropy and family. Our analysis indicates that the dynamics of identification and financial security may have special application in explaining the behavior of those at the highest levels of income and wealth, thereby clearing up some of the contradictory and ambiguous findings about how and to whom wealth is allocated.

Second, if findings on the effect of estate taxes confute the differing decisionmaking dynamics at play at different levels of financial security, then policy proposals based on such research may be misguided. For example, the
basic motivation animating the philanthropic behavior of the very wealthy is identification, but precisely what other factors affect that behavior, and how, remain largely speculative. More specifically, much research assumes that marginal estate and income tax rates coupled with charitable deductions influence philanthropic behavior. However, it is not clear that taxes have the same effect on very wealthy individuals who command redundant financial resources as they do on well-to-do, but not wealthy, individuals.

Third, in the past decade a new approach to financial planning, the discernment method, has emerged. This methodology guides wealth holders through a process of self-discovery before the development of specific financial plans. This relatively new process not only reflects but also actually creates the outcomes that formerly have been attributed to conventional independent variables. These new models and methods for financial planning and fund-raising increasingly encourage understanding inter-vivos and bequest giving as a unified, endogenous process. We hypothesize that these new approaches are having a profound effect on the timing and magnitude of giving among wealth holders such that they are moving their charitable giving toward the present and thereby away from charitable bequests and toward inter-vivos gifts.

Although there are many additional implications for theory, research, and policy, the primary implication of our analysis is that a relatively substantial reconsideration of the dynamics of wealth allocation may be in order. This, we believe, is certainly true in reference to the very wealthy who deem themselves, as they are in fact, financially secure. Economic analysis consistently assumes budget constraints in modeling and explaining financial decision-making. But if it is true that increasing numbers of individuals are completely financially secure and even larger numbers are substantially financially secure or sufficiently affluent to relax budget constraints, then a new approach to conceptualizing wealth-transfer dynamics is crucial for discerning the effects of public policy on the distribution of wealth between individuals and philanthropic organizations. For now, our research suggests that the dynamics of identification, financial security, and financial planning dispose the very wealthy to define their financial independence, to intentionally limit the amounts they want transferred to heirs, and to purposefully dedicate their redundant resources for charitable purposes.

COMMENT BY
James Andreoni

Schervish and Havens bring a social psychology perspective to the economic question of what influences individuals’ decisions to allocate their wealth between children and charities. They discuss, often in colorful detail, some of the considerations of real philanthropists. This look into the thoughts and deliberations of givers is a useful exercise that economists perhaps do too little of. The insights for economic research are many. In this comment I highlight a few.

As the authors point out, the building of economic models typically begins with motivations for actions. Then financial constraints are added. Combining the two, the economic model finds the “best” way for individuals to achieve their goals within their means. This generates the usual framework for predicting and interpreting behavior, with the key variables being the incomes of the families and the relative prices of the options in the budget set.

In the arena of estates, economists take the goods to be the gifts and bequests to children and charities. Economists have thought hard about the potential motives of givers. One possible assumption is that individuals are motivated by a selfish concern for the well-being of those who receive their generosity. Economists call this altruism. Alternatively, they may give in order to get something in return. For instance, they may use gifts to influence the life choices of their children, or simply to get them to pay more attention to their parents. Likewise, their attachment to a charity may hinge on influencing its direction, especially for big donors, or being memorialized with their names on buildings. Economists have called this the exchange motive. Finally, they may just give for the pure joy of giving. This motive has been called, only slightly pejoratively, the “warm glow” motive.

The “goods” in the economic analysis are lifetime gifts, both to children and charities, with the choices being how much to give and when to give. Prices are determined by taxes that depend on the type of gift, how it is given, or when it is given. For instance, higher estate taxes make bequests to charity, which are exempt from the estate tax, relatively cheaper. Higher capital gains taxes make holding wealth until death, which erases capital gains, more appealing than giving assets away to children while alive. And, of course, the more the children or charity need the money (or earned it in some exchange), the more resources may be devoted to those needs.

This framework, as Schervish and Havens note, has been successful at capturing the broad aspects of individual behaviors on a general level. Moreover, economists studying motives for giving have found evidence for altruism,
exchange, and warm glow. A fair interpretation of the literature is that all three motives likely play some role in most allocations of gifts during a person’s lifetime and perhaps also at death. Given a model of behavior, economists then find that prices and income affect decisions in the predicted fashion. When the relative cost of giving to an heir or a charity goes up, people tend to give less; when the level of wealth increases, people give more in all forms.

In contrast to the economic approach, Schervish and Havens present a social psychological model they call identification theory. The basic tenet of this theory is that the more an individual “identifies” with a person or a cause, the more care he will express for that target, and as a result the more generous he will be. Care and love are the ultimate goals, with love being a combination of all the care shown to all those with whom one identifies. Moreover, in the model, care is dynamic—it grows and develops over time. It can be encouraged by the donors or by the recipients, and it is strengthened as the involvement with children and charity deepens.

The main way Schervish and Havens use identification theory is to organize information that they have collected from social surveys and interviews with hundreds of very wealthy people. In the interviews with potential philanthropists, Schervish and Havens ask questions about their attitudes and expectations for giving. What emerges from the interviews is that it is the relationships these wealth holders have with their children and other beneficiaries that determines when and how much they give. Schervish and Havens conclude that these considerations stand beside altruism, exchange, and warm glow and provide a new dimension for analysis.

In this comment I argue first that, except for the level of abstraction, the core components of identification theory are actually quite similar—and perhaps even identical—to altruism, exchange, and warm glow, just as in economic models. However, where identification theory differs is that it makes clear a point that economists have been slow to recognize and include in analysis; that is, all sides of the charity market—givers, heirs, and charities—are all active players in the giving game. They all make individual, moral, and strategic choices, all while accounting for the potential behaviors of the others. Moreover, the relationships among all three players are long, dynamic, and ever changing. In the remainder of this comment, I discuss in more detail how identification theory complements economic analysis, and what research directions it can encourage and inspire.

How Does Identification Theory Fit into Economic Analysis?

The social psychological approach can enrich economic analysis in three ways: First, it illustrates how economic objectives may actually be formed. Identification theory is based on a notion of “care.” This is the same notion that economists have in mind in assuming altruism. The interviews these authors conduct show how care can enter into an individual’s universe and grow. How is care expressed in gifts? Care is expressed where individuals feel the most identification. This, as the authors discuss, is much like the economic notion of warm glow—people get a particular joy by helping those they feel close to. However, care can also be intended to shape and influence others. The wealthy givers, for instance, expressed that they did not want their wealth to rob their children of ambition. They also want to teach children a sense of “giving back” to the communities that helped them gain their largess. Giving to charity is thus seen as a way to influence values, attitudes, and ultimately the behavior of children. Likewise, these people did not just want to give money to a large and anonymous charity. Rather they wanted to get involved and be able to see a real difference made by their dollars. These acts, which use gifts to influence the activities of others, are what economic models of exchange have in mind. Hence the core aspects of identification theory are really building on the same ideas that economists have considered in their extensive literature on the motives for giving. What Schervish and Havens do, however, is to bring some life and color to the stark and minimal assumptions of economists.

A second way identification theory aids and inspires economic analysis is that it makes especially clear that giving is a dynamic social activity. Relationships are built over a lifetime, both with families and charities. Gifts are sometimes made in order to build these relationships, often despite adverse tax consequences. By identifying with a charity, givers are joining a social sphere. They are building social capital that will bring other joys to their lives and, possibly, other pressures that may shape giving in the years ahead.

The third important contribution of identification theory, and of the interviews and data brought by Schervish and Havens, results from combining the first two points—the dynamic interactions between givers and their heirs and beneficiaries work to shape the altruism, warm glow, and exchange. Certainly, children love their parents and foster that love for its own sake, and the managers of charities surely believe deeply in their causes and work for their own benefit. However, the dynamic nature of the identification means, of course, that it can be manipulated and influenced, even by well-meaning individuals, and perhaps even unconsciously. Charities can foster and build relationships, all the while “selling” their cause. Heirs can visit more often or voice more love. But what do we call it when certain strategic elements enter, even if they enter unconsciously, to cause individuals or char-
ties to alter their behavior in order to get further gain from the giver? I think we can, without cynicism, call this fund-raising.

This is, in my view, the most important aspect of the giving decision that is highlighted by the framework and data in this paper. While the social psychologists will phrase this in appealing terms, such as building care, economists will use words that are much less flattering, such as strategic manipulation. Though our words are cold, our hearts and intentions in this matter are not. A fund-raiser who feels strongly about her cause will push hard to make a donor feel good about it as well. She may choose to focus more time and effort with someone who has more to give. These choices, made out of devotion to the cause, are nonetheless strategic. Likewise, if the wealthy grandparents invite a married couple and their children to a Christmas vacation in Hawaii, the couple may eschew a competing invitation to stay at home and visit the less wealthy grandparents. Although this is not a conscious attempt to build more love from the wealthy grandparents, Havens and Schervish show that it will have a similar (strategic) effect of building that love and identification, with the end result of building their bequests.

**Shaping a Model of Fund-Raising**

The wonderful interviews conducted by Schervish and Havens clearly point to many aspects of the fund-raising market that can help shape a developing fund-raising literature. Here I highlight a few:

**THE POWER OF THE ASK.** Schervish and Havens note that an invitation to participate in charitable giving is an important feature of the giving process. This is also supported by surveys about annual giving—when given the option, respondents indicate that the main reason for giving to charity is “because I was asked.” With respect to major donors, fund-raisers have a name for this phenomenon. They call it “the power of the ask.” A lot of the reason for building a relationship with donors is to understand not only their financial constraints, but to get a sense of the giver’s commitment to the organization. The fund-raiser is attempting to determine what level of gift can be extracted from this donor and to then ask for that amount. As they will tell you, fund-raisers are seldom surprised by a donor who offers to give more than is asked from them. In addition, “the ask” often presents an opening round of negotiation over what will be given, how the donation will be used, and what kind of recognition will follow.

**COMMUNITIES OF PARTICIPATION.** By building a relationship with a charity, donors are entering a complex social environment. They build posi-

tive relationships with the recipients of their gifts, but they sometimes build competitive relationships with other giving. We see this often in the giving ladders that charities institute to differentiate the superdonors from the mere major donors. Top givers may be on the boards of directors, the next level may be in the “Executives’ Club,” the next level may be called “Patrons,” and so on. Hence the social comparisons also exist among donors and their peers, and fund-raisers obviously manipulate these strategically for their own benefit.

**MEN VERSUS WOMEN.** Schervish and Havens did not explicitly address the gender of givers or the fact that the ultimate disposition of the estate often resides with the surviving spouse. Recent research shows, however, that men and women tend to have significant differences in their charitable interests. Can we expect that surviving spouses will carry out the intentions of their deceased partners? The answer to this question will be important to understanding how charities and children build relationships with wealthy couples. It may help us understand how some estates are structured with trusts that tie the hands of a surviving spouse. And, as women become more empowered to feel an equal share of wealth gained by their husbands, we may be seeing a concentration of wealth in the hands of independent-minded widows, which will be important to keep in mind as we study the changes and dynamics in charitable giving.

**The New Economic Question**

This analysis suggests that fund-raising—how the relationships among giver, heirs, and charities are built and prosper—is an important ingredient to determining how giving choices are made. But what is the economic impact of this fund-raising activity? This is an extremely important question that economists have barely begun to answer, and which they will need to take seriously in future research. Suppose, for example, that fund-raising by charities simply influences which charity the dollars go to without influencing the overall amounts. If, as many suggest, bequests are “accidental,” and people do not set savings goals with the intent of leaving bequests, then it may actually be the case that fund-raising only shifts the allocation of the charity dollars without increasing the total number of these dollars. If so, then fund-raising would have a negligible economic impact.

Another possibility is that fund-raising does not increase the total dollars given, but simply affects the timing of donations. This may in turn have an effect on lifetime taxes owed on estates. This raises the economic question of where this extra tax windfall will go, to charity or children or consumption while alive?
Their methodology as well is praiseworthy. The kind of personal, in-depth interviews upon which much of their findings are based provide unparalleled opportunities to delve into motivations for giving, to see connections with other behavior, such as supporting family members, and generally to reflect on the complexity of human decisionmaking. In their Boston Area Diary Study, Schervish and Havens interviewed some forty-four individuals every week for a year, questioning them by phone-in interviews that sometimes took over an hour. They were careful to establish and follow strict protocols, and they paid attention to possible biases. The results of this investigation add significantly to our understanding of charitable behavior. For example, table 5-1 provides data on contributions of money and time to charitable organizations and to family members and friends—all expressed in terms that can be compared. I know of no other similar comparison. Certainly, these findings are relevant to the central question posed in the paper. In another study, involving interviews with dot.com entrepreneurs, the authors interviewed individuals with family fortunes ranging from $1 million to over $1 billion, and among them, observed a variety of motivations underlying charitable contributions, ranging from the selfishness of narrow business advantage (the “charity begins at home” self-benefit impulse) to those instincts we might define as altruism. What Schervish and Havens emphasize is the blending of motivations: the convergence of love of self with love of neighbor, or, as de Tocqueville put it, “self-interest properly understood.”

To be sure, this line of investigation does not answer all our questions. For example, I think the authors would agree that they are unable to draw a tight connection between their theory and the observed empirical regularities they cite. Their identification theory is more appealing, a priori, than the alternatives of selfless altruism, self-interested strategic giving, or even the warm glow idea. However, it shows little more capacity to explain the observed regularities in the data than the models of economic theory.

I find interesting the authors’ cataloging of empirical tendencies. To their list, let me add several additional stylized facts that are evident in data and statistical research on charitable bequests and charitable giving: Charitable bequests are a very small percentage of all bequests, except for the very rich; whereas religious groups are the recipient of most charitable bequests in the lowest wealth class, their share shrinks to near zero in the highest; decedents who are survived by a spouse tend to leave less in charitable bequests; charitable bequests respond to the level of tax rates; for older individuals, giving in life and giving at death are to some extent substitutes—each will be affected by the price of the other; the income of children also affects giving in life; charitable bequests increase if children are more affluent.

GIFTS AND BEQUESTS: FAMILY OR ORGANIZATIONS?

Of the empirical trends that Schervish and Havens discuss, perhaps the most interesting is the increasing tendency, at least until 1999, of decedents to leave bequests to charities instead of individuals, particularly among those with the largest estates. They take this as a harbinger of a trend away from heirs and toward charitable purposes. But note that the average wealth of decedents also increases over the period studied. In real terms, the average estate in 1997 is almost exactly twice as large as in 1992, so what appears to be a secular trend may simply be a manifestation of the higher ratio of charitable bequests to wealth that characterizes the biggest estates.

If I had to quibble with anything in this paper, I would lodge a mild objection to the distinctions they draw between their model and the alternatives. In places, I think they are guilty of overstating these differences. However, this does little to dampen my enthusiasm for their paper or this very promising line of research.
motivations and behaviors, they lack the empirical substance to allow for estimation or practical implementation.

The second literature that promises to be helpful in explaining how giving is allocated consists of econometric studies of giving and bequests. Numerous studies focusing on both charitable giving by living individuals and charitable bequests have employed data to estimate statistical models. These models typically feature as explanatory variables income, tax rates, sometimes measures of wealth, plus a few other variables such as age and marital status. Usually missing from this list of variables are measures of attitudes, personal associations, and life histories that one might readily suppose would be important in influencing charitable behavior. Nor is it common for such studies to have information on the identity of the organizations receiving such charitable donations.

The relative sparseness of economic models should not be too surprising. In considering motivations, economists, by and large, have paid no more attention to the ticklish question of what motivates people to make charitable gifts than they have to the reasons why households buy apples or oranges, pay to heat their homes, or take vacations. Instead, economists are usually content to take preferences for these items as a given, leaving deeper explanations to the theologians, psychologists, and sociologists. Rather than attempting to model tastes, economic models tend to focus on the effects of price and income, plus a few measurable characteristics. In the case of econometric models of charitable giving, the body of research has shown what was not obvious before: that individuals respond to the relative cost of alternatives; whatever the fundamental reasons underlying charitable donations, individuals will tend to donate more if the price is lower.

This brings us to a third literature, the qualitative research such as that described by Schervish and Havens. Here, sociologists and anthropologists are at work, typically not economists. Research such as this has the potential of delving into motivations for giving and for offering richer explanations of behavior than either the highly stylized theoretical or econometric models.

Although not schooled in the qualitative methods they employ, I find much in the Havens-Schervish model and methodology to admire. In particular, the following implications strike me as very appealing and sensible: that “care” is a continuum, and philanthropy is but one manifestation; that people do not segregate their care for family and friends from wider concerns; that personal involvement with an organization is an important (though not the only) avenue to charitable contributions; and that self-love is not inconsistent with generosity.
would instead consume their wealth, or that the government would confiscate all transfers, or that all transfers would be donated to charity, the distribution of wealth would, in my view, result in a considerably more equal distribution. Affluent households would lose an important component of their observed wealth, while low-income, high-marginal-propensity-to-consume households (perhaps who are credit constrained) would have the same (or similar) wealth.

Other Issues

In closing, I want to mention two additional issues briefly: A limitation of the data used for the paper is that no data are provided on two significant sources of wealth: defined benefit pensions and Social Security. Data from the Health and Retirement Study indicate pensions are distributed far more equally than other sources of wealth, presumably because of the nondiscrimination rules imposed by pension plans. An important part of acquiring a comprehensive understanding of wealth inequality depends on learning more about the evolution of defined benefit pensions and the degree to which defined contribution pensions are displacing defined benefit plans. Second, Social Security equalizes the distribution of retirement resources. As labor force participation rates of poor, single-parent families have increased sharply over the past fifteen years, it seems likely that Social Security wealth has increased significantly at the bottom of the wealth and income distributions. It would also be interesting to see how these developments affect the evolution of wealth inequality.

Second, a large literature, to which Wolff has contributed, examines the determinants of white-black wealth differentials. The work is closely related to this paper and focuses on the factors that influence wealth accumulation and its evolution: income, demographic changes, changes in factors influencing consumption and saving, differences in rates of return, and intergenerational transfers.

My reading of the literature is that differences in intergenerational transfers can account for between 1 and 22 percent of the black-white wealth differential. If these estimates are true, it is likely that other factors play more important roles in understanding the distribution of wealth and changes in it. Learning more about these factors is an exciting topic for future research.

References


REFERENCES


REFERENCES


REFERENCES


REFERENCES


REFERENCES


