

## Philanthropy — the backbone of American capitalism

By Ronnie J. Phillips

Thanksgiving and Black Friday, which reflect the successes of the American economy, are followed for the third year now by Giving Tuesday, which celebrates the American tradition of philanthropy. After spending [\\$9.1 billion](#) on consumerism on Black Friday, consumers worldwide gave [\\$45.7 billion in the Dec. 2 #GivingTuesday campaign](#). Spending and giving stem from very different motives, yet both are crucial to maintaining the vitality of a capitalist economy.

It is widely recognized that much of the success of the American economy is due to its entrepreneurial spirit — individual initiative, creativity, innovation and wealth creation are indelible parts of the American spirit. The other essential component of American economic, political and social stability is philanthropy, that is, distribution of wealth.

Adam Smith, the founder of modern economics, wrote in “The Wealth of Nations” that “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.”

But two decades earlier, in “The Theory of Moral Sentiments,” Smith had written: “How selfish soever man may be supposed, there are evidently some principles of his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it.”

Those human traits of self-interest and altruism prompted, early in its history, the United States to establish an institutional environment that fostered opportunity across classes. Public education helps create opportunity and innovation, and this leads through entrepreneurship to wealth creation. Thus investment in human capital by both private philanthropy and government policy has been elemental to the U.S. economy and the genesis of our nation’s success.

Universities such as Johns Hopkins and Stanford were begun from private philanthropy, but it was the Morrill Federal Land Grant Act of 1862 that used public funding to create universities throughout the country that focused on agricultural and mechanical education. This

helped unleash what Joseph Schumpeter called creative destruction — a process that disrupts business and generates enormous wealth by entrepreneurs as new jobs and industries are created (and one seen on vivid display in recent years in San Francisco).

This need for entrepreneurs in economic development also has fostered efforts by government at all levels to promote entrepreneurship. But it has never been narrow self-interest alone that motivated the captains of industry. Philanthropy among American entrepreneurs predates the income tax as a motivating factor and embodies a moral principle, which in 1889 Andrew Carnegie expressed in his “The Gospel of Wealth”:  
“[H]e who dies rich, dies in disgrace.”

What is required to sustain American and global capitalism into the 21st century is a renewed spirit of philanthropy among the new rich. Through philanthropy, the maldistribution of wealth can be channeled into creating opportunities for future generations. Those who succeed must give back to society so the cycle can continue.

The projects for philanthropy are as broad today as they were 100 years ago: health, education, infrastructure and social values. If the new rich rise to the occasion, then American prosperity can continue well into this century. And the United States can make an important contribution to global economic development by showing the rest of the world how to create opportunity for its citizens.

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