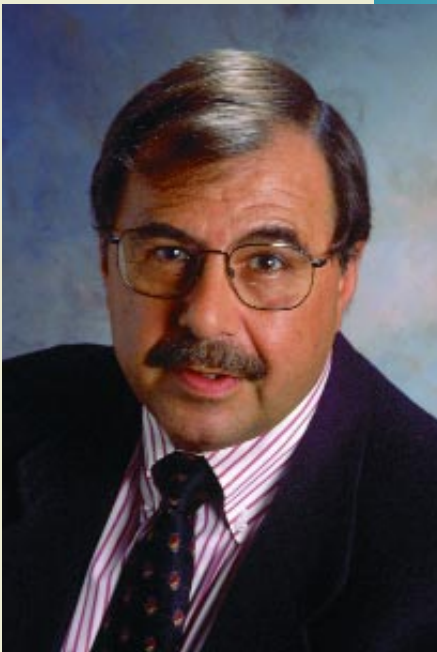


Wealth Transfer in an Age of Affluence



An Interview with Paul Schervish

Interviewed by Pamela Gerloff

A 1999 study by John J. Havens and Paul G. Schervish of the Social Welfare Research Institute concluded that over the next 55 years upwards of \$41 trillion dollars will be transferred from one generation to another—through inheritance, philanthropy, and taxes. Recently, they wrote a report confirming the validity of those estimates, despite the downturn in the economy and equity markets. (Both studies may be downloaded from www.bc.edu/swri.) What does this mean for wealth holders, for philanthropy, and for anyone living in the current era? We talked to Professor Schervish about these questions and some of his groundbreaking research on wealth holders.

MTM: You're a professor of sociology who studies wealthy people. Why?

Schervish: In 1984, a funder asked the following question: *As individuals become more financially secure, do they turn their attention more to philanthropy?* Also embedded in it was the social question: *Do whole societies, as they become more financially secure and affluent, become more engaged philanthropically?*

I said, "We already know the major answer to your questions: Sometimes it happens and sometimes it doesn't. What we don't know is: When it happens, what does that look like? And when it doesn't happen, what does *that* look like?" To find out, some colleagues and I began interviewing wealth holders who were diverse in source of wealth, locale, age, gender, and race.

MTM: What did you find?

Schervish: Our first report produced themes of empowerment and beneficence. Those have been major themes in all of our findings ever since. Initially, we asked people detailed questions about their philanthropy, but we discovered that the questions we were asking weren't profound enough, so we shifted our focus. Instead of asking only about financial security, we asked about the meaning of money and probed people's thinking and practice about the empowerment that comes with increased financial capacity. For example, what did they consider to be the secrets of their success and what did that success allow them to do? We also asked about the meaning they gave to their financial beneficence—the motivations and events that added purpose, or that they experienced

continued on p. 6

Paul G. Schervish, Ph.D., is a professor of sociology and director of the Social Welfare Research Institute at Boston College (www.bc.edu/swri) and a national research fellow at The Center on Philanthropy at Indiana University (www.philanthropy.iupui.edu).

He was selected in 2000, 2001, and 2002 to The NonProfit Times' "Power and Influence Top 50." Dr. Schervish serves regularly as a speaker and consultant on how to surface and analyze the moral biographies of wealth holders, on the motivations for charitable giving, and on the spirituality of financial life.

Paul Schervish *continued from p. 5*

as injurious in some way, or as meaningful. We asked a whole range of questions, not just about their philanthropy, but about the full range of their financial care, including the amounts of money they give to their heirs and to their employees.

MTM: And that led you to study wealth transfer?

Schervish: In working on this project, it occurred to me that almost all of the major thinkers, from Adam Smith to Karl Marx to Max Weber and Emile Durkheim, were all asking similar questions: *How is moral life initiated, maintained, and exercised when there is a growth in political, economic, religious, and cultural freedoms? What is the relationship between individual choice and the common good? How is individual choice related to personal happiness for oneself and others, and how do the two intersect?*

Those have become the key questions of our research. Even though most people understand themselves as being in the middle of the spectrum of the standard of living, more and more have had their standard of living increase so dramatically that the exercise of free choice is the most dominant characteristic of modern American life. No longer are there just a very

Philanthropy: Meeting True Needs

The various acts of care encompass both formal and informal philanthropy, like providing funds for parents who are in need; offering to buy clothes for your grandchildren; providing health care insurance for your workers, even though the market does not dictate that you do that; providing high quality products to your consumers, even though it is not a necessary market obligation. All that is care.

These are ways in which people are meeting the true needs of others, and not just through what we typically call *philanthropy*. Philanthropy is then only one potential choice for carrying out financial capacity with virtue. People have an obligation to make wise choices about care in their lives and to make wise choices about their financial care—but what those wise choices are is not for someone else to say. They are certainly for others to ask about—to invite a response, but not to dictate the response.

—Paul Schervish

“Do whole societies, as they become more financially secure and affluent, become more engaged philanthropically?”

few people who have a fuller range of material choice. Although there is, in fact, persistent poverty in the United States and globally, more and more people are achieving a standard of living that allows for more choice.

MTM: You have written elsewhere that, “The leading cultural and spiritual question of the current era is how to make wise decisions in an age of affluence.” Is that what you’re suggesting—that people in our society now have so many choices that wisdom is needed in making them?

Schervish: Aristotle understood that the goal of life is happiness—you could also say love, unity with the divine presence, or a whole range of things, but let’s just say that his term is one working definition of the goal of life. Happiness is achieved if you can close the gap between where you are and where you want to be; or, better said, if you can close the gap between where you *and those with whom you identify and care about* are and where you and they would like to be.

We close this gap by wise choices, and wise choices are the exercise of virtue. Without the ability to choose, you have no

potential virtue, because virtue is making choices within a range of freedom. You can close the gap by choice, but if your choice is arbitrary, it will not necessarily produce happiness. However, if choices are made with understanding, or the exercise of virtue, then they are wise choices—and they are the choices that will produce happiness.

MTM: So as people have more and more choice, if they want to be happy then the need for wisdom is greater?

Schervish: Yes. The modern affluent age is characterized increasingly by choice. In order to produce happiness for oneself and others we need those choices to be wise. In other words, it’s not just choice that counts; it’s character. So it is capacity (which comes from having the ability to choose) plus character that leads to happiness. That is what I call, for all of us, a gospel. It is the intersection of our empowerments and our moral compasses—our capacity for choice and our character. If you have capacity without moral compass, you act arbitrarily. If you have moral compass without capacity, you may simply be engaged in non-consequential idealism.

“You will not automatically choose a deeper quality of life just because you have greater wealth and greater choices, but the question and the potential to do so are raised.”

MTM: It sounds as if you’re saying that in an affluent society, there is an increased need to make wise decisions. If that’s so, does this imply that affluence will push us into wisdom, individually and as a society—or, at least, that it has that potential?

Schervish: There is no automatic connection between affluence and wisdom. At every point on the economic spectrum a different array of issues comes to the fore. With affluence, a large part of decision-making around survival and day-to-day living is taken care of; the economic problem is solved. This adds new temptations toward materialism and superficiality, but it also offers opportunities to achieve what is deeper in

A Golden Age of Philanthropy?

Will the \$41 trillion wealth transfer result in a Golden Age of Philanthropy? H. Peter Karoff, founder and chairman of The Philanthropic Initiative, Inc., says some changes will have to be made in the foundation world first. Read his address “Saturday Morning: A Reflection on the Golden Age of Philanthropy,” given at the Delaware Valley Grantmakers 2002 Annual Conference, Sept. 2002, at www.tpi.org/promoting/publications.htm.

your life. If you can have what you want, you do not automatically provide deeper answers to the question, *What is it that you want?*—but you do have the question raised in your life. You will not automatically choose a deeper quality of life just because you have greater wealth and greater choices, but the question itself and the potential to do so are raised.

MTM: What does that mean for this time of unprecedented wealth transfer?

Schervish: What is guaranteed is that the potential for wise choices is there. The questions will arise in people’s lives either quietly or loudly, subtly or intrusively. This is true not just for the super-wealthy but for all of us who are affluent.

MTM: What factors enable wise choices to occur?

Schervish: It is pretty simple: You are going to make wise

financial choices if you care. You might say that the school of wise financial choices is care. Ultimately, what leads to wise choices is love—the attention to others as ends in themselves, as I am an end in myself, not a means to an end. The way love is implemented and practiced is care, which is attending to the true needs of others. So wise choices come about through care.

MTM: And wisdom involves attending to the true needs of others?

Schervish: It’s related to it. The Sufis say good people attempt to treat others the way they themselves would like to be treated, generous people treat others better than they themselves would like to be treated, but wise people treat others the way they need to be treated. Wisdom is connected to answering the difficult but right question: *What is the true need?*

MTM: How does wisdom help you know the true need?

Schervish: Wisdom is sensitized intelligence. It is what enables one to learn about how to perceive, and attempt to meet, the true need. That’s why if the age of affluence is about choice, we have to develop new experiences and practices of wisdom. We need wise choices in a new era, especially in this era when choices are not determined by the necessity to say, “No, we can’t afford it.” In the past, our limitations were also our freedom. When we didn’t have money for everything, we had to choose, and that helped us decide what we valued. In an age of affluence we sometimes regret that lost past, but it isn’t a negative that it’s gone. It opens up a new opportunity to find a positive rationale for wealth.

MTM: What might that be?

Schervish: One rationale is meeting the true needs of others in the realm of philanthropy—meeting true needs, not just in accumulation through business, investments, or work.

MTM: Is philanthropy the only way to “meet true needs” with wealth?

Schervish: In the modern era, providing jobs is also a way of meeting true needs. In this model of wisdom-as-meeting-true-needs, accumulation that leads to growth in the economy has a logic of spirituality to it as much

continued on p. 8

Paul Schervish *continued from p. 7*

as philanthropic generosity does. In this new model, we're identifying a broader, deeper, and more profound wisdom.

MTM: Is there a right or wrong way to transfer wealth—for example, when deciding whether and how much to leave to charitable endeavors or to heirs or to taxes?

Schervish: Morality in this model is not just an outcome, it's a process of decision-making.

MTM: Would you say more?

Schervish: The very process of figuring out what it is you are to be doing with your talents and your financial capacity is itself a spiritual activity. If I have \$20 million, it doesn't necessarily mean I should be giving more to charity. My obligation may

The final part is the execution of it. How do you put it into practice? This involves discernment too. In my view, it's figuring out what is to be done by you that is the will of God. That is discerned by finding where what you want to do and the needs of others intersect.

MTM: What if people don't relate to God? Is what you're saying relevant to them?

Schervish: Oh, yes. God is just one statement of a final end in life. Aristotle says happiness. Aquinas says the unity of love of God, love of neighbor, and love of self. Heidegger says participation in Being. A Buddhist would say the entrance into unity of all beings. Your ultimate end is the end that isn't able to be described as a means to another end, whatever that is for you.

MTM: The questions *What work should I do?* and *What do I love?* seem to be questions that more and more people are asking.

“Philanthropy is only one potential choice for carrying out financial capacity with virtue.”

mean building a business and employing 50 people. Charitable giving is not the only avenue of financial morality in this age of affluence. There is a whole range of moral options, but they need to be discerned.

MTM: How does one discern?

Schervish: You start by asking the questions *What do I want to do? What inspires me?* You also ask *What meets the true needs of others?* It may be caring for your little child right now or your dying mother. The important thing is that it is something you do yourself, in the realm of direct care, rather than through some organization or government or through other people's activities.

MTM: Why is that important?

Schervish: Because only you can discern what you should do. It's not about what you can put off on somebody else to carry out. When you are directly involved, that enables you to identify with the fate of others and to find happiness as you contribute to the happiness of others. That's why it's important to do something that you want to do.

So you are discerning three things: a connection to your ultimate end, whatever you conceive of that to be (e.g., happiness, service, union with God); an affective part, which you find by asking *What inspires me?*; and an intellectual component, which you discern by asking *What needs to be done?*

How Much Will Heirs Receive?

...Because most estates have more than one heir, the size of inheritance will be relatively small per heir and the effect will be diffused throughout the population.

...about half of the aggregate bequests to heirs will be concentrated among heirs of the wealthiest 7% of estates with the remaining half disbursed among heirs of the remaining 94% of estates. The average total transfer to heirs from estates valued at \$1 million or more will be approximately \$1.9 million, 13 times larger than the average amount (approximately \$150,000) that will be shared among the heirs of estates valued at less than \$1 million. In each case, the total bequest amount will be divided among the total number of heirs of a given estate. As estates get smaller, the proportion going to heirs approaches 100%, with little or nothing going to charity or taxes. The larger the estate, the greater the proportion bequeathed to heirs. Nonetheless, heirs of wealthy estates will likely receive hundreds of thousands, if not millions of dollars, while heirs of less affluent estates will receive at most thousands of dollars, while tens of millions of potential heirs will receive little or nothing at all.

—From *Executive Summary, Why the \$41 Trillion Wealth Transfer Estimate is Still Valid: A Review of Challenges and Questions*, [www.bc.edu/bc_org/avp/gsas/swri/documents/\\$41trillionreview.pdf](http://www.bc.edu/bc_org/avp/gsas/swri/documents/$41trillionreview.pdf)

What Will Be the Baby Boomers' Share?

The 2003 wealth transfer report by John Havens and Paul Schervish responded to various challenges brought against their earlier 1999 report. One charge was the following: *The projected estimate is unrealistic since the baby-boom generation, the largest generation ever, will not inherit anything close to \$41 trillion.*

In the new report, Havens and Schervish respond: "Many queries about the \$41 trillion wealth transfer estimate—often from boomers themselves—wrongly assume two things about our report. First, that the entire transfer of wealth is going to heirs; and second, that it is going only to boomers. First, 'wealth transfer' is not synonymous with 'inheritance.' Our original report carefully points out that only \$25 trillion of the \$41 trillion transfer will pass from decedents' estates to their heirs. The remaining \$17 trillion will go to estate taxes, charitable bequests, and estate settlement expenses. Second, it is equally important to understand that while \$25 trillion is going to heirs, that figure is the amount of wealth that will be inherited from 1998 through 2052 by all generations—and not just the boomers. Boomers may well inherit \$7.2 trillion, but the majority of the inheritances will be transferred to subsequent generations, including the children and grandchildren of the boomers. As the boomer generation ages and dies during the 55-year period, their role in the wealth transfer process will be far greater as benefactors than as beneficiaries."

To read a summary of challenges to the 1999 report and the researchers' responses in the second report, see *Executive Summary, Why the \$41 Trillion Wealth Transfer Estimate is Still Valid: A Review of Challenges and Questions* by John J. Havens and Paul G. Schervish (Social Welfare Research Institute, Boston College, January 6, 2003) [www.bc.edu/bc_org/avp/gsas/swri/documents/\\$41trillionreview.pdf](http://www.bc.edu/bc_org/avp/gsas/swri/documents/$41trillionreview.pdf)

Schervish: Yes, because such choices are more available now. Having a range of choice doesn't provide a certain answer to the question, but when the quantity of one's needs have been met, the next question is *What are the quality of my needs?*

This is what Hegel called the cunning of reason or what we might call the cunning of history. Certain potentials are unfolding, but they don't automatically lead to good. As our choices expand, the potential for both good and evil grow. From the very same foundations can grow control, manipulation, and heedlessness, or great care and love.

MTM: So the wealthy have greater potential to do both good and evil with their money.

Schervish: And when they do good, it is more freely chosen; therefore, it is more heartily embraced.

MTM: Does the unprecedented wealth transfer imply that there will be a "golden age of philanthropy," as the title of your first report suggests? (*Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*)

Schervish: The wealth transfer projections indicate that the country's foundation of affluence is growing. If people just do what they are doing today, there will be a "golden age of philanthropy," because there will be more money to be transferred. If the same percentages are given to philanthropy as they are now, there will be many more dollars given away. But what will make the age truly golden is that we anticipate that people will become more charitably inclined over the years to come. There is coming into play what we call the new physics of philanthropy—a set of forces that combine to foster philanthropic growth.

But the golden age of philanthropy is perhaps more the potential of people to find satisfaction and wise choices in directly attending to the needs of others—because they have an income or financial resource stream that is greater than their expense stream.

MTM: What does all of this mean for making wise decisions about wealth transfer?

Schervish: First of all, wealth transfer is about economic growth and wealth and the capacity individuals have to allocate that wealth, not just at their death but throughout their lives. In fact, in our next model, we're going to talk about

"There is coming into play
what we call the new physics
of philanthropy—a set of forces
that combine to foster
philanthropic growth."

wealth transfer to the three major choices—taxes, family or heirs, and charity—as taking place not only at the end of life but throughout life. Wealth transfer is the transfer of wealth you make throughout your entire life—for example, paying taxes, giving to charity, and gifts to children.

Also, one of the interesting things that is generally not understood in discussions about wealth transfer is continued on p. 13

Paul Schervish *continued from p. 9*

that when a substantial amount is transferred to heirs, that doesn't necessarily mean it isn't given to charity—as is testified to here and now by so many who are associated with More Than Money. So an important question becomes: *Are we developing the capacity to make wise financial choices, and are we helping the next generation to develop that capacity too?* ■

See also:

“The New Physics of Philanthropy: The Supply-Side Vectors of Charitable Giving. Part 1: The Material Side of the Supply Side,” by Paul G. Schervish and John J. Havens, *The CASE International Journal of Educational Advancement*, Vol. 2, No. 2, November 2001, pp. 95-113.

www.bc.edu/bc_org/avp/gsas/swri/documents/nppub1.pdf

“The New Physics of Philanthropy: The Supply-Side Vectors of Charitable Giving. Part 2: The Spiritual Side of the Supply Side,” by Paul G. Schervish and John J. Havens, *The CASE International Journal of Educational Advancement*, Vol. 2, No. 3, March 2002, pp. 221-241.

www.bc.edu/bc_org/avp/gsas/swri/documents/nppub2.pdf

“Major Donors, Major Motives: The People and Purposes Behind Major Gifts,” by Paul G. Schervish, in *New Directions for Philanthropic Fundraising: Developing Major Gifts*, edited by Dwight F. Burlingame and James M. Hodge, Summer 1997, pp. 85-112.

www.bc.edu/bc_org/avp/gsas/swri/swri_publications_how_to_order.htm The description of this report is available at: www.bc.edu/bc_org/avp/gsas/swri/swri_publications_title_M.html