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OPINION | COMMENTARY

## *The Case for Giving Money Away Now*

Lewis Cullman believed it was a more effective form of philanthropy than a perpetual foundation.

By Ray D. Madoff

June 16, 2019 3:41 p.m. ET



Philanthropist Lewis B. Cullman in New York, Feb. 1, 2016. PHOTO: MARK SAGLIOCCO/FILMMAGIC

When it came to investing, no one was smarter than Lewis B. Cullman, who died June 7 at 100. In 1964 he engineered the first leveraged buyout, enabling him to acquire Orkin Exterminating Co., a company worth \$62 million, with only \$1,000 cash. In

1977 he bought a small calendar company, expanded and rebranded it as At-A-Glance, and sold it for \$550 million.

Cullman then turned his attention to philanthropy. How does a smart investor act when his goal is to promote the long-term betterment of the world?

The usual answer is the perpetual private foundation, which allows donors to invest their capital and spend the income for charitable causes in perpetuity. The U.S. tax code encourages the creation of such foundations by giving full tax benefits to the donors and by requiring them to spend only 5% of their assets each year. If their investments earn a decent rate of return, the principal need never be spent on charity. The law even allows administrative expenses—including salaries paid to family members and costs for trustee meetings in exotic locales—to count toward the 5% spending requirement.

More than 90% of private foundations are set up to last in perpetuity, but Lewis Cullman was never one to follow the crowd. Although he knew he could produce impressive financial returns by investing in Wall Street, he believed he'd achieve a far better return for the public good by going all-in and investing his entire principal in charitable endeavors. So after he acquired his wealth, he set off to spend it all—more than \$500 million—while he was still alive.

Cullman and his then-wife, Dorothy (who died in 2009), endowed innovative programs at New York's most venerated institutions—among them education programs at the Museum of Modern Art, a fellowship for writers and scholars at the New York Public Library and a research center for the molecular and genomic studies of plants at the New York Botanical Gardens. Cullman's greatest passion was Chess in the Schools, a program that has taught the game to more than 500,000 economically disadvantaged New York City public-school students and helped hundreds of them attend college.

Like Julius Rosenwald (1862-1932), Cullman also did everything he could to urge fellow philanthropists to fund charity in the present. He talked about how fun it is to give, wrote books and articles on the importance of current giving, and warned that funds in a perpetual private foundation were unlikely to be spent after a donor's death because professional trustees have a vested interest in preserving assets to preserve their jobs. His "spend now" philosophy was also embraced by Bill Gates and Warren Buffett.

Cullman urged lawmakers to change incentives so that more charitable resources would be spent up front. It rankled him that the government wasted money giving tax benefits for funds that never make it to charity. As he wrote in his 2004 memoir: "I really don't get the tax laws that allow the wealthy to deduct the money they give to create private foundations yet never require those foundations to pay out the principal that earned the deduction. . . . To me that's just nuts: bad tax policy, bad social policy, and morally indefensible in the bargain. . . . Foundations should be required to spend down their assets, all of them, within 50 years of their founding."

Cullman succeeded in giving all of his money away during his life, but that doesn't mean his giving has stopped yielding benefits. Millions of people will continue to be touched by it: not just the direct beneficiaries, but all those whose lives will be improved by their work and personal growth. Like compound interest, these secondary beneficiaries will pass on the

benefits to others, in an ever-expanding ripple. That's how smart money works—its impact keeps growing and growing. It's a lesson the rest of us—and Congress—would be wise to heed.

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