

Andrew Carnegie: From Making Wealth to Creating Modern Philanthropy

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This case study examines Andrew Carnegie, a self-made businessman and steel tycoon that went on to distribute a large portion of his wealth to social causes that he valued. Not only did he have a large impact on others during his life, but his legacy continues today through the several foundations that exist in his name. Through this case study, we can see how one man's modest beginnings influenced him to give back in order to benefit others. In order to fully study Andrew Carnegie, this case study describes: his life, his career, his views depicted in *The Gospel of Wealth*, his charitable behaviors, and the Carnegie Corporation of New York today.

Introduction

Andrew Carnegie, the Scottish-American industrialist, is well-known for creating a steel empire in the late 1800s. Though he came from a modest, immigrant background, his hard work in the steel industry established him as one of the most famous and wealthy industrialists during his time. What set Andrew Carnegie apart from the few other millionaires at the time was his firm belief that the rich are under a moral obligation to distribute their wealth in order to promote the well-being of the common man. He articulated this in his 1889 book *The Gospel of Wealth*, in which he is famous for saying “The man who dies thus rich dies disgraced” (Carnegie, 1889, p. 18). His moral values regarding wealth had a large influence on Carnegie’s establishment of his philanthropic foundation in 1911, the Carnegie Corporation of New York. He also felt that it was important to distribute his wealth in the most beneficial and sustainable ways possible. For this reason, Carnegie created the matching-grant requirement in order to guarantee that grant recipients had their own funds to support the project in the future. Carnegie’s new system of scientific philanthropy was unprecedented, and had a large impact on the development of philanthropy in the United States. His industry success combined with his philanthropic drive make Andrew Carnegie and his foundation a significant case to examine in the following case study, in which his personal life, steel empire, and foundation will be discussed along with relevant literature.

The Rise of Andrew Carnegie

Andrew Carnegie is an extraordinary example of a rags-to-riches story. He was born in Dunfermline, Scotland, on November 25, 1835, to William, a linen weaver, and Margaret. In 1848, his family immigrated to the United States and settled in Pennsylv-

nia after his father’s business failed. Even at a young age, Carnegie was eager to learn, as he utilized the local library to broaden his knowledge of the world, and of his new home in America. This use of the local library was Carnegie’s only real form of education. At age 13, Carnegie began working at a cotton factory with his father. As a bobbin boy, Carnegie worked 6 a.m. to 6 p.m. for just \$1.20 a week (Golden, 1988). He depicted his eagerness to work during his young career by becoming a messenger boy for the Atlantic & Ohio Telegraph Company. Here, he taught himself how to decode telegraph messages by ear and developed relationships with local businessmen (Carnegie, 2006, pp. 33–60). His strong work ethic impressed many that he worked for, and helped him to gain the attention of Thomas A. Scott, the superintendent of the Pennsylvania Railroad at Pittsburgh. In 1852, Scott hired Carnegie to be his personal clerk and telegraph operator (Laird, 2006, pp. 18–22). By expanding his industrial knowledge and building connections, Carnegie excelled at one of America’s most profitable and fastest growing companies.

His position with the Pennsylvania Railroad gave Carnegie opportunities to invest in various businesses. His first investment opportunity came after Scott gave Carnegie the idea to buy \$500-worth of Adams Express stock. Carnegie did not have the assets for that investment; however, his mother mortgaged their home to raise enough money (Golden, 1988). Carnegie detailed his feelings the day he received his first dividend payment in his autobiography by writing: “I shall remember that check as long as I live. It gave me my first penny of revenue from capital, something that I had not worked for with the sweat of my brow.” (Carnegie, 2006). Carnegie’s investments did not stop there, his

next influential investment came from his discussion with T.T. Woodruff regarding Woodruff’s model of the first sleeping car. Carnegie assisted Woodruff by passing along this model to Scott, and in return, Woodruff gave Carnegie a one-eighth interest in his sleeping car company. While Carnegie bought his share with a \$217 bank loan, his investment would soon be worth over \$5,000 a year (Golden, 1988). Thus, Carnegie the capitalist was born.

Carnegie’s work ethic and successful investments combined with Scott’s respect for him made it no surprise that Carnegie replaced Scott as superintendent of the Western Union Pennsylvania Railroad in 1859, when Scott became the company’s vice president (Golden, 1988). Carnegie continued his investment strategy by becoming involved with businesses the constructed bridges, trains, and rails. In 1865, Carnegie left his position with Western Union Railroad to pursue new business options as an investor and company owner, focusing on bridges, steel, oil, railroads, and related industries (Carnegie, 2006). This led to his establishment of the Keystone Bridge Company in 1865. This was only the first of many companies that Carnegie would own.

Having confidence in the steel industry, Carnegie opened Edgar Thomson Steel Works, his first steel plant, in 1875 (The Carnegie Corporation of New York, 2014b). Edgar Thomson Steel Works was extremely profitable from the very beginning. While Carnegie had business partners involved in this enterprise, its success was largely due to Carnegie, who assumed the roles of “strategist, decision maker, figurehead, contract chaser, and negotiator of the business” (Carnegie, 2006, pp.158–171; Nasaw, 2006, pp. 137–183). Other than his own business, Carnegie continued to accumulate wealth through his invest-

ments. His business strategy was to invest in the Pittsburgh-based businesses that he controlled, so that he could insist that the majority of profits were reinvested to increase capacity and reduce unit costs (Harvey, Maclean, Gordon, & Shaw, 2011). Carnegie's strategy paid off and by 1890, he had an estimated net worth of at least \$14.9 million (Wall, 1970).

A New Take on Charity: *The Gospel of Wealth*

In order to express his views regarding the responsibilities of the wealthy, Andrew Carnegie chose to write an essay, *The Gospel of Wealth*, in 1889. Throughout this essay, Carnegie testifies to the importance of the rich utilizing philanthropy to support the common good. Carnegie also described how times had changed, and that there was even more of a contrast between social classes than there was previously. Therefore, he argued that this contrast depicted the importance of the wealthy disposing of their wealth in socially-conscious ways, so that wealth benefits the human race in general as opposed to only benefitting the few possessors of the wealth. He further described the "duty of the man of Wealth" to also mean that the wealthy should "set an example of modest, unostentatious living, shunning display or extravagance" (Carnegie, 1889, p.14). Carnegie felt that those capable of living an extravagant lifestyle should instead utilize their surplus wealth to benefit others.

He also described how possessors of wealth should distribute their wealth that is "best calculated to produce the most beneficial results for the community" (Carnegie, 1889, p.15). This idea connects to Carnegie's support of scientific philanthropy, because he wanted to ensure that he gave his support to programs that would help the most people, for the longest

amount of time. He even goes onto say that "of every thousand dollars spent in so called charity today, it is probable that \$950 is unwisely spent" (Carnegie, 1889, p. 16). Carnegie utilizes the *Gospel of Wealth* to depict the important difference between blindly throwing money at a charity, and carefully selecting a program that will utilize resources in the most overall beneficial way.

Carnegie's true meaning of the gospel concerning wealth lies in one of the essay's final statements: "The man who dies thus rich dies disgraced" (Carnegie, 1889, p. 18). Therefore, Carnegie distributed in his own wealth in a way that mirrored his idea that the wealthy are responsible for supporting the poor, peace, and goodwill. He also created many programs that could continue to distribute his wealth after his life, to ensure that his wealth continued to be utilized in the most beneficial ways.

The Charitable Behaviors of Andrew Carnegie

Carnegie did not found his companies to be stock corporations, but instead to be partnerships, as this fit more with his belief that "it shall be the rule for the workman to be Partner with Capital, the man of affairs giving his business experience, the working man in the mill his mechanical skill, to the company, both owners of the shares and so far equally interested in the success of their joint efforts" (Carnegie Corporation of New York, 2014a). Meaning, Carnegie did not want to claim all the credit and all the profits of his companies. At this time in his career, Carnegie had already begun giving his wealth back to the common man, with one of his first philanthropic ventures being the donation of organs to churches and music halls. Between 1874 and 1919, he donated more than \$6 million to support the purchase of over 7,600 church or-

gans in the United States and United Kingdom (Carnegie Corporation of New York, 2013b). At first, the organs were gifts; however, this led to many requests for similar gifts. So, an organized grant program was established, which required churches and other organizations to provide matching funds (Kulman & Probst, 1986).

Carnegie's use of a matching-grant requirement to fund projects was unprecedented. His well-organized grant programs were in an effort to ensure that the project would be sustained in the future. Therefore, if a community wanted a \$20,000 grant from Carnegie for their library, he would require them to raise a matching \$20,000 to endow in the project, to ensure that there would be funds for the library's upkeep and future books (Nasaw, 2006). This mirrored Carnegie's philosophy on philanthropy, "to help those who help themselves," because he wanted to help communities that were also making an effort to help themselves (Cohen, 2000).

Carnegie's free public library philanthropy began with a gift to his native Dunfermline, Scotland in 1881. Carnegie attained most of his education from books through free library use, so he knew how much of a difference a library can make for someone, especially someone from a modest background like himself. His establishment of 1,680 public libraries in the United States and libraries in 2,509 communities worldwide depicts that he never forgot what books gave him, and what they can give to others (The Carnegie Corporation of New York, 2014a). Carnegie encouraged others to utilize the library during the dedication of the Carnegie Library in Braddock PA, when he told the crowd of workmen: "There is no means so sure for enabling the workman to rise to the foremanship, managership, and finally partnership as knowledge of all that has been done and is being done in the

world today in the special department in which he labors” (Carnegie, 1889, 1903). He donated over \$40 million to public libraries, and an additional \$15 million to public libraries abroad. Today, that would be equivalent to \$1 billion (Bobinski, 1969). Millions of people around the world, in countries including: the United States, Canada, Puerto Rico, Ireland, Britain, South Africa, New Zealand, and Scotland, have utilized a library funded by Andrew Carnegie and his legacy (Putman, 2010).

Carnegie’s steel company was valued at over \$400 million when he retired and sold the company to J.P. Morgan in 1901. During this time, Carnegie’s net worth was \$475 million; however, Carnegie intended to distribute much of his fortune (Carnegie Corporation of New York, 2014a). Other than his library projects, Carnegie also funded several higher education projects. He chose not to distribute grants to top universities, and instead provided funding for schools for working-class children, such as Booker T. Washington’s Tuskegee College (Nasaw, 2006, pp. 599–601). Carnegie endowed over \$20 million to support projects at colleges and universities (Harvey, Maclean, Gordon, & Shaw, 2011). In 1900, Carnegie established the Carnegie Institute of Technology in Pittsburgh with a \$13.5 million endowment, which is now Carnegie Mellon University (Harvey, Maclean, Gordon, & Shaw, 2011). Additionally, Carnegie had a large impact on America’s higher education system by establishing the Carnegie Foundation for the Advancement of Teaching in 1905 with a \$29 million endowment. This foundation provided pensions to college professors if they satisfied strict criteria (Wall, 1970, pp.826–834).

In addition to the previously mentioned projects, Andrew Carnegie also established the: Carnegie Institution of Washington to support for sci-

entific research (\$22.3 million), the Carnegie Institute of Pittsburgh to promote learning and science (\$13.1 million), The Carnegie Hero Fund Commission to honor citizens who risk their lives for others in the United States and Europe (\$10.5 million), the Carnegie Endowment for International Peace to promote world peace (\$10 million), and the Carnegie steel workers’ pension program to provide pensions for former employees (\$4 million), before founding the Carnegie Corporation of New York in 1911 (Harvey, Maclean, Gordon, & Shaw, 2011). He endowed his new philanthropic trust with \$135 million, and directed that the foundation’s grants be distributed to “advance and diffuse knowledge and understanding” (Carnegie Corporation of New York, 2014a). His endowment made the Carnegie Corporation of New York the largest single philanthropic trust ever established at that time (Carnegie Corporation of New York, 2014a). Carnegie wanted to make a long-term difference, even after his death, and he acknowledged that social issues would change over time. So, he set up his trusts and foundations in a sustainable way. To do so, he resisted creating a specific mission in detail, instead issuing guidelines and allowing the trustees to shape policy how they felt necessary over time (Wall, 1970, pp. 883–884).

Carnegie donated more than 90% of his wealth to various nonprofit organizations and charitable trusts before his death in 1919. In fact, Andrew Carnegie had given away about \$350 million during his lifetime, which would be equivalent to several billion dollars today (Carnegie Corporation of New York, 2014a). Though Carnegie once had an incredible net worth of \$475 million, he died having just \$30 million left due to the wealth he distributed to his own philanthropic foundation, other charities, public pur-

poses, and the families of his descendants (Carnegie Corporation of New York, 2014a). Today, almost a century after his death, there are 26 organizations worldwide that have Carnegie’s name due to his endowments and establishments of these organizations. His establishment of the Carnegie Corporation of New York, as well as the 25 other organizations, allow him to continue to support the common man, with focuses on education, international peace, art, and scientific research. In 2012, the Carnegie Corporation of New York had \$2.8 billion in assets, and was ranked 22nd of all American charitable trusts based on assets (Foundation Center, 2014).

The Development of the Carnegie Corporation of New York

When the Carnegie Corporation of New York was founded, Andrew Carnegie was the president and a trustee. The first executive committee also contained James Bertram and Robert Franks, who were the secretary and treasurer of the Corporation. The other seats on the board at this time were held by the presidents of the five previously established Carnegie organizations in the United States: The Carnegie Institute (1896), The Carnegie Organization of Washington (1902), Carnegie Hero Fund Commission (1904), Carnegie Foundation for the Advancement of Teaching (1905), and the Carnegie Endowment for International Peace (1910) (The Carnegie Corporation of New York, 2014a). It was not just the asset size that made the Carnegie Corporation of New York stand out at the time, but also its utilization of “scientific philanthropy.” This philosophy focused on philanthropy supported by the knowledge of experts, in order to address the most important problems in the most innovative ways (Lenkowsky, 2011).

Elihu Root, a friend and legal adviser to Andrew Carnegie, advised

that The Carnegie Corporation of New York to be established as a corporation, so that Carnegie could leave his remaining wealth to this trust, with the intention of the trust distributing his wealth after his death (Lenkowsky, 2011). In fact, Carnegie wrote a letter to his original trustees, establishing that he did not want to bind the Corporation to certain causes. Instead, he acknowledged that conditions are bound to change, so, he gave the trustees full authority to amend the Corporation's policies over time as they see necessary (Lenkowsky, 2011).

The first project of the Carnegie Corporation was on Carnegie's favorite focus: library construction and development. Over time, \$56 million was spent on this project. The Carnegie Corporation later departed from the library initiative; however, in 1999, the Corporation awarded \$15 million in commemorative grants to urban public libraries, in order to mark the centennial of Andrew Carnegie's library gifts (Carnegie Corporation of New York, 2014b). After Andrew Carnegie's death, the corporation began to also focus on science and research programming. This is exemplified by the accomplishments of Dr. Frederick Banting, who won the Nobel Prize for medicine in 1923, after discovering Insulin during experiments at Carnegie Corporation funded laboratory (Carnegie Corporation of New York, 2014b). Therefore, the Corporation's grant focuses have changed over the years, but still generally focus on Carnegie's beloved cause of education (Carnegie Corporation of New York, 2014a).

Andrew Carnegie's core value of education has continued to be a focal point for the Carnegie Corporation of New York over the years. However, the Corporation moved from libraries and early education to more complex areas, such as the expansion on adult education and the U.S. higher educa-

tion system. For example, in 1926, the American Association for Adult Education was established, with the Carnegie Corporation as this organization's only funder until 1940 (Carnegie Corporation of New York, 2014b). In 1967, the Carnegie Commission on Higher Education produced more than 170 publications which focused on six policy areas: social justice, high skills and new knowledge, quality and integrity of programs, governance, resources available to higher education, and purposes and performance of institutions (Carnegie Corporation of New York, 2014b). The recommendations made by the Carnegie Commission on Higher Education had a large impact on the U.S. higher education system, with some of the changes made as a result of these recommendations still in place today. In fact, in 1972, the federal government established Basic Opportunity Grants, which are referred to as Pell Grants today, after recommendations were made by the Carnegie Commission on Higher Education regarding inequalities in access to higher education (Carnegie Corporation of New York, 2014b). Furthermore, in 1999, the Carnegie Scholars Program was created to recognize and reward hard-working students. The 20 fellows selected each year of the program were given a year-long residency a grant up to \$100,000 for one or two years of research (Carnegie Corporation of New York, 2014b).

Also related to education, the Carnegie Corporation of New York has focused grant money on the promotion of educational and public interest television. This started in 1964, with the establishment of The Carnegie Commission on Educational Television, which was created to study the role of noncommercial Television in society (Carnegie Corporation of New York, 2014b). This commission found that there was a need for more educational television. The commission's

recommendations provided a basis for the Public Broadcasting Act of 1967 (Lenkowsky, 2011). The Carnegie Corporation of New York then gave a grant of \$1 million to PBS to support the beginning of educational television and radio. As a result of this support and a Carnegie-funded study, Sesame Street first aired on PBS in 1969 (Carnegie Corporation of New York, 2014b). The Carnegie Corporation's push for educational television has impacted millions of children around the world, and is still an educational resource for children today.

Another cause that was important to Andrew Carnegie was international peace. This continues to be reflected by the Carnegie Corporation of New York, with a focus on the investigation and prevention of superpower confrontation and nuclear war. This is depicted by the Carnegie Corporation providing a grant to create the Aspen Institute of Nonpartisan congressional retreat program in 1985. This institute was established to educate lawmakers about U.S.-Soviet relations. Over 300 Congress members have taken part in this program, which the Carnegie Corporation continues to support (Carnegie Corporation of New York, 2014b). Furthermore, in 1993, the Moscow Center was established by the Carnegie Endowment for International Peace with funding from the Carnegie Corporation of New York, in order to support Russia's economic recovery (Carnegie Corporation of New York, 2014b). The Carnegie Corporation of New York also continues to provide funding for many other initiatives of the Carnegie Endowment for International Peace.

The Carnegie Corporation of New York: Today's Causes

Although Andrew Carnegie gave future trustees the freedom to focus the grant-making of the Carnegie Corporation of New York however

they felt necessary, many of the programs that they have chosen to support in the last century have actually aligned with the fields that Andrew Carnegie believed deserved attention: education, science, and international affairs.

The Carnegie Corporation of New York has a policy of choosing a few causes to focus grant distribution on. During the fiscal year of 2013, the Carnegie Corporation continued to focus on the main causes of education and international peace. The Carnegie Corporations' International Program aims to promote "a more secure, peaceful, and prosperous world through the advancement and diffusion of knowledge and understanding" (The Carnegie Corporation, 2013a). The International Program contains the Corporation's International Peace and Security division, which intends to address the challenges surrounding nuclear security, global power dynamics, and states in transition (The Carnegie Corporation, 2013a). Today's programs surrounding international peace reflect the Carnegie's early aspirations of achieving peace between nations. Furthermore, the international program also focuses on higher education initiatives in African, European, and Asian countries. Again mirroring Carnegie's first philanthropic endeavor, the Corporation today still provides grants to strengthen libraries worldwide. The Corporation also aims to improve postgraduate training and research in African countries (The Carnegie Corporation, 2013a).

In addition, the Carnegie Corporation distributes support to their National Program as well. The Corporation's National Program aims to enhance education opportunities and democracy. One goal of the program is to assist more students, especially those from low-income and immigrant families, in achieving academically.

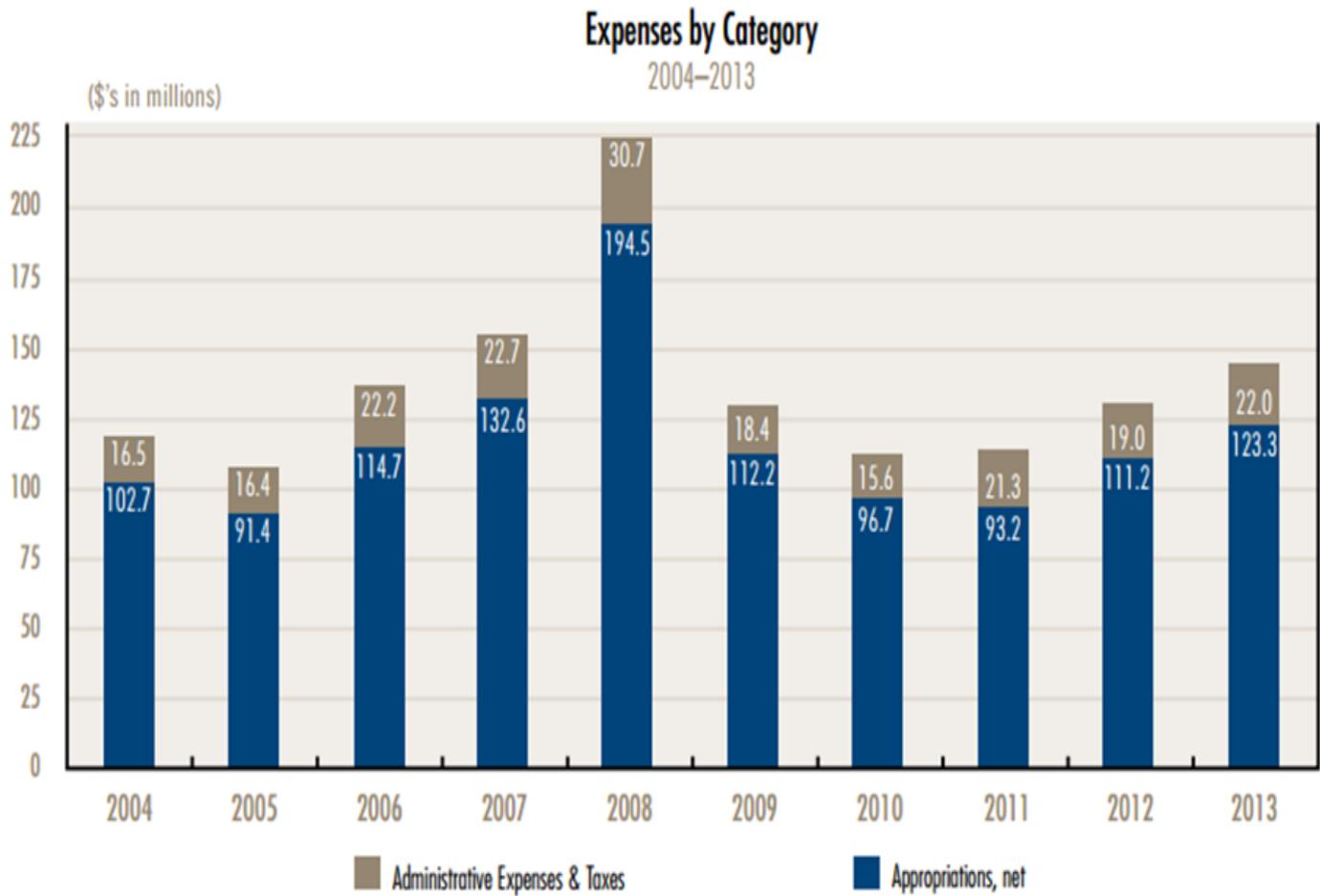
The hope is that the better educated this generation is, the better future leadership there will be for our democratic society. An additional goal is to enhance citizenship, civil participation, and civic integration through education. The Carnegie Corporation also provides support to various programs worldwide, through the Special Opportunity Fund; however, the Carnegie Corporation of New York still mirrors Andrew Carnegie's values with the focus on international peace and education initiatives.

For the 2013 fiscal year, the Carnegie Corporation of New York had total assets of \$3,033,694,178. This is an increase from the total assets of 2012, which was \$2,764,431,433. The Carnegie Corporation distributed 5,314 grants for a total of \$1,172.6 million between 2004 and 2013. Also between 2004 and 2013, the Corporation spent \$166.6 million for program management, direct charitable activities and administrative expenses, and \$38.2 million for taxes, for a total of \$1,377.4 million (Carnegie Corporation of New York, 2013a). Below are the expenses by category of the Carnegie Corporation from 2004 to 2013. The administrative cost roughly occupies 15% of total expenses (Carnegie Corporation of New York, 2013a).

Conclusion

Andrew Carnegie is an exemplary case of not only a rags-to-riches story, but also of a self-made business man who used his wealth to benefit the common good. By coming from modest beginnings, Carnegie recognized the struggles of those in the lower social class. Though he is often celebrated for his success as a steel tycoon, he should also be recognized for his philanthropic values. In fact, Carnegie would probably be preferred to be remembered this way. Though Carnegie donated more than 90% of his wealth before his death in 1919, he saw this as

his moral obligation. By expressing his values surrounding wealth in his *Gospel of Wealth*, Carnegie hoped to influence others to utilize their wealth in ways the benefitted the common man, peace, and good-will. Additionally, his charitable efforts setup the framework for modern foundations, and have had substantial impacts on the development of philanthropy in the United States. Carnegie's use of a matching-grant requirement to fund projects was unprecedented, and is still used today by other foundations, as well as governments, to ensure that the grant recipients have their own funds to sustain the project in the future. Carnegie would be glad to know that he is still supporting many of his favorite causes today, almost one hundred years after his death, since there are 26 organizations worldwide in his name, and countless others that exist due to his charitable support and grant-making



Source: Carnegie Corporation of New York, 2013a.

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