



# "Giving" Advice



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## So Why Do the Really Rich Pile on Savings?

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Austan Goolsbee—The New York Times Media Group

For voyeurs of billionaires, a brief period from mid-February to mid-March serves up two of the juiciest glimpses they will get all year. In February, the Slate 60 list of the year's biggest philanthropic gifts comes out, followed in March by the Forbes magazine list of the world's richest people.

This time, one name Warren Buffett will appear conspicuously on both. His fortune will probably rank second in the world behind only that of Bill Gates, as it has for some years. In philanthropy, however, Buffett is No. 1 by a wide margin. Last year, he shook the world of billionaires by pledging more than \$42 billion for charity by far the largest philanthropic donation in history and close to the total of all the Slate 60 donations for the past six years combined.

You could almost see the editors at Forbes airbrushing the perplexed and stricken looks off the faces of their other billionaires. He's giving away \$42 billion? Is he crazy? Certainly that is not what most of them had in mind for their fortunes.

But the move by Buffett raises the question of exactly what the other billionaires do have in mind for their money.

According to the economist Christopher Carroll at Johns Hopkins University, in his article "Why Do the Rich Save So Much?," the seemingly obvious question of why people would want so much money turns out to be a real puzzle.



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For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides

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The rational economic argument for accumulating wealth says that people want to use it for something: to spend, to give to their families to enhance their future standard of living or to do something philanthropic.

When you look at the Slate 60 list, however, you see that philanthropy can't be the main reason. For all of their amazing generosity, the superrich typically do not give away their entire fortunes, or even a big share. That is what makes Buffett so notable.

For 2006, the Slate 60 not including Buffett pledged or gave a little over \$7 billion to charity. Yet as of September 2006, the 60 richest Americans had an estimated \$630 billion of wealth, up more than \$62 billion (about 10 percent) from the year before. People are accumulating money much faster than they are giving it away.

Carroll says the superrich can't be accumulating the money with the intention of spending it, either, because no one could spend that much.

To see his point, take Oracle's founder, Lawrence Ellison. Ellison's net worth last year was around \$16 billion. And it will probably be much bigger when the list comes out in a few weeks. With \$16 billion and a 10 percent rate of return, Ellison would need to spend more than \$30 million a week simply to keep from accumulating more money than he already has, to say nothing of trying to spend down the \$16 billion itself.

He spent something like \$100 million on his Japanese-style mansion in Woodside, California, making it among the more expensive private residences ever built. But that is only about three weeks worth of the interest he earns on his wealth. And a house does not actually spend down his net worth because it is an asset that can be resold. At least part of the \$100 million is just a different way of saving.

Ellison would have to spend that \$30 million a week—\$183,000 an hour—on things that can't be resold, like parties or meals, just to avoid increasing his wealth.

The last of the seemingly rational explanations is that the billionaires want to pass it on to their children. But, again, their fortunes are growing far faster than their number of heirs, so each of the children will have the same problems spending the money that their parents had.

Sam Walton's fortune is now divided among his family, and the Forbes list will probably show that his children account for 4 of the 10 richest Americans in the world (with his wife being No.11). The children are in their 50s and 60s, and if they live to be 80, and their wealth grows at 10 percent a year, their fortunes will rise by four to eight times and they will each have more than they can ever spend or their children can spend, and so on.

Further, the data, according to Carroll, just does not indicate that children make much of a difference. He found in the government's 1992 Survey of

Consumer Finances, for example, that only 4 percent of the richest Americans said that providing an inheritance ranked in their top five reasons for saving.

The data also shows that elderly superrich people who do not have children save just as much as the ones who do.

If it isn't to spend, to give to their children, or to give to charity, then why do the rich save so much? Carroll says maybe they love money, not for what it can buy but just for its own sake. Perhaps they get something different from having money clout, power, the ability to dominate an industry. Or perhaps these are just competitive people who care about their position compared with other people on the list.

They accumulate more so they can lord it over the other families who have less—a bit like having enough nuclear weapons to blow up the world several times—but making more to stay ahead of the other guy.

However you look at it, though, it isn't for the reasons that everyone else saves money.

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