<u>The Costs and Benefits of Wealth</u>

(Presented at the Citigroup Private Bank Colloquium on Wealth, November, 2000, in which I was the kickoff speaker.)

<u>The Cost/Benefit Analysis:</u>

What are the costs and benefits of wealth? Does wealth sap incentives? Does wealth create freedom? What does a parent who is considering passing on a substantial inheritance need to think about in the most basic way in determining whether and if so how to do so? – These were the questions posed to me….

As long as we're going to be talking all day, I'm going to venture a couple of radical positions and see how far I can take them before I fall on my face. First, I would contend that there isn't a good answer about what wealth does to and for you. And as for passing on a substantial inheritance, well, it doesn't really matter what you do. So relax.

These responses, while perhaps erring on the inflammatory side, have some truth to them. I can't in truth say what wealth does to incentives or to motivation because, of course, wealth is not the causal factor, *we* are: the creators, holders, managers, givers and receivers of wealth. So any cost-benefit analysis, in attempting to capture all of these perspectives in the same net, comes out sounding like a platitude. I'd love to offer up some platitudes, so I will, in a minute.

As for passing wealth to your children, *GOOD LUCK*! I'm not saying it can't be done, but many parents have unproductive or unrealistic expectations about what money can do for their kids. Strategies are suited to a wide array of goals, values, and personal attributes; any one of the professionals here knows more than I would about trusts and estates. Rather than sketch out trust scheme A, B, or C, or inheritance scenario 1, 2, or 3, I want to maintain a personal and interpersonal focus, so that hopefully we can help each other to steer around the rocks of disappointment, loss of worth, and family tension. My expertise is in the psychology of optimal experience, and what I know is this: even a work of genius in the area of estate planning will utterly stick in your craw if you feel that your relationship with your children is one that lacks trust and goodwill. When you get right down to it, the scariest thing as a parent is the thought that you will wreck the object of your love by giving them your money; but you also could hurt or humiliate them if you don't. It's a pickle.

This morning I'll begin with a brief framing of my own worldview around wealth management, sort of the philosophical ground from which I speak; then I'll address the questions at hand very directly; and finally, I'll venture a few practical examples of the ways in which the issues are played out, with varying degrees of success.

My first suggestion to anyone thinking about allocation options is to really spend time building the right foundation for action: get clear about your values, your children's values, your parental goals, your ethical framework, and the kind of impact you want to have on the world. It's these intangible, symbolic assets that provide direction for the more fulfilling use of our tangible ones. When I had to grapple with some of this, just for clarity's sake, I began to distinguish between <u>worth</u> and <u>wealth</u>. Here are my guiding principles:

1. My parental goal is to cultivate the worth of my children, independent of wealth.
2. One's worth is the product of integrity, intelligence, creativity, and the capacity to love.
3. One's worth is independent of wealth, but diminished by poverty.
4. One's impact can be amplified by wealth.
5. Every unit of wealth acquired or experienced at the cost of one's worth is a questionable investment.
6. Every unit of wealth is a unit of energy, like food or fuel, that can be used to create or contribute to the growth of any given life form – animal, vegetable, human, corporate, cultural, national, international, or even global. I want to take care with what I'm feeding.
7. Good investment is the kind that enhances worth.

8. The impact of a person, after his life is over, is gauged not by what he had, but by what he contributed.

So these are my own operational “givens.” I don’t always succeed, but they give me a target. So now that you know where I’m coming from, I move on to address the not-insignificant questions assigned to me:

“Does wealth sap incentives?” “Does wealth create freedom?” I just can’t go at these questions without repeating my assertion that wealth is not a causal factor, our management of it is. This may seem like nitpicking, but it’s a little like saying that alcohol doesn’t create alcoholism, our relationship to it does. In order to get clear about the costs and benefits of wealth, we need to understand that the costs and benefits come from our *relationship* to wealth, not from wealth itself.

To state the obvious, wealth can open a vast array of doors of opportunity. When we have passions to produce or acquire or participate, wealth fuels our dreams and desires. Wealth allows us to explore the experiences of investing ourselves in, say, 15th century Chinese export, or obscure blues artists; surfing, or sunken treasures, or poverty remediation, film production, polo competition, or even the launch of new political parties, if you have a Texan’s grandiosity. If we are playful, committed and experimental, we have the ability through our experiences to understand the unique spiritual fingerprint of ourselves, the configuration of our optimal participation in the world. The opportunity to know and express one's self is the greatest of freedoms. If we are free, wealth can finance the expression of that freedom. That's the greatest luxury.

On the other hand, wealth can be used with equal effectiveness to drown ourselves in desire, gratification, distraction and comfort. There is a really elegant purgatory occupied by many wealthy people, a kind of silk-lined playpen of golf courses, country clubs, fancy balls and deal talk accompanied by a vague sense of dissatisfaction that fuels thousands of trips to a therapist's door for women, and extra cocktails and other vices for men. Wealth can build a fortress of distractor tasks from our sense of self, and consequently from our creative contribution to the world. We can use money to choke off the voice of our souls.

Therefore, in considering our relationship to wealth, and in considering how to include our children in those experiences without distorting their characters, we need to think about optimizing our relationship to money. That means finding an alignment between personal talents and proportionate financial resources that enable the fullest expression of those talents. Such an alignment works naturally to enhance the benefits and minimize the costs of wealth.

That said, does wealth sap incentives? Should I say "sometimes?" Money is an external motivator. We can, through monetary means, attract people toward one set of actions or another, but these extrinsic factors have nothing to do with the motivation that comes from within. It's not the size of the bank account that saps incentives, it is the absence of personal worth. My operating definition of worth, you may recall, is that it's the product of integrity, intelligence, creativity and the capacity to love. Personal worth constitutes a vehicle or vessel, whose strength of construction is either adequate or inadequate to hold the volume of financial potential accorded to it. Personal worth, if adequate to the task, constitutes the guidance system for the use of wealth. When personal worth is inadequate to the task, it constitutes the wandering function: the oft-observed phenomenon of a rich person swimming aimlessly in their own sea of wealth. Everyone has motivation; but money can drown it.

As parents, we should be asking ourselves, how do we give our children the worth-building experiences that fit them for the experience of wealth? How can we become more sensitive to our childrens' real motivators? At this point, some who struggle to stave off the cravings of the younger generation – for video games, sports cars, fancy trips, wild adventures and designer everything – are thinking, look, I know exactly what motivates my kid, and I'm *not* excited about it. That's not the kind of motivation I'm referring to, but it constitutes a useful teaching tool. Internal motivation is expressed through *creation*, not *consumption*. If we do not create opportunities for our kids to be generative – to give, to create, to build, to manage, to mentor – then we and they will remain in the dark about their deeper sources of fulfillment. It's what we contribute that builds worth, not what we obtain. Wealth frees up time for those whose creativity is obstructed by cash flow problems. Wealth consumes those whose motivation lies in consumption.

In the midst of all of this, somehow we often overlook the implications of a glaringly obvious point, that wealth is NOT accidental. Someone clawed their way through hard work, low odds, peer skepticism, investor rejection, mishaps and competition to build significant value in the marketplace. Through patience, cleverness, perseverance, anxiety, raw talent and perhaps good advice, they managed to extend their success. In many cases, the individual who has acquired wealth either possesses or relies upon significant business acumen. The combination of these attributes with the right circumstances to maintain or build wealth is *extremely* rare. Should we assume our children will have the same inclination, the same talents, the equivalent circumstances? Should we expect them to have developed the drive to claw their way to the "top," if they were born there? Does it enhance their life to ensure that they will spend a good portion of it addressing wealth management issues? How does the allocation of a large sum of money impact personal worth? If management is not an innate skill and commerce among the stronger instincts, we risk fundamentally distorting a son or daughter's freedom of living by hijacking their time and attention, taking them away from their core competency.

The temptation of the kind of individual who *builds* wealth – i.e., a dynamic leader type – is to believe that somehow their own struggle to live out their path of success, and the wealth that comes with it, enables them to protect their children from that same struggle. It's the struggle, though, that makes us. It gives us our story. So I would ask, what do you want to accomplish in distributing your wealth, particularly to your children? What are your hopes? What are theirs? What form of wealth transfer finances their aspirations without drowning them? I don't have your answer, but one way I can help people to generate their own answer, I believe, is to flesh out the ways in which these issues combine to wreak havoc in our lives.

What are the practical challenges that we face in trying to develop wise policies about passing on money? A short list would be about 1000 items long. Here are a few of my personal favorites.

1. The confusion of money, love, and affection – Love is the action and feeling of the person who sees, values, and fosters the optimal development of another. Affection is the kindness of love, but not the substance of it. Money is a means of purchasing goods and services. It can buy and express affection, but has uncorrelated with love. We often entangle these. For instance, some fathers feel that they have not spent enough time with their families, so they compensate by lavishing gifts, which are a form of affection. They may become defensive, asserting that "all their hard work has been for the family" – which it hasn't, they would have been just as intense without a family, if not more so – but they also are doing the best they know how to be loving while also being largely absent. So

if you feel that you have not loved adequately, don't muddy the waters further by engaging in compensatory enrichment gestures. Every time we mix love and money, we end up with unsatisfying trade relations.

In fact, it is possible to be loving while also being absent a lot. Love is expressed through honesty, listening and exhibiting value for the other's opinion, and following through with actions that support the unfoldment of that other. It doesn't take a lot of time, it takes clear intention and an attitude of appreciation. Nurturance, or cathexis, takes a lot of time. Childrearing is time consuming and is best accomplished with love; but that doesn't mean that we can't have loving relationships with those we see less often. It takes courage and excellent boundaries to keep love in its own form, and money in its own form, and not mix them together into a muddy market of exchanged affection. Wealthy parents sometimes learn late that their skills in business have negatively impacted their capacity to love, and they don't know how to recover the qualities of genuine trust and concern that characterize healthy relationships. Their sense of isolation increases.

2. The confusion of parental investment with monetary investment, and associated outcomes. Business leaders tend to make investments and demand high, or as-high-as-possible, rates of return that meet agreed-upon expectations or goals. In the case of parental investment, the goal is to build worth and set it free to travel

its course, and the payoff is less obvious in the short term. But some parents forget the distinction between overseeing product development, and overseeing process development. They mis-apply their good intentions and managerial skills, choosing clothes, colleges, majors, romantic partners, and career tracks for their children. The children then lack the fundamental freedom to pursue the lives and standards that are suited to them.

3. In a related vein, the confusion of business eyes with parental eyes in evaluating when and how young people are ready to handle money. Parents tend to assume that their children will not handle money with the skill and sense of proportion that comes with age. To guard against waste, they may hang onto large portions of money technically earmarked for the children. In the blink of an eye, though, the "children" become disgruntled 50-year-olds. Risk some waste and empower them early, if passing money to your children is what you want. Your children's early disasters in money management are the cost of education. On the other hand, give them a sense of proportion. The old "20-40-60" rule about levels of spending has not lost its validity.

4. Establishing an unspoken "condition set" when it comes to the distribution of money. Some parents have a lot of concern over the passing on of their money because they know they will lose control, and their children may not want to

spend or invest it the way the parents know is best. That's right. You have to choose between your own control and their own freedom.

Even less palatable is the attempt by some parents to schedule large financial rewards for children's actions. Warren Buffett offered huge prizes to his daughter if only she would lose weight. Her own challenges were just amplified by having them monetized in such a fashion, to say nothing of the slant it put on her relationship with her father.

5. The fantasy of the heritability of success. Wealthy parents sometimes want to believe that the "success" calling card that accompanies the accumulation of wealth can be handed down. It can't. Only the money can, and it impacts worth. Wealth does not make successors great, it makes them influential. Being valued for your bank account, as the inheritor of stuff, is a kind of Pyrrhic victory.

Worth and wealth are not the same, even if the odd sycophant pretends they are. I can't tell you how to pass along wealth, all I can do is indicate those personal and interpersonal conditions that make for happier living. The sums you pass along are magnifications of the intentions with which they are passed. So I will close with a few reminders, all the while deferring to the greater expertise in linking perspective with the strategy that will come from other quarters her:

1. Give up the fantasy that you can manage their life so well that they will not fall on their face. If you pass money to your offspring, their falls may be grander, and

usually more expensive. Do the best you can with their character, and then release them to their destiny. Rescue is one of the cruelest forms of affection afforded to the wealthy.

2. Avoid secrets. Things kept secret carry an unhealthy potency. Talk about money, talk about taxes, joke about losses, and publicize generosity. Young people can't cultivate skills in things that are never even discussed.
3. Don't do drama from beyond the grave. The inordinate tying of successors' financial gain to a loved one's loss of life is one of the great insanities of our culture. Don't buy in. Gift taxes are nothing compared to the magnitude of that weirdness. The giving of money should accompany points of maturity, not wholesale transitions.
4. Don't drown them early. If your children are not grown yet, start now by not buying them every little and big thing, no matter how many of their friends have them. This is an act of love, and it takes around twenty years to see the results.
5. Listen to them, hear them, discover them, and let them discover themselves. Ask them what they could use. Then ask them to refine their choices. Finance their growth, not their wildest fantasies. Then ask them afterwards how gratifying they found their choices. Keep asking. It's *their* learning that matters, not what you already know and could see on the horizon.

6. Don't overlook your conscience. If you have more than you can use, give some to a cause that you value – art, or science, or struggling entrepreneurs, or college scholarships, or city parks. Do something admirable so that you and your children can have the experience of being justifiably admired.
7. If you can't master a Buddhic state of detachment, at least keep your sense of humor about life and its adventures. With that in mind, I'll leave you with a quote from Twain: "If you pick up a starving dog and make him prosperous, he won't bite you. This is the principle difference between a dog and a man."