A World-Class Beginning

Frederick H. Goff also had a vision.

As the 20th century dawned, the Cleveland banker dreamed of breaking the stranglehold that bequests which had outlived their designated charitable purposes exerted on vast amounts of capital. Goff was deeply troubled by the fact that so much wealth was uselessly held in the icy grip of irrevocable wills—a phenomenon that 19th-century British author Sir Arthur Hobhouse had vividly characterized as “the dead hand.” According to his wife, Fred Goff spoke so incessantly about the unfortunate reign of “the dead hand” that “it had a depressing effect upon the youngest member of the family, who asked in a frightened tone to be told where it was and what it did.”

What it did was inspire Goff to create, in 1914, The Cleveland Foundation, the country’s first community trust—an invention that New York Community Trust director Ralph A. Hayes, speaking to the members of the City Club of Cleveland 12 years later, prophesied would one day be deemed as Cleveland’s most important contribution to the ideas of the world.

First as a corporate attorney whose firm prepared wills for many of Cleveland’s leading businessmen, and later as the president of the Cleveland Trust Company bank, which administered many large bequests, Goff had observed firsthand how quickly posthumous gifts made to charity could become obsolete or even harmful. An example he liked to cite was that of a former legal client, whose will specified that the income from his estate be allocated to several hospitals on the basis of the number of patients served by each. When the estate was later turned over to
Goff's bank for administration, an audit of the endowed hospitals had revealed considerable variations in their efficiency, as reflected in their costs per patient per day. But the unalterable will bound the bank to continue making an unwise distribution to the less efficient institutions.

The problem was not the client's lack of sagacity. Goff agreed with Courtney Stanhope Kenny, another 19th-century British authority on the subject of charitable endowments, that no one could "possibly predict that the way in which he has disposed of his property is that in which it will always produce . . . a balance of benefit, much less a maximum of good." No, the problem was the lack of a speedy, sure and convenient way by which the living could override the outmoded provisions of any bequest, no matter how large or small.

Goff knew that the question of how to fashion such a device had eluded the world's best legal and philanthropic minds since Henry VIII had been forced to dissolve Britain's monasteries in order to recover thousands of acres of English countryside held in irritating perpetuity by the Roman Pope. However, that knowledge did not stop the Cleveland banker from determining to try. But then Frederick Harris Goff was no ordinary pinstriper.

And his were no ordinary times. Thanks to the election of progressive mayor Tom L. Johnson in 1901, reform was in the air in Cleveland, where shipping, steel-making and manufacturing had made many families wealthy, while countless immigrant laborers lived in poverty and urban squalor. At the same time that Johnson, a self-made millionaire, was fighting for free trade, just taxation and municipal ownership of utilities for his working-class constituency during three terms in office, the Cleveland Chamber of Commerce also decided to put social reform on its agenda. Faced with a proliferation of private charitable organizations that sought donations from the same small group of wealthy Clevelanders, the chamber was among the first secular groups in the country to promote the concept of federated fund raising.

Although a member of the industrial elite and motivated by its concerns for charitable efficiency, Goff also shared Tom Johnson's empathy for the plight of the common people. Like Johnson, Goff was a self-made man. Legend has it that Goff came to Cleveland in a boxcar he shared with a horse, a prized family possession his parents had asked him and his older brother to guard on the journey east from their native Illinois. The year was 1864 and he was six.
At age 10 or 12, Goff joined the crew of a sailing vessel and circumnavigated the Great Lakes. But high adventure held no permanent fascination for him. He decided to study law. Graduating from the University of Michigan in 1881 with hundreds of dollars of debt, he found a job in Cleveland as a law librarian while studying evenings for admission to the Cuyahoga County bar.

Free of debt and admitted to the bar in 1884, Goff set up a private practice; his first month's fees were $2.40. But once-sleepy, agrarian Cleveland, in its enviable location at the crossroads where iron ore brought down from Minnesota on Great Lakes freighters converged with coal transported by rail from West Virginia, was already being transformed into a mighty steel and manufacturing center. By the turn of the century, Goff's solo practice had blossomed into one of Cleveland's leading corporate law firms. Kline, Tolles and Goff counted among its clients John D. Rockefeller's Standard Oil Company of Ohio. Goff, who specialized in business reorganizations and other financial problems, was the firm's "super-trouble-shooter," as a banking colleague would later describe him, and it is said that Rockefeller, whose business dealings took him often to New York City, had once unsuccessfully tried to lure Goff there to handle his increasingly complicated legal affairs.

But Goff had felt an abiding commitment to the community that had rewarded him with great success in business. That he was eminently suited to public service became apparent in 1907, when he served as chief negotiator of a landmark settlement between the city of Cleveland and the Cleveland Railroad Company. The two sides had been locked in a bitter struggle over ownership of the streetcar lines ever since Tom Johnson had been elected mayor on the campaign promise of three-cent fares. When the for-profit venture rejected that rate as financially unfeasible, Johnson had set up a municipal traction company. Both operations eventually went under, and a federal judge had appointed Goff the private company's receiver. Goff consented to straighten out the mess on the condition that any agreement that he negotiated with Johnson (for whom the Republican Goff had initially conceived an active dislike) would automatically be accepted. In a move that surprised everyone, he ultimately suggested that the city buy the streetcar lines and lease them to the private company to operate.

Johnson's city clerk, Peter Witt—a lifelong champion of the "warm-blooded people"—had originally regarded Goff as a representative of
“coldblooded wealth.” Goff’s Solomonic settlement changed his opinion. “I know that not another man in Cleveland could have secured for the stockholders of the Cleveland Railroad Company as high a figure as he secured,” Witt said later in a eulogy. “Having done so, Fred Goff threw himself on the side of the city and with Tom Johnson drew up as strong and favorable a lease and other legal requirements as possibly could be made. Thus, then, did Fred Goff, more clearly than any other man I ever knew, make very plain the great difference between character and reputation.”

Witt and Goff served as pallbearers at Tom Johnson’s funeral in 1911, for the mayor and the attorney had also become loyal friends.

Within two months of the close of the streetcar negotiations, Goff had been approached by the directors of the Cleveland Trust Company. They had been so impressed by his performance that they asked him to become the bank’s first full-time president. Consenting would require Goff not only to accept a salary cut of approximately $150,000 annually, but to abandon a profession to which he had devoted some 25 years of his life. Yet, remarkably, he viewed the offer as an opportunity to serve the public good and accepted it.

Cleveland Trust had ambitions of becoming “the people’s bank.” Shortly after Goff became president in June 1908, he made clear his intention of living up to that motto. He sent a letter to the Cleveland Trust board outlining several new operating principles: recognition that directors should be kept completely informed of all business developments; prohibition of loans to officers or directors; and institution of an independent daily audit. Measures that later would become customary in the prevention of financial abuse, these were revolutionary concepts in their day—so much so that one member of the board had loudly objected to the proposed no-loan policy. “Fred,” he said to Goff, “you can’t do that. What do you think we are directors for?” But Goff had prevailed, and his belief that conservative banking practices would increase confidence in the young trust company had been amply rewarded. When he took charge, the 13-year-old firm had 15 branches, 70,000 depositors and $35 million in assets. By the time of Goff’s death in 1923, Cleveland Trust had become the country’s sixth-largest bank with 52 branches, 397,000 depositors and $176 million in assets.

Another Goff innovation was the introduction of a service called a “living trust” for those persons who desired to implement inheritance
plans for their families while still alive. Indeed, it was Goff’s natural concern about how best to provide for his own heirs—he had a son and two daughters—that had prompted him to think about the “dead hand.” Goff desired to protect his children from want, but he also feared that if they were to become the sole beneficiaries of his wealth, it could be damaging to their personal growth and ambition. After determining that he would provide a comfortable, but not unduly luxurious, life for his children, he turned to the issue of future progeny. Should he follow the example of a 17th-century Englishman by the name of Henry Smith, he wondered? In 1626 Smith had left a portion of his estate to provide in perpetuity for impecunious relatives. By 1700 there were four such deserving souls; nearly two centuries later, more than 400 persons whom Smith had never met were on his dole. Smith’s unhappy example influenced Goff’s decision to provide for his children and their children and no more.

But what of the rest of his estate? “Along with this earnest speculation about his family’s future, Mr. Goff thought a great deal about the ultimate usefulness of his estate to the community,” Frances Goff once explained. “He had a great desire in some way to make a useful contribution to the future of the city where he had spent his life and done his work. . . .”

The more Goff pondered the problem, the more he found himself coming back to one simple but compelling thought:

How fine it would be if a man about to make a will could go to a permanently enduring organization—what Chief Justice [John] Marshall called an “artificial immortal being”—and say: “Here is a large sum of money that I shall presently no longer need. I want to leave it to be used for the good of the community, but I have no way of knowing what will be the greatest need of the community 50 years from now, or even 10 years from now. Therefore, I place it in your hands, because you will be here, you and your successors, throughout the years, to determine what should be done with this sum to make it most useful for people of each succeeding generation.”

Not surprisingly, Goff came to the conclusion that the ideal “immortal being” he sought was his own bank. Couldn’t Cleveland Trust, he reasoned, administer a trust set up for charitable purposes as effectively as any other kind of bequest? Couldn’t the board of directors be the living hand needed to ensure that the community always received the maximum benefit from such an endowment? In the fall of 1913 he
decided to explore the idea with the officers in charge of the trust department and the bank’s chief counsel.

The idea made sense to Goff’s advisors; in addition to its obvious philanthropic merit, it would be an excellent marketing tool for the bank’s trust department, which charged clients a fee to administer their trust income. They encouraged Goff to commit his thoughts to paper for presentation to the bank’s board of directors.

There were not a lot of models for Goff to emulate. Shortly after the Civil War, George Peabody had established a $3 million trust in the interest of promoting education in the South. The Peabody Educational Fund (now the Southern Education Fund) was the first modern foundation in that it had not been created for the perpetual endowment of a specific institution. Since that time fewer than a dozen other national foundations had emerged, the best known of which were the Carnegie Corporation ("to promote the diffusion of knowledge among U.S. citizens") and John D. Rockefeller’s General Education Board and the Rockefeller Institute for Medical Research. Earlier in 1913 Rockefeller had established a third foundation, a $100 million trust with the open-ended purpose of promoting "any and all elements of human progress."

As Rockefeller’s former attorney and sometimes banker, Goff was aware of the industrialist’s many charitable activities, and his own planning seems to have been especially influenced by the purpose and structure of the new Rockefeller Foundation. "Mr. Rockefeller’s . . . investments in charity as in business are made to secure the maximum of return," Goff would state in 1919, adding:

If Mr. Rockefeller had not believed in the value of large units for handling charitable gifts, he would have created, say, a thousand separate trusts of one hundred thousand dollars each. . . . The advantage [of a large foundation] would be immeasurably [clearer] if we were to conceive of the multitude of small trusts being created by different individuals, for the most part unhappily lacking the genius of Mr. Rockefeller in planning charitable trusts to endure for all time. . . . Recognizing his inability to foresee the needs of mankind in future ages, he imposed no restriction and made no suggestion as to how either interest or principal should be used.

In order to ensure that a small bequest would be administered as efficiently as a large one, Goff decided to propose that the bank become the trustee for a single great endowment, created from the union of many gifts, that would have the broadest possible charitable purposes, but be
limited in geographical scope to serving the residents of Cleveland. They would call it a *community* trust.

The income from the trust’s combined bequests would thus be made available for

assisting charitable and educational institutions whether supported by private donations or public taxation, for promoting education, scientific research, for care of the sick, aged or helpless, to improve living conditions or to provide recreation for all classes, and for such other charitable purposes as will best make for the mental, moral and physical improvement of the inhabitants of the City of Cleveland. . . .

While a donor to the foundation would have the option of designating a more specific use for the income from his bequest, his wish would be observed “only in so far as the purposes indicated shall seem to the Trustee, under conditions as they may hereafter exist, wise and most widely beneficial, absolute discretion being vested in a majority of the then members of the Board of Directors of the Cleveland Trust Company to determine with respect thereto.”

With this provision, Goff had finally conquered the “dead hand.”

Once his community trust plan was drafted, Goff submitted it for review to two outside attorneys, one of whom was his former partner, Sheldon H. Tolles. He also sent copies to dozens of other advisers for suggestions and criticism, ranging from Peter Witt to Andrew Carnegie. He even discussed the proposal with his chauffeur.

Goff’s wide-ranging search for the holes in his own thinking may have saved his plan from a potentially fatal weakness. A chance conference with Earl Martin, the editor of the Cleveland Press newspaper, added a critical missing component—the element of public representation.

When Martin had shared the news of Goff’s proposed foundation with Livy S. Richard, one of the paper’s editorial writers, Richard inquired if Goff had said anything about how the fund was to be controlled. Told no, Richard responded that money meant for the use of the people should be controlled by the people. Richard would later recount what happened next:

“Put that on paper,” said Martin, and I did, in a letter of five pages, written, as I supposed, for Martin’s eyes alone. I went the limit, arguing that even if the people made fools of themselves and wasted money it would be better in the long run than having a select few try to tell them what they ought to have.
Martin sent the letter to Goff, who that evening, as he told me later, handed it to Mrs. Goff as a sample of "nut" radicalism.

Foundations were normally set up as private corporations with self-perpetuating boards.

But Frances Southworth Goff was a woman of character and intelligence. Her grandparents had come to northern Ohio in 1836 to farm acreage granted them by the Connecticut Land Company. Her father was credited with laying Cleveland's first sidewalks and waterlines. A graduate of Vassar, class of 1886, Mrs. Goff would make her own indelible mark on the city as one of the 15 founders of the Federation for Charity and Philanthropy—a model for federated fund-raising organizations throughout America that evolved into today's United Way. Organized in January 1913 at the behest of the Cleveland Chamber of Commerce to coordinate funding of the city's multitudinous social service agencies, the Federation had a 30-member board, one third of whom had been selected by Chamber officials to represent the city at large. Her familiarity with the Federation's attempt to provide for public representation may account for Mrs. Goff's sympathetic response to Livy Richard's proposal. "Fred," she had told her husband after reading Richard's letter, "I believe that fellow is right."

Upon reflection, Goff came to share Richard's belief that a self-perpetuating board of conservative bankers was not necessarily the best qualified judge of community needs, and he revised his plan to incorporate a new entity with the power to determine how the foundation's income should be allocated: a "committee to distribute," he called it. The five-member committee was to consist of "residents of Cleveland, men or women interested in welfare work, possessing a knowledge of the civic, educational, physical and moral needs of the community; preferably but one, and in no event to exceed two members of said committee, to belong to the same religious sect or denomination; those holding or seeking political office to be disqualified from serving." While two members were to be chosen by the directors of Cleveland Trust, Goff provided that a majority be named by public officials, with the mayor of Cleveland, the presiding judge of the county probate court and the chief judge of the U.S. District Court in Northern Ohio each having one appointment.

The other power vested in the committee would be the ability to
distribute, with the approval of two-thirds of the Cleveland Trust board, "all or any part of the principal constituting the trust estate . . . for any purpose within the scope of the Foundation . . . provided that not to exceed twenty (20) per cent of the entire amount held as principal shall be disbursed during a period of five consecutive years." More than five decades would pass before the utility of this provision became clear.

With a meeting of the bank board to discuss the plan imminently scheduled, Goff sent a copy of the final draft to Starr J. Murphy, John D. Rockefeller's personal attorney and a trustee of two of his foundations, inviting comment on "what perhaps will be called a Foundation for the City of Cleveland." In a reply dated December 24, 1913, Murphy praised Goff's concept of a community trust, but foresightedly questioned whether "the fact that the sole trustee of the fund is a single trust company may interfere with the amounts which might otherwise be given to a Charitable Foundation," adding: "I apprehend that if the idea takes, other trust companies may desire to establish similar trusts of which they shall be trustees, and an unfortunate competition might arise for the business."

Despite his meticulous planning for most contingencies, Goff declined to address Murphy's criticism of the single trusteeship—a final flaw in his concept that the banker either could not, or chose not to, remedy. As Murphy had predicted, the bank's exclusive involvement would indeed stunt the early growth of The Cleveland Foundation, which was created on January 2, 1914, when the Cleveland Trust board adopted Goff's much-revised Resolution and Declaration of Trust.

Events of little more than a year later proved that Goff's rejection of the traditional corporate trustee structure was well advised. In February 1915 he was called to New York City to defend his fledgling enterprise at federal hearings investigating charitable trusts. Conducted by a national commission on industrial relations under the chairmanship of labor lawyer Frank P. Walsh, who charged that foundations were "an effort to perpetuate the present position of predatory wealth," the hearings took direct aim at the menace to society many believed was posed by such capitalists as Carnegie and Rockefeller in establishing immense private endowments answerable only to their own appointees.

The investigation had been sparked by the Ludlow massacre, in which dozens of miners striking the Colorado Fuel and Iron Company, a Rockefeller-owned mining concern based in Denver, were killed by the state
militia at the Ludlow mining camp. Believing that a Rockefeller Foundation-funded study on labor unrest had been used to whip up antiunion sentiment in Colorado, Walsh demanded to know, in his first question to Goff, how The Cleveland Foundation went about spreading "conservative" opinion in its own community. Armed with the fact that publicly elected officials had the power of appointment over a majority of the members of the Foundation's allocations committee, thus ensuring its accountability to the entire community, Goff was able to parry all of Walsh's charges so neatly that the labor lawyer ended up complimenting him on his wise innovation. (In actual practice, the members of the committee would not for many years reflect anything approaching the city's ethnic and racial diversity. Except for the various mayors of Cleveland, each of whom always selected a well-bred woman as his appointee, the appointing authorities confined their choices to white males of means until well into the seventies.)

Goff would later tell Livy Richard that "he believed my accidental butting in had done much to commend the project to public opinion's left wing." In fact, Goff believed that the community trust constituted the best possible answer to the critics of capitalism. As he stated in 1919:

I am hopeful that in these days of social unrest, when the accumulation of large fortunes is often decried, if it be known that a generous portion of the wealth one accumulates is ultimately to be devoted to community use, it may be deemed honorable, even in the eyes of the professional critic, for men who prefer struggle and achievement to idleness and leisure to continue the pursuit of wealth.