

The Charitable giving during downturns Generosity Cycle

BY BETTY JOYCE NASH



United Way volunteers sort shoes at a shelter. The organization and others like it are categorized as public-society benefit groups.

Money trouble finally forced Charleston, S.C., Symphony Orchestra to suspend its 2009-2010 season. Over in Charleston, W.Va., a foundation announced it's running out of money. It will fold this fall after disbursing its \$9 million remaining dollars. The Clay Foundation had granted \$100 million over its 23-year history.

Charitable contributions nationwide have declined, as in previous downturns. Foundations and other giving sources also are coping with a slide in asset values, affecting their own operations and those of the nonprofits they support.

In 2007, charitable donations had reached a record \$314 billion, about 2.3 percent of GDP. The latest available report from the Giving USA Foundation estimates giving in 2009 declined 3.2 percent, after a 5.7 percent decline the previous year. (Giving numbers throughout the article have been adjusted for inflation.)

Yet Americans remain committed to philanthropy and often reallocate gifts, year to year, when money is tight. Giving in some categories increased, according to economist Una Osili, who directs research at the Center for Philanthropy at Indiana University. Some categories of giving that had declined the previous year actually rose. In 2008, for instance, giving for public-society benefit organizations, such as United Way, rose slightly, but declined in 2009 by 4.2 percent. However, giving for human services groups rose 2.7 percent after having declined the previous year.

Philanthropy professionals have been investigating patterns of giving during the downturn to see what they can learn. The general conclusion is that things could be worse. "Giving does recover after recessions," Osili says. "But it does take some time."

Recessionary Giving and "Crowding Out"

Giving USA estimates that, in addition to human services increases, sectors such as health and international aid benefited despite the recession. "This focus on vital needs is consistent with what historians tell us happened during the Great Depression," said Patrick Rooney, executive director of the Center on Philanthropy, in a press release. Giving USA Foundation, also affiliated with the center, publishes a report of the same name annually. It estimates contributions using Internal Revenue Service tax data on itemized gifts, government estimates for economic indicators, and data from other research institutions.

Individual giving represents about three-fourths of all

contributions, and it remained unchanged, in real terms after falling by 6.3 percent in 2008. Bequests, however, plummeted by nearly 24 percent, after falling by about 6 percent the previous year (due to unexpectedly large sums reported by the Internal Revenue Service for estate tax returns filed late in 2008). Foundation giving comprises 13 percent of all charitable contributions, and that category declined by 8.6 percent in 2009.

Religious giving represents the biggest share of all contributions. After increasing by 1.6 percent in 2008, the category fell slightly, by 0.3 percent, in 2009. The demand for charity services has expanded during hard times, and the share of donations to human services in 2009 grew by 2.7 percent after a stunning decline of 16 percent in 2008. Giving to foundations fell by 7.6 percent, after a whopping 22 percent decline in 2008; gifts to education groups fell again in 2009 by 3.2 percent. Arts, culture, and humanities sectors had another 2 percent decline in contributions.

But several categories received more in 2009 compared to 2008: Donations to environmental and animal organizations grew by 2.7 percent; giving for international aid increased by 6.6 percent, in real terms; giving for health causes increased by 4.2 percent.

Because giving is tied to economic health, individual donors and foundations watch market indices closely as they plan gifts. Bequests aren't necessarily timed with overall market indicators. Corporate giving is tied more closely to corporate profits than stock market performance.

The Giving USA Foundation has tracked the performance of charitable giving following the Depression. They found that from 1928 to 1934, itemized charitable giving fell 35 percent in real terms. It reached its 1929 level in 1937, fell slightly a year later, and exceeded its 1929 level in 1939.

During the Depression, however, foundations like Rockefeller, Carnegie, and Russell Sage kept giving generously, with Carnegie providing an additional \$2 million in social welfare relief in the early 1930s. Lack of data, however, makes it unclear whether total foundation giving rose or fell in the 1920s and 1930s, and information about how quickly foundation assets recovered in the aggregate is also scarce. Historian David Hammack of Case Western Reserve University found in his studies about philanthropy in the Depression that wealthy donors switched to secular and away from religious giving.

There is also some evidence that government spending can “crowd out” private charitable giving. Jonathan Gruber of the Massachusetts Institute of Technology and Daniel Hungerman of the University of Notre Dame found that charitable church spending fell by 30 percent in response to New Deal relief spending. That explains the one-third decline in charitable church activity between 1933 and 1939. Partial crowd-out was also observed in research by Tom Garrett of the St. Louis Fed and co-author Russell Rhine of St. Mary’s College in Maryland. Using data from 1965 to 2003, the authors found that increases in state and local government welfare and education spending did reduce charitable giving to these categories.

While the Great Depression is fertile ground for the study of philanthropy, the recession this time around isn’t as severe. Later downturns provide clues about the future of giving. After the 1973-1975 recession, individual itemized giving exceeded its 1973 level in 1979, when giving rose to \$52.7 billion, according to Giving USA. After the 1980 and 1981-1982 recessions, itemized individual contributions rose consistently, in real terms, even during the slide in the Dow Jones Industrial Average. That indicates no lag in giving after that recession.

Foundation giving, though, tells another story. From 1972 through 1975, foundation giving stalled out, and did not reach 1972 levels again until 1985. After the 1980-1982 slumps, foundation giving also fell before finally growing to \$8.2 billion in 1985. That was 14 years after a previous peak of \$7.9 billion.

Coping in the Nonprofit Community

At the grass roots, community foundations are feeling the pain. The Coastal Community Foundation of South Carolina is one of about 800 local foundations in the United States; the foundation has about \$130 million in assets. This community foundation manages a collection of funds for business, individual, or family donors. For instance, the CCF manages the family fund of low-country native and television talk-show host Stephen Colbert and his Ben & Jerry’s “Americone Dream Fund.” The fund receives a percentage of proceeds from the Colbert-named ice cream.

The CCF has worked with the Charleston Symphony for more than a year to stave off its funding problems, and continues to manage its endowment fund. The foundation manages some 550 other family or business foundations, each with its own cause or story.

“The funds together create a large mass so we can afford to hire investment managers,” says Christine Beddia, director of marketing and communications. A mark of this recession, she notes, is that fiscal year 2009-2010 has seen the creation of fewer than 30 new funds. That compares to 55 established two years ago, in 2007-2008. Future funding may be precarious. Foundations employ formulas based on multiyear averages to disburse grants and those vary. Beddia expects grant-making may stabilize or decline as those averages incorporate

asset-value declines in 2008 and 2009.

Foundation grant-making fell in real terms in 2008, by less than 1 percent nationwide, but 2009 may be worse, according to the nonprofit Foundation Center. Two-thirds of foundations surveyed anticipated cuts in the number and size of grants in 2009, with overall foundation giving expected to slide. Some survey respondents expected to tap endowment principal.

The Z. Smith Reynolds Foundation in 2009 granted money based on 2007 fund values, a peak. “So there is a two-year delay between our actual trust value and our spending capacity,” says executive director Leslie Winner. “In 2011 our spending capacity will be at its lowest, so our trough is yet to come.” The annual average value of the trusts has dropped about one-third. Besides cutting administrative expenses, the Winston-Salem, N.C.-based foundation has cut back on multiyear grants. Separately, it has reallocated money into a coalition of nonprofits working to prevent foreclosures. The recession has also prompted soul searching. “If we thought home ownership was a good asset-building strategy in the past, do we think it will be in the future?” Winner asks. “We are actively rethinking this.”

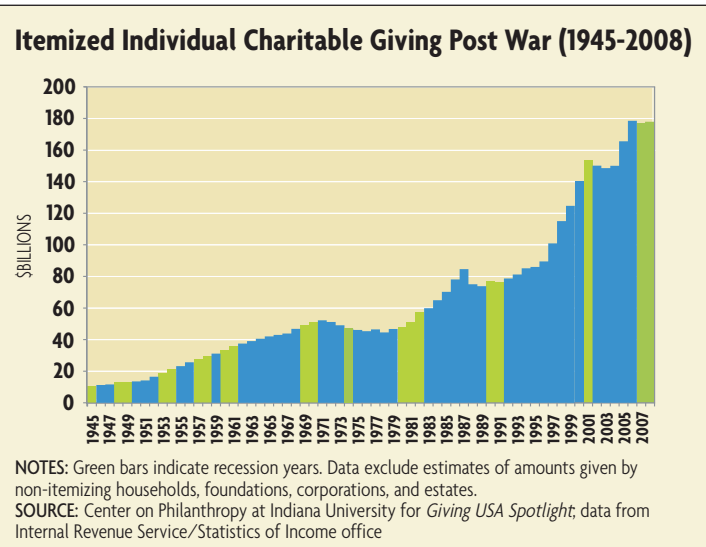
Among grantees, foundations have seen layoffs and mergers to cope with declining revenues. “This is a time when we’re seeing partnerships,” Osili says. “Nonprofits are building synergies with the public, government officials, and other nonprofits.”

Who Gives to What and Why?

The motive for giving falls into a couple of categories: altruism and exchange. An altruist simply wants to help people, pure and simple, expecting nothing in return. Others give because they want something, say, a tax break or public recognition.

Americans are generous, and endowments from organizations founded by wealthy industrialists — Andrew Carnegie and John D. Rockefeller come to mind — have

continued on page 35



It is difficult to imagine in advance how any precedent might be applied in the future toward this end without knowing the specifics of the cases that will arise.

Take, for example, health care legislation passed in March 2010, the most recent arena in which Commerce Clause breaches have been alleged. The law requires all U.S. citizens to purchase health insurance or be subject to a fine. Critics point out that health insurance is strictly intrastate; it is regulated by states and historically has never been purchased across state borders.

The other side recalls the *Wickard* and *Raich* rulings, in which the Supreme Court allowed Congress to regulate activities that aren't strictly interstate commerce but have the potential to "substantially" affect interstate commerce,

or that impede Congress's regulation of a market the Commerce Clause might say is valid to regulate, such as that for health care.

But the health care question contains something new. The Commerce Clause says Congress has the right to regulate certain activities — but can it regulate the failure to engage in an activity like the purchase of health insurance? What if said inactivity "substantially" affects a regulated class of interstate commerce? It's not immediately clear how the legal precedents established by the Supreme Court apply in these examples.

Answering such questions may not be easy. Many of the same debates held by the Framers over the proper balance of authority are still very much alive today. **RF**

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CHARITABLE GIVING *continued from page 23*

endowed society's most famous institutions. Those gifts have also enabled prototypes, such as the nation's 911 emergency response system and the Pell Grant program that sends poor students to college. Nonprofit grants from Carnegie and other foundations even gave the private, nonprofit National Bureau of Economic Research an initial leg up in the 1920s. More recently, Warren Buffett announced his gift of \$31 billion to the Bill and Melinda Gates Foundation. That's more than twice — in 2006 dollars — the combined amount Carnegie and Rockefeller gave in their day.

While individuals make up three-fourths of charitable giving, less than 2 percent of households actually give according to a traditional religious "tithe" — 10 percent of income. The norm is 1 percent to 2 percent of average income.

Contributions to groups that supply basic needs, such as homeless shelters or food banks, grew by 3.7 percent after a decline the previous year. Religious giving barely budged, with a 0.3 percent decline. "Combination organizations," such as United Way and the United Jewish Appeal,

received more in contributions in 2008; giving to that category fell by 4.2 percent in 2009.

People give money when they feel secure based on the value of their assets, and the connection between changes in the stock market and giving has strengthened. Estimates associate a 10 point increase in the Dow Jones Industrial average with \$16 million more in charitable giving, and a \$1 billion increase in personal income associated with \$15 million more. "We particularly see the DJIA more important in the post-World War era, as more households own financial assets," Osili says. "We are watching personal income closely. Based on historical patterns of recovery, personal income will have a robust impact on giving."

The outlook for giving remains uncertain. Wider participation in financial markets affects philanthropy today more than in previous downturns, and policy changes could also inhibit gifts. But philanthropic professionals are pinning hopes for recovery on other dissimilarities: higher per-capita income, a greater percentage of college graduates, and more households supporting secular causes. **RF**

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