

Briefing on the economy and charitable giving
The Center on Philanthropy at Indiana University
November 2008

Summary

Changes in giving are linked to changes in the overall economy. During good economic times, giving tends to grow robustly. However, when the economy grows at a moderate or slow rate, philanthropy continues, although at a slower rate of growth. In general, during economic downturns, giving tends to decline, after adjusting for inflation.

Based on several indicators, the U.S. economy in 2008 is growing slowly. In fact, during the third quarter of 2008, economic output contracted at an annual rate of 0.3 percent (Bureau of Economics Analysis, 2008). Certain segments of the economy, particularly those associated with giving such as stock market values and corporate profits, have declined to levels last seen in 2002 (Standard & Poor's 500 Index) or 2005 (corporate profits). Indicators for a recession are, at this time, mixed.

Giving USA Foundation's *Spotlight* newsletter for Fall 2008 analyzed trends over the last 40 years. It shows that giving fell, adjusted for inflation, an average of 1 percent in recession years. In years with 8 months or more of recession, giving declined at an average rate of 2.7 percent per year (adjusted for inflation).

Most households continue to give during times of financial insecurity, although some give less compared to periods of economic prosperity and some donors become non-donors, especially those earning less than \$50,000 per year. The Center on Philanthropy Panel Study for example, found that average household giving in 2002 declined by 6.3 percent, after adjusting for inflation, compared with average giving in 2000. Total giving from households does not drop as fast as average giving per donor household, because there are more households, and a higher percentage of households gave in recent years than did in 2000.

Some foundations have reported that they intend to maintain their giving in 2008. This is consistent with what they did in 2002. The Foundation Center found an inflation-adjusted drop in grantmaking of 4.4 percent from 2001 through 2003, during a period of recession and slow economic recovery which saw gradual increases in foundation assets as values on the stock market slowly rose and as more donors funded foundations.

Recent polls of donors indicate that some donors intend to continue giving, and some intend to give even more than usual. However, many charities are witnessing a slowdown in donations received in 2008 and are concerned for 2009.



Giving and the economy

Giving has been between 1.7 percent and 2.4 percent of Gross Domestic Product (GDP) since 1955. In 2007, estimated total giving of \$306.39 billion was 2.1 percent of GDP, according to *Giving USA*.

Before adjusting for inflation, charitable giving has increased in all years except 1987 since 1956. The exception occurred because of a law announced in 1986 that changed the tax deductibility of gifts. Donors “pre-gave” in 1986 to qualify for deductions phased out in 1987. After adjusting for inflation, as reported by Giving USA Foundation, giving can decline in periods of recession.

Indicators used to estimate annual charitable giving include changes at year-end in:

- Standard & Poor’s 500 Index (affects individual giving, foundation grantmaking, and the value of bequests);
- Personal income (affects individual giving);
- Corporate income (affects corporate giving);
- Tax rates (individual tax rates for individual giving and corporate rates for corporate giving); and
- Prior levels of charitable giving (individual giving and corporate giving).

There is a connection between year-end stock market values and itemized deductions claimed for charitable contributions, as shown in the research of Deb et al. (Nonprofit and Voluntary Sector Quarterly, December 2003). In 2006, more than \$180 billion in itemized charitable deductions was claimed by individuals. (Data for 2006 is the most current available.) The Standard & Poor’s 500 Index, as of November 6, was about 560 points below its level of December 31, 2007. If in December 2008, Standard & Poor’s Index ends the year at about 560 points lower than the end of 2007, the historical relationship between individual itemized deductions for giving and the stock market suggests that we would see a decrease of almost \$1.7 billion (current dollars). This represents a drop in current dollars of less than one percent in itemized deductions claimed on tax returns from last year’s base of an estimated \$188 billion. This estimate is a decrease of more than 5 percent adjusted for inflation.

Table 1 shows the change since October 2007 in the four primary economic indicators used in estimating charitable giving. The percentages reported include unadjusted dollars (current dollars) which are more commonly used in nonprofit organizations for management purposes and inflation-adjusted values, which is the comparison used by business and economics.

Table 1
Percentage change, October 2007 to Fall 2008 for economic indicators
for economic indicators important in predicting giving

	Current dollars percentage change	Inflation-adjusted percentage change
Gross Domestic Product	3.4	-1.3
Personal income	4.2	-0.6
Standard & Poor's 500	-38.4	-41.2
Corporate Income	-8.3	-12.5

Data: Bureau of Economic Analysis, Release of October 30, 2008 for GDP, personal income, and Corporate income through September 2008.
Standard & Poor's 500 from Standard & Poor's, page for S&P 500, filtered by date, December 31, 2007 and November 6 2008, at <http://www2.standardandpoors.com>

Many economic indicators are available daily, monthly or quarterly, which is useful for monitoring the health of the economy. However, the indicators for prior levels of charitable giving are updated annually, not quarterly, as economic indicators are. No new information is available as of October 2008 that would be helpful in forecasting total giving for 2008 based on levels of giving in 2007.

Giving and recessions – overall giving

Giving USA Foundation released a *Spotlight* newsletter in Fall 2008 that shows:

- An average annual increase in charitable giving for all years from 1967 to 2007 of 2.8 percent (adjusted for inflation).
- When there is no recession, giving grows at an annual average rate of 4.3 percent (adjusted for inflation).
- In years with a recession, the average annual change is a decline in total giving of 1 percent (adjusted for inflation)
- In years with 8 months or more of a recession, the average annual decline in total giving is 2.7 percent (adjusted for inflation).

The period 1973 to 1975 was the longest period of continuous recession since the Great Depression. During the calendar year 1974, all 12 months of which were in a recession period, giving declined 5.4 percent (adjusted for inflation). This is the worst decline in giving on record.

Each subsector of the nonprofit sector (health, education, arts, etc.) sees a slightly different pattern of changes in giving during recessions. The two that see a decline in giving are education (a drop of more than 1 percent adjusted for inflation) and religion (a drop of less than 1 percent, adjusted for inflation). Other subsectors see a slower rate of growth, but on average, see inflation-adjusted increases in giving during recessions. The complete issue of the *Spotlight* includes tables and graphs that show changes during recessions for all subsectors. This work is

researched and written at the Center on Philanthropy. It is available from Giving USA Foundation, www.givingusa.org.

Household giving

The U.S. economy in 2002 was in a phase of “slow recovery” after a recession in 2001 and the trauma of the attacks of September 11, 2001. The Standard & Poor’s 500 Index in 2002 ended the year at 879.8, after a drop of 24 percent (adjusted for inflation) from 2001. Personal income in 2002 rose by 0.4 percent (adjusted for inflation) compared to the prior year.

The Center on Philanthropy Panel Study (COPPS) surveys the same households every two years and has been conducted since 2001. Data from that research shows that average total household giving in 2002 was 6.3 percent lower (adjusted for inflation) than the average for 2000 and 2004. This result is consistent with the finding that giving is affected by the overall economy.

Table 2 shows the average total household giving for 2000, 2002, and 2004 and the percentage of households reporting that they made charitable gifts of \$25 or more in the year. Surveys are conducted in odd-numbered years and ask about giving and other financial transactions in the prior year.

Table 2

Average total household giving, before and after the recession of 2001

(Dollar values adjusted for inflation to 2007 dollars.)

Year asked about in the survey	Percentage of households giving	Average total giving	Change in average total giving from prior period
2000	66.8	\$2,281	
2002	68.5	\$2,146	-6.3 % *
2004	70.2	\$2,247	4.5 %

Data: Center on Philanthropy Panel Study, waves of 2001, 2003, and 2005

* While the average gift amount reported here declined 6.3 percent, the combined effect of having a larger population and a larger share of the population giving led to a much smaller drop in total individual (or household) giving. The decline in total giving by households estimated for individual or household contributions in 2002 based on this data is a drop of 1.7 percent (adjusted for inflation). This corresponds closely with findings from *Giving USA* for 2002 for household (individual) giving, which show an inflation-adjusted drop of 1.3 percent.

Donor’s stability in giving over time

Using COPPS data, Patrick Rooney, Ke (Samuel) Wu, and Melissa Brown (all researchers at the Center on Philanthropy at Indiana University) have found that the majority of donors continue to give over time. Specifically:

- 56 percent of households gave in each year of three years studied (66% of donors);
- 29 percent gave in one or two years but not all three (34% of donors); and
- 15 percent never gave.

The stock market and individual giving

Changes in the Standard & Poor's 500 Index associated with giving are changes from year-end to year-end. Short-term market declines, often precipitated by specific events, do not make a significant change in giving for the year.

The graph on page 6 illustrates some economic shocks occurring since 1973, showing the change in the Standard & Poor's 500 Index on the week before the shock (to set the context for the later changes), the day of the shock, and at the end of the year. The year-to-year change in individual giving as itemized on tax returns is graphed with the stock market changes.

- At the time of the 1973 embargo on oil production and distribution, the stock market fell 11.3 percent from the date of the announcement to the end of the year. Individual itemized giving that year rose 5.2 percent.
- In 1987, the stock market fell more than 20 percent in one day. By the end of the year, it recouped some of that loss. Individual itemized giving fell that year by 7.8 percent, but as noted below, scholars attribute that to “pre-giving” in 1986 to benefit from deductions that were to be ended with the implementation of a tax law in 1987.
- In 1989, during the savings and loan crisis, the stock market was showing a slight decline in the week leading up to the announcement of charges against U.S. senators implicated as the “Keating Five.” The stock market fell by 6.1 percent the day of that announcement, but recouped by the end of the year. Individual itemized giving rose 8.9 percent in 1989.
- In 2001, the market was trending downward already as seen by the 3.6 percent decline in the week preceding September 11th. On the 11th itself, the market closed so no change is reported for that day. By year end, the market had increased by 10.5 percent from the 12th. Individual itemized giving in 2001 fell by 1 percent.

Foundation Center report about recessions and grantmaking

Available at http://foundationcenter.org/gainknowledge/research/econ_outlook.html

The Foundation Center released a research advisory in October 2008 that reports,

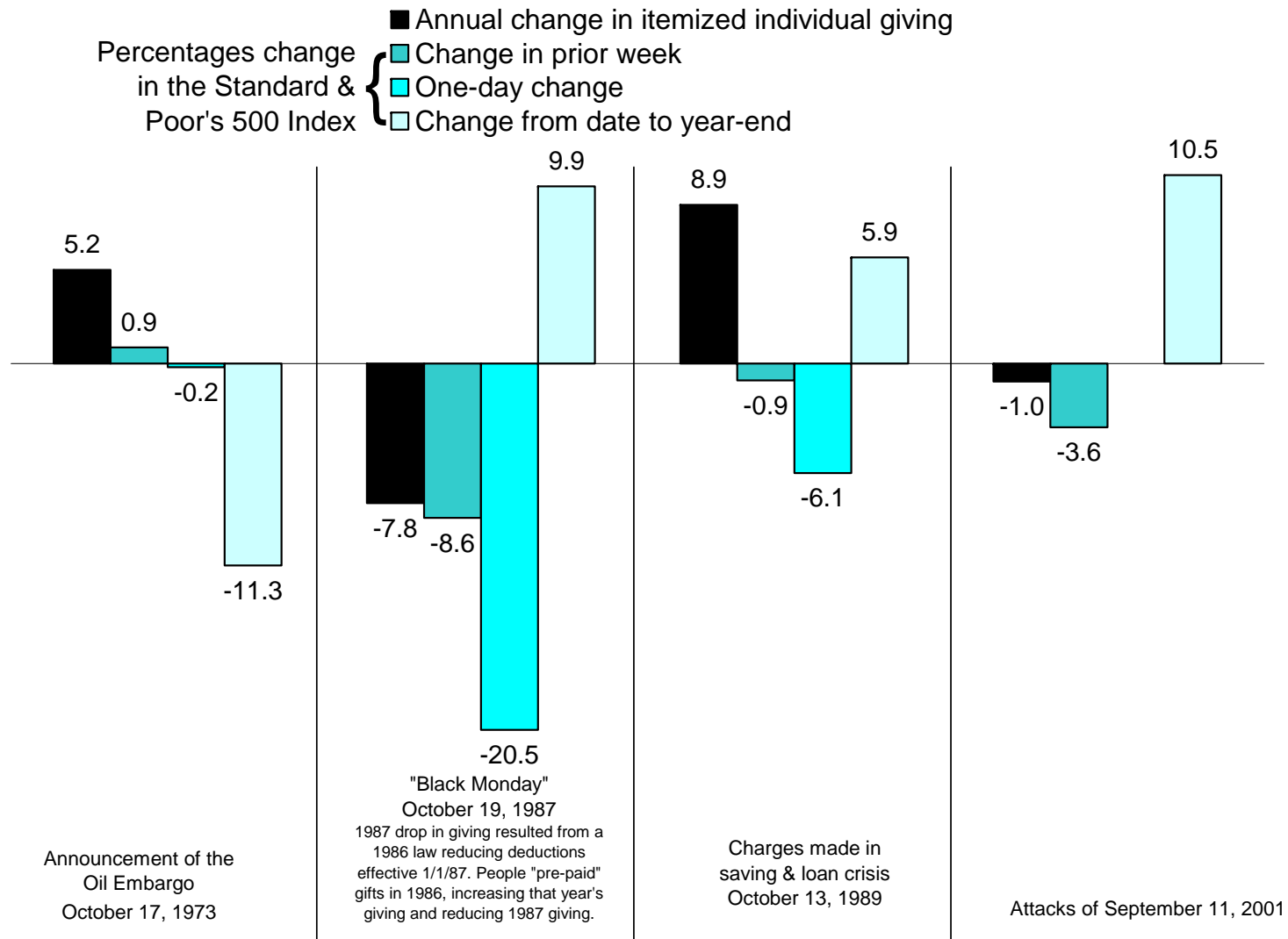
...just after the most recent recession [in 2001], foundation giving did decline from \$30.5 billion in 2001 to \$30.4 billion in 2002 to \$30.3 billion in 2003 — the first consecutive years of decreased foundation giving tracked by the Center. **Yet this marginal 0.6 percent reduction (4.4 percent after inflation) was quite modest compared to the inflation-adjusted 16 percent drop in foundation assets we recorded between 2000 and 2002.** [emphasis added]

Foundation assets grew faster than inflation between 2003 and 2007, which enabled grantmakers to replenish their endowments after the downturn of the early 2000s. For foundations that determine their annual grants budgets based on a rolling average of their asset values, this growth should help to mediate the impact of possible asset losses in 2008 on their giving in 2009. Some foundations will also benefit from new gifts and

bequests, and the sector as a whole will benefit from the continued establishment of new and sometimes quite large foundations.

The Foundation Center cautions that grantmaking is closely tied to asset values. While there has been recent growth in the number of foundations and gifts to foundations, a prolonged period of low stock market values will affect grantmaking.

A look at giving in prior times of "unprecedented economic crises"



Field Reports

Faculty members of The Fund Raising School polled by the Center on Philanthropy report a mixed picture. The name of the state precedes the information applies to the location of the nonprofit organizations discussed.

[all areas]...it is too early to tell. ..

[Indiana] We have to assume in our planning efforts ... that funding will be impacted – not only funding from foundations and large corporations but from individuals who have given in the past. . . My take is that not-for-profits are going to have to consider strategic alliances with similar organizations, something many have shied away from in the past.

[Michigan] Two clients have a lot of philanthropic support from people highly invested in the outcome of the election...people are concerned about who will win and what effect that will have on both taxes and the economy. ... What we agree is that [October] is not the right time to fundraise and things have been put off until after the election.....

[New Jersey] So far we have not seen an enormous fall-off in individual and corporate giving to the annual fund because we had a strong spring. Even so, we expect disappointments with our calendar-year-end fundraising. One corporate sponsorship from a financial institution -- which we expected -- did not come through . . When it seems prudent, we are holding off on pressing for decisions on gift proposals presented last summer -- but, for the most part, are NOT retreating.

[Colorado] [Nonprofits I work with are]

- Putting some programs off until the financial world settles down.
- Delaying some of the capital issues they had planned.
- Cutting back on new events, major renovations of their facilities and other things that can occur later next year.

[California] We have \$72 million in solid pledges against a \$90 million goal all from two dozen top level donors. We are now planning the Major Gifts Phase to begin in the 2nd quarter of 2009. Meanwhile, we will work on telling the story to as many people as possible, but will not ask for gifts

[Indiana] Cultivation/stewardship activities [are] clearly tied to results (especially with annual fund).

[Indiana] Most of our contributions are from corporations and early pledges for 2009 are encouraging.

[New Jersey] We are holding cultivation events, meeting with new donors, and, as the text books say, "planning for the up-turn that will come."

Conclusion

Many nonprofits are concerned that current economic and financial conditions will impact charitable donations in 2008 and 2009. The overall picture that emerges from research conducted at the Center on Philanthropy at Indiana University is that economic and financial uncertainty does shape charitable giving. However, most households continue to give even during times of financial insecurity, although they may reduce the size of their donations. It is important to understand that some subsectors of the nonprofit sector may experience different changes in giving.

To mitigate the impact of an uncertain economy, nonprofit organizations should assess their individual situations, prepare contingency plans, make a compelling case for the needs their organizations meet, and continue fundraising efforts. Nonprofit leaders who understand their organization's costs and, where appropriate, raise funds for specific cost items, who communicate clearly and honestly with stakeholders (including board members and staff), and who recognize that the economy will improve in the future are likely to be well-prepared for this challenging time.