Giving In Today’s Economy

What can we expect?

We are not sounding an alarm that there will be a collapse of charitable giving in 2009. Clearly, conditions are ripe for both an economic and philanthropic breakdown. We may suffer a worst-case scenario: the Dow Jones Industrial Average declining to 5000; charitable giving plummeting 20 percent or more.

But, at press time (that is to say, mid-December 2008), no one can know yet what 2009 will bring. And we remain hopeful that, if the consequences of the current market turmoil are reasonably mitigated, the worst will be averted.

Since the beginning of 2008 through the third quarter of the year, the Dow has lost more than 30 percent of its value. Financial markets are in crisis. Credit is limited. Economic fear is palpable. Increased unemployment, dire holiday retail projections, U.S. automakers on the brink of bankruptcy, an unprecedented number of auto dealers closing, and continued record foreclosures—all presage a looming economic adversity not only in the financial markets, but also in the real economy. Some observers warn that the country, and perhaps the world, may be on the brink of a new economic depression akin to the Great Depression of the 1930s. Most believe that we will be in a recession for at least a year and perhaps several.

But the key issue for how these conditions might impact philanthropy is whether we are facing a deep and extended recession in the real economy—or an entirely new kind of crisis in which continued failure of the underlying financial markets drives the recession into near or actual depression.

Industrialized countries are pumping money into their economies. If enough cash makes its way into the hands of local employers and local households in a timely manner, local economies and hence entire nations, will be spared the worst consequences of the financial crisis.

Let’s suppose the rescue effort succeeds, at least to the extent that there is, at most, a moderate recession for a year or two—something akin to the recession experienced in 2000 to 2001 after the dot-com bubble burst in March 2000 and the terrorist attacks hit the United States on Sept. 11, 2001. Let’s also suppose that the stock market remains about 30 percent below what its value was at the beginning of 2008.

Then, we expect charitable giving to decline only by about 3 percent to 4 percent for calendar year 2008. And we foresee an additional 3 percent to 4 percent decline during 2009. If large gifts are currently in the pipeline for 2008 and 2009, these relatively small decreases could be delayed about a year.

We reach these conclusions based on the lessons of the past.

Historical Perspective

To understand the relationship between today’s economy and charitable giving, we need to know the history of philanthropy in America.

Overall, giving has grown during the past 40 years. A report from The Center on Philanthropy at Indiana University (prepared for the Giving USA Foundation and published Sept. 22, 2008) shows that, on average, charitable giving from all sources actually grew about 0.8 percent in real terms during periods of economic slow down (including six recessions, several national disasters and a terrorist attack) during the past 40 years.

But any consolation these facts may offer should be
tempered. Looking closer, we see that, in the recession of 2000 to 2001, charitable giving from all sources actually dropped 2.2 percent in real terms. A serious recession does have a serious impact on charitable giving. Still, there is a bright side: This 2.2 percent decline represented a dollar decline of “only” $6 billion dollars from 2000 to 2001.

What happens to individual giving during a recession? Once again, the facts from The Center on Philanthropy’s report are not encouraging. In the past 40 years’ four longest recessions, individual giving declined an average of 3.9 percent per year in real terms. This is exactly the percentage that individual giving declined in the most recent recession of 2000 to 2001.

Another historical trend in philanthropy is important to note: There is a wide variation in fundraising success from year to year among charities. In hard times, some charities always raise more than the year before; and in good times some charities always report a decrease in giving. For instance, the Association of Fundraising Professionals’ (AFP) State of Fundraising Report for the recession year of 2001 indicated that 48 percent of charities reported increased donations, 12 percent reported no or little change, and 40 percent registered a drop in giving. The AFP report for prosperous 2006 indicated 24 percent of charities indicated a drop in giving, 7 percent reported no or little change, and about 69 percent enjoyed an increase.

What then do all these historical facts teach us?

Three lessons:

(1) **Recessions mean less giving.** The more relevant statistic about individual charitable giving in deep recessions is suggested by The Center on Philanthropy’s 3.9 percent decrease in the 2001 recession rather than by the oft-cited Center average of an 0.8 percent increase for all sources of giving averaged over the serious events of the past 40 years.

(2) **Still, individuals give a lot.** Even if individual charitable giving in 2008 declines 4 percent from its 2007 total ($229 billion), individual giving would still amount to $220 billion.

(3) **Even in bad times, many charities receive substantial funding.** Even in the face of a relatively substantial decline in individual charitable giving, a large proportion of charities report an increase or no change in charitable giving. Although it does not occur in every downturn, contributions to human services often increase in years when overall charitable giving declines.

### Recession and Financial Capacity

A formally declared recession does not necessarily presage a decline in charitable giving. **What matters is whether the recession triggers a decline in individuals’ financial capacity, as measured by their household income and net worth.**

We expect the largest drop in giving in 2009 from the 3 percent of households that have a net worth of $1 million or more and are headed by someone 65 years or older.

Income and net worth are consistently identified among the strongest factors in both macro level models of aggregate household giving and micro level models of individual household giving, precisely because they reflect household capacity to give. Moreover, income and net worth link the financial state of the economy with the financial state of the household and through this, to the amount of household charitable giving. But these links are not the same for all households and vary relatively systematically by life cycle stage as well as wealth.

For example, **income is stronger than net worth among less affluent households below retirement age.** In contrast, **net worth is stronger than income among wealthy households above retirement age.** The implication of this division is that household giving depends not just on financial resources, but also on levels of wealth and life cycle stage.

The National Bureau of Economic Research, which determines whether we are in a recession, recently...
announced that we’ve been in a recession with respect to employment since the beginning of 2008. But, as yet, not enough data has been released to conclude whether we’re in a recession with respect to either output (gross domestic product) or personal income.

In fact, personal income and personal disposable income increased in October 2008. Yet we are in a wealth recession. Federal Reserve statistics indicate a decline in real household net worth since April 2007. Still, we note that despite a 1 percent decline in household wealth during 2007, individual giving declined only 0.1 percent in real terms. This relative stability in income coupled with a sharp decline in wealth has now created a situation in which indicators of financial capacity are not moving in a reinforcing direction. This counterbalancing moderates what would have led us otherwise to predict sharper declines in charitable giving.

The Stock Market and Giving
An additional point to keep in mind when attempting to gauge the economic climate for charitable giving is that the variation in the stock market is not as closely related to variation in net worth as people tend to believe. Hence, there is also a weaker-than-perceived connection between variation in the markets and charitable giving.

When there are deep declines in the stock market, we at Boston College’s Center on Wealth and Philanthropy often receive calls from financial analysts asking about the decline in individual wealth. They usually expect to hear that wealth has declined by about the same proportion as the market. But wealth usually declines proportionately less than the market.

During the 1999-to-2002 downturn in household wealth, there was a major decline in the Dow: It fell 27 percent, from 11,497 to 8,342. Yet, during this period, household wealth declined by only 7 percent. Similarly, from Jan. 1, 2008, to June 1, 2008, the Dow fell 13.5 percent from 13,044 to 11,287, but household wealth fell by only 4.5 percent.

Wealth declines less than stock market indices for many reasons. Here are two:

(1) **Household portfolios are diversified.** Federal Reserve data indicate that only a third (33.7 percent) of household assets are held in stocks, mutual funds and pension funds. Real estate, business equity, cash, bonds and vehicles account for most of the remaining assets. This fraction has been nearly constant during the past four years. Thus, the immediate effect of a 30 percent reduction in the value of equities would reduce the value of household assets by 10.1 percent (30 percent of 33.7 percent). Thus, the impact of the stock market losses on overall household wealth is cushioned.

(2) **Some investors reallocate their assets in response to market conditions.** In downturns, households reallocate away from volatile to more stable financial assets. Our 10.1 percent estimate assumes that households don’t reallocate their assets as financial markets are falling. For instance, as we said, the Dow fell 27 percent from 1999 to 2002. In 1999, stocks, mutual funds and pension funds accounted for 43 percent of household assets. If we multiply 27 percent by 43 percent, we arrive at the expected value of 12 percent decline in individual wealth (akin to the 10.1 percent in the prior example). But, during this period, household wealth actually declined by only 7 percent. We believe the discrepancy is due in large part to households reallocating assets from stocks to real estate. Currently, the reallocation has been to stable government securities and liquid assets.

In today’s market, the Dow has declined by slightly more than 30 percent. If we project from the 1999 to 2002 relationship to wealth, we would expect that wealth would decline by only 6 percent due to the decline in the stock market. Regardless of the amount, though, household wealth is likely to decline disproportionately less than the stock market.

Consequences
So, let’s estimate the prospects for charitable giving in 2008 and extend them by analogy to 2009. As noted, personal income has been relatively stable during the past year. Although it anomalously increased in October 2008, we anticipate that it won’t have increased for the remainder of the year. In estimating changes in charitable giving for 2008, let’s assume income is constant, the stock declines by 30 percent, and net worth declines at different levels for different demographic groups, totaling the average of 6 percent. We base our analysis on 2008 wealth data from the Federal Reserve and on distributional data...
from the 2004 Survey of Consumer Finances, also sponsored by the Federal Reserve.

Now, let’s take life cycle into account. As the impact of financial resources on giving varies by life cycle as well as by financial capacity, to assess the impact of a 30 percent reduction in equities, we use linear regression to evaluate the impact of components of income and wealth on charitable contributions for four categories of households.

Assuming no change in income, we find that the largest impact occurs among the 3 percent of households with net worth of $1 million or more and whose head is at least age 65. For this group the reduction in charitable giving amounts to 11 percent without reallocation of assets and 8 percent with reallocation.

For the 6 percent of households with net worth of $1 million or more and whose head is under age 65, the analysis predicts a 10 percent reduction in charitable giving without reallocation and a 6 percent reduction with reallocation.

For the remaining 73 percent of households with net worth less than $1 million and whose head is at least age 65, there is a 7 percent reduction in charitable giving with and without reallocation.

For the remaining 73 percent of households with net worth less than $1 million and whose head is under age 65, the analysis predicts a 6 percent reduction in total charitable contributions if there were no reallocation of assets.

For all households combined, the analysis predicts a 30 percent drop in the Dow is statistically associated with a 6 percent decline in the value of household net worth and a 4 percent decline in charitable giving.

We expect that when the data becomes available for 2009, a similar analysis will indicate an additional 4 percent decline in charitable giving—this time because of decreases in income.

Beyond Statistics

Nothing about our projections is set in stone. The inclination of individuals across the economic spectrum to care for others who are in need during hard times has the potential to set in motion a different economic logic. When difficult periods pass a certain degree of intensity and duration, the relationship between economic conditions and giving may actually reverse in some quarters. It may not show up in all areas of giving, or for that matter in any philanthropic measures. Charities can vex our bleak projections by deepening the heartfelt identification of donors with beneficiaries.

Outside the world of statistics on charitable giving is the personal care that individuals, families and friends bestow upon each other. It is often in the unkindest of times that people most bravely extend care to those in the hidden and silent corners of need.

Endnotes

4. Ibid.
6. Supra note 3.