DOING WELL AND DOING GOOD

Philanthropy: Why a new golden age of philanthropy may be dawning

THAT patron saint of American philanthropy, Andrew Carnegie, believed that "the man who dies rich, dies disgraced." He disposed of 90% of his vast fortune by the end of his life. Carnegie and John Rockefeller were the giants of what now seems a golden age of philanthropy, as the 19th century gave way to the 20th.

Now, another golden age may be about to dawn, and for similar reasons: inequality is a friend of philanthropy, and large fortunes encourage individual generosity. Bill Gates of Microsoft and Pierre Omidyar of eBay are today's Carnegies: successful entrepreneurs who are rebranding themselves as imaginative philanthropists.

And yet to predict another golden age requires a leap of faith. The latest figures published by Giving USA, an annual survey compiled by the Centre on Philanthropy at Indiana University, do indeed suggest that America's giving has risen: it has been 2% or more of GDP since 1998, following more than two decades below that mark, and last year total contributions were 2.2% of GDP, only a whisker below the all-time high of 2.3% in 2000 (see chart 1). But sceptics ascribe this recent rise to the dotcom boom, which caused an unexpected surge of wealth that has not yet shrunk back into line with the slowdown in the economy.

Moreover, in some ways, charities are more beleaguered than in the past. In the United States, where the outpouring of generosity after September 11th 2001 brought charities into the spotlight, the Senate has been holding hearings into a succession of nasty scandals; one result may be legislation; and the Internal Revenue Service has ominously made misbehaviour at non-profit organisations one of its enforcement priorities.

However, on both sides of the Atlantic, there are signs that a new kind of donor is emerging, with a new approach to giving. And--crucially--the combination of increasing wealth and an ageing population will inevitably lead to more gifts from the living and more bequests from the dead. "For the first time in history," says Paul Schervish of Boston College, the principal apostle of a new golden age, "more and more people have more money than they want to leave to their kids." Tony Knerr, a fund-raising consultant, adds, "There is an extraordinary amount of money available. The lack is of good ideas on how to get the basket under the apple tree."
Counting apples

Measuring philanthropy is difficult, but two things are clear. Private giving is small in all rich countries, relative to state spending. And American generosity outstrips that of most other countries, especially in money terms, and particularly if gifts to religious bodies are included.

One of the most ambitious attempts to measure the size of charity is that of a team led by Lester Salamon of Johns Hopkins University, which has examined 36 countries around the world for a new book[*]. Excluding donations to religious congregations (an important point where America is concerned), giving varied in developed countries in the second half of the 1990s from around 1% of GDP in the United States (and 1.3% in Israel, where much generosity comes from abroad) to less than 0.1% in Italy, where cash donations account for the same proportion of GDP as they do in India (see chart 2 on next page).

But such figures are generally dwarfed by what the state spends on social welfare, and international differences in social spending vastly outweigh those in private generosity. For instance, in America, spending on social welfare accounts for 18% of GDP; in Britain, 28%. That gap dwarfs the gap of four-tenths of 1% of GDP in non-religious charitable donations.

Of course, money is not everything. Mr Salamon's work, which will form the basis for new United Nations guidelines on national accounts, allowing countries for the first time to compare philanthropy and volunteering, finds that gifts of money are generally less important than gifts of time. Around 60% of private giving takes the form of volunteering, the value of which he measures by ascribing to it the average wage of a community worker. Volunteering turns out to be particularly high in the Netherlands, Sweden and other Scandinavian countries, as well as in a few developing countries. In America, the balance between gifts of time and of cash is more equal (if those to religious bodies are excluded) than in most of Europe.

As for religion, it is a powerful force for generosity. Most religions encourage giving, often setting a benchmark (10% is the goal of Christians, Jews and Sikhs alike). For Muslims, the Zakat or charity tax is the fourth pillar of Islam, as important as prayer, fasting or pilgrimage.

In America, religion accounts for a staggering (to non-Americans) share of donations: 62%, according to Indiana University's Centre on Philanthropy Panel Study (COPPS), which looks at what a cross-section of individuals do over a period of time, rather than at what some donors put on their tax returns. Every income group gives more to religious causes
than to non-religious. On adjusted figures, says Richard Steinberg, of Indiana University–Purdue University Indianapolis, the poorest fifth of the population gives an average of $234 a year to religion and $85 to other causes; and black people give $924 to religion, compared with $439 to non-religious causes.

In Europe, giving to religion is almost certainly lower, although not always as low as some believe. In Germany, for example, a "voluntary" church tax collects an astonishing €8.5 billion ($9.9 billion) a year. In Britain, a recent study of charity trends by the Charities Aid Foundation, a non-profit body, found that 10% of income given to the 500 largest charities went to faith-based organisations.

America's religious enthusiasm partly explains its relative generosity. Quite a lot of research confirms that religious folk are more generous overall than non-believers. Indeed, COPPS figures suggest that people who profess a religion are more likely to make a gift and to make a larger gift than people who say they have no religion. The difference is particularly striking for Jews. Intriguingly, other work suggests that Jews whose faith fades give less than those who remain believers. What's in it for me?

Why do people give money and time? On the face of it, the idea of working to earn money, only to give it away is an odd one. Economists, typically baffled by selflessness, have tended to hunt for hidden self-interest in apparent altruism. One recent study[T] found the reverse: people gave more willingly if they could cloak their altruism in apparent self-interest. When asked to give to a highly worthy cause (to help emotionally disturbed children), the donation rate trebled if donors were offered a product in exchange for their gift. But when asked to give to a mildly worthy cause (helping a team to buy sports equipment), the offer of a present made no difference. No wonder that wise charities work hard to find ways to reward donors.

Increasingly, some governments wonder whether to try to bolster philanthropy. Even before George Bush senior sang the praises of "a thousand points of light", Americans have never had any doubt. Many argue that community organisations and volunteering strengthen society. But, where public provision of social services is the norm, as in most of continental Europe, governments have been more ambivalent, seeing private provision as a sign of state failure. In America, says Felicity von Peter, who organised a workshop on giving for the Bertelsmann Foundation, donors believe that they can spend money more effectively than the state. In Europe, they are more likely to see private philanthropy as complementary to state action.
Now attitudes are changing, even in Europe. Everywhere, an ageing population is starting to stretch the capacity of the welfare state. So the motivation for bolstering philanthropy is likely to be pragmatic: to fill in the gaps in state provision and to widen the financial support of non-profits, which are frequently channels for state cash. But that is an uninspiring vision compared with Mr Bush's points of light and an appeal to community spirit.

A striking sign of Europe's change of attitude: the British government has helped to back the "Giving Campaign", a three-year effort to increase charitable giving, especially in tax-efficient ways, and has made the tax treatment of gifts more generous. But if governments want people to be more generous, can they do much about it?

Certainly, the tax treatment of charitable gifts is far kinder in America than in any other large country. Theresa Lloyd, author of a new study of "Why Rich People Give" in Britain, points enviously to the possibility in the United States of making an irrevocable gift of a capital sum, with immediate tax relief and the possibility for the donor to continue to live on the income from the capital. Such a scheme, the underpinning of American "planned giving", does not exist in Europe.

But tax relief does not lead automatically to higher giving. In America, one-third of staff at companies are typically enrolled in payroll giving. In Germany, payroll giving is non-existent. But in Britain, where it does exist, and where the tax benefits are similar to those in America, only 2% of staff typically take advantage of them. The reason, says Lord Joffe, formerly head of Oxfam, one of Britain's biggest international charities, is that British companies hardly ever promote payroll giving among their staff. In America, payroll giving is not only promoted; it is expected.

Taxes affect giving in two ways. High taxes reduce people's incomes and wealth, leaving them with less money to give away. But generous tax exemptions allow people to give more with less loss of income. They cut the price of giving. Some recent studies, though, suggest that government may give up a great deal in tax revenue to stimulate fairly small amounts of giving. And the relationship between giving and taxation can have perverse effects. For example, America's charities have lobbied hard against scrapping estates tax: they fear people will cut legacies to charities out of their wills if there is no longer any tax advantage in making them.

Tax incentives probably do not cause people to give in the first place, but they may well encourage them to give more generously. They may also
have a bigger impact on the wealthy, who are particularly tax-sensitive, than on ordinary mortals. The charities that attract the wealthy, such as universities and opera houses, have more to gain from tax incentives than those the poor favour, such as churches.

Just as important as tax incentives, though, may be public attitudes to philanthropy. They differ vastly between Europe and the United States. But they affect the behaviour of both donors and recipients.

On a continent where being very rich still carries faint implications of impropriety, many Europeans feel uneasy with the idea of competing to demonstrate public generosity. That has all sorts of implications. For instance, Britain's donors, argues Lord Joffe, often do not know how much they should give. In a recent debate in the House of Lords, he argued for a benchmark, though perhaps not one as high as the biblical tithe, to give the wealthy some idea of what was appropriate. He described a meeting at which people were asked to raise their hands if they gave more than 1% of their incomes to charity. Hardly any did. But after the meeting, many apparently raised the amount they donated.

Even more important is the attitude of would-be beneficiaries. Because they are generally new to the game, Europeans tend to be embarrassed about fund-raising. For example, few of Europe's impoverished universities employ professional fund-raisers. Top American universities typically employ hundreds. At least two of Britain's best university fund-raisers, at the London School of Economics and at Bristol University, are American imports.

Because they do not understand fund-raising, Europeans do it badly. Bertelsmann's Ms von Peter has a string of horror stories about European recipients. In one ghastly case, a would-be donor (with an instantly recognisable name) rang a charity to ask whether he could visit. He was told firmly that he could not, but he was welcome to send a cheque. The new foundation

Such behaviour may change as donors alter. On both sides of the Atlantic, a striking new development has been the rise in the number of philanthropic foundations (see chart 3 on previous page). Moreover, whereas foundations in the past tended to be established in bequests, these foundations are often set up by the living.

In the United States, says Eugene Tempel, director of the Centre on Philanthropy at Indiana University, there has been "an explosion" of new private foundations: their numbers are up from about 22,000 in the early 1980s to 65,000 today. Many of the newcomers were founded in the
mid-1990s with dotcom money, and many of the founders are younger than in the past.

Something similar is happening in parts of Europe, says Helmut Anheier, at the University of California, Los Angeles, where he is doing a study of philanthropic foundations. There are few in France, Austria or Belgium, he reports, but they are booming in Italy, where they are a relatively new phenomenon. Often, setting up a foundation starts as a way to preserve control of a family business and to avoid taxes and death duties.

Another study, by the Bertelsmann Foundation, reveals that 200 foundations a year were being created in Germany in the early 1990s; now, the birth rate is between 800 and 900 a year. The phenomenon, reports Karsten Timmer, who ran the study, is the result of 60 years of peace, a rare event in Germany over the past millennium. With the retirement of the founders of the post-war businesses that built the German miracle, "the transfer of wealth is extraordinary in Germany today," he says. Moreover, half the founders he surveyed are actively involved in their foundations, which have become for many their second career.

The result both in America and in parts of Europe is a more directed and more engaged approach to philanthropy. The new wealthy want to make sure their money is properly used, and so want to be involved in its expenditure. Bill Gates argues that you have to work just as hard at giving away your money as you do at making it.

This calls for a different approach by those who run foundations. A few years ago, there was much talk of "venture philanthropy": the idea that Silicon Valley's entrepreneurs would transfer their creative skills to the foundations they were setting up. They built partnerships and insisted on exit strategies. Today, the best foundations are increasingly businesslike. They want clarity and accountability. They often see their task not just in terms of handing out money, but of forging alliances and building networks: with government and industry, or among fragmented groups of charities.

The growth of such foundations is one reason for believing that philanthropy may be shifting up a gear. More telling, though, is the growth in the numbers of the rich. A study in America, where the figures are easily the best, by Mr Schervish and his colleague, John Havens, at Boston College, has established a striking picture.

They found that the 4.9% of families in America with net worth of $1m or more accounted for 42% of all donations to charitable organisations in
1997. Even more striking, the 0.22% of families with incomes of $1m or more contribute about 13% of charitable dollars. And the concentration in bequests is also astonishing: the 0.4% of estates worth $20m or more account for 58% of the value of all bequests.

Interestingly, as the size of estates rises, the proportion going to heirs shrinks and the share left to charity increases. The estates of $20m and more left an average of 49% of their value to charity and 21% to heirs, the rest going in taxes. Could it be that today's rich think that inheriting too much money may harm their children?

If so, there are interesting times ahead. For the coming transfer between generations will be the largest in history. Years of accumulated wealth--in America and in Europe--are about to change hands, as the post-war generation dies off. Mr Schervish and Mr Havens put the size of the transfer likely to occur in the United States between 1998 and 2052 as somewhere between $41 trillion and $136 trillion. For the moment, they bet cautiously on the bottom end--a figure that is four times the present size of the entire American economy and almost as large as the entire world's wealth today.

What do these trends imply for charity? First, as people's incomes and wealth grow, so will the sums going to charity--even if tomorrow's rich are no more generous than today's. In fact, Messrs Schervish and Havens contend, people become more generous as they grow richer. Not only are they more generous in life; they are also so in death. For instance, in the three years from 1995 to 1997, the value of final estates rose 65% in the United States; but bequests to heirs grew by 57% whereas charitable bequests rose 110%. Among the largest estates, the shift was even greater.

All this suggests that the money flowing to charities will rise, and quite possibly rise as a share of the economy. The populations of the rich world will increasingly be older and wealthier than ever before. Charities may benefit to an unprecedented extent. But is that really an attractive prospect, a world of burgeoning philanthropy, full of donors who want to control where their money goes and how it is spent? "You will start to hear, 'We don't like what the wealthy are giving to. It's undemocratic',' growls Mr Schervish. He could well be right.