Giving USA: Using the “Dismal Science” to Better Understand Charitable Giving Especially in Turbulent Times!

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by Leo Arnoult, CFRE of member firm Arnoult & Associates

I love economics. I decided to major in it over forty years ago, motivated by the possibility of losing my college work-study position, where I crunched numbers for the head of the economics department. He was establishing the college’s new economics department and needed students to major in the subject. I quickly switched my business degree major from marketing to economics. Thus, I became (because of my name beginning with the letter A) the first economics major graduating from Christian Brothers University.

While having majored in economics, I never did become an economist. I also minored in theology and eventually earned a masters degree in Catholic Studies, but I also did not become a theologian. I did eventually become a fundraiser. I do approach life with an economist’s frame of reference or sensibility and a theologian’s desire for truth and virtue.

Economics, the so-called “Dismal Science,” ultimately is about understanding the motivations of buyers and sellers and, more broadly, the transactional nature of our economy. Behavioral economics answers the question, what motivates our actions – both as sellers and buyers – in the marketplace.

Economics also has something to say about charitable giving in the philanthropic marketplace and, through our work with Giving USA researched by Indiana University’s Center on Philanthropy, the extent to which various sources gave to the many different nonprofit sectors. And we might do well, going forward, to research more of what motivates charitable giving and the potential adverse affects of deep recessions. Many observers believe we missed the mark on the level of the giving downturn during the Great Recession.

GUSA’s model assumptions on how much comes from itemized donors, especially the wealthier donors versus non-itemized donors, and how each segment is affected by downturns would be a good area for increased research. Do the ratios change and in which direction? Do wealthier people pummeled by steep drops in stocks reduce giving to a greater degree than the smaller gift donors whose gifts are not deducted? If we remove the five-year carry forward provision from IRS contribution data, did giving go down even more drastically during the Great Recession?

Giving USA, The Report On Charitable Giving, with the help of our researchers at the Center on Philanthropy, uses econometric models to anticipate two years in advance of final IRS data, how much was given by various sources in the year being analyzed. This most comprehensive report on giving is the fundraiser’s Bible. It is used to understand the dynamic patterns of giving, to help set strategies based on sectors market share and trends, and also, for some, it is a broad metric used by them and their boards to set goals and evaluate performance.
It is morally important that Giving USA's model be as reflective of reality as humanly possible. Data has consequences if it is taken seriously, and for over 56 years Giving USA has been the standard for accurately projecting what happened to giving the previous year. My first concern about the disconnect over our data these past two years has been that we might not be taken as seriously if this situation continues, or if our methodology increasingly is doubted.

During the past two years our methodology has come under question internally and externally from colleagues such as Paul Schervish and John Havens from Boston College’s Center on Wealth and Philanthropy. Reporters from the Chronicle of Philanthropy have written stories emphasizing the disconnect between their anecdotal reports of giving dropping to a far greater degree than reported by Giving USA in 2008 and 2009. These discussions boiled over at last year's Gurin Forum sponsored by the Giving Institute and Giving USA.

The head of COP, Dr. Patrick Rooney, has ably guided Giving USA’s model for many years. This “Triple Domer” – He received all of his three degrees in economics from the University of Notre Dame – home of the fabled Dome of Our Lady – brings a high level of economic academic competence to Giving USA.

However, his heated defense of GUSA’s methodology at the Gurin Forum last November did not quell the challenges. In fact, they increased following this spring’s IRS update that showed itemized individual donors’ giving dropping by a significantly larger percent than Giving USA had forecast for both 2008 and 2009. Encouraged by the Methodology Committee, to his credit, Rooney adjusted the estimates for both years earlier than the normal two-year lag time. The adjusted figures showed a revised estimate that charitable giving had dropped by approximately 13% over the two-year period, a much greater drop than originally reported. Having made these earlier than normal adjustments, I believe we dodged a credibility bullet.

Going forward, it is my hope that we at the Giving USA Foundation, working closely with the Center on Philanthropy, will continue to re-evaluate the economic model of Giving USA in a dedicated spirit of continuous improvement. The cost of this research is not insignificant. It is paid for through generous gifts from Giving Institute members, the Giving Institute itself, and is substantially underwritten by generous support from the COP. It is my sincere hope this partnership will continue to be aggressive in its self-reflection and openness to adapt our model to changing economic realities that, just perhaps, our current model does not fully capture.

Mr. Arnoult is a past Chairman of the Giving USA Foundation and currently serves on its Methodology Committee.
One Response to Giving USA: Using the “Dismal Science” to Better Understand Charitable Giving Especially in Turbulent Times!

**Una Osili, Director of Research** says:

September 7, 2011 at 8:25 pm

Like our colleagues at Giving USA Foundation, the Center on Philanthropy at Indiana University has a deep, long-standing commitment to the highest quality research and to continuously reviewing, refining and strengthening Giving USA’s estimates. Giving USA’s methods are rigorously tested, peer-reviewed by leading scholars elsewhere and guided by a Methodology Council of top national scholars and practitioners.

Early in the recession, we resolved to test the Giving USA model once final IRS numbers for recession years were known, to see how it reflected the effects of extreme situations such as the Great Recession. Tests over the past year involving hundreds of variables found that Giving USA’s model has been and is extremely accurate over time. Even so, our testing found that the original model did not fully capture the impact of the Great Recession, so we have refined our forecasting methods to better reflect the uncertainty of giving in extreme economic times. These refinements make a good model even stronger at estimating giving in unusual circumstances.

Looking ahead, the Center on Philanthropy will continue to investigate key issues such as how differences in personal economic circumstances, wealth and income and changes in the economy and public policy affect giving, particularly in difficult economic times. And we will continue to rigorously assess and refine our methods to provide the best information possible to help nonprofits and donors be effective in their philanthropic endeavors.

Reply