The Material Horizons of Philanthropy: New Directions for Money and Motives

Paul G. Schervish
Published in
New Directions for Philanthropic Fundraising
No. 29, pp. 5-17
Fall 2000
Understanding the Needs of Donors: The Supply Side of Charitable Giving

Eugene R. Tempel, Dwight F. Burlingame (eds.)

New Directions for Philanthropic Fundraising, No. 29, Fall 2000
Timothy L. Seiler, Cathlene Williams, Editors

Copyright © 2001 John Wiley & Sons, Inc. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 750-4744. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 605 Third Avenue, New York, NY 10158-0012; (212) 850-6011, fax (212) 850-6008, e-mail: permreq@wiley.com.

New Directions for Philanthropic Fundraising is indexed in Higher Education Abstracts and Philanthropic Index.

Microfilm copies of issues and articles are available in 16 mm and 35 mm, as well as microfiche in 105 mm, through University Microfilms Inc., 300 North Zeeb Road, Ann Arbor, Michigan 48106-1346.

ISSN 1072-172X ISBN 0-7879-5636-8

New Directions for Philanthropic Fundraising is part of the Jossey-Bass Nonprofit and Public Management Series and is published quarterly by Jossey-Bass, 989 Market Street, San Francisco, California 94103-1741.

Subscriptions cost $68.00 for individuals and $127.00 for institutions, agencies, and libraries. Prices subject to change. Refer to the order form at the back of this issue.

Editorial Correspondence should be sent to Timothy L. Seiler, The Center on Philanthropy, Indiana University, 550 West North Street, Suite 301, Indianapolis, IN 46202-3162, or to Cathlene Williams, Association of Fundraising Professionals, 1101 King Street, Suite 700, Alexandria, VA 22314.

www.josseybass.com

Printed in the United States of America on acid-free recycled paper containing 100 percent recovered waste paper, of which at least 20 percent is postconsumer waste.
Contents

Editors' Notes 1
Eugene R. Temple, Dwight F. Burlingame

1. The material horizons of philanthropy: New directions for money and motives 5
Paul G. Schervish
This chapter, the first part of a two-part essay, explores what it means to speak of supply-side aspects of charitable giving and suggests that those concerned with advancing charitable giving can feel confident about abandoning a scolding model and taking up an inclination model for working with wealthy donors.

2. The spiritual horizons of philanthropy: New directions for money and motives 17
Paul G. Schervish
This second part of the two-part essay differentiates between the motivational models of the demand-side and supply-side approaches to fundraising. It describes the inclinations that dispose wealth holders to make substantial gifts, addresses the implications of supply-side analysis for fundraising and for the repeal of the estate tax, and situates the discussion within the larger framework of wealth and philanthropy in an age of affluence.

3. Financial and psychological determinants of donors' capacity to give 33
Thomas B. Murphy
Potential donors and fundraisers who assist them in achieving their philanthropic objectives need a clear understanding of the complexities of allocating resources among investments, additional consumption, and philanthropy.

4. One more time: How do you motivate donors? 51
Donald N. Rittenheim
Research into the information needs of donors underscores their need for purpose, value, efficacy, and affirmation of self-worth in making a gift. Fundraisers benefit by paying close attention to what information they provide to donors and how they provide it.

5. The new rules for engaging donors of color: Giving in the twenty-first century 69
Emmett D. Carson
This chapter discusses fundraising among people of color and other so-called new donors, suggesting categories of new donors that may be useful in generalizing about the way they are to be approached.

6. The public and private persona of philanthropy: The donor challenge 81
H. Peter Karoff
In this philosophical treatise on civic life and philanthropy, Karoff poses eleven challenges that people face in making the transformation from passive giver to committed donor.

Index 97
Those concerned with advancing charitable giving can feel confident about the emerging financial and social-psychological factors that are setting new supply-side directions in giving.

1

The material horizons of philanthropy: New directions for money and motives

Paul G. Schervish

This is the first of two chapters exploring the emerging financial and social-psychological factors that I believe are setting new directions in charitable giving. These new directions revolve in large part around a shift to a supply-side understanding of charitable giving, especially by high-net-worth individuals. This chapter discusses what it means to view charitable giving from the supply side and reviews the material or financial horizons that support this analysis. First, I discuss what it means to speak of supply-side aspects of charitable giving. Next, I chart the current patterns of charitable giving by wealth holders. I summarize the growing horizon of material wealth that will provide the context for increased charitable giving.

Acknowledgments: I am grateful to the T. B. Murphy Charitable Trust and the Lilly Endowment for their generous support of the research reported in this chapter. I am especially grateful to John J. Havens, whose careful empirical research is contained in the chapter, and to Mary A. O’Herlihy for her competent advice and assistance. Finally, I thank Lois M. Sherman for her courteous editorial work and my other colleagues at the Indiana University Center on Philanthropy—Dwight F. Burlingame, Patrick M. Rooney, and Eugene R. Tempel—who hosted me and provided the intellectual atmosphere that encouraged the development of the ideas in this chapter and the next one.
I then indicate some of the implications for charitable giving that such a vast wealth transfer portends. I conclude with a discussion of how this emerging material capacity suggests that those concerned with advancing charitable giving can feel confident about abandoning a scolding model and taking up an inclination model for working with wealthy donors. The following chapter explores the spiritual horizons or social-psychological factors that join with financial wealth in disposing wealth holders toward increasing the supply of philanthropic dollars rather than resisting doing so.

**Demand and supply in philanthropy**

All charitable giving is a relation between donors and recipients, with donors providing a supply of dollars to meet a demand of needs. The question I address here is not whether meeting people's needs is at the core of philanthropy. Both the supply- and demand-side perspective hold that view. Rather, the question is how best to generate charitable dollars to meet those needs. The demand-side approach emphasizes that donations are hesitant givers, and so must be pushed in more or less aggressive ways to separate themselves from their money. In the extreme, obtaining charitable dollars is a process of stealthy extraction at worst and shrewd persuasion at best. The supply-side approach emphasizes that donors are inclined to donate to charity and are motivated to do so by having excess financial resources and a desire to identify with and affect the fortunes of others. They do not so much need to be pushed into giving as helped to discern how to make wise decisions about their wherewithal. In a word, the supply-side approach employs the dynamics of liberty and inspiration rather than coercion and guilt to increase charitable input.

**The demand-side strategy**

In practice, no fundraiser simply relies on the demand-side strategy as I have described it. Indeed, fundraisers find it especially rewarding, personally and institutionally, when they pursue a supply-side approach. But the usual approach, most often motivated by an urgency to raise the sums necessary to accomplish an important mission, is to pursue the more customary demand-side approach. In order to overcome the reluctance of donors, demand-side practitioners employ a panoply of strategies ranging from cultivating friendships and presenting portfolios of needs to advising about tax incentives, instilling guilt about privilege, making accusations of stinginess, and establishing giving quotas for wealth holders. In this view, generating a positive change in the level of individual charitable giving requires that donors be pressed to shift their preference away from other uses of their money. For charity to increase, something else must decrease. In economic language, for charity to increase, donors must shift their preferences within an existing budget constraint. Accordingly, to make this shift is to be generous; not to make it is to be penurious.

**The supply-side strategy**

In contrast to a demand-side approach, a supply-side perspective considers the circumstances and dispositions of donors in addition to the modes and tone of appeals. The essence of the supply-side perspective is to regard changes in aggregate supply to be as important as changes in aggregate demand in producing changes in aggregate output. More precisely, it considers how changes in charitable output derive from an increased supply in capacity and chosen duty rather than from an increased demand of need and proscribed responsibility. Instead of soliciting the expansion of philanthropy by stressing exogenously originated needs and obligations, the supply-side perspective stresses how endogenous material resources and moral capacities that incline donors toward charitable giving are themselves also expanding. Charitable donations do not simply result from changes in aggregate demand or what is needed to be done. It is also due to changes in aggregate supply, or what people want to do and are able to do.

In the demand-side approach, the central problem for charities is the need to create in donors a sense of financial capacity and moral concern—that is, to convince donors they have riches to give and reasons to give them. When the supply-side approach is added,
an equally central task of charities is to provide outlets for, and even compete over, what is being created largely outside their sphere of influence: an expanding material capacity for and personal inclination toward charitable giving. If the demand-side approach sees its task to get people to do what they would not ordinarily be disposed to do, the supply-side approach sees its task to invite people to participate more fully and more wisely in what their new capacities make them prone to do.

Current patterns of charitable giving

To understand the material side of the supply side requires a look at the current patterns and future prospects for charitable giving by wealth holders.

Inter vivos charitable giving

The small number of families at the highest end of the distributions of wealth or income currently contribute a dramatically high proportion of total annual or inter vivos charitable giving. The 4.9 percent of families with net worth of $1 million or more made 42 percent of the total contributions to charitable organizations in 1997. Fourteen percent of contributions came from the 0.2 percent of families with at least $1 million in wealth and $1 million in income; such families contribute an average of $69,000 annually. The remaining 28 percent of all personal contributions came from the 4.7 percent of families with wealth of at least $1 million but incomes below $1 million. In regard to income, the proportion of charitable dollars coming from the highest-income families is also marked. I summarize this highly skewed distribution of charitable giving by ratios of the proportions based on the Social Welfare Research Institute (SWRI) composite estimate of giving. These proportions show that 25 percent of families contribute 68 percent of all charitable dollars. Even more starkly, the proportions show that 0.22 percent of families with incomes of $1 million or more contribute 13 percent of all charitable dollars. One percent contributes 22 percent, and the top 5 percent of the income spectrum contribute 40 percent of all charitable gifts.

Charitable bequests

Although the correlation between wealth and percentage of wealth contributed in the form of inter vivos gifts is negative, the correlation between wealth and percentage of wealth going to charity in the form of charitable bequests made from final estates (that is, estates for which there is no surviving spouse) is positive. For final estates recorded in 1997, the average donation to charity was 14 percent. For estates valued under $1 million, 4 percent was contributed to charity. As a percentage of the value of total charitable bequests, the 0.4 percent of the final estates that are worth $20 million or more make 58 percent of all charitable bequests in terms of dollars. As the value of estates goes up, the percentage going to charity also increases. Among estates valued at less than $10 million but more than $1 million, 5.6 percent went to charitable bequests, and among estates valued from $10 million to under $20 million, 17 percent went to charitable bequests. Finally, estates valued at $20 million or more bequeathed an average 49 percent of their value to charity, 30 percent to taxes, and 21 percent to heirs. In addition, as the value of estates rises, the proportion going to heirs decreases while the proportion going to taxes increases. The one exception is that estates valued at $20 million or more allocate a lower proportion to taxes than the $10 million to $19.9 million group, reflecting the 49 percent allocation to charity.

The forthcoming wealth transfer

In order to assess the potential for growth in charitable giving, John Havens and I undertook a project designed to estimate the potential for growth in personal wealth. Our efforts resulted in the Boston College Wealth Transfer Microsimulation Model (WTMM), which
providing estimates of growth in wealth over the period 1998–2052 (see Havens and Schervish, 1999, for details on the methods, assumptions, and parameters of the WTMM).

According to the WTMM, Havens and I estimate that the forthcoming transfer of wealth will be many times higher than the almost universally cited fifty-five-year figure of $10 trillion (Havens and Schervish, 1999). Our low-range best estimate is that over the fifty-five-year period from 1998 to 2052, the wealth transfer will be $41 trillion and may well reach double or triple that amount. Depending on the assumptions we introduce into the model (for instance, in regard to the current level of wealth, real growth in wealth, and savings rates), we estimate that the wealth transfer will range from a lower-level figure of $41 trillion, to a middle-level figure of $73 trillion, to an upper-level figure of $136 trillion. These estimates are not back-of-the-envelope projections. They derive from what our knowledge is a first-of-its-kind microsimulation model of wealth accumulation and transfer. The new estimates update the figure published in 1993 by Robert Avery and Michael Rendall—and regularly cited since then—indicating that between 1990 and 2044, the value of estates in the United States passing from adults with children fifty years and older would be $10.4 trillion.

Until our estimates circulate and are reviewed and critiqued, we persist in focusing on the low-end estimate of $41 trillion. This is not because we believe our middle-level estimate of $73 trillion is unreasonably high or our upper-level estimate of $136 trillion is implausible. For instance, the $73 trillion estimate assumes a maximum real growth rate of 3 percent for the next fifty-five years and assumes that the value of assets held by individuals in 1998 was $32 trillion.6 Furthermore, emphasizing the $41 trillion lower-level estimate with its 2 percent secular growth rate helps protect against potential charges of “irrational exuberance” arising from our not yet having modeled periodic recessions, a world economic crisis, or depression. Even the lower estimate of growth in wealth should serve to indicate the potential for substantial and even increasing levels of charitable giving, especially among those at the upper ends of wealth and income.

**Projections of charitable giving**

The findings about the top-heavy distribution of charitable giving, when coupled to our projections for growth in wealth over the next twenty years, indicate that the affluent will make substantial amounts of charitable contributions over that period and explain why there is such growth in the charity procurement industry's efforts to target wealth holders.

**Inter vivos charitable giving**

Even a modest 3 percent real growth in charitable giving over the next twenty years would mean that annual giving by these highest-income and highest-wealth families (0.22 percent of families) would move from approximately $17 billion in 1998–13.6 percent of 92.7 percent of the Giving USA 1999 estimate of $135 billion of 1998 individual giving (AAFRC Trust for Philanthropy, 1999)—to approximately $30 billion by 2017 in 1998 dollars, or (assuming a 3 percent rate of inflation) $52 billion in 2017 dollars.7 Even without a substantial change in behavior toward more inter vivos charitable giving and without including the additional families who will enter this group, families with at least $1 million in wealth and income in 1998 dollars will contribute approximately $460 billion over the next twenty years in 1998 dollars or $800 billion in 2017 dollars. Broadening the relevant population to the 1.8 percent of the families with net worth of $1 million or more and annual income of $200,000 or more in 1998 dollars, the potential amount of charitable giving is even more dramatic. Again, without a change of behavior or adding families who will enter this category, this 1.8 percent of the population can be expected to move from contributing $39 billion in 1998—31.4 percent of 92.7 percent of the Giving USA 1999 estimate of $135 billion of 1998 individual giving (AAFRC Trust for Philanthropy, 1999)—to $69 billion in 2017 in 1998 dollars or (assuming a 3 percent rate of inflation) $121 billion in 2017 dollars. Over the next twenty years, therefore, we can expect that this 1.8 percent of the population will contribute approximately $1.05 trillion in 1998 dollars or $1.84 trillion in 2017 dollars.
If the real growth in annual giving by the wealthy increases by more than 3 percent or the share of total charitable dollars they contribute continues to increase even at a moderate pace, then the amounts just cited will turn out to be substantially greater. For the population as a whole, we estimate that if charitable giving grows over the next two decades at the same real average rate of 5.51 percent, as it did over the five years 1993 through 1998, inter vivos giving in 2017 will reach an annual total approaching $374 billion in 1998 dollars ($650 billion in 2017 dollars). This means that 1998 through 2017 total giving would be $4.707 trillion in 1998 dollars and $6.601 trillion in annual inflation-adjusted dollars. If charitable giving grows over the next twenty years at the average real average rate of 3.28 percent as it did over the fifteen-year period 1983 through 1998, inter vivos charitable giving in 2017 will increase to $249 billion in 1998 dollars ($434 billion in 2017 dollars). At this rate of increase, total giving over the twenty years will be $3.7 trillion in 1998 dollars or $5.1 trillion in annual inflation-adjusted dollars.

Charitable bequests

The projections for bequests are equally propitious. One apparent empirical anomaly that we discovered in our research is the negative correlation between wealth and percentage of wealth contributed in the form of annual giving (Schervish and Havens, 2001). While the percentage of income contributed increases with wealth as well as with income, the percentage of wealth contributed rises with income but not with wealth. However, the area of charitable giving that is positively related to wealth is charitable bequests. This fact notwithstanding, the value of charitable bequests hovers around 10 percent of annual inter vivos gifts by individuals. Because of the dramatic growth of wealth predicted by our WTMM, we expect that in addition to annual inter vivos giving and without any increase over the 1995 proportion of estates going to charity (something that in fact occurred from 1995 through 1997), the projected twenty-year level of bequests will be between $1.7 trillion and $2.7 trillion, and the projected fifty-five-year level of bequests will be between $6 trillion and $25 trillion. Moreover, 75 percent of these amounts will come from the 3 percent of estates valued at $2 million or more (Havens and Schervish, 1999).

In the light of these figures, I conclude that there is in fact a positive relationship between wealth and percentage of wealth contributed once we transfer our attention to the bequest side of the ledger. Although the rich will continue to contribute more in annual giving than in bequests in the immediate future, near the end of the twenty-year window, yearly contributions from bequests by wealth holders will approach ever closer to the amount of annual individual giving by wealth holders. Once again, I caution that all our estimates, in addition to being conservative, are not able to predict what behavioral changes may occur over the span of the next two decades.

Supply-side effects of growth in financial wherewithal

Despite these intriguing trends and projections in wealth and philanthropy, they do not fully take into account the supply-side dynamics that make it likely that charitable giving will increase over the next decades in excess of what I have estimated. This is because the projections assume that the relative allocation of financial resources to philanthropy will remain essentially the same as it was in the late 1990s. The projections, as striking as they may be, do not take into account the fact that increased wealth has the realistic potential to make wealth holders more charitably inclined than they currently are.

Even if there were no supply-side effect and wealth holders continue to allocate their greater supply of wealth according to the same proportions as they did when they were less wealthy, this would lead to greater amounts going to charity. But as wealth grows, individuals allocate more to philanthropy. In other words, charitable giving, unlike other expenditures, is positively income and wealth elastic. For instance, economists state that above certain financial levels, consumption of food becomes less elastic. As disposable income goes up, the amount spent on food remains rel-
is different from expenditures for luxury goods, for instance, which are more highly elastic in relation to financial resources. But at some point, even luxury goods become inelastic. Transfers to children are generally elastic over a much broader range of increases in resources. But as we are increasingly hearing in the media and as the estate tax trends suggest, there is some point of increased resources at which wealth holders no longer choose to allocate more to their heirs, or at least begin to allocate lower proportions of their increased wealth to heirs.

That these supply-side effects are already manifested—but, of course, not proven—is clear from the comparison of the growth and changing allocations in final estates from 1992 through 1997, the last year for which data are available. For all final estates, the proportion going to charity steadily increased between 1992 and 1997. From 1992 to 1995, the value of final estates increased 17 percent, and the amount going to taxes also rose 18 percent. However, the amount going to heirs went up only 14 percent, while the amount bequeathed to charity grew 28 percent. Over the three-year period from 1995 to 1997, the shift from heirs to charity accelerated even more, so that for the six-year period 1992 to 1997, the value of final estates increased 65 percent (a dramatic finding in itself), with the amount going to taxes rising a comparable 67 percent. However, the bequests to heirs increased only 57 percent while charitable bequests grew 110 percent. The tendency to shift the allocation of estates to charity is even greater among those with estates at or above $20 million. From 1992 to 1997, the value of final estates grew 135 percent, the amount allocated to taxes increased 82 percent, and the amount going to heirs increased 75 percent. The increase going to charity was 246 percent, or 82 percent greater than the percentage increase in the value of estates.

These findings, although based on independent samples rather than longitudinal panel data, support the notion that charitable giving is highly elastic in regard to wealth and income. That is, as wealth increases, not only does the amount going to charity increase, but the proportion of resources allocated to charity also increases. In Chapter Three of this issue, Thomas Murphy exam-

ines the decision-making dynamics of wealth holders that undergird this elasticity of charitable giving. He maintains, correctly, I believe, that there is nothing automatic about a shift toward philanthropic giving in the presence of substantial financial wherewithal. One reason, explains Murphy, is that the translation of increased resources into increased philanthropy depends on the composition of a wealth holder’s assets—for instance, whether the assets remain tied up in a business enterprise. Nevertheless, says Murphy, growth in financial wherewithal does result in a potential positive effect for philanthropy for households once they are at or near their desired level of consumption and when additional sums for self, family, and investment have been accumulated at the desired level. When this point is reached, each new dollar added to available financial resources is—minus any tax obligations—a dollar available for philanthropy. The essence of the material side of the supply-side approach is that it is at such a point of subjectively defined financial security that wealth becomes an even more willing ally of philanthropy. But just how strong an ally depends on how deftly fundraisers and charities can mobilize such potential financial vectors by working with rather than against the motivational forces that I call the spiritual side of the supply side. These supply-side orientations of wealth holders that incline them toward charitable giving and the implications for fundraising are the topics covered in Chapter Two of this issue.

Notes

1. I am indebted to Peter Frumkin for alerting me to the fact that our projections of growth in wealth and their implications for growth in philanthropy are to be understood as a supply-side analysis.

2. Inter vivos transfers are transfers between living individuals.

3. Estimates of giving by various categories of wealth are based on the Survey of Consumer Finances sponsored by the Board of Governors of the Federal Reserve (Survey Research Center, University of Michigan, 1998). This survey counts annual contributions of less than $500 as zero.

4. The SWRI composite measure of giving supplements reports of annual giving of $500 or more from the 1998 Survey of Consumer Finances with reports of annual giving of less than $500 from the 1998 General Social Survey.

5. Our current estimate of the distribution of giving by family income is less skewed at the very highest levels of income than our previous estimate.
One possible explanation is variation in sampling. A more likely explanation is that the very large growth in family incomes in recent years has outpaced the family's ability to adapt their level of giving (in a prudent manner) to their new levels of income and wealth.

6. The wealth figure calculated by the SWRI was supported by Edward N. Wolff, an expert in wealth at New York University whose own estimate for 1999 was $23.1 trillion (Johnston, 1999). Subsequent to our wealth transfer number, the Federal Reserve released new survey data for 1998. Based on these data, we estimate that personally held wealth amounted to $30 trillion in 1998 instead of our earlier estimate of $32 trillion. A Federal Reserve newsletter (Federal Reserve Bank of Dallas, 1999) cites private wealth holdings of $36.8 trillion for 1998, 15 percent more than our previous estimate of $32 trillion.

7. Giving by families who have nonnegative wealth who gave at least $500 annually in 1997 is 92.654 percent of total annual giving by all families in 1997. This percentage must be applied to total giving in order to derive unbiased estimates of giving by joint income and wealth categories.

References

Paul G. Schervish is professor of sociology and director of the Social Welfare Research Institute at Boston College. During the 1999–2000 academic year, he served as distinguished visiting professor at the Center on Philanthropy at Indiana University.

The spiritual dimension of the supply-side analysis of philanthropy is discussed, along with the implications for tax policy and fundraising that derive from the analysis.

2

The spiritual horizons of philanthropy: New directions for money and motives

Paul G. Schervish

In Chapter One, I discussed the general difference between a demand-side and a supply-side analysis of philanthropy, the current patterns of charitable giving, estimates of the forthcoming wealth transfer, projections for charitable giving, and why we can expect a greater supply of financial resources for charity.

In this chapter, I discuss the spiritual aspect of the supply side and draw out implications for tax policy and fundraising that derive from the analysis in the two chapters. First, I differentiate the motivational models of the demand-side and supply-side approaches.

Acknowledgments: I am grateful to the T. B. Murphy Charitable Trust and the Lilly Endowment for their generous support of the research reported in this chapter. I am especially grateful to John J. Havens, whose careful empirical research is contained in the chapter, and to Mary A. O'Herlihy for her competent advice and assistance. Finally, I thank Lois M. Sherman for her courteous editorial work and my other colleagues at the Indiana University Center on Philanthropy—Dwight F. Burlingame, Patrick M. Rooney, and Eugene R. Tempel—who hosted me and provided the intellectual atmosphere that encouraged the development of the ideas in this chapter and the previous one.