“Philanthropy’s Indispensable Ally”

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Philanthropy's Indispensable Ally

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Most observers now recognize that lifetime giving understandably increases as people move up the economic ladder. For instance, the richest 1.2 percent of American wealth-holders contribute 28 percent of all charitable donations according to an analysis of Federal Reserve data by the Boston College Center on Wealth and Philanthropy (CWP).

But CWP research also suggests that it's not just the objective size of people's pocketbooks that matters but also their subjective sense of financial security. This result verifies a prophecy made over 70 years ago by the economist John Maynard Keynes, that as a growing economy secures more of our needs, people will look for more ways to give, or as Keynes puts it, "to be economically purposive for one's neighbor." It also reinforces the principle that anyone who wants to boost lifetime giving must also attend to what is required to promote strong and steady growth in the economy.

Financial security means trusting that, even in the face of major economic downturns, one's means will support one's desired standard of living for the indefinite future. For example, in CWP's 2001 High-tech Donor survey, one respondent, a cashed-out partner in a venture capital firm, defined his sense of financial security this way: "having a very, very low chance that you will go broke even if you don't have a job, given an acceptable lifestyle." He had reached this conclusion after his own financial planning had shown that, among thousands of possible future scenarios, "in only one time out of a thousand will we go broke given the lifestyle that we've chosen."

For people who feel such security, philanthropic decisions really are different. In a survey conducted a few years ago by CWP for Banker's Trust/Deutsche Bank, we found that, in addition to financial resources, financial security strongly determined charitable giving by the 112 respondents, all of whom had net worths of or above $5 million, and one-quarter of whom had net worths of or above $50 million. The survey asked respondents to rate their own financial security from zero to ten. (For the purposes of the accompanying charts, "Completely Secure" represents a ten on the ten-point scale, "Moderately Secure" eight or nine, and "Insecure" seven or less.)

The major results of our analysis appear in the nearby charts of annual giving. Chart A shows the results grouped by income and security, with charitable donations in absolute dollars and as a percentage of respondents' income. Chart B uses the same grouping and shows results as a percentage of respondents' net worth. Financially secure persons give greater average amounts to charity, a greater percentage of income, and a greater percentage of wealth. Charts C and D show similar results, this time grouped by net worth and financial security. The greater the level of financial security, the greater the average contribution, percentage of income contributed, and percentage of wealth contributed.

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Each chart tells a similar story. As respondents’ income or net worth grows, so does their charitable giving, but self-assessed security—over and above greater income or wealth—accompanies large increases in giving. For instance, respondents with significant net worth (over $15 million) who felt completely financially secure were likely to give five times as much of their income to charity as people with similarly substantial wealth who felt insecure. A similar difference emerges for people with significant incomes (over $1 million). To return to the venture capitalist from our previous study, once he realized he and his family were financially secure, he poured his energies into philanthropy because, he explained, “I’d like to see if I could affect thousands of people positively and meaningfully.”

A sense of financial security has a strong positive relation to charitable giving. Why? At the least, these findings reflect a growing ability and desire among people who have settled the economic question for themselves and their heirs to discern their discretionary resources and to invest that surplus in socially and spiritually purposive ways. For this reason, a growing and vibrant economy that fulfills the desires for family well-being is an indispensable ally of philanthropy.

A Note on Sources

Charts A, B, C, and D derive from the Wealth and Responsibility Study 2000, which was conducted jointly by the Center on Wealth and Philanthropy and the University of Massachusetts (Boston) Center for Survey Research. These statistics on annual giving were calculated by John Havens, Center on Wealth and Philanthropy. The survey’s target population was households with net worth of $5 million or more.