

FUNDRAISING Eugene Tempel, Paul Schervish, Patrick Rooney and John Havens

Insights On Giving

History foretells a fundraising recovery

There has been no shortage of uncertainty during the past two years concerning philanthropic giving. Fortunately, research on giving can help us understand what has been happening and what may lie ahead.

In December, 2002 the Center on Philanthropy's Philanthropic Giving Index (PGI), which surveys senior fundraisers' views of the climate for charitable giving, found that the overall index, the Present Situation Index and the Expectations Index all were at the lowest levels since the semiannual study began five years ago. They were even lower than immediately after September 11, 2001. Researchers believe the findings are primarily due to continuing concerns about the economy and to additional uncertainties related to the situation with Iraq.

The PGI also showed a few hopeful signs. The Expectations Index led the Present Situation Index by 16 points, a record difference between the two indexes. That means that fundraisers were optimistic that the giving climate might improve during the following six months. Development officers reported strong internal support for fundraising at their organizations and were moderately positive about volunteer fundraising.

These are signs that non-

profits are maintaining strong fundraising practices that will put organizations a step ahead when the economy picks up.

Anecdotal evidence from fundraisers remains mixed. Many face serious challenges or are working hard just to maintain giving at last year's levels, which may equal success under present conditions. Other organizations are meeting or exceeding fundraising goals.

The current international and economic climates don't help. Research by Independent Sector, the Center on Philanthropy, and others shows that people are less generous when they are uncertain about the future. Giving falls slightly during recessions, declining on average by about 1 percent per year after adjusting for inflation, according to Center on Philanthropy, analysis of *Giving USA* data published by the AAFRC Trust for Philanthropy. Conversely, giving generally grows fairly rapidly in non-recessionary years, increasing about 4 percent per year in real dollars in those periods.

It is important to stay focused on the long term. A look at the bigger picture shows that giving has continued to grow over time. According to *Giving USA*, total giving jumped from \$23 billion in 1971 to \$212 billion

in 2001 current dollars. Even when adjusted for inflation, total giving has more than doubled during the past three decades.

Research demonstrates that the state of the economy has an impact on charitable giving. Giving is very closely correlated with the economy, and several economic indicators are good predictors of giving. Holding other factors constant, research shows that the best predictors of personal giving, in order, are the change in the stock market (as measured by the Standard & Poors 500 Index) from the end of the previous year to the end of the year being examined, and the change in personal income during that time. Changes in the top marginal tax rate when they occur, changes in personal income during the prior year, and changes in personal giving in that preceding year are other important predictors of personal giving.

Center on Philanthropy analysis of *Giving USA* data finds that when the S&P 500 is down by 10 percent or more for the entire year, such as in 2002, it's approximately a 50/50 proposition whether giving will increase or decrease in that year.

We will know more about last year and what impact the stock market may have had when *Giving USA* figures for giving in 2002 are released by

the AAFRC Trust for Philanthropy in June 2003. Because of the current international climate, the chances for a decrease in charitable giving during 2003 may be somewhat greater, but of course we won't know the impact until that year's *Giving USA* figures are announced in 2004.

The current period of slow growth has raised a number of questions about whether the charitable boom period of the mid- to late-1990s was a flash in the pan. It wasn't. In 1999, the Boston College Social Welfare Research Institute (SWRI) projected that a minimum of \$41 trillion will be transferred via estates to heirs, charities, taxes and other recipients over the next half century even if real growth in wealth is only 2 percent instead of its historical level of 3 percent since 1950. If the historical rate of growth occurs, the transfer would be \$73 trillion.

This past January, SWRI researchers Paul Schervish and John Havens (see *NPT*, March 1, 2003) issued a new report revisiting their original estimates to assess the possible impact of factors such as the economic downturn, recessionary growth, and the swing in national wealth since their initial projections were released. As a result of their new validity study, SWRI researchers remain confident that the low-end \$41 trillion estimate that originally brought a wave of optimism

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to charities and fundraisers remains not only valid, but conservative.

Given current economic conditions, one of the more surprising findings the researchers reveal is that, contrary to expectation, personal wealth has not dropped significantly below the 1998 estimate of wealth on which the original report was based. Although the dramatic shrinkage in foundation endowments and the evaporation of the wealth of a few high-tech leaders have received a great deal of attention recently, a close look at the numbers shows that personally held wealth stood at about \$32 trillion in the second quarter of 2002. This is almost exactly where it was in 1998 when SWRI developed the original projection. Individuals rebalanced their portfolios so that the drop in stocks was offset in part, for example, by growth in real estate.

In view of these and other findings, SWRI researchers stand behind their projection that at least \$6 trillion and, if real economic growth is 3 percent, as much as \$12 trillion will go to charity during the next five decades via bequests from estates. When SWRI's estimate that just a 2 percent real growth in inter-

vivos charitable giving over the coming half century will produce an additional \$13.5 trillion in contributions is considered, there is every reason to believe we can still look forward to a new age of philanthropic opportunity.

Questions also have been raised about whether extraordinarily large gifts will continue or if they were an anomaly of the 1990s tech boom. The Center on Philanthropy now coordinates the Million Dollar List, a 30-year project begun by veteran fundraiser Arthur C. Frantzreb and compiled from standard media reports of many publicly announced gifts of \$1 million or more. The list is not comprehensive, but it allows tracking of patterns of the number of such gifts over time.

When gifts related to September 11, 2001 are excluded to allow comparison, the total number of gifts of \$1 million or more in 2002 was more than 30 percent less than the total for 2001 and more than 20 percent less than in 2000. The only publicly reported \$1 billion gift in 2002 was from the estate of Walter Annenberg, down from the record of six such gifts in 1999 and from three each year in 2000 and 2001.

While the number of the

very largest gifts on the list declined somewhat last year, and there were fewer gifts of \$1 million or more overall, the 31 gifts of \$100 million or more listed in 2002 was virtually the same as the 33 gifts of that level recorded the previous year. An average of 23 \$100 million-plus gifts per year was recorded between 1998 and 2000. During the preceding three decades, there were at most one or two each year.

Although the decline in the stock market has prompted concern about the future of very large gifts, they existed long before the stock market and philanthropy boom of the late 1990s and early 21st century. And, they have outpaced economic growth during the past 10 years. Nearly eight times as many \$100 million gifts are given in a year now as a decade ago, while the stock market as measured by the S&P 500 has doubled during that period. Therefore, the recent decline in \$1 million-level gifts likely is an episodic blip and that large gifts will increase again once the market has improved.

Historically, giving, like the economy, grows at a fairly healthy rate. Whether operating in a recession or a boom, economic research and information about historical giv-

ing trends can help us see where we are and where we've been and help us to develop an informed picture of where we are headed.

As the boom of the 1990s continued well beyond and above historical precedents, wise voices cautioned that we had not repealed economic recessions.

These days, it is important to remind ourselves that we have not repealed recoveries and the growth in charitable giving they spawn. ■

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