Philanthropy in the American Economy
A report by the Council of Economic Advisers

INTRODUCTION

The tradition of philanthropy in the United States appears to be as strong as ever. Americans are estimated to have donated a record $190.2 billion in 1999. Adjusted for inflation, this represents a 41 percent increase just since 1995, and a more than doubling since 1980. Americans also donated an estimated 20 billion hours of their time in 1998 by volunteering. In fact, over half (56 percent) of adults volunteered that year, the highest percentage in at least a decade. These gifts of both time and money help support an estimated 1.5 million nonprofit organizations and religious congregations in the United States.

Philanthropy also appears to be at an important crossroads in its evolution. Like our nation, it is becoming more diverse, with increased participation by women, minorities, and youth. Technology is also changing philanthropy, with the Internet providing new ways of giving. Moreover, new strategies are being used to increase the efficacy of charitable work, such as path-breaking partnerships between nonprofits, government, and business, and though new concepts in giving such as "venture philanthropy."

In October 1999, the White House held its first Conference on Philanthropy to highlight these trends in giving and to emphasize the importance of our philanthropic tradition and the responsibility of all Americans to teach and sustain that tradition. At the conference, the President asked that the Council of Economic Advisers prepare a report on the role of philanthropy in the economy and on ways to encourage Americans to give more.

This report begins....

RECENT TRENDS IN GIVING

Aggregate Trends

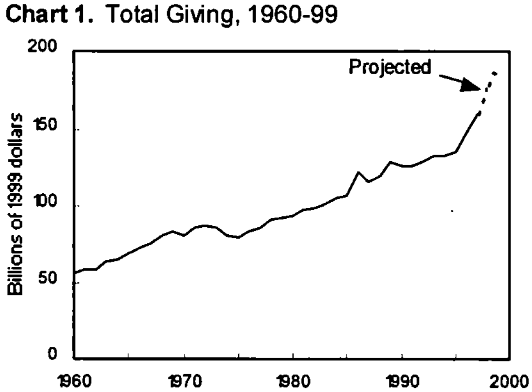
Philanthropic giving rose by over 40 percent between 1995 and 1999, to an estimated $190 billion. This was faster than aggregate economic growth, and giving as a share of GDP has increased to levels close to those last seen in the 1960s.

Total philanthropic giving has risen strongly in the past 5 years, increasing from $134.7 billion in 1995 to a projected $190.2 billion in 1999, using inflation-adjusted 1999 dollars (see chart 1).

The Independent Sector, *Giving USA*, 1999 edition. Giving by individuals and corporations in the years 1998 and 1999 are based on projections by *Giving USA*. Individual giving is projected based on growth in personal income and the stock market. Corporate giving is projected based on trends in corporate income and giving by corporate foundations. Nominal figures were inflation-adjusted using the CPI-U-RS series where available (1977 to 1999) and the CPI-U series for prior years. *Giving USA*, on the other hand, uses the CPI-U series only, so its inflation-adjusted figures differ somewhat from those presented here.

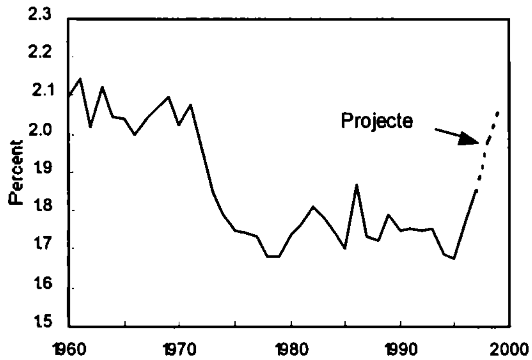
Among the four sources of philanthropy—individuals, charitable bequests, foundations, and corporations—foundation giving increased the fastest during this period, rising 72 percent from $10.6 billion in 1995 to $19.8 billion in 1998. Individual giving, which represents the largest component of total giving, grew the most in dollar terms, rising almost $50 billion in the 1995-99 period. As a result, the vast majority (over 70 percent) of the *increase* in total philanthropy during this period came from higher levels of giving by individuals. Giving by foundations, in turn, accounted for 15 percent of the increase, while corporations and bequests each accounted for 5-7 percent of the increase.

Chart 1. Total Giving, 1960-99



Of course, all philanthropy can be traced back to individuals in one way or another. Besides providing direct gifts to nonprofits and charities, for example, individuals provide the seed money for foundations and individuals (employees or other stakeholders) provide the resources for corporate giving.

Chart 2. Giving as a Share of GDP, 1960-99



Since 1995, growth in charitable giving has outpaced growth in the overall economy, raising the level of giving relative to the Gross Domestic Product (GDP)—a widely-used measure of the size of the economy (see chart 2). This recent increase has reversed a decline in the early 1970s that left charitable giving fluctuating in a range around roughly 1.75 percent of GDP for two decades. At a projected 2.1 percent in 1999, giving as a share of GDP has come back close to where it was in the 1960s.

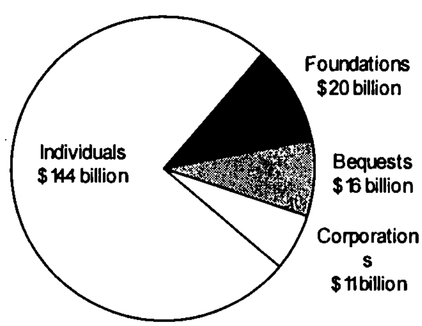
As discussed later in this report, the strong economy since the mid-1990s has been an important factor in the recent increase in the level of giving. During the 1995-99 period, the economy grew at an annual rate of 4.1 percent, the unemployment rate averaged 4.9 percent, and inflation remained low. These factors helped give Americans more money to spend, save, invest, and donate to the causes they support. The increase in giving relative to the size of the economy reflects strong growth in income and especially wealth among individuals. The rising stock market has also increased the assets of foundations, and, because of legally required minimum distributions, the amount that foundations have given.

Sources and Recipients

Individual giving remains the primary source of American philanthropy.

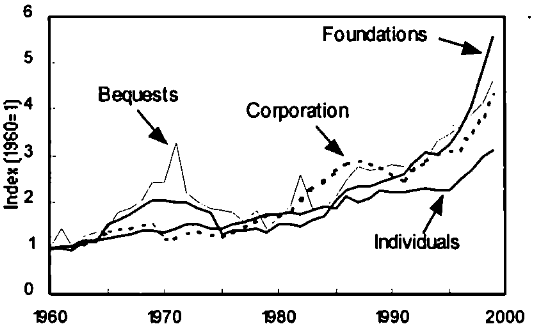
Individuals provide about three-fourths of all giving, with the rest coming from foundations, bequests, and corporations (see chart 3). Giving among all the sources has risen substantially in dollar terms over time, even adjusted for inflation (see chart 4). Since 1960, for example, giving by foundations has increased five-fold while giving by bequests and corporations have about tripled. [How much of the increase in foundation giving comes from required payout? Also,

Chart 3. Sources of Giving, 1999



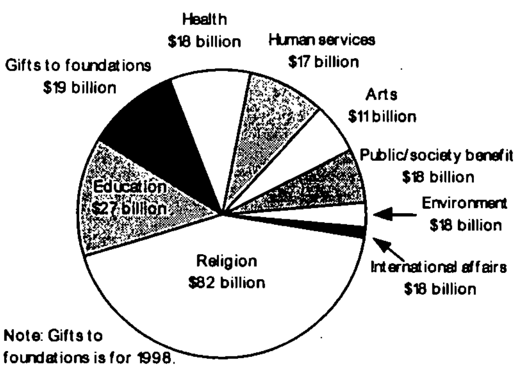
investigate bequest peaks.]

Chart 4. Trends in Real (Inflation-Adjusted) Giving by Source, 1960-99



Religion is by far the single largest recipient of contributions.

Chart 5. Recipients of Giving, 1999



Contemporary philanthropy supports a wide range of activities and causes. Data on the recipients of philanthropy are divided into nine categories, including religion, education, health, human services, the arts, public/society benefit, the environment, international affairs, and foundations. By far the largest recipient of philanthropy is religion, with 42 percent of giving in 1998 going to religious organizations (see chart 5). Giving to education, foundations, and health also are prominent recipients of contemporary philanthropy.

Almost all giving to religion comes from individuals rather than from institutions (foundations and corporations)**[are there legal restrictions?]**. Moreover, an estimated two-thirds of gifts to religion are used for sacramental purposes—that is, to support congregations' religious activities.

The Independent Sector, *Giving USA*, 1999 edition. These categories are straight-forward except for two: human services includes groups focused on crime prevention, youth services, sports, housing, disaster relief, nutrition, and vocational training, among other issues. Public/society benefit includes organizations involved in civil rights, scientific research, public policy, consumer protection, and community development.

In this section and the next, data on shares of giving are presented through 1998 because complete 1999 data on giving by recipient (in particular, data on giving to foundations) are not yet available.

From a broader perspective, this means that one out of every three dollars of total philanthropy in the United States goes towards sacramental activities.

The rest is used for other purposes, including approximately 4 to 15 percent to the help the needy **[find out why the range].**

The landscape of philanthropy changes considerably when giving to religion is removed from total giving. Foundations and corporations play a more prominent role in non-religious giving than they do in total giving. Foundations provided an estimated 18 percent of non-religious giving in 1999 and corporations provided 10 percent. These are larger than the 10 percent of all giving that came from foundations and the 6 percent that came from corporations when religion is included.

All categories of recipients gained in dollar terms during the 1990s, but the shares of different categories have changed, with, for example, religion declining in relative importance and gifts to foundations and education increasing in relative importance.

Chart 7. Percent Growth in Giving, 1990-99*

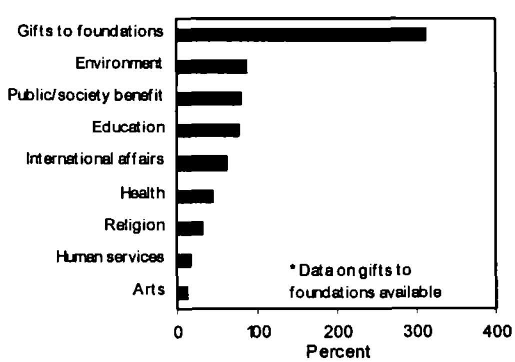
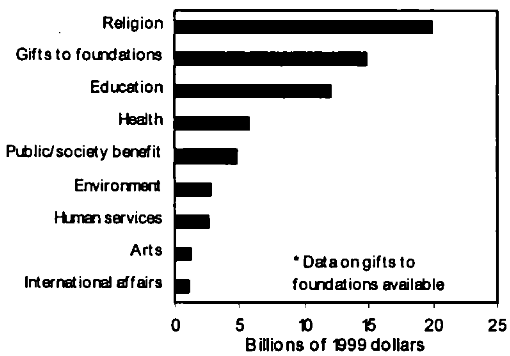


Chart 6. Dollar Growth in Giving, 1990-99*

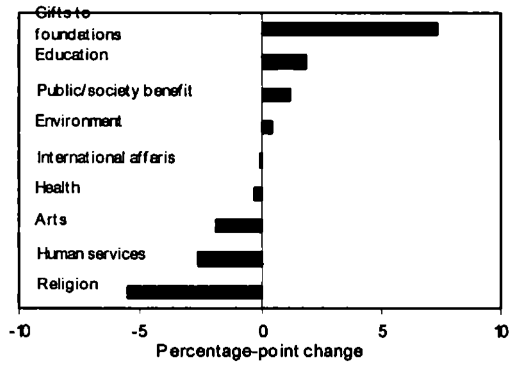


Every category of recipient experienced growth in real (inflation-adjusted) dollars in the 1990s, but the rate of growth varied substantially across categories. For example, religion experienced the largest dollar gain (see chart 6), but gifts to foundations experienced the fastest rate of growth (see chart 7). The tripling of gifts to foundations between 1990 and 1998 contributed to the increased importance of foundations as a source of giving. In fact, 30 percent of the rise in giving between 1990 and 1998 came from higher gifts to foundations, compared with only about 6 percent of the increase during the 1980s.

Gifts to religion rose by more than $18 billion between 1990 and 1999. However, the rate of growth of giving to this category was relatively slow and religion's share of total giving declined (see chart 8). In recent years, giving to foundations, education, and public/society benefit organizations have grown as a share of total giving.

Chart 8 uses data through 1998 because data on gifts to foundations are not yet available for 1999 and therefore an accurate calculation of the change in share of giving is not possible for 1999.

Chart 8. Change in Share of Giving, 1990-98

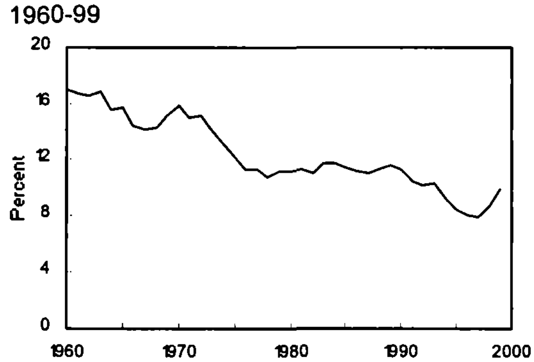


Over $10 out of every $100 donated in the United States in 1998 went to foundations, up from less than $4 in 1990. Gifts to foundations rose as a share of total giving (and in dollar terms) due to large increases in gifts to existing foundations as well as to an exceptional number of new foundations created during the 1990s. In fact, one-third of all active foundations today were formed during the 1990s, far exceeding any prior decade. [may want to note particular growth of community foundations.]

The shares of giving to two other categories—education and public benefit organizations—have also had significant (though less dramatic) increases in the past decade or more. Giving to education rose from about 11 percent of total giving in 1989 to almost 14 percent in 1998. The bulk of giving to education goes to higher education, while giving to higher education, in turn, tends to track the performance of the stock market in the short run and the overall economy in the longer run. Thus, economic growth and strong increases in the stock market help to explain education's increased prominance in philanthropy. Giving to public/society benefit organizations rose from 3 percent of 1986 to almost 6 percent in 1998. This category includes donations to community development efforts, women's funds, scientific research, and civil

Council for Aid to Education/RAND as cited in Giving USA 1999 page 76-77 rights organizations, to name a few. One reason for the growing importance of funding to this category is that, according to the Independent Sector, the number of public/society benefit organizations formed since the mid-1980s (at least through the early 1990s) grew at a faster pace than the nonprofit sector overall. [can we say more? See p.93 of Giving USA for leads.]

Chart 9. Human Services' Share of Giving, 1960-99



Finally, an important longer-term change in the landscape of philanthropy has been the decline in the share of giving going to human services (see chart 9). This category includes many social-welfare agencies typically included in local federated-giving drives such as United Way, although it also includes activities not necessarily focused on the poor (for example, disaster relief). Human services was the second largest recipient of philanthropy in 1960, behind giving to religion. By 1999, however, it was only the fifth largest, behind giving to religion, education, gifts to foundations, and health. This is true despite the fact that the share of giving to human services has increased by two percentage points since 1997.

How Much of Philanthropy Goes to the Poor?

Only a fraction of philanthropy is traditional "charity" for the poor – roughly $XX billion per year, or X percent of total giving. Although this level of funding is much smaller than public assistance efforts, the private safety net plays an important role in funding charities which help the poor.

The words "philanthropy" and "charity" are often used synonymously, but in reality only a small portion of philanthropic giving is used to help the poor. The category most closely aligned with traditional charity is human services, which represented about a tenth of total giving in 1999. Only about 40 percent of giving to human services, however, is used to assist the poor – a sum of about $7 billion in 1999. A portion of giving to religion also goes to the poor. [Fill in details.. religious organizations provided between $2 billion to $6.6 billion in 1991 in aid to the poor, or between 4 percent and 15 percent of their total budgets.] Therefore, combining these sources of giving to the poor, a rough estimate is that about X percent, or $XX billion, of philanthropy is used to support low-income individuals and families.

Private giving comprises an important component of the safety net in the United States, providing funding for private charities that serve the homeless, provide job training, and a variety of other functions which assist the poor. It is very unlikely, however, that private charity could substitute for government assistance. Government spending (including at the federal, state, and local levels) on programs directed toward low-incomes families is about $XXX billion per year. Moreover, private charities themselves rely heavily on government funding. For example, data from the early 1990s shows that half of all revenues of nonprofit social and legal services came from the government, while 20 percent comes from private donations (see below for further discussion of nonprofit revenues). Cutting government funds to the poor, therefore, would likely make it harder for charities to maintain their current level of services, let alone take on a larger role to compensate for cuts in public assistance.

Some have argued that government efforts to assist the poor largely displace private giving, or that cuts in public anti-poverty programs would be compensated for by greater giving. The evidence indicates that private contributions would make up only a small portion of decreased public spending on public assistance programs. For example, the largest scale study on this topic examined the responsiveness of donations to social service organizations to changes in government spending over the past forty years. The results show only a modest relationship: Giving to social services declined by 38 cents for every extra dollar of federal spending, while giving to state and local social services actually rose eight cents for each extra dollar of federal spending. Cuts in spending, therefore, are likely to elicit similarly modest responses in charitable contributions.

Today, most philanthropy is given to nonprofit organizations which often act as intermediaries between donors and final recipients. The nonprofit sector consists of a diverse group of 1.5 million organizations. Philanthropy plays an important role in the funding these organizations, with about a fifth of nonprofit revenues coming from private donations, on average.

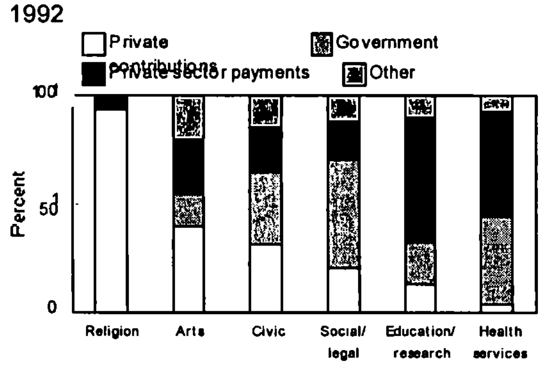
A century or more ago, philanthropy largely consisted of donations given directly to the poor or sick, often with a religious tract in hand. Today most giving does not involve a direct contribution, but rather uses an intermediary, nonprofit organization. In fact, approximately X-thirds of giving is channeled through nonprofits, including religious congregations, foundations, public charities, and other tax-exempt organizations. This section provides an overview of the nonprofit sector and the role which philanthropy plays in supporting it.

The nonprofit sector consists of approximately 1.5 million organizations, according to data from 1996 [all data in this section comes from '96; check w/ UI for update]. Most are small organizations and the sector is characterized by its diversity of types, roles, missions, and financial capacities. These organizations play a major role in many key institutions in the United States. To take a few examples, more than half of hospitals are nonprofits, as are 58 percent of social service providers and 46 percent of colleges and universities.

Most nonprofits are tax-exempt organizations registered with the Internal Revenue Service, while another 341,000 are religious congregations that are eligible for tax-deductible deductions but are not required to register with the IRS. Of the 1.2 million registered nonprofits, about half are recognized by the IRS as "charitable" organizations, tax-exempt under Section 501(c)(3) of the tax code and are eligible for tax-deductible contributions. Another 140,000 nonprofits are considered "social welfare" organizations tax exempt under section 501(c)(4); these are public service organizations that are not eligible for tax deductible contributions but can do substantial lobbying.

These two groups, 501(c)(3)s (including religious congregations registered with the IRS) and 501(c)(4)s, comprise what is commonly known as the "independent sector." The independent sector plays a significant role in the economy, with an estimated $621.4 billion in revenues in 1996, representing 6.2 percent of the national economy that year (compared to 4.2 percent about two decades earlier). The sector employs over 10 million workers and another 5.7 million full-time equivalent volunteers.

Chart 10. Finances of Nonprofit Subsectors, 1992



Philanthropy plays an important role in the funding of nonprofits, with about a fifth of nonprofit revenues coming from private donations. Different subsectors, however, rely on private donations in varying degrees, according to data from 1992 (see chart 10). For example, donations represent almost all of the funding of religious organizations but only a small fraction of funding for health services. Other sources of funding include the government which provides about a third of nonprofit revenues, including half the funding of social service organizations. The other major source of nonprofit revenues is private sector payments, generated through program service fees.

Over the 1990s, the proportion of private donations decreased somewhat (even as donations in dollar terms grew) due to the fact that government and fee revenues increased at a faster pace than donations. This matches a longer-term trend, with private giving decreasing from 26 percent of nonprofit revenues in 1977 to 19 percent in 1996. [more analysis here? Implications of this shift – especially towards fees…]

THE CHARACTERISTICS OF INDIVIDUAL GIVERS

Individuals use a variety of methods to give, including giving cash, making charitable

purchases, and providing in-kind gifts. Giving through the internet is still in its infancy, but it is likely to play an increasingly important role in philanthropy.

Survey data show that a typical contributor uses three or four methods to contribute. In 1998, for example, an estimated 84 percent of contributing households gave in-kind goods such as of food or clothing while 80 percent purchased goods or services sold by an organization to raise money. Another 79 percent made a contribution of cash or by check to an organization. The survey also found that 1 percent of contributors used the Internet to make a financial contribution. Anecdotal evidence suggests, however, that the Internet is paying an increasing important role in as an intermediary between donors and charitable organizations (discussed further in the section "The Future of Philanthropy."

Personal giving is a broad-based institution, with families at every level of income being about equally generous. Nonetheless, a disproportionate share of giving comes from high-income families.

Charitable giving in the United States is a tradition practiced by a broad segment of the nation, with an estimated 70 percent of households reporting a contribution in 1998. Even among those with incomes of under $10,000, almost half (47 percent) made a charitable donation. As incomes rise, the percent of households that make a charitable contribution increases. Among those with incomes over $100,000, for example, an estimated 88 percent made contributions. Other data, focused on families, shows that about virtually all of the highest-income families (those over $150,000) make donations.

Higher income households have greater financial freedom to make larger philanthropic contributions. For example, according to national survey data from 1996, households with the lowest incomes (under $10,000) gave $139, on average, while those with incomes of $50,000 to $59,999 gave $856, and those with the highest incomes of $100,000 or more gave $2,994. Somewhat surprisingly, however, Americans across a wide range of incomes levels tend to give about the same percentage of their incomes to philanthropy. Specifically, the 95 percent of families with incomes under $100,000 all tend to contribute roughly 1.5 percent to 2 percent of their incomes, on average. Families with incomes above this level tend to contribute a higher percentage of their incomes. For example, it has been estimated that families with incomes over $1 million donate 6 percent of their incomes, on average.

Although giving is a broad tradition in the United States, a small fraction of high-income families make a disproportionately large share of charitable contributions. For example, the seven percent of the families with the highest incomes (over $100,000) contributed about half of

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Giving and Volunteering in the United States 1996. That year, the average household contributed $754, or about 1.7 percent of total household income.

Giving and Volunteering in the United States 1996. These statistics are for all households, including those who gave nothing. Focusing only on contributing households, those with incomes under $10,000 gave $295; those with incomes of $50,000 to $59,999 gave $1001; and those with incomes over $100,000 gave $3,379.

This statistic includes families who have nothing to charity.

Schervish and Havens, Wealth and the Commonwealth all charitable dollars, according to data from the mid-1990s. Moreover, the top one percent (families with incomes over $260,000) donated about 33 percent of total charitable dollars. [Note that Auten et al. (2000) says 1 percent of *households* gave 16 percent (page 392). OK to focus on families instead?] Families with incomes under $50,000, on the other hand, gave about 20 percent of the total.."

The types of organizations to which donors contribute differ systematically by income level, with top earners focusing more on higher education and lower earners focusing more on religious giving.

Donors with different income levels tend to support different types nonprofit organizations. For example, in comparison to other tax payers, the wealthy devote a much smaller share of their contributions to religious organizations and a much larger share to education, health, and the arts and culture. [Fill in details form Treasury source used in last WEB philanthropy piece.]

A look at the distribution of contributions by the largest givers is provided by data collected by Slate, a web-based publication. Relying largely on newspaper accounts, Slate compiles lists of the largest gifts each year. According to its findings from the top 90 gifts in 1996 (worth about $1.5 billion in total), medical research and higher education were the prominent recipients of these large gifts. About 17 percent of total value of the gifts went to medical research institutions or medical centers, 56 percent funded other types of higher education, 8 percent went to private foundations, and the rest funded other types of recipients. Of note is that fact that few large gifts were given to organizations which serve the poor directly, suggesting that the redistributive component of these gifts may be small. However, the limited nature of the data makes it difficult to calculate the actual redistributive impact. Some donations to higher education, for example, may have supported financial aid programs for the disadvantaged, while some donations to medical research may have helped fund research on diseases that disproportionately affect the poor.

Although the average contribution increases as household net worth increases, it does not increase in proportion to wealth. This may be because donors tend to make lifetime charitable contributions from their incomes, while making contributions from their wealth through their estate planning.

Families with positive net worth of less than $10,000 contributed an average of 5.1 percent of their net worth to charitable causes, according to a recent study. But surprisingly, families with

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Charitable bequests are even more concentrated than charitable giving, with the wealthiest 1.4 percent of decedents accounting for about 86 percent of all charitable bequests in 1994. Moreover, as a class, the wealthy are almost entirely responsible for the existence of private foundations. See Gerald Auten, Charles Clotfelter, and Richard Schmalbeck "Taxes and Philanthropy Among the Wealthy" in Joel Slemrod, editor, *Does Atlas Shrug?* Harvard University Press, 2000. Page 392

This paragraph based on results from Slate presented in Gerald Auten, Charles Clotfelter, and Richard Schmalbeck "Taxes and Philanthropy Among the Wealthy" in Joel Slemrod, editor, *Does Atlas Shrug?* Harvard University Press, 2000. Page 406

Schervish and Havens, Wealth and the Commonwealth net worth of $10 million or more contributed only 0.5 percent of their net worth. (It should be noted that 5.1 percent of the net worth contributed by families with wealth under $10,000 represents only 0.02 percent of income.)

One possible explanation for this finding is that people tend to make charitable contributions primarily from their incomes (and possibly liquid assets) during their lifetimes and make charitable contributions from their wealth via their estate planning. High levels of wealth may therefore provide donors with sufficient security to make larger contributions from their incomes during their lifetimes, but unless that wealth is accessible and deemed discretionary, such wealth may not translate into inter vivos giving.

Although the average percentage of net worth contributed to charitable causes tends to decline as net worth increases, the relatively few families with high levels of wealth give a disproportionately large share of total contributions. According to "Wealth and the Commonwealth," for example, the 3.2 percent of families with a net worth of $1 million or more in 1994 contributed 46 percent of total contributions that year.

Giving patterns vary significantly by other demographic characteristics besides income, including age, education level, race, and gender.

One way to examine patterns in giving by different demographic characteristics is to calculate simple correlations between demographic characteristics and levels of giving. This is done below using two sources: The 1996 edition of *Giving and Volunteering in the United States* (referred to hereafter as *Giving and Volunteering*), a nationally representative survey which asked households about their giving behavior during the previous year, in 1995; and the 1995 Survey of Consumer Finances (SCF), a triennial survey conducted by the Federal Reserve. The SCF focuses on larger donors, since it counts only giving levels over $500 per year. Results from a CEA analysis using this regression analysis with data from the 1998 Survey of Consumer Finances are also discussed below. Regression analysis is a more sophisticated technique to investigate the effect of a given demographic characteristics on giving, holding other variables (such as income) constant.

Giving by age. ***Older households (those over age 65) at every level of income are generous givers. They also tend to make larger contributions in terms of both donation size and as a percentage of their incomes than younger households.***

The percent of households making a donation in of any size in 1995 rose with age from 67 percent among those aged 25-34 to 79 percent among those aged 45-54, according to *Giving and Volunteering*. Rates of giving then declined among older age groups, reaching 62 percent for households of age 75 and over. Results from the 1995 SCF, which pertain to donations of $500 or more, shows a similar pattern of giving by age: 15 percent of households aged 25-29 made a donation of $500 or more in 1995, a level which rises to 40 percent among those aged 45-49 and then declines among older ages, reaching 23 percent among households aged 80 and over. Overall, a higher percentage of elderly households (32 percent) made contributions of $500 or more in 1995 than did non-elderly households (29 percent).

Elderly households not only appear to give more frequently, but they also give more than younger households, on average. For example, SCF data show that among elderly households who gave at least $500 in 1995, the average annual contribution was more than twice as large ($5,102 versus $2,255) non-elderly households. [Note that G&V data show highest dollar amount in age 55-64 range, not among elderly.] These figures include only lifetime giving and do not include bequests. Moreover, even when controlling for income, generosity tends to rise with age. For example, elderly households contributed 5.2 percent of their incomes, while non-elderly ones contributed 1.4 percent.

Giving by education level. ***Giving rises significantly among more educated households in terms of the percentage of households making contributions, the dollar amount of those contributions, and the percentage of household income donated.***

About 67 percent of respondents with a high school degree, but without a college education, reported making a donation in 1995, according to *Giving and Volunteering*. Among donors, the average household gave $765 or 1.8 percent of household income. A higher share (76 percent) of households with some college education (but not a degree) reported making a donation, with an average level of giving among donors of $1,052, or 2.2 percent of household income. Giving was even higher for those with a college degree: 83 percent of households gave on average of $1,720, or 2.8 percent of household income--a percentage point higher than for those with only a high school degree.

A similar trend of higher giving among those with more education is found in 1995 SCF data. In fact, giving appears to be particularly high among those with graduate school training – a subcategory unavailable in data from *Giving and Volunteering*. Almost 60 percent of respondents with some graduate school education reported annual family contributions of over $500, almost double the percentage of any other education group. Moreover, the average annual gift among donors was $5,342 (or 3.5 percent of family income), or about $2,500 higher than that for those with only a college degree (who donated 2.0 percent of family income).

Giving by race and ethnicity. ***Summary here.***

Minority households appear to be an underutilized source of philanthropy in the United States. African Americans and Hispanics are not asked to give as often as whites, but are more than twice as likely to give when asked than when not asked (compared to whites who are only slightly more likely to give when asked). At last part of the explanation for this outcome, however, may be accounted for by the lower average incomes – and therefore lower dollar donation levels -- of these minority groups. Even so...

Experts on philanthropy in minority communities have also emphasized that minority giving is

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As a proportion of their wealth, on the other hand, both elderly and non-elderly households tend to contribute a similar amount: elderly households gave 0.5 percent of their wealth, while non-elderly ones gave 0.4 percent.
See KSG individual giving page 8

less likely to be counted in existing data on giving [fill in more details]. While keeping these caveats about the data in mind, nationally-representative survey evidence from *Giving and Volunteering* is likely to provide the most accurate picture available of giving among different groups. The results show that giving behavior varies significantly by race: A higher percentage of whites (73 percent) reported making household contribution in 1996 than blacks (53 percent) or Hispanics (57 percent). Giving was also higher in dollar terms and as a percentage of income among white households. White households, for example, gave 1.8 percent of their income to philanthropy in 1995, compared to 1.1 percent for blacks and 0.9 percent for Hispanics.

Data on larger givers from the SCF show similar findings in terms of participation rates, dollar amounts given, as well as percentage of income donated by race. Interestingly, however, the data also show that Hispanic households as well as (non-Hispanic) African Americans households give a larger share of their *wealth* to philanthropy than white households do. According to the data, whites gave 0.4 percent of their wealth to charitable causes, according to the survey, while Hispanics 0.5 percent and African Americans gave 0.7 percent. [Add more info and analysis.]

Giving by gender. ***According to survey evidence, women give more frequently, and make larger contributions relative to their incomes, than men.***

About 71 percent of female respondents reported making a contribution 1995, with the average contribution among donors being 2.3 percent of their incomes, according to *Giving and Volunteering*. In contrast, only 65 percent of men reported making a contribution, and the average contribution as a share of income was a smaller 2.1 percent. [Analysis?] Among donors, however, men gave more in dollar terms ($1,057 versus $983) than women did – a result likely linked to the higher average incomes of men.

Women also appear to donate to different causes than men, according to limited evidence on the subject. A small-scale study of the giving patterns of wealthy donors found that women are much more likely to support social services than men, with almost half of women respondents reporting a contribution in this area compared to only about a fifth of men. On the other hand, men were more likely to support education, with three-fourths making a donation to education compared to only 57 percent of women. The study also found that women were also more likely to support cultural activities and the environment, men were more likely to donate to religion, and both sexes supported health about equally.

MOTIVATIONS & DETERMINANTS OF PERSONAL GIVING

An equally important but more complicated set of issues, beyond those of the demographic characteristics of givers discussed above, relates to the personal motivations behind individual giving, and how changes in income, the price of giving, and the perceived needs of society affect donors' behavior. Any analysis of the motivations for giving is necessarily speculative, due to the difficulty in accurately capturing individuals motivations through surveys or by inferring motivations from donors behavior. This section begins with a summary of the research on the motivations behind philanthropic giving. It next examines the focus of much of the economic research on the determinants of giving. This research focuses particularly on how changes in incomes and price affect giving patterns, and helps to answer questions such as "Do tax rates affect philanthropy?" and "By how much does giving rise, on average, when an individual's incomes increases?"

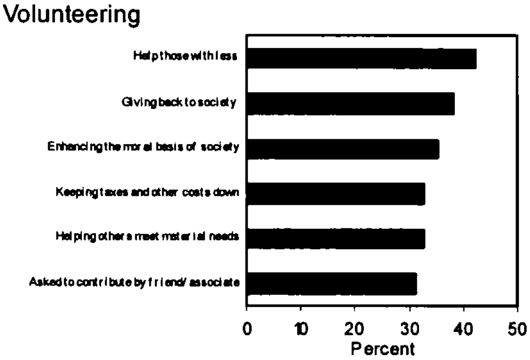
Survey evidence shows that important motivations behind giving include a desire to help others and to give back to society, as well as to reduce one's taxes.

The most direct way of examining donors' motivations is through surveys asking individuals why they donate. The largest survey on this issues is the Independent Sector's biennial report *Giving and Volunteering in the United States*, which uses a nationally-representative survey, including a list of eight possible motives for giving and volunteering. (The survey does not ask about motivations for giving separately.) Respondents are asked whether each motive was a major or minor motivation for giving or volunteering, or not a motivation at all. Results from the 1996 survey (the most recently available) show that "Feeling that those who have more should help those with less" was the most frequent "major motivation" for giving and/or volunteering (see chart X). In fact, almost 80 percent of respondents cited this motive as one of their major *or* minor motivations. Other major motives included "Giving back to society some of the benefits it gave you" and "Enhancing the moral basis of society." Financial considerations were also important to many, with a third of respondents citing "Keeping taxes and other costs down" as one of their major motivations and two-thirds citing it as either a major or a minor motivation. This financial motivation likely relates to giving rather than volunteering, because of the tax deductibility of contributions for those who itemize their tax returns.

[Use Auten et all for other survey evidence.]

Giving and Volunteering in the United States, 1996 edition. Two motives not included in chart X, due to space limitations, were "Making good use of your free time" and "Being encouraged by an employer." These motives were major motivations for giving and volunteering for 33 percent and 14 percent of respondents, respectively.

Chart X. Major Motivations for Giving and Volunteering



These survey results show that helping the less fortunate is an important motivation for many in terms of their donations and volunteering. It is not apparent how these findings mesh with the findings, discussed above, that only about X percent of giving goes to the poor. [add stuff here] One possibility is that, in describing their motivations for giving, individuals tend to overlook contributions to religious congregations (the majority of the average individual's giving) and instead focus on more traditional "charity" such as giving to the United Way or Salvation Army.

Besides the underlying motivations for giving, survey evidence also shows that certain events or circumstances also motivate individuals to give. Survey evidence from *Giving and Volunteering in the United States* shows that being personally asked to give is the most effective way to recruit donors. For example, more than three-fourths of respondents in 1999 cited making a contributions the previous year because they were asked to give by someone they knew well. The second most important reason for giving, cited by over 60 percent of respondents, was having volunteered at an organization (to which the respondent, it is assumed, made a donation). In fact, over the past six editions of the survey (spanning from 1988 to 1998), contributing households in which the respondent reported volunteering in the previous year also reported giving more than twice the percentage of household income as contributing households in which the respondent did not volunteer. This results could explain a portion of the upward trend in giving: Because the survey also found a higher percentage of Americans volunteered in 1998 than in at least the last decade, this upward trend in volunteerism may have helped to boost giving as well. Finally, other common reasons for giving included being asked by clergy to give, reading or hearing a news story, or after being asked at work to give.

The survey results also other notable factors which affect people's propensity to give. As discussed below, for example, childhood events such as volunteering or being active in student government appear to be important predictors of later giving. Another finding is that a higher percentage of respondents give (and give a larger share of their household incomes) when they feel more financially secure. For example, those who reported worrying about money in 1998 contributed 1.7 percent of their household incomes to philanthropy, while those who did not worry contributed 2.8 percent. While the connection between financial security and giving is expected, the results nonetheless underscore the fact that a strong economy is often a primary factor that leads to increases in average household contributions. Fewer respondents reported worrying about their finances in 1998 compared to the two previous surveys (1996 and 1994). [But note that according to the surveys, a smaller percentage of Americans made a donation in 1998 than in 1993, 1991, 1989, or 1987. Average contribution not higher than 1991 either. On the other hand, individual giving from AAFRC estimate (IRS data combined with above survey results) up 35 percent since '93] ...increasingly strong economy over the 1990s has allowed households to look beyond their own material well-being and give more to philanthropy [?].

[language to possibly add/adapt] … contributing households with at least one family member who volunteers give a much higher percentage of their household income (2.5 percent) than those that do not have a volunteer (1.2 percent). In fact, the past six surveys conducted by the Independent Sector -- spanning the years 1988 to 1998 – have found that contributing households with a volunteers give more than twice the percentage of household income than those who did not volunteer. In 1998, almost half of households contributed and had a volunteer. Part of the connection between giving and volunteering appears to come from the fact that individuals often donate to organizations with which they are involved.]

Economists have focused on three factors that have the potential to affect philanthropy. The first is the financial resources in the hands of the population—that is, individuals' or families' disposable income and wealth. As income and/or wealth increases, philanthropic giving would be expected to rise as well, holding other factors constant. Thus, income and wealth levels can

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On a related note, economic factors comprised all four of the top reasons non-contributing respondents cited for not donating in the previous year, including "not being able to afford to give money" and "making less money than last year."

See Edward Wolff "The Economy and Philanthropy" Charlet Clotfelter and Thomas Ehrlich, editors *Philanthropy and the Nonprofit Sector in a Changing America.* Indiana University Press, 1999.

therefore be thought of as the "supply of charitable contributions." The second factor is the cost or price of giving, given that households who itemize their tax returns can deduct their charitable contributions on their personal income tax return. The charitable deduction lowers the cost of giving, so that the net cost is one minus a household's marginal tax rate. Thus, giving would be expected to rise as the result of an increase in tax rates, or fall when tax rates fall (again, holding other factors constant). The third factor can be thought of as the "demand for charitable contributions," and relates to perceived needs of society. For example, if the poverty rate rises, giving to human services may increase as donors increase their generosity in this area to help the poor.

Economic studies of giving have largely focused on the first two factors in their statistical analyses of giving, usually referring to these factors as the "income effect" and the "price effect." In fact, most economic research on giving (as in other areas) has avoided trying to determine individuals' underlying motivations and have instead focused on how changes in prices and incomes affect behavior. Moreover, only limited research has examined how the perceived demand for contributions affects giving.

Before examining the statistical analyses, however, it should be noted that these factors may affect the decision whether, when, or how much to give, but they do not necessarily

THE FUTURE OF PHILANTHROPY

Introduction here.

Summary of VC

The term "venture philanthropy" refers to a new and burgeoning form of grant-making that utilizes strategies from the for-profit investment world to build organizational capacity of grant recipients. Often, these efforts are patterning after the techniques of venture capitalists, who have been the source of funding for many high-tech start-ups in recent years. The idea of applying venture capital techniques to philanthropy has its roots in a 1997 Harvard Business Review Article which argues that the venture capital model can act as a starting point for foundations that want to help nonprofits develop the organizational capacity to sustain and expand successful programs. Along with financial support, venture capital firms often provide non-cash assistance such as coaching a startup's senior management. They also usually stay engaged with a start-up for five to seven years, proving funding and assistance to help the young company grow. Finally, venture capitalists have a strong stake in the success of the companies in their portfolio, since their financial reward depends on it. The article concludes that foundations could adopt certain venture-capital-like practices to boost their own returns to investment, by, for example, focusing more on longer-term investment, providing funding

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Christine W. Letts, William Ryan, and Allen Grossman, "Virtuous Capital: What Foundations Can Learn from Venture Capitalists," *Harvard Business Review*, March-April 1997.

greater to nonprofits for capacity building, and establishing evaluation metrics to help determine [examine].

Today the concept of venture philanthropy is being tested in a variety of ways. Some wealthy donors, many from the field of technology, are applying their business skills to their own charitable giving, often though funding bodies, known as social venture funds. These funds apply for-profit techniques (especially venture capital practices) to the nonprofit realm in order to maximize investor value and impact. A recent overview of the venture philanthropy field by the Morino Institute emphasized the fact that no uniform methods currently exists to merge philanthropy and venture capital practices. Some funds support social entrepreneurs, others invest in mezzanine financing (financing during the stage just before a start-up goes public) [how does this support philanthropy?], and still others make adventurous grants to start nonprofit organizations. Moreover, the report found that there are various approaches through which to receive contributions for a social venture fund. "Some funds accept stock transfers, while others receive only cash. Likewise, funding bodies seek to leverage cash and human capital in different ways. Some organizations...request relatively small investments in the hopes of attracting numerous investors and, concomitantly, volunteers...[while others] seek to recruit a few investors who will invest large amounts in the fund."

Currently there are [check number] social venture funds in the United States with assets of about [?]. Among this group, four funds considered to be at the forefront of venture philanthropy include:

- Social Venture Partners, the first social venture fund, began in Seattle in 1997 and is focused on children's and education programs. It has created a network of young professionals and technology leaders who invest $5,000 for two years, and provides a variety of hands-on assistance to grantees. It currently has 225 partners and plans to invest $1 million in 2000. The Seattle fund has been replicated in three other locations – Austin, Phoenix, and Dallas.
- Roberts Enterprise Development Fund, located in San Francisco, assists revenue generating programs focused on low-income individuals from the Bay area. It provides a range of supports to the seven nonprofit organizations in its portfolio (which collectively operate 24 for-profit enterprises) including multi-year investments, access to MBA graduates, technology assistance, and by creating engaged partnerships with investees.
- Entrepreneurs Foundation, located in San Mateo, California, which focuses on San Francisco youth and education, and builds long-term (5-10 year) relationships with its portfolio organizations. To generate revenue, the fund buys 1 percent stock equity in start-up companies [check/find out more]. The Foundation has 49 member companies so far [meaning what?].
- New Schools Venture Fund, located in Redwood, California, supports nonprofit and private companies that improve public K-12 education. Investors are from venture capital and tech-based entrepreneurs in Silicon Valley. It plans to be a $10 million-$20 million fund,

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Morino Institute "Venture Philanthropy: Landscape and Expectations," Month? 2000, page 7.
Ibid, page 16.

supporting 8-15 ventures over a two- to three-year period.

Aside from social venture funds, foundations are also beginning to incorporate venture philanthropy into their grantmaking, with a handful of foundations now providing long-term funding, organizational assistance, strategic support, or emphasizing a "measurable return on civic investment." Are these concepts new to the foundation world? Some argue not. Large donors such as John D. Rockefeller, Andrew Carnegie, and Walter Annenberg, for example, took a close personal interest in the way their money was distributed. What appears to be new, however, is the increasing frequency of use of these techniques, and the larger amounts of money involved. Some have criticized this trend, noting that too much foundation involvement in the development and implementation of their grantees' projects could compromise nonprofits ability to control their own missions and agendas. Clearly, achieving the proper balance between foundation involvement and nonprofits' independence needs to be an important goal if venture-style funding is to succeed.

Because venture philanthropy is a new and relatively untested concept, it remains to be seen how successfully venture-techniques can be applied to funding nonprofits, or whether today's small-scale social venture funds can be operated on a larger scale. Nonetheless, it appears that this new direction in charitable giving has the potential make grant making more effective and accountable, building stronger nonprofit organizations, and encourage greater participation in philanthropy by business leaders who want to share not only their wealth but also the strategies behind their success.

The Internet: summary sentence here.

Just as the internet is transforming the way we communicate, work, shop, and find information, it is also changing the way we give. While the existence of "e-philanthorpy"—that is, online philanthropy—was hardly noticeable a year or so ago, today it has national visibility and increasing importance. Thousands of nonprofits have already setting up websites to communicate with members, provide information, and raise funds. Others sites provide interactive services. For example, *Guidestar*, a nonprofit, provides a searchable database of more than 640,000 nonprofit organizations in the United States (including their Form 990 financial information statements) to help donors seek out and compare charities, monitor their performances, and give with greater confidence. Another example is helping.org, launched by the AOL Foundation in late 1999, which provides a full spectrum of services, opportunities, and information related to philanthropy and volunteerism.

As shown by these examples, the internet is serving a variety of purposes for nonprofits and those who donate to them. In its recent survey of e-philanthropy, the W. K. Kellogg Foundation found that "Some organizations are simply transferring existing hand-on programs and services to the net…[while others] are attempting to transform the concepts of nonprofit services by inventing on-line options that maximize and positively exploit the characteristics of the on-line

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For an example critique, see Pablo Eisenberg "The 'New Philanthropy' Isn't New – or Better," opinion piece, *The Chronicle of Philanthorpy*, January 28,1999.

world." These developments, especially those which involve innovation, hold the potential to create greater awareness about philanthropic opportunities, widen access to those opportunities, and promote collaborative learning and sharing among donors and recipients.

In its survey of nearly 140 internet sites which facilitate giving, volunteering, or nonprofit development, the W. K. Kellogg Foundation report found e-philanthropy-related sites could be divided into eight categories. These include websites focused on:

- e-commerce and shopping/profit sharing: provide incentives to shop on-line by giving back a small percentage of the purchase price to charity.
- Fund-raising and advertising: websites of nonprofits, such as the American Red Cross, which solicit donations on-line; or commercial sites which sell fundraising services.
- Philanthropy and donor services: designed to educate donors, help them identify their interests, and match them with recipient organizations.
- Knowledge and capacity building: provide information about causes and the nonprofit sector.
- Volunteering and service: facilitate the placement of volunteer time and talent.
- Social advocacy and action: facilitate direct participatory action or provide comprehensive information on particular issues.
- Events and auctions: promote barter, auctions, or fund-raising events run by volunteers or nonprofits
- Portals/full spectrum services: offer a one-stop approach to a variety of services related to giving and volunteering.

ENCOURAGING GREATER GIVING

Philanthropy in the United States reached a record high in 1999, after a dramatic 53 percent increase since 1995. Nonetheless, there is reason to believe giving could be greater ...

Youth & philanthropy summary here

An important way to encourage greater giving in the future is to insure that the tradition of philanthropy is broadened and strengthened for the next generation. Parents and religious communities play a central role in building the habit of giving and continuing the spirit of charity across generations. But their efforts are increasingly being supported by a relatively small but growing number of community groups, foundations, and schools which are finding new ways to involve youth in philanthropy. For example, Sisters Empowering Sisters is a two-year old grant-making program for teen-aged girls run by the Girl's Best Friend Foundation in Chicago. Each

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W.K. Kellogg Foundation, "e-Philanthropy, Volunteerism, and Social Changemaking: A New Landscape of Resources, Issues, and Opportunities," February 2000. Available at http://www.WKKF.org/ProgrammingInterests/PhilanthropyVolunteerism/pv_pgmres.htm

"High School Senior and Peers Are a Growing Force in Philanthropy," *The Chronicle of Philanthropy*, January 13, 2000.

year, the program works with a small group of girls ages 14 through 18 to teach them about grantmaking and how they can make a difference in their communities. After the girls complete their training, including taking classes from foundation officials and completing a research project related to an area of grantmaking in which they are interested, the foundation gives them grant money to award to programs developed by and for the benefit of girls. Within grantmaking teams, the girls design request for proposals, review grant applications, making site visits, and make final decisions on where the money should go.

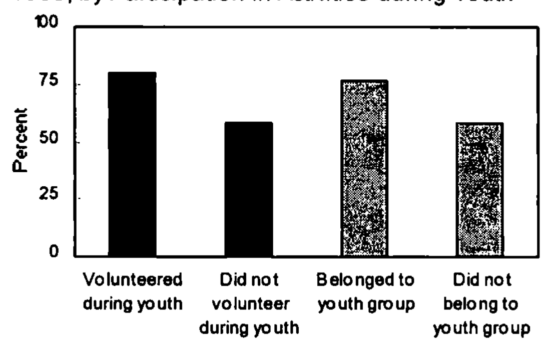
Other efforts include the Michigan Community Foundation's Youth Project encourages community foundations to train and involve teenagers in fund raising and grant making. The program, supported by the W. K. Kellogg Foundation, establishes Youth Advisory Committees (YACs) within community foundations in Michigan, with each YAC made up of high school students as well as adult mentors. The YACs address local youth needs, assists in fund development activities, and direct grantmaking toward youth programs. Since the Youth Project's inception in 1998 [check], scores of Michigan communities have formed YACs and over 2,000 teens have been involved. Moreover, schools too have also begun to teach students about the importance of giving. For example, New York, public schools are offering a curriculum focused on volunteerism and philanthropy [find out more]. Another school program is the Student Philanthropy Project at the Latin School in Chicago. Students are provided a small amount of funding to disperse to nonprofits, learn to write requests for proposals, review grant applications, and make site visits to prospective grantees as part of the grant-making process.

While the pioneering programs discussed above help students learn more about philanthropy, most community service programs for young people focus on an equally worthy subject: volunteering. Programs focused on volunteering, however, are also likely to strengthen the tradition of philanthropy. Nationally-representative survey data show that among adults who did volunteer work during their youth, 80 percent made a charitable donation in 1998—over 20 percentage points higher than those who did not do any volunteering in their youth (see chart 11 on next page). In fact, involvement in a variety of appear to encourage greater long-term giving. Adults reported higher rates of giving who were members of youth groups (also see chart 11), were active in student government, or were active in religious organizations. The example of parents was found to be important, with an above-average rate of giving among adults whose parents had done volunteer work when they were young.

"Programs Train Young People to be Effective Givers," *Philanthropy News Digest*, published by the Foundation Center, July 6, 2000.

Giving and Volunteering in the United States, 1999 edition.

Chart 11. Percent of Adults who Donated in 1998, by Participation in Activities during Youth



The fact that community service is becoming a more integral part of young people's educational experience is therefore a positive sign for the future of philanthropy. For example, high schools are placing a growing emphasis on "service learning"—community service integrated with classroom instruction. In 1999, 83 percent of high schools offered community service opportunities to their students and 46 percent offered service-learning, up dramatically from 1983-84 levels of 27 percent and 9 percent, respectively. Anecdotal evidence also suggests that more schools are introducing community service graduation requirements, including cities such as Chicago, Illinois, Washington, D.C., and Louisville, Kentucky, and the state of Maryland. And efforts to encourage volunteering have also come at the national level. In 1993, President

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It is also a good sign on many other counts. For example, there is considerable evidence that community service results in higher levels of educational attainment and the avoidance of risky behaviors for some teens. More generally, extensive research suggests that teens improve on many dimensions when they have meaningful involvement in useful and necessary tasks. See "Teens and Their Parents in the 21st Century," Report by the Council of Economic Advisers, May 2000.

See Rebecca Skinner and Chris Chapman, "Service-Learning and Community Service in K-12 Public Schools," National Center for Educational Statistics, September 1999. See also Brian Kleiner and Chris Chapman, "Youth Service-Learning and Community Service among 6th- through 12th-Grade Students in the United States: 1996-1999," National Center for Educational Statistics, November 1999.

Clinton outlined a vision for a national service program that would allow young people to serve their country while earning funds for a college education. The result is AmeriCorps, which brings together people of different racial, ethnic and economic backgrounds to solve community problems. Since the program's inception 5 years ago, over 150,000 AmeriCorps members aged 17 and over have served as tutors, mentors, disaster-relief workers, and other roles. Today there are more than 350 AmeriCorps programs nationwide serving an estimated 4,000 communities.

President Clinton's proposed new tax incentives to promote philanthropy

In his State of the Union Address, President Clinton unveiled a package of new tax proposals to encourage philanthropy. First, he will propose allowing nonitemizers to take a tax deduction for charitable giving. Second, he will propose new rules to make it easier for charitable foundations to make gifts in times of need. Third, he will propose making it easier for individuals to donate appreciated assets like securities and real property.

- Enabling nonitemizers to take a tax deduction for charitable contributions. Currently, 70 percent of taxpayers do not itemize and as a result, they cannot get the tax incentive for charitable giving that higher-income itemizers can claim. The President's budget will allow these taxpayers to claim a 50 percent deduction for charitable contributions above $500 a year when fully phased in. This proposal will boost contributions to charitable organizations, particularly community and faith-based groups, and improve tax fairness by giving nonitemizers the same opportunity to deduct contributions as itemizers.

- Making it easier for foundations to give in times of need. The President's budget will allow more funds to reach those in need by simplifying and reducing the excise tax on foundations. Foundations currently face a two-tier excise tax: first, a 1 percent tax on investment income; second, an additional 1 percent tax for foundations that do not maintain their rate of giving over a five-year average. This mechanism is unduly complicated and can reduce giving in certain cases, since boosting gifts in times of need exposes foundations to higher taxes if, after the need has passed, their rate of giving drops back to earlier levels. The President's new proposal will eliminate the two-tier system and set the excise tax rate at 1.25 percent. The result of this simplification will be to remove a disincentive to foundation giving and to make available more gifts to community organizations in times of need.

- Allow greater contributions of appreciated property to charities. The President's budget will also make it easier for individuals to donate appreciated assets like stocks, art and real estate. Under existing law, individuals donating appreciated assets can take a tax deduction that is limited to 30 percent of adjusted gross income (AGI); for gifts made to private foundations, the deduction is capped at an even more stringent 20 percent AGI. These multiple limitations are complex and can place burdens on individuals who choose to give substantial portions of their incomes to charity. The President's budget simplifies and eases these limitations by increasing the AGI limit on appreciated property from 30 to 50 percent, and the limit for donations of appreciated property to private foundations from 20 to 30 percent. This change will create greater incentives for such gifts.

Giving by institutions, including foundations and corporations, is focused on different types of organizations than giving by individuals. Thus changes in the sources of funds lead to changes in the composition of recipients.

[what is here now is repetitive of what has already been said, but this does seem to be a useful analytical conclusion], but While three-fifths of all individual giving goes to religion, only X percent of institutional funding.... [Add this text.] [use text if needed: survey evidence on individual giving in 1995 shows that almost about 9 percent of giving (in dollar terms) went to human services, another 9 percent went to education, and 8 percent went to health. A variety of other types of recipients received smaller shares of giving. Nonetheless, about 58 percent of gifts went to religious organizations.]