



## **MEMO: Economic Conditions and Philanthropy**

From: Christopher D. Watson, President, Changing Our World, Inc.

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We can all read the headlines. Depending upon what newspaper you read – or which day you read it – the U.S. economy is either in recession or headed for one. Even those who challenge a recession acknowledge that the economic news has been grim. Wall Street’s struggling, stock prices are down, and costs are up. The credit crisis is showing ripple effects all across the economy.

When the economic news is dark and the winds of recession bluster about, concern about the implications for philanthropy and fundraising are natural. Indeed, those concerns are often deepened by media coverage that focuses on the short term consequences of economic crisis.

Every day, it seems, our clients and friends in the sector ask us the same question – what does it mean for fundraising, for foundation management, for philanthropy in general? At Changing Our World, we believe the best question, however, is: “what do the facts actually say?”

I think it is important to take a collective deep breath, and to put recent economic downturns in context, and then look at the data. I believe that if you do, you will see that historically, philanthropy has always remained strong – and that over time, it continues to grow.

With the assistance of our research department at Changing Our World, led by Dr. Susan Raymond, we’ve put together this briefing on those historic trends. We hope it helps with your planning and forecasting. As always, if you require more professional assistance, please call or email me.

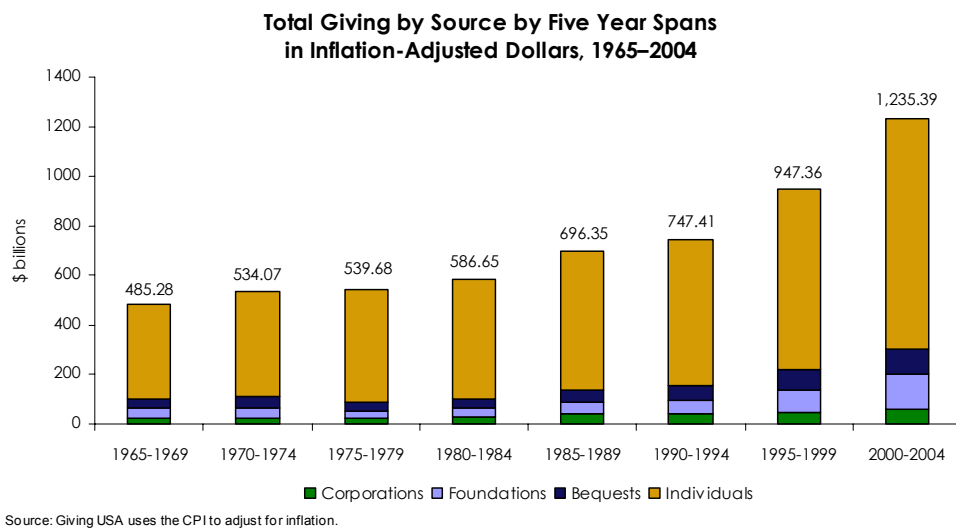
### **The Context**

As for context, over the last forty years, the total amount of reported giving has increased by over 200% in inflation adjusted terms. In just the last decade, that growth has exceeded 65%. So, whatever the current turbulence, it comes in the context of huge

increase in measurable giving, since there is much generosity that goes unreported on the tax forms that form the basis for the estimates.

Further, the duration of the average nonprofit fundraising campaign has lengthened. It is not uncommon now for campaigns to last five and as many as seven years. Annual economic and market forces become smoothed out by the length of time over which money is raised and/or pledged.

Third, rise in the number of nonprofits in America has exceeded the rise in philanthropy. There is more competition for the giving dollar, and hesitation in the face of an uncertain economic cycle leaves the way open for others to press ahead.



## The Data

All well and good, you may say, but where shall I turn for confidence about the future in the face of such economic uncertainty.

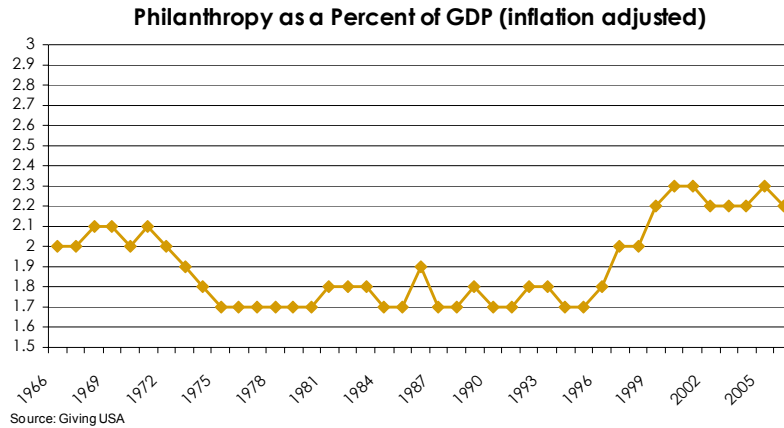
There are five incontrovertible facts.

First, in the last forty years there have been only two instances in which giving has declined in absolute terms for more than a single year. Neither was a product of economic cycles. The first was during the oil embargo of the mid-1970s. The second was after the terrorist attacks of September 11, 2001. The message is that philanthropy does not decline in absolute terms with the ups and downs of normal business cycles. It takes a jolt to the economy of previously unknown dimensions to create sustained real declines in giving.

Second, in the last four decades, changes in philanthropy have only a weak correlation to changes in GDP. Percent changes in philanthropy can go up faster than, slower than, or

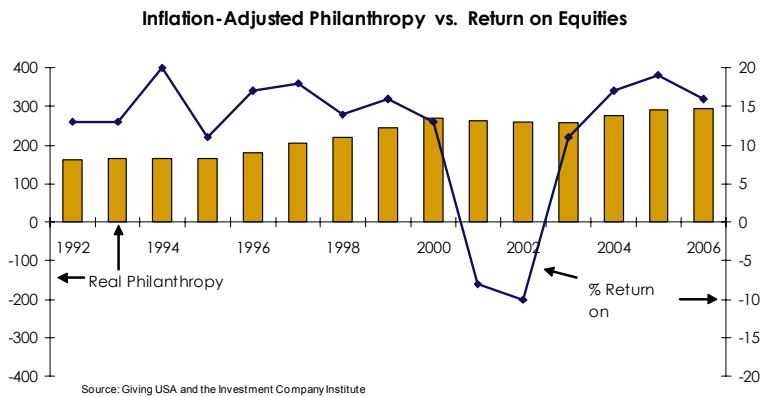
apart from percent changes in GDP. Philanthropy is about individual giving behavior. The giving behavior of individuals is only partially related to the behavior of the economy.

Third, the consistent year-over-year growth in philanthropy is not tracked changes in the return on equities. Declines in the return on equities occur simultaneously with increases in philanthropy.



Alternatively, significant increases in the returns on equities are not always accompanied by equally significant increases in philanthropy. Plunging equity returns in the 2000-2002 period were accompanied by a contraction of philanthropy, but not in any way comparable to equity erosion.

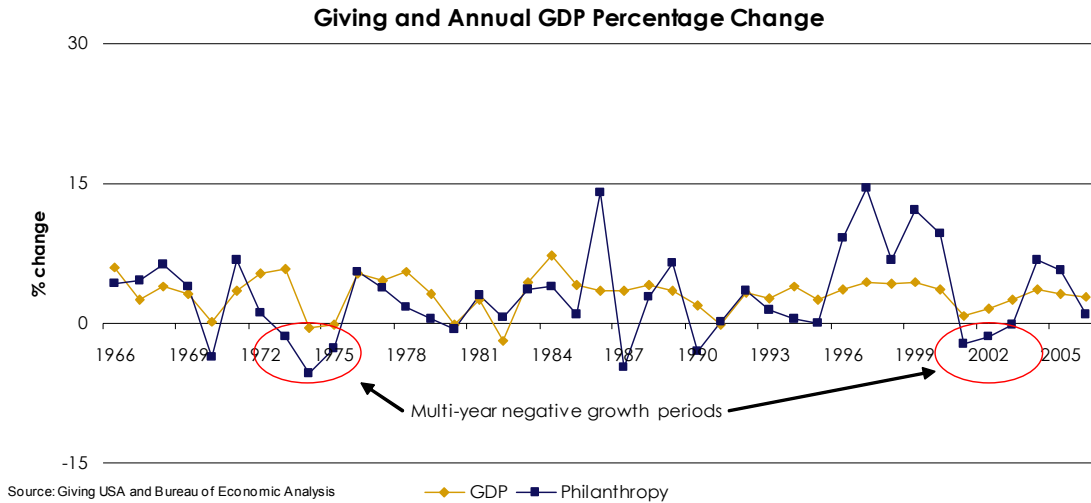
Fourth, because the economy is so large and philanthropy is so small in relative terms, philanthropy rarely experiences a year-over-year change of more than one tenth of one percent of the larger economy. Between 1966 and 1972, philanthropy was between 2% and 2.1% of GDP. The oil crisis eroded



that role to 1.7%, and it remained between 1.7% and 1.8% for the next two decades. After the run-up of the late 1990s, fed by the mega-wealthy, philanthropy returned to a one tenth of one percentage point variation within the economy vacillating between 2.2% and 2.3% of GDP since 1999. Philanthropy displays significant stability within the economy.

Finally, what is true in aggregate tells us little about what is true for any subdivisions within the nonprofit sector. For example, while overall philanthropy increased by 65% in the last decade, health care philanthropy increased by just 11%. Hence, neither good times nor bad times overall necessarily provide wisdom for the particular decisions of particular nonprofits.

Nonprofits must be guided by an understanding of the past history of philanthropy within the economy and the stability of future flows of giving, not by the short-term fluctuations of particular markets or isolated business cycles.



## How We Can Help

It's understandable to be concerned about the economy. Worried about starting a fundraising campaign during an economic downturn? Concerned about your grantmaking? Need assistance with a strategic plan or development audit? Changing Our World is pleased to help you.

Please call me at 212-499-0866 x2613 or email [cwatson@changingourworld.com](mailto:cwatson@changingourworld.com) – our team of more than 140 experts in all facets of fundraising and philanthropy may be able to help.