Has the Great Recession **Made Americans Stingier?**

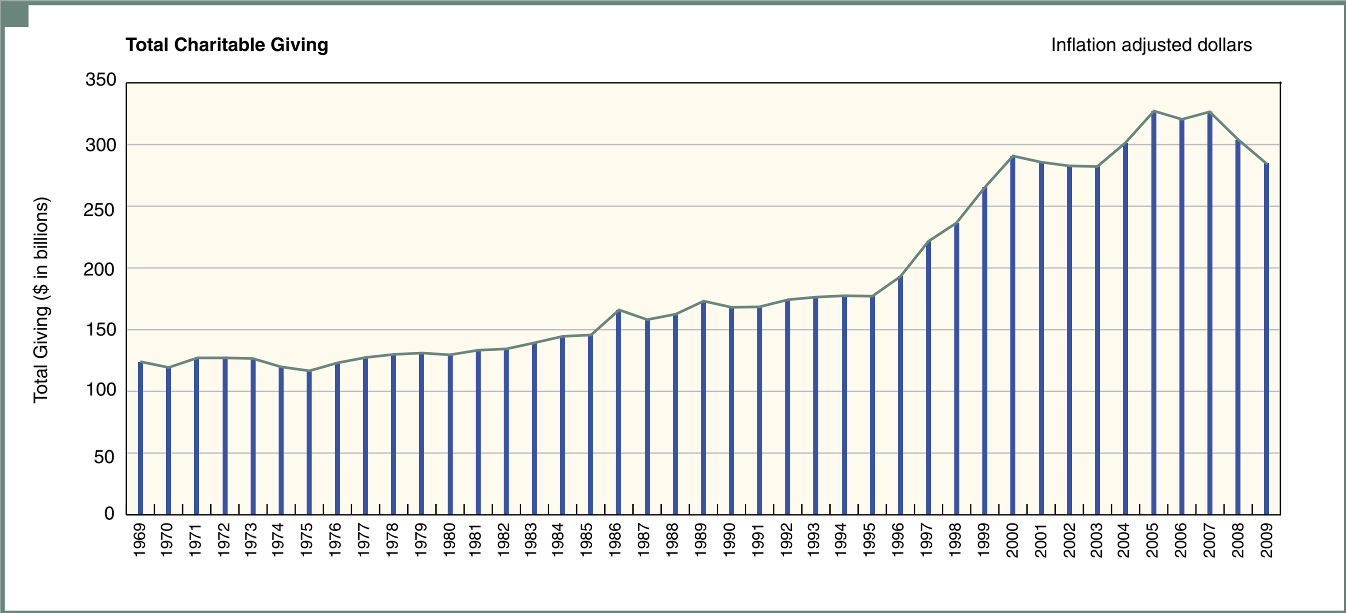
BY ROB REICH AND CHRISTOPHER WIMER

Americans have long been, and continue to be, a famously charitable people. While Europeans have well-developed and comprehensive welfare states, the United States has always relied more on private charity to fund collective goods, including aid and assistance to the poor. But how does this dependence on charity play out during economic downturns? Does it increase as well-off Americans respond to the rising needs that a recession spawns? Or have Americans and American institutions tightened the purse strings during hard times despite such rising needs?

There's good reason to worry about a possible substantial decline in giving. The dominant source of charitable giving in the United States is giving by individuals (as compared to giving by foundations or corporations), yet such individual giving may be especially sensitive to changes in the economy. Indeed, because the economic downturn affected individual income and wealth so much, it may have generated substantial declines in individual giving, which is troubling because it's individual giving, by live and dead donors, that accounts for roughly 80 percent of all charitable dollars.

The chief source of data on charitable giving over time comes from the Giving USA Foundation, an organization devoted to promoting research, education, and public understanding of philanthropy. The Giving USA Foundation estimates, for every year since 1968, the amount of giving for four different types of giving sources and nine types of giving recipients. As Figure 1 shows, the economic downturn of 2008 has given rise to one of the largest year-over-year declines in charitable giving since the late 1960s. Total giving in 2008 fell by 7 percent in inflation-adjusted dollars, from $326.57 billion to $303.76 billion. In 2009, matters worsened, with charitable giving dropping

FIGURE 1 Total Charitable Giving



Source: GivingUSA Foundation

another 6.2 percent to approximately $284.85 billion. Estimated giving in 2010 was $290.89 billion, a modest uptick reflecting, we suspect, a modestly improved economy. Overall, charitable giving has dropped 4.2 percent between 2008 and 2010. Despite this drop, charitable giving remains at extraordinarily and historically high levels, with only 2005 to 2007 showing higher levels of overall giving.

Two recent Harris Interactive polls, conducted in January 2009 and September 2010, confirm that, as a result of the current economy, Americans are giving smaller amounts to charities (31 percent less in both polls), and to fewer organizations (24 percent and 19 percent fewer, respectively)—evidence that is consistent with the idea that charitable giving is contracting due to economic belt-tightening. There is evidence, moreover, that some people have stopped giving altogether, as 12 percent of those surveyed in the 2010 survey reported giving nothing, up from 6 percent in 2009. We might expect that, as the economy emerges from recession, these people will return to giving at pre-recession levels.

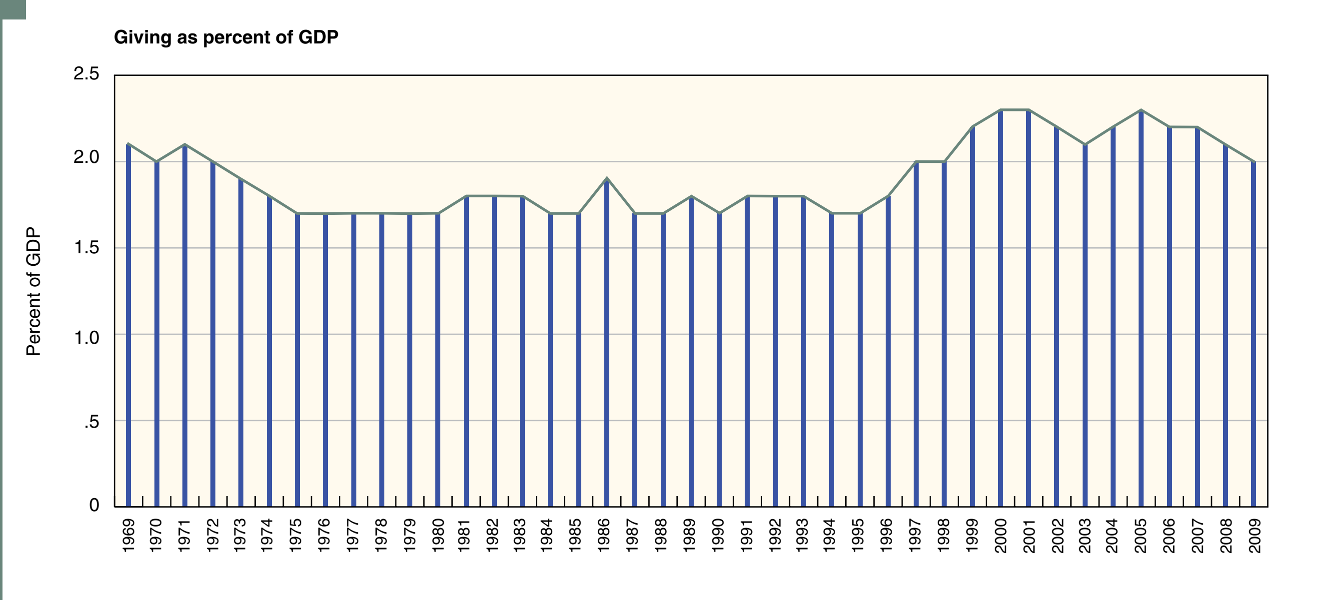
Such a large reduction in the absolute sum of dollars donated, however, might not indicate that Americans are giving any less in *relative* terms. That is, Americans might be giving just as much of their income, proportionally, as they before did. If, for example, Americans consider giving to charity an obligation, or if their giving is a product of a so-called "charity budget" that is included in their overall spending, they may at least be giving the same *proportion* of (declining) income to charitable causes. Is this indeed what the data support?

The answer is a resounding "almost." As shown in Figure 2, giving as a percentage of GDP has fallen only slightly in the last year, declining from 2.1 percent in 2008 to 2.0 percent in 2009 and 2010. The all-time high in giving (as a percentage of GDP) was 2.3 percent in 2005. The recent decline in absolute giving therefore is tracking overall downward trends in the broader economy. Figure 2 shows that total charitable giving as a percentage of GDP has fluctuated within a relatively narrow band from 1.7 percent to 2.3 percent over the past 40 years. Although not shown here, the stability of relative giving levels is further indicated by trends in charitable donations as a percentage of either individual disposable income or essential personal outlays. In both cases, there is little or no change over the past two years, again suggesting that declines in giving are attributable to declines in available money, not to some stinginess that kicks in during economic hard times. Charitable giving, then, appears to operate in something approaching a cyclical manner, contracting during hard times and expanding as incomes rise.

It is perhaps reassuring that there's no evidence of increasing stinginess in times of need. Then again, neither is there evidence of increased largesse, which is problematic because need is countercyclical. Indeed, because need becomes greatest as the economic pie contracts, our reliance on charity and the nonprofit sector contains some built-in structural challenges, at least relative to other countries that can more readily engage in direct governmental spending when additional needs must be met.

Though individual giving is by far the largest source of charitable donations in this country, our research also found that giving from corporations, foundations, and bequests likewise dropped substantially in the recent recession. We did find evidence, however, that corporate and foundation dollars made some adjustment to the recipients of their giving and targeted

FIGURE 2 Giving as Percent of GDP



Source: GivingUSA Foundation

organizations in geographical areas of significant need. New research suggests that, as the recession deepened, some foundations shifted strategy in ways that directed resources to areas hardest hit by the crisis. Former CBO director Douglas Holtz-Eakin and Cameron Smith, harnessing data from a sample of 2,672 foundation grants, found that in 2009 and 2010, foundations directed a greater proportion of their grants to areas with high levels of unemployment and high levels of mortgage delinquency rates. For example, in 2008, low-unemployment states received 563 grants totaling $126 million, while high-unemployment states received only 422 grants worth $29.9 million. But in 2009, the pattern reversed, with high-unemployment states receiving 803 grants worth $200 million and low-unemployment states receiving 706 grants worth $112 million. As the recession deepened, states and localities with more profound problems began receiving a larger share of foundation funding, suggesting a certain level of adaptiveness among American foundations.

Not all income for nonprofits comes from charitable gifts. Though not tracked by Giving USA, it appears that charities are also being hurt by reduced giving from cash-strapped state and local governments. According to a recent report by the National Council of Nonprofits, which examined state and local budget trends, governments are increasingly cutting programs similar to those administered by nonprofits (presumably expecting nonprofits to pick up the slack); withholding contract payments for services already rendered by nonprofits; and imposing new fees and taxes on nonprofits that add to their operating funds. Thus, in addition to receiving less from all forms of donors, nonprofits are also being challenged by the actions of strapped state and local governments.

Is Anyone Escaping the Belt Tightening?

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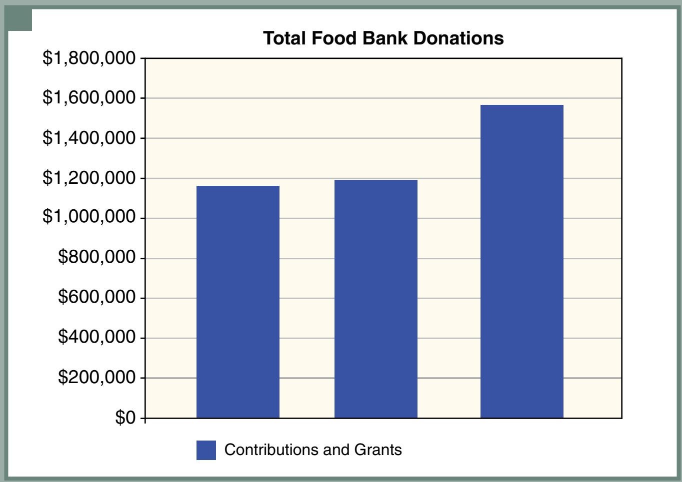
The foregoing data raise the question: Are any types of nonprofits doing well despite the recession? Our research suggests that declines in giving are far-reaching, hitting nearly all types of organizations, from health and human services organizations to environmental and arts organizations. One type of recipient, however, is fairly resistant to recessionary pressures: religious organizations.

Giving to religious organizations—which includes houses of worship and governing bodies of faith groups, and *excludes* faith-based charities and service organizations—fell by a modest 3 percent in 2008, down to $101.25 billion. In 2009, giving to religion barely budged. Indeed, a separate study of the financial statements of 1,148 religious organizations by the Evangelical Council for Financial Accountability found that contributions declined by just 0.1 percent from 2007 to 2009, though declines were larger for groups with smaller budgets. Giving to religious organizations is, by a large margin, the biggest category of charitable giving in the United States, accounting for more than a third of all giving. While such giving might be thought to be directed at the needy because some religious congregations provide benefits for the needy apart from funding religious services, research by sociologist Robert Wuthnow indicates that only about 10 percent of religious organizations' funds go to the provision of social services.

Giving USA only measures broad categories of recipients, however, making the data an imperfect barometer of how sensitive donors are to causes directed toward the needy. Spurred by a February 2010 Chronicle of Philanthropy article, which noted that the organization Feeding America was experiencing surging levels of giving, up over 50 percent in the final quarter of 2009 versus the same quarter the year before, we decided to examine whether food banks in America's largest cities were experiencing comparable surges in giving.

To explore this possibility, we developed a list of the 50 largest cities by population size and identified the largest food bank in each city. We then attempted to collect data on contributions and grants (from Annual Reports, financial statements such as IRS Form 990, and archived information in Charity Navigator and Guidestar) to each food bank for each year from at least 2007 to 2009. We were able to obtain complete data to 2009 for 40 of these 50 cities. The results are shown in Figure 3. Total funding to food banks in these cities rose 2.2 percent from 2007 to 2008, with approximately two-thirds of food banks showing increases over this period. Funding then surged from 2008 to 2009, as the recession deepened, increasing a staggering 31.9 percent despite deepening problems in the labor market (with increases found across all but 1 of the 40 food banks). The average food bank in our sample gained $637,176 in contributions and grants between 2007 and 2008 and gained nearly $9.4 million in contributions between 2008 and 2009. Feeding America estimates the cost per meal provided by their network of food

FIGURE 3 Contributions to Food Banks Surge in 2009



Source: Authors' tabulations based on contribution and grant records from food banks' annual reports, IRS Form 990s, and Guidestar/Charity Navigator records (N = 40, of food banks in America's 50 largest cities).

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banks to be approximately $1.93, meaning that (if all funds had gone directly toward meal provision) the average food bank in our sample was able to provide roughly 4.87 million more meals in 2009, given increased contributions.

We can therefore conclude that two types of organizations, religious organizations and food banks, escaped the general decline in charitable giving.

Nonprofit Adaptation

Are nonprofits "feeling" the challenges that the dips suggested by the Giving USA data entail? The short answer is yes. Based on the results of an online survey of 2,279 charities and foundations (92 percent and 8 percent of the sample, respectively) conducted by the nonprofit research firm GuideStar, over two-thirds of nonprofits in the survey (and an analogous survey of nonprofits conducted roughly six months earlier) reported smaller individual gifts, and roughly the same percentage reported fewer individual gifts. Over a third reported smaller corporate and foundation gifts as well. Smaller, but still significant, numbers of nonprofits reported discontinued gifts and grants, smaller and discontinued government grants, and smaller and discontinued government contracts. Overall, then, nonprofits confirm that they are facing a severely challenging environment with reduced funding from a variety of sources.

How are nonprofits responding to this harsher funding environment? Based on the same survey(s), the data show that nonprofits are adapting in ways that, in general, reduce their capacity to meet the (typically increasing) needs of their clientele. Over half of nonprofits reported reducing program services in response to economic challenges, while nearly half reported freezing staff salaries. Approximately a third reported freezing their hiring, while nearly a third reported laying off staff. Smaller, but again still substantial, percentages of organizations reported reducing salaries, reducing employee benefits, and reducing operating hours. Thus, the array of adaptation strategies adopted by nonprofits are almost certain to have resulted in decreased capacity for services, as well as decreased employment and pay in the nonprofit sector as a whole.

What Does It All Mean?

We began by asking whether the Great Recession, which has affected so many Americans, has induced us to hunker down, tend to our own needs, and scale back on our generosity. Have Americans indeed drawn inward and become (understandably) self-interested in response to economic duress?

There is little evidence of such an effect. Although total giving has of course declined, we are still giving at extremely high levels and at nearly the same proportion of total dollars as before. Much as they always have, Americans are contributing a nontrivial proportion of their available funds, the main difference being that such "tithing" now applies to a smaller base of money and, as a result, produces a decline in the absolute amount of giving. This overall reduction in absolute giving, however, occurs at the same time as overall need is increasing—a particular and worrying countercyclical feature of the way America addresses poverty and other needs. Innovation in the nonprofit sector is likely to be stymied as nonprofits struggle merely to survive and as large donations shrink and dry up. Nonprofits, for their part, report that they are indeed feeling the pinch of the contracting economy and that they are cutting services and slashing payrolls in order to stay afloat.

In thinking about the likely patterns of giving in the future, it is important to recognize several political realities that may affect charitable giving. President Obama proposed in 2009, in 2010, and again in early 2011 that the tax incentive for charitable donations—the charitable contributions deduction—be capped at 28 percent for the highest income earners (e.g., as opposed to 35 percent for those in the 35 percent tax bracket). The proposal has two motivations: first, to generate more revenue to close the deficit; second, to level the incentive for all income earners rather than providing a systematically larger incentive to the wealthiest Americans. Were Obama's proposal adopted, the incentive to give would drop, and giving by the wealthiest Americans might also drop. As a consequence, it is possible that wealthy Americans front-loaded their giving in 2009 and 2010, taking advantage of the full charitable contributions deduction while still available. As of this writing, President Obama's proposal had not been made into law.

In late 2010, several bipartisan commissions were formed for the purpose of making recommendations about how to reduce the deficit faced by the United States. Some of these commissions recommended, among a battery of other measures, that the charitable contribution deduction be eliminated altogether or reduced more than President Obama had proposed. We of course don't know whether such recommendations will be adopted. In the meantime, absent a change in the tax incentive structure, absolute levels of charitable giving will likely remain depressed until the economy turns around. Whereas the government's automatic stabilizers (e.g., food stamps, unemployment benefits) can increase when need increases, the perverse feature of charitable giving is that it tends to decrease just as it's needed most.

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