

Philanthropy in Uncertain Times

A Retrospective

1931-1949



Robert F. Sharpe & Company, Inc.

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Introduction

During the fall of 1991, it became apparent that those charged with funding America's not-for-profit organizations and institutions were increasingly interested in the overall state of the U.S. economy and the impact it might have on their funding efforts.

Just one week before the Christmas holidays, White House spokesman Marlin Fitzwater reluctantly announced, "[F]or all practical purposes the recession continues... People are unemployed, people are hurting, the economy is very slow" (*WSJ* 12-18-91). Eminent economists and other experts testifying before the House Ways & Means Committee during the week of December 16th concluded that very little could be done by adjusting interest rates and fiscal policy and that the economy would just have to be allowed to "right itself."

Articles in leading newspapers continue to speculate daily on the future trends in the economy, all of which can be expected to affect the economic well-being of America's nonprofit community in various ways. As the new year arrives and ushers in what may be an uncertain and possibly unstable economic future, it is becoming more important to have contingency plans in place for response to whatever may occur.

In the face of this reality, one of the challenges America's nonprofit organizations and institutions face in attempting to plan for future fund-gathering efforts is a perceived lack of historical data from which to gain guidance in formulating their plans. Available data and studies mostly focus on relatively recent years, which shed little light on philanthropy in periods of deeper economic distress. Therefore, as we embark on a period possibly characterized by extended difficulties in the economy, our consulting staff has concluded that it is vital that we undertake an examination of prior periods of economic uncertainty and look for any insights that might be gained and utilized in our clients' strategic planning efforts.

Scope of report

The purpose of this report is to share surprising trends we have discovered thus far about philanthropy during a period of great economic

and social change in America. The period of 1931-1949 saw the great Depression, World War II, and the beginnings of post-war American economic expansion. While American society has changed greatly since then, and it is our belief that history does not automatically repeat itself, we nevertheless believe it is useful to study this period in order to derive any insights that may be relevant to fundraising in today's environment.

Information sources

In researching philanthropy in America during the period in question, we discovered very few definitive sources from which to draw. Two sources, however, have proven to be very instructive in studying trends in giving in the 1930s and 1940s.

For a "macro" perspective, the seminal source is the 1950 study, *Philanthropic Giving*, by F. Emerson Andrews. Contemporary reports in the *New York Times* stated that it was "...the most comprehensive survey of philanthropy ever undertaken in this country" to that time (*NYT* 11-20-50). Andrews' retrospective report attempted to reconstruct giving from 1929-1949 based on the tools of economic analysis and sources of data available to him.

As in the case of the more modern giving estimates released each year in *Giving USA*, the Andrews study was based on a broad econometric model that relied largely on trends in personal income and presumed giving levels. These assumptions were based on data that were published by various sources including very limited figures from federal income tax returns, which were filed by relatively few persons at the time.

The other reports discovered in the course of our research were contemporary reports published as often as semiannually in the *New York Times*. These reports were based on actual, verifiable, charitable gift activity during the two decades in question.

Compiled by pioneer fundraising consultant, John Price Jones, these reports were first published in 1931. The reports were based on publicly reported gifts in the major U.S. economic centers that comprised the bulk of American economic activity at the time and were thus the primary centers of philanthropic giving during the 1930s and 1940s. The Jones organization also produced a report each year on giving to 50 colleges and universities nationwide. According to the *New York Times* in Mr. Jones' 1964 obituary, the Jones reports were "...one of the most widely commended indices of philanthropy" of his time (*NYT* 12-24-64).

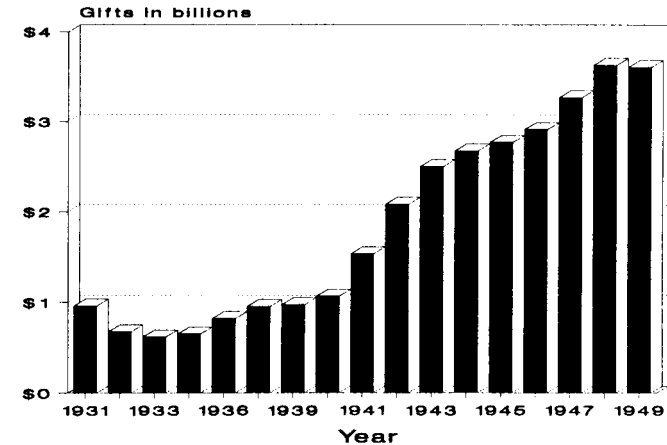
These contemporaneous reports are a useful “reality check” and serve to balance the more speculative figures deduced after the fact by Andrews. According to our research, these two sources taken together appear to be the most reliable indicators of trends in charitable giving activity in America from 1931-1949.

General trends

Before examining some specific insights, a look at the overall giving picture revealed by the Andrews and Jones reports is helpful.

The Andrews report showed a somewhat significant dip in total giving from 1931-33 at the beginning of the lengthy period of economic stagnation that characterized the 1930s. The report shows a slow annual rise in giving throughout the remainder of the 1930s, a time period when inflation was non-existent—and which might even be characterized as a period of increased giving were deflation of the period factored in. Total dollars given rose dramatically during the 1940s, spurred by gifts to war relief organizations and the booming (and inflationary) U.S. economy immediately following World War II. The study then indicates the beginnings of a renewed period of stagnation in giving in 1949 as the economy faltered following the initial post war expansion:

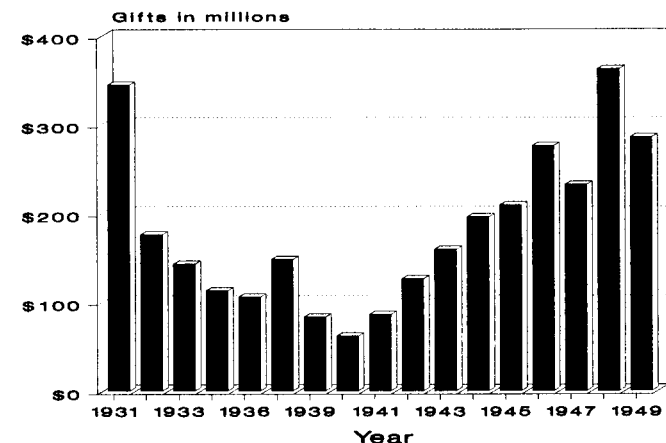
**Estimated Gift Totals
1931-1949**



Source: Andrews

The following graph is based on a compilation of the John Price Jones reports of major gifts to health, education, the arts, religion, "organized relief," and others, which were published in the *New York Times* during the same period of 1931-1949. We have not yet discovered reports for the years of 1935 and 1938. The 1941 total was derived by annualizing a report of gift activity during the first six months of that year:

Total Gift Estimates 1931-1949



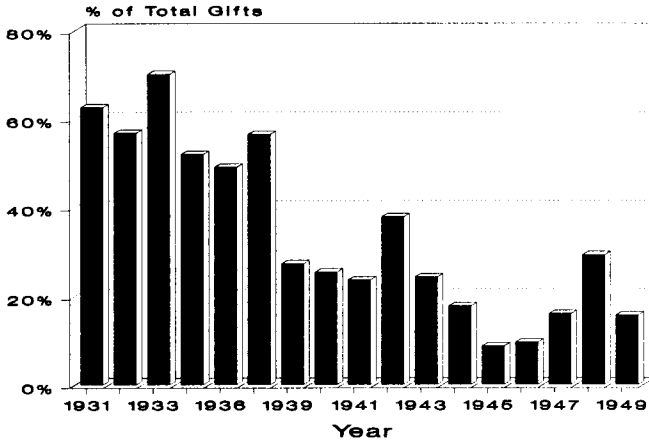
Source: *New York Times*

The Jones Reports in the *New York Times* mirror the trends evident in the 1950 Andrews retrospective. They reveal, however, a more dramatic initial drop in reported gift activity from 1931 to 1933 of as much as 50 percent. The "recovery" of these gifts was also somewhat more erratic than the more steady and uninterrupted trends of the Andrews study. Other more broad-based reports at the time of gifts to Community Chests, Catholic Charities, and others also showed a continuous, though slow, rise in giving each year and tend to corroborate the Andrews study. The *New York Times* reported on December 8, 1931, for instance, that giving to 155 Community Chest campaigns was up some 14.9 percent in 1931 as compared to 1930.

Current versus deferred gifts

A closer look at the Jones reports of gift activity reveal that there were dramatic changes as well in the *timing* of the gifts that were reported. Each year the reports divided such gift income between outright gifts and bequests (the term “bequests” apparently comprised all testamentary dispositions including those from trusts). A look at the percentages of the total gifts represented by bequests and other deferred gifts during the period in question is extremely enlightening when considering the impact of economic adversity on gift trends in the 1930s:

Bequests as a Percentage of Substantial Gifts Reported



Source: *New York Times*

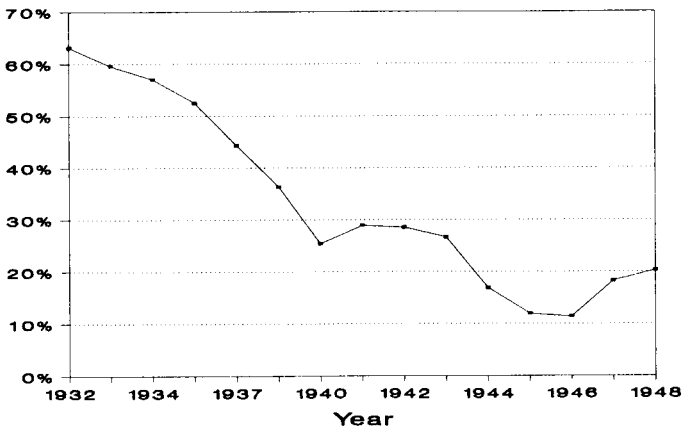
Note the percentage of major gifts represented by bequests and deferred gifts peaked at some 70 percent during the depths of the Depression in 1933. As the economy gradually recovered, the percentage represented by bequests and deferred gifts gradually dropped back to the 20 to 30 percent range, which is in keeping with the reported results of many organizations and institutions that are actively encouraging deferred gifts today.

The percentage of bequests and deferred gifts reached a low during the immediate postwar boom and began to rise again as the economy

faltered somewhat at the end of the 1940s. Reports at the time indicated that a falloff in outright gifts during the late 1940s was thought to be due to a large extent on reduced incomes among wealthy donors in the wake of prevailing interest rates in the three percent range, which were apparently part of the "cure" prescribed for postwar economic doldrums.

In order to gain a better perspective on the underlying trends in the percentage of bequest income, it is useful to consider a representation of the above data in the form of a graph of the three-year rolling average (averages of each year with the preceding year and the following year) of the bequest and deferred gifts percentages for the years 1932 through 1948:

**Three Year Rolling Average of
Bequest Percentages,
1932-1948**



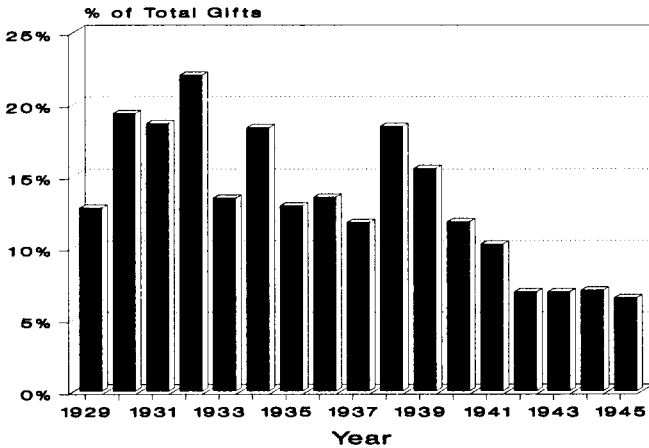
Source: *New York Times*

This figure illustrates a gradual drop in the rolling average from the 65 percent range back to the 20 percent range as economic recovery proceeded during the 1930s and the economy fluctuated following World War II.

The Andrews study also broke out individual gift receipts between current and deferred gifts. As the following figure illustrates, Andrews also discovered a much higher percentage of individual gift income derived from bequests and deferred gifts during the 1930s, with a reduc-

tion occurring as current giving mushroomed in support of war-related charity. The Andrews study reported lower percentages, as included in that denominator are large numbers of smaller outright gifts by the masses of Americans, whereas the Jones reports considered only “substantial” gifts.

Bequests as a Percentage of Total Gifts, 1929-1945



Source: Andrews

Note also that the Andrews data begins in 1929 rather than 1931 and gives us some indication that bequest percentages before the Depression may have been more “historically normal” since it is apparent that the 1929 and 1940 figures are virtually identical.

Andrews was unable to obtain bequest data for the period of 1946-1949, so the contemporaneous Jones reports from the *New York Times* remain the only indicator of deferred gift activity during that four-year period of time.

Other reports

Another extremely interesting and instructive report on trends in philanthropy during the 1930s appeared in the *New York Times* on April 3, 1939. This comparative study of philanthropy to 49 colleges during the depression was also prepared by the John Price Jones Corporation. It reported that for the nine-year period from 1930-1938, overall giving to these colleges was down only 2.3 percent when compared to the total

amount of giving for the nine-year period immediately preceding the Depression years. The results of this study were interpreted in a *New York Times* editorial published the next day as a bright sign and an indicator of the resilience of the American philanthropic spirit in the face of economic adversity (NYT 4-4-39).

The study reportedly included a broad range of institutions and a difference was found in the level of “resistance” to the effects of the Depression based on the size of the institutions. Funding for the four largest recipients of gift income, Harvard, Yale, the University of Chicago, and Columbia, actually showed an increase during the Depression, with the current gift income of others “much less” (NYT 4-3-39).

It is interesting to note in light of our earlier discussion that what kept the overall decrease in total gifts to only 2.3 percent was the effect bequests and deferred gifts had on the total. The study showed that the decrease was limited overall to only 2.3 percent because “although gifts showed a decrease in Depression years, the amount of bequests showed a sharp increase” (NYT 4-3-39).

The education study illustrates in detail the impact of economic hard times on one important segment of the nonprofit community. Those organizations related to human services, religion, and health care also appeared from contemporary reports to have fared well. A further breakdown of gift trends by type of organization is the subject of an additional component of this study, which is now nearing completion.

Current trends

In looking at gift distribution trends in the economic environment of recent years, just as in the case of studies of the past, there is very little data available on the relative distribution of income between current and deferred gifts.

The most widely reported source on the level of philanthropy in America today is *Giving USA*, published by the American Association of Fund Raising Counsel (AAFRC) Trust for Philanthropy. A study of the methodology underlying the report, however, reveals that it is of little help in determining the present distribution between current and deferred gift funding.

The outright gift figures reported in the AAFRC annual report are based on an econometric model—created by Dr. Ralph Nelson of Queens College, City University of New York—that considers the level of the S&P 500 in November and December, the political party of the current presi-

dent, a yearly incremental positive time trend, total personal income, and certain population levels (AAFRC 1991, 214). These variables are thought to be indicative of the amount given in America, and, in the absence of a coordinated collection of data from all charities, have been thought to be the best that can be done, but they are far from being based on annual studies of actual gift receipts. In this respect, the AAFRC reports, which originally appeared in 1955 (the year of John Price Jones' retirement) followed in the mold set by the Andrews report of 1950, and to a large extent served to supplant the Jones reports.

Having had no econometric model constructed to predict the level of bequests and other deferred gifts, *Giving USA* attempts to construct the level of bequests and deferred gifts through a random sampling of various agencies. However, *Giving USA* apparently does not survey religious organizations for bequest figures. This, in spite of the fact that, according to the methodology section as recently as the 1990 report, "giving to religion far outweighs giving to any other type of recipient" (AAFRC 1990, 187). Curiously, at another point in the same section *Giving USA* states that "...most major religious organizations and federations in the United States do not release information on the amount of contributions they obtain...with the exception of the National Council of Churches, which reports on donations to protestant communions, it is unknown whether religious organizations even collect the relevant data" (AAFRC 1990, 187).

In effect, therefore, the *Giving USA* study does not appear to monitor the market with what may arguably be the largest deferred gift receipts. For 1990, as a result, the *Giving USA* report announced \$7.79 billion in bequests (AAFRC 1991, 58). Actual reports by American colleges and universities alone (which *Giving USA* reports account for 16 percent of *current* giving) amounted to \$3.86 billion (CFAE 16) or 50 percent of the *Giving USA* reported bequest figures, so it is doubtful that the *Giving USA* estimates are reliable insofar as total deferred gifts are concerned. The only logical explanation would be that Americans put their faith in religion during their lifetimes and in education at death, when it would seem that the opposite might well be the case.

There has also been some indication that deferred gifts other than bequests are sometimes counted in the "gifts from individuals" categories, thus blurring the distinction between current and deferred gifts and rendering the report of little use in measuring deferred gift totals. As Carl Bakal put it in *Charity U.S.A.*, his 1979 book that chronicled his study of philanthropy, "...it evidently must take some statistical abracadabra on the part of the AAFRC to have the totals given to and received by charity

come out to the same pat, precise figure year after year. However, for better or for worse, its figures are the only ones we have to go by" (Bakal 10). Unfortunately, when it comes to the serious task of planning for the future in today's environment, the accuracy of such numbers becomes far more important.

Current reported trends in educational fundraising

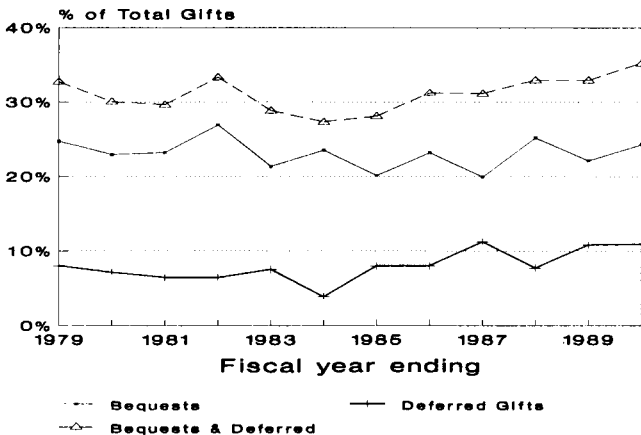
In light of the previously discussed contemporaneous empirical study of fundraising by educational institutions during the 1930s, current reports based on actual gift income in the educational arena today may prove to be the best indicator of the present distribution between current and deferred gift income.

Each year the Council for Financial Aid to Education (CFAE) issues a summary of gifts reported by the vast majority of educational institutions, public and private, large and small, that are actively engaged in fundraising activities.

In Volume 2 of the Council's report each year is published a breakdown of gifts from individuals based on current gifts, bequest receipts, and gifts made in the form of trusts and other deferred gifts.

The following figure depicts the percentage of all individual gifts reported in the form of bequests and other deferred gifts as found in Table 9 of Volume 1 of the CFAE report for 1990.

Bequests and Deferred Gifts to Education as a Percentage of Individual Gifts

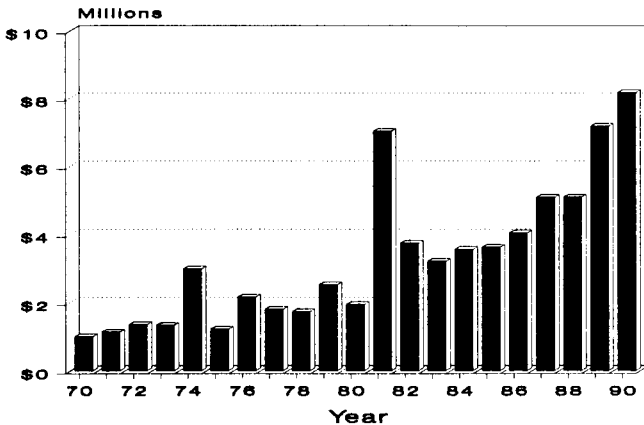


Source: Council for Aid to Education

There appears to be a trend during the last decade toward slightly greater percentages of funds from bequests and other deferred gifts. The total deferred gift percentages average 31 percent over the twelve year period and thus approximate the 34 percent average of the *New York Times* reports for the period of 1931-1949. The CFAE report suggests that the current percentage of income from deferred gifts nationwide, and across other sectors of the nonprofit community may be much higher, and growing at a faster rate, than many now presume.

For example, consider the deferred gift receipts of a leading health related organization over the past 20 years, which reflect long-term trends observed among our clients across a broad range of the nonprofit community:

**Bequest Income for a
Health Related Organization
1970-1990**



Source: Robert F. Sharpe and Co., Inc.

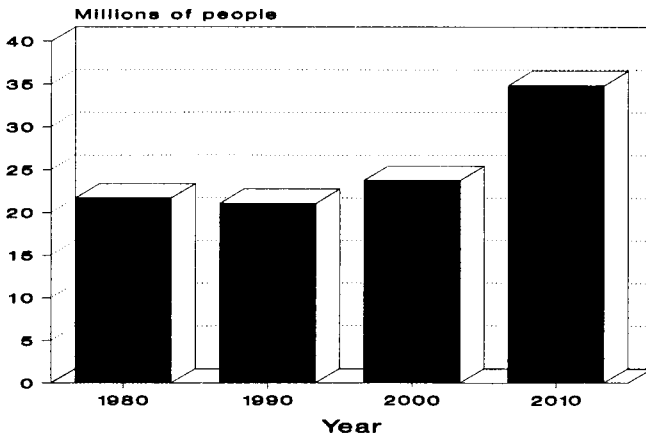
The impact of demographic changes

A discussion of the current environment would not be complete without a consideration of demographic changes as an overriding factor that prudent planners must consider when making plans for fundraising efforts during the coming decade.

Historically, a large percentage of gift income, especially larger gifts, appears to come from persons in the age range of 55 to 65.

Ironically for fundraisers, U.S. Census figures reveal a small decline in the numbers of this group of persons over the past decade due to lower birth rates during the Depression, and this fact may foretell a stagnation in major gift activity as the dip in the birth rate cycle caused by the economic dislocations of the 1930s plays itself out:

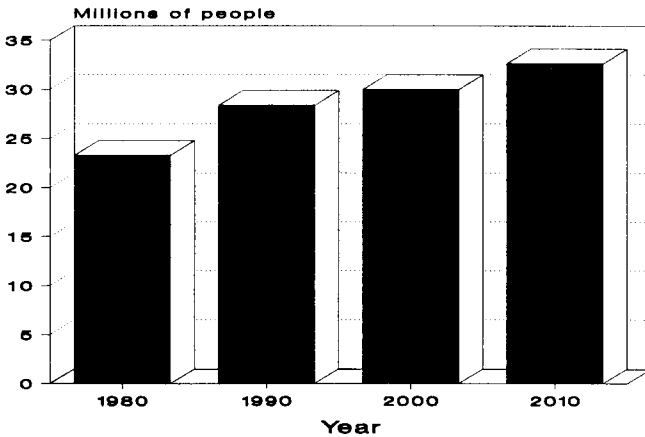
Number of People Aged 55-64
Actual Number for 1980
Projected for 1990-2010



Source: U.S. Bureau of the Census

On the other hand, as those persons born during the boom period between World War I and the onset of the Depression continue to age, there has been a significant increase in the numbers of persons in the 65-84 age group and a concomitant rise in the importance of planned and deferred gift development efforts in prudently managed development programs across the nation. See the following figure for an illustration of the rising numbers of this age group within the American population:

Number of People Aged 65-84
Actual Number for 1980
Projected for 1990-2010



Source: U.S. Bureau of the Census

Conclusion

Past and present trends and results can be very important considerations when making prudent plans for the future. It is in this spirit that this analysis has been prepared.

It is evident from available data that the stability of many nonprofit organizations during the uncertain years of 1931 to 1949 resulted to a large degree from bequests and other deferred gifts. Overall, giving trended erratically upward during the Depression, but the total income of the organizations that had laid the groundwork for, and participated in, deferred gift receipts remained relatively stable or actually increased as their deferred income rose at a faster rate than current giving declined. Research reveals that at least one leading American nonprofit agency included suggested bequest language in its annual report as early as 1866.

We admittedly face a different world today than the period of 1931-1949 studied above. But in light of economic uncertainty, a rapidly aging population, and ever-increasing competition for the charitable gift dollar, there are important lessons to be gained from this earlier chapter of our history as we plan for our fundraising efforts for the remainder of the 1990s. The demographic changes discussed above will alone present a challenge with or without an overlay of economic adversity and/or lower investment returns among an aging constituency.

In planning for fundraising in the 1990s, it appears that those entities that are successful will alter their behavior in a number of ways, including but not limited to the following actions, regardless of the vicissitudes of economic fortune:

1. Fundraising must be increasingly age-based in its overall approach. The same message that will be received and acted upon on by a septuagenarian will be likely to fall on deaf ears in the case of a baby boomer informed by the realities of the Woodstock generation. We must therefore consider focussing our messages, and to a greater or lesser extent our fundraising organizations, primarily around the age of the audience we wish to reach, and secondarily on the amount, property, timing, and methodology of the gift.
2. We must recognize that the older population in America possesses the vast majority of the nation's wealth and that this will not change until passed through estates to financially strapped baby boomers or possibly transferred to baby boomers sooner via what may amount to, in effect, an "intergenerational tax" resulting from inflation and/or lower interest rates. Generational conflict over the solution to current economic doldrums is already being hinted at in press reports (*NYT* 12-22-91). Fundraising from older Americans seems, in any event, to be a primary key to success over the next ten years.
3. Older persons have different needs and priorities than their children and grandchildren. Peer pressure and recognition bestowed during the traditional major gift cultivation process will increasingly take a back seat to the need for economic security in later years. As a result, deferred gifts will become increasingly important regardless of economic conditions.
4. Emphasis on deferred gifts as a fundraising tool must, however, like many prescriptions be used very, very carefully. The unwitting artificial acceleration of the ultimate gifts of 55-year-olds into lifelong deferred gifts in campaigns executed today may be a fatal mistake. In light of a prudent cost-benefit analysis, it may be preferable to continue the nurturing process for major *outright* gifts among the dwindling, but vital, 55-65 group, and thereby protect the "market share" in this demographic segment that is so vitally important to the success of campaigns for current funding that will presumably be needed more than ever as the decade of the 1990s unfolds. It would seem wise, therefore, to continue to do research

to find those capable of making large *outright* gifts among this group. Remember also that most deferred “gifts of a lifetime” are “planned,” but not all planned gifts are deferred for a lifetime. In working with middle-aged persons, focus on gifts where the receipts are immediate or are deferred for a few years at most rather than a few decades down the line, when they may be a serendipitous addition “over the transom” to the funding of what may be your *successor* organization.

5. When dealing with persons in the 65 and older category, approach them with appropriate respect and sensitivity to their deeply perceived physical, psychological, intellectual, and spiritual needs. Many persons feel an even greater desire to make meaningful philanthropic gifts as they age. Balancing the other concerns and fears in their lives is the key to satisfying and removing natural and valid objections that can be expected to be encountered when raising funds from this growing group. This is what planned gifts were originally designed to do, and it is apparent to those experienced in working with older donors that an approach that considers the donor’s financial and other needs first, their family second, and the charity third, is the only one that will work.

The philanthropic community today may face a serious, though not unprecedented challenge. But there is opportunity in times of flux. Now, more than ever, those who succeed and prosper in difficult times will be those organizations that are willing to turn and face what may be an unpleasant reality, examine it, and change it for themselves if not for others. It is our hope that this report will prove to be a useful tool for many organizations and institutions as they make their plans to continue to fulfill their mission in what may be a coming period of transition in our economy.

“Philanthropy in Uncertain Times” is excerpted from an upcoming study to be published by Robert F. Sharpe & Company, Inc., authored by its president, Robert F. Sharpe, Jr., and editorial associate, Jonathan P. Smoke. The Sharpe Company has, for nearly thirty years, assisted America’s leading nonprofit organizations and institutions in planning and building programs designed to produce long-term economic stability.

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