



MEMORANDUM

To: Sharpe Group Clients

From: Robert F. Sharpe, Jr.

Re: Summary of Recent Research on Depression Giving

Date: December 7, 2008

This memo summarizes additional findings from research completed over the past few weeks that augments the reports we prepared in 1992 and in October of this year. (www.sharpenet.com/uncertaintimes). Much of the data comes from the Yearbooks of Philanthropy published by John Price Jones from 1940 until he transferred it to what is now the Giving USA Foundation in 1955. Beginning in the early 1930s, the *New York Times* published the Jones summaries of giving in major cities as the benchmark for philanthropy each year. Jones collected reports of larger gifts nationwide (both outright and as bequests) and they are probably the best summary of giving by the wealthy during the period.

Here is an example of one of the *New York Times* reports:

GIFTS AND BEQUESTS TO CHARITY INCREASE

**Total for 6 Cities in First Half
of '37 Is \$115,103,196, Against
\$50,895,621 a Year Ago**

Bequests in New York City for philanthropic purposes totaled \$69,204,755 in the first six months of this year, against \$5,406,607 in the same period in 1936, according to a survey made public yesterday by the John Price Jones Corporation. Gifts in this city for the same 1937 period totaled \$24,812,767, compared with \$19,206,069 in the 1936 period. The survey covers six large cities, for which the total increase in gifts and bequests for philanthropic purposes is more than 100 per cent. The six months total was \$115,103,196 in 1937, as compared with \$50,895,621 in the 1936 period.

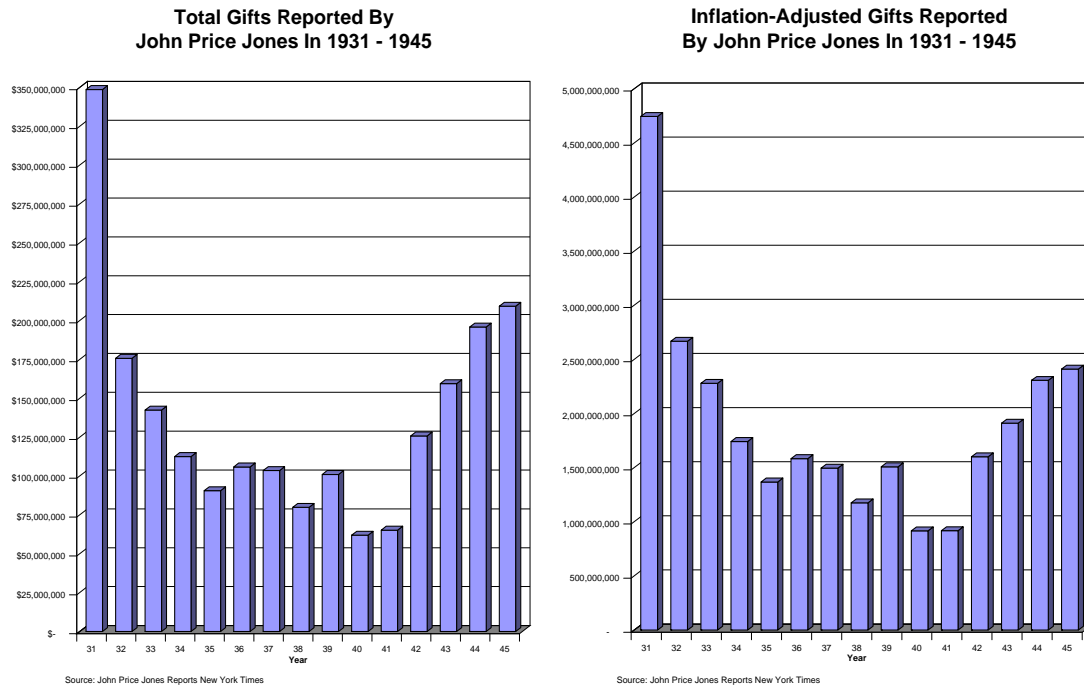
Of the 1937 total, \$77,500,915 went to education, while the next largest amount, \$28,340,627 went to organized relief. Health activities received \$3,424,680; religious causes, \$1,819,050; foreign relief, \$2,911,111; miscellaneous reform, \$361,242; the fine arts, \$718,315, and play and recreation, \$27,363.

The total in bequests for the six cities for the six months increased from \$17,097,144 in 1936 to \$75,859,805 in 1937. Contrary to the general trend, bequests in Chicago fell from \$7,358,000 to \$105,000 this year.

The New York Times
Published: July 12, 1937
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The other primary source of information for the period is the report entitled “Philanthropic Giving,” authored by F. Emerson Andrews and published by The Russell Sage Foundation in 1950. We consider it to be the primary source for information about broader-based philanthropy in America from 1929 to 1949. As the Andrews reports on total giving were based on IRS data and other government reports, etc., it is our conclusion that these estimates of giving are more indicative of overall giving during the Depression than the Jones reports.

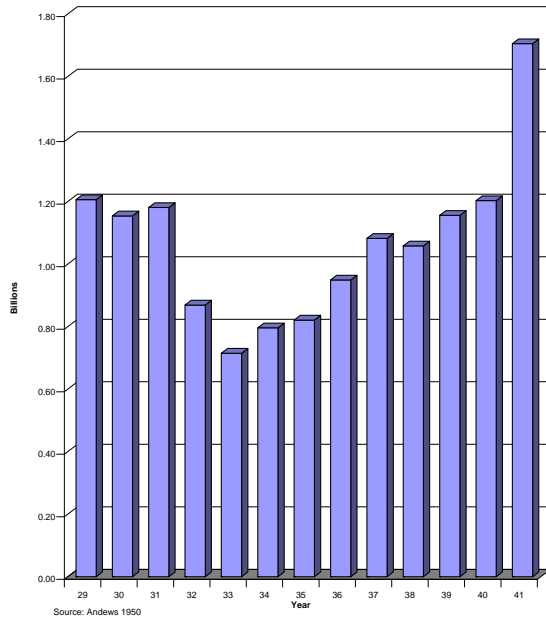
The following charts depict larger reported gifts as reported by John Price Jones both in current dollars and adjusted for inflation:



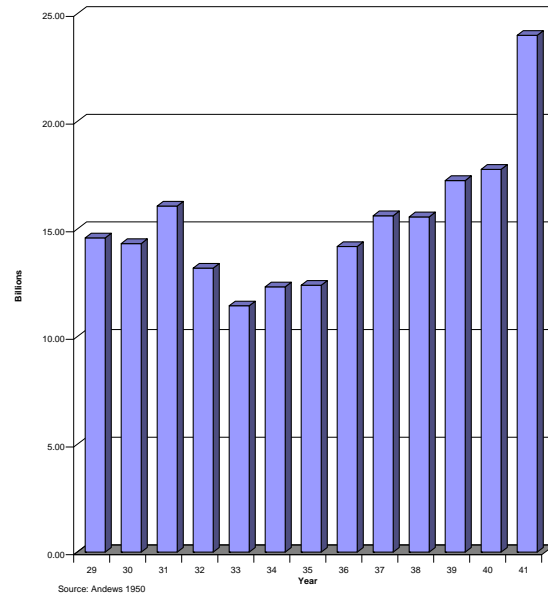
As we can see, major gifts reported dropped significantly from 1931 through 1935. After adjusting for inflation, this drop in major gifts was roughly equivalent to the 70% drop in the stock market that reduced the discretionary wealth of the upper level of society.

When looking at the Andrews reports on overall giving the decreases are not as dramatic:

Giving in America From 1929 to 1941



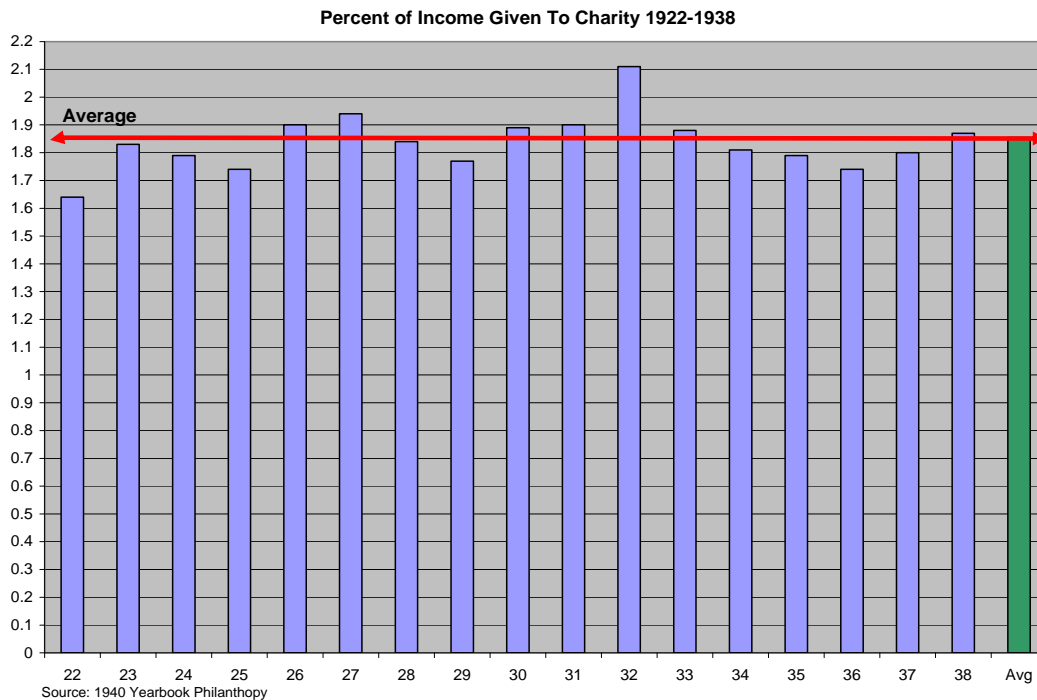
Inflation-Adjusted Giving in America From 1929 to 1941



It appears that when adjusted for inflation, giving overall, as reported by Andrews, dropped about 22% from 1929 to 1933. Giving dropped 40% when not adjusted for inflation. As a result of deflation, the dollar increased in value by some 33% between 1929 and 1933, as prices fell 24% during that period. To get the true picture we must adjust for inflation as well as deflation which results in the 22% net decline in giving at the worst. Note that giving overall began to recover after 1933 and more than doubled by 1941, while giving by the wealthy, as reported by Jones, continued to decline until the early 1940s. If we measure the decline in overall giving as reported by Andrews from its absolute peak in 1931 to the trough in 1933, rather than the lower 1929 amount, it is a 28% inflation-adjusted drop.

Another factor relevant to understanding philanthropy during this time is the *percentage* of income donated to charity. Fortunately, we have tax return data from the Treasury beginning in 1922 that tracked the percentage of gross income given to charity by all taxpayers, even those with incomes under \$5,000 who did not pay taxes during that period. Keep in mind that \$5,000 in 1929 is equal to approximately \$64,000 today. Depression-era income numbers must be multiplied 10 to 12 times or more to arrive at comparable income levels today.

Based on tax return data, over the period from 1922 to 1938, Americans, on average, donated 1.85% of their gross income to charity. From 1922 to 1929, the average was 1.81%. From 1930 to 1938, the average was 1.87%.

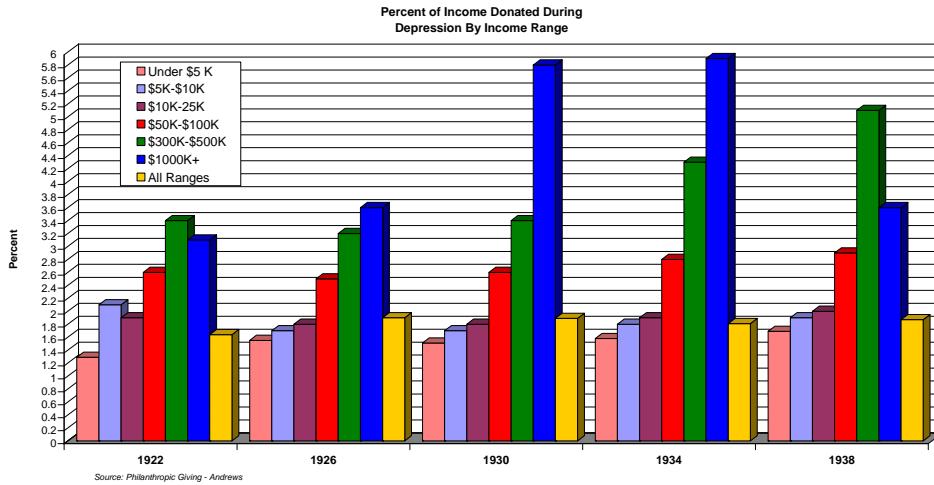


On the whole, Americans during the Depression apparently gave to charity as much or more of what they *had*. As unemployment levels rose and incomes dropped, Americans simply had less from which to give. The 22% decrease in giving between 1929 and 1933 closely corresponds with the trend in unemployment rates at the time.

It may be that during today’s period of economic crisis, unemployment in general – and white collar unemployment in particular – is the most important factor to watch. For example, if large numbers of jobs are lost in a region, that area will undoubtedly be more “depressed” in giving than areas where employment remains stronger.

Those with the highest incomes were the only group to reduce their *reported* percentage of giving as the Depression wore on. Reports indicate that increased income taxes for the very highest income earners (\$1 million and up which is \$12 million or more in 2008 dollars) cut giving somewhat as a greater amount of their discretionary income was absorbed by taxes. Even though the gifts were tax deductible, they had less discretionary income because of higher taxes on the portion of their income they did not give away. Some have also speculated that the highest income donors may have actually given more that could not be deducted – and thus never reported it to the IRS – because of the 15% of income limit on charitable deductions at the time.

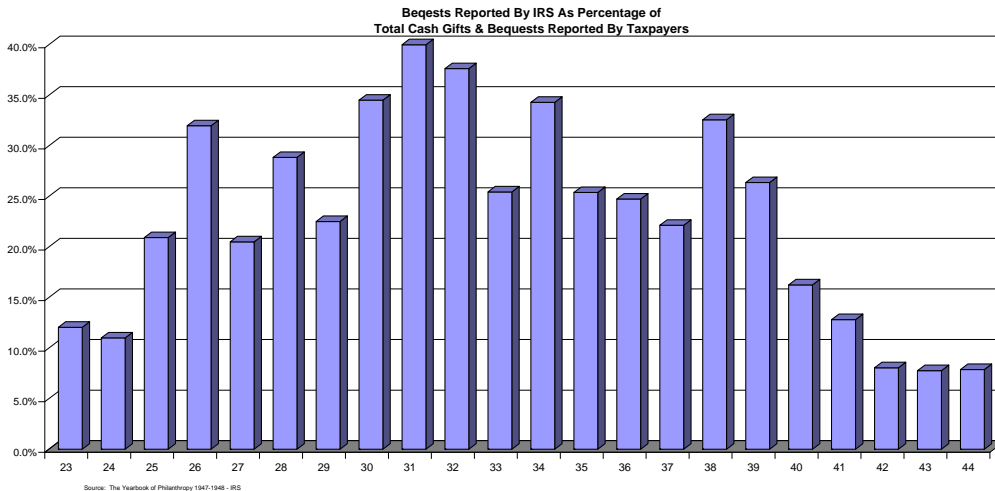
See the trends in reported giving by income range from 1922 to 1938 in four-year increments:



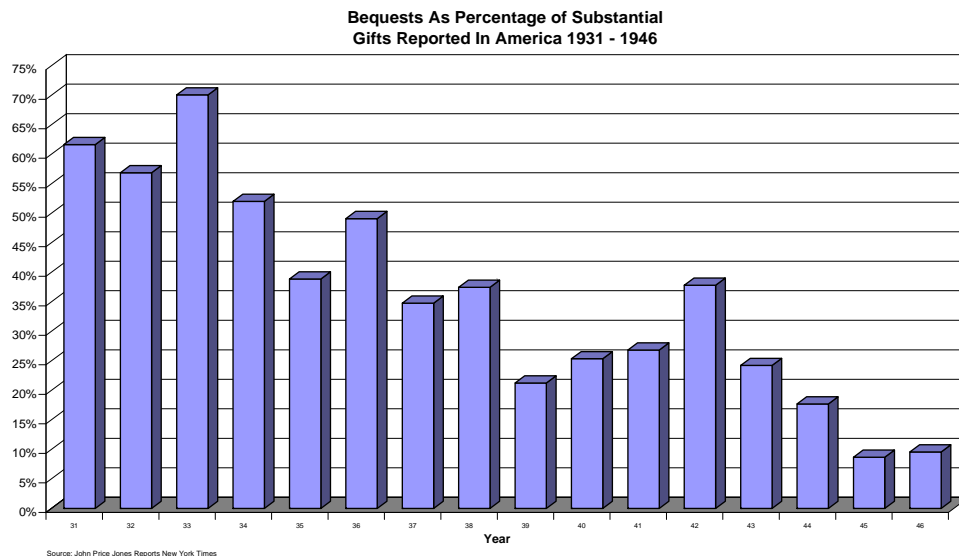
The under \$5,000 group kept the percentage of income about the same. As noted previously, the persons with the highest incomes (\$1 million plus) decreased the amount deducted as a percentage of income by 1938. It appears that the “middle to higher upper” income ranges stepped up their giving as a percentage of income, helping to keep the overall percentage a little higher in the 1930s than in the 1920s.

Some at the time voiced the opinion that the increased giving as a percentage of income in the upper income ranges reflected a higher perception of need. Additionally, some likely increased their percentage of giving in order to keep their giving steady as their incomes decreased.

It is also clear from IRS data that bequests became a much higher percentage of the total given during the Depression. Note that bequest gifts as a percentage of total outright cash giving by individuals and bequests as reported on income and estate tax returns rose to as high as 40% early in the Depression. Toward the later years, estate gifts returned to around 10% of total giving, a more typical percentage both before and after the Depression.



The John Price Jones reports indicate that the wealthy may have been even more inclined than others to defer larger gifts until death. Note that the Jones reports indicate that by 1933, up to 70% of substantial reported gifts came in the form of bequests:



Conclusion

Should we experience another period of severe economic decline at all similar to the 1930s, history reveals those in fund development can expect relatively little impact on philanthropy for the first few years and may even see a slight increase at the beginning of a downturn.

In later years, we may expect to see a drop in asset-based giving by the wealthy of roughly the same magnitude as the drop in investment markets. This drop could be a 30% or 40% decline or more, depending on where the “bottom” is. Regular gifts to annual appeals, etc. may be less affected since they may be more closely tied to the income of the donor rather than the value of assets.

Overall giving in America should continue to be about 2% of personal income – as it has been for the past 80 years or more. A key determinant of giving, therefore, will be how much income there is from which to give. If personal incomes fall by 10%, we can reasonably expect giving to fall by a similar amount. As income levels recover, so will giving, just as happened during the Depression.

Similarly, we can expect the amount received from bequests to be somewhat more consistent in many cases than lifetime giving, as we saw in the 1930s. Bequest income as a percentage of giving is likely to be higher until other gifts recover with the underlying value of assets.

With more financial sophistication today among investors and advisors, charitable lead trusts and other more specialized tools of the 1969 tax reform act, and the expertise developed with those tools over the past 40 years, we can expect to see more large gifts in the form of charitable remainder trusts, lead trusts, etc. These will not be financial “gimmicks,” but rather ways for people to make gifts they could not otherwise make.

Donors will continue to plan bequests. Mortality rates will not be affected by the economy. As most bequests come from estate residues, the average size of bequests may vary somewhat with stock values for the wealthy and with home values for others.

Commentators in the 30s recognized the importance of gifts from the masses, where millions of small gifts added up to significant funding. In contrast, during the 1920s and the 1990s, charities tended to depend more on a relatively small number of very large gifts. Mass-based giving to a number of national organizations apparently expanded greatly during the 1930s.

One prominent national organization currently raises \$450 million a year from a multitude of donors giving less than \$100 on average, and \$100 million in bequests from hundreds of donors who leave relatively small amounts from average size estates. We may expect organizations such as this to realize a less severe impact than others who are relying on a small number of gifts from a handful of donors.

There was an interesting statement in the 1947-48 Yearbook of Philanthropy from a man named Chester Tucker who served in a number of capacities during his career including Vice President for Development and Public Relations for University of Pennsylvania in the 1950s:

*“For all that government has done in social and educational welfare, private philanthropy, which had its great organized start in the first World War, is probably going to be with us so long as the American way lasts. The total given to philanthropy over the years remains on a fairly even but rising curve. It is remarkably steady in absolute amount though as a percentage of national income it has shown up and down fluctuations. **For the fact is that philanthropy does not go up in proportion to prosperity or down in proportion to depression.**”*

From one standpoint this balance is a good thing. It indicates that the individual considers philanthropy, to a large degree, a fixed part of his cost of living. But from another standpoint the extent of philanthropy - which is equivalent only to our national cigarette bill - leaves much room for improvement. In a sense, we are like the Red Queen in Alice in Wonderland, running as fast as we can in order to stand still.

For certain it is that the increase in philanthropy has not begun to take care of the wastes, dislocation and postponements due to war, or the rise in the costs of charitable and educational operations.”

With Mr. Tucker's comments in mind, we don't believe that human nature has changed all that much over the past 60 years and that we can, indeed, learn from those who went before us. We must of course be mindful that the challenges each generation faces are different, while the courage that it takes to meet those challenges is timeless.

We trust this information will be helpful as you plan for next year and beyond. Further updates will be forthcoming as we uncover additional information and trends.