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MONEYBOX

The Coming Charity Crisis

The economy is tumbling. Will philanthropic donations follow?

By Daniel Gross

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The latest victims of the sagging economy: charities. In May, the [annual gala](#) of the [Robin Hood Foundation](#), an event at which a few thousand hedge-fund magnates and leveraged buyout titans conspicuously display their wealth and commitment to social justice while rocking out to A-list musical guests (Shakira, John Legend, Sheryl Crow), raised \$56.5 million, down 21.5 percent from [\\$72 million the year before](#). (Tom Wolfe [profiled](#) the 2006 gala in *Portfolio*.) No surprise here. Many of the regulars have seen their net worths crushed in the past year.

But it's not just the charities of the swank that are suffering. The Salvation Army caters to a somewhat different crowd—i.e., tens of millions of middle-class Americans. And while it had a good Christmas—"since the first of the year, we've seen some slippage," said Major George Hood, a Salvation Army spokesman—overall donations are down compared with 2007, and donations of used clothing and furniture to thrift shops have fallen by 20 percent. While natural disasters typically inspire a spike in donations, Hood says the earthquakes in China, the cyclones in Burma, and the floods in the Midwest have yet to generate such an outpouring.

It would be unfair to say that Americans—whether they are accountants in Kansas City, Mo., or bond traders in Greenwich, Conn.—are becoming stingier. Rather, philanthropy is a pretty large industry. Charitable giving in 2006 was \$295.2 billion, [according to Giving USA 2006](#), about 2.2 percent of gross domestic product. For comparison's sake, Wal-Mart has annual sales of about \$350 billion. And like every other industry, philanthropy is tethered directly to the health of the overall economy, and in particular to the health of the upper-middle-class consumer. If the past is any guide, it's likely to be a lean year for nonprofits.

A great deal of the public attention about philanthropy is generated by large, dramatic gifts by really rich people—the types who tend to be unaffected by short-term economic fluctuations. But while splashy donations like the Blackstone Group's Steven Schwarzman's [\\$100 million commitment](#) to the New York Public Library might garner large headlines, or land a donor on the "[Slate 60](#)", such mega-gifts in 2006 represented just 1.3 percent of overall donations, according to Giving USA. Rather, it's the smaller donations by hundreds of millions nonbillionaire Americans that fuel most of the nation's nonprofits. (In 2006, individuals accounted for about three-quarters of donations).

With the economy slowing and [likely in recession](#), charitable giving will probably slump this year and possibly next. After all, charitable donations are a lagging indicator, says Robert Evans, managing director of [EHL Consulting Group](#), a Philadelphia-based firm that advises nonprofits on fundraising. "It's a lagging indicator for a number of reasons, not the least of which is the fact that in the minds of some, philanthropy is a luxury. You pay your bills first, and then start making charitable gifts."

The data seem to bear Evans out. During the last 40 years, according to data provided by Giving USA, charitable giving fell in real terms (i.e., adjusted for inflation) in years in which the economy was in recession, or in years in which there was a significant stock market dislocation. Giving fell in 1980, 1987, and 1990. The last time the economy contracted was in 2001. That year, [according to Giving USA](#), charitable giving fell 2.3 percent in real terms, after having boomed along with the stock markets and the economy at large in the late 1990s. But while the economy resumed its growth in late 2001, charitable giving slumped in real terms in both 2001 (down 1.4 percent) and 2003 (down 0.2 percent). Evans believes giving is less tied to overall economic trends than to traumatic events that might cause donors to seize up for a few months, such as 9/11, the Kennedy assassination, or Watergate. Indeed, 1974, the year the Nixon resignation drama played out, was the worst year for charitable giving in the past 40 years. Donations fell 5.4 percent in real terms that year.

Evans suggests that the best indicators to watch aren't the hauls from splashy public events such as the Robin Hood gala or the results of the Salvation Army, which relies on middle-class donors. The most effective fundraising efforts aren't parties but efforts in which people appeal to their friends and colleagues face-to-face. And over the years, he believes, philanthropy, like the U.S. economy itself, has become more top heavy. In a prior generation, 80 percent of funds were donated by 20 percent of the people. Now he believes the ratio is more like 90 percent donated by 10 percent of donors. "Today, we have to be looking at the high end [those with income of more than \$100,000 a year] more than ever before." If layoffs of white-collar workers at [companies such as Ford](#) continue, and if the United Way campaigns that rely so much on upper-level management struggle, 2008 could be a lean year for nonprofits.

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