Philanthropy in the American Economy
A report by the Council of Economic Advisers

Executive Summary

As a follow-up to the 1999 White House Conference on Philanthropy, this report provides an economic analysis of philanthropic behavior in the United States. It discusses trends in giving over the past several decades and highlights the economic explanations behind the observed increase in donations. The report also discusses possible future directions for philanthropy and how even greater giving might be encouraged. Among its main findings are:

- **Charitable giving reached a record high in 1999.** In 1999 Americans donated over $190 billion. This represents an increase of 41 percent since 1995. Furthermore, giving has increased sharply as a fraction of the Gross Domestic Product, rising from 1.7 percent of GDP in 1995 to 2.1 percent in 1999.

- **Growth in the income and wealth of the population explains much of this trend.** Average net worth for the sample of families we analyze grew by an estimated 28 percent between 1992 and 1998 and average income increased by 15 percent over the same period. Both income and wealth are strongly positively related to the probability and amount of giving.

- **Individual giving accounts for the largest fraction of all charitable giving.** In 1998, 70 percent of American households made a charitable contribution and individual giving accounted for 85 percent of all donations. Although the largest fraction of giving is attributable to individuals, the fastest growing component of philanthropic activity was giving by foundations, which rose by 72 percent from 1995 to 1999.

- **The elderly are more generous donors than any other age group.** Controlling for differences in income and wealth, those aged 65 and over are approximately 25 percent more likely to make a charitable contribution than younger individuals, and when they do give, they give $500-$600 more per year on average. Furthermore, because these calculations do not include charitable bequests, the true difference in the total amounts given by the elderly and the non-elderly is likely to be even larger.

- **Single women are more likely to give than single men.** When differences in economic resources are accounted for, single women are significantly more likely to make charitable contributions than are single men. Within the population of unmarried women, women who have never been married are more likely to give than widowed or divorced women.

- **African Americans are more likely to give than whites.** After accounting for differences in income, wealth, and education, African Americans are more likely to make charitable contributions than whites, and on average give approximately the same amount as white Americans. Other evidence suggests that minorities are under-used resources with respect to philanthropic giving.
• The New Economy has brought changes in the methods of giving. The Internet has affected philanthropy as it has so many aspects of American life. Internet sites now provide information about charitable organizations, help match donors with causes, and provide a convenient way to make contributions. Lessons learned from the venture capital sector are also being applied to philanthropy. Although still in their infancy, these developments have the potential to increase the amount of giving and to improve the efficiency with which grants are used by the recipients.

• The aging of the baby boomers is good news for philanthropy. Because both older Americans and those with greater wealth give more, the aging of the baby boomers and the wealth of that cohort point to the likelihood of a dramatic growth in giving, perhaps increasing by several hundred percent over the next couple of decades.

• The Administration’s tax policies will likely also lead to increases in giving. Both economic theory and empirical studies indicate that Americans respond to financial incentives to give. Through the tax deductibility of charitable contributions, both inter vivos gifts and bequests are increased in number and size. Recent proposals to extend the deductibility of donations to those who do not itemize on their income tax returns, and to simplify other aspects of the tax code, will likely result in further increases in giving. Evidence suggests that eliminating the estate tax will decrease charitable bequests.
INTRODUCTION

The tradition of philanthropy in the United States is as strong as ever. Americans donated a record $190.2 billion in 1999. Adjusted for inflation, this represents a 41 percent increase just since 1995, and a more than doubling since 1980. Americans also gave generously of their time, although volunteerism is not the focus of this study. In 1998, citizens gave an estimated 20 billion hours volunteering for charitable organizations. In fact, over half (56 percent) of adults volunteered that year, the highest percentage in at least a decade. These gifts of both time and money help support an estimated 1.6 million nonprofit organizations and religious congregations in the United States.

Philanthropy is at an important crossroads in its development. As our nation becomes more diverse, women and minorities will likely play a more prominent role in charitable giving. Technology is also changing philanthropy, with the Internet providing new ways to give. Moreover, new strategies are being used to increase the efficacy of charitable work, such as path-breaking partnerships between nonprofits, government, and business, as well as new concepts in giving such as those embraced in "venture philanthropy."

In October 1999 the President and the First Lady hosted the White House’s first Conference on Philanthropy to highlight these trends in giving, and to emphasize the importance of our philanthropic tradition and the responsibility of all Americans to teach and sustain that tradition. At the conference the President asked the Council of Economic Advisers to prepare a report on the role of philanthropy in the economy and on ways to encourage Americans to give more.

This report provides that assessment. It begins with an overview of recent trends in giving, pointing to the rise in giving relative to the size of the economy in recent years. At the same time, however, the report provides a cautionary analysis of individual giving, suggesting that Americans may not be inherently more generous than they have been in the past. In particular, the amount that people give at any particular level of income and wealth appears to be about the same as in the past, but the sheer amount of wealth has increased dramatically, leading to an increase in charitable donations. The New Economy and the explosion of wealth have also fostered new methods of giving that may result in even greater contributions in the future. To ensure that the current high levels of giving continue even in times of slower economic growth, it is important that we invest now in strategies that encourage future philanthropic behavior.
RECENT TRENDS IN GIVING

As background for further analysis, this section provides a concise overview of important recent trends in charitable giving.

Overview

*Philanthropic giving rose by over 40 percent between 1995 and 1999, to $190 billion. This was faster than aggregate economic growth, and giving as a share of GDP has increased to levels close to those last seen in the 1960s.*

Total philanthropic giving has risen strongly in the past 5 years, increasing over 40 percent from $134.7 billion in 1995 to $190.2 billion in 1999, using inflation-adjusted 1999 dollars (see Chart 1). This increase is equally impressive when compared to measures of economic growth. Since 1995, growth in charitable giving has outpaced even our strong economic growth with the aggregate level of giving rising relative to the Gross Domestic Product or GDP (see Chart 2). This recent increase has reversed a decline in the early 1970s that left charitable giving fluctuating in a range roughly around 1.75 percent of GDP for two decades. At a ratio of 2.1 percent in 1999, giving as a share of GDP has nearly returned to the highest levels of the 1960s.

Sources of Giving

*Individual giving remains the primary source of American philanthropy, while gifts by foundations have shown the fastest growth.*

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1 AAFRC Trust for Philanthropy, *Giving USA*, 2000. Giving by individuals and corporations in the years 1998 and 1999 is based on projections from *Giving USA*. Projected values are functions of the levels of personal income and the value of the stock market at the end of the year. Conclusions based on these numbers should therefore be viewed with caution. For our calculations in this report, nominal figures were inflation-adjusted using the CPI-U-RS series where available (1977 to 1999) and the CPI-U series for prior years. *Giving USA* uses the CPI-U series only, so the inflation-adjusted figures presented in that report differ somewhat from those presented here. When citing other research, we use the CPI-U in an attempt to be consistent with the assumptions of these studies.
Including both *inter vivos* gifts and bequests, individuals accounted for nearly 85 percent of all giving in 1999, with the rest coming from foundations and corporations (see Chart 3). Total individual giving also accounted for the majority of the $55.5 billion increase in giving in between 1995 and 1999, rising by $44 billion over this period, or approximately 40 percent. However, the fastest-growing component of giving was giving by foundations, which increased by 73 percent from $11.47 billion in 1995 to $19.8 billion in 1999. Since 1960, giving by foundations has increased fivefold.

There has also been a large increase in giving by corporations, which increased by more than 38 percent between 1995 and 1999 (see Chart 4).

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**Chart 3.** Sources of Giving, 1999

- **Individuals** $144 billion
- **Corporations** $11 billion
- **Bequests** $16 billion
- **Foundations** $20 billion

**Chart 4.** Trends in Real Giving by Source

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**Explanations for the Increase in Foundation Giving**

Several economic factors have contributed to the growth in foundation giving. First, stocks comprise a large share of foundations’ portfolios, particularly among foundations with the greatest assets. As the value of stocks increased sharply during the 1990s, the assets of foundations did as well. Because private foundations must donate 5 percent of the value of their assets each year to maintain their tax-exempt status, as the value of their endowments grew, the amount given by foundations also increased. Second, the continued low inflation rate helped maintain the real value of multi-year grants denominated in nominal dollars. Third, a substantial number of new foundations were established. Over half of all large foundations currently in existence were founded after 1980, and 30 percent were created after 1990. These newly active foundations were responsible for 20 percent of the growth in foundation giving between 1997 and 1998.

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2 Of course, all philanthropy can be traced back to individuals. In addition to providing direct gifts to nonprofits and charities individuals provide the seed money for foundations, and employees or other stakeholders provide the resources for corporate giving. To the extent that foundations redistribute the funds received from individuals in the same year in which they are received, there will be a double-counting of donations—both the donation to the foundation and the foundation’s subsequent donation to a charitable cause will be included in total giving. An approximation of the extent of this over-counting can be derived by assuming that foundations give away 5 percent of any increase in endowment. Subtracting 5 percent of the value of individual gifts to foundations from the total giving by foundations yields a reduction in giving by foundations in 1998 of approximately $1 billion.
Implications

Philanthropic activity as a percentage of GDP increased sharply in the second half of the 1990s with the majority of this growth coming through increases in individual giving. This rapid increase has allowed the nation to match the generous rates of giving as a fraction of GDP last observed in the 1960s. If we are to maintain these rates and avoid the declines experienced in the 1970s, it is critical that we learn more about both individual giving and the increasing prominence of foundations.

As subsequent sections of this report will show, the strong economy is a key determinant of these trends. During the 1995-99 period, the economy grew at an annual rate of 4.1 percent, the unemployment rate averaged 4.9 percent, and inflation remained low. Wealth also increased dramatically. Adjusting for inflation, the average net worth of American families increased from $224,800 in 1995 to $282,500 in 1998. These factors helped give Americans greater financial resources to spend, invest, and donate to the causes they support. The rising stock market also increased the assets of foundations, and because of legal requirements on distributions, the amount foundations have given.

In addition to assessing the extent to which the growing economy has contributed to the increase in philanthropy, we also examine the possibility that the increase in giving may reflect, in part, a new, more generous attitude towards philanthropy. We find little evidence to support this hypothesis. Because this enormous increase in giving was accomplished with little if any change in individual generosity, initiatives designed to instill a greater desire to give remain a potentially fruitful avenue to explore in an effort to increase giving further.

THE CHARACTERISTICS OF INDIVIDUAL GIVERS

Economic Means and Household Giving

*Personal giving is broadly based, with generosity displayed by families at all levels of income and wealth. In terms of the total value of charitable giving, however, a disproportionate share comes from those with high incomes or considerable wealth.*

Charitable giving in the United States is a tradition practiced by a broad segment of the population. In 1998 an estimated 70 percent of households reported making a charitable contribution. Even among those with incomes under $10,000, almost half (48 percent) made a donation and the proportion of givers reached nearly 90 percent for families with incomes greater than $100,000.

The breadth of charitable activity and the variation in the resources of the donors suggests that charitable giving can best be understood by examining behavior on an individual level. To do so, we draw on the Federal Reserve Board’s Survey of Consumer Finances (SCF) using data
from the years 1989, 1992, 1995, and 1998. We find that a small number of Americans are responsible for much of the giving. The 10 percent of respondents making the largest gifts were responsible for 74 percent of the total of all philanthropic contributions.

Not surprisingly, families in the SCF with higher incomes are both more likely to give and give greater dollar amounts than lower income families. In 1998, 70 percent of families in the top 20 percent of the income distribution made a contribution of $500 or more, and among those who gave, the average gift was $5,204. Because the survey limits reported gifts to those over $500, the fraction of families making a contribution is underestimated. This omission is likely to be particularly severe for the lowest quintile where gifts are expected to be smaller on average. We find that just 9 percent of families in the lowest 20 percent of the income distribution reportedly made contributions, but given the $500 cut-off, the average amount was substantial at $1,287.

Although many studies of charitable giving have focused on the role of income, a family’s financial ability to make transfers is obviously determined by other factors as well. In particular, one would expect giving behavior to be strongly related to wealth. Because of data limitations, this relationship has been ignored in many studies. By using the SCF we can address this issue. We find that when examined across wealth quintile, very similar patterns to those for income exist for both the probability and amount of transfer: 69 percent of those in the highest wealth quintile made a contribution, and the mean amount was $5,299; 10 percent of those in lowest category gave, and gave $1,686 on average.

Chart 5 assesses giving relative to a family’s financial means. Both families making a positive contribution and those making no transfer are included in the chart. Excluding the large spike for the lowest income quintile, the ratio of contributions to income rises consistently with income. Families in the 20-40 percent range of the income distribution on average contribute 1.3 percent of their income; those in the highest quintile contribute 2 percent. If families are instead grouped based on their position in the wealth distribution, we surprisingly find the reverse pattern, the share of net worth contributed to charities actually falls as net worth increases. Among those with positive net worth, families in the 20-40 percent range of the wealth distribution gave 1 percent of their wealth to charitable organizations, while the wealthiest gave just 0.4 percent.

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The Survey of Consumer Finances is a national survey conducted every 3 years by the Federal Reserve Board. The data set contains information about household income, wealth, and demographic characteristics. It also contains information about whether the household made contributions totaling $500 or more in the previous year, and if so, the amount. The survey has the unfortunate drawback that this $500 minimum on reporting misses contributions from families who gave less. However, it does allow us to examine the effects of both income and wealth for a representative sample of the U.S. population, an important advantage. Contributions below the $500 limit are estimated to account for 5-10 percent of total giving.

This comparison is based only on those with positive levels of income and positive levels of wealth. A small fraction of families in the sample have negative net worth, but make a contribution. There are also families with...
be in stocks. If these gains have not yet been realized, wealthy individuals may not yet have increased their giving in response to their newfound wealth. This hypothesis suggests that the giving of the wealthiest Americans may increase in time.

Despite the smaller share of net worth given to charity by the wealthiest, the vast majority of giving comes from just such families (Chart 6). The wealthiest 20 percent of families in the SCF made 67 percent of all charitable contributions. They held 81 percent of the wealth, and received about 47 percent of the income. In contrast, the bottom 20 percent contributed 3.2 percent of all donations, held -0.4 percent of the wealth, and received 7.4 percent of the income.  

The Relationship between Income and Wealth, and Charitable Giving

Many factors affect the decision of how much to give. When we take into account a broad array of personal characteristics, we find that changes in both income and wealth play a significant role in defining recent trends in giving. Also, we find no evidence to support the view that increases in giving have been driven by changes in tastes or preferences, leaving open the possibility of future changes in this direction.

The previous section separately examined the relationships between charitable giving and the income and wealth of families. To obtain a more accurate understanding of the factors that influence philanthropic behavior, it is necessary to take into account simultaneously a broad array of characteristics. Ignoring important determinants of giving will likely lead to incorrect conclusions about the observed relationships. For example, giving as a percent of GDP has risen (Chart 2). Based on this observation alone, one might argue that Americans have become more generous, in that they are giving a greater fraction of their incomes to charities. However, this simple conclusion ignores changes in factors other than income that may have contributed to this rise. In particular, it ignores any effect of the recent increases in wealth.

Beyond income and wealth, giving may also be influenced by factors such as gender, race, age, and education - we control for these factors in our analysis. Furthermore, because the data cover a span of years, we can also examine differences in giving over time, exclusive of changes in these other factors. If there are overall increases in the propensity to give and/or the amount of gifts that are not explained by the observable characteristics, one could begin to

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5 As noted in above, a substantial fraction of total contributions (5-10 percent) are not captured in the SCF because of the $500 minimum. Thus the fraction of income and wealth donated is underestimated. If these smaller contributions come disproportionately from the lowest income (or wealth) quintiles, then giving as a share of income (wealth) will be even higher fractions among these groups relative to the other quintiles.

6 The regression analysis uses nonlinear specifications for income, wealth, age, and education, and also includes controls for marital status and number of children.
contemplate the possibility of an increase in generosity. However, any observed changes in
giving over time could also be due to changes in factors not included in our statistical model,
such as changes in government transfers, tax laws, or expectations about future economic
conditions.

One of our key findings is that wealth and income have independent effects on giving;
charitable donations increase in response to increases in either variable. Because both income
and wealth have increased throughout the period of analysis, some of the observed increase in
charitable giving highlighted in Chart 1 is attributable to a “income effect” and some to a “wealth
effect.”

At the same time, however, we do not find any evidence of an increased preference for
giving over time. Rather, we find subtle indications that preferences for giving may have actually
decreased slightly between 1989 and 1995, before rebounding in 1998. Thus there remains the
potential to build on recent increases in giving by improving attitudes about giving.

Beyond the roles of income and wealth, our findings shed light on the variation in giving
by age, education, race and ethnicity, and sex. We find that the relationships observed in our
multivariate analysis differ substantially from the conclusions drawn based on simple cross-
tabulations of the data. We now discuss these results.

Age

Older families (in which the family head is aged 65 or over) at every level of income are
generous givers. Holding constant differences in financial resources, they are more likely to
make a contribution than younger families, and when doing so, give a larger amount.

The aging of the American population has been highlighted in discussions about the
future of Social Security and the impending difficulty of supporting a large population of retired
individuals. For charitable organizations, however, this trend may provide substantial benefit.

Preliminary results from the forthcoming Giving and Volunteering 1999 demonstrate a
substantially lower propensity to give among those under age 35, but no clear age trend
thereafter; the probability of making a contribution peaks at 78 percent for the 65-74-year-old
age group, but is nearly identical to the 77 percent for those ages 45-54. Similar patterns are
found with respect to the amount. While the probability of giving and the levels given are
similar across ages, there is a monotonic increase with age in giving as a fraction of income. This
figure rises from 1.5 percent for those ages 25-34 to 2.5 percent for those 65-74. Those aged 75
and over contribute an astounding 4.6 percent of their income.

A stronger, relationship exists between age and the probability of a charitable
contribution in the SCF data. The percent of households making a donation peaks at 40 percent
for those ages 45-54 and falls slightly to 34 percent for those ages 75 and over. The difference
between the age patterns in the Giving and Volunteering data and the SCF data in part reflects

7 The Independent Sector, Giving and Volunteering 1999.
the $500 lower limit on giving in the SCF, but also may reflect changes over time. Data from Giving and Volunteering 1996 show a similar pattern to that in the SCF data. Because our SCF data are compiled from the 1989, 1992, 1995, and 1998 surveys, the patterns in giving for 1996 reported in Giving and Volunteering may more closely match the SCF data. Among those who make a charitable donation in the SCF data, the amount increases with age, from $2,536 for those ages 35-44 to $4,423 for donors ages 75 and over (see Chart 7).

One would not want to conclude solely from these descriptive results that the elderly are more generous than the non-elderly; there are also large differences in income and wealth by age that need to be controlled for. Few elderly are employed, and they therefore have lower incomes than the working age population, while at the same time they may have more wealth. Conversely, younger people in the early stages of their careers may have relatively high incomes but little wealth. However, even controlling for these and other variables, we find that the elderly do appear to be more generous; both the probability and the amount of giving increases monotonically with age. Those age 65-74 are 24 percent more likely to make a gift than those aged 45-54 and conditional on making a gift, contribute $460 more on average. Those aged 75 or older are even more likely to give (28 percent more likely than those aged 45-54) and give $620 more on average. Furthermore, because reported gifts in the survey do not include bequests, the total amount of giving in the older age brackets will be even higher than reported.

Individuals in the age group 25-34 are significantly less likely to make donations than those ages 45-54, but those who do give similar amounts. On the one hand, one would imagine that a 30-year-old with the same levels of income and wealth as a 50 year old should be better off in lifetime terms, having many more years over which to experience growth in earnings and wealth accumulation. On the other hand, this group is also facing many demands on their financial resources, including those of supporting children. Their relative ability to make donations is therefore unclear.

While the elderly do appear to be more generous than other age groups, it is impossible to infer from these statistics whether the current young will be equally generous when they reach their retirement years, or whether the current cohort of elderly has always been exceptionally willing to give. However, the relatively low rate of giving among younger families does suggest that recent initiatives to simulate giving among the young may be well directed.

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8 The Independent Sector, Giving and Volunteering 1996.
**Education**

*Giving is significantly higher among more educated households in terms of the percentage of households making contributions, the dollar amount of those contributions, and the percentage of household income donated.*

Based on preliminary figures from *Giving and Volunteering 1999*, 61 percent of respondents with a high school degree or less reported making a donation in 1998, up from 59 percent in 1995. Among donors, the average household in this group gave $584 or 1.7 percent of household income. A higher share (72 percent) of households with some college education, but not a degree, reported making a donation, with an average level of giving among donors of $963, or 1.9 percent of household income. However, the fraction of this group making a donation was lower than in 1995. Giving was even higher for those with a college degree: 82 percent of households gave an average of $1,748, or 2.5 percent of household income—nearly 50 percent higher than for those with only a high school degree. An identical trend of higher giving among those with more education is found in the SCF data.

Of course, more educated households also tend to be higher income, higher wealth households. So much of the relationship between giving and education may be picking up the effects of financial status rather than those of education. When holding income, wealth, and other factors constant, we continue to find a strong positive relationship between education and giving. If the head of the household has a college degree, then the family is both more likely to give and tends to give greater amounts. This result indicates that there is a separate effect of education in addition to the effects of income and wealth. Two hypotheses are consistent with this finding. First, education itself may instill a greater “preference” for giving as one learns more about the world. Alternatively, college graduates may have lifetime earnings prospects that are not fully represented by their current income and wealth. Holding income, wealth, and age constant, a college graduate may expect greater future income than a high school graduate and may therefore be more comfortable giving a larger amount. Unfortunately, our data do not allow for a test of either explanation.

**Gender**

*Patterns of giving for women differ substantially by marital status. Never-married women give more often and greater amounts than single males, while widowed or divorced women give less.*

Examining differences in giving by gender is complicated by the fact that surveys report a single response for a household. This is true in both the survey used to collect data for the *Giving and Volunteering* reports and in the SCF. In these cases it is impossible to distinguish between the philanthropic behavior of husbands and wives. To identify the relationship between gender and giving we therefore categorize respondents as married couples, single males, or single females, and compare the actions of single males and single females. Our results show that single females are equally likely to make a transfer as married couples, but single males are significantly less likely to do so. With respect to the amount given, single females give less than single males, but the difference is not significant.
Much attention has recently focused on women and philanthropy (see box). We therefore look more closely at the patterns of giving for women. We subdivide the category of single women into two groups, those who are widowed or divorced, and those who have never been married. The results show that never-married women are actually somewhat more likely to give than couples although the estimated difference is not significantly different from zero, while widows are less likely to give. Similar patterns are evident for the amounts: single women give slightly more than widows, but the difference is not significant. While these differences control for the number of children, there may be other factors in family relationships that affect giving for which we do not control. Depending on the underlying cause of the observed difference, outreach programs designed to encourage giving by women might be most effective if targeted at widowed women.

Women & Philanthropy

American women have the potential to become leaders in philanthropic giving. Currently they control more than 51 percent of the personal wealth in the United States and own a third of all privately held businesses. Furthermore, because women typically outlive their husbands, they are projected to inherit many trillions of dollars in the coming decade. This untapped potential represents an important opportunity for the philanthropic community.

Women’s giving patterns have traditionally mirrored those of their husbands; however, a shift in behavior has begun, with women becoming more involved in giving. Younger women in particular are more likely to make their own choices with respect to charitable giving, and there is reason to believe that as older women become more confident in financial management skills, they too will begin to act independently.

Organizations are beginning to reach out to encourage philanthropy among women, with many colleges and universities leading the way. Institutions are expanding efforts to not only encourage women’s giving, but also to study, understand, and support women’s philanthropy. In 1992 the University of California, Los Angeles (UCLA) established “Women & Philanthropy at UCLA”. As part of its mission it encourages women to give, helps women tailor their giving to areas that suit their own interests, and helps women develop the skills necessary to assume leadership positions on campus. Members of the Women & Philanthropy program are provided opportunities to meet with UCLA researchers and to attend special campus events. The program has been a success, raising over $20 million in the 1999 fiscal year alone. Many other institutions, including Oklahoma State University, the University of Missouri at Kansas City, and Purdue University, have similar programs.

Anecdotal evidence suggests that women are motivated to give by different factors than men, in particular, women appear to be less interested than men in giving publicly. A recent survey by the Committee of 200, a group of successful business women, found that just 3 percent of women donors indicated that they would be interested in having a building named in their honor or even a plaque engraved with their name, while 40 percent preferred no recognition.
Instead of publicity, women often cite personal gratification or having an impact as the motivation for giving. In accordance with these principals, women prefer to maintain contact with the projects they fund and with the people involved. They also tend to direct their gifts towards specific purposes such as athletic teams, women’s scholarships, and specific facilities (a new concert hall or a women’s gymnasium, for example) rather than to endowment campaigns. However, as women take on new roles in the business world and learn more about philanthropy, this distinction between men and women appears to be fading. In a 1999 follow-up to a 1992 survey, UCLA’s Women & Philanthropy group found that women are becoming less likely to give solely because they are interested in the cause, and are beginning to treat philanthropy in a more business-like manner.

Race and Ethnicity

Evidence suggests that contributions differ by race and ethnicity. When adequately accounting for differences in economic status, African Americans are more likely to give than whites, and the amounts given are similar for the two groups. This conclusion contrasts sharply with results obtained when differences in financial resources are ignored.

Despite significant increases over the past 8 years in the household incomes of minorities, there remains a substantial gap between the economic resources of African Americans and Hispanics and those of whites. This gap is likely to be reflected in the amount of donations that families can afford to make. When ignoring these important differences in resources it does appear that both African American and Hispanic families are less likely to give and give less than white families. Preliminary results from Giving and Volunteering 1999 show that 75 percent of whites reported making contributions in 1998 compared to 52 percent of African Americans and 63 percent of Hispanics. Because African Americans and Hispanics on average have lower income and wealth than whites and are therefore likely make smaller donations, one would expect the $500 minimum on giving in the SCF to miss more minority giving. In fact, giving by all groups is lower in the SCF than in Giving and Volunteering 1998, and the percentage change is the largest for Hispanics. Thirty-five percent of whites in the SCF made a donation, compared to 21 percent of African Americans and 12 percent of Hispanics. The dollar amounts given in the SCF also differ by race/ethnicity. Whites gave an average of $3,356, African Americans gave $2,459, and Hispanics $1,627.

When differences in income, wealth, schooling, and other observable characteristics are taken into account, these conclusions change dramatically. With adequate controls for economic status, our analysis shows that African Americans are actually significantly more likely to give than whites. Hispanics remain significantly less likely than whites to have made a contribution.

9 We caution the reader that our conclusions about racial and ethnic differences are based on analyses of relatively small samples.

10 However, because the difference between the SCF and the Giving and Volunteering numbers for the fraction of the population making a gift is significantly larger for Hispanics than for whites or African Americans, it appears that measures of Hispanic giving are more sensitive to the $500 cut-off, and giving may be substantially underreported. Therefore, we view the results for Hispanics with caution.
Among those who do give, African Americans give slightly larger amounts than whites, but the difference is not statistically significant. This dramatic change in the pattern of giving by race when a broad array of characteristics is controlled highlights the importance of multivariate analysis. In particular, if we ignore the differences in wealth levels in our analysis, as is done in many studies, but control for the other variables, the slight difference between African American and white giving is attenuated.

Factors other than differences in financial resources and schooling are also likely to be important in explaining the difference in giving across racial and ethnic groups. Differences in exposure to opportunities to give and the desired beneficiaries of charitable giving are also likely to matter. *Giving and Volunteering 1996* reports that African Americans and Hispanics are asked to give much less often than whites. One study reported that Hispanics receive an average of 15 to 20 requests for donations per year compared to 300 for other groups. And yet, another study found that when asked, African Americans and Hispanics were more likely to respond positively to a request than whites. If solicitations serve to increase giving, then organizations are overlooking an important resource by not soliciting donations from African Americans and Hispanics at greater rates.11

Experts on philanthropy in minority communities have also argued that minority giving is less likely to be included in existing data on giving because much of it is done informally. For instance, many Hispanics send remittances to extended family in other countries; estimates are that Hispanics living in the United States send at least $3 billion per year to Mexico alone. By excluding this type of giving, the survey data used in published studies may underestimate giving by Hispanics relative to other groups.12

Even within the formal philanthropic sector, minorities choose different recipients than do whites. They are less likely to contribute to endowment campaigns, and instead focus their giving on religious institutions and organizations or on efforts that meet pressing needs. The low participation of minorities in formal philanthropic giving is potentially a result of the services provided by many charitable organizations. In 1997 just under 8 percent of all foundation grants went to minority concerns. Thus one way to motivate minorities to give more is to provide increased opportunities to give to organizations that more directly address their concerns. One organization that does appear to attract a significant amount of gifts from minorities is the United Way. In a 1996 survey 26 percent of whites, 30 percent of African Americans, and 24 percent of Latinos reported making contributions to the United Way in the previous 12 months.13

Minorities, like women, have less of a history of giving to formal philanthropic organizations. This implies that outreach activities aimed particularly at these communities, like those discussed earlier that target women, may yield increases in giving. Some organizations are beginning to understand the potential. Fundraising programs using Spanish language materials and foundations using their grants to fund programs in Hispanic communities have had...

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11 The direction of the relationship between solicitations and giving is not clear. As noted later in the paper, it may be that organizations ask for contributions from those who are more likely to give (perhaps because of financial capabilities) or who have given generously in the past.
increasing success. These efforts indicate that by addressing the needs and concerns of minorities, charitable institutions can substantially increase the contributions of these groups.¹⁴

**Bequests**

*Among the very wealthy a large fraction of charitable giving is done through bequests.*

Because the statistics in the previous section are derived from survey respondents, there is no information on the distribution of bequests. We therefore know much less about trends in charitable bequests for representative samples of the population than we do about *inter vivos* giving. Instead of surveys, past studies of bequests have drawn on data from estate tax returns. These tax returns are filed only by estates that have made bequests and taxable gifts which total to more than the tax-exempt limit ($675,000 in 2000). While these estates are not representative of the estates of all decedents, they are likely to be responsible for the vast majority of charitable bequests.

For many wealthy individuals, bequests are an important mode of philanthropic giving. In 1992 only 19 percent of estates filing tax returns made a charitable bequest, but the total amount given was $10.0 billion (inflation-adjusted 1999 dollars), equal to 8.5 percent of the total net worth of the estates and significantly higher than the fraction of income or wealth given in a particular year. Furthermore, among those who did make a charitable bequest, a significant fraction of the estate was donated with bequests equal to 27 percent of net worth.¹⁵

The magnitude of charitable bequests made by the wealthy often surpasses their *inter vivos* giving in magnitude. Using estate and income tax return data, a recent study finds that, on average, wealthy decedents gave $8.9 million (inflation-adjusted 1999 dollars) to charities at death, compared to just $3.1 million during the 10 years prior to their death. For the wealthiest segment of the population, those with estates valued at more than $100 million, bequests accounted for 78 percent of charitable giving over the final 10 years of life.¹⁶

As with *inter vivos* giving, there are differences in bequest behavior by gender. Because wives typically outlive their husbands, female decedents are much less likely than male decedents to be married at the time of death, and to leave assets to a surviving spouse. Likely because of this difference, females leave a greater fraction of their estates to charity. In 1992 female decedents left 10.1 percent of their net worth to charity on average, compared to 7.5 percent for males. This difference in philanthropic behavior between males and females reverses when one examines only the behavior of those who have already lost their spouse; widows left 12.1 percent of their net worth to charity while widowers left 12.6 percent.¹⁷

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Summary

Income and wealth are important determinants of charitable giving. Over the past decade income and wealth have increased substantially with charitable giving following suit. Because we cannot guarantee equally strong economic growth into the indefinite future, further increases in philanthropic behavior can perhaps best be attained by tapping under-used groups: encouraging giving among the young, widows, single men, and minorities. We return to this issue in the final section of the paper.

RECIPIENTS OF CHARITABLE GIVING

Contemporary philanthropy supports a wide range of activities and causes. As the amount of charitable giving has grown, there have also been changes in the way in which money is distributed to the various types of philanthropic organizations.

Chart 8. Recipients of Giving, 1998

Religion is by far the single largest recipient of contributions, while gifts to foundations are the fastest growing.

Based on data from Giving USA 1999, Religion is by far the single largest recipient of charitable giving, with about 44 percent of giving in 1998 going to religious organizations. Education is the second largest recipient but trails religion significantly, with receipts of $27 billion in 1999, compared to $82 billion for religion in the same year.

Although the amount given to religion remains large, its relative importance has diminished recently. In contrast, gifts to foundations have experienced tremendous growth, increasing by 313 percent in real terms between 1990 and 1998. Indeed, 29 percent of the rise in total giving between 1990 and 1998 came from greater gifts to foundations, while such gifts were responsible for only 6 percent of the increase during the 1980s. In 1998 approximately $10 out of every $100 donated in the United States went to foundations, up from less than $4 in 1990. As a result of the relatively slow growth rate in religious

18 Little of what is given to religious congregations is redistributed elsewhere. While approximately 86 percent of the revenue of religious congregations is derived from contributions, 82 percent of expenditures are for operating expenses or capital improvements.
giving and the rapid growth in other categories, religion’s share of total giving fell over 5 percentage points in the 1990s, while the share going to foundations increased about 8 percentage points.

In addition to foundations, the shares of giving to two other categories—education and public benefit organizations—had significant but less dramatic increases. Giving to education rose from approximately 11 percent of total giving in 1989 to just over 14 percent in 1999. A sizable share of giving to education goes to higher education, and such giving tends to track the performance of the stock market in the short run and the overall economy in the longer run. Thus, strong economic growth and sharp increases in the stock market likely explain the increased prominence of education as a beneficiary of philanthropic giving.

An important longer-term change in philanthropy has been the decline in the share of giving going to human services (Chart 10). This category typically includes many social welfare agencies, although it also includes activities not necessarily focused on the poor (for example, disaster relief). In 1960 human services was the second largest recipient category (religion again was the largest). By 1999, however, human services was only the fifth largest, behind giving to religion, education, foundations, and health. The steady decline in the percentage of giving earmarked for human services appears to have halted; the share of giving going to this category increased by 1 percentage point from 1997 to 1999.

Similar patterns of recipiency are observed for charitable bequests. Religious organizations are the most common beneficiaries in terms of the number of estates making a donation. With respect to the amounts of the bequests, however, foundations are a primary recipient, second only to the category “other.” In 1992, 28.8 percent of charitable bequests, or $2.4 billion, went to foundations. Educational and scientific organizations received a similar amount equal to $2.3 billion.\(^{19}\)

\(^{19}\) IRS, Winter 1996-97.

The types of organizations to which donors contribute differ systematically by income level, with top earners focusing more on higher education and lower earners focusing more on religious giving.

Donors with different income levels tend to support different types of nonprofit organizations. For example, in comparison to other tax payers, the wealthy devote a much larger share of their contributions to education, health, and the arts and culture, with a much smaller share going to religious organizations than those with less wealth.

Because the very largest givers provide a substantial fraction of total contributions, it is worthwhile to examine the recipients chosen by these individuals. Such a study is provided by
Slate, a web-based publication. Relying largely on newspaper accounts, Slate compiles lists of the largest gifts. In 1996 the top 90 gifts (worth about $1.5 billion in total) went primarily to fund higher education and medical research: 56 percent of the total value to higher education and about 17 percent to medical research institutions or medical centers. Eight percent of total giving was dispersed to private foundations, and the remainder funded other types of recipients.

Men and women support different types of organizations: women are more likely to give to social services and males are more likely to leave bequests to foundations.

The limited evidence on the subject suggests that women donate to different causes than men. A recent small-scale study of the giving patterns of wealthy donors found that women are much more likely to support social services than men, with almost half of women respondents reporting a contribution in this area, compared to only about a fifth of men. In contrast, men were more likely to support education, with three-fourths making a donation to education, compared to only 57 percent of women. The study also found that women were more likely to support cultural activities and the environment, while men were more likely to donate to religion. Both sexes supported health about equally.

Differences in giving also exist for the distribution of charitable bequests. Women are more likely to bequeath assets to educational, medical, scientific, and religious organizations and less likely to leave their wealth to private foundations. In 1992, 35 percent of charitable bequests by female decedents went to educational, medical and scientific organizations, and 14 percent to religious organizations, compared to just 22 percent and 5 percent for males. In contrast, only 19 percent of the charitable wealth bequeathed by females went to private foundations, while this figure was twice as large for males.

MOTIVES FOR PERSONAL GIVING

Motives for Giving

Beyond these demographic and economic characteristics, a more complicated set of issues relates to the personal motivations for giving. While any analysis of the motivations of givers is necessarily speculative, here we draw on both responses to survey questions about reasons for giving and analyses of economic behaviors to address the issue.

Survey evidence shows that important motives for giving include a desire to help others and to give back to society. Financial incentives arising from tax law are also important.

The most direct way of examining donors’ motivations is by asking individuals why they give. To examine responses to such a question, we again turn to data from Giving and Volunteering.
The survey question used in this analysis asks for the reasons behind both financial giving and volunteering and provides a list of eight possible explanations. (It does not ask separately about motivations for financial giving.) Respondents are asked whether each motive was a major or minor reason for their giving, or not a factor at all. “Feeling that those who have more should help those with less” was the most frequently cited “major motivation” for giving and/or volunteering, and almost 80 percent of respondents cited it as either a major or minor motivation. Other important motives included “Giving back to society some of the benefits it gave you” and “Enhancing the moral basis of society.” Financial considerations were also important to many; a third of respondents cited “Keeping taxes and other costs down” as one of their major motivations and two-thirds cited it as either a major or a minor motivation. Because the value of time spent volunteering is not tax deductible, this motivation should relate solely to financial contributions and indicates that tax considerations likely play an even more important role in financial giving than is indicated in the Chart.

Helping those “with less” and those with “material needs” are important motivations based on responses to the survey question. However, the prevalence of these explanations is in stark contrast to the relatively low level of giving to organizations benefiting the poor (Chart 10). However, consistent with the sharp decline in giving to human services, the fraction of donors reporting “helping those with less” as an important reason for giving declined from 55 percent in 1992 to 42 percent in 1996. It may also be that “helping those with less” and “giving back to society” are more important explanations for volunteering than for making cash contributions, or alternatively that individuals report these as motivations because they believe they are the most socially acceptable reasons.

Survey evidence also shows that certain events or circumstances may tend to influence donors to give. These include being asked to give, being a volunteer, participating in religious activities, and participating in certain events during youth.

Individual attitudes towards giving will likely also be influenced by experiences. Evidence from Giving and Volunteering 1999, confirms an obvious impetus for giving among many donors: being asked to give. Over 80 percent of households who reported being asked to make a contribution actually did make a contribution, whereas only 50 percent of those who were not asked contributed. However, it is important to note that this relationship need not be causal. Those identified by charitable organizations as likely givers, perhaps because of past contributions or other factors, may be more likely to be solicited for donations and more likely to give again.

There are also strong correlations between volunteer work and religious involvement, and making financial contributions, suggesting underlying differences in a willingness to help others or perhaps indicating that volunteer work can expose one to the seriousness of financial need.

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20 Although not analyzed in this paper, Americans are generous with their time as well as with their money. In 1998 an estimated 20 billion hours were spent volunteering for charitable organizations. In fact, over half (56 percent) of adults volunteered that year, the highest percentage in at least a decade.

Contributing households with at least one member who does volunteer work gave a higher percentage of their household income than households where the respondent did not volunteer. Furthermore, 84 percent of those attending religious services weekly made a household contribution in 1998, compared to about 70 percent among the general population. Childhood events related to community or school involvement, such as belonging to a youth group, being active in a religious organization, and being active in student government, appear to encourage later philanthropy (see Chart 12).

Economic factors can influence charitable giving through various channels.

Researchers are often suspicious of direct responses to questions such as those listed above. Individuals may report one answer because they believe that is the way in which they should behave, when they are actually motivated by some other factor. For example, individuals may think it is “better” to report that they give to “help those with less” than to report that tax incentives are driving their behavior. As an alternative to direct questioning, an analyst can attempt to infer the underlying motivation by examining actual behavior. Economists have used this method to focus on the role of several factors that have the potential to affect charitable giving. One important factor is the financial resources of the potential donors. This relationship was examined in detail in a previous section. A second factor is the cost or price of giving. Because households who itemize their income tax deductions can deduct charitable contributions, a one-dollar donation actually reduces the disposable income of the donor by less than one dollar. Through this mechanism the government in effect subsidizes charities. Holding income and wealth constant, charitable giving would therefore be expected to rise when tax rates rise. The third economic factor can be thought of as the “demand for charitable contributions,” or the perceived needs of potential beneficiaries. For example, if poverty rates rise, giving to human services may increase as donors see a greater need for their contributions.

Economic research shows that tax incentives encourage charitable giving, although the long-term effects are smaller than the short term.

In 1999 over 32 million taxpayers took advantage of the itemized deduction for charitable giving, costing the federal government $26.5 billion in lost tax revenue. This deduction serves to subsidize the activities of private organizations that may provide alternatives to direct government transfers. This tax-based subsidy is an efficient way of funding the activities of recipient organizations if the total given to these charities is greater than the cost to the government in terms of foregone tax receipts. If the subsidy is not efficient, the government could cease providing the tax deduction and transfer that amount directly to the organizations.

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The literature on the effect of taxes on charitable giving has concluded that individuals do give more because of the deduction, but there remains substantial disagreement about the magnitude of the response. While earlier studies typically found that the deductibility of charitable donations was an efficient method of distributing resources to philanthropic institutions, more recent studies analyzing the effects over a longer period of time have concluded that it is not. These studies suggest that changes in the tax law may affect the timing of giving, but are unlikely to have a large effect on lifetime contributions.

One ought not to infer from these results that the charitable deduction should be eliminated. Research does indicate that it is efficient for some forms of charitable giving - such as giving to social welfare organizations - and for giving by higher-income individuals. Furthermore, the charitable deduction often benefits causes such as religious organizations, which cannot obtain government funding.

The tax code also encourages charitable bequests. Such bequests are deducted from the value of an estate before calculating the estate tax owed. Because the estate tax affects only the very wealthiest of decedents, this deduction affects few individuals. However, for those whom it does affect, the potential tax savings are large. Evidence suggests that the responsiveness of charitable bequests to this deduction is large. Several studies based on data from different time periods have found that the deductibility of charitable bequests is efficient, encouraging more in giving than is lost in tax revenue. Given the responsiveness of charitable giving to the estate tax deduction, it is likely that if the estate tax is eliminated, charitable bequests will fall substantially.

Donations do respond to changes in the need of the recipient, but increases in contributions do not appear to offset fully increases in need.

The extent to which individuals respond to changes in the need of potential recipients has important implications for the effectiveness of government transfer policy. If a significant amount of charitable giving is driven by the needs of potential recipients, then a decrease in government spending towards the poor or other recipients can be offset by an increase in private giving. It is difficult to verify these effects from direct observation. Government spending on education, social services, and the environment has increased in real terms during the 1990s while remaining a relatively stable fraction of federal outlays. Individual giving in support of education and the environment increased as a share of total private giving, while the share of contributions going to health decreased. In contrast, government spending on the arts and humanities has fallen both in absolute terms and as a fraction of spending, while private giving to the arts has gone up since 1990, but fallen as a share of total giving.

Economic analysis specifically addressing the relationship between public and private spending has found that private contributions do respond to changes in public spending on welfare programs, but that the response is far from dollar for dollar. One study reports that individual giving to social services declined by 38 cents for every extra dollar of federal spending. Similar effects would be expected in the opposite direction; decreases in federal

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23 Marginal estate tax rates can be as high as 55 percent. Thus, a bequest of one dollar to a charitable institution can reduce the amount available to other heirs by just 45 cents.
spending for the poor should be expected to increase private contributions by 38 cents for each dollar in cuts. Thus while the evidence is not particularly strong, it does appear that giving responds to need.

THE FUTURE OF PHILANTHROPY

Recent trends and patterns in giving suggest remarkable opportunities for growth in the philanthropic sector. In the coming years philanthropy will likely be shaped not only by increases in foundation giving, but also by changes in the pool of potential donors, the organizational structure of foundations, and the means by which organizations reach out to potential contributors.

Demographic Trends

The aging of the baby boomers and the high levels of accumulated wealth among this group may yield a substantial windfall for philanthropic organizations in the coming years.

As demonstrated earlier, the elderly are substantially more likely to make contributions than the non-elderly, and when they do, they donate larger amounts. Other evidence clearly indicates that giving increases with wealth. As our population ages and wealthier cohorts reach their peak giving years, significant increases in charitable giving are likely to follow.

Between 1999 and 2020 the fraction of the American population ages 65 and over is forecasted to increase from 12.6 to 16.5 percent. Ignoring any increase in the overall size of the population, simply shifting 3.8 percent of the distribution from middle age, to ages 65 and over, will yield an increase in the number of givers and in the average amount given.

Along with the change in the age distribution, there are also significant differences in lifetime wealth across cohorts. Median household net worth for those ages 61 and over was $48,738 in 1962, $95,458 in 1984, and $111,385 in 1994 (inflation-adjusted 1999 dollars). Based on these trends, it is likely that the baby boom generation will reach age 65 with more wealth than preceding cohorts. Thus not only will the aging of the baby boom result in an increase in the number of generous givers, but it will also mean that those with the highest probability of making a donation will have more to give.

A recent study has attempted to quantify the growth in inter vivos giving and charitable bequests in the coming years. By their very nature these forecasts are speculative, and the results uncertain at best. However, they do point to a dramatic increase in both inter vivos contributions and charitable bequests, with each estimated to grow by several hundred percent over a 20 year horizon.

The Role of the New Economy

A new group of venture philanthropists is taking a hands-on approach to the not-for-profit sector, using lessons-learned from their experiences in private enterprise.

The term “venture philanthropy” refers to a new and burgeoning form of grant-making that uses strategies from the for-profit investment world to help grantees improve the efficiency of their organizations and ensure their viability. It is argued that by better monitoring the success of funded projects and the investment of capital, and by providing organizational assistance to recipient organizations, foundations can make more effective use of their own endowments.

To these ends, many wealthy donors are now applying their business skills to their own charitable giving, in particular by establishing new instruments known as social venture funds. These funds apply for-profit techniques (especially venture capital practices) to the nonprofit realm in an effort to maximize investor value and impact. While there are relatively few social venture funds currently, the model they set forth presents itself as a strong precedent for future innovative efforts.

In addition to these social venture funds, established foundations are also revealing interest in incorporating venture philanthropy into their grant making. Some have argued that these concepts are not new to the foundation world, but harken back to the close personal interest philanthropists such as John D. Rockefeller, Andrew Carnegie, and Walter Annenberg, took in the way in which their money was distributed. What does appear to be new, however, is the more formal mentoring roles established and the increased number of foundations fielding such techniques. This trend does raise some concern that the grantees’ ability to control their own missions and agendas could be compromised. Clearly, achieving the proper balance between foundation involvement and nonprofits’ independence needs to be an important goal if venture-style funding is to succeed.

At the Forefront of Venture Philanthropy

Social Venture Partners is a social venture fund begun in Seattle in 1997. Its focus is on children’s and education programs. It consists of a network of young professionals and technology leaders who each invest a minimum of $5,400 each year for at least 2 years and provides a variety of hands-on assistance to grantees. It currently has more than 250 partners. The fund is being replicated in four other locations – Austin, Phoenix, Dallas, and Denver.

Since the establishment of the Social Venture Partners fund, many similar funds have been established. The Silicon Valley Social Ventures Fund and the New Schools Venture Fund also promote active giving to nonprofits by young professionals. Investors in the Silicon Valley fund

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provide advice and assistance to grant recipients and also continually monitor the progress of supported projects. In each grant cycle a particular funding area is chosen. Education was targeted during the summer of 2000, and children and youth will be emphasized in the fall of 2000. The New Schools Venture fund works by supporting nonprofit and private companies that work to improve public K-12 education. Other examples of social venture funds abound.

The Internet provides a new avenue along which individuals can participate in philanthropy. Through on-line donations, volunteer placement, and information dissemination, the Internet has made it easier for many Americans to engage in charitable behavior.

Just as the Internet is transforming the way we work, shop, and communicate, it is also changing the way we give. While the existence of “e-philanthropy”—that is, on-line philanthropy—was hardly noticeable a year or so ago, today it has national visibility and is increasing in importance. Nonprofits have established web sites to communicate with members, provide information, and raise funds. The Red Cross, in particular, has been highly successful in their efforts to raise large sums of money through the Internet during major disasters.

In addition to websites run by individual charities, other types of sites provide information about a wide number of organizations. For example, Guidestar, provides a searchable database of more than 640,000 nonprofit organizations in the United States to help donors seek out and compare charities, monitor their performance, and better target their own giving. Similarly, helping.org, launched by the AOL Foundation, provides a full spectrum of services, opportunities, and information related to philanthropy and volunteerism.

As Americans become more accustomed to the Internet, it is likely that e-philanthropy will grow significantly. The fraction of Americans with Internet access has increased substantially; currently more than 40 percent of households have access to the Internet. Furthermore, a study conducted for a conference sponsored by the White House Millennium Council reported that those likely to get involved on-line are younger and more politically diverse than the population reached through direct mail. Given these differences, the Internet is likely to reach those who have not previously been active in philanthropy and thereby further increase national giving. Although not anticipated to be a panacea for organizations’ fundraising needs, e-philanthropy is viewed by many as a useful resource for disseminating information, reducing the transaction costs of giving, and providing an alternative means for raising funds - important benefits in a fast-paced world.

ENCOURAGING GREATER GIVING

Philanthropy in the United States reached a record high in 1999, following a dramatic 41 percent increase since 1995. Nonetheless, relative to GDP, total giving currently falls short of the levels that existed in the 1960s, and the fraction of Americans making a charitable donation has not increased. These trends indicate that Americans have the potential to give more. Furthermore, because much of the recent increase in giving has been driven by the dramatic
gains in wealth, an economic slowdown could result in a significant cutback in charitable contributions. It is therefore prudent to invest now in strategies to encourage greater giving in the future.

**Ensuring a Tradition of Philanthropy**

*Programs that encourage youth to participate in philanthropy provide assistance to needy communities and sow the seeds for future giving in adulthood.*

The evidence on individual giving showed that, holding income and wealth constant, giving increases with age. It is not clear whether this trend represents generational differences in attitudes towards philanthropy or if the younger generation will increase their giving as they age. Regardless of the source of the difference, an effective policy for future giving ought to include programs to involve the young.

Parents and religious communities play a central role in developing a habit of giving, and community groups, foundations, and schools are increasingly supporting their efforts. A few specific examples will help highlight the types of activities being undertaken. Sisters Empowering Sisters is a 2-year old program for teenage girls run by the Girl’s Best Friend Foundation in Chicago. Each year the program works with a small group of girls ages 14 through 18 to teach them about grant making. As part of their training, the girls design request-for-proposals (RFPs), review grant applications, make site visits, and decide where the money should go. They are then given money to award to programs developed by and for the benefit of girls. Other efforts along these lines include the Michigan Community Foundation’s Youth Project that encourages community foundations to train and involve teenagers in fund raising and grant making and “The Cool Rich Kids’ Movement,” which helps affluent youth reach out to work on social causes.

Schools have also begun to teach students about the importance of giving. In New York State, public schools are offering a curriculum focused on volunteerism and philanthropy. In a program at the Latin School in Chicago, students learn to write RFPs, review grant applications, and make site visits to prospective grantees as part of the grant making process. They are also provided with a small amount of funding to disburse to nonprofit organizations.

While these programs help students learn more about philanthropy, most community service programs for young people focus on volunteering. As illustrated in Chart 12, data show that adults who did volunteer work during their youth are over 30 percent more likely to make a charitable donation than those who did not are.

High schools in particular are placing a growing emphasis on “service learning”—integrating community service with classroom instruction. In 1999, 83 percent of high schools offered community service opportunities to their students, and 46 percent offered service-learning, up dramatically from 1984 levels of 27 percent and 9 percent. Schools in cities such as Chicago, Washington, D.C., and Louisville, as well as the state of Maryland are introducing community service requirements for graduation.
Efforts to encourage volunteering have also come at the national level. In 1993 President Clinton outlined a vision for a national service program that would allow young people to serve their country while earning funds for a college education. The resulting AmeriCorps brings together people of different racial, ethnic, and economic backgrounds to solve community problems. Since the program's inception 5 years ago, over 150,000 AmeriCorps members aged 17 and over have served as tutors, mentors, and disaster-relief workers, among other roles. Today there are more than 350 AmeriCorps programs nationwide serving an estimated 4,000 communities. These various volunteer opportunities may both encourage current charitable activities and serve as an investment for future increases in giving as these young people grow-up with an understanding of the importance of giving.

Increasing Economic Incentives to Give

*President Clinton’s proposed new tax incentives to promote philanthropy.*

Because individuals have been shown to respond to the economic incentives to give, the Administration has developed proposals that use the tax code to benefit charitable institutions. In his State of the Union Address, President Clinton unveiled a package of new tax proposals to encourage philanthropy.

The widest reaching of these proposals allows individuals to claim a deduction for charitable giving, even if they do not itemize their deductions on their federal income tax returns. When fully phased-in, the President's proposal will allow the 70 percent of taxpayers who do not itemize the opportunity to claim a 50 percent deduction for charitable contributions above $500 a year.

The second proposal will make it easier for foundations to vary their giving over time and thereby respond effectively to the changing needs of those they benefit. Foundations currently face a two-tier excise tax: a 1 percent tax on investment income, and an additional 1 percent tax on investment income if they fail to maintain their average rate of giving over a 5-year period. This mechanism is complicated and can reduce giving in certain situations. If a foundation wishes to increase giving in response to a particular need in one year, it could risk higher future taxes if, after the need has passed, their rate of giving drops back to earlier levels. The President's new proposal will eliminate the two-tier system and set the excise tax rate at 1.25 percent on investment income.

The President's budget will also make it easier for individuals to donate appreciated assets like stocks, art, and real estate. Under existing law, individuals donating appreciated assets can take a tax deduction that is limited to 30 percent of adjusted gross income (AGI); for gifts made to private foundations, the deduction is capped at 20 percent of AGI. Amounts above these limits can be carried forward and deducted against income in future years. However, these caps on yearly deductions may limit the amount individuals choose to give in any particular year, and needlessly complicate tax preparation through the carryover provisions. The President’s budget eases these restrictions and simplifies the necessary accounting by increasing the limit on
appreciated property to 50 percent of AGI, and the limit for donations of appreciated property to private foundations to 30 percent.

These new tax proposals provide a straightforward mechanism for promoting greater participation in charitable activities. Stimulating philanthropic giving by increasing both the incentives to give and the ease of giving is constructive in this time of economic prosperity where there clearly exist the resources to help. Furthermore, by refusing to abolish the estate tax the President has helped to ensure that charities continue to benefit from the generosity of individuals at their deaths.

CONCLUSION

The strong economy has provided benefits to the country in many dimensions. More Americans are working than ever before, poverty rates are down, and home ownership has hit record highs. The dramatic increases in wealth have also brought increases in giving. Total charitable giving in the United States reached a record high in 1999 as many Americans shared their financial gains. Yet despite this generosity, Americans have the potential to give more. The task set before us now is to build on this level of generosity and ensure that the benefits of the New Economy continue to be widely shared.

The New Economy has also spurred new avenues for giving that will likely improve the efficiency of philanthropic sector. E-philanthropy is in its infant stages but promises to provide opportunities for giving to a broad range of individuals. It also allows for the efficient dissemination of information about philanthropic organizations and their needs, allowing donors to contribute to charities that reflect their particular interests. Similarly, venture philanthropy draws on the techniques developed by venture capital firms to ensure that contribution dollars are wisely invested and distributed. The changes in giving resulting from these developments are yet unknown, but offer the hope of increased participation in philanthropic activities. The increasingly widespread use of the Internet provides another avenue along which to spur charitable giving. Access to information about charities, the ability to match individual interests with the goals of particular charities, the ease of on-line donations, and the breadth of the on-line audience all point to the tremendous potential to increase giving.

Finally, policies offering tax-incentives for giving and programs that reach out to women, minorities, and young people, appear to be promising avenues for developing future giving.