



Philanthropy in America

The word *philanthropy* comes from two Greek words meaning “love of people.” In modern times this goodwill, or humanitarianism, is often expressed in donations of property, money, or volunteer time to worthy causes. Similarly, the word *charity* comes from a Latin word meaning “love” in the sense of unconditional lovingkindness, compassion, and seeking to do good. The roots of these words remind us of the fundamental reasons for the work of most nonprofit organizations.

The United States has the largest system of organized private philanthropy in the world. In this country, nongovernmental organizations have been created—and funded through private sources—to provide services that countries with greater government commitment to social welfare provide directly and fund through taxation. If nonprofits in the United States were a single industry, they would rank as the nation’s largest industry, accounting for just under 10 percent of the workforce and about 5 percent of the gross domestic product. As of 2005, more than 1.5 million organizations have been recognized by the Internal Revenue Service as tax exempt. Several million more small, grassroots organizations that are doing important charitable work are not registered with the government and have no formal tax status. These groups include organizations just getting started; organizations using a fiscal sponsor; organizations that use very little money, such as neighborhood block clubs; organizations that come together for a one-time purpose, such as cleaning up a vacant lot or protesting something; and those that don’t wish to have a structural relationship with the state or federal government.

Because of the size and growing sophistication of the nonprofit sector, it has increasingly drawn the attention of the government, researchers, academics, and many members of the general public. Although nonprofits are increasingly regulated by federal, state, and local government, public awareness, coupled with the

role of individuals in funding nonprofits, means that voluntary compliance with accepted ethical standards of accounting, personnel, and fundraising practice provides an added, and usually sufficient, layer of self-regulation. Nonprofit status is a public trust and tax exemption is, in effect, a public expense. Even if an organization has no formal tax status, if it seeks to raise money from the public it has the same moral duty as registered nonprofits to operate ethically, be truthful with donors, and provide the highest quality of services to clients.

THE FOUNDATION-CORPORATE GIVING MYTH

As with many endeavors that are critically important and use the resources of millions of people, it is not surprising that a number of misconceptions have grown up about philanthropy and charities.

The most serious misconception for fundraising is many people's belief that most money given to nonprofits comes from foundations and corporations. The truth is far different. Of all the income of all nonprofits, about half is earned income: fees for service, tuition, products for sale, and the like. About 30 percent of nonprofit income is derived from government programs (collectively known as "the public sector"). Extensive cutbacks in government funding starting in the 1980s and continuing to this day have reduced government funding a great deal, but it remains a significant source of income for many organizations. The final 20 percent of nonprofit income is from the private sector: individuals, foundations, and corporations. For most of the organizations using this book, the private sector will provide the majority of your funding. Surprising to most people is the fact that gifts from individuals make up the bulk of private-sector funding, far more than all foundation and corporate money combined. This book focuses almost entirely on how to raise money from that enormous market of individual donors.

There is now an enormous body of research on philanthropy, both in the United States and in other countries, and determining who gives what to whom and why comprises a lot of it. The most widely used report is *Giving USA*, compiled yearly by the Giving USA Foundation AAFRC Trust for Philanthropy. Every year since 1935, the authors have calculated just how much money was given away to nonprofits and by whom. They have identified four general sources of gifts from the private (nongovernmental) sector: living individuals, bequests (cash or other donations an individual arranges to be given to a charity on their death), foundations, and corporations. Their research shows that the proportion of giving from

each of these sources remains constant, varying from year to year by only two or three percentage points, with gifts from individuals (living or deceased) exceeding the rest by an impressive ratio of nine to one.

For the year 2005, the latest for which figures are available, giving from these sources totaled \$260.68 billion.

Sources of Contributions, 2004		
Contributions From	Amount in Billions	Percentage of Total
Individuals	\$187.92	75.6
Bequests	\$19.80	8.0
Foundations	\$28.80	11.6
Corporations	\$12.00	4.8

Source: Giving USA, 2006.

Given these facts, an organization should have no trouble knowing where to go for money: individuals provide the vast bulk of private support to nonprofits.

WHO GIVES AWAY MONEY?

The logical follow-up question—Who are these people?—is more difficult to answer because there are many complex variables. Not only does the answer vary by which methods are used in doing the research, but there are also many aspects of giving that it is difficult for researchers to learn about. The bottom line is that, although the *Giving USA* figures presented above are probably fairly accurate in terms of foundation and corporate giving—which is easier to measure—giving by individuals is probably even greater than those statistics can measure. Here's why.

There are some formal ways that estimates of individual giving are made: by analyzing the tax returns of people who itemize their giving and extrapolating from them, by surveying a random sample of the population about their giving and extrapolating from their answers, and by comparing the results of either or both of these methods with what charities report of their income, either in their own tax filing statements (known by the name of the IRS form, 990) or in polls and surveys. The data collected in any of these ways can then be further analyzed by demographic breakdowns, such as the age or income of the donor, or by looking

at the giving patterns of a particular set of donors over several years. Further information can be learned by comparing the characteristics of donors with those of nondonors or by conducting focus groups on why (and to what) people give or don't give.

There are a few well-known, established sources of research on who gives away money, how much, and to what. Perhaps the best known is *Giving USA*, cited above. Independent Sector, a leadership forum for nonprofits that also reports on giving in the United States, publishes a biannual report, *Giving and Volunteering in the USA*, based on written and phone surveys. The Center on Philanthropy at Indiana University surveys giving and volunteering by the same households over time as families and reports its findings in its Center on Philanthropy Panel Study (known as COPPS). Other researchers include the Center on Wealth and Philanthropy at Boston College, the Foundation Center, the National Center for Charitable Statistics, the NewTithing Group, and empty tomb, inc. (for research on religion).

Each of these institutions uses slightly different methods of counting philanthropic giving, with correspondingly disparate results. No matter what method is used, however, chances are that charitable giving by individuals is underreported because of the limitations of the information available.

For research that uses tax returns to estimate giving, as with *Giving USA*, it's important to note that only 30 percent of Americans file an itemized return. The 70 percent of Americans who file a "short form" receive no tax benefits from their giving because their giving doesn't exceed the standard deduction. Extrapolating what nonitemizers give is done with an econometric model. Though there is no reason to think the results from this model are wildly inaccurate, the estimates are probably conservative and thereby likely undercount a lot of giving.

For those who do report giving on their tax forms, we are confronted with the fact that people tend to understate their income and exaggerate their giving. By how much? Hard to say. When people are surveyed by phone about their giving, might they exaggerate their generosity? Probably. By how much? Hard to say. Certainly, people often forget how much they have given to charity when they have no incentive, such as a tax deduction, to help them remember. Possibly the exaggerators cancel out the underreporters. Add to that mix that rules about what is tax deductible and what is not are confusing even to nonprofits, and we can safely assume that it is difficult to say with great accuracy exactly who gives away money and how much they give away every year.

Here are some other variables that make knowing who gives away money difficult:

Although the majority of people give money from their annual income, the wealthy minority give from their assets. Studies looking at who is generous relative to their ability sometimes only compare income; others look at net worth. These can yield different results. For example, a family could have a low income but be quite wealthy because of assets, or have a low income and be poor.

Studies that calculate in which region of the country people are the most generous usually fail to take into account cost of living. For example, compare two states where the median income is \$40,000 but in one state the median cost of housing is twice as expensive as in the other. The people living in the first state might well give less money away than those in the other state, but proportionate to their disposable income, they might be equally generous.

Almost all studies try to focus on formal philanthropic giving, but if we were to count the amount of money donated to homeless people on the street, or sent as remittances to family members in other countries, or given to help a friend pay for college or to help a poor family pay rent for a few months, not only would our studies show much more giving, they would probably reveal even more demographic differences among givers.

Looking at what charities report as their income would seem to give the most accurate data on how much people give to charity, but there are two factors that make this, too, a less reliable source. First, as mentioned, a lot of money donated by individuals doesn't necessarily go to established charities. Second, religious organizations are not required to file 990s (some do voluntarily), so we don't really have an accurate picture of how much income or what the sources of income are for religious institutions. Similarly, organizations with budgets of less than \$25,000 are also not required to file a 990. For these many organizations, then, we are operating in the realm of guesswork about their total incomes and sources of income.

So you can see the problem of trying to learn who gives away money, how much they give, and where it goes: the majority of people do not declare their giving on their tax forms, and a large number of nonprofits are not reporting their income sources.

A final compounding factor is that who gives how much away has been changing as the U.S. economy has changed over the past ten years. For many years the

bulk of money given away in the United States came from middle-class and working-class people. In 1998, Independent Sector's research showed that about 82 percent of all giving came from households with incomes of \$65,000 or less, which was the majority of people. By 2000, the increasing disparity between rich and poor began to show up in giving. The most recent *Giving USA* notes that households with a gross income of \$100,000 or less, which describes 92 percent of all households according to the IRS, contributed only about 52 percent of all giving, whereas households with a net worth of \$5 million or more (1 percent of all households) contributed 28 percent of all gifts. Of course, this group also earns more than 40 percent of all income and owns more than 85 percent of all publicly traded stock, so as a group they are not particularly generous. Regardless of how the figures are analyzed, people with smaller household incomes now account for less total giving than they did eight years ago.

Giving USA notes, "The trend toward increasing inequality in income in the past two decades paired with different giving patterns to charitable organizations by income level will affect the overall distribution of contributions among non-profit organizations in the coming years." Further, as United for a Fair Economy—an independent organization that studies and reports on wealth and power in the United States—points out, the wealthy are growing wealthier as the middle-class loses ground. One indicator is the difference in pay between those at the top and those below them. As of 2004, the ratio of what the average CEO is paid (now \$11.8 million) to what the average worker is paid (now \$27,460) is 431-to-1. (If the minimum wage had risen as fast as CEO pay since 1990, the lowest-paid workers in the United States would be earning \$23.03 an hour today instead of their current \$5.15 an hour.) The disparities between what lowest-paid and highest-paid workers earn in the United States is the greatest in the world. This situation not only speaks to a need for a more just tax system, it also means that the majority of people do not have much money to contribute. As the gap grows and the middle class becomes smaller, giving by the majority of individuals may go down in actual dollars, even if it doesn't go down as a percentage of income.

THE TRUTH ABOUT GIVING

Despite the difficulties of learning exactly who gives and to what, the following facts are found in a number of studies, they have been found year after year, and

they are borne out by the experience of development professionals all over the world.

About seven of every ten adults in the United States and Canada give away money. Where these numbers have been studied more locally, we have some interesting variation. For example, in Hawai'i nine out of ten adults give away money; in Alaska, six out of ten do. In Boulder, Colorado, where I grew up, a smaller percentage of the population gives away money than in nearby Denver. More people give away money in Nova Scotia than in British Columbia. (Here's a fun sampling from around the world: in Holland, almost 90 percent of the population gives away money, despite paying very high taxes. In Korea, 64 percent give; in the Philippines, 80 percent.)

Middle- and lower-income donors are responsible for a significant percentage of the money given—from 50 to 80 percent—and are the majority of givers.

Most people who give to nonprofits give to at least five and as many as fifteen groups.

About 20 percent of people on welfare give away money (with the average gift being \$74), and about 97 percent of millionaires give away money (Center on Philanthropy data).

Volunteers are more likely to be donors than people who don't volunteer.

More people give away money than vote.

The majority of people who give away money describe themselves as religious or spiritual, whether or not they are involved in a formal religious or spiritual community.

And finally, a theme I will return to a thousand times in this book, people give when they are asked.

In the United States, the lion's share of private-sector giving, according to all studies, goes to religion. Religious organizations also make up the majority of nonprofits in the United States. Religion has lost market share over the years. When I entered the field of fundraising in 1976, religious giving was 50 percent of all giving; now it is just over 30 percent. Generation X seems to be giving less to religion than previous generations, but that may change as that generation ages.

Nonetheless, regardless of the methodology used or the variables considered, study after study give us a picture of a generous country, with most people making donations and feeling good about doing so. They also give us a picture of middle- and lower-income donors making up a significant percentage of all money given away and of a constantly increasing amount of money given every year.

Foundations and corporations, which have the false reputation of keeping charity alive, are overrated as a source of funds and the help they can provide is often misunderstood. While foundation and corporate giving will always play a vital role in the nonprofit sector, the limitations of that role must be clearly understood.

FOUNDATIONS

Foundations have relatively little money, and that money is in very great demand. Many of the larger foundations report receiving one hundred proposals for every two they are able to fund. As information about foundations becomes more easily available via the Internet, the demand is increasing. Online databases help potential grantees identify more and more sources. Many foundations now post their guidelines and annual reports on the World Wide Web. Some progressive foundations have adopted a standard grant application form, allowing grantees to submit exactly the same proposal to many different foundations. The very things that thus make foundations more accessible also make them inundated with requests.

Although many nonprofits, especially new or small organizations, think foundation funding would be the answer to their money problems, in fact foundation funding is designed to be used only for short-term projects. These include the start up of a new organization and its first few years of operation; capital improvements; new programs; one-time projects, such as studies or conferences; capacity building; or for help through a particularly rough period in the life of an organization for which it has a good excuse and a realistic recovery plan. More recently, foundations have been creating “initiatives,” where they focus most or all of their grant-making on one area of their choosing, such as preschools, youth organizing, or immigrants rights. These initiatives are often helpful for bringing together a number of organizations working on the same issue, allowing them to share ideas and create joint strategies. Sometimes several foundations join an initiative. However, the foundation funding invariably dries up before the problems identified by the initiatives have been solved, leaving groups that have relied heavily on this funding in a bad way. Many foundations, recognizing the limits of their funding, have

provided capacity-building grants, which are largely efforts to help organizations move away from the foundation to a more diverse set of income streams.

If an organization has come to rely on foundation funding, decreasing reliance should be an important part of its financial planning. If an organization has never become reliant on foundation funding, it should plan not to, and it should not make the mistake common to many small organizations of seeking more foundation funding as the years pass rather than less.

CORPORATIONS

Corporations are different from foundations in a key way: unlike foundations, whose job is to give money away, corporations exist to make money. Giving money away is primarily an activity that a corporation hopes will directly or indirectly help it to make more money. Even so, only 11 percent of corporations give away any money at all. Moreover, although they are allowed to give away up to 10 percent of their pretax profits, in fact the average amount these companies give away is a mere 1 percent of pretax profits. Corporations that do give money generally give it to the following types of organizations or activities:

- Organizations that improve the life of the community where their employees live (symphonies, parks, museums, libraries)
- Groups that help their employees be more productive by addressing common employee problems (alcohol and drug rehabilitation, domestic violence)
- Organizations that provide volunteer opportunities for employees, or to which employees make donations
- Research activities that will help the company invent products or market existing products (various departments in universities get much of their funding for such research from corporations)
- Education programs for young people to ensure an adequate future workforce for the company (literacy programs, innovative schools, scholarships)

More frequent and generous is corporate giving to match employee donations. Although many corporations have had matching gift programs for some time, the scale of today's matching programs have come to be called "employee-driven philanthropy." For this reason it is important to know where your donors work and whether their corporation will match their gift.

Aside from money, corporations make other valuable donations, such as contributions of expertise (loaning a worker to help a nonprofit with accounting, marketing, or personnel), space (free use of conference or meeting rooms), printing, discarded furniture and office equipment (computers, fax machines, copy machines), building materials, and so on.

The past couple of decades have seen many corporations joining with charities in what is called “cause-related marketing” efforts, in which a corporation donates a certain percentage of its profits from a particular item or a certain amount of each sale to its partner charity. The nonprofit group and the corporation advertise the arrangement and encourage people who may be choosing among similar products to choose the one that also benefits the charity. Variations on this theme include corporations that offer to give a percentage of profits to a certain kind of organization (environmental, progressive, feminist) or who allow customers to nominate groups that should receive corporate funding. Cause-related marketing has benefited many organizations by allowing shoppers to feel that their spending can also serve a charitable purpose. The drawback is that these donors do not become part of an organization’s donor base, about which much more will be said in the course of this book.

Some organizations are not able to get corporate funding because their work is too controversial, others are not located near any corporate headquarters, and others will not seek corporate funding because they wish to avoid appearing to endorse a corporate product or a particular corporation’s way of doing business. However, if your group does wish to seek corporate funding, keep in mind that the key element is knowing someone in the corporation. Having “a friend at the bank”—literally and figuratively—is important, and the many ways a corporation can help you should not be overlooked. Just like foundation giving, however, income from corporate giving should not be relied on.

THE POWER OF INDIVIDUAL GIVING

I hope it is clear by now that a broad base of individual donors provides the only reliable source of funding for a nonprofit year in and year out, and the growth of individual donations to an organization is critical to its growth and self-sufficiency. Further, relying on a broad base of individuals for support increases an organization’s ability to be self-determining: it does not need to base program priorities on what foundations, corporations, or government agencies will fund.

Recipients of Charitable Giving

To really understand private-sector giving, it is important to look not only at who gives this money, but also at who receives it. Again, with only a few percentage points of variation from year to year, *Giving USA* has reported a consistent pattern of where gifts go. A little more than one-third of all the money given away in America goes to religious organizations, with education a distant second, followed by health, human services, the arts, and four other categories that receive small percentages of giving.

Uses of Contributions, 2005		
Contributions To	Amount in Billions	Percentage of Total
Religion	\$93.18	35.8
Education	\$38.56	14.8
Health	\$22.54	8.7
Human services	\$25.36	9.7
Arts, culture, humanities	\$13.51	5.2
Public-Society benefit	\$14.03	5.4
Environment and animals	\$8.86	3.4
International affairs	\$6.39	2.5
Gifts to foundations	\$21.70	8.3
Unallocated giving	\$16.15	6.2

Source: Giving USA, 2006.

Giving categorized as “public-society benefit” includes gifts to organizations concerned with community organizing, civil rights, and civil liberties, as well as gifts to United Way, Jewish Federation, and combined funds, such as the Combined Federal Campaign.

The category of “gifts to foundations” includes giving to community and private foundations and tends to vary from year to year. Giving to foundations was particularly high in 2005 because of several \$1 billion gifts given in the last several years, including \$3 billion given by Bill and Melinda Gates to their foundation, and \$2.6 billion from the estate of Susan Buffett, both in 2004, and \$51 million given for disaster relief.

The category called “unallocated giving” includes deductions carried over, that is, amounts claimed in one year for a gift made up to five years earlier. This situation occurs when charitable contributions exceed 50 percent of a taxpayer’s gross adjusted income, when foundations make grants to organizations outside the United States, and most interesting to anyone concerned about privatization, some gifts to government entities. Since they are funded by taxes, government entities that receive private donations, such as public schools, public libraries, public health departments, and the like, are not required to report these gifts.

Giving to Religion

Religion as a category receives one-third of every charitable dollar, yet only a small percentage of giving to religion is from foundations and virtually none of it is from corporations. Until recently, because of the constitutional separation of church and state, religious activity received little government funding either, except for providing a specific social service. Under a controversial program of President George W. Bush’s administration, religious organizations have been able to receive more government funding than in the past. Many religious groups opt not to apply for this money, however, because they do not believe religion should do the work of government; groups that have received such government funding often report that the amounts given are not as much as the controversy would have led the public to believe. Even with this money, it remains true that the vast majority of funding that religious organizations receive is from their own members.

We can learn a lot by examining what makes fundraising for religious institutions so successful. At first glance, many people think that religious institutions receive so much money because of their theology: the reward of heaven, the blessing of giving, the threat of eternal damnation for those who do not give. While these enticements may play a role in some people’s giving, it is clear that in the wide variety of religious expression, these motives are not enough. Some religious traditions do not believe in any form of eternal life; others don’t even believe in God. Even in traditions that encompass some of these beliefs, mature adults can be given more credit than to think that their behavior is based simply on a desire for rewards or a fear of punishment.

So why do religious organizations receive almost one-third of all private-sector dollars? Although religious institutions offer ideas and commitments that are of

great value, the reason they get money—and this is key to understanding successful fundraising—is that they ask for it.

Let's take as an example a Protestant or Catholic church. (If you are of a different religious tradition, compare your own tradition to what follows.) Here is how they raise money:

They ask every time worshippers are assembled, which is at least once a week.

They make it easy to give: a basket is passed to each person in the service and all gifts are acceptable, from loose change to large checks. Everyone—whether out-of-town visitor, occasional church goer, or loyal and generous congregant—is given the same opportunity to give. The ushers are not concerned about offending someone by asking. They would never say, “Don't pass the basket to Phyllis Frontpew—she just bought the new carpet,” or “Skip over Joe because he just lost his job.”

They make it easy to give, even if you are not a regular congregant. Once a year, most houses of worship will have some kind of stewardship drive or all-member canvass; in many churches, someone will come to your house and ask you how much you will be pledging this year. You can pay your pledge by the week, month, or quarter, or give a one-time gift. The option of pledging and paying over time allows people to give a great deal more over the course of a year than most could in a single lump sum.

They provide a variety of programs to which you can give as you desire. If you are particularly interested in the youth program you can give to that, you can buy flowers for the altar, support the music program, or help fund overseas missions. Many churches have scholarships, homeless shelters, food banks, or other social programs. And of course, if you are a “bricks-and-mortar” person, you can contribute to any number of capital improvements—new hymnals, a new window, a better organ, or a whole new sanctuary.

Finally, religious institutions approach fundraising with the attitude that they are doing you as much of a favor to ask as you will be doing them to give. In other words, they recognize that fundraising allows an exchange to happen between a person who wants to see a certain kind of work get done and an institution that can do that work. If one of your values and beliefs is that a

house of worship is important, then in order for that institution to exist you will need to help pay for it. Giving money allows you to express your desire and commitment to be part of a faith community and allows your commitment to be realized.

All organizations should institute the diversity of fundraising methods that characterizes most religious institutions. In the chapters that follow, I will show you how.