“Onward and upward” appears to be the byword of the human race in the modern era. That’s why a massive interruption in the notion of progress, such as the near-collapse of the world’s financial systems late in 2008, has been so traumatic.

But history’s role is to put things in perspective. A historical view of these matters can help. And the single biggest lesson to be learned from economic historians and economists is that the U.S. economy—and the world’s—continues to grow over the long term.

In the United States, the increase in the gross domestic product above the rate of inflation averaged 3.25 percent annually over the 107 years of the twentieth century and the first 7 of the twenty-first. Such seemingly dramatic financial shocks as the OPEC oil embargo in 1973, the collapse of the
U.S. stock market in 1987, or the dot-com bust in 2000—even, ultimately, the crash of 1929—sooner or later come to look like minor setbacks. And, yes, the meltdown of 2008 will eventually be viewed as a hiccup from the vantage point of history. You can see the pattern in Figure 1.1.

Recessions by definition are always temporary. Even depressions, which are much more severe and longer lasting, yield to the long-term trend of economic growth. Of course, sometime later in the twenty-first century, we’ll start running out of the resources that fuel economic growth. It’s not only oil production that will eventually peak, if it hasn’t already. Just as serious are the sharp and continuing declines in the availability of drinkable water and arable land, both of which will be greatly exacerbated by global warming even in the best-case scenario. Eventually the growth curve will flatten.

**FIGURE 1.1 U.S. Real GDP in Millions of 2000 Dollars**

and perhaps turn downward. At that point, humanity may need to dispense with the notion of progress itself, with unknown implications for everything from the way we live to how we think about ourselves. But for the foreseeable future, we can expect any recession that comes along to be followed by a recovery—even, possibly, a rapid one.

Unfortunately, as long as the current recession continues, that statement begs the question: What can we expect from our donors now, when money is truly tight?

**Philanthropy in Recessionary Times**

A growing body of research on fundraising has been pouring out of the Center on Philanthropy at Indiana University as well as other academic centers devoted to the study and advancement of philanthropy. We practitioners might have long memories and anecdotes to spare from decades of experience, but it’s the scholars who tap into the raw data increasingly available about fundraising and philanthropy and put our work and our memories into a solid historical framework.

The lesson from the academics is profoundly simple: overall fundraising results roughly correlate with economic conditions, chiefly the trends in personal income and, in the United States, the Standard & Poor’s 500 Stock Index (S&P 500). If the economy’s up by these measures, fundraising tends to rise. If it’s down, fundraising revenue slips.

But this cloud has a lining of silver, or possibly even a platinum one.
According to the Center on Philanthropy, economic reversals during the past four decades have had less of an impact on philanthropy than they have had on the overall economy. Before adjusting for inflation, charitable giving has increased in all years since 1956, with the sole exception of 1987. (Giving actually declined in that year, but just by 1 percent. And the scholars attribute that decline not to economic factors but to a change in the tax laws the previous year that altered the deductibility of charitable gifts.) From 1967 through 2007, the average rate of growth in giving was 2.8 percent in years of economic recession and 4.3 percent in years of economic growth. However, the story is a little different after adjustments for inflation. During the years 1967 to 2007, inflation-adjusted giving fell an average of 1 percent in years of recession. In years when the recession lasted eight months or more, the decline averaged 2.7 percent (again adjusted for inflation).

But we’re more interested in the future than the past, right?

The S&P 500 is what economists call a “leading indicator,” which means that it tends to predict economic conditions in the near future; fundraising is a “lagging indicator,” which means it doesn’t slip until a recession is well under way. By the time fundraising results have dropped, the economy may even be on the upswing. And in a mild recession, the recovery may get under way quickly enough to head off any significant decrease in giving—which may help explain the shallow effect of a slow economy on philanthropy.
In addition, economic conditions affect fundraising results in specific ways. The rise and fall of the stock market tends to indicate the ability and willingness of many major foundations and big individual donors to give generous gifts. Foundation grants may be especially prone to drop sharply, since most foundation assets are invested in securities, and foundation boards tend to limit their annual giving to the minimum 5 percent of assets required by law. During previous economic reversals, this effect was also likely to come later than the downturn itself, as grants are typically made on the basis of a three- to five-year average asset evaluation. At worst, foundations tended to allocate funds for the current year in accordance with their asset values at the close of the previous year. In other words, foundations in the past may not have cut back on grant making even in a severe downturn because the value of their assets was still set by an average that included previous boom years. It could take three to five years for the average asset value to decline sharply—and by that point, almost always, the securities markets had resumed their climb.

However, this current recession is like no other economic event in history. Although some foundations are responding to the stress on the nonprofit sector by giving more, many others are pulling back sharply. All bets are off at this writing. But don’t take that cautionary news as cause for panic. It would be a mistake to assume that the bottom will drop out just because you’re feeling (or fearing) some effects now.
Corporate contributions also tend to shrink as cor-
porate profits decline, and more quickly than at many founda-
tions, although the impact of a poor economy affects different 
companies in very different ways. Many companies manage to 
stay profitable through cost cutting even in a down economy. 
And there are businesses in “countercyclical” industries—ones 
that serve basic human needs such as groceries that don’t go 
away in a recession— which may even benefit from a down-
turn and might therefore increase their giving.

Similarly, there are countercyclical effects in the non-
profit sector, helping to explain why a recession doesn’t typi-
cally hit all nonprofits equally. Difficult economic conditions 
underline the importance of services for poor people, such as 
food banks, homeless shelters, and urban missions, reinforce-
ing the case for giving to such traditional charities, while other 
sectors, such as art museums, performing arts organizations, 
public broadcasting, and (in the United States) international 
aid and development, might suffer.

Except in cases of severe economic downturns, the 
effects tend to be much less pronounced on membership 
renewal rates, average gifts in direct mail and telefundraising, 
cash contributions in churches and on the streets, and other 
barometers of giving by people who aren’t necessarily wealthy. 
It’s possible that current demographic changes will eventu-
ally moderate or even eliminate that tendency of donors to 
continue supporting their favorite charities through thick and 
thin. An aging population that eats up its savings paying for
health care is one troubling sign of this potential. Another, its consequences unknown, is the increasing ethnic diversity of the U.S. population. For now, though, I’m banking on what seems to be the boundless generosity of the human race. Nevertheless, as a recession drags on, donor acquisition efforts may become even more challenging than they already are. Even people whose day-to-day finances aren’t curtailed by a recession tend to become more cautious, and response rates in new-donor acquisition efforts may shrink because donors hesitate to expand their giving choices. Lower personal income and a bear market in stocks take their toll too.

In summary, here’s what to watch out for in any recession:

- An economic downtown may—or may not—adversely affect your fundraising results to any great degree. It depends on the severity, length, and character of the recession.
- Even if nonprofits generally are feeling the pinch of a gloomy economic outlook, your organization might not be similarly affected. The effects you’ll feel will depend on how you raise your money, what services you provide, and, ultimately, what you do in response to deteriorating economic conditions.

You may be asking yourself whether this current economic crisis is a recession or something much closer to the
protracted economic stagnation of the Great Depression. After all, the impact of most recessions tends to be focused on one country or region at a time, and there’s no denying that today’s meltdown in the financial markets is a global phenomenon. As I write, it is becoming increasingly clear that this crisis is no mere recession. Its ultimate depth and scope are yet to be seen, but it has already been under way for a full year, and commentators on economics and business are shying away from comparing current conditions to those in any previous economic reversal since World War II. It would seem that the more relevant comparison will prove to be with the Great Depression. What do we know, then, about philanthropy in the 1930s?

### Giving During the Depression

During the early years of the Great Depression, according to the limited data we have available, giving did indeed decline significantly three years after the Crash, though not nearly as precipitously as the economy as a whole. Philanthropy then recovered as the 1930s proceeded, even in the absence of significant improvement in economic conditions.

The best information I’ve been able to locate about philanthropy during the Depression years comes from Robert F. Sharpe Jr., a fundraising consultant widely known for his encyclopedic knowledge of planned giving. A 1991 paper published by the Sharpe Group, re-released in 2008, draws on both the contemporaneous studies of the legendary fundraising consultant John Price Jones beginning in 1931 and a 1950
study by F. Emerson Andrews characterized by the New York Times as “the most comprehensive survey of philanthropy ever undertaken in this country” up to that time.

Summing up the overall picture gleaned from these two sources, Sharpe related that

the Andrews report showed a somewhat significant dip in total giving from 1931–33 at the beginning of the lengthy period of economic stagnation that characterized the 1930s. The report shows a slow annual rise in giving throughout the remainder of the 1930s, a time period when inflation was non-existent—and which might even be characterized as a period of increased giving were deflation of the period factored in.

Viewed graphically, the picture emerges very clearly, as you can see in Figure 1.2.

As you’ll note in Figure 1.2, giving didn’t begin its decline until 1931–1932, long after the Crash that most people today associate with the onset of the Depression. Although the dollar amount of total contributions did decrease from 1929 to 1931, giving actually rose when adjusted for the inflation (and deflation) that occurred during this time period. Similarly, taking deflation into account, the drop from 1931 to 1933 is not pronounced. (The dollar increased in value from $1.00 in 1929 to $1.33 in 1933.)
Although it then took a full seven years before the level of giving in America returned to its peak before the onset of the Depression, there were only two years of significant decline (1932 and 1933). The recovery in giving began in 1934—long before the improvement in the overall economy was truly meaningful.

Sharpe notes that the John Paul Jones studies, working from a different set of raw data that was based on more limited surveys, showed a similar pattern. “They reveal, however, a more dramatic drop in initial gift activity from 1931 to 1933” and a recovery to earlier levels that was more erratic than shown in the Andrews study. However, “other more broad-based reports at the time of gifts to Community Chests

![Graph showing inflation-adjusted giving in America, 1929–1941.](source: F. Emerson Andrews Sage Foundation Report.)
[the United Ways of yesteryear], Catholic Charities, and others also showed a continuous, though slow, rise in giving each year and tend to corroborate the Andrews study.”

Not all nonprofit organizations were equally affected by the Depression. The Sharpe paper reported on a study of giving to higher education that indicated that many colleges and universities—especially the largest and best known—fared relatively well during the 1930s. “Those organizations related to human services, religion, and health care also appeared from contemporary reports to have fared well,” the Sharpe Group noted.

During this period, there was another, highly significant trend: “A much higher percentage of individual gift income [was] derived from bequests and deferred gifts during the 1930s, with a return to more normal levels occurring as current giving mushroomed in support of war-related charity.”

In other words, during the worst financial crisis in the memory of any living person, there were a couple of significant declines for the nonprofit sector, or at least for most nonprofits. But philanthropy bounced back to pre-Depression levels far more quickly than the world economy in general.

It’s important to weigh this perspective in the balance against the many changes in American philanthropy since the 1930s. A far smaller proportion of the U.S. population then could be
counted as donors, so major gifts—and, as Robert Sharpe notes, substantial bequests—constituted a far larger share of overall giving than they do today. Only after World War II did a substantial middle class capable of sharing its prosperity begin to dominate the American economy. Direct mail fundraising—mass fundraising of all sorts—didn’t begin coming into its own until the late 1940s. The number of charitable foundations was a tiny fraction of the more than 100,000 in the United States today. There were no computers, no Internet, no e-mail. Still, the fact that giving was less sharply hit than the economy as a whole seems relevant. The same pattern has prevailed through every subsequent economic downturn. It appears as though the philanthropic impulse is stimulated, not discouraged, by the widespread evidence of growing need during difficult times.

If the fundamental question at hand remains simply whether today’s economic troubles constitute a recession (mild or otherwise) rather than a severe reversal that economists would call a depression, why don’t we just put on our thinking caps, using all the magical devices in the economists’ toolbox, and determine what’s in store for us?

Since you already know that crystal-balling the future is a fool’s errand, we’ll take a look in the following chapter about a tested and proven method to anticipate—not predict—the future.