

To address growing concerns about the impact of the current economic downturn on foundation giving and the nonprofit sector, the Foundation Center can provide historical context through an examination of foundation giving trends in prior recessionary periods and times of economic distress. Drawing upon existing data and research, Steven Lawrence offers perspectives on the future outlook in light of current conditions and explains factors that affect foundation giving when economic conditions are turbulent.

Past Economic Downturns and the Outlook for Foundation Giving

Since the current economic crisis began in the latter half of 2007, we at the Foundation Center have been fielding questions about the possible impact of a downturn on foundation giving. Each new bank buyout or failure, stock market drop, or prediction of a long and deep recession has led to renewed concerns about the health of the nonprofit sector and of the foundations that serve as one of their sources of support.

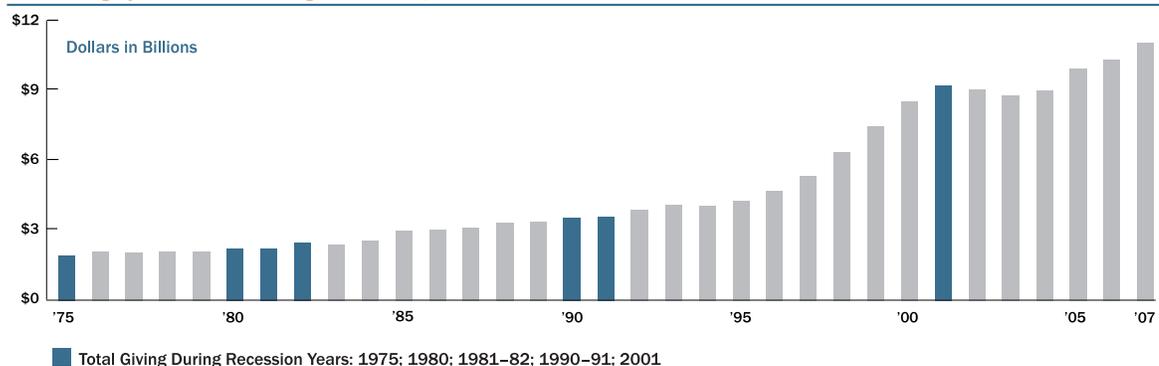
The scale of the current financial market meltdown and the reach of its impact throughout the United States and globally feels, in many ways, unprecedented. With no clear bottom yet in sight, it can be tempting to conclude that the work of many institutions will be imperiled or, at a minimum, substantially compromised. But short of a complete economic collapse, the behavior of institutions during prior economic downturns does provide some perspective on how they may weather today's challenges. This certainly seems true for foundations.

Since the Foundation Center began collecting data on all grantmaking private and community foundations in 1975, the country has weathered several recessions. During each of these recessionary periods—1980, 1981–82, 1990–91, and 2001—U.S. foundation giving in inflation-adjusted dollars did not decline and, in fact, increased slightly.



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Total Giving by Foundations During Recessions, 1975 to 2007



Source: The Foundation Center, *Foundation Yearbook*, 2008. Figure estimated for 2007. Constant 1975 dollars based on annual average Consumer Price Index, all urban consumers, as reported by the U.S. Department of Labor, Bureau of Labor Statistics, as of April 2008.

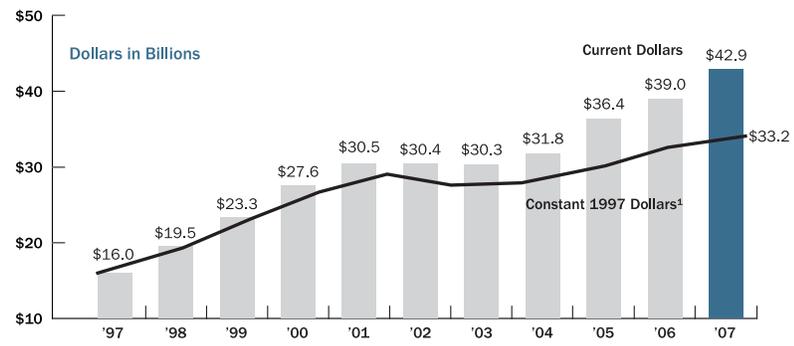
Nonetheless, just after the most recent recession, foundation giving did decline from \$30.5 billion in 2001 to \$30.4 billion in 2002 to \$30.3 billion in 2003—the first consecutive years of decreased foundation giving tracked by the Center. Yet this marginal 0.6 percent reduction (4.4 percent after inflation) was quite modest compared to the inflation-adjusted 16 percent drop in foundation assets we recorded between 2000 and 2002.

A number of factors helped to moderate the impact of reduced assets on overall foundation giving during the last economic downturn and will likely play a similar role during the current crisis. First, donors continued to establish new foundations—3,000 grantmaking foundations were established in 2002 and more than 1,500 in 2003. Second, donors continued to direct substantial gifts and bequests into the endowments of existing foundations. Third, foundations that determine their grants budgets each year based on a rolling average of their asset values over the prior two-to-five years—including a number of the largest foundations¹—helped to ensure more stable levels of giving by foundations overall.

In addition to these factors, during the last downturn a number of foundations indicated a willingness to reach into their corpus to ensure that multi-year commitments made during the late 1990s economic boom were met. Some even increased their payout rate to provide needed resources to the communities and organizations they had long supported.²

Although the economic outlook has worsened over the course of 2008, these and other factors, along with a survey of the country's largest independent,

Foundation Giving, 1997 to 2007



Source: The Foundation Center, *Foundation Yearbook*, 2008. Figures estimated for 2007.
¹Constant 1997 dollars based on annual average Consumer Price Index, all urban consumers, as reported by the U.S. Department of Labor, Bureau of Labor Statistics, as of April 2008.

corporate, and community foundations, led us to predict in *Foundation Growth and Giving Estimates* (released in May) that foundation giving will grow ahead of inflation this year.

Foundation assets grew faster than inflation between 2003 and 2007, which enabled grantmakers to replenish their endowments after the downturn of the early 2000s. For foundations that determine their annual grants budgets based on a rolling average of their asset values, this growth should help to mediate the impact of possible asset losses in 2008 on their giving in 2009. Some foundations will also benefit from new gifts and bequests, and the sector as a whole will benefit from the continued establishment of new and sometimes quite large foundations.

What does this mean for 2009? Should the stock market recover some of its losses by year's end, the various factors cited above may help overall foundation giving to remain roughly unchanged next year. This would be the best-case scenario. However, if the market fails to rebound from its current low or sinks further, the asset losses

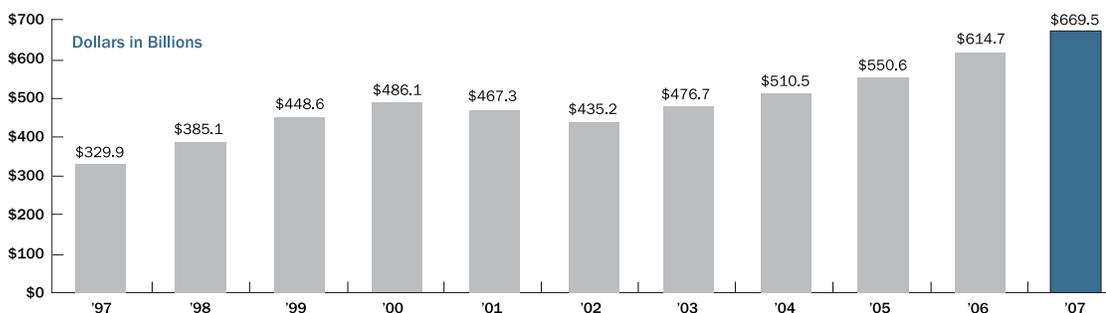
may be so pronounced and touch so many foundations that an overall decrease in funding becomes inevitable.

While these scenarios may still be less pessimistic than one might expect given the current economic turmoil, it is important to note that the experiences of the more than 72,000 grantmaking U.S. foundations and the organizations they support will vary markedly. The aggregate figures for the early 2000s downturn obscure the fact that some foundations had to make deep reductions in their funding. Nonprofit organizations that may be facing lower levels of grants support should remember that the Foundation Center can be of assistance in helping to weather the current crisis.

¹According to the Foundation Center's 2003 "Foundation Giving Forecast Survey," of the 497 respondents indicating that they based their grant appropriations budgets on the value of their endowments, over one-third averaged the value of their endowments over two or more years. (Close to half of respondents based their grant appropriations budgets on their prior year's endowment.) However, among larger respondents (those reporting giving of \$10 million or more in 2002), more than two-fifths reported basing their grant appropriations budgets on the value of their endowments over two or more years.

²See Renz, L., *Assessing the Post-9/11 Funding Environment: Grantmakers' Perspectives*, New York: Foundation Center, 2002.

Foundation Assets, 1997 to 2007



Source: The Foundation Center, *Foundation Growth and Giving Estimates*, 2008. All figures based on unadjusted dollars. Figure estimated for 2007.

For more information, contact the Foundation Center at communications@foundationcenter.org