

# THE SOCIAL AND ECONOMIC VALUE OF PRIVATE AND COMMUNITY FOUNDATIONS<sup>1</sup>

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## EXECUTIVE SUMMARY

In a period often called a “new golden age of philanthropy,” public interest has increased about the social and economic effectiveness of philanthropic activities. This study analyzes and estimates the general economic or welfare benefits generated by the work of these foundations and is, to our knowledge, the first such broad analysis and estimate conducted in the United States. This analysis finds that the grants and other operations of foundations generate very large economic returns. While the benefits vary in size across various grant areas, on average, each dollar that private and community foundations provided in grants and support in 2007 produced an estimated average return of \$8.58 in direct, economic welfare benefits. As a result, the \$42.9 billion in grants and other support provided by private and community foundations in 2007 produced some \$367.9 billion in direct, social and economic benefits. A summary of the estimates of those benefits is presented in the following table:

**Estimated Value of the Direct Benefits of Private and Community Foundation Activities, By Category, 2007**

Category	Share of Total Grants and Support, 2006	Projected Grants and Support, 2007	Estimated Return on Investment	Value of Direct Benefits
Arts and Culture	0.12	\$5,226,392,067	9.77	\$51,044,431,513
Education	0.23	\$9,660,143,940	5.08	\$49,034,044,415
Environment & Animals	0.06	\$2,568,880,545	6.72	\$17,258,127,318
Health	0.23	\$9,858,394,845	7.60	\$74,922,982,437
Human Services	0.14	\$5,935,713,580	10.91	\$64,730,079,576
International Affairs	0.05	\$2,287,649,706	1.00	\$2,287,649,706
Public Affairs/ Society Benefit	0.11	\$4,582,058,679	22.04	\$100,999,672,814
Religion	0.02	\$926,409,978	1.00	\$926,409,978
Science & Technology	0.03	\$1,235,175,914	4.96	\$6,126,867,646
Social Sciences	0.01	\$581,238,668	1.00	\$581,238,668
Other	0.00	\$37,939,837	1.00	\$37,939,837
<b>Total</b>	<b>1.00</b>	<b>\$42,899,997,759</b>	<b>8.58</b>	<b>\$367,949,443,908</b>

<sup>1</sup> This study was conducted with support from The Philanthropic Collaborative. The views and analyses are solely those of the authors.

Over the last decade, the dimensions and consequent impact of philanthropic activities have increased sharply. From 1997 to 2007, foundation giving soared from \$16.0 billion to \$42.9 billion (\$33.2 billion in constant, 1997 dollars), while total foundation assets grew from \$329.9 billion to \$669.5 billion (\$518.2 in constant 1997 dollars).<sup>2</sup> By 2007, the assets of U.S. private and community foundations were equal in value to all of the fixed assets of the American agriculture, mining, and utility industries; and foundation giving in that year exceeded the GDP of 110 of the 180 countries tracked by the International Monetary Fund and the World Bank.<sup>3</sup>

Given the large financial resources of U.S. private and community foundations and the tax preferences which foundations can claim, the finding that their grants and activities are closely linked to large social and economic benefits should be a matter of significance. While the organizations which use foundation contributions have other sources of financial support and in-kind resources that also contribute to these returns, foundations are the predominant source of the support that generates these high returns. Each dollar of a foundation grant also produces indirect economic benefits by boosting employment and incomes for the beneficiaries of these private and community foundation activities, and new government revenues based on this additional income. While these indirect benefits also vary substantially across grant areas, we find that the \$42.9 billion in foundation support extended in 2007 helped to generate nearly \$512 billion in additional household income and some \$145 billion in additional government revenues.

These estimated returns or economic welfare benefits of some \$367.9 billion were distributed across 11 broad, grant areas:

- \$5.2 billion in private and community foundation support for arts and culture programs in 2007 helped produce an estimated \$51 billion in direct, economic benefits.
- \$9.7 billion in foundation grants and support for education-related programs helped produce an estimated \$49 billion in such direct benefits.
- \$2.6 billion in foundation grants and support for environment and animal/wildlife-related programs helped produce estimated benefits of \$17.3 billion.
- \$9.9 billion in foundation grants and support for health-related programs helped produce an estimated \$74.9 billion in benefits.
- \$5.9 billion in foundation grants and support for human-service programs helped produce estimated benefits of \$64.7 billion.
- \$4.6 billion in foundation grants and support for public affairs/society benefit-related programs helped produce an estimated \$101 billion in benefits.
- \$1.2 billion in foundation grants and support for science and technology-related programs helped produce estimated benefits of \$6.1 billion.
- In four other categories of foundation support, there are no sound metrics for estimating their social and economic benefits. These areas cover programs focused on promoting international peace and human rights, religious faith, social science analysis, and “other” areas. While we believe there may well be very substantial benefits arising from these unquantifiable areas of foundation activity, for this analysis we attribute benefits in each of these categories equivalent to their support and grants:
  - Private and community foundation support produced benefits of at least \$2.3 billion from programs in international affairs, peace, and human rights;
  - Private and community foundation support produced benefits of at least \$926.4 million from religion-related programs;
  - Foundation support produced benefits of at least \$581.2 million from social science-related programs;
  - Foundation support produced benefits of at least \$37.9 million in other, miscellaneous areas.

Such large-scale support and benefits also produce substantial indirect economic and social benefits. For example, foundation support will generally help generate new jobs in particular communities, which in turn produces

<sup>2</sup> Lawrence, Steven, Algernon Austin, and Reina Mukai. “Foundation Growth and Giving Estimates: Current Outlook.” Foundation Center, 2007, <http://foundationcenter.org/gainknowledge/research/pdf/fgge07.pdf>.

<sup>3</sup> Bureau of Economic Analysis. “Table 3.1E: Current-Cost Net Stock of Private Equipment and Software by Industry,” [www.bea.gov/national/FA2004/TableView.asp?SelectedTable=21&FirstYear=2002&LastYear=2007&Freq=Year](http://www.bea.gov/national/FA2004/TableView.asp?SelectedTable=21&FirstYear=2002&LastYear=2007&Freq=Year).

higher household incomes; and this expansion in incomes has what economists call a “multiplier effect” as spending by those who have gained jobs and additional income stimulates additional job creation and income for those who produce and provide the goods and services consumed by the initial beneficiaries. In addition, much of this additional economic activity generates tax revenues for the federal, state and local governments. Previous research has found, for example, that every dollar spent by arts and culture nonprofits generated \$1.65 in additional, direct household income and 45-cents in additional, direct federal, state and local revenues.<sup>4</sup> To estimate these indirect economic effects linked to foundation support, we use employment by nonprofit, 501c(3) charities as a proxy for employment by the organizations and entities receiving foundation support. Using other studies analyzing indirect income effects from additional employment as well as our data on private foundation activity, we estimate that in 2007, the activities of private foundations substantially accounted for:

- 9,226,000 jobs in 501c(3) entities linked to the activities of private and community foundations;
- \$511.9 billion in household income in 2007 that can be traced to these activities and the associated employment; and
- \$145.4 billion in total revenues in 2007 that can be traced to the additional income and the jobs that generate it, including \$38.8 billion in local revenues, \$44.7 billion in state revenues, and \$61.9 billion in federal revenues.

Recent research has estimated that the tax-exempt status of all charities, including foundations, costs local governments between \$8 billion and \$13 billion in revenues per year.<sup>5</sup> Based on our analysis of the jobs and incomes generated directly and indirectly by the activities of private foundations, these activities generate substantially greater revenues than those foregone by the tax-exempt status of foundations. Since foundations depend on tax-preferred donations to carry on their activities, taxing those donations or the assets and income that finance their activities would be equivalent to taxing the public service and social

benefits they provide, and potentially would dramatically curtail those activities at a net loss of revenues.

## Data and Methodology

Analysis of the economic benefits or value generated by private and community foundations begins with the volume of grants or support which they provide across a range of areas. The Foundation Center issues the most detailed accounting of the provision of grant dollars, distributed across 11 broad topic categories and 15 sub-categories.<sup>6</sup> These 11 broad areas of private foundation activity cover: 1) arts and culture; 2) education; 3) environment and animals/wildlife; 4) health; 5) human services; 6) international affairs, peace and human rights; 7) public affairs/society benefit; 8) science and technology; 9) social sciences; 10) religion; and 11) “other” areas not covered by the preceding ten categories. As an example of the sub-categories, the Foundation Center classifies grants in the arts and culture category in nine sub-categories, including policy management and information; arts-multipurpose; media and communications; visual arts and architecture; museums; performing arts; humanities; historic preservation; and other.

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The Foundation Center data are based on a sample of 1,263 large U.S. private and community foundations, including 800 of the 1,000 largest foundations, and in 2006 covered \$19.1 billion in grants and support, or 49 percent of a reported total of \$39.0 billion in total foundation activity that year. This accounting, therefore, is statistically representative of the universe of foundation activity in the United States, which totaled \$42.9 billion in 2007.<sup>7</sup> We rely on the Foundation Center data because their disaggregation into categories and sub-

<sup>4</sup> Americans for the Arts. “Arts & Economic Prosperity III: The Economic Impact of Nonprofit Arts and Culture Organizations and Their Audiences,” 2007, [http://www.americansforthearts.org/pdf/information\\_services/research/services/economic\\_impact/national\\_findings\\_summary\\_report.pdf](http://www.americansforthearts.org/pdf/information_services/research/services/economic_impact/national_findings_summary_report.pdf).

<sup>5</sup> Strom, Stephanie. “Tax Exemptions of Charities Face New Challenges.” *New York Times*, 26 May, 2008, [http://www.nytimes.com/2008/05/26/us/26tax.html?\\_r=1&oref=slogin](http://www.nytimes.com/2008/05/26/us/26tax.html?_r=1&oref=slogin), and Brody, Evelyn. *Property Tax Exemption for Charities: Mapping the Battlefield*. Urban Institute Press, 2002.

<sup>6</sup> Foundation Center. “FC Stats: Distribution of Foundation Grants by Subject Categories, circa 2006,” [http://foundationcenter.org/findfunders/statistics/pdf/04\\_fund\\_sub/2006/10\\_06.pdf](http://foundationcenter.org/findfunders/statistics/pdf/04_fund_sub/2006/10_06.pdf).

<sup>7</sup> Foundation Center. “Highlights of Foundation Giving Trends.” *Foundations Today Series*, 2007, <http://foundationcenter.org/gainknowledge/research/pdf/fgt07highlights.pdf>.

### Total Private and Community Foundation Activity in 2007, By Category, Based on Foundation Center Sample from 2006 (\$)

Category	Sample, 2006	Share	Estimated Activity Based on \$42.9 billion in Activity in 2007
Arts and Culture	\$2,329,708,000	12.2%	\$5,226,392,067
Education	4,306,090,000	22.5%	9,660,143,940
Environment and Animals	1,145,100,000	6.0%	2,568,880,545
Health	4,394,462,000	23.0%	9,858,394,845
Human Services	2,645,895,000	13.8%	5,935,713,580
International Affairs	1,019,739,000	5.3%	2,287,649,706
Public Affairs/ Society Benefit	2,042,490,000	10.7%	4,582,058,679
Science & Technology	550,591,000	2.9%	1,235,175,914
Social Sciences	259,092,000	1.4%	581,238,668
Religion	429,967,000	2.2%	926,409,978
Other	16,912,000	0.09%	37,939,837
<b>Total</b>	<b>\$19,140,046,000</b>	<b>100%</b>	<b>\$42,899,997,759</b>

categories enables us to use a vast literature on the value of specific nonprofit and public activities to evaluate the economic and social value of the wide and varied range of private foundation activities.

This evaluation begins with two adjustments from the 2006 sample: we adjust the totals for the samples of each sub-category and category for the total reported foundation grants in 2006, and then we adjust each of those sub-category and category totals for the increase in total foundation activity from 2006 to 2007. These adjustments provide reliable estimates of the distribution of total private and community foundation activity across categories and sub-categories for 2007. The table above provides these sample data and their adjustments for the 11 broad categories of private foundation activities.

Recently, there has been considerable interest in estimating the social return on investments generated by charitable contributions and activities, although most nonprofits do not undertake the complex analyses required to calculate such estimates. We surveyed the reports which nonprofits have published in each of the categories, and a summary of many of those reports is available in a recent study co-sponsored by the World Bank.<sup>8</sup> To supplement these analyses, we also surveyed the academic literature on economic and social benefits

from nonprofit activities, as well as government analyses of public programs in many of these areas. This study draws on more than 90 such studies and evaluations, some of which cover a single foundation or public program and others which cover many programs. We identify the appropriate sub-category, average the results in cases of multiple evaluations, calculate a weighted average of the reported returns or benefits for each sub-category, and estimate the total returns for each sub-category and category. The current literature, however, does not cover every sub-category of foundation activity, nor is every study representative of all foundation activities in any category or sub-category. Our analysis, therefore, represents an initial effort to generate the broad bounds of the economic benefits generated by private and community foundations, calculated with the rigor that the available literature and data support. As more data become available, these results can be strengthened and refined.

As noted earlier, four categories of foundation activity are assumed to produce benefits or returns equal to their grants or support. In the category of religion, for example, foundation funds for religious organizations such as Acts 1:8 Ministry and the Knox Fellowship support church outreach programs and evangelical activities by churches, ministries and individuals seeking to share their faith. More than 90 percent of the resources of

<sup>8</sup> Nonprofit Roundtable of Greater Washington, and World Bank Group. "Beyond Charity: Recognizing Return on Investment," 2007, <http://www.nonprofitroundtable.org/media/downloads/beyondcharity.pdf>.

these organizations are devoted to organizing activities at the designated churches and encouraging participation in their outreach programs.<sup>9</sup> These activities create direct value in the sense that they energize communities and individuals and presumably provide spiritual and practical nature to their participants. In this case, we assume a return on foundation funding or investment of 1.0:1. The support produces an equivalent level of value or benefits. Based on our review of the activities of private and community foundations in three other categories, and the available evaluations of those activities, we adopted the same approach for foundation activity related to international affairs, peace and human rights, social science research, and the small, miscellaneous or “other” category.

Finally, we distinguish between the direct and indirect economic and social benefits of foundation activity. There has been relatively little rigorous analysis of the direct benefits of foundation activities, which encompass many hard-to-measure economic and social effects which those activities may have on the conditions, people and communities that those foundations seek to improve and help. These benefits can take the form of cost savings to the society or the economic value of broader social benefits. For instance, the benefits arising from foundation projects supporting in-home care for the elderly could be estimated by the number of people helped and the cost savings from in-home care compared to hospitalization, as the direct benefits from projects supporting worker training would be estimated by the number of people trained and the increases in incomes from jobs secured based on their new training. In our examination and analysis, we found hundreds of organizations engaged in diverse areas providing these kinds of benefits. It is often difficult, however, to quantify all of the value of some of these benefits. For instance, the value of providing education may go far beyond the additional income earned by the recipient, as the value of supporting free admission to museums reaches beyond the direct savings to museum goers. In many cases, therefore, our estimates of the direct benefits represent a lower bound estimate of the actual value of those benefits.

A number of previous studies have examined some of the indirect benefits of foundations and other nonprofit

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organizations, especially the number of paid positions at foundations and the consequent increases in household incomes and tax revenues. Our analysis of indirect benefits reaches beyond those arising from direct foundation employment. The indirect benefits from support for in-home medical care, for example, could include the in-home medical jobs created through the support, the household income generated by their work, the additional jobs created to meet the additional demand generated by those increases in income, and the additional tax revenues paid on both tranches of jobs and incomes. Similarly, the indirect benefits from support for job training would include the training jobs created for such programs, the household income generated by their work, the additional jobs created to meet the additional demand generated by increases in income by both those doing the training and those receiving it, and, again, the tax revenues paid on both tranches of jobs and incomes. Therefore, we begin our analysis of indirect benefits with the employment by the 501c(3) organizations that depend greatly on private and community foundation support. While some policymakers looking for new sources of revenues often note that foundations and most of the nonprofit entities they support are generally tax-exempt, the data also suggest that their activities indirectly generate greater tax revenues for governments by employing people directly, helping people find jobs through training or other supports, and generating additional economic activity and jobs that are taxed.

<sup>9</sup> Acts Ministries. “Return of Organization Exempt from Income Tax, Form 990,” 2004, [http://dynamodata.fdncenter.org/990\\_pdf\\_archive/161/161644133/161644133\\_200412\\_990.pdf](http://dynamodata.fdncenter.org/990_pdf_archive/161/161644133/161644133_200412_990.pdf).