

## **Remarks on the Economic Benefits of Private Foundations**

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In a period in which Washington is on the lookout for both new revenues and new approaches to our nation's social and economic problems, private and community foundations fit the bill. The projects and activities they finance clearly offer an enormous range of new strategies for addressing many of the challenges and needs. Yet at the same time, they distributed \$43 billion in support last year and today hold assets, even in the current depressed market, estimated at between \$500 and \$600 billion – the equivalent of the value of all of the fixed assets of the American farming, mining and utility sectors. They present a tempting target for a nation which soon will feel starved for resources. The critical and long unanswered question is what the nation gets out of all those assets and activities.

The project we release today is the first comprehensive attempt to answer that question. Here's the bottom line. We estimate that the \$43 billion in support extended by private and community foundations in 2007 generated identifiable economic benefits for those they helped of \$368 billion, an average rate of return of \$8.58 for every dollar provided. These activities and benefits also generated indirect economic benefits through what economists call their "multiplier effects." We can trace some 9.2 million jobs and \$512 billion in household income to these indirect effects, as well as \$145 billion in federal, state and local revenues. We conclude that the public support provided by private and community foundations is one of the best deals in American life.

Let me review briefly how arrived at these estimates. We use the census of foundation giving compiled every year by the Foundation Center, which distributes the total \$43 billion in support across 11 broad categories and scores of sub-categories. For example, the arts and culture category is divided into nine sub-categories, including media and communications, visual arts and architecture, museums, performing arts, historic preservation, and others. The eleven broad categories range from about \$581 million provided to support social science research, to nearly \$10 billion each for education and health-related programs and activities.

To estimate the social return on these investments, we surveyed the reports which non-profits have published in each of the categories, the academic literature on economic and social benefits from non-profit activities, and academic and government analyses of public programs in many of these areas. Some of these analyses covered a single foundation or public program, and others covered scores of even hundreds of such programs. We identified the appropriate sub-category for each, average the results in cases of multiple evaluations, calculated a weighted average of the reported returns or benefits for each sub-category, and estimate the total returns for each sub-category and category. In many cases, what was reported was the generic results – for example, how many people gained employment from a training program, how many children were served by an museum teaching project, or how many people avoided recidivism after participating in intervention programs for offenders – and then applied market wages, the market cost of a attending a teaching program, or the savings in the criminal justice system. The current literature and data, however, do not provide multiple cases for analysis in every sub-category of

foundation activity, and this analysis represents an initial effort to generate the broad bounds of the economic benefits generated by foundations, calculated with the rigor that the available literature and data support. As more data become available, these results can be refined and strengthened. As it is, it provides a sound basis for estimating the dimensions of the benefits of private foundation activities – and they clearly are very substantial.

The estimates are conservative in one important respect: We cannot estimate returns for four of the 11 categories, and therefore assume their benefits are equal to their support, dollar for dollar. In the area of religion, for example, most of the support goes to religious organizations for church outreach and evangelical activities. These activities create direct value, but social science cannot measure the economic consequences of greater faith. The same applies to support for international affairs, peace and human rights, social science research, and a small miscellaneous “other” category. In all of these cases, we assume a rate of return of 1.0 for 1.0.

As for the other seven categories, we found that \$5.2 billion in foundation support for arts and culture programs produces an estimated \$51 billion in direct economic benefits, a return of nearly 9.8 to 1.0. Nearly two-thirds of this funding went to support the performing arts and museums. Much of the analysis in this area comes from the broadest study of arts and culture non-profit programs, covering more than 6,000 non-profits across the country, which found a return of a little less than 2 to 1. For museums and performing art programs, the revenues from fees and ticket and admission sales represent a conservative estimate of the benefits from support, since a consumer’s willingness to pay for a good or service represents the lower bound of the value attached to it. In other cases, we looked at programs such as the Patricia Sitar Center for the Arts, which uses foundation support to provide arts education classes to children at a charge of \$15 per semester. We surveyed the market cost of such classes, and based on the support provided calculated a return of 12.1 to 1.0. New York State analyzed new budgets and benefits of non-profit NY cultural organizations, and found a return of 2.5 to 1.0 for multi-purpose arts programs, another sub-category. The Florida State Division of Historical Resources estimated the number of visitors and spending by tourists visiting the state’s 135,000 historic sites and museums, from which we estimate a 17.4 to 1 rate of return.

In education, foundation support of about \$9.7 billion last year generated benefits of some \$49 billion, or an average social rate of return of 5.1 to 1. More than 80 percent of this support went to programs in elementary and secondary education, higher education, and graduate and professional education. To estimate these returns, we used more than 35 studies, such as the benchmark Perry Preschool study of the benefits of early childhood education programs. That analysis found that children who used preschool programs were more likely to finish high school, earn higher incomes, own their own homes, and less likely to need social services or be arrested. We measured those differences and estimated a rate of return of 17.1 to 1. Other pre-school programs, however, generated much lower rates of return, such as the “Pre-K for all DC” effort which cost \$58 million and provided \$81 million in direct benefits, for a return of just 1.4 to 1. In another case, we looked at a middle-school program offering 650 hours of volunteer-provided supplemental education in a social; justice –based curriculum. We estimated its returns at 4.2 to 1. We also examined library systems, where, for example, the Colorado State Library generated data of the Douglas County library system. The rate of return was calculated using what’s called a model of contingent valuation by estimating the costs of not having a public

library, including the cost of alternative sources of information, the costs of users not obtaining information, library purchases from local businesses, and foregone compensation for library employees. The estimated rate of return was 5 to 1.

Similarly, programs providing \$2.6 billion in support for environmental and animal and wildlife programs generated about \$17 billion in benefits, for a rate of return of 6.7 to 1. Nearly 9.9 billion in foundation support for health-related organizations and programs generated an estimated \$75 billion in benefits, a social rate of return of 7.6 to 1. Human services programs received \$5.9 billion in foundation support, and generated nearly \$65 billion in benefits for an average return of 10.9 to 1. For example, the Our Place DC program provides an array of services to women leaving prison. A six-month program costs \$5,000 per person, but nearly 100 percent of those served find jobs and stay out of prison – generating returns of 6 to 1. Or the Northern Virginia Family Services Training Futures Program helps people move up from low-wage jobs to office careers, and the returns, including higher wages and foregone public assistance are an estimated 18.0 to 1. Or Project Northland, which is an intervention program for students grades 6 to 8 and their parents, the delay the age when adolescents begin drinking and reduce alcohol use among those already drinking. It costs \$152 per student and produces estimated economic gains of \$1,575 each – a return of 10.4 to 1. The highest rates of return came in programs in public affairs, including civil rights and social action, and community improvement and development, where \$4.6 billion in support produced some \$100 billion in benefits, including programs of individual development accounts, anti-smoking programs, pro-bono attorney networks, and job training programs for convicts and others. And science and technology programs generated returns of 5 to 1 on \$1.2 billion in support.

Once again, all told, some \$43 billion in foundation support provided in 2007 generated an estimated \$369 billion in direct economic benefits.

We also estimated the indirect benefits, since the support for these programs create jobs and incomes for both employees and participants in the programs – direct benefits – and those jobs and higher incomes produce greater spending which has multiplier effects: the additional spending increases demand which businesses satisfy by creating additional jobs, triggering another cycle of higher incomes and more jobs. Using methodology described in detail in our report, we estimate that the \$43 billion in foundation support in 2007 led to \$512 billion in additional household incomes, through multiplier effects, and additional tax revenues of that income of \$62 billion for the federal government, \$45 billion for state governments and \$39 billion for local governments. Compare that last estimate to another analysis which found that the tax-exempt status of all charities – including but not limited to foundations --- cost local governments \$8-13 billion per year: at most, one-third of the revenues generated by the effects of private foundation activities. In fact, if foundations were subject to tax on their incomes, local, state and federal governments could lose revenues, if those taxes significantly reduced the activities of foundations.

This analysis demonstrates, in a way that has not been done before, that for taxpayers, our economy and our society as a whole, the activities of private foundations may be the best example we have of doing well by doing good.