Unintended Consequences

How Income Inequality Affects Fundraising

By Kim Klein

AT A RECENT MEETING of a variety of social justice nonprofits, the participants fell into a game that a friend of mine calls "The Issue Olympics." In this game, everyone argues that their issue is the most important. (To be fair, participants do not think they are playing a game—they are far too serious for that.) Usually the most adamant players are the climate change crowd, but this time several people argued for income inequality. And for the first time in my life, I thought, "Maybe this *is* the most critical issue." Of course, in reality I see all issues as interrelated, but certainly income disparity is about as serious as it gets. And, since fundraising is all about asking people to give money, it follows that our ability to raise money will be seriously affected by rising income inequality.

A Brief Look at What Inequality Means

Consider these startling facts:

- From 2009, the beginning of the so-called recovery, until now, 95 percent of all the national income gains went to the top one percent.[1]
- The top 400 Americans have more wealth than the bottom 180 million combined.
- The bottom 80 percent of Americans has seen an income drop of about 30 percent since the 1970s.[2]
- Almost half of the US population lives in or near poverty.[3]

When you slice these statistics by gender, the picture is even more grim, and when you look at income equality through the lens of race, you could plunge into complete despair.

Unions, one of the main institutions to ever pull workers out of poverty and to insist on fair wages and benefits, now only represent 11 percent of the workforce, compared to 35 percent in mid-1950s.

The United States has the dubious distinction of being the most unequal developed country in the world; our inequality even surpasses many less developed countries. The situation is so bad that Janet Yellen, head of the Federal Reserve Bank (not an institution known for its socialist tendencies), said in a major speech, "I think it is appropriate to ask whether this trend [inequality] is compatible with values rooted in our nation's history, among them the high value Americans have traditionally placed on equality of opportunity." She noted that income and wealth disparity are near their highest levels in 100 years.

Most Donors Have Less to Give, Regardless of Their Desire to Help

The work of social justice nonprofits is about addressing and correcting inequities and oppressions of many sorts. Our organizing proposes solutions to racism, sexism, poverty and so on. Since many of us do look at our fundraising through the lens of social justice, we don't have opulent galas as events and we don't compromise our political beliefs to attract more mainstream donors. There are many grants we don't qualify for and many corporations we wouldn't take money from, even if

1 *Poverty and Race*, Vol 23, #2, April 2014
2 currydemocrats.org/american-pie/
3 povertyusa.org/the-state-of-poverty/poverty-facts/

they were willing to offer it. But now, we have to drill down even further to figure out how to raise the money we need, build the power of a broad base of individual donors, and do that from a population increasingly less able to give.

For organizations that rely on foundation grants, the news of income inequality is mixed. As long as the market holds, foundation funding will be available. However, since foundation funding is only 15 percent of the total money given in the private sector, it is not enough to fund even a fraction of the number of organizations that will be applying. If the market corrects (a good thing and generally temporary) or if it crashes again (the market goes down and investors begin to flee, generally leading to a recession), foundation giving may once again go down. Because grantmaking is tied to market returns on endowment investments, foundation giving goes up when organizations need it least (when the economy is on an upswing) and down when they need it most (when the economy is doing poorly).

However, the hundreds of thousands of nonprofits that rely, even in part, on a broad base of donors are reporting that while their donors are still giving, they are shaving down the size of their gifts. $50 donors are giving $40, $35 are giving $25, and so on. The bottom 90 percent will continue to give, and will give as generously as they always have, but their giving will reflect that they have less money than they used to.

John Havens, associate director of the Center on Wealth and Philanthropy at Boston College, notes, "The average household donation of the middle class and poor has declined from $1,156 in 2006 to $977 in 2012. These folks really have not recovered from the recession." Other studies show that the poor and middle class gave a bigger share of their income to charity in 2012 than in 2006. However, that does not show up as an increase because their income fell during that period. On the other hand, wealthy people's share of their income that went to charity decreased, but their overall giving increased by $4.6 billion because their income surged so much.[4]

Inequality affects younger donors even more. An Urban Institute study from March 2013 reported that while the net worth of people 47 and older is roughly double that of someone the same age in 1986, today's adults in their mid-30s or younger have accumulated no more wealth than their counterparts 27 years ago. Specifically, 29- to 37-year-olds actually lost significant ground; they saw their average net worth drop 21 percent between 1983 and 2010. The study's authors blame stagnant wages, diminishing job opportunities and lost home values during the Great Recession, which hit the younger generation the hardest.

We also know that income inequality causes a psychological reaction in a donor's willingness to give. When people for whom $100 or $250 is a large gift are surrounded by stories of mega gifts ($1 million donations are now common), they begin to feel that their donations are not worth making, particularly when they have less money than they used to.

Clearly, all of us in fundraising have some very important work to do in order to maintain and grow our donor base.

PRACTICAL STRATEGIES FOR COPING WITH INCOME INEQUALITY

Believe in Change

First and foremost, don't surrender. Income disparity, massive poverty, and the oligarchy that is rapidly replacing our democracy are not forces of nature. There are other countries that don't have these problems and do have thriving economies. Over the past 25 years, structural changes to our tax code, the role of corporations, our justice system, and the ways we run political campaigns got us into this mess. Deep and inadequately addressed social problems, particularly racism, also deepen our divide. But if you believe in justice, you believe this can be changed.

Get involved in fair and just tax policy, in confronting our corporate health care system or the prison industrial complex—it will not be hard for your organization to find a way to be in solidarity and in struggle with people who believe that positive social change can and must happen.

Build Relationships with Donors

What follows are a few things you can do to keep your donation income on the rise in light of rising income inequality. They all start with a return to a basic tenet: fundraising is about building relationships.

Take about two hours to really examine how your organization builds relationships. Ask yourselves very specific questions:

What do we do well and what could we do better around acquisition? The hardest gift to get is the first one. That's why you have a 0.5 to 1 percent response to online or direct mail appeals. Most people, when offered the opportunity to give your organization money, will say no. Many organizations cope with this by trying to increase the volume of people being solicited: more crowd funding projects, more e-appeals sent to an ever increasing email list, and bigger and bigger events.

Volume, of course, is key. But volume is not the only variable. The question you need to look at is whether every way I could ever learn about your organization invites me to be a donor. Every page of the website should have a donate button; Facebook posts should occasionally be about fundraising campaigns and how they are going; your business cards should invite people to join; and the physical space you work out of should have thermometers (or something more creative) showing your progress toward your goals. And above all, board, staff and volunteers need to think through how they can insert an invitation to give into all the conversations they have about the organization.

Think about someone who works for minimum wage: Would that person feel that a gift of $25, which might represent several hours of work, was welcomed by your organization? Would an elderly person living on social security think she or he was wel-

4 CSM Weekly, 'Giving Rates Reveal US Income Gap' Nov. 24, 2014

come to your organization? Do you ever encourage your constituents to give? Inadvertently we discourage small gifts by starting our gift string at $35 or $50; we discourage people who don't use computers and don't have smartphones because we don't work in paper; and our constituents are too often told by us that they are too poor to give.

CHECK YOUR ASSUMPTIONS

A community center that attracted a lot of low-income seniors had a horrible bathroom. An elderly Filipina woman told the director she would pay for a new bathroom. She always needed to use the bathroom when she came to the center but didn't want to use the one there. He put her off, thinking she can't afford it and doesn't know what it will cost. She persisted and finally came in with her two sons, who were contractors. Her oldest son said to the director, "My mother wants to fix up the bathroom. She has some savings, and my brother and I will do the work." And so it came to be that this senior center has a nice clean modern bathroom, and, we can only hope, a director who learned the error of his condescending ways.

Do we do a good job (and how could we do better) helping people make their second, third and fourth gifts? Just as most people who are asked to give don't, most people who make one gift never make a second gift. This is called the conversion rate: What percentage of the people who make a gift make a second gift? That number is rarely above 35 to 40 percent. Once people have made a second gift, the chance that they will make a third, fourth and so on, is about 70 percent (called the retention rate). Many organizations do a good job bringing donors in for the first time, only to ignore them and send them shuttling right back out. Roger Carver calls this the "leaky bucket approach."

The most important element of strong retention is thanking donors. Next is making sure they get information about the organization that is accessible and interesting. Third is giving donors something to do besides give money—tell a friend, sign a petition, answer a survey. Fourth is asking the donors for money at least three to four times a year, with each appeal thanking them for what they have given before and presenting a different story or program for them to give to now. Invitations to special events, phone solicitation, e-appeals and direct mail appeals provide an enormous variety of ways to approach donors. Encouraging donors to give several times a year allows them to give small amounts, which add up, rather than asking them to make one big gift.

Related to this is to have a strong and constant effort to get people to become recurring donors. These programs can take several years to really grow but they are worth the effort.

Are we asking longtime donors and donors with more capacity and interest in our organization to consider increasing their gifts? Even organizations that are good at soliciting major gifts are often poor at inviting donors to consider giving bigger gifts. If someone gives $5,000, they will usually be asked for $5,000 year in and year out. Contrast this to the common tendency to ask donors in the $25 to $250 category to give more. The difference is simple: The donors who can make gifts in the $1,000 and up category are usually dealt with more personally (assuming a healthy fundraising culture), and the donors who make smaller gifts are dealt with more impersonally. It is far less scary to ask someone by mail or email to increase their gift, so we do that regularly. But here are our bigger donors, who may have capacity to give far more, and we don't ask them because that would require a more personal approach. Ironically, then, the smaller donors are encouraged to give more and the bigger donors are not.

The fact is that as the world devolves into the 1% and the 99%, some organizations will only have a handful of donors in the 1%. Most organizations will have donors who are in the 99%. Tenured professors, skilled nurses, therapists and other medical professionals, and even managers at mid-size and large nonprofits often make $80,000 to $100,000. These are people who can make a few $500 and $1,000 gifts but probably won't unless they are asked personally.

Based on the Internal Revenue Service's 2010-2014 database, here's how much the top Americans make:

Top 1%: $380,354
Top 5%: $159,619
Top 10%: $113,799
Top 25%: $67,280
Top 50%: >$33,048

The source of most donations is income. People go to work, earn a salary, come home and spend some of their income on nonprofits. If their income is steady and predictable, then you can safely assume that any amount they give once a year, they can afford to give at least twice. Asking them to double their gift makes sense, especially if you are clear that they don't need to pay it all at once.

For more information on asking donors to increase their gift, please review the May-June 2014 *Journal* article, "The Importance of Upgrading."

Move into Planned Giving

The final question for organizations that will be needed into the indefinite future is: Are we inviting people to include us in their will or estate plan?

For increasing numbers of people, their estate will be their only way of making a very large gift. They own their home, and they have some savings—but are concerned about their future. They will be as generous as they can while they work and later with retirement income, but as baby boomers retire, as many as 40 percent will live on Social Security alone and another 20 percent will have small pensions or other retirement income. They will have a decent or even high net worth but little liquidity.[5] Creating a strong planned giving program allows people to give your organization the kind of support they want to give but can't in their lifetime. It also will help carry organizations through the very big discrepancy between the size of the Baby Boomer generation (78 million) and Gen X (46 million). There are not enough people in Gen X to take the place of Baby Boomers, and although the Millennial Generation is large, they are also coming into a very uncertain economy, many of them burdened with enormous debt.

Really examining your relationship building work will yield high returns and, more important, loyal donors. Loyal donors act as a very part-time development team, telling their friends about you, forwarding information to their circles, and even sometimes asking that people give money to your organization in lieu of birthday, holiday and wedding gifts.

Truly Value All Gifts

We say we value all gifts, but this is often lip service. Instead of focusing entirely on size of gift, look at donors that give us money year after year or donors who have steadily increased their giving from $25 to $100. They need to be recognized also. This requires focusing on donors and not just donations. Tell stories of how smaller gifts have made a difference in your work and how aggregating small donations leads to big change. Consider not putting your biggest donor's names in big print and your smaller donors in small print, but rather listing them all in alphabetical order. (You will have far fewer anonymous donors if you do this). Without meaning to, we often give the impression that small gifts don't matter, or only matter when there are a lot of them. So if I make a small gift, I need to know from you that it matters, and that it does join a lot of other donations.

Work with Volunteers

Finally, organizations need to stop thinking that hiring more development staff is the only answer to development problems, and learn to work with volunteers who have a little time. A focus on efficiency has led many organizations down the spiral called, "I could do it easier myself," or, "I could do it better myself." The reality is you cannot do everything yourself, and you are not always going to be around.

Volunteer activists are the backbone of grassroots organizations and the drivers of social movements. In recent years, professionalization has taken the place of movement building, but only a movement can address the problems our country faces. For the foreseeable future, many people are going to have more time than money, and we need to use that time to help produce the money we need. If you are a paid staff member, I recommend that several times a month you stop what you are doing at random times during any given day: Ask yourself if a reasonably intelligent person with a little bit of training could do the work you are doing right then. If the answer is yes, jot down the outlines of this task and then ask yourself, "Why are you doing it?" Move things off your plate that could be done by volunteers, and free yourself up to do those things too complicated to be done by volunteers.

APPRECIATE GIFTS OF ALL SIZES

I was recently helping an organization with the concept of inviting everyone to give. Their website is very nice, but the donate button is on the bottom left of their home page, where few people really look. If you click on it, it takes you to a page that invites you to become a donor in one of the following categories:

Epic: $10,000 and up
Iconic: $5,000-$9,999
Amazing: $1,000-$4,999
Supporter: under $1,000

I asked if they really wanted to make the statement that everyone above $1,000 is at least "Amazing," but donors who give below $1,000 are like some kind of suspenders. I asked how many of the board members were Iconic or Epic, and none of them were. They had been coached to focus on persons of high net worth whom, they were told, needed titles that were big. They hadn't really thought beyond that. Fortunately, so few people clicked on the button that the damage was inconsequential and they were able to change it.

Advocate for Real Change

Many social scientists and economists believe that income inequality is one of the most corrosive problems a society can face. Nonprofits are already being called on to handle the poverty, health, education and environmental problems caused or exacerbated by the widening gap between rich and poor. We must also show leadership in proposing lasting structural change that will close this gap. For too long, fundraising programs have simply tried to adapt to whatever was going on in the economy, but now we have to lead the way out of this unequal society—engaging our organizations, our donors and our sector to agitate and advocate for real change. Fundraising provides a way to do that, and a broad base of donors is key to building power. Looking at fundraising through a social justice lens will make us better fundraisers and organizations more likely to actually bring about the changes we talk about. ■

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5 ask.com/wiki/Social_Security_(United_States)