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TWO



The Focus and Growth of Corporation Giving

CORPORATION GIVING accounts for a relatively small share of total private giving. In 1962 it amounted to a little less than one-twentieth of the total (*Table 3*). Part of the reason for this is that about three-fifths of total contributions are to religious institutions, and this represents the contributions of individuals and families almost exclusively.

If one excludes gifts to religious institutions, the share of corporations is doubled to about 9 per cent (*Table 4*). There is some justification for excluding religion from the total. Though voluntary in the United States, most of religious giving may be regarded as the price of membership in an organization, one, to be sure, which provides a significant part of the ethical and philosophical underpinnings of philanthropy. Contributions are principally used to support the local church and church school, with only a small fraction directed into traditional philanthropic and welfare activities.

Though corporation giving accounts for only 9 per cent of total nonreligious giving, in a number of fields its share is much larger. One dollar in every seven given to higher education is given by corporations, while one in every three dollars of support for community chests and united funds is a corporate dollar (*Table 4*).

Though small in relation to total private giving, corporate giving may have had a disproportionate impact, at least in certain areas. With the possible exception of foundation giving, corporation giving

TABLE 3 Estimated Total Gifts and Contributions by Major Classes of Donor, 1962 (Dollar values in millions)

	Amount	Percentage of Total
1. Gifts of living donors	\$9,980	78.2
2. Foundation expenditures on philanthropic program	1,012	7.9
3. Charitable bequests	876	6.9
4. Corporation gifts and contributions	595	4.7
5. Endowment income of colleges, universities, and hospitals	300	2.4

SOURCES: Row 1: U.S. Internal Revenue Service, *Statistics of Income, Individual Tax Returns for 1962* (Washington, 1961), Table E, p. 6. Itemized deductions totaling \$7,516,000 were increased by estimates of contributions of persons and families using the standard deduction or not required to file a return. Row 2: Committee on Ways and Means, U.S. House of Representatives, *Treasury Department Report on Private Foundations*, February 2, 1965, Table 10, p. 79. Row 3: U.S. Internal Revenue Service *Statistics of Income, 1962, Fiduciary, Gift, and Estate Tax Returns* (Washington, 1965), Table 1, p. 62. Row 4: U.S. Internal Revenue Service, *Statistics of Income, 1962, Corporation Income Tax Returns* (Washington, 1966), Table 2, p. 58. Row 5: *The 1962 Study of College and University Endowment Funds* (Boston: The Boston Fund, 1963), extrapolated.

TABLE 4 Estimated Corporation Support^a of Selected Types of Philanthropic Organizations, 1962

	Percentage of Total Corporate Giving	Corporate Support as Percentage of Total Philanthropic Support
Churches and church schools	0.6	0.03
Philanthropic institutions other than churches and church schools	99.4	9.0
Higher education	34.0	14.0
Federated community health and welfare	29.0	34.0
Other welfare, health, and hospital	17.0	n.d. ^b
Independent private secondary schools	0.2	3.0

^a Includes contributions channeled through company-sponsored foundations.

^b No data available.

has probably undergone a more pronounced change of emphasis than other sources of private philanthropy. It may have made the difference between success and failure in individual undertakings, particularly in the relatively new field of support for cultural projects.

THE GROWTH OF CORPORATION GIVING RELATIVE TO OTHER COMPONENTS OF PRIVATE PHILANTHROPY

Despite their small share in total private philanthropy, corporation contributions probably have grown more rapidly than those of any

TABLE 5 Estimated Philanthropic Contributions by Living Donors, Bequests, and Corporations, 1936-1939, 1960 and 1962
(Dollar values in millions)

<i>Period</i>	<i>Living Donors (Individuals and Families)</i>	<i>Charitable Bequests</i>	<i>Corpo- rations</i>
Average, 1936-39	\$1,055	\$159	\$ 30
Average, 1960 and 1962	9,584	913	539
1960 and 1962 average as percentage of 1936-39 average	910%	570%	1800%

SOURCE: U.S. Internal Revenue Service, *Statistics of Income for: Individual Income Tax Returns* (extrapolated); *Fiduciary, Gift, and Estate Tax Returns*; and *Corporation Income Tax Returns*.

other type of donors. Historical data are not available for all classes of donors, but it is possible to compare the growth of corporate giving with two of the three largest kinds of donors (*Table 5*). As the table shows, estimated giving by corporations in 1960 and 1962 was much higher relative to its 1936-1939 level than giving by either families and individuals or by charitable bequest. No comprehensive estimate exists on giving in the late 1930's by philanthropic foundations, the third of the largest kinds of donors; however, \$70 million might not be too far from the mark.¹ If so, then the ratio of the 1960 and 1962 average to that of 1936-1939 would be on the order of 12 to 14, or between that of individual and family giving on the one hand, and corporate giving on the other.

HISTORICAL DEVELOPMENT OF GIVING

The history of modern corporate giving begins in the 1870's and reflects the elaboration of the business corporation and its growth to

¹ For further detail on this estimate, see Ralph L. Nelson, *The Investment Policies of Foundations* (New York: Russell Sage Foundation, 1967), p. 3. Another estimate has placed foundation expenditures, predominantly grants, at \$72 million in 1944: F. Emerson Andrews, *Philanthropic Foundations* (New York: Russell Sage Foundation, 1956), Table 3, p. 17. In the early 1960's, probably between 15 and 20 per cent of foundation spending was that of company-sponsored foundations. As most of this represented current or near-current gifts from corporations, there is some double counting in Table 1, and an overstatement in the size of giving by foundations not affiliated with corporations. As company-sponsored foundations were relatively insignificant in the late 1930's, there is also some overstatement in the estimate of growth in noncorporate foundation giving. Because the adjustment would not be large enough to affect comparative magnitudes, and because precise estimates are lacking, no attempt was made to adjust the data for such double counting.

preëminence in the organization and conduct of economic activity.² In the last quarter of the nineteenth century, practically all corporate giving was by railroad companies in support of Young Men's Christian Associations. It was probably not difficult to convince shareholders of the value to the company of these contributions for, among other things, the "Y"s provided economical accommodations for train crews laying over at the end of their runs. Indeed, many were established and supported by railroad companies for this very purpose. After 1900 the YMCA was successful in enlisting support from other kinds of industrial corporations.

The acceleration and diversification of corporate giving had to await the United States' entry into World War I. At that time, the YMCA and the Red Cross, which were enlisted to raise funds through national wartime campaigns, were apparently quite successful in obtaining corporate contributions. Precise data are not available, but it is probable that corporations donated between \$40 and \$50 million to the wartime drives of the Red Cross and YMCA in 1917 and a substantially higher amount in 1918. In his review of this period, F. Emerson Andrews concluded: "Certainly enough evidence exists to pin-point 1917 as the year in which corporation contributions first reached a substantial total in the history of American philanthropy."³

Corporation giving dropped sharply after World War I, and apparently did not return to its World War I levels until World War II. An earlier study of the National Bureau of Economic Research revealed that, in 1920, corporate contributions to community chests totaled between \$2.5 and \$3 million.⁴ Although this total grew fivefold through the 1920's, in the main this was found to reflect the spread of the community chest movement in this decade, rather than a major increase in corporation giving. For the thirteen community chests submitting data for 1920, corporate contributions declined in 1921 and 1922 and, after seven successive yearly increases, were 10 per cent higher in 1929 than in 1920. The corporations' share in the total support of the thirteen chests declined slightly, from 24 per cent in 1920 to 23 per cent in 1929. It seems likely that the spread of the

² This brief historical summary is drawn principally from F. Emerson Andrews, *Corporation Giving* (New York: Russell Sage Foundation, 1952), Chapter 2, and from Pierce Williams and Frederick E. Croxton, *Corporation Contributions to Organized Community Welfare Services* (New York: National Bureau of Economic Research, 1930), particularly for the period 1910-1929.

³ Andrews, *Corporation Giving*, p. 28.

⁴ Williams and Croxton, *op. cit.*, p. 11.

community chest movement was more of a spur to corporate giving in this decade than the other way around.

Precise estimates for the period 1930-1935 are not available.⁵ In broad outline, the pattern seems consistent with Andrews' findings that, despite reduced sales and profits, many corporations actively responded to the emergency drives of the early Depression years and often their 1935 contributions were above those for 1929.⁶ However, given the economic stringencies of the period, it is not likely that over-all rates could have been sustained or increased.

Comprehensive direct data on corporation giving begin in 1936, the first year in which contributions were made deductible from income in determining income tax liability. Tabulations based on corporate income tax returns indicate that, from 1936 through 1939, annual contributions followed a flat pattern, totaling successively \$30, \$33, \$27, and \$31 million.

The onset of World War II led to sharp increases in corporation giving. By 1942, the first full year of total United States involvement in the war, contributions had reached almost \$100 million. One year later they were \$159 million. The next year, 1944, they grew to \$234 million, and by 1945, had reached \$266 million, or almost nine times their 1939 level. In this six-year period, corporate philanthropy not only grew significantly, but set the stage for continued growth, albeit at a less spectacular rate. In the four years 1946-1949, corporate contributions averaged \$229 million; in 1950-1954, \$361 million; in 1955-1959, \$425 million; and in 1960-1964, \$595 million.

To summarize, in the quarter-century from the late 1930's to the early 1960's, corporate giving increased from an annual rate of \$31

⁵ One series exists, but no claims are made for its usefulness in making year-to-year comparisons:

Year	Amount in Millions
1929	\$22
1930	35
1931	40
1932	31
1933	27
1934	27
1935	28

These figures are from the U.S. Department of Commerce, *U.S. Income and Output, A Supplement to the Survey of Current Business* (Washington, 1958), Table 1-12, pp. 134-135. Estimates of corporate giving were made in the interests of comparable and comprehensive national income and product accounts for the period before direct tax return data became available. Although considered adequate for this purpose, and of the right order of magnitude, no claim is made for their detailed accuracy.

⁶ Andrews, *Corporation Giving*, pp. 35-37.

million to one of \$595 million—nineteenfold. It is this period that is the principal concern of this study.

RELATION OF GIVING TO THE GROSS NATIONAL PRODUCT

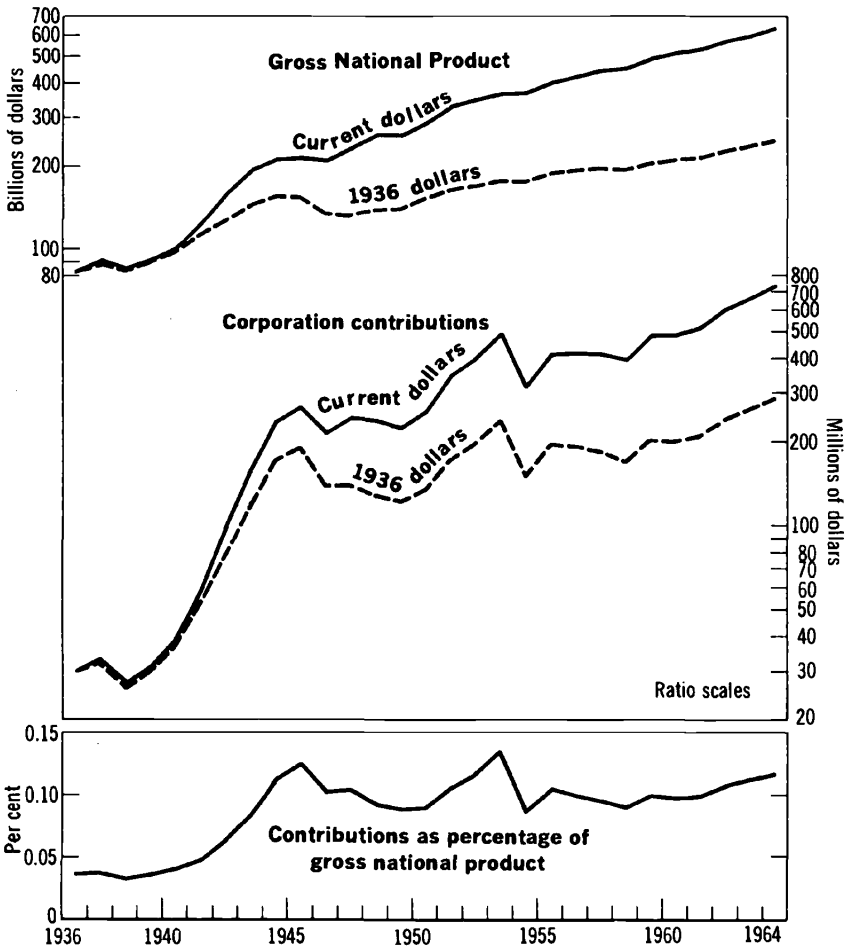
In the first five years of the 1960's, corporation gifts and contributions reported on tax returns averaged \$595 million a year. In the same period, the gross national product averaged \$560 billion. Thus, corporate contributions supported the production of slightly more than one-tenth of 1 per cent of total national economic product. One dollar of every thousand spent by all purchasers of goods and services was spent by corporations when, through the medium of philanthropic contributions, they "purchased" the welfare, health, educational, and other services rendered to the public by philanthropic organizations.

In dollar value the level of corporation giving in the early 1960's was the highest it has been. It passed the \$500-million mark for the first time in 1961 and rose to \$729 million in 1964. However, relative to the gross national product, it has held quite constant since the middle of World War II (*Chart A*). In the four war years, 1942–1945, contributions averaged \$189 million a year, or almost one-tenth of 1 per cent of the average gross national product of \$193 billion for those four years. Since then, except for a few departures associated with the imposition and repeal of the excess-profits tax, the share held close to one-tenth of 1 per cent in each year.

The United States' entry into World War II was the occasion of a great expansion in corporate giving. In the last four years of the 1930's, corporate giving averaged \$30 million per year; in the four war years, as just mentioned, it averaged \$189 million. It was in this period that giving's share of the national product increased sharply, from one-thirtieth to one-tenth of 1 per cent of the gross national product.

The growth in dollar values of corporate giving and gross national product overstates the growth in the amount of economic activity represented by these measures. From the late 1930's to the early 1960's the level of prices increased about two-and-one-half times. For a comparison based on dollars of 1936 value, the observed values for the early 1960's, therefore, must be reduced to about two-fifths of their current dollar values. However, even when the dollar series are so deflated, the growth in corporation giving is considerable. In dollars of constant (1936) value, corporate giving rose from a 1936–1939 average of \$29.6 million to a 1942–1945 average of \$140.1 million, or

CHART A Corporation Giving Relative to Gross National Product, 1936-1964



SOURCE: Appendix Table I.

by 4.7 times—an annual compound interest rate of 29.6 per cent. It further increased from its 1942-1945 average of \$140.1 million to an average of \$239.3 million in 1960-1964, again in dollars of 1936 value. The 1942-1945 to 1960-1964 increase of 71 per cent was at an annual compound interest rate of 2.9 per cent for the period.

The adjustment for price-level changes does not affect the analysis of the share of gross national product accounted for by corporation giving, since the same price index was used to deflate contributions and gross national product. For the purpose of making a rough ad-

justment for the large increase in price levels over the period, this procedure was sufficient. No effort was made to identify differential price-level changes between corporation giving and the economy in general. No index of the "market basket" of services purchased by corporate contributions exists, nor is it clear just how one might go about developing one. A review of existing price indexes for more specific parts of the economy (e.g., the consumer price index) did not suggest that any single one might be more appropriate than the implicit price deflator for the gross national product.

RELATION OF GIVING TO CORPORATE NET INCOME

The rapid increase in corporation giving relative to national product in the period from 1936 to World War II, and the maintenance of the share of giving in national product since then, invites an examination of some of the developments that accompanied this pattern of growth. The period was marked by significant changes in the earnings and tax treatment of business corporations. The number of active corporations grew by one-and-one-half times over the period, while the number reporting net taxable income grew by two-and-one-half times. The percentage of corporation income captured in income and excess-profits taxes ranged from 13 to 56 per cent of before-tax income, and the period included two peaks of tax liability, both associated with a wartime economy. The device of the company-sponsored foundation came to play a significant role in the flow of corporate contributions, and major changes took place in the direction of giving, and in the kinds of recipients receiving contributions.

The development having the most direct bearing on corporation giving is the growth in corporate income or profit, and this will be examined first. For a number of legal reasons, corporate income is the only resource from which the company may make contributions. Unlike personal giving, which may involve the distribution of accumulated personal wealth, corporations are more restricted in the distribution of their wealth. The prior claims of creditors and owners are explicitly recognized and safeguarded, and careful distinctions are made between the distribution of capital as against income. Moreover, the net-income base for corporate giving has specific recognition in the Internal Revenue Code provision that corporations may not deduct as contributions more than 5 per cent of income in arriving at taxable income.

In comparing the trends of corporate profit and giving, the record for corporations reporting a taxable income will be examined sep-

arately from those reporting no net income. The giving performance of the latter group can be expected to be much lower than that of the group reporting profits. Not only is giving likely to be curtailed or abandoned when there are zero profits, or losses, but the tax incentive to give is also absent. Since deductions for contributions are limited to 5 per cent of income, when there is zero or negative income the allowable deduction falls to zero.⁷

Examination of the historical record confirms the prediction that the difference in giving levels between the two groups is marked. In the period from 1940 through 1964, contributions of corporations without net income never exceeded 3 per cent of total reported contributions. In nineteen of these twenty-five years, they were less than 1.5 per cent of the total. Nor was this low percentage merely indicative of the fact that corporations reporting no net income accounted for an equally low percentage of total corporate activity. Their share of total expenditures for all purposes, as reported on tax returns, ranged from 4 to 18 per cent, and in thirteen of the twenty-four years it exceeded 10 per cent. The "no-net-income" corporations' yearly share of total corporate activity, thus measured, averaged about 9.3 times their share of total contributions for the same year.

If the 1.4 per cent of contributions reported by corporations with no net income were included in the analysis of the trend in giving rates, their negative net income would also have to be included. As shown below, in Chart C, the inclusion of this negative income would reduce the income base by a sharply fluctuating percentage, ranging from 4 to 40 per cent. If total corporation net income were used as the base, the time pattern would reflect, in uneven fashion, the differential giving rates of corporations with and without net income. The inclusion of corporations with no net income might serve more to complicate the analysis of the trend than to simplify it.

Contributions by Corporations with Profits

The most meaningful measure of income for our purposes was considered to be corporation net income after taxes and before gifts and contributions. Because corporate contributions, averaging three-quarters of 1 per cent of before-tax income, were one of the smallest and most discretionary items of outlay, it was felt that they could

⁷ This rule was modified in 1953 to allow a two-year carry-forward of contributions in excess of 5 per cent of income in a particular year. The effect of this modification is examined in a later section of this chapter.

have had little if any effect on the time pattern of the divergence between before- and after-tax income. After-tax income, in this context, reflected the less ambiguous measure of corporate ability to pay and was, therefore, taken as the basis for comparison.

The income measure was further refined by putting it on a "before contributions" basis. This was done by adding to corporation income after taxes and after all deductions the net after-tax cost of contributions. This produced an estimate of the after-tax income that corporations must have earned to obtain the net income they reported after they had made their contributions and taken their allowed deduction. The net after-tax cost was calculated by multiplying the reported contributions by the complement of the estimated marginal tax rate. While this refinement was desirable for conceptual purity, its effect on the observed trend in after-tax income and on that in giving rates is insignificant.

It is clear that corporate giving received its greatest impetus in periods of war (*Chart B*). The trend in dollar value of gifts and contributions, again adjusted for price-level changes, is marked by two periods of sharply increased giving levels: 1943 to 1945, the major years of World War II, and 1951 to 1953, the Korean War years. However, the endings of these periods of national mobilization were not marked by a return to prewar levels. Indeed, in dollars of comparable value, giving in 1962–1964 averaged 30 per cent higher than in the three peak Korean War Years and 64 per cent higher than in the three peak World War II years.

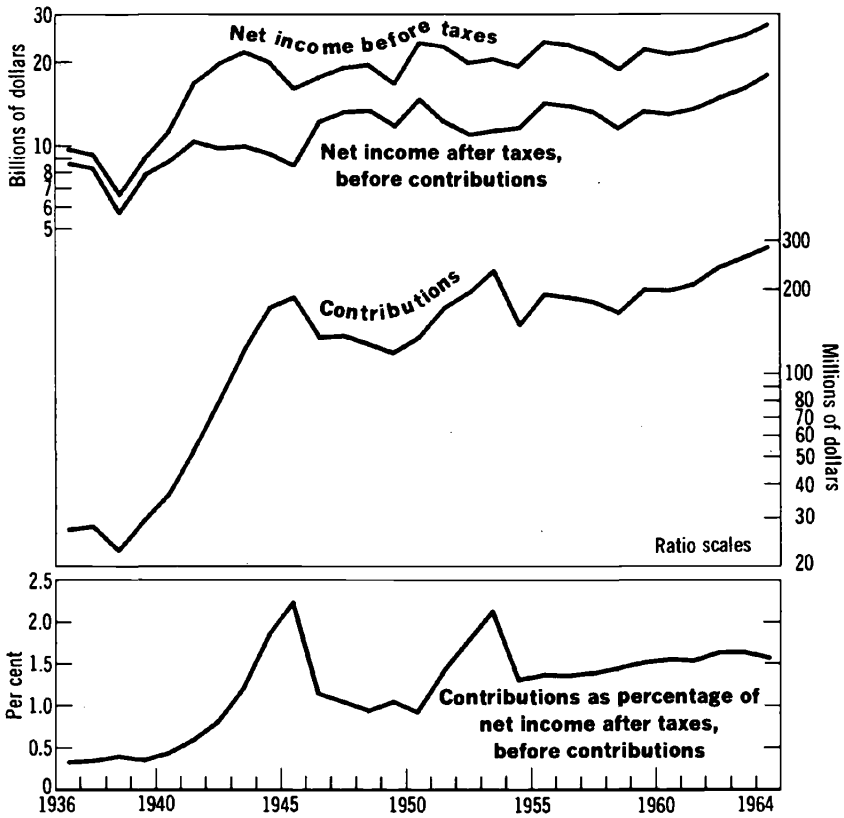
The sustained increase in giving is more clearly evident when compared with corporate after-tax income. The rate rose sharply during both World War II and the Korean War and declined sharply at the end of the two wartime periods. In neither case, however, did the decline involve a return to prewar giving rates. In 1936–1939, contributions averaged 0.35 per cent of corporate after-tax income; in 1946–1949, this had risen to 1.03 per cent; in 1955–1959, to 1.41 per cent; and in 1960–1964, to 1.58 per cent. Excluding the war years, then, the increase is a fairly linear one, with the percentage of income increasing by one-twentieth of one percentage point a year.

Contributions by Corporations

Having Losses

An interesting, if minor, part of corporate philanthropy is giving by corporations having zero or negative net income. As was shown above, such corporations give proportionately less, relative to the size

CHART B Corporation Giving Relative to Net Income, Corporations with Net Income, Constant (1936) Dollars, 1936-1964



SOURCE: Appendix Tables II and III.

of their activities, than do companies having profits, and this is probably to be expected. For corporations in strained financial condition, the need to make ordinary business outlays must certainly take priority over giving, and their tax incentive is blunted as well. Nonetheless, over the twenty-nine-year period of 1936 through 1964, corporations with zero or negative net income made contributions aggregating \$118 million, 1.4 per cent of total corporate contributions for the period.

In the late 1930's, giving by loss corporations averaged about 11 per cent of all corporate giving. This was a much higher proportion than in any year since then. Corporate earnings in 1936-1939 were generally low, and reflected the economic depression of that decade. A large part of corporation activity was conducted by companies not

yet on a profitable basis. In these four years, total expenditures by no-net-income corporations ranged from 23 to 37 per cent of expenditures by all corporations. In no year since then has the percentage been more than 18 per cent. Though loss corporations did not give as much in proportion to total outlays as did those with profits, their greater importance in this four-year period boosted their over-all share of corporate giving.⁸ In addition, contributions from profitable corporations were also low in these depression years, so that the modest contributions from loss corporations made up a higher fraction of the total.⁹ Tax deductibility, introduced in 1936, plus the relatively low tax rates of the time were apparently not sufficient to offer more than a modest inducement to corporate giving.

Giving by loss corporations continued at low levels until 1954. Thereafter the absolute amount rose significantly, and the higher level has been sustained. Their share of total corporate contributions also rose somewhat. Part of the explanation for this upward movement may be the increase in the proportion of corporate activity accounted for by loss corporations, an increase which has been quite persistent since World War II (*Chart C*). Probably more pertinent is the enactment, effective in 1954, of a two-year carry-forward of the deduction for contributions in excess of the maximum of 5 per cent of income allowed for any given year.¹⁰ Corporations with losses in a given year, if anticipating profits in the following years, would be more willing to make current contributions than they would have been in the absence of this provision.

THE NUMBER OF COMPANIES MAKING CONTRIBUTIONS

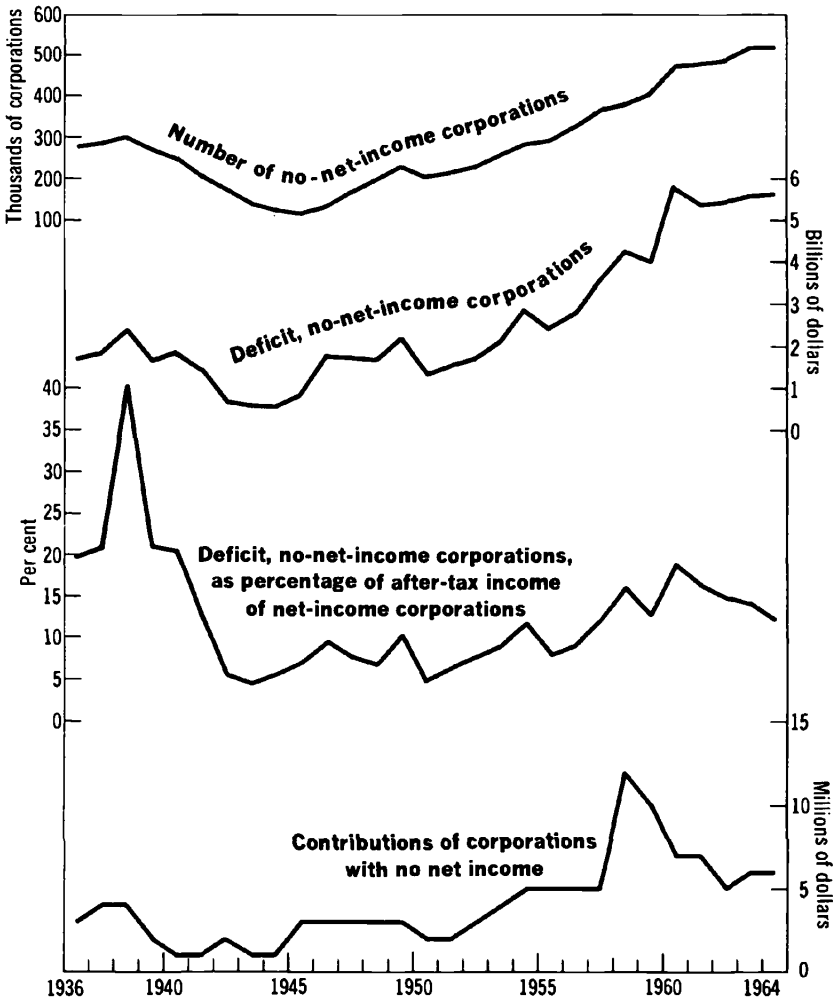
One factor which may have contributed to the increase in the share of corporate income given to philanthropy is the adoption of giving policies by an increasing proportion of corporations. Although there is no direct evidence of such a trend, rising corporate incomes and

⁸ The number and deficit of loss corporations relative to the number and income of profitable corporations may be overstated for the first six years relative to the remainder of the period. From 1936 through 1941, the privilege of filing consolidated income tax returns was restricted to railroads and Pan American Trade Corporations. In 1942 it was made more generally available, so that some subsidiary corporations with losses, previously filing unconsolidated returns, would no longer appear among the loss corporations. The numbers, income or loss, and contributions reported on consolidated returns were small, however, and so the effect of the change on the observed time pattern is likely to be minimal.

⁹ Contributions of profit corporations averaged only 0.35 per cent of average after-tax income of \$7.7 billion.

¹⁰ Section 170 (b) (2), 1954 Internal Revenue Code.

CHART C Numbers, Deficits, and Contributions of Corporations with Zero or Negative Income, 1936-1964



SOURCE: Appendix Table IV.

income tax rates, together with the newly legislated deductibility of gifts, must have made increasing numbers of companies aware of the advantages of giving. This, combined with war-expanded appeals from welfare organizations, the Red Cross, and other servicemen's aid groups, appears likely to have led an increasing percentage of companies to initiate giving programs which, once the war was over, were probably maintained, though perhaps at a lower level.

TABLE 6 Percentage of Corporations Reporting Contributions and Reporting Net Income, by Asset Size, 1958

Asset-Size Class (Thousands)	Contributions (Millions) (1)	Number of Corporations (2)	Percentage Reporting	
			Contri- butions (3)	Net Income (4)
TOTAL	\$395.4	990,381	27.7	61.7
Zero assets or assets not reported	3.0	62,746	9.4	38.9
Under \$100	7.8	537,338	17.9	54.6
\$100, under \$1,000	58.1	329,682	40.9	74.6
\$1,000, under \$10,000	92.0	51,191	60.4	79.0
\$10,000, under \$100,000	93.4	8,221	63.2	75.8
\$100,000 and over	141.1	1,203	66.6	87.0

SOURCE: Columns 1, 2, and 4: U.S. Internal Revenue Service *Statistics of Income 1958-59, Corporation Income Tax Returns*, pp. 39-40, 145-46; Column 3: U.S. Internal Revenue Service, *Statistics of Income, 1959-1960, Corporation Income Tax Returns Addendum: Statistics of Income 1958-59, Frequency of Returns for Balance Sheet and Income Statement Items*, pp. 243-254.

Unfortunately the absence of data does not permit a documentation of this surmise. The only direct data on numbers of corporations reporting contributions are for the year 1958, the result of a special tabulation by the Internal Revenue Service of the numbers of corporations reporting specific balance sheet and income statement items on corporate income tax returns.¹¹ In interpreting these data the characteristics of the year 1958 require particular attention.

For 1958, 990,381 active corporations filed income tax returns. Of these, 273,909, or 27.7 per cent, reported contributions or gifts. In the aggregate, therefore, only about one in four corporations appears to have made contributions. Lest the mistaken impression be given that total contributions would increase by a factor of 3 or 4 were all corporations to adopt a policy of giving, the following patterns should be kept in mind.

First, the proportion of large corporations that reported contributions is much higher than that for small corporations (*Table 6*). This may be because small corporations are more likely to regard local contributions as expenses and not report them as "contributions." Corporations having \$1 million or more in assets, while representing

¹¹ U.S. Internal Revenue Service, *Statistics of Income, 1959-1960, Corporation Income Tax Returns Addendum: Statistics of Income 1958-59, Frequency of Returns for Balance Sheet and Income Statement Items*, pp. 243-254.

only 6.1 per cent of the number of active corporations, accounted for 82.6 per cent of total contributions.

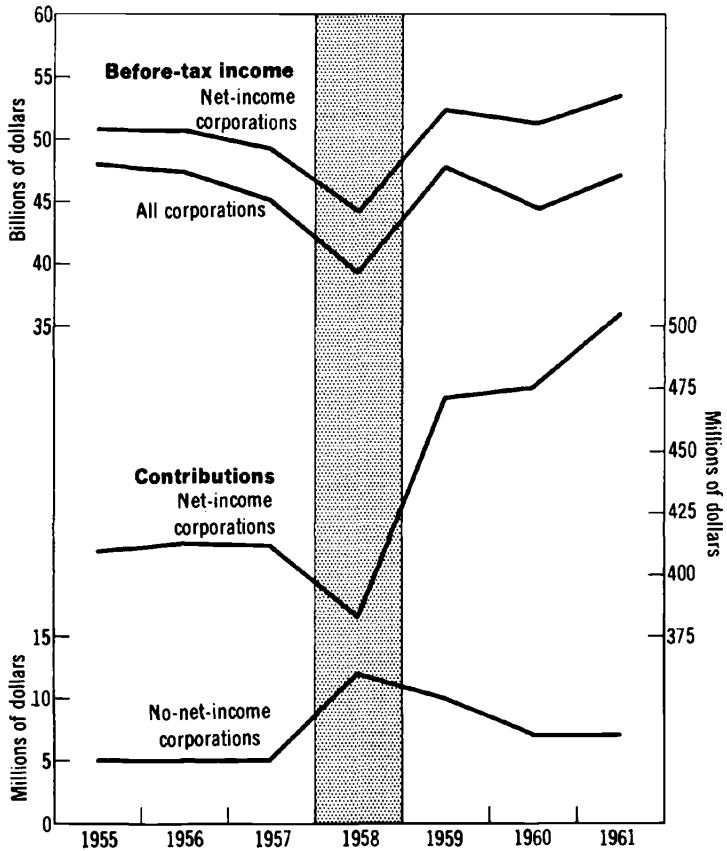
Second, a large percentage of corporations report zero or negative net income. In 1958 this percentage was 38.3, that is, about two out of five corporations had little immediate financial encouragement or tax inducement to make contributions. The data do not show how many profit and how many loss corporations reported contributions, nor was it clear how one should go about making a plausible division of the total. Were separate data available, it would seem reasonable to expect to find a much smaller percentage of loss than of profit corporations reporting contributions. Over the ten years from 1954 to 1964, the proportion of loss corporations ranged between 36 and 41 per cent. It follows that a large minority of active corporations in any given year is not in a financial position favorable to the making of gifts even though, as a general policy, it makes contributions when circumstances permit.

Third, 1958 was a year of economic recession, reduced corporate profits, and low total contributions (*Chart D*). For these reasons, the percentage of companies electing to distribute a part of income to philanthropy was probably lower than normal. If so, then this, too, leads to an understatement in the percentage of companies that pursue a general policy of contributing to philanthropy.

One other factor may have had an influence on the statistics: the company-sponsored foundations, which have been established by a number of corporations to serve as conduits for their philanthropic contributions. Corporations frequently make grants to their foundations once in every two or three years, with the intention that the foundations will spread their disbursements to philanthropy over several years. The reservoir is usually replenished in years of high profits when corporations are best able to so distribute their income. Since 1958 was a year of low profits, such reservoir-building grants may well have been deferred. If the foundations continued to spend from their balances, the flow of contributions to recipients would be relatively unaffected, even though corporations would report no contributions on their tax returns.

When the several factors described above are taken into consideration, the impression remains that the practice of corporation giving is much more widespread than indicated by the gross percentage of corporations reporting contributions. Certainly, considerable room exists for increasing the number of corporations that follow a policy

CHART D Patterns of Corporate Giving and Income in the Recession Year 1958



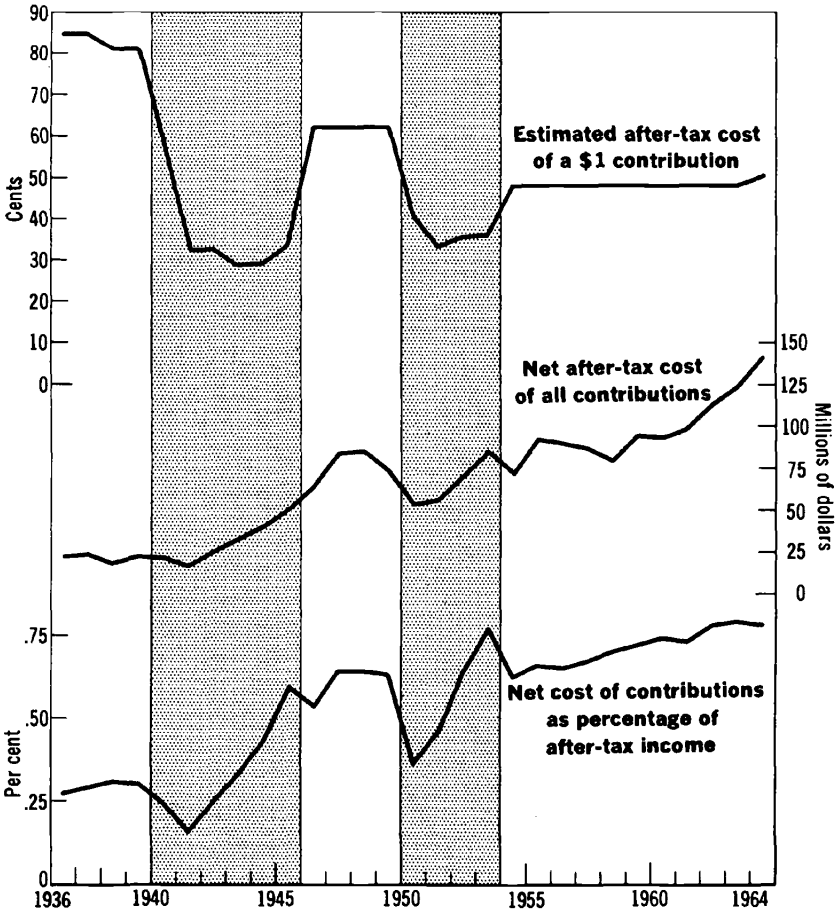
NOTE: Shaded area represents year for which data on number of corporations reporting contributions were given.
 SOURCE: Appendix Tables III and IV.

of giving. However, in terms of the potential dollar addition to total corporate giving that would result from more widespread giving, the prospect is a much more modest one.

TRENDS IN NET AFTER-TAX OUTLAYS FOR CONTRIBUTIONS

In addition to widening the difference between the before-tax and after-tax income of corporations, the rise in tax rates has reduced the net after-tax cost of a given amount of contributions. This, of course, results from the fact that contributions are deductible from income

CHART E Net After-Tax Cost of Contributions Relative to After-Tax Income Corporations with Net Income, 1936-64



NOTE: Shaded areas represent excess-profits tax years.
 SOURCE: Appendix Tables II, V, and VI.

in computing a corporation's taxable income. The decline in after-tax cost is described in the top panel of Chart E, and the method of computing the net after-tax cost is given in Chapter Three, where an analysis of its effect on contributions is made.

Not all of the observed rise in giving represents an increase in the net burden of gifts and contributions to corporations. The rise in corporate income tax rates and the deductibility of contributions in computing taxable income indicate that an increasing percentage of

corporation giving has been supported by the general public as represented by the tax collector.

Despite the increase in tax rates, the net after-tax outlay for contributions grew significantly over the period. As shown in the middle panel of Chart E, it grew from an annual average of \$22 million dollars in 1935–1939 to \$115 million in 1960–1964, in dollars of comparable (1936) purchasing power. For corporations with net income, the real net burden of contributions thus increased more than five-fold over the period.

The period, of course, also saw a significant rise in the ability of corporations to make contributions. In 1936 dollars, corporate income after taxes rose from a 1936–1939 average of \$7,605 million to a 1960–1964 average of \$14,946 million. However, this was less than a twofold increase, compared with a fivefold increase in their net after-tax outlays for contributions. Therefore, as shown in the bottom-panel of Chart E, the increase in the net cost of contributions as a percentage of after-tax income almost tripled.

These data clearly reveal that, over this twenty-eight-year period, the net burden of corporate philanthropy relative to corporate disposable income has increased substantially, though still accounting for less than 1 per cent of corporate disposable income. Most noteworthy, perhaps, is the almost unbroken rise since 1954, through a period when no change in tax rates altered the “price” inducement to make contributions.

INTERPRETATION OF TAX RETURN DATA

The trends described above are based on data taken from the income tax returns of corporations. As such, they reflect those categories of corporate expenditures that the Internal Revenue Service accepts as being philanthropic in character. They also reflect the heterogeneous collection of industrial, commercial, professional, and, in part, personal endeavors that have adopted the corporate form of organization.

The trend described by these data may depart in some degree from one based on purely “corporate” and purely “philanthropic” concepts of corporate giving, but there was no feasible way of obtaining these more refined measures. However, some indications of the importance of such “impurities” in the tax return data are presented so that an evaluation of the observed trends might be made.

*Philanthropic Outlays Included as
Business Expense*

Some of the contributions that corporations make to organizations in the health, welfare, or educational fields are deducted, not as philanthropic contributions, but as business expenses. If treated in this manner, they escape the 5 per cent limitation. This is probably not a significant factor, however, since so few companies give enough to approach this percentage of income. Most often, the contribution is judged to be closely related to the corporation's activities, providing a fairly direct benefit to the company. An example would be a paint company's grant to support research in colloidal chemistry at a local university, as the results may prove to be of fairly direct benefit to the company. In one sense, the grant is a philanthropic contribution to an educational institution. In another—and probably equally accurate—sense it is payment for off-premises research that might have been as readily contracted with a commercial research company.¹²

The Internal Revenue data do not provide any basis for estimating the outlays that fall near the fuzzy boundary between business expense and philanthropic contribution. Some direct evidence was developed by the Russell Sage Foundation in a 1950 survey of the giving policies of 326 corporations. Data developed by the survey suggest that reported contributions would be increased by about 8 per cent, if payments for health, welfare, educational or religious purposes that were actually taken as business expenses had been counted as philanthropic contributions instead (*Table 7*).

Because the survey covers only one year, it provides no way of determining whether such "hidden contributions" have represented an increasing or declining share of total corporate giving.¹³ One might speculate that this share was high in 1936 and for several years after. As no provision for tax deductibility existed before 1936,

¹² Some have suggested that the definition of a company contribution should turn on the intent of the donor. Although this definition was appealing on principle, no attempt was made to recast the data on this basis, since the problems of definition and classification were held much too complex to permit defensible estimates.

¹³ Professor Willard Thorp has suggested that the growth in reported contributions might be lower to the degree that corporations have provided their own medical staffs and facilities, than if they had continued to support community-wide general purpose medical facilities. Unfortunately, no data are available to measure the importance of this shift. Another reviewer, on the other hand, cited the practice of corporations, when making contributions to local hospitals, of asking the hospital to set aside space for emergency use of its employees.

TABLE 7 Contributions Treated as Charitable Deductions and Business Expenses, 326 Surveyed Corporations, 1950 (Dollar values in thousands)

<i>Asset Size</i>	<i>Gifts Reported as</i>		
	<i>Contributions</i> (1)	<i>Business Expense</i> (2)	<i>(2) as Percentage of (1)</i>
Under \$1 million	\$ 91	\$ 13	14.9
\$1 to \$50 million	1,544	190	12.3
\$50 million and over	4,675	276	5.9
TOTAL	\$6,310	\$479	7.6

SOURCE: Based on F. Emerson Andrews, *Corporation Giving* (New York: Russell Sage Foundation, 1952), Table 40, p. 252.

earlier outlays having a strong element of philanthropy were probably included in some plausible category of business expense. In the period of adjustment following the tax-deductibility provision this practice may have continued for a while. However, with the rapid increase of giving during World War II, a new balance may have rapidly evolved. The pattern observed for 1950, therefore, may have been fairly characteristic of the whole period since World War II, which has seen sustained high levels of both contributions and tax rates.

The Mixture of Family and Corporate Giving in the Small Corporation

One important way in which corporations differ is in the degree to which personal or family interests enter their policies. At the one extreme are the very large corporations, the ownership of which is widely dispersed and which are operated by salaried professional managers. At the other extreme are the small, owner-managed businesses that, for one reason or another, have chosen to adopt the corporate form in preference to proprietorship or partnership. In the large corporation, the giving decision is more likely to be made in terms of broad, nonpersonal objectives; the corporation is viewed as an institution having an existence independent of the individuals associated with it. In the small corporation, the objectives of the owners and the business are more thoroughly intermingled, and the giving decisions are more likely to reflect the personal preferences of the owner-manager.

The channeling of what is essentially personal giving through corporations has probably been encouraged by the provisions of the tax

laws. The tax-saving possibilities of the corporate contributions deduction have been summarized in the following succinct fashion:

John Brown, who owns or controls all the stock in the John Brown Company, has been asked to contribute to a building fund for Alma Mater College. Recent profits having been good, he decides to give \$1,000. He can—

a. Vote himself an additional \$1,000 in dividends and pay by personal check. His contribution credit on personal income is now exactly balanced by his added income, so there is no saving here. Meanwhile, the John Brown Company had to make \$2,083 so that Mr. Brown could take out \$1,000 net profit, after the 52 per cent tax.

b. Set aside the same \$2,083. Pay \$1,000 by company check. Pay the 52 per cent tax on the remaining \$1,083 and pocket the balance of about \$520 as profit for his sagacity.

c. Set aside the same \$2,083, and pay the whole amount to the College by company check. He more than doubles the contribution at the same cost as a \$1,000 personal contribution.

Company contributions in discharge of personal obligations may be part of the explanation for the notably higher contribution rate of the smaller companies. One chain store reports that its contribution budget has to be unusually large to meet "the heavy competition in contributions from local merchants who are able to make personal gifts through their stores and thereby deduct the corporation tax."¹⁴

Internal Revenue Service data do not classify corporations by their patterns of ownership, and so differences in giving rates and patterns between publicly held and owner-managed corporations cannot be measured. However, some limited evidence on such differences is provided by data gathered in a National Industrial Conference Board survey for 1962 (*Table 8*). The twelve largest corporate givers in the survey, each with total contributions of at least \$2 million, presumably represented large, widely held corporations. From them, education received 48 per cent of the contributions dollar, and health and welfare, 35 per cent. The twelve smallest corporate givers in the survey, each with total contributions of no more than \$1,900, presumably were more representative of the small family corporation. From them, health and welfare received 72 per cent of the contributions dollar, and education, only 12 per cent.

A special 1962 tabulation of contributions reported on individual income tax returns makes it possible to identify which of the two patterns of corporate contributions more closely approximates that of

¹⁴ Andrews, *Corporation Giving*, pp. 248–249.

TABLE 8 The Composition of Contributions: Large Corporations, Small Corporations, and Individuals, 1962

Recipient	Percentage of Contributions		
	12 Largest Company Budgets	12 Smallest Company Budgets	Itemized on Individual Income Tax Returns
Health and welfare (federated drives)	35.3 (21.5)	72.4 (50.7)	15.7 (n.a.)
Education (secondary education)	47.8 (3.1)	11.8 (0.0)	3.6 (n.a.)
Religious organizations	0.04	0.9	60.9
Civic and cultural	3.7	5.5	19.8
Other	13.1	9.4	
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Average budget size	\$5,663,000	\$1,203	—
<i>Contributions to Health-Welfare and Education Only</i>			
Health and welfare	42.5	86.0	81.1
Education	57.5	14.0	18.9
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

NOTE: Detail may not add to totals because of rounding.

SOURCES: Companies: The National Industrial Conference Board, *Business Management Record*, October, 1963, pp. 31-32; Individuals: U.S. Treasury Department *Statistics of Income: Individual Income Tax Returns for 1962*, p. 6.

personal giving. As Table 8 shows, the pattern of personal giving departs from that of corporate giving in one important respect: the prominence of giving to religious organizations, which is virtually absent, not only in the large, but also in small corporations. The legal and philosophical deterrents to the support of religion by the large corporate givers with widespread ownership are well known. That small givers show a similar pattern may indicate a feeling that support of religion is more properly the responsibility of the individual and, tax advantages notwithstanding, is not to be channeled through the family corporation.

A more meaningful comparison, therefore, is provided by excluding the religious organizations from the data on personal giving.¹⁵ This is

¹⁵ The "Other" category is also excluded from the comparison, because its content is not well enough known and possibly differs widely as between corporations and individuals. It is probable that a significant part of the 20 per cent of personal contributions in the "Other" category represent transfers to family foundations, the ultimate recipients of which are not specified. On the other hand, the corporate contributions breakdown includes the outlays of company-sponsored foundations, and so the "Other" category represents activities not otherwise listed in the table.

done in the bottom panel of Table 8, which compares the balance between gifts to health and welfare in one row and to education in the other. As one might expect, the pattern for the small corporate givers is much closer to that for individuals than is the pattern for the large corporations.

The tax inducements to personal giving through family-controlled corporations have probably meant that an increasing percentage of what appears in the Internal Revenue Service statistics as corporate giving represents merely a shift from personal giving rather than a net increase in total giving. However, it is doubtful that this shift would contribute significantly to the observed, strongly upward trend in corporate giving. This is because the preponderance of corporation giving is done by the largest corporations, where family control is less common. In 1962, for example, the 5,222 largest corporations, each with assets of \$25 million or more, made contributions totaling \$366 million, or 62 per cent of the contributions made by all corporations.

