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Pay, Corporate Location and Donations to Charity

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Pay, Corporate Location and Donations to Charity

Does the presence of a corporate headquarters in a city influence the income of local charities?

State and local governments direct a great deal of effort (and resources) toward incenting companies to locate in their particular jurisdictions. The cited reasons for this effort are often the increase in jobs and boost

to the local tax base. But what about the effects on local charitable organizations? Do donations to local nonprofits move with headquarters? How much of that is because of direct support from the companies and how much is from the contributions of individual employees? Do the donations “crowd out” government services?

Corporate Headquarters and Charitable Giving

In “The Geography of Giving: The Effect of Corporate Headquarters on Local Charities” (*Journal of Public Economics*, 2010, 94(3), 222-234), David Card, Enrico Moretti and I investigated a number of issues related to the geographical location of corporate headquarters and charitable giving. It turns out that location does matter and the movement of highly paid employees does, too.

There are at least two main channels through which corporate location can have an effect on charitable giving. The first is that the companies themselves are donors to charitable organizations and some of their donations may be to local causes. The second channel, and one particularly relevant to readers of this column, may be the companies’ employees themselves. To the extent that employees move with the corporate headquarters, their individual giving to local charities may move as well. On the other hand, companies may be attracted to a given locale by some other factor that influences charitable giving. For example, a more



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creativity-rich community may attract companies seeking an innovation-stimulating environment and may also have more successful nonprofit arts organizations that are more successfully able to attract higher levels of charitable giving. So, we must be careful in the way we collect and interpret the data.

Presence of Corporate Headquarters and Charitable Giving

In order to investigate whether there is an effect of headquarters location on charitable giving, we cannot just look at a point in time because we would end up with the obvious chicken and egg dilemma:

Which came first, the headquarters or the level of charitable giving? Rather, we collected detailed data (over time) on the location of corporate headquarters for all publicly traded companies in the United States, along with data on contributions to charities in American cities for each year from 1989-2002. We can locate the companies and the charities by ZIP code. For the years of our study, Houston, San Jose, Calif., and San Francisco are among the cities that gained headquarters in their jurisdictions, while Chicago and Los Angeles are cities that, on net, lost. We used certain statistical techniques that take advantage of (among other things) movements of company headquarters while controlling for observable time-varying factors like population changes and fixed (but unobserved) factors.

Our findings suggest that attracting or retaining the headquarters of a publicly traded company yields roughly between \$3 million and \$10 million per year in contributions to local nonprofits. We tested the possibility of reverse causality, whereby cities with high-income charities are those that are more likely to attract companies. Our statistical results reject this hypothesis. In other words, evidence suggests that charitable donations follow headquarters, not the other way around.

Is It the Highly Paid Employees or the Companies?

Once the effect above is documented, it is natural to wonder whether the increase in charitable giving comes from companies directly or from those who work for the companies. One way to think about this is to follow the number of relatively highly paid individuals who move in and out of areas coinciding with corporate moves.

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Using data from the United States Census Bureau, we can estimate the number of individuals with incomes that are more than \$100,000 by city. Using these data, we find that the presence of a corporate headquarters, not surprisingly, positively affects the number of such people. We go on to find that, in fact, the main route by which corporate moves influence the giving to local charities is with the increased number of individuals earning more than \$100,000 and not the direct giving from the companies themselves.

Is There Crowd-Out of Government?

A final question that is often asked in studies like this one is whether the increased contributions from headquarters “reverse crowd-out” government support. That is, does support from governmental agencies go down to “offset” the donations to charities associated with the corporate moves and moves of their employees? Our statistical results suggest that government support is essentially unchanged by changes in private donations in this case. So there does not appear to be any crowding-out.

Total Rewards and Location

We know that location matters in real estate and in total rewards. Pay can vary by region within the United States and around the world. Part of this may be because of the cost of living and part because of the “benefits” of living. People and corporations locate where they do for a variety of reasons. The research described here shows that those location decisions matter for communities in some ways that don’t always make it into the headlines. Local charitable giving is affected by corporate headquarters moves and much of that is because of the relocation of jobs paying more than \$100,000 per year. **WR**



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