THE CENTRE FOR MARKET AND PUBLIC ORGANISATION

Increasing charitable giving – what can we learn from economics?

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Increasing charitable giving – what can we learn from economics?

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Abstract
As part of its Big Society agenda, the current Government is keen to encourage a higher level of donations of money to charitable causes. It has highlighted new technologies, new social norms and tax incentives as potential mechanisms for raising giving. This article brings together recent evidence to assess the prospects for achieving the desired "step change in giving".

Keywords: charitable giving; peer effects; tax incentives

JEL Classification: D61; H24

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1. Introduction

In an age of fiscal austerity and cuts in public spending, the current coalition Government has said that it is keen to promote private donations to charities. Last year's White Paper declared that "giving is good" and that "people want to do more and could do more" (HM Government, 2011). The White Paper highlighted three main mechanisms that could potentially stimulate a higher level of giving in the UK – new technologies, such as online platforms, text giving and giving at cashpoints; new social norms around giving, including the power of peers to influence behaviour; and tax incentives.

This article provides an economic perspective on some of the ideas in the White Paper. Despite its title, it is not intended to be a comprehensive overview of the economics of philanthropy – excellent surveys already exist, see Andreoni (2006) and Vesterlund (2006). Instead the focus is on recent evidence relevant to the current UK policy debate.

For some people, charitable giving is not obvious territory for economists. There is a view that giving money to charity is not a rational activity – and by implication not something that economists have much to say about. However, this narrowly equates being rational with acting purely in one's self-interest and the two are not necessarily the same thing. In practice, giving to charity involves making decisions about how to allocate limited resources – decisions over how much to give in total, whether to give time or money, and whether to give to one charity or another. Unless these decisions are made randomly, it must be that individuals are using some criteria to try to make the best decisions, even if they are maximising with respect to something fuzzy like "warm glow" (Andreoni, 1990). This leads into territory where incentives are likely to matter and where economics is likely to have something to say. The second thing that economics has to offer is tools for looking at evidence on what might increase donations in practice. This applies just as much to charitable giving as to other areas of public policy. The aim of this article is to bring together some recent evidence that is relevant to the proposals in the White Paper for increasing charitable giving in the UK.

Section 2 presents evidence on the current state of donation in the UK, which highlights some of the challenges in achieving the kind of step change in giving that the Government is aiming for. Section 3 summarizes new findings in relation to peer effects in giving that might be relevant for

the Government's ideas around social norms. The evidence suggests that peer effects are potentially quite strong but until we better understand why people are influenced by their peers, it may be hard to generalise their effectiveness. Finally, section 4 summarizes recent research into the effects of tax incentives on giving. At first sight, the findings from this research appear to contradict a standard economic model of giving since they show that relatively few people adjust their nominal donation (how much they give out of net-of-tax income) in response to changes in tax incentives. However, donors' behaviour can be considered rational once the potential costs of processing and adjusting to tax changes are taken into account. Understanding the underlying process of adjustment is then shown to be important for designing (cost-effective) tax incentives that maximise total revenue going to charities. Section 5 concludes.

2. The current state of donation[2]

Evidence on long-term trends in household giving – presented here over more than three decades – highlights some of the challenges for the Government in increasing giving.

Figure 1, panel (a) shows the proportion of households that give to charity, defined as having given during the past fortnight. This likely understates the overall proportion of the population that gives to charity over a longer period – a month or a year. However, the advantage of these data (taken from Living Costs and Food Survey; see Appendix for further information) is that giving is defined consistently over many years to enable analysis of long-term trends.

What is clear is that fewer households are giving now, compared to thirty years ago. The Millennium seems to mark something of a turning point in arresting a persistent decline, but the proportion of households that give to charity is still below its level thirty years ago (26.8 per cent in 2008 compared to 32.1 per cent in 1978).[3]

Looking at how much people give in panel b, the average donation among givers has risen in real terms from just over £3.00 a week in 1978 to over £8.00 a week in 2008. These figures are for

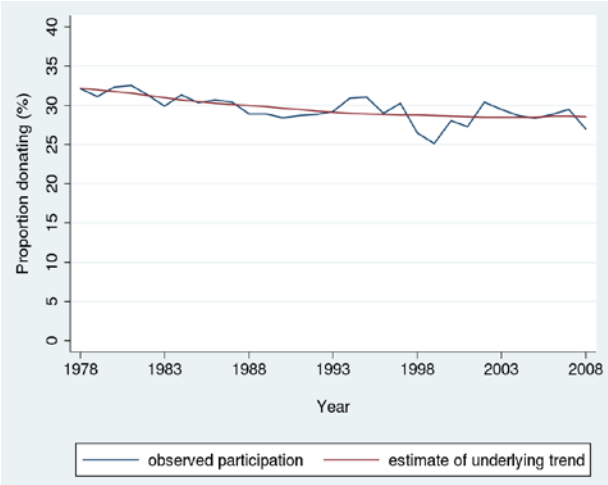
[2] This section draws on Cowley et al (2011)

[3] One thing that has changed over the same period is the composition of households – there are now more single-person households, for example. However, this does not explain the decline in giving – the proportion of individuals giving to charity has also fallen.

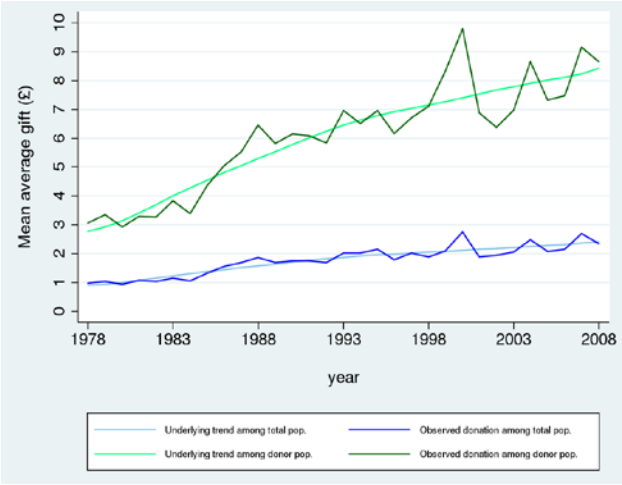
the general household population and exclude major donors who count for a significant proportion of overall giving. The rise in giving among the givers more than compensates for the fall in the number of givers – the average donation over all households more than doubles in real terms over the thirty year period, rising from just under £1 in 1978 to over £2 a week in 2008.

Figure 1. Long-term trends in giving

a. Proportion of households giving to charity



b. Mean donation per week (2008 prices)



Source: Data from the Living Costs and Food Survey (formerly known as the Expenditure and Food Survey and the Family Expenditure Survey); Cowley et al (2011)

However, the increase in the real value of donations has only just been enough to keep giving constant as a proportion of total spending – donations among the general household population equalled 0.43 per cent of total spending in 2008,[4] and this proportion was exactly the same level in both 1988 and 1998. On the positive side, this points to a remarkable resilience in the level of giving. Our analysis shows that there is little evidence, for example, of donations falling during recessions, at least during the recession in the early 1980s and 1990s. However, it also suggests that achieving the kind of "step change in giving" that the Government has been talking about could prove challenging. The twenty-year period over which donations have remained at a

[4] Again, this excludes very large donations from major philanthropists.

constant share of total household spending is one in which there have been huge changes in the technology of giving (a rise in giving by direct debit from 18% of donations in 1988 to nearly half of all donations in 2008, for example) and in charity fundraising practices – yet there is little evidence that these changes have had any obvious significant and sustained impact on the level of giving.

The White Paper emphasizes the potential power of new technology to transform giving. However, the experience of the last thirty years suggests that new technology may just change the way in which people give. The challenge for any new technology is to clearly demonstrate that it can change how much people give.

Examining the household level data reveals further challenges for policy:

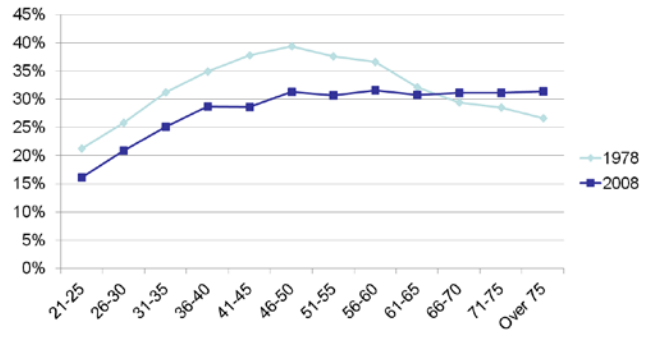
The donor population is ageing; 35 per cent of all donations now come from the 65+ age group, compared to 25 per cent thirty years previously. We would expect some ageing of the donor population in line with the ageing of the general population, but the ageing of the donor population is occurring at a faster rate.

The reasons for this are clear from looking at age profiles of giving, shown in Figure 2. The older age groups (65+) are the only ones where there has not been a decline in the proportion giving over the last three decades. Households in their 60s and 70s have also become increasingly more generous compared to the rest of the population in terms of how much they give as a share of total spending.

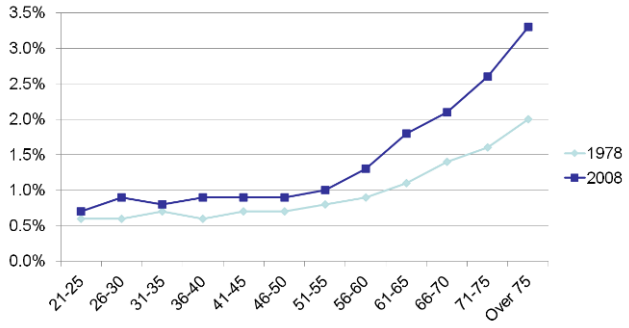
The income profile of the generosity of givers is also interesting. Richer households are more likely to give than poorer households, but they give less as a share of their total spending. As shown in Figure 2, the richest 10 per cent of donors gave just over 1 per cent of their income, while the poorest 10 per cent gave more than 3.5 per cent. The inequality in generosity has been increasing over the past three decades. If the Government is really serious about raising levels of donations then encouraging higher levels of giving from richer households – and moving them towards the levels of generosity of poorer households – could be one way to achieve this.

Figure 2. Age profiles in giving

a. Proportion of households giving to charity

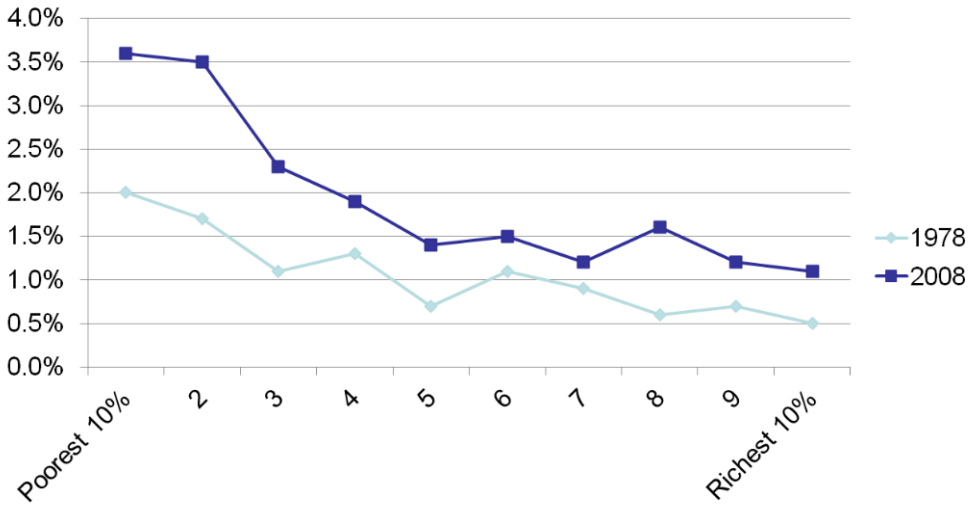


b. Generosity as a share of spending (givers)



Source: Data from the Living Costs and Food Survey; Cowley et al (2011)

Figure 3. Income profile – generosity as a share of total spending (givers)



Source: Data from the Living Costs and Food Survey; Cowley et al (2011)

3. The power of peers

The Government believes that one potential way to move people to new, higher levels of donating is by creating social norms around giving, including the use of peer effects to influence behaviour. There is a widespread belief that peer effects are important in charitable giving – the White Paper goes as far as to state that "seeing others give is one of the most powerful drivers of

further giving". Yet, perhaps surprisingly, there is little direct evidence on how donors respond in practice to donations made by their peers, to show how powerful these effects are in practice.[5] Meer (2011) shows that charitable solicitations from peers can be more persuasive than solicitations from people you don't know, but this is not quite the same as showing that there is an effect from observing donations made by peers. Carman (2004) addresses peer effects among workplace teams, but in this case, the peer group includes the team captain who plays a direct role in encouraging and motivating giving among team members.

We have recently tried to measure peer effects directly by looking at what happens on two online fundraising websites, Justgiving and Virgin Money Giving.[6] These websites provide an excellent environment to observe peer effects in action: Individual fundraisers set up a personal fundraising web page on behalf of a charity and then appeal to people (usually their family, friends and colleagues) to make a donation to their chosen cause. Most donations are made through the website (rather than offline) and both the amount and, usually, the donor's identity are publicly recorded.[7] This information on all previously-made donations is then visible to each donor who subsequently visits the website. We exploit this set up to look at whether individuals' donations are affected by how much other people have given, in a situation where many of those donations are likely to have been made by people who are very similar to them and whom they may know directly. Our analysis focuses on more than 300,000 donations made on behalf of more than 10,000 individual fundraisers who were running in the 2010 London marathon and were raising money for charity.

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[5] A number of studies have looked at the effect of "social information" – i.e. information given to donors on how much other people have given (see Alpizar et al, 2008, and Croson and Shang, 2009). However, these are not quite the same as genuine peer effects since the information typically refers to other (unknown) donors or a typical donor.

[6] See Smith et al (2012)

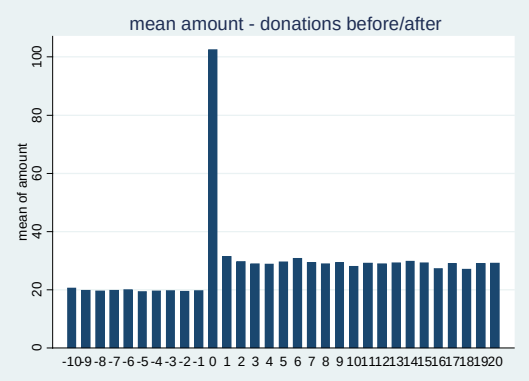
[7] Donors can choose to donate anonymously. This is the case for 11 per cent of donations in the Virgin Money Giving sample. Unfortunately, anonymous donations were not identified in the Justgiving sample which means that we cannot do a full analysis on the effects of anonymity. However, in the Justgiving sample we find no difference in behaviour following large or small anonymous donations (compared to other large and small donations).

The issue we are interested in is "Are donors influenced by how much other people have given before them?" and in particular, "does the level of past donations affect how much they give?" Of course, donations to a page are likely to be correlated as a result of the similarity of members within the peer group, as well as because of common fundraiser effects (i.e. the fact that some fundraisers will be better than others at encouraging donations). Our identification strategy relies on the within-page variation in the observed history that arises as a result of donors arriving at the website at different times.

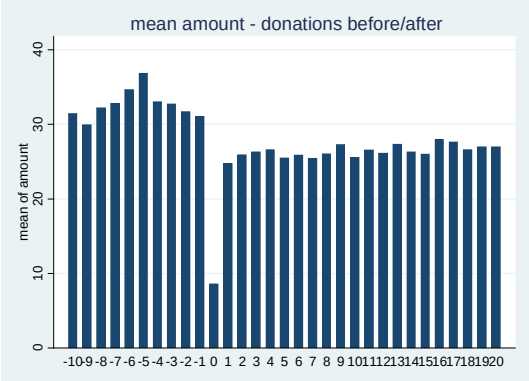
We find clear evidence of positive peer effects. The easiest way to show this is to look at what happens if there is a large donation to a fundraising page, where we define "large" as twice the page mean and not less than £50 – which works out as around £100. The donations before and after the large donation are shown in Figure 4, panel a.

Figure 4. Are donors influenced by how much other people have given?

a. Effect of a large donation



b. Effect of a small donation



Source: Data taken from Justgiving and Virgin Money Giving fundraising pages, 2010 London marathon; Smith et al (2012)

The pattern is quite striking – the donations made after the large donation are clearly larger than the donations before. If there is some randomness in exactly when people go to make a donation – and hence in whether they happen to arrive just before or just after the large donation – which seems likely, then we can attribute this difference to the causal effect of the large donation. The

effect is fairly sizeable – a large donation increases the average donation size by £10 on average. So, as a fundraising strategy a £100 donation would pay back in ten donations' time.

There is also no evidence that peer effects crowd out donations to other pages. Exploiting the fact that some Justgiving donors sponsor multiple fundraisers, we look at whether, after following a large donation and giving more to one page, a donor gives less to another page that they subsequently visit.

Focusing on around 1,600 donors who make multiple donations, we find, as before, that the estimated direct effect of a large donation is positive and significant, (coeff = 7.250, SE = 4.138), while the estimated spillover effect is positive, but insignificant (coeff = 2.588, SE = 1.804), implying that there is no evidence that the crowd in effect of a large donation to one page is also associated with a crowd out of donations to other fundraising pages.

Does a bigger "large" donation lead to a bigger response? The general answer is yes – but only up to a point. Regression analysis shows that the effect of a large donation that is twice the page mean is to increase subsequent donations by £9.40 on average; a large donation that is three – five times the page mean increases subsequent donations by £10.30 on average, while a large donation that is five – ten times the page mean increases subsequent donations by £15.20 on average. However, a large donation that is more than ten times page mean has the same effect - £15.20. So, there may be a limit to the power of peers to boost donations.

We also find that peer effects can cause the value of donations to go down as well as up. Looking at the effect of a small donation to a page, defined as less than half page mean, in Figure 4, panel b, the effect is similarly clear – the donations that follow a small donation to a page are smaller than the ones that went before. Again, the effect seems sizeable – subsequent donations are between £3 - £5 lower following a small donation.

In summary, this evidence shows that peer effects are important, at least in this online fundraising context. However, there may be some limits on their effectiveness in increasing donations: people can only be persuaded to increase the amount they give up to a point; peer effects can also cause people to give less as well as to give more.

There is also an issue of the extent to which these findings can be generalized outside the online fundraising environment. To do this, we need to understand why peer effects are important.

One possibility suggested in the literature (Vesterlund, 2003) is that donors respond because other people's donations change the way they think about the value of the cause they are being asked to support. However, looking across charities, there is no evidence that peer effects were stronger for smaller, newer charities where information on the value of causes is likely to be more important. We also found no difference between older and younger donors.

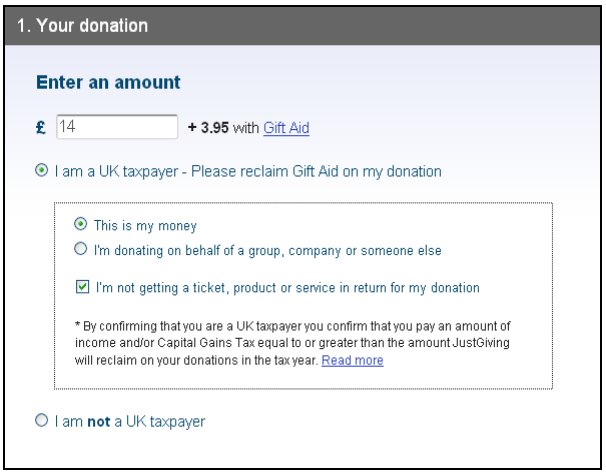
Alternative explanations emphasize social phenomena where donors care directly about how much other people have given. Early on, Becker (1976) argued that charitable giving may be motivated by the desire for social acclaim, or by the desire to avoid stigma, which may in turn be linked to how much other people have given. Where giving is assumed to attract an extrinsic reward by signalling wealth (Glazer and Konrad, 1996) or generosity (Harbaugh, 1998), this reward may depend not on the absolute level of the donation, but on the level relative to some socially determined reference level which depends on how much other people are giving. Bernheim's model of conformity (1994) assumes that people care about status which can be harmed by deviations from the social norm, which in turn is defined by how much other people give.

Another possibility is that people simply use other donations as a rule of thumb in deciding how much to give. Even if donors want to make the right decisions, it can be a complicated business since there are literally thousands of different charities to give to and each donor may give to several different charities. Faced with this level of complexity, donors may well look to what their (similar) peers are doing as a guide to their behaviour.

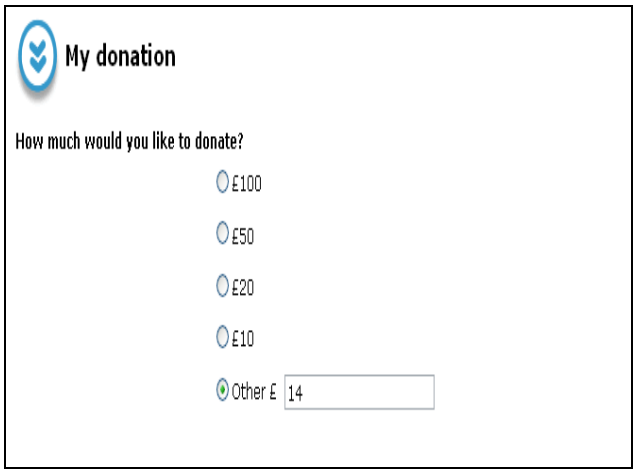
Other evidence from the way donors behave online lends some support to the idea that donors can be prompted over how much to give. At the time of the 2010 London Marathon, the two fundraising websites – Justgiving and Virgin Money Giving – operated differently in terms of the level of prompting with regard to the amount to be donated. As shown in Figure 5, Justgiving required donors to choose the amount with no prompting, while Virgin Money Giving offered a menu of donation amounts (£100, £50, £20, £10), followed by an open box. In both cases, the distribution of donations was fairly "spiky", with most people giving one of the prompted amounts, but the proportion was higher on the Virgin Money Giving pages than the Justgiving pages – 75.1 per cent compared to 66.7 per cent – suggesting the presence of so-called framing effects or menu effects.

Figure 5. Are donors influenced by "menu effects"?

Justgiving



Virgin Money Giving



Amount	Fraction of donations in JG	Fraction of donations in VMG
£100	.065	.076
£50	.105	.123
£20	.234	.282
£10	.263	.270
TOTAL	.667	.751

Source: Data taken from Justgiving and Virgin Money Giving fundraising pages, 2010 London marathon.

4. Tax incentives and charitable giving

The related themes of complexity and framing effects are also relevant to the analysis of the effect tax incentives. The main way in which individual donors currently get tax relief on their donations in the UK is through Gift Aid. The most recent figures show that nearly £5 billion was donated through Gift Aid in 2010-11, out of total individual donations estimated to be around £10 billion. The other schemes through which donors can get tax relief when they are alive– payroll giving and tax relief on gifts of stocks and land – are much smaller – accounting for

donations of just over £100m and just under £300m respectively. Legacies account for around a further £2 billion.

In practice, Gift Aid comprises two elements of tax relief – at least for higher-rate taxpayers. The first element is that for every pound donated out of net-of-tax income, the charity can claim the basic rate tax. In practice, this can be thought of as similar to a "match" – if you give to charity, the Government will match it with an extra 25 pence.

The second element is that higher-rate taxpayers can additionally claim back as a rebate the difference between the basic rate and their higher rate. For someone facing the marginal rate of 40 per cent, this is equivalent to claiming back a rebate of 25 pence for every £1 donated out of net-of-tax income.

The effect of both the match and the rebate is to reduce the "price" of giving to charity, i.e. how much it costs the donor to make a contribution to a charitable cause. In the standard economic model of giving, donors are assumed to care about their total contribution to a charitable cause, which is denoted here as g. This total contribution, g, is certainly what the charity cares about. It is made up of the individual's nominal donation out of their net-of-tax income (denoted by d) together with any additional match rate (m) offered by the Government.

When deciding how much to contribute, however, donors also consider how much it will cost them, which will be determined by how much they give out of their net-of-tax income, together with any additional rebate rate (r) they may receive from the Government.

Bringing these elements together, the price of making a contribution to charity is therefore defined by the ratio of the net cost to the total contribution, which in turn is determined by the ratio of the rebate to the match:

$$P = \frac{c}{g} = \frac{d(1-r)}{d(1+m)} = \frac{(1-r)}{(1+m)}$$

In the standard model, changes to the match and rebate elements both affect the price and contributions should respond the same way to a change in price brought about by a change in the match as to a change in price brought about by a change in the rebate.

In practice, however, this turns out not to be the case. This finding comes from an online survey run on approximately 4,000 donors, split fairly equally between Justgiving donors and donors with a Charities Aid Foundation charity account. Respondents were presented with hypothetical scenarios involving changes to the match or rebate elements of Gift Aid.[8]

At the first stage, donors were asked whether they were likely to make a Gift Aid donation in the next six months and, if so, how much they were likely to give. At the second stage, donors were asked how this this donation would be affected by alternative tax reliefs and were presented with two hypothetical scenarios. The pairs of scenarios were varied randomly across donors.

Two (out of the five) pairs of scenarios faced by higher-rate donors tested changes in either the match or rebate. The changes were symmetrical in terms of pence change for each £1 donated but not price changes. For example, in Set A, individuals were faced with the following two scenarios (Note that for higher-rate donors the current system implies a match of 25 pence and a rebate of 25 pence; price of giving = 0.60):

A1: A match of 30 pence and a rebate of 25 pence (price of giving = .577);

A2: A match of 25 pence and a rebate of 30 pence (price of giving = .560).

While in set B, individuals were faced with the following two scenarios:

B1: A match of 20 pence and a rebate of 25 pence (price of giving = .625);

B2: A match of 25 pence and a rebate of 20 pence (price of giving = .640).

The other three pairs of scenarios were designed to explore responses to specific policy options and involved scenarios that eliminated the rebate altogether and made the match subsidy more generous (see Scharf and Smith, 2009, for further details). We focus here on the results relating to these first two treatment sets.

[8] The full analysis is presented in Scharf and Smith (2009)

The main finding from the survey was that contributions were significantly more responsive to changes in the match than to changes in the rebate. This is clear from Table 1, panel a which summarizes estimated match and rebate elasticities, from a regression of the following form:

$$\ln g_{in} = \beta_0 + \beta_r \ln(1 - r_s) + \beta_m \ln(1 + m_s) + v_{in}$$

where g_{in} is the n^{th} contribution of individual donor i. For each donor, we have up to three donation amounts – their initial donation, g_{i0}, and donations under the two alternative scenarios in their treatment. β_r and β_m capture the elasticity of contributions with respect to the rebate and match respectively, where variation in the match and rebate comes from the scenarios described above. $v_{in} = \phi_i + u_{in}$ i.e. a fixed, individual-specific term, which captures the effects of observed and unobserved donor characteristics on donations, as well as a zero-mean, IID error term. This equation is estimated using a random effects model.

Table 1: Estimated match and rebate elasticities

Dependent variable = ln contributions

	Match elasticity	Rebate elasticity	p-value
(a) All higher-rate donors	-1.127 (*.067*)	-.212 (*.041*)	.0000
(b) Reclaimers	-1.277 (*.096*)	-.415 (*.091*)	.0000
(c) Good level of understanding	-1.368 (*.116*)	-.440 (*.070*)	.0000

Notes: standard errors in parentheses, p-value is for the test that the match and rebate elasticity are equal

Source: Data from online survey of Justgiving and CAF charity account donors; Scharf and Smith (2011)

The results imply that charitable contributions are significantly more responsive to changes in the match than to changes in the rebate. In the case of changes in the match element, the estimated elasticity is greater than one in absolute value – i.e. contributions adjust by more than the change in match. This implies that offering a match is cost-effective for the Exchequer in terms of increasing money going to charities, since the effect on contributions is greater than the value of the tax relief. In the case of the rebate, however, the estimated elasticity is less than one

in absolute value. In other words, contributions adjust by less than the change in the rebate, implying that offering a rebate is not cost-effective in terms of increasing contributions.

Clearly, looking at hypothetical scenarios is not ideal. However, we do not believe that our results are driven by "hypothetical bias". In many cases individuals' answers varied between the two scenarios that they faced, suggesting that they were taking the survey seriously. We also did a number of internal consistency checks, for example showing that the results did not depend on the ordering of the scenarios. The results are also in line with similar findings from lab experiments and field experiments involving single charities which have also found that contributions are significantly more responsive to changes in the match rate than they are to changes in the rebate rate. Eckel and Grossman (2003 and 2008) found estimated elasticities in the range -1.14 – -1.05 for the match and -.36 – -.11 for the rebate.

So, what might explain why the response of contributions to the match and rebate is different?

One obvious possible explanation is that many higher-rate taxpayers do not reclaim the rebate. Scharf and Smith (2009) estimate that around 35 per cent of all higher-rate donors actually reclaim the rebate, although the probability of reclaiming increases in the value of donations, so the rebate is reclaimed on a higher proportion of total donations by higher-rate taxpayers (around 80 per cent). Higher-rate taxpayers who do not reclaim would not be expected to respond if the rebate changed. However, as shown in Table 1, panel b, the difference remains if we look only at donors who said that they did reclaim.

Another possibility that we can eliminate is that people are simply confused. Looking only at a group of donors who appear to have a good level of understanding of Gift Aid (there were a number of questions in the survey that tried to get at this), again, we still find a significant difference in responses to changes in the match and rebate (Table 1, panel c).

In fact, the most likely explanation for the difference in elasticities is rather more prosaic and is based on the fact that many donors simply do nothing when faced with a chagne in the match or rebate. Suppose that, for whatever reason, individuals do not change how much they donate out of their net-of-tax income (i.e. d) when the match or rebate changes. What happens to contributions in these two cases is quite different. If the match changes, then contributions adjust exactly by the change in the match (i.e. the elasticity of contributions is equal to -1). However, if

the rebate changes, then contributions do not change at all (i.e. the elasticity of contributions is equal to 0). So, in the two cases the observed response in contributions is very different, although the underlying behavioural response is essentially the same. In practice, in our survey, non-adjustment was the modal response. In fact, in three-quarters of cases, donors said that they would not change their donation. This non-adjustment goes a long way to explain why the observed elasticities are different.

At first sight this finding on non-adjustment appears to challenge the standard economic model in which donors care about contributions and respond rationally to changes in the price brought about by changes in the match or rebate. In practice, however, in spite of this finding, the standard model remains a useful way to think about how individuals make their decisions. One bit of evidence to support this comes from the survey which asked donors directly what they cared about. Most said that they cared about the total amount received by the charity, not (just) their nominal donation.

One way of reconciling the finding with the model is by taking account of the fact that processing and adjusting to tax changes may be a costly activity. In this case, non-adjustment in nominal donations when tax reliefs change can itself be a rational response. For donors, processing changes to tax incentives and adjusting nominal donations has benefits because it means that they give the optimal amount, but it is also costly – it takes time and effort. In practice, the balance of these costs and benefits will determine whether donors respond to price changes.

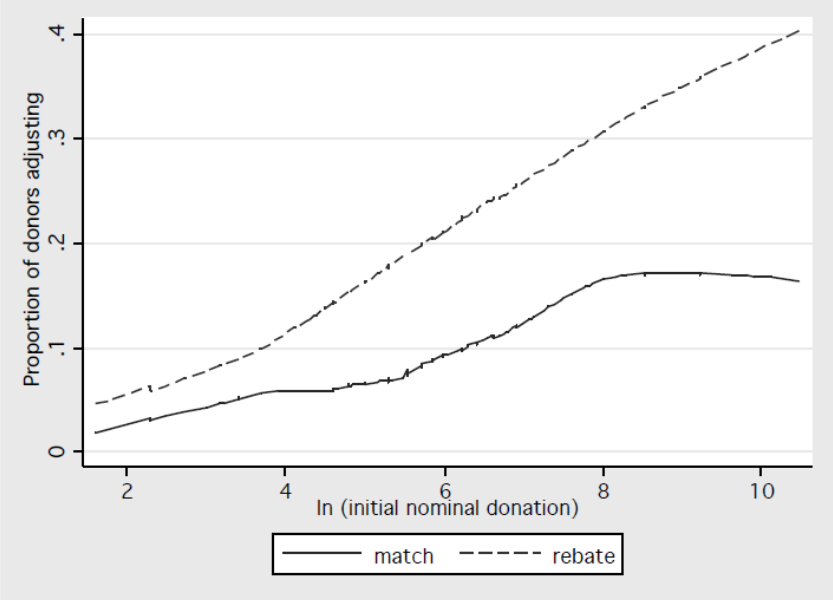
That non-adjustment is a potentially rational response is supported by Figure 6 which plots the proportion adjusting their donation in response to a change in the match (the solid line) and in response to a change in the rebate (the dotted line), according to the size of their donation (along the horizontal axis).

The graph shows two things. First, that donors are more likely to adjust in response to a change in incentives when they donate more. This makes sense since, when people give more, the costs of not adjusting are greater. Second, that donors are more likely to adjust in response to a change in the rebate than to a change in the match. This also makes sense. Suppose that, in the absence of any adjustment costs, donors are fairly responsive to price changes (i.e. the elasticity is greater

than one in absolute value). In this case, non-adjustment will leave donors further from their optimum in the case of the rebate, since contributions automatically adjust in line with any changes in the match. Hence, donors are more likely to adjust to changes in the rebate than to changes in the match – they have to make an adjustment for there to be any change in the contributions.

These findings have implications for understanding donor behaviour. The evidence suggests that donors do respond rationally, but that they take nto account the costs and benefits of processing changes in tax incentives. In turn this has implications for public policy and suggests that match-style incentives are likely to be more cost-effective than rebate incentives at increasing total contributions going to charities.

Figure 6. Adjustment to changes in tax relief



Source: Data from online survey of Justgiving and CAF charity account donors; Scharf and Smith (2011)

5. Discussion

The evidence suggests that the Big Society is a big ask. Achieving a step change in giving is likely to prove challenging in the light of trends in giving over the last three decades. Examining

the evidence on charitable giving, however, can help to shed further light on what could be effective at increasing donations. The main findings presented here show that:

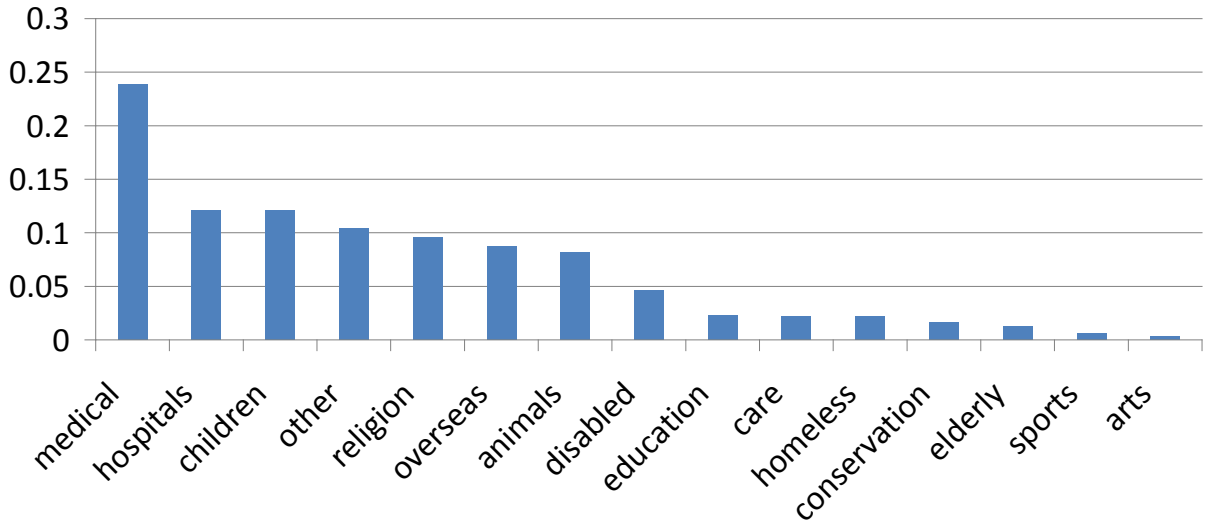
- New technologies need to prove that they can change how much people give, rather than (just) the way in which people give. It is still early days to draw firm conclusions – recent evidence suggests that only 7 per cent of donors gave online and by text in 2010-11.
- Peer effects are potentially powerful – this is clear from the online fundraising context – but a better understanding of why peer effects matter would help practitioners to generalize their impact to other settings.
- In relation to tax incentives, match-style reliefs are likely to be more effective than rebate-style incentives in increasing the total contributions received by charities. Indeed, with an elasticity of more than one in absolute value, the cost to the Exchequer of offering match-style incentives will be more than offset by an increase in the resources available to the charitable sector.

As a final point, it is worth thinking about which charities people give to. The White Paper is silent on this, focusing only on the overall level of giving. However, if the Government decides to allocate revenues to incentives for giving (eg in the form of match-style incentives) it not only affects the total level of services that can be funded by a combination of the Government and the charitable sector, it will also affect what type of services are provided since it is unlikely that the services that the Government would have provided with the tax revenue it gives up will be exactly the same as those that private donors choose to fund.

Figure 7 summarizes information on the distribution of total household giving across different causes. Medical charities are the most popular cause and receive nearly one-quarter of all donations, followed by hospitals (including hospices). Looking at this allocation raises some fundamental questions about whether it is optimal in any sense – for example whether the money is going to the most effective charities, or to the areas of greatest need, or indeed to match donors' preferences over the allocation of total giving. Clearly, greater weight is given to individual donor preferences, but as observed by John Stuart Mill one of the potential problems with charity, which is non-coordinated, is that "[it] almost always does too much or too little; it lavishes its bounty in one place and leaves people to starve in another." In the Big Society, which

looks increasingly to individual donors to fund public services, these questions about the types of services that are funded through private donations (as opposed to Government funding) are increasingly pertinent and are an important area for future research.

Figure 7: Distribution of donations, by charitable cause



Source: Individual Giving Survey, 2010-11

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Appendix

Using data from the Living Costs and Food Survey to look at household giving

A key challenge in measuring levels of charitable giving accurately is that results both in the UK and the USA have proved sensitive to the particular survey methodologies used (for the USA see, for example, Wilhelm, 2007).

The data used to analyse long terms trends in household giving are taken from the Living Costs and Food (LCF) survey over the period 1978 – 2008. The LCF survey is the UK's largest detailed survey of household expenditure and has existed since 1957, although much of the information of interest is available on a consistent basis since 1978. The LCF survey is the only survey to have collected household-level information on charitable donations on a consistent basis over such a long period, allowing us to analyse long-term trends in giving.

The survey samples nearly 6,500 households annually,[9] on a rolling basis over the year. Our final sample, which pools data from 31 waves of the survey, includes information on 205,925 households. The size of the sample is another potential strength of the LCF, compared to other available datasets.

All individuals in participating households are asked to record all items of expenditure in a diary over a two-week period. The diary entries for individual goods are aggregated across household members for the two-week period and then averaged to give weekly spending amounts for the household. In addition, household members are interviewed about income sources and other types of regular, less frequent spending, such as direct debits and deductions from salaries. This information is then combined with the diary data to give total weekly household expenditure for over 300 goods and services, including gifts to charity. The survey also collects detailed information on household income and on the characteristics of household members.

In the LCF survey the following items are used to prompt individuals about their 'charitable gifts':

Animal charity, Big Issue, blind box, cancer league, candles (church), charity collection, carol singers, donation to charity, Gold Heart (charity), Marie Curie memorial foundation, missionary box, mothers' union collection, NSPCC, Oxfam, poppy (charity), Red Cross donation, rugby life line, Salvation Army, school fund, sponsor money, Sunday School collection

[9] **The response rate is around 65% of the 10,000 approached.**

Notably, this list does not include spending on goods that give (or may give) a return to the donor, for example, purchasing tickets for charity events, raffle tickets or spending in charity shops.

Summary measures of mean giving derived from the LCF almost certainly understate both average donations across the whole population and the skewness of the distribution for the reason that the LCF survey does not sample major donors. The very biggest donation observed in the thirty years of data is £1,500 – clearly smaller than many major donations which are made in practice. The fact that the LCF survey fails to capture large donations should not be particularly surprising – major donors are relatively few in number and are unlikely to be included in a population-wide survey; large donations may also not be covered in the two-week survey period. The analysis therefore is relevant to trends in giving among the general household population, excluding what is happening among the population of major donors.