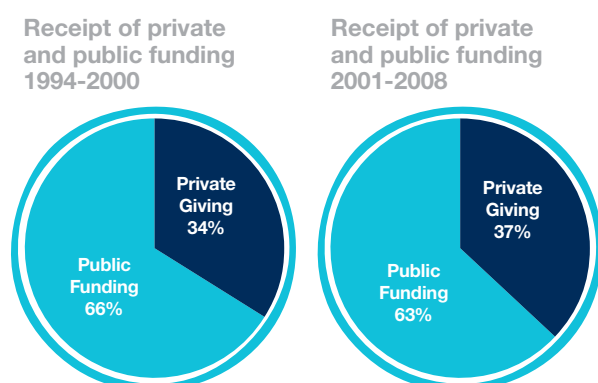


GOVERNMENT FUNDING AND PRIVATE CHARITABLE DONATIONS: THE CANADIAN EXPERIENCE



When a charity receives funding from government how do its donors react? Do they pull back in their giving or do they continue to give? **Abigail Payne** and **James Andreoni** look to Canada to research the overall effects on charities' incomes. Their research explores whether 'crowding-out' happens due to a change in donor behaviour (a direct effect) or charities' altering their fundraising efforts (an indirect effect), and whether there is a similar 'crowding-out' effect across different sources of donor funding such as charity events or grants from other foundations.

Figure 1
Reliance on funding



This analysis uses data on over 13,000 Canadian charities engaged in the provision of social welfare and community oriented services for three or more years between 1994 and 2008. They are drawn primarily from the information provided by charities on their tax returns to the Canada Revenue Agency. For the sample of welfare and communities charities studied, in constant dollars,¹ these charities receive approximately \$49,000 per year in private giving and over \$85,000 per year in government grants and tend to be smaller charities with low levels of revenues.

Figure 1 illustrates the change in reliance on public and private funding by breaking the data into two periods: 1994 to 2000 and 2001 to 2008. Overall, charities received more funding from government sources than from private sources. Across the two periods, however, there is some evidence that reliance on government funding decreased and reliance on public funding increased. In part, increased reliance on private funding is due to an increase in the number of operating charities over the period.

A benefit to the Canadian data is that we can observe the funding flows to the charities over a long period and we can break down the effect of government grants to private giving into the component that is attributable to a direct reaction by private donors and the component that is attributable to a change in charity fundraising behaviour (an indirect reaction). Moreover, we can look at how changes in government funding affect different types of private revenues. Let's start with a measurement of the overall effect of government funding on private giving.

If a charity receives a government grant does private giving decline?

We find that overall, if there is a one dollar increase in government funding, the decline in private giving ranges from 83 cents to close

to one dollar depending on the controls used in the specification. A rate of displacement this high may seem incongruous. From casual observation we tend to observe that individuals likely receive some personal satisfaction in knowing they are supporting a charity. Is there, then, another reason for this large level of displacement?

The next question focuses on charity behaviour. For some of us, to give to a charity we have to first be asked to give. Charities calling us, advertising, and running events help us to learn about where charities are giving. Therefore, charity fundraising and advertising may play a role in affecting our decisions around charitable giving.

An extra \$1 of government funding results in a decline in fundraising by 22 cents.

Do charities reduce their fundraising efforts?

If a charity receives government funding, will it continue to seek private giving at the same intensity as it did before receiving the government funding? In part this answer depends on what motivates charity operations. Unlike private firms, charities may not be motivated to maximise profits or revenues. Maybe their motivation is tied to maximising service provision. Under this scenario, this would imply that charities might treat fundraising as something akin to a necessary evil. Under this hypothesis, we might see fundraising decline if a charity receives government funding.

We find that private giving increases when a charity increases its fundraising and

advertising: on average an extra dollar of fundraising results in \$5 of private giving. This relationship is suggestive that charities indeed are not profit or revenue maximisers. We also find that fundraising declines when the charity receives an increase in government funding. On average, an extra dollar of government funding results in a decline in fundraising by 22 cents.

Putting it all together, the overall decline in private giving observed with an increase in government funding is attributable to a change in charity behaviour, *not* donor behaviour. The decline in donations is due to the decline in fundraising behaviour by the charity.

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Does the reaction to government funding vary across private donor types?

With our data we can separate private giving into three groups: donations that qualify for a tax receipt,² revenues from an event or source where tax receipts are not issued,³ and revenues from foundations and other charities. Our analysis suggests there are different reactions.

Direct donations that receive a tax-receipt decline with an increase in government funding but all of the crowding-out is attributable to a decline in charity fundraising. If charities maintained their levels of fundraising, we probably would not observe a decline in giving. Unsurprisingly, we also find that a decline in fundraising effort results in a decline in revenues from special events and appeals where tax receipts are not issued.

Where we do observe a direct decline in

Table 1
Decomposition of overall crowd-out

	Total	
	High value	Low value
Total crowd-out (direct+indirect): \$1 in government funding effect on overall donations to the charity	-\$0.98	-\$0.83
Direct crowd-out (donors changing behaviour)	\$0.14	\$0.29
% of total crowd-out attributable to donors directly reacting to changes in government funding	-13.9%	-34.6%
Indirect crowd-out (attributable to changes in charity fundraising)	-\$1.12	-\$1.12
% of total crowd-out attributable to fundraising changes	113.9%	134.6%

Table 2
Decomposition of crowd-out By Type of Revenue

	Tax-receipted gifts		Revenue from fundraising		Revenue from other charities	
	High value	Low value	High value	Low value	High value	Low value
Total crowd-out (direct+indirect)	-0.36	-0.19	-0.55	-0.27	-0.30	-0.17
Direct crowd-out (donors changing behaviour)	0.24	0.41	-0.22	0.06	-0.14	-0.01
% of total crowd-out	-65.7%	-214.0%	39.6%	-23.0%	46.1%	4.9%
Indirect crowd-out (attributable to changes in charity fundraising)	-0.60	-0.60	-0.33	-0.33	-0.16	-0.16
% of total crowd-out	165.7%	314.0%	60.4%	123.0%	53.9%	95.1%

giving is with respect to revenues that come from foundations and other charities. This may be attributable to these organisations being better informed about a charity's revenue sources. The results suggest that other charities and foundations may view government funding as a direct substitute for their own contributions. Of course, if government funding requires matching funds from non-governmental sources, this would explain a more muted effect of government funding on revenues from other charities.

There is a direct decline in revenues from charitable foundations.

Conclusion

This study suggests that an increase in government funding to charities results in a decline in private giving. This decline is mostly attributable to a decline in charity efforts to raise private funding. There are differences, however, in reaction across donor types. Direct donations and revenues from fundraising decline mostly from a reduction in spending on fundraising and advertising by the charity. Contributions from other charities and foundations decline from a reduction made directly by these organisations.

While these findings were based on a large sample over an extensive period, our data are not able to capture everything. When measuring the effect of government funding changes on private giving we have to be careful in the analysis insofar as controlling for factors that might cause private and public funding to move in the same direction (e.g. a change in voter attitudes, an event, such as a natural disaster, that causes a change in need for the charitable good or service).

Moreover, while we can examine aggregate funding to the charity from different sources, we have less information about how the funding is used by the charities. For example, we do not observe whether the funding is used for capital purposes, a new program, or ongoing needs. More information on how the funding is used may help us to better understand how government funding affects private giving. We leave this issue, however, to another study.

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This article is based on Andreoni, J. and Payne, A., *Crowding Out: the effect of government grants on donors, fundraisers and foundations in Canada*, McMaster University Working Paper (www.economics.mcmaster.ca/documents/department-working-papers/2013-10.pdf).



NOTES ON THE STATISTICAL ANALYSIS OF THE DATA

To estimate the effect of government grants to these charities on private giving, we employ a statistical analysis that controls for several potential issues. First, not all charities are alike. They vary in their mission, the communities they serve, and their size. Because we observe the revenues for our charities over several years, we can control for these differences, by allowing for an individual charity average effect for giving. We can also control for changes in the areas in which the charities are operating using measures that capture changes to these areas in terms of the composition of residents in the areas. For instance, we control for the education level, income, age, and other characteristics of the residents. Finally, we also have to control for the fact that government decisions might reflect donors' perceptions. Given that donors are also voters, if there is a change in perspective by voters, we might expect this to be reflected in government funding.

¹ We use 2002 as the base year.

² In Canada, all taxpayers can reduce their tax liability through a non-refundable tax credit that is a proportion of the tax-receipted donations given to registered charities.

³ For example, if a charity hosts a gala dinner, the ticket price for the dinner typically does not qualify for a tax receipt.