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Philanthropy in the welfare state

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Summary

There is a wide array of studies dedicated to the idea that increasing levels of financial government support “crowd out” charitable giving, and that decreasing government support leads to more giving. However, the validity of the crowding-out hypothesis is yet unsure. Much of the evidence comes from laboratory experiments in behavioral economics, while sociological studies tend to find zero correlation on average. This dissertation aims to bridge the gap between behavioral economics and sociology by identifying and examining mediating and moderating factors that may explain the diversity of findings in the literature. It does so by adopting a multi-method approach, including both experimental and non-experimental research designs. In the crowding-out literature, it is the first to explore cross-country data on individual amounts donated to nonprofit organizations, the first to examine longitudinal survey data, and the first to carry out a content analysis on news media.

Generally speaking, the empirical evidence for the crowding-out hypothesis is weak. Analyses on cross-country data, a panel survey and scenario questions find either no correlation or positive correlations between government support and charitable donations across the board.

Data from the Netherlands do not show support for the argument that the fundraising behavior of organizations partly explains the association between government support and charitable donations. The analyses do suggest that in some contexts, government support serves as a signal of the quality of a charitable cause.

Charitable giving is most likely to substitute government support in the field of nature conservation. The strongest evidence for a positive association between government support and charitable donations, on the other hand, is found in the fields of environment, education and research, and international aid. Findings on health and social services are ambivalent. The results show substitution between subsectors, supporting the argument that government support in health and social services drive donors to “expressive” subsectors like international aid and the arts.

The availability of information is a prerequisite for people to change their giving behavior after changes in government funding. Although this might seem like stating the obvious, the role of information is largely overlooked in the academic debate. Changes in government support are often not covered

in news media, making it unlikely that they will affect donations. Providing citizens with information about actual budget cuts might increase an organization's donor base with over twenty percent.

Furthermore, not all social groups are equally responsive to changes in government support. Citizens who are higher educated, who have stronger prosocial values, who have more confidence in charitable organizations and who are more frequently solicited for charitable contributions are more likely to compensate for reductions in government funding. Those with a high empathic concern and high trust in the government are less likely to increase donations after government budget cuts. When faced with decreasing government subsidies, fundraisers might use this information to target specific social groups in order to increase fundraising income.

For policy makers, the take-away message is clear: be careful with budget cuts if you aim to encourage private funding of a flourishing nonprofit sector. Even if charitable giving increases, it can never make up for reductions in government support. Yet, in specific circumstances, budget cuts can be used to draw citizens into donating. Consulting nonprofit organizations, examining the policy context and taking notice of the available research can shed light on the possible consequences of budget choices.

In sum, empirical evidence for the crowding-out hypothesis is not convincing and it is only in specific circumstances that charitable donations can substitute public funding. Across the board, charitable donations and government support are not substitutes and should not be treated like that by policy makers and nonprofit professionals.