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## Philanthropy in the welfare state

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# Conclusion

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**Partners, not substitutes**

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Ever since Alexis de Tocqueville published his seminal *De la démocratie en Amérique* (1790 [1840]), conservative thinkers have proposed that extensive governments crowd out civic engagement. The idea is appealing and still resonates in political debates on the consequences of policy interventions. In academic research, too, the crowding-out hypothesis has been studied extensively in economics (Andreoni, 1993; Andreoni & Payne, 2003, 2011; Korenok et al., 2014), sociology (Gesthuizen et al., 2008; Kääriäinen & Lehtonen, 2006; Khanna & Sandler, 2000; Van Oorschot & Arts, 2005), public administration (Brooks, 1999, 2000a, 2000b, 2003a, 2003b, 2004; Horne et al., 2006), fiscal studies (Heutel, 2014; Hsu, 2008; Payne, 2001; Sutter & Weck-Hannemann, 2004) and philanthropic studies (Hughes et al., 2014; Kim & Van Ryzin, 2014). This thesis examined the relationship between financial government support and charitable giving to nonprofit organizations, while exploring mediating and moderating factors that may explain its contextual dependence.

## SUMMARY OF FINDINGS

The empirical work in this dissertation provides elaborate answers to the questions *to what extent, how, where, under which conditions and among whom* government support affects charitable donations.

### **RQ1: To what extent does government support affect charitable donations?**

Across countries (Chapter 1), this thesis finds zero correlation between government support and amounts donated, and a positive correlation between government support and the number of donors. However, the cross-sectional nature of this study does not tell us much about the causal relationship. The meta-analysis in Chapter 2 shows that the empirical evidence for the crowding-out hypothesis in previous studies is weak. Much of the evidence comes from laboratory experiments, while findings outside the research laboratory tend to find zero correlation or positive correlations. This causes doubts about the validity of the crowding-out hypothesis in real-life situations. This is confirmed by the results on data from the Netherlands in Part II of this dissertation. Chapter 3 shows that citizens typically are not provided with information about actual changes in government support. Looking at donations to specific organizations over time, there is no correlation across

all organizations in the sample and large differences between organizations. The studies in Chapters 4 and 5 provide respondents with information about (potential) budget cuts, which resembles the assumption of full information that is made in most experimental studies (see RQ4 below). When asked about their change in charitable giving in response to budget cuts, only 8% of citizens indicate that they would increase donations (Chapter 5). The strongest support for the crowding-out hypothesis is found in the survey experiment in Chapter 4. Providing citizens with information about budget cuts might increase an organization's donor base with over 20%.

In theory, the null findings in non-experimental research can also be due to a non-linear relation between government support and private donations. When organizations receive a small part of their funding from the government, it might be perceived as a signal of quality which encourages donations; when they are largely subsidy-dependent, this might be perceived as undesirable, which drives out donations (Brooks, 2000a, 2003a; Borgonovi, 2006; Nikolova, 2015). In Chapter 3 of this dissertation, an interaction effect was tested between government support and the degree to which organizations are subsidy-dependent, which was not statistically significant. Chapter 5 shows that when respondents are randomly presented with 5%, 10%, 20% or 33% budget cuts, the number of donors increases with the size of the cut. Thus, the data show no indication of non-linearity.

Another question is whether *increases* in government support have the same effect as *decreases*. Originally, the crowding-out hypothesis is formulated in an era in which welfare states were developing. Most studies formulate crowding-out as a simple negative relationship between government support and charitable donations, with increases (decreases) in the first associated with decreases (increases) in the latter. Yet, it could be that government expansion depresses civic engagement, while budget cuts do not lead to increases in private giving. This is not supported by the data in this thesis. On the contrary, the survey experiment in Chapter 4 shows that crowding-out is slightly stronger after decreasing government support (leading to more donations) than it is after increasing government support (leading to less donations).

In sum, the results show that the validity of the crowding-out hypothesis is highly context-dependent. The vast majority does not change its giving behavior in response to changing government funding. This is in line with surveys in which more than 7 out of 10 people say they would not change their donations as a reaction on changing government funding (Horne et al., 2005;

Shah et al., 2015). Across the board there is no clear direct association between government support and charitable donations, but there is evidence that specific groups of people, under specific circumstances, are responsive to government policies.

### **RQ2: How does government support affect charitable donations?**

Regarding mediating processes, this thesis does not find support for the idea of “*fundraising crowding-out*” which has been suggested with organizational data from the US (Andreoni & Payne, 2003, 2011). Fundraising efforts lead to higher private income, but there is no negative relationship between government funding and fundraising expenditures in the Netherlands (Chapter 3).

*Information* can explain associations between government support and charitable giving (Chapter 3). In some cases, changes in government policies are reported in news media, which leads to a larger availability of information about nonprofit organizations and their goals. How this process works depends on the context, however. Often, media coverage is rather unrelated to changes in government support. Media only report on the public funding of nonprofit organizations when government policies suddenly take a different direction or when there is another newsworthy feature. An example are newspaper articles about the Salvation Army. This organization appeared in the media in relation to government subsidies mainly when there were debates about whether an organization that possibly discriminates in its employee policy (the Salvation Army aims to hire Christians only) should be funded with public money. This example shows that media coverage follows incidental issues rather than long-term trends. Hence, the mediating effect of information highly depends on the content. In the case of Oxfam Novib, a large budget cut on international development grants was widely reported in the news, followed by a decrease in charitable donations. This can be taken as explorative evidence for the argument that government funding serves as a sign of quality – and thus, that a decrease in government support signals a loss of quality (Handy, 2000; Heutel, 2014; Schiff, 1990).

### **RQ3: Where does government support affect charitable donations?**

Across different *nonprofit regime* types (Salamon & Anheier, 1998), this thesis finds relatively high proportions of charitable donors in countries with high government spending. Within countries, however, government support does not have similar effects in different *nonprofit subsectors*. Overall, charitable giving is most likely to substitute government support in the field of

nature conservation. The strongest evidence of crowding-in, 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. These are complex subsectors with a wide variety of organizations which are funded by different types of government grants, contracts and project subsidies. Although the overall relationship between government support and charitable giving is unclear in these sectors, Chapter 4 showed that it is possible to attract donors with information about specific budget cuts.

Furthermore, the results of this thesis provide support for the argument that there is substitution between different parts of the nonprofit sector. Budget cuts may draw donors from other organizations or subsectors. On the macro level (Chapter 1), government spending on health and social protection seem to drive donors towards “expressive” subsectors like culture, environment and international aid. This effect has been labeled “philanthropic displacement” (Sokolowski, 2013) or “crosswise crowding-in” (Pennerstorfer & Neumayr, 2017). In more precise analyses, there is evidence that decreasing support to one organization partly attracts donors who otherwise would have donated to other organizations (Chapter 4), and that donors who previously donated to service organizations are more likely to increase giving after budget cuts in expressive subsectors (Chapter 5).

#### **RQ4: Under which conditions does government support affect charitable donations?**

*Information* is not only a possible mediating variable (RQ2), it can also be a moderating variable. The availability of information is a prerequisite for people to change their giving behavior after changes in government policies. Although this might seem like stating the obvious, the role of information is largely overlooked in the debate.

Previous findings largely depend on the assumptions that are made in the research design (Payne, 2009; Ribar & Wilhelm, 2002; Tinkelman, 2010), which is confirmed by the meta-analysis in Chapter 2. In experimental research designs, a 1 Dollar increase in government support is associated with a 0.64 decrease in charitable donations, while non-experimental studies that use archival or survey data find zero change in donations on average. Although this difference may be due to the number of other donors in different research designs (Ribar & Wilhelm, 2002) or the endogenous nature of government support (Payne, 2009), it is likely that a large part of the difference can be attributed to the assumption of full information which is present in

the laboratory experiments, but not in most field research.

Information about government funding can be used to increase donations. Chapter 4 showed that providing citizens with information about budget cuts might attract donors, both those who otherwise would donate to other organizations and those who otherwise would not donate. However, in many circumstances citizens rely on other sources than fundraising materials in making their donation decision (Li & McDougle, 2017; McDougle & Handy, 2014), which makes it harder to diffuse information. News media often do not reflect actual changes in government support, which makes it unlikely that donations change in most daily-life situations (Chapter 3).

### **RQ5: Among whom does government support affect charitable donations?**

Responses to changes in government support vary across social groups. In this dissertation, there is some evidence that the higher educated and the wealthy are more responsive to changes in government support. With *resources* being a well-known correlate of civic engagement in the Civic Voluntarism Model (Verba et al., 1995) and in donor profiles (Wiepking & Bekkers, 2012), they are also an important factor in explaining which social groups are likely to respond to changing government support (Chapter 5). It could be that the costs of changing donations are lower for people with more resources, so that they are better able to change their giving behavior after changes in external circumstances. It could also be that the better-off are the ones who feel most responsible for providing public services in situations of little government presence.

The role of prosocial *values* is not straightforward. An extensive analysis on background characteristics based on the Civic Voluntarism Model (Chapter 5) shows that citizens with a higher generalized confidence in charitable organizations are more likely to substitute change in government funding with their donations. In nonprofit subsectors where organizations mainly provide services, those with stronger altruistic values are more likely to increase giving. The joy of giving is positively related to the willingness to increase charitable giving after government budget cuts in service subsectors.

Values might also suppress crowding-out effects. Citizens with a high trust in the government are substantially less responsive to changes in government support (Chapter 5). In different areas of the nonprofit sector, empathic concern is found to be not or even negatively related to the willingness to increase donations after budget cuts (Chapters 4 and 5). This suggests that

low-empathic citizens, who are less likely to donate, can be drawn into donating through extrinsic incentives.

Some findings in this dissertation seem to contradict each other. While those with high altruistic values say they would be more likely to increase donations after budget cuts (Chapter 5), their donations to specific organizations are positively related with government funding (Chapter 3). A possible explanation is the availability of information. When not informed about the changes in government subsidies to specific nonprofit organizations, those with high altruistic values tend to follow the government. But when they are informed about the actual consequences of government funding for nonprofit organizations, which evokes the awareness of need, they are inclined to compensate for budget cuts. More research is needed to test such possible interactions between information and values.

## LIMITATIONS

This thesis suffers from a few important limitations. First, the assumption that government support is an exogenous variable is problematic in most empirical analyses. As stated by previous evaluations of evidence on the crowding-out hypothesis (Payne, 2009; Steinberg, 1985, 1997; Tinkelman 2010), endogeneity is a major concern for empirical crowding-out research. Government support and private donations may be jointly determined by unobserved variables like voter preferences and (changes in) the need for public goods, which would upwardly bias the relationship between the two. Also, there might be reversed causality when policy makers respond to levels of philanthropy in society (Sav, 2012). Especially the cross-country study in Chapter 1 does not allow for strong statements about the causal effects of government spending. It could very well be that social preferences for redistributive justice in a country have led, through the political system and the creation of institutions over time, to expansive welfare states. The same preferences for justice are associated with prosocial behavior outside the political sphere, because people donate to organizations that work on these issues. If this holds, the size of the government and philanthropic donations are both expressions of the same values.

The comparative analysis should be taken as a descriptive analysis. Yet, no matter how the causal relation is, the positive correlation between social welfare expenditures and donations to environment, arts and international



aid indicate that countries with a strong domestic welfare state generally experience high donations to “expressive” subsectors, as opposed to expectations as formulated in the traditional crowding-out hypothesis.

The longitudinal analysis in Chapter 3 and the survey experiment in Chapter 4 are better suited to address the issue of causality. Chapter 3 looks at changes over time and takes a lagged measure of government support, with findings being highly dependent of the nonprofit sector and individual donor characteristics. The experimental design in Chapter 4 shows that, when providing a random group of people with the right information, budget cuts can attract donors.

A second limitation is that the causal model does not provide a comprehensive picture of all possible moderating and mediating mechanisms. Regarding moderating variables, there are many conditions under which charitable donations might be affected by government support. To improve further research in this field, this dissertation offers a list of possible moderators in the Appendix.

Regarding mediating variables, important avenues for further research are the possible effects of government support on values and resources. (Neo-)institutionalist theories predicting more prosocial attitudes in extensive welfare states (Kääriäinen & Lehtonen, 2006; Rothstein, 1998; Svallfors, 1997) might offer an explanation for positive correlations between government support and charitable donations, especially between countries. The research designs in this thesis did not allow for testing the effect of welfare state efforts on values and resources, but future research could investigate such mechanisms. Furthermore, it would be interesting to further examine the mediating role of information. This dissertation measured information in newspapers, but government support can also signal information through social media, campaign materials and other channels.

A third issue is the limited generalizability of the results across countries and organizations. This thesis contributes to the literature by adding evidence on the relationship between government support and charitable donations in the Netherlands, but it is not sure to what extent these findings are applicable to other contexts. Different forms of civic engagement has different meanings across countries. Gesthuizen, Scheepers, Van der Veld, and Völker (2013) showed that informal and formal social capital are complementary forms of engagement in Western Europe while they are compartmentalized in the largest part of Eastern Europe, calling “to re-address explanatory questions relating macro-characteristics of national institutions

[...] to individual level pro-social behavior” (Gesthuizen et al., 2013, p. 920). Although the comparative study in Chapter 1 included some non-Western countries, this thesis paid no attention to the developing world, in which the proposed mechanisms might play out differently. Chapters 1 and 2 examined whether crowding-out effects are systematically different in different country contexts, but the samples of countries are not large enough to provide conclusive evidence that context does not matter.

Since the effects of government support varies between organizational contexts, the findings are not easily generalizable to all nonprofit organizations. Analyses in Chapters 1, 3 and 5 show that there are strong differences between nonprofit subsectors, which is supported by a systematic review of findings from organizational-level studies (Lu, 2016). This questions the generalizability of the findings in Chapter 3, which is restricted to a sample of 19 organizations, and Chapter 4, which examines only one organization. The scenario questions in Chapter 5 provide more valid estimates of differences between subsectors of the nonprofit sector.

A fourth limitation is the limited operationalization of welfare state indicators and civic engagement. This thesis only examined individual private donations. To assess a complete picture of the consequences of changes in public funding for nonprofit organizations, it would be helpful to incorporate the changes in income from foundations, corporations, fees and commercial activities. Besides fundraising as possible mediator in Chapter 3, it would be interesting to look at the effects of public funding for organizations in terms of financial stability, mission drift, employee policy and other governance strategies (Froelich, 1999; O’Regan & Oster, 2002; Verschuere & De Corte, 2014). Also, further research should examine voluntary contributions of time (volunteering), which can be another substitute for government funding (Day & Devlin, 1996; Simmons & Emanuele, 2004; Stadelmann-Steffen, 2011).

On the independent variable side, unconditional financial government support was the only welfare state indicator in this thesis. Tax incentives, which might be perceived as a form of conditional government support, have large consequences on private giving, but are not considered here. Also, other aspects of the welfare state, like de-commodification and institutional history, can have different effects on civic engagement (Ferragina, 2017).

A fifth limitation is that the numbers of donors and the amounts donated to specific organizations or sectors under study were low. The low baselines make it less likely to observe substantial changes and to obtain statistical

significance for the results in the survey studies. Furthermore, citizens might behave differently in situations where the stakes are higher. Decisions with an earned reward of a few Euros (Chapter 4) and a hypothetical change in donations (Chapter 5) are not necessarily generalizable to real and larger giving decisions with actual consequences for one's own budget. More research should test the external validity of the results from these studies.

## IMPLICATIONS FOR THEORY

Sokolowski (2013) refers to Max Weber's theory of social action to explain the relationship between government support and charitable donations. Weber (1922[1987]) argued that formal rationality takes over large parts of modern bureaucratic societies, driving out traditional, value-driven behavior. Philanthropy is an area where both rationalities still exist. Charitable donations are often an expression of values, which is consistent with Weber's notion of *Wertrationalität*. Under specific circumstances, however, *Zweckrationalität* can become more dominant, which makes donors consider the consequences of their contributions.

The literature on crowding-out is dominated by the individual-level explanations of altruism and warm-glow in economics, and the macro-level explanations of neo-institutionalism and welfare state theory in sociology. This dissertation goes beyond established explanations and proposes different individual and contextual factors that drive the relationship between government support and charitable giving. Individuals, organizations and countries are heterogeneous, which makes it desirable or even necessary to formulate arguments for different effects in different contexts. Based on the insights in this dissertation, I provide four propositions for further theory building.

*Proposition 1: Information is a prerequisite for government support to affect charitable donations.* While behavioral experiments often aim to make predictions about macro effects, they generally fail to take the availability of information into account. Citizens adapt their giving behavior only when they are aware of external changes like changing government support.

Theories on civic engagement in relation to government activities can learn from public administration research, where an increasing number of studies pay attention to the effects of government transparency on trust, legitimacy and participation (Cucciniello et al., 2017). It has been proposed,

for example, that government transparency has stronger effects on political trust among citizens with lower levels of prior knowledge (Grimmelikhuijsen & Meijer, 2014; Grimmelikhuijsen & Klijn, 2015; Tummers, Weske, Bouwman, & Grimmelikhuijsen, 2015) and that citizens who initially underestimate levels of government spending change their policy preferences more strongly when exposed to actual information (Lergetporer et al., 2016).

Potential donors are always solicited with a different framing, leading to different decisions. The wording in the survey experiment in Chapter 4 included the phrase “The charities could use your support”, which might have primed an encouraging effect of the financial information that followed. Other ways of framing might lead to different behavioral responses. It could be, for example, that information that shows (potential) losses following budget cuts are most likely to increase giving (Lee, Fraser, & Fillis, 2017).

*Proposition 2: It is not the joy of giving, but specific intrinsic values that make donors less responsive to government support.* This thesis finds the joy of giving to be positively related to crowding-out, which questions “warm glow” (Andreoni, 1990) as the most appropriate term when explaining the part of donations that is not responsive to government support. Theories on charitable giving should go beyond the concept of warm glow and distinguish types of donors based on the values that drive them to give. This would provide a sociological basis for explaining why social groups are responsive to government policies and other groups are not, besides the economic models that dominate the academic literature.

Some first ideas in this direction are provided by the findings in this thesis, which suggest that some moral values are associated with crowding-out, but that citizens with high trust in government and high empathic concern are *less* sensitive to changes in government support. Responses to changing government policies might depend on how citizens perceive government responsibilities. Who thinks that the government should provide services in a certain area is not likely to increase charitable giving to organizations in this field. This could explain why crowding-out is unlikely in the education subsector, which is, at least in the Netherlands, widely regarded as an area for which the government should take responsibility.

*Proposition 3: There is a hierarchy of charitable causes.* Philanthropy research traditionally appraises the diversity of the philanthropic sector. Every donor has his or her own preferred charity and every charity should be equally valued. However, some causes are more popular than others. Body & Breeze (2016) made an important contribution by exploring the concept

of “unpopular causes”, drawing attention to the question “why some causes appear to more easily attract widespread support whilst others struggle to raise any significant donated income” (Body & Breeze, 2016, p. 58).

In the Netherlands, the causes that are named as most important for society to some extent resemble the top causes to which people donate (Bekkers et al., 2017). The cause that is most often named as important – health – is also the area to which most people donate. Health donors often know someone who suffered from a disease (Bekkers, 2008). The two causes that are least mentioned as being important for society – culture and sports – are also the subsectors with the lowest percentages of donors. This almost perfectly correlates with the areas in which citizens desire government influence. Education is an exception. 56% of the Dutch thinks that education and research are important for society, but only 12% donates to organizations in this area. In the Netherlands, where education is largely state-funded, it is likely that citizens think this is government responsibility. Furthermore, it could be that educational institutes have no need for fundraising because their level of services is on a sufficient level with the current (public) funding (Body & Breeze, 2016).

We might speak of a hierarchy in charitable causes. Of course, different people have different preferred causes (Bennett, 2003; Wiepking, 2010), but in general, areas of domestic service provision, like health, education and social services, are currently perceived as the most important areas for society. These areas are characterized by an instrumental rationale, with a focus on the ultimate output of nonprofit organizations (Frumkin, 2002). Economic development and more extensive welfare state arrangements in social service areas could drive donor priorities towards other causes. When service provision is sufficiently funded, citizens may shift their attention to more “expressive” fields like arts and culture. This is consistent with Maslow’s (1954) hierarchy of needs and Inglehart’s (1997) theory of the increasing social and political importance of postmaterialistic values in Western societies.

An additional argument is that different types of goods are provided in different parts of the nonprofit sector. Klammer (2004) argues that the arts is a common good rather than a public good, and that donations are an expression of values rather than “giving”. For environment and international aid, it holds that the public goods provided (e.g. a clean environment, less world poverty) can only indirectly be enjoyed. Budget cuts have salient consequences for public service provision in one subsector (e.g. social protection, where the recipients can be your neighbors), whereas they remain largely

unnoticed in the other (e.g. international aid, where the recipients live in countries far away). Evans, Evans & Mayo (2017) argue that international aid and culture are luxury goods, with the total amount of donations increasing faster than a society's income, while health and public benefits are inferior goods, with donations decreasing with increasing income. When a country gets richer, there is less demand for social protection because the bottom of society is better off while at the same time, the supply for "luxury goods" increase.

The causal relations between economic development, welfare state arrangements, individual values and charitable giving are complex and often reciprocal. Yet, large cultural changes have been detected from traditional societal structures to a modern rationality-bureaucratic society (Weber, 1922[1987]) and from modernization to postmodernization (Inglehart, 1997). If it is true that "expressive" causes become increasingly important, this would have large consequences for the future of the nonprofit sector.

There is surprisingly little attention to explanations of differences between charitable causes in the philanthropy literature, and this dissertation provides important suggestions for theory building in this regard. The hierarchy of causes could explain why "charity begins at home", meaning that most citizens have a preference for local rather than international charities (Knowles & Sullivan, 2017). It can also explain why countries with high service expenditures tend to have more donors in subsectors like culture and international aid (Chapter 1). For the future, this argument predicts that higher government expenditures in health, social services, education, international aid, environment, nature conservation and animal welfare would in the end lead to increased donations to the most "unpopular" and "unimportant" causes, like culture and sports.

*Proposition 4: Crowding-out is most likely to occur in the liberal welfare state regime type.* Looking at the scatter plots in Chapter 1, it seems that the United States and the United Kingdom are outliers in the sense that they have moderate government spending and relatively high levels of philanthropic donations. In countries other than the US and the UK, a positive correlation is found between government support and charitable donations. This leads to the prediction that crowding-out depends on the welfare state context. No systematic differences are detected between welfare state regime types, which can be due to the small sample of countries. Still, the signs are in the expected direction, with crowding-out being most likely in the liberal welfare state regime type which is characterized by relatively low government

influence. Especially the US is a country with a culture of giving that is very different from European countries. Three lines of reasoning can explain why crowding-out is more likely in the US and other liberal welfare states than in the Netherlands.

First, the US has a highly professionalized fundraising regime (Wiepking et al., 2016). The hypothesis of “fundraising crowd-out”, which states that organizations are less inclined to invest in fundraising when they obtain higher revenues from governments, received considerable support in samples of American nonprofit organizations (Andreoni & Payne, 2003, 2011; Hughes et al., 2014) but none in the Dutch context (Chapter 3). It could be that organizations in less developed fundraising regimes have lower capabilities to change their fundraising efforts as a response to changing government support. This could also partly explain differences between organizations within countries. Large organizations with professional fundraisers have more fundraising capacity than small, volunteer-based organizations. A recent evaluation of policy shifts in the Dutch cultural sector shows that larger organizations are better able to increase private income after budget cuts (Franssen & Bekkers, 2016).

More developed fundraising regimes are also characterized by more availability of information about nonprofit organizations. In the US, there are specialized media on the nonprofit sector like *Nonprofit Quarterly* and *The Chronicle of Philanthropy*, there are watchdogs like Charity Navigator, and there are many academic and non-academic research institutes with a unique focus on the voluntary sector, including the Urban Institute’s National Center for Charitable Statistics. Although similar initiatives exist in countries like the Netherlands, they are not as large and professionalized as their American counterparts. Media, watchdogs and research centers may publish publicly available information about nonprofit organizations which is, as argued in this thesis, a prerequisite for citizens to adapt their donations as a response to changing government support.

Second, citizens in liberal welfare state regimes have a more critical attitude towards government interventions (Andress & Heien, 2001; Svallfors, 1997). Citizens who are convinced that the government is responsible for reducing income differences and providing shelter for the homeless could be less inclined to donate to social service organizations, even if public funding is reduced. Citizens who think this is a shared responsibility between governments and nonprofits, on the other hand, are more likely to adapt their donations depending on the level of government intervention. If such atti-

tudes are partly shaped by the welfare state regime (Rothstein, 1998), this could explain why crowding-out differs between countries.

A third explanation could be that the marginal utility of donations is smaller in liberal welfare state regimes. It has been argued that the marginal increase in well-being derived from income is high for poor countries but diminishes with economic prosperity (Inglehart, 2000). Welfare states differ in size and inclusiveness, and thus in their efficacy when aiming to alleviate problems like poverty, hunger and homelessness. If social needs are higher in more restrictive welfare states, an additional dollar of contributions to alleviate those needs has a higher value for recipients compared to countries with extensive welfare states and less urgent social needs. It is likely that donors are more inclined to compensate for changing government support when the stakes are higher.

An important question here is the extent to which differences between countries are due to the composition of their population or due to macro characteristics. Crowding-out effects vary across individuals within countries, but also between countries. Differences between different types of welfare states have large historic continuity. To some extent, however, they may change over time, when a series of policy reforms adapts the structure of the welfare state. A structural reduction in the scope of the welfare state could lead to a different association between government support and charitable giving. The empirical estimates from the Netherlands in Chapters 3 to 5 are close to 0 across the board, which may become more strongly negative when policy choices brings the country closer to the liberal regime type.

## **IMPLICATIONS FOR RESEARCH**

The academic literature on crowding-out is divided by methodological preferences. Researchers from behavioral economics carry out laboratory experiments in which participants are randomly assigned to different conditions of tax-funded government support. Given the problematic assumption of government support as an exogenous variable in survey and field research, such experimental designs are arguably the best way available to estimate causal effects.

If endogeneity explains why experimental findings differ from other findings, we would observe that regression models and specifications that effectively deal with this issue produce stronger crowding-out estimates than



other regression models. The results of the meta-analysis in Chapter 2 do not confirm this line of reasoning. Neither fixed-effects or first-difference specifications nor the use of instrumental variables are robustly linked with stronger crowding-out. It is striking that similar variables are used as instruments for government support or private giving in different studies, which violates the assumptions of valid instrumental variables (Morgan & Winship, 2007). Researchers should be very careful in applying these techniques, and preferably use a range of different models and specifications to estimate the effect of government support in a certain dataset.

It is more likely that the assumption of full information, which is almost always made in experimental research, explains the large difference between experimental and non-experimental findings. The research in this thesis shows that this assumption is not realistic in daily life. News media often do not cover actual changes in government support, which makes it unlikely that those changes lead to changing donor behavior.

Empirical crowding-out estimates from the Netherlands in Part II of this dissertation are close to 0. The results from the survey data confirm the average null finding in non-experimental research as found in the meta-analysis (Chapter 2). The strongest coefficient is found in the information experiment in Chapter 4, with information about budget cuts leading to a 17% increase in the total amount donated. This is still far from the average experimental finding of  $-.64$  in previous studies (Chapter 2). An explanation could be that respondents in the survey experiment, in contrast to most laboratory experiments, are not aware of being part of an experiment. Also, the government contribution is presented as an exogenous factor, while most lab experiments present it as a mandatory contribution from the participant's endowment. Making respondents aware of a government tax is likely to encourage crowding-out (Eckel et al., 2005).

The systematic analysis of findings and assumptions in different research contexts in this dissertation adds to the ongoing debate on the validity of findings from laboratory vs. field data (Camerer, 2015; Henrich et al., 2010; Levitt & List, 2007). Analyses on organizational data or survey data generally fail to find crowding-out not only because of causality issues (Payne, 2009), but also because they look at people who are not aware of every change in government policies. Media coverage follows incidental issues rather than long-term trends. This thesis strongly encourages future experimental and non-experimental research to take the role of information into consideration. One avenue of future research here is the framing of such information,

because different ways of phrasing can have large consequences for behavioral decisions (Meier, 2006). If research has the aim to make valid statements about social processes in daily life, the availability and framing of information should be included in empirical research. Information as provided by mass media, social media, face to face contacts and fundraising materials can all be relevant in influencing giving decisions.

Besides information, crowding-out effects depend on the organizational context and individual characteristics. Future research should examine differences between nonprofit subsector as well as possible substitution between subsectors (Sokolowski, 2013; Pennerstorfer & Neumayr, 2017) and between organizations (Ek, 2017; Reinstein, 2006, 2007). Also, it should examine individual heterogeneity in responsiveness to changes in government policies. All possible moderating variables of the relationship between government support and charitable donations, as provided in the Appendix, should be systematically tested to examine their relative importance.

New research designs could overcome the methodological divide. While laboratory experiments might provide more valid estimates of causality, their external validity is low. Studies that use organizational revenue data, on the other hand, have their own problems. They often use an aggregate measure of income from private sources, making it impossible to make strong statements about the behavior of individual donors. This thesis offers important innovations in terms of research design. In the field of empirical crowding-out research, it is the first to carry out a cross-country analysis using individual-level data on amounts donated to nonprofits organizations (Chapter 1), the first to use longitudinal survey data (Chapter 3) and one of the few that explicitly examine the role of information (Chapters 3 and 4).

## **IMPLICATIONS FOR THE NONPROFIT SECTOR**

The main conclusion that government support will generally not crowd out private donations is a positive message for nonprofit organizations that are partly funded with public money, which is the case for many organizations in the Dutch nonprofit sector (Burger et al., 1999). The share of total revenues that comes from fundraising income is relatively small, and changes in charitable giving are not likely to compensate for reductions in government support. Other organizations, like the large health foundations that fund research on specific diseases, are almost exclusively dependent on private

income. Those organizations have to mobilize donors anyway to maintain their financial position, regardless of possible government subsidies. Different revenue streams often exist relatively separate from each other and substitution effects are only likely to occur when public services are concerned that are not perceived as sole government responsibility, nor as sole nonprofit responsibility. There is only a small share of total nonprofit revenues which is vulnerable to substitution between government subsidies and private donations. In such areas, nonprofit organizations can employ different strategies to be prepared for governmental budget cuts. One way is to diversify the revenue mix, which make organizations more financially stable (Froelich, 1999).

The results of this thesis show two additional ways in which nonprofits can cope with budget cuts. First, reductions in government funding can be used in fundraising materials to show possible donors the urge of donating. This dissertation showed how an appeal that included information on a budget cut on a large health organization increased the proportion of donors by 22%. This may attract those who otherwise do not donate, for example because they are relatively less empathic. An increase in the number of donors can be very fruitful in the long term, since donors who initially start with a small donation might develop into more generous donors (Sargeant & Lee, 2004). One fundraising strategy might be to show the consequences of budget cuts, because donations tend to increase when the (possible) losses after funding cuts are shown (Lee et al., 2017).

Second, fundraisers may target specific segments of possible donors who are more responsive to changes in government support. Those with a higher income, a higher education and more confidence in the charitable sector are more likely to increase donations after budget cuts. Those with high trust in the government, on the other hand, are less likely to compensate. Low-empathic citizens can be drawn into donating by informing them about decreasing subsidies. In the context of budget cuts, service provision organizations might reach out to possible donors who feel good by doing good, while organizations from expressive areas might approach those with more resources by appealing to their previous engagement with the cause. By applying such donor profiles in fundraising, organizations can be more effective in using information about budget cuts that appeal to certain social groups. While such strategies may attract new donors, they will not immediately lead to higher donations. Establishing stable donor relationships, for example through "Friends of" organizations where members receive material and non-mate-

rial benefits, is necessary for increasing fundraising income in the long term.

## **IMPLICATIONS FOR POLICY**

Two areas in which the Dutch government reduced spending during the last years are the arts and international development. In the arts sector, donations decreased despite an increased tax deductibility of donations to cultural organizations (Franssen & Bekkers, 2016). In international aid, budget cuts were followed by decreasing donations (Chapter 3). Evaluations of the Big Society policy in the UK noted that the combined efforts of governments and the voluntary sector did not reach the people who needed it most (Civil Exchange, 2015). This does not make a positive picture for policy choices in which the state reduces budgets while aiming to give a larger role to non-profits in providing public services.

The results of this thesis show that overall, charitable donations will generally not substitute public funding. Even if charitable giving increases, it can never make up for reductions in government support. The general advice for policy makers is clear: be careful with budget cuts if you aim to encourage private funding of a flourishing nonprofit sector. 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.

A first remark here is on equal collaborations between governments and private actors. Too often, nonprofit organizations are overlooked by central and local governments when revising policies (Schuyt, 2014), while there is often ample opportunity for collaborations with public, for-profit and nonprofit organizations to provide services (Ansell & Gash, 2008; Milward & Provan, 2003). In the city of Amsterdam, for example, an increasing number of volunteer-based organizations like De Regenboog, UVV and Burennetwerk employ buddy projects to help deprived people. With yearly government funding for each organization separately, an increasing number of organizations working in the same area poses the risk of lower government funding per organization, which they are not likely to make up with private donations. Here, collaborations between local government bodies and different nonprofit organizations can make a huge difference in the reduction of poverty and loneliness while using the available public money in a more

efficient way.

A second remark is on the substitution between different policy fields. Policy choices not only affect the area that they target, they also affect other parts of the nonprofit sector. Budget cuts may attract private donors who otherwise would have donated to other nonprofit organizations, which leads to undesired side-effects in seemingly unrelated areas. Interventions should not only target one area of society, but should be designed as inclusive policies that consider all possible economic, social and cultural consequences.

Third, policy makers could be more creative in finding ways to encourage donations. In March 2017, the Dutch Minister for Foreign Trade and Development contributed 2 million Euros to the national campaign targeting famine in Africa. Most likely, gestures like this help to signal the importance of a project, especially in an area like international aid. Government support may be used as “seed money” that encourages citizens to contribute to certain projects or organizations. An even more fruitful way to encourage private giving is through matching schemes, which have not been examined in this thesis but which are proven to be successful in increasing donations (Bekkers, 2015; Eckel & Grossman, 2003, 2008).

## CONCLUSION

Theo Schuyt (2010) refers to the core principles of the French revolution to characterize the role of philanthropy in a society. While the market and the state are driven by *liberté* and *égalité* respectively, the nonprofit sector is characterized by *fraternité*. While each of these three sectors have their own and unique logic and merit, they are strongly interwoven. Morally, the question which responsibilities can legitimately be left to philanthropic organizations is a recurrent one. In the important bundle *Philanthropy in Democratic Societies*, Beerbohm (2016) warns for the lack of solidarity and democratic control when providing public responsibilities through philanthropic organizations (the “free provider problem”). This makes a case for the argument that public good provision through philanthropy and through democratic governments both have a unique intrinsic value.

Welfare state expenditures are much higher than total amounts donated to nonprofit organizations. In the Netherlands and many other European countries, the provision of basic social services, like unemployment and basic health insurances, are in the hands of the government, which is largely

undisputed among citizens and politicians.

Moreover, there is large historic continuity in institutional arrangements and practices. In the 17th and 18th century Dutch Republic, fundraising was deployed through door-to-door collections, recommendations by celebrities, social information about other people's donations, incidental campaigns in the case of a natural disaster elsewhere, and charitable bequests in testaments (Teeuwen, 2014). It is surprising to notice that all these aspects are still relevant in today's philanthropic sector.

Tocqueville (1970[1840]) observed fundamental differences between modern democracies in terms of the individual freedom to control one's own environment. Small adaptations in welfare state arrangements in the course of a few years, however, are not likely to change the institutional practices or social preferences on which society is built. Across the board, charitable donations and government support are not substitutes and should not be treated like that by policy makers and nonprofit professionals. There is ample room for governments to invest in public services while collaborating with nonprofit organizations. In most contexts, governments and their citizens are partners in giving rather than substitutes.