

Does Foundation Giving Stimulate or Suppress Private Giving? Evidence from Canadian Charities

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Motivation

Classic Public Economics Question

How does the behaviour of one individual affect the behaviour of another with respect to the provision of public goods?

- charitable organizations as providers of public goods

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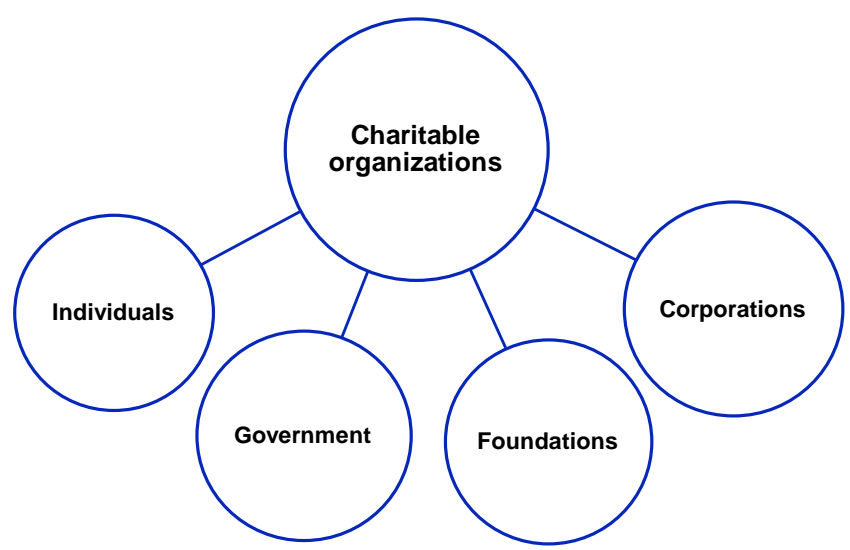
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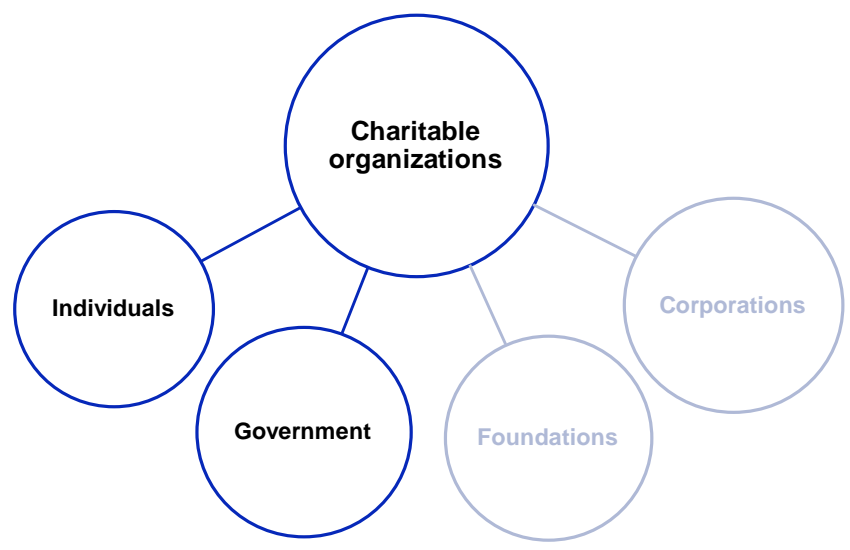
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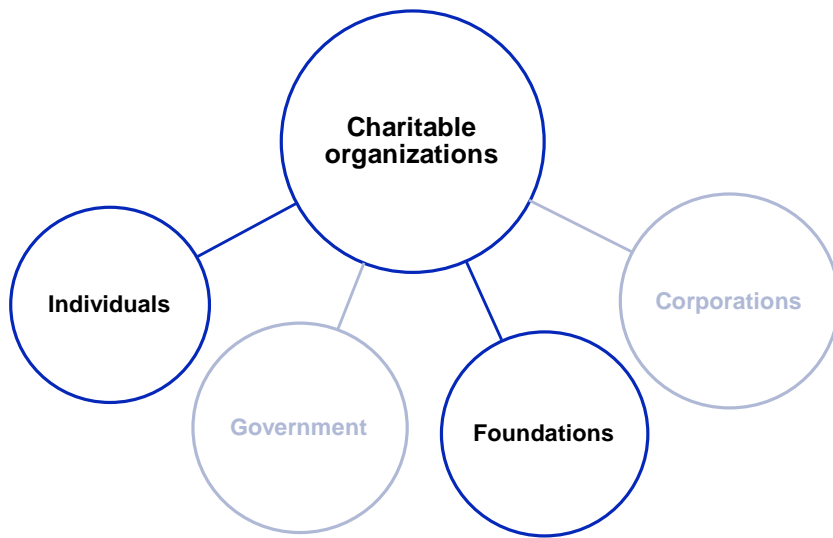
How Charitable Public Goods are Funded?



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2 Charitable Organizations

- | collect funds and provide goods and services
- | religious, arts, health, education, social welfare, community, other.

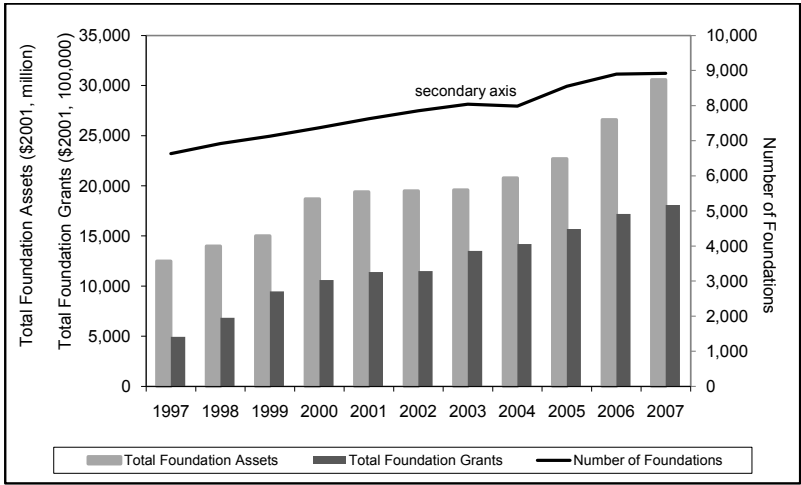


Figure 1. Assets, Grants and the Number of Foundations in Canada

Role of Foundations

Provide support to charitable organizations

- raise funds and distribute them to charitable organizations

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Have potential to influence the giving of others

- *At the international level:* Gates Foundation and private donors to Rotary International together have raised \$425 million for polio eradication.
- *At the community level:* St. Joseph's Healthcare Foundation (Hamilton, Ontario) and individual givers together have raised \$75 million for better hospital care.

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Does foundation giving affect private giving?

Relationship between Foundation and Private Giving

- Standard economic theory ! foundation giving and individual giving are substitutes
- Foundations as a source of charity-specific information (Rose-Ackerman, 1980)
 - review of charity grant applications (Andreoni, 2006)
 - operating in the same charitable area (Thornton, 2010)
 - long relationship with 'favourite' charities selected by individuals who establish foundations

Other signals of charity information: government grants (Connolly, 1997; Payne, 2001; Gottfried, 2008; Huetel, 2010; Andreoni and Payne, 2011); and social networks (Carmen, 2004; Scharf, 2011)

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Key Finding

- An additional dollar of foundation grants raises tax-receipted private donations on average by \$2.

Why Is It Important for Policy?

- Government of Canada looks to reform federal grants to charities. Charitable organizations would be encouraged to seek investments from individuals, corporations and foundations. (“In Harper’s Canada, will we give more of ourselves to get lower taxes?”, October 28, 2011)
- Tax incentives for charitable donations (Standing Committee on Finance, February 2, 2012)

Theoretical Model

Key Players

- Charitable Organizations
- Foundations
- Individuals

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Key Assumptions

- charitable organization provides a public good G of given quality a
- foundation cares about quality of the public good and chooses how much to donate
- n identical individuals care about amount and quality of public good but cannot observe quality, can only observe foundation donation

Theoretical Model

Charitable Organization

$$G = \sum_{i=1}^n g_i + f$$

Public Good is financed with *individual donations* and a *foundation grant*

- g_i is an individual donation
- f is a foundation grant

Theoretical Model

Foundation's Problem (Cushman, 1979)

- Foundation maximizes its utility
- Foundation chooses the amount of grant f to give to a charitable organization
- Foundation can observe the quality a of the charitable public good
- Foundation gives more to a public good of higher quality

Theoretical Model

Individual's Problem (Payne, 2001; Andreoni, 2006)

- Individuals maximize their utility
- Individuals choose the amount of donation g_i to give to a charitable organization
- Individuals do not observe the true quality of the public good
- Individuals infer about the quality of the public good from the foundation grant
- Individuals prefer more of the public good when it is of higher quality

Theoretical Model

Individual's Problem

The effect of foundation grants on private donations:

$$\frac{\partial g_i}{\partial f} = \square \text{Substitution Effect (-)} \square \text{Information Effect (+)} S 0$$

- **Substitution Effect:** higher foundation grant leads to smaller individual contributions because individuals care about the amount of the public good
- **Information Effect:** higher foundation grant leads to higher individual contributions because individuals care about the quality of the public good

Creation of Research Dataset: Source of Data

- Canada Revenue Agency (CRA) information returns filed by all registered charities (charitable organizations and foundations) between 1997 and 2007

Canada Revenue Agency / Agence du revenu du Canada

Place bar code label here

REGISTERED CHARITY INFORMATION RETURN

Section A: Identification

Guide T4033, Completing the Registered Charity Information Return, is available through our Forms and publications Web pages at www.cra.gc.ca/charities.

The Privacy Act protects all personal information given on this form, which is kept in personal information bank CRA PPU 200. The Canada Revenue Agency (CRA) will make this form and all attachments available to the public on the Charities Directorate Web site, except for information or data identified as confidential. All of the information collected on this form may be shared as permitted by law (e.g., with certain other government departments and agencies).

Remember: Even if the charity goes through an inactive period, you must continue to file information returns to maintain its registered status.

If you did not receive a barcode label to affix to the return, please complete the following:

1. Charity name: _____

2. Return for fiscal period ending: _____

3. BN/registration number: _____ RR

4. Web address (if applicable): _____

A1 Was the charity in a subordinate position to a parent organization? 1510 Yes No

If yes, please provide the name and BN/registration number of the organization.

Name: _____ BN (if applicable): _____

D3 Revenue:

Did the charity issue tax receipts for donations? 4490 Yes No

If yes, what is the total eligible amount of all donations for which the charity issued tax receipts? 4500 \$

Creation of Research Dataset: Core Dataset



Focus on *social welfare and community* registered charities:

- following the literature
- perceived small information effect
- greater reliance on foundation and private giving

- 1 **Private tax-receipted gifts:** all donations for which charities issue tax receipts
- 2 **Aggregate private donations** = private tax-receipted gifts + revenues from fundraising
 - 1 *revenues from fundraising:* proceeds from individuals when charitable organizations sell goods as part of their fundraising campaign (e.g., charitable event)
- 3 **Gifts from other charities:** grants from foundations and other charitable organizations

Table 1. Sample Restrictions

	Number of Char. Org.
Social welfare and community charitable organizations from 1997 to 2007	24,400
Exclusions:	
1. Always zero private tax-receipted gifts	3,951
2. Always zero 'gifts from other charities'	9,565
3. Always operate outside of Canada	413
4. Always inactive during the fiscal period	14
5. Less than 3 observations	410
Sample for merging with foundations data	10,047

