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What are the likely effects of the crisis on charitable donations?

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The lockdown, the recession and increased uncertainty are all likely to affect people's incomes and what they do with their money. That includes decisions about what they donate to charities – how much to give, which causes to give to, when to give and how to give.

Uncertainty about future health and economic outcomes as a result of Covid-19 and the government policy response is likely to change people's decisions about their charitable donations – how much to give, which causes to give to, when to give and how to give. Those decisions can only be understood after data on donations to a wide variety of causes have been tracked over a prolonged period of time, and naturally, we do not yet have such data.

Nevertheless, we can use the results from a limited number of peer-reviewed studies to speculate about how charitable donations might be affected by the crisis. We can also provide insights about short-term changes in donations from the monthly [UK Giving](#) survey (current to the end of April 2020) conducted by the Charities Aid Foundation (CAF).

What does evidence from CAF's UK Giving Survey and economic research tell us

The CAF survey indicates that so far there has not been a large change in the share of people who are donors: the percentage of donors in April 2020 was 34%, roughly the same as in April in previous years (2017-19). There is no evidence from economic research to suggest that the

crisis will create more givers. Economic theory would predict more givers if people were motivated to donate by some 'feel-good' factor – the 'warm-glow' of being a donor.

We do not know yet what is happening to the amount of money that donors are giving. But the lockdown and changes in disposable incomes stemming from the recession have implications for people's consumption choices, including their decisions about charitable giving.

One study finds that charitable giving is a 'normal good' – that is, people give more to charity in response to increases in income, and they reduce the amount they give in response to decreases in income ([Almunia et al, 2020](#)).

There have been some big shifts in donation behaviour. The CAF survey shows that in April 2020:

- While cash giving has rapidly declined, web and debit card giving have increased rapidly.
- Donations to 'Hospitals and hospices' went up by 14 percentage points relative to the April average for 2017-19 (35% compared with an average of 21%). A further 6% of donors used the 'other code' on the survey specifically to mention NHS charities, the NHS, feeding NHS staff, Captain/Colonel Tom Moore and hospices.
- Donations to children and young people were down by about 9 percentage points in comparison with the April average for 2017-19 (18% compared with an average of 27%). There was also a decline in giving for animal welfare and medical research.
- It is not clear yet whether giving to these other causes has been displaced by donations to health-related charities.
- Giving to overseas aid seems to be broadly unaffected so far, compared with 2019.

Shifts in donation behaviour after an unexpected event are consistent with evidence from economic research. One study looks at the effect of fundraising appeals on donations across different causes and time ([Ottoni-Wilhelm et al, 2019](#)). It finds that fundraising appeals lift total donations with increased donations received by charities launching the appeals.

What's more, they do not displace donations received by other, non-appeal charities. Indeed, other charities see an increase in their donations in the immediate aftermath of disaster appeals, but the immediate rise is entirely negated by a subsequent reduction in donations. Hence, disaster appeals bring donations received by other charities forward in time, but do not seem to boost or reduce them.

Changes in donation behaviour are driven by people's motives for giving. The jury is still out on how we can identify exactly what these motives are and how they interact with each other. Findings from the study of fundraising appeals can be rationalised if these initiatives trigger relatively more of a cause-specific warm-glow of giving:

- Whether giving to causes unrelated to the appeal increase or not then depends on whether the warm-glow of giving to those causes is a substitute or complement to the warm-glow of giving to the appeal-related causes.

- If the warm-glow is complements, we would expect to see an increase in donations to all causes.
- If they are substitutes, then donations to the appeal causes would increase and donations to other causes would fall.
- Complicating things even more is that people may also adjust their decisions about when to give, and so observing an increase in overall giving after an increase in need cannot simply be attributed motives for giving that exhibit warm-glow complementarity.

How reliable is the evidence?

The evidence is predominantly from CAF's monthly survey and studies in peer-reviewed economics journals, using high-quality administrative data. But there are not yet enough data or historical comparators to provide additional rigorous economic evidence.

Nevertheless, we can use basic economic principles to speculate further about the drivers of people's donation behaviour, and how those drivers might be affected by increased uncertainty about future health and economic outcomes.

How might spending decisions change in this crisis?

People's incomes have been affected by the lockdown and recession. Some have been able to continue fully working from home and may have experienced no change in their income. Others will have lost their jobs and will experience a period of unemployment. Others are able to work from home, but because of the general contraction of all sectors of the economy, they are not earning as much money as they did previously.

Along with changes in income, social distancing requirements have changed the composition of expenditures and amount of money that is being spent. The overall effect on people's disposable incomes is thus uncertain.

Changes in disposable incomes and private consumption have implications for people's consumption choices, as well as their choices about charitable giving. Whether donations increase or not depends on how people re-evaluate and make trade-offs among all of their spending decisions, not just those related to charitable donations.

The crisis is likely to have caused a structural shift in people's expectations and how they discount the future. Contributing factors include uncertainty around how long there will be pressure on health services and equipment, people's health concerns for themselves and their loved ones, how long it will take for a vaccine to be found, uncertainty about future financial market outcomes, and uncertainty about how the public finances will be brought to order.

It is not clear how these channels will affect people's donation decisions. Evidence from economic research tells us that more uncertainty should lead to more precautionary savings. Whether this means that people will give less is not clear.

Public funding, private contributions and tax incentives

The fact that public goods and services can be provided publicly (funded with tax revenue) and privately (with charitable contributions) raises questions that will be relevant when debates take place about how to remedy the public finances.

One question is whether privately provided public goods are substitutes for publicly provided public goods? The original rationale for tax-free private charity was that they are substitutes (for example, the Elizabethan Poor Laws 1601 – schools, hospitals, poor relief).

Is this still the case? If it is, then how effective is provision through tax incentives in comparison with provision through taxation – that is, would a reduction in tax incentives improve the budget?

Tax incentives for giving in the UK are offered at the basic rate of tax through Gift Aid. Higher-rate taxpayers can also claim a deduction on self-assessment tax returns equal to the amount donated times the difference between the basic rate of income tax and the higher rate.

Gift Aid is somewhat effective at achieving its goal of increasing charitable giving in the UK in that an additional £1 of money spent on Gift Aid will increase donations by an average of 37 pence. But it is also a weight on the public purse with annual cost of almost £2 billion and it is a weight on the taxpayer, with £47 being the estimated cost to a taxpayer of declaring donations (see [Almunia et al](#), 2020).

But there is more to tax reliefs for charitable giving than simple monetary considerations. Their benefits to wider society are enhanced in an immeasurable way since an individual's donation choices have intrinsic value. Indeed, the current system of Gift Aid offers reliefs to charitable giving that are too low from that perspective.

If private provision and public provision are not substitutes for one another, then should the government use tax incentives to support the minority interests of rich donors? (See [Giovannelli et al](#), 2019; [Horstmann and Scharf](#), 2008).

The answer is not obvious. Even if tax breaks result in more collective goods in aggregate and at a lower cost, the composition of provision is determined by a rich minority. This might not be such a bad thing when the public finances and economy are in good shape.

Why? The argument is that the political system is biased, which would give rise to a dictatorship of the majority. Subsidising minority tastes would offset this bias implying that government support of minority interests is 'good' for democracy. But in tough times, subsidising minority interests may not be politically or economically affordable. The majority might not want tax breaks being used to subsidise the pet causes of the minority.

One knee jerk reaction to this political conundrum could be for government to restrict tax reliefs to majority interests. But this would be a naïve response. It could fundamentally change the nature of what we regard as 'charity'.

Tax reliefs for civil society in the UK flow from the broad definition of charity, rather than being seen as a pro-active policy lever in their own right – having incentives tied to marginal tax rates, which are not easily changed at whim, acts as a deterrent for policy-makers that may develop mischievous intentions in this regard ([Giovannelli et al](#), 2019).

Restricting tax reliefs would also induce donors to respond by changing the composition of causes that they support and this might affect the budget in unintended ways. For example, if poodle pet care is a complement to cancer research in a rich donor's preferences, limiting relief to poodle pet care would cause the donor also to cut donations to cancer research, which might then mean that the latter would have to be topped up with public funding.

Effects of lockdown and social distancing

Charitable giving is also affected by things other than changes in income and need, or concerns for the future and for public funding. For example, the lockdown has restricted people's movement, making it difficult for them to use physical cash as a way of giving.

The CAF survey finds that since 2017, around half of donors on average use cash as a method of giving. It remains to be seen whether people's giving is changing with the changing nature of money, access to crowdfunding as a way of giving to charity and the proliferation of people themselves engaged in charity drives (for example, the [#CurtainUpInCrisis](#) initiative, which recruits young performers to showcase their talents in a 20-minute set while live viewers donate to the National Emergencies Trust Coronavirus Appeal).

We also know that the majority of giving takes place in social situations ([Scharf](#), 2014). Social distancing and the lockdown have completely disrupted these giving channels. Giving and charitable activities are likely to be channelled to local needs.

Along with this, because of both the recession and the government's bailout package, public finances will be strained for a while, and it is likely that government support for charities will dry up. This may happen comparatively more for charities pursuing activities not directly related to people's material wellbeing, such as museums and other cultural activities. But local communities may well pick up the slack, bringing back to life former prime minister Tony Blair's long abandoned Third Way of providing public goods and services.

What are the implications for the structure of the charitable sector?

It remains to be seen what are the effects of the current crisis on the distribution and number of charities – where they are located and how they break down by different causes. Some have argued that the Covid-19 crisis may lead to consolidation or increased collaboration in the sector.

There are few data in the short term to answer this question, but this will be a very interesting area to examine given the recent changes in donor behaviour. How the landscape changes is likely to depend on how charities view their own provision, their relative financial health and the attitudes of donors and institutional funders to causes, individual organisations and circumstances in each area (see [Perroni et al](#), 2019; [La Pointe et al](#), 2019).

There are also questions about which charities are most suited to respond to the pandemic. It is not clear at all that the large international disaster relief charities are well suited to deal with the particular domestic needs that have been created by Covid-19, although they may be well suited to dealing with the effects in other countries with different economies and needs.

Finally, a broader angle on all of this relates to the fact that charitable donations exist at the boundary between the private realm and the public realm. The pandemic may cause that boundary to be redrawn, not just over the short run but also possibly over the medium and long run. This is likely to mean different things for different kinds of charities.

Where can I find out more?

[Charities Aid Foundation Covid-19 Hub](#): CAF provides access to the latest funding, resources and insight to help charities struggling through the pandemic.

[Sweetened charity](#): *The Economist*, 9 June 2012.

[Wealthy give to charity to feel good, not avoid tax](#): *Financial Times*, 16 February 2018.

[Patreon, Kickstarter and the new patrons of the arts](#): *The Economist*, 18 December 2018.

[Peer-to-peer fundraising and 'relational altruism' in charitable giving](#): Kimberly Scharf and Sarah Smith examine giving behaviour for a large sample of peer-to-peer fundraising projects that individuals promoted to their Facebook friends.

Who are UK economic experts on this question?

- [Susan Pinkney](#), Head of Research at the Charities Aid Foundation, is a highly experienced market and social researcher, with particular expertise and interest in the charity sector.
- [Kimberley Scharf](#) is Professor of Economics and Public Policy and Head of the Economics Department at the University of Birmingham, works on the economics of charitable giving and social interactions, tax incentives for giving, and the effect of fundraising on giving behaviour.
- [David Reinstein](#), Senior Lecturer in Economics, University of Exeter. Research on charitable giving and other-regarding behaviour, social influences on giving, and anonymous contributions to public goods.
- [Sarah Smith](#), Professor of Economics, Bristol University, works on the economics of not-for-profit organisations.
- [Johannes Lohse](#), Lecturer in Economics, University of Birmingham, uses experiments to study voluntary cooperation, pro-environmental behaviour, and climate change mitigation.

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<https://www.coronavirusandtheeconomy.com/question/what-are-likely-effects-crisis-charitable-donations>

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