The Give and Take of Government Funding on Private Giving in the United States: Challenges for the International Subsector

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Nonprofit organizations rely on a variety of revenue sources to achieve their missions and maintain their program activities. Some organizations depend heavily on private giving, others on government funding, and still others on fees for services or products. Leaders at many organizations may believe that having a diverse portfolio will help them ride out difficult times when one area of giving decreases, leading to long-term stability (Froelich, 1999). Few nonprofit administrators, however, look at how these varied revenue sources impact each other.

However, there is evidence that government funding does impact private giving by way of “crowding.” Economic theory suggests two possible sides of the “crowding” phenomenon. Crowding in theory states that government funding encourages private donations. On the other hand, crowding out occurs when government funding discourages private donations. Early work by Abrams and Schitz (1978), Schiff (1985), and Kingma (1989) developed and supported models of crowding in and crowding out at the aggregate level, based on total national giving and total national government expenditures. Brooks continued the study at the organizational level (1999, 2000a, 2003, 2004) and introduced the idea of a curvilinear relationship – public funds encourage private giving up to a point, then private giving is discouraged (2000b).

Despite the number of studies on crowding, the results are inconsistent. While some studies show that crowding in occurs (Schiff, 1985; Smith, 2007) others show that crowding out is present (Abrams & Schitz, 1978; Brooks, 2000a; Kingma, 1989). One possibility for prior inconclusive results about crowding that this study explores is that the various nonprofit subsectors are impacted differently by government funding. Therefore, when a single subsector is analyzed it shows results that are inconsistent with results analyzing the nonprofit sector as a whole. The research presented here uses the same data to examine both the international subsector impact and the aggregate impact. Some previous research has looked at specific subsectors (Borgonovi, 2006; Brooks, 2000a; Kingma, 1989; Smith, 2007) while other research has examined the nonprofit sector in the aggregate (Abrams & Schitz, 1978; Andreoni & Payne, 2008). One study (Brooks, 2000a) examines four subsectors – social/human welfare, education, health, and arts and culture. However, few studies have focused on the international subsector. By looking at both units of analysis with the same data, it can be better determined if differences exist between the subsector and the aggregate. As noted by Steuerle and Hodgkinson (2006), when studied at the aggregate level, the diversity of the nonprofit sector is often lost. The international subsector could suffer noticeably from this loss of diversity. First of all, it is a smaller subsector, making up only 2% of the nonprofit organizations in the United States (Reid & Kerlin, 2006). In addition, the subsector depends most heavily on private donations – 67% of total revenue (Wing, Pollak, and Blackwood, 2008).

This research uses Brooks’ (2000b) base regression analysis model to examine theories of crowding in and crowding out. Part of a larger study, this presentation focuses on how government funding impacts private giving to U.S. nonprofit organizations in the international subsector. Preliminary results show that while the curvilinear model is supported on the whole, when looking at the international subsector, crowding out is present with the first $10,000 of government funding to the nonprofit organization. This result could pose a challenge to international nonprofit organizations which are trying to diversify their income streams. In addition to presenting the regression results, this study will also explore possible
reasons that international nonprofit organizations are subject to crowding out and ways that the organizations could combat this trend.

References:


