Effect of Matching Ratios on Charitable Giving in the United States

Researchers:

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Sector(s): Finance, Political Economy and Governance

Location: Various sites, United States of America

Sample: Over 50,000 individuals who had previously contributed to the charitable organization

Target group: Adults

Outcome of interest: Charitable giving

Intervention type: Pricing and fees

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In the United States, private giving to charitable causes has grown significantly in the past several decades. Among the tactics commonly used to solicit donations are matching gifts. This study explored the importance of price on charitable giving by randomly varying the rates of matching gifts and measuring the subsequent effect on donations. Researchers found that matching gifts were an effective fundraising tactic, increasing the likelihood of donation and total donations, but larger match ratios did not return more donations than smaller match ratios.

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Throughout the world, charitable organizations are working to meet people's basic needs and improve their quality of life, and these organizations often depend on the support of outside donors to finance their mission. Private donations comprised 75 percent of all charitable giving in the United States in 2008[1] and experts predict that the combination of increased wealth and an aging population will lead to an even higher level of private gifts in the coming years. Such trends have left fundraisers, who typically rely on anecdotal evidence in lack of scientific evidence, divided as to the most efficient means to attract these dollars. While the economics of charity has been well studied on the "supply" side, critical gaps remain in our knowledge about the "demand" for charitable giving.

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In the United States, private giving to charitable causes has grown significantly in the past several decades. Recent figures show that charitable gifts of money have been two percent or more of GDP since 1998 and currently more than 89 percent of Americans donate to charity.

Among the tactics commonly used in fundraisers to solicit donations are matching gifts. A matching gift is a commitment by a donor to match the contributions of others at a given rate, up to the maximum amount the leadership donor is prepared to give. While the rate of matching is typically the result of an agreement between the fundraiser and the leadership donor, fundraising consultants ubiquitously note that increases in the matching ratio have power to influence contributions. Such conventional

wisdom, however, is largely anecdotal as little scientific study has been completed to examine such demand side claims.



Woman reading a document.

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This study seeks to explore the importance of price on charitable giving by measuring the comparative static effects of changes in rates of matching gifts. Partnering with a liberal US nonprofit organization that works on social and policy issues relating to civil liberties, this study takes advantage of a capital campaign in which prior donors received direct mail solicitations seeking contributions.

Individuals were randomly assigned to either a comparison group or a matching grant treatment group. All individuals received a letter identical in all respects except two: (1) the treatment letters included an announcement that a "concerned fellow member" will match their donation, and (2) the reply card included the details of the match. The specifics of the match offer were then randomized along three dimensions:

1. *Price ratio of the match*: 1:1, 2:1 or 3:1 (the 2:1 ratio means, for example, that for every dollar the individual donates, the matching donor contributes US$2)
2. *Maximum size of the matching gift across all donations*: US$25,000, US$50,000, US$100,000 or unstated
3. *Example donation amount suggested to the donor equal to*: (i) the individual' s highest previous contribution, (ii) 1.25 times the highest previous contribution, or (iii) 1.5 times the highest previous contribution

Because fundraising solicitations are sent to all fifty states, it is possible that utilitarian effects of contributing to a politically-motivated charity are different spatially due to the local political environments. To test for these effects, charitable giving data is merged with (i) demographic data, (ii) state returns from the 2004 presidential election and (iii) data on the frequency of the organization' s activities within each state.

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Matching Impact: Simply announcing that match money is available considerably increases the revenue per solicitation by nineteen percent. In addition, the match offer increases the probability that an individual chooses to donate by 22 percent. This finding supports anecdotal evidence among fundraising consultants on the efficacy of a matching mechanism.

While the match treatments relative to a comparison group increase the probability of donating, contrary to conventional wisdom, larger match ratios (2:1 and 3:1) relative to smaller match ratios (1:1) have no additional impact. This result directly refutes the rationale for using larger match ratios, and stands in sharp contrast to current fundraising practices.

Heterogeneous Treatment Effects: Study findings indicate that the results of the matching gift are driven by agents in states that voted for George Bush in the 2004 presidential election: the match increases the revenue per solicitation by 55 percent in "red" states whereas there was little effect observed in "blue" states. This result suggests that an individual's political environment also has the capacity not only to influence the level of giving, but their responsiveness to different treatments.

Karlan, Dean and John A. List. "How Can Bill and Melinda Gates Increase Other People's Donations to Fund Public Goods?" Working Paper, Yale University, April 2012. Karlan, Dean and John List. 2007. "Does Price Matter in Charitable Giving? Evidence from a Large-Scale Natural Field Experiment." The American Economic Review 97(5): 1774-93.

1. Giving USA Foundation, "U.S. charitable giving estimated to be $307.65 billion in 2008," https://www.northshore.org/globalassets/foundation/givingusa-2008estimates.pdf