Does Fundraising Create New Giving?

Although millions of dollars are donated to charity each year, giving is rare without solicitation. In Working Paper 1601, **PERC Professor** Jonathan Meer analyzes data from the online platform DonorsChoose. org, which matches projects and donors based on observable characteristics, to study how the presence of similar donation projects affects giving on a given day and over time. He creates a dataset of nearly 27.1 million day-project observations which correspond to 350,000 projects posted between January 2008 and May 2012.

DonorsChoose.org allows public school teachers to raise funds for various projects by posting requests for funding, which include several paragraphs regarding student needs, an itemized list of materials, and the purpose of requested supplies as well as a photograph of the classroom and students. Donors can easily select projects to fund and can give any dollar amount. Funds are dispensed when the projects reach their stated monetary goals.

Many foundations and corporations partner with DonorsChoose. org to provide matching grants for projects, selecting eligibility criteria that define the matches. These organizations match either dollar-for-dollar or offer to provide the last $100 of funding to the project. When the amount given by the partner to successfully completed projects is exhausted, the match ends.

To successfully identify effects of matching grants on donations, matches must be unrelated to the project’s unobserved attributes. Indeed, the nature of matching data provided by DonorsChoose.org contains parameters that are determined entirely by project characteristics. Furthermore, Professor Meer identifies projects that are likely competitors using ZIP code information and subject-area restrictions contained in the data.

To estimate the impact of matches on funds raised, Professor Meer first measures the impact on the probability of receiving a gift on a given day. Findings indicate that receiving a match increases the likelihood of receiving any funds by 0.76 percentage points. Conditional on receiving any donations, the impact on the log of the donation amount is negative. This implies that the average amount raised by matched project increases by 2.8 percent on each day they are matched.

Interestingly, findings indicate that an increase in the number of matched competitors increases the
funds raised by a particular project, although the effect is small. Furthermore, an increase in the number of competitors in the same ZIP-subject group on a given day has no impact, suggesting that an increase in competition does not reduce donations to a particular charity.

Additionally, Professor Meer examines the impact of the average daily number of competitors over the previous sixty days to study intertemporal shifts in giving. Results indicate that an increase in the average daily number of matched donors of that time period increases both the likelihood of receiving a donation and its size. There is no evidence that donations to one project come entirely at the expense of donations to others. This implies that matched charities do not cannibalize donations from other charities. In fact, matches induce donors to consider other, similar projects.

Finally, Professor Meer investigates how competitors affect project matching. Results indicate no effects of the number of matched competitors on the probability of receiving donations. However, an increase in the total number of projects does reduce the likelihood of receiving a donation when a project is matched, suggesting that donors stumble across matched projects rather than seeking them out. This idea is reinforced by the fact that an increase in the number of matched competitors over a sixty day window increases fundraising for matched projects.

To examine if the above findings are an accurate reflection of the effects of donor matching more generally, Professor Meer aggregates the data to a daily time series, and estimates similar models, accounting for the growth in DonorsChoose.org as well as time patterns in giving. Trends in giving show that the share of projects matched is positively correlated to the number of dollars raised by a charity. Thus, overall giving to DonorsChoose.org by non-partner donors increases when more projects are matched, suggesting that matches within the online platform are not cannibalizing donations from other projects.

Overall, this paper helps to answer an outstanding question in altruism research by providing evidence on how increases in fundraising by one charity affects giving to others. Using data from DonorsChoose.org, Professor Meer shows that matching grants increase both the likelihood that a given project receives donations and the number of dollars received. While there is no evidence that more competition crowds out giving to a charity, this effect is driven by donors developing a taste for matched charities of a particular type.

Rising income inequality in recent years has been linked to a rise in wealth inequality. If higher income workers also have higher savings rates, the concentration of wealth at the top of the distribution will be further accentuated relative to the concentration at the top of the income distribution.

In an influential recent paper by Saez and Zucman, forthcoming in the Quarterly Journal of Economics, the authors suggest that much of the rise in wealth inequality is due to rising income inequality and high savings rates at higher incomes. These authors attribute aggregate wealth to families using capitalized income tax data. Net worth is defined as the sum of a family’s assets less any liabilities. Assets are identified at market value and the family must possess a legal claim to the assets.

In Saez and Zucman’s study, like other studies, workers’ anticipated Social Security and Medicare benefits are not included as wealth. This...
omission is for good reason – workers do not have a legal claim to receipt of these benefits. Further, the economic literature is divided on whether Social Security affects aggregate wealth accumulation.

However, Social Security and Medicare benefits are large and they do provide significant income flows to retirees. From the vantage point of middle income retirees these benefits comprise much of their anticipated retirement consumption. In PERC Working Paper #1602 Andrew Rettenmaier, Executive Associate Director at PERC, estimates how the inclusion of Social Security benefits affects the distribution of wealth.

As of 2014, the accrued Social Security and Medicare benefits payable to current retirees were equal to $17 trillion as noted in the Financial Report of the US Government (FRUSG). In addition to the Social Security and Medicare benefits payable to current retirees, near-term retirees and younger workers have accrued considerable benefits. Importantly, the closer workers are to retirement age, the more likely they will receive the full anticipated retirement consumption. The Social Security Administration estimated that accrued benefits across all participants came to $31 trillion in 2014, or 40% of adjusted net worth from the Federal Reserve Flow of Funds accounts.

Since accrued Social Security and Medicare benefits do not add to the nation’s wealth, should they be considered in the analysis of wealth inequality? And if they are included, how should they be measured?

The author suggests that inclusion of Social Security wealth is essential in an analysis of wealth inequality and that accrued Social Security benefit are most comparable to private pension wealth. Accrued benefits diverge from Social Security wealth measures that have been used in previous studies, but in this study they are treated similarly to private pension wealth, a class of wealth that is included in conventional wealth measures.

Rettenmaier calculates accrued Social Security benefits in each year from 1985 to 2006 based on individual lifetime earnings histories. The large sample provides annual earnings from 1951 to 2006 and is available from the Social Security Administration.

Findings indicate that accrued Social Security benefits are much more equally distributed than are the conventional wealth measures that exclude them. From 1985 to 2006 the Gini coefficient based on the accrued benefits measure declined slightly for 0.58 to 0.54 and was lower for men than for women largely due to the differences in lifetime labor force attachment.

He also found that, as expected, women’s share of accrued benefits rose over time. Additionally, individuals 65 and above held 29% of accrued benefits as of 2006 and as of the same year individuals 55 and above held 60% of accrued benefits.

Notably, in 2006 the top 10% of individuals based on their potential savings wealth held 33% of accrued Social Security benefits. In contrast, these individuals held 70% of potential savings wealth in that year. When Social Security is included in a total wealth measure, the share of total wealth held by the top 10% declines to between 55% and 63%.

Whether accrued Social Security benefits should be included in measures of household wealth largely depends on how the measure is used and interpreted. Social Security is an essential component of most workers’ retirement plans, yet is not included in conventional wealth measures.

Moreover, the discussion of wealth inequality requires consideration of Social Security in conjunction with workers’ lifecycle savings decisions. Although accrued Social Security benefits are not assets in the legal sense, it is critical that policy interventions recognize the role Social Security has played in producing the evolving wealth distribution.
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