

THE IMPACT OF FEDERAL GOVERNMENT WELFARE EXPENDITURES ON  
STATE GOVERNMENT EXPENDITURES AND PHILANTHROPIC GIVING TO  
HUMAN SERVICE ORGANIZATIONS (HSOs): 2005-2006

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## DEDICATION

This dissertation is lovingly dedicated to my family who supported, encouraged, challenged, and inspired me to be able to finish my PhD program. Specifically, I want to dedicate this work to my wife, Mi-Ae, who has always been there through the hard times. Without her support, love and sacrifice, I would not have been able to finish this program. This work is also dedicated to my father, mother, brother, and sister in Korea, who give me endless love and support.

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## ABSTRACT

Sung-Ju Kim

The Impact of Federal Government Welfare Expenditures on State GovernmentExpenditures and Philanthropic Giving to Human Service Organizations: 2005-2006

A sizeable body of research has attempted to examine the interaction between government spending and private giving known as the crowd-out effect. Most researchers reported that increases of government spending cause decreases of philanthropic giving to different types of nonprofits. However, few studies have attempted to indicate the interaction between government welfare expenditures and private giving to human service organizations even though human service organizations are the most sensitive to the changes of government spending. Additionally, the estimated crowd-out effects with a simple crowd-out model have been criticized for potential endogeneity bias. This paper investigates the total effect of federal government welfare spending on state government expenditures and philanthropic giving to human service organizations (known as joint crowd-out). I used the 2005 wave of the Center on Philanthropy Panel Study (COPPS) to estimate the effect of federal human service grants on state government spending on, and donations to human services. From these reduced-form estimates I infer the levels of simple and joint crowd-out. I found that indicate federal spending on public welfare crowds out private giving to human service organizations while holding control variables constant in the donations equation. However, federal government spending on public welfare crowds in state government spending on public welfare.

Robert Vernon, PhD., Chair

## TABLE OF CONTENTS

List of Tables.....	viii
List of Figures.....	ix
Chapter One: Introduction .....	1
Managerial Challenges in HSOs .....	2
Fiscal challenges in HSOs: welfare retrenchments. ....	4
Fiscal challenges in HSOs: other causes. ....	7
The Elements of Financial Resources for HSOs.....	8
The Importance of Understanding Financial Management for HSOs.....	12
Understanding the Interaction of Government spending and Charity.....	14
Theoretical Frameworks.....	17
Contingency theory.....	18
Resource dependence theory. ....	21
Political economy theory. ....	22
Chapter Two: The Impact of Public Welfare Expenditures on Philanthropic Giving.....	26
Definition of Simple, Joint Crowd-Out and Significance of Joint Crowd-Out.....	27
Theory of Joint Crowd-Out.....	30
Simple crowd-out model. ....	31
Joint crowd-out model.....	33
Empirical Results: Crowd-Out/-In or Neither.....	34
Empirical Results: Limitations and Suggestions for Further Crowd-Out Study.....	44
Chapter Three: Research Methodology .....	49
Data Sources.....	49
Conceptual Definitions of Key Variables.....	52
Descriptive Statistics of Government Spending and Charitable Giving .....	57
Econometric Specification .....	59
Estimation Technique: Tobit Specification and OLS .....	61
Chapter Four: Results .....	64
Crowd-Out Estimations.....	64
Other Economic and Socio-Demographic Variables.....	69
Chapter Five: Conclusions.....	72
Conclusion.....	72
Limitations and Suggestions .....	75
Appendix A: Joint crowd-out results .....	77
Appendix B: Federal, state and local government factors in 2005 .....	78
References.....	79
Curriculum Vitae	

List of Tables

Table 1. Summary of Empirical Studies of the Crowded-Out by Major Finding.....	36
Table 2. A Description of Public Welfare Program.....	54
Table 3. Overview of Charitable Giving in 2006.....	58
Table 4. Joint Crowd-Out of Donations.....	64
Table 5. Joint Crowd-Out of State Spending (Including Fixed Effects Panel Estimator)	66



List of Figures

Figure 1. Financial Resources for Human Service Organizations .....	9
Figure 2. Simple Crowd-Out.....	28
Figure 3. Joint Crowd-Out .....	29

## Chapter One: Introduction

A number of authors have strived to identify the funding resources for human service organizations and other nonprofits in the United States over the last several decades (Boris, Leon, Roeger & Nikolova, 2010; McMurtry, Netting, and Kettner, as cited in Kettner, 2002; Salamon, 1999). According to these studies, human service organizations have generally developed their funds from some combination of four sources: 1) government appropriations (e.g., direct government funds, contracts and grants, and tax benefits); 2) philanthropic contributions from individuals, corporations, and foundations; 3) service fees from clients; and 4) other resources (e.g., investments and profit-making subsidiaries). Studies on revenue sources for human service organizations reported more than half of total revenues for human service organizations comes from federal, state, or local government contracts and grants (Boris et al., 2010). The rest of the total budget for human service organizations was accounted for through private philanthropy, service fees, and other income.

When comparing the percentage of government spending between human service organizations and all nonprofits, human service organizations heavily rely on government funding— almost twice as much as for all nonprofits.<sup>1</sup> By comparison, human service organizations are highly vulnerable to impediments in their ability to meet goals and expectations in times of financial turmoil and low government revenues.

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<sup>1</sup> Salamon (1999) reported that almost 37 percent of total funding for nonprofit organizations in America came from service fees, 30 percent came from government, 22 percent came from private contributions including corporate and foundation giving, and 11 percent came from other income. According to the most recent study for the source of revenues for nonprofit organizations, the National Council of Nonprofits (2010) reported 27.4 percent of total revenues for all nonprofits came from government funding in 2008. In contrast, Boris et al. (2010) reported almost 60% of total budgets for human service organizations came from government funding, 19% came from private giving, 16% came from service fees, and 5% came from other incomes.

Therefore, it is critical that human service managers understand and direct the relationship with government funding. Specifically, identifying and managing the relationship between government spending on public welfare and the private giving to human service organizations is important for human service managers because more than three-quarters of the total revenue for human service organizations come from either government or philanthropy.

Hence, for effectively and efficiently addressing financial challenges to human service organizations, it is important to investigate the interaction of the two fundamental fiscal factors—government spending and private giving. This research addresses the gap in our knowledge about the relationship between government spending and private giving by answering the following questions: what is the effect of total government welfare expenditures—both federal and state government welfare spending— on the changes in charitable giving to human service organizations?; and what is the total effect on both private giving to human service organizations and state welfare expenditures, when federal government welfare spending goes up by a dollar?

Before scrutinizing the relationship between government welfare expenditures and charitable giving, a summary of the literature on fiscal challenges to nonprofit managers caused by government retrenchment of welfare spending in human service organizations is addressed, then theoretical frameworks relevant to this discussion is presented in this chapter.

### **Managerial Challenges in HSOs**

Human service organizations have experienced enormous managerial challenges over the past 30 years. The challenges that often threaten the delivery of services to

clients are changing social policies, unstable economic conditions, shifting demographics, increasing service demands, rapidly developing technology, increasing expectations regarding the effectiveness and efficiency of their performance, and greater emphasis on cost and performance accountability (Austin, Brody, & Packard, 2009; Bergman, Bowen, & Nygren, 1996; Hecht & Ramsey, 2002; Herman & Renz, 1998; Hopkins & Hyde, 2002; Salamon, 1996; Salamon, 2005). Salamon (2005) categorized these challenges under three main headings: fiscal, effectiveness, and competitive challenge.

Among these three challenges, the fiscal challenge is the most formidable that human service organizations have faced. For example, Hopkins and Hyde (2002) found that human service managers were seriously concerned about fiscal crisis as their most crucial challenge. In 2001, a list of challenges to human service organizations was compiled from 115 managers representing 115 human service agencies. The most frequently reported challenges included lack of funds to meet agency goals (37.4%) and competition from other agencies for clients and/or funding (40.0%). Thus, financial challenges appeared to be a primary concern among human service managers.

Several causes of fiscal crisis to human service organizations can be found such as government retrenchments on welfare expenditures, economic recessions, and other fiscal issues. In particular, after the federal government pursued an ongoing effort to reduce government expenditures on social welfare since the Reagan administration, fiscal challenges directly impacted human service organizations. Because of the inter-dependency of their budgets with the government, human service organizations have been seriously affected on their budget by the changes of the government welfare policy. That is, in keeping with the keynote policy on welfare reform, federal spending on a

broad range of social welfare programs declined. At the same time, the demand for public assistance increased. For example, the poverty rate climbed to 13.1 percent in 1988— a rate that was higher than any year since before the War on Poverty programs in the middle-1960s (Stoesz & Karger, 1992). Since the Reagan administration attempted to reduce government welfare spending, human service organizations have faced both fiscal crisis and increases in service demands. A detailed picture of the impact of government retrenchment on welfare expenditures and other causes of financial challenges are addressed in the following sections.

### ***Fiscal challenges in HSOs: welfare retrenchments***

Before the Reagan presidency, government welfare spending had dramatically increased. For example, federal, state, and local government welfare spending increased from \$208 million in 1923 to \$4.9 billion in 1939. In 1933 welfare programs accounted for only 6.5 percent of all government expenditures; by 1939 that figure rose to 27.1 percent (Katz, 1995). Federal government expenditure on public service (except military spending) in 1927 was only 3 percent of gross national product (GNP). By 1936, however, federal government expenditures (except military spending) grew to 10 percent of GNP (Fishback, Horrace, & Kantor, 2005).

However, the retrenchment of welfare spending from the government began in 1980 when former President Reagan declared at his first inauguration “government is not the solution to our problem.” (Levine, 1986, p.196) In fact, total government social welfare expenditures grew only 21 percent or less than 2 percent per year from 1977 to 1989 (Salamon, 1999), which indicates a much lower rate of growth than that from 1986 to 1977. According to Beck (2000), between 1980 and 1982 government expenditures

dropped by 3.9 percent and government spending on welfare programs dropped by 10.1 percent. During the Reagan administration, funding for Aid for Families with Dependent Children (AFDC) was reduced by 11.7 percent, and stiffer eligibility requirements were enacted. The Food Stamp program was reduced by 18.8 percent, and strikers and students became ineligible for benefits. The duration of unemployment insurance was reduced by 13 weeks (Stoesz & Karger, 1992).

After the Reagan administrations, efforts to recover from the government welfare cutbacks were attempted in the late 1980s and early 1990s, but government welfare expenditures were not reversed to what they were before the Reagan years. However, major welfare reform was implemented by former President William Clinton. In his speech during the State of the Union on January 27<sup>th</sup>, 1996, President Clinton proclaimed “The era of big government may be over, but the era of big challenges for our country is not, and so we need an era of big citizenship.” Several months later, the President signed the *Personal Responsibility and Work Opportunity Reconciliation Act of 1996* (PRWORA) into law. PRWORA was broad in scope and negatively affected virtually all welfare programs including federal welfare entitlements (Rosenbaum & Darnel, 1997; Tanner, 1996).

PRWORA contained a number of new measures for personal eligibility for welfare. First, the individual’s right to cash assistance from the federal government was abolished and was replaced by a lifetime maximum of five years during which a citizen can receive welfare benefits. Second, a crucial element of the American welfare state, AFDC, was eliminated and replaced by Temporary Assistance for Needy Families (TANF). Third, the use of food stamps was restricted, and finally, people on welfare were

required to work within two years of receiving benefits or they would be removed from the rolls (Patriquin, 2001). Clinton's alterations to the welfare system were conducted based on four main themes for welfare reform: 1) make work pay, 2) strengthen the nation's system of child support enforcement and collection, 3) provide education and training to poor people, and 4) place limits on the length of time that recipients are able to collect welfare benefits (Haveman & Scholz, 1994).

As a result, PRWORA reduced the total amount of spending on welfare by federal and state governments. The federal contribution also changed from a matching grant to a block grant. The scope of government cutbacks was substantial. According to Salamon (1996), approximately \$8.5 billion or 12 percent of federal spending on discretionary programs to nonprofit organizations for the 1996 fiscal year was cut from the previous fiscal year. Additionally, the cutbacks were even more severe in some fields: by 17 percent for the Social Service Block Grant; by 24 percent for disadvantaged housing; by 26 percent for community service; and by 34 percent for low-income energy assistance (Salamon, 1996).

The retrenchment of government welfare spending was maintained under the G. W. Bush administration. President G. W. Bush and the Congress suggested that the federal spending on social welfare programs was reduced from FY 2005 through FY 2010, outside of health and income assistance (Abramson & Salamon, 2005; Salamon, 1996). The fields of education, social services, and community development experienced additional federal budget cut in the FY1997- FY2002 budget plan. After adjusting for inflation, the federal outlays fell by 39 percent for community and regional development programs, and by 10 percent for education, training, and social services (Abramson &

Salamon, 2005). In addition, according to the G. W. Bush administration's budget proposals that were submitted to Congress, covering fiscal year 2007 through fiscal year 2011, nonprofit organizations expected a cumulative total of \$78.6 billion in federal government spending below FY 2006 levels except for Medicare and Medicaid, after adjusting for inflation (Abramson, Salamon, & Russell, 2006).

***Fiscal challenges in HSOs: other causes***

Fiscal challenges for human service organizations are caused not only by the retrenchment of government welfare expenditures, but also by other financial challenges (e.g., economic recession). Several studies reported human service organizations had experienced budget cutbacks because of economic recessions. Boris et al. (2010) described the impact of economic recession on human service organizations with government contracts. They reported that almost 61 percent of human service organizations had experienced the government not paying the full cost of contracted services in the economic recession which started in late 2007. Twenty-one percent of human service organizations reported an experience with government funding which was worse in 2009 than in prior years. And 58 percent reported that the government changed contracts and grants since this current recession occurred. In addition, the National Council of Nonprofits (2010) indicated that 45 percent of human service providers reported that governments failed to pay the full cost of performing the contracts, leading to job cuts in 2009. As the studies indicated, government spending are vulnerable to economic conditions.

In addition, government policy on welfare spending has been affected by other social issues such as liberal, neo-liberal, or conservative social values. For example, the



radical critiques of government-oriented social welfare provision have been strongly driven by liberal, neo-liberal, or conservative approaches, and social work professionals have been forced to re-identify the process of social work provisions. That is, those social values have suggested the political trends of providing social welfare were not only too paternalistic or too domineering, but also too permissive (Art & Gelissen, 2002; Hicks & Kenworthy, 2007; John & Pierson, 1997; Midgley, Tracy & Livermore, 2000). Therefore, not only government budget cuts but also economic recession and particular social values are additional causes of fiscal challenges for human service organizations.

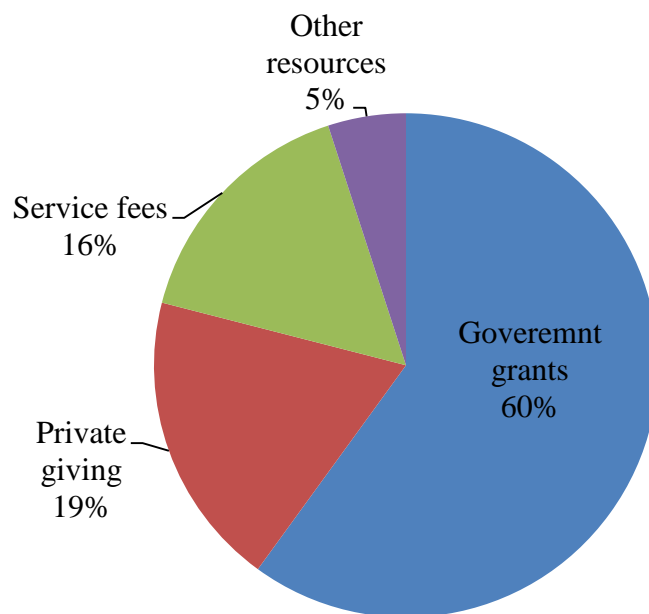
### **The Elements of Financial Resources for HSOs**

Researchers and practitioners have strived to describe the different budget resources for human service organizations with different approaches. For example, McMurtry et al. (1991, as cited in Kettner, 2002) reported the funding sources for human service organizations as government contracts, charitable contributions, client fees, public grants, private grants, and other sources. Similarly, Lohmann (1980) identified five categories of funding resources for human service organizations: government funding from tax-based sources, fees, grants, organized fund drives, and charitable contributions. In general, the sources of revenue for human service organizations are identified as the following: 1) government contracts, grants and tax benefits; 2) philanthropic giving; 3) service fees; and 4) other resources.

Among these identified revenue sources, government spending and philanthropic contributions are particularly important revenue sources for human service organizations. Salamon (1999) indicated the portion of the budget for all nonprofit organizations with the four different financial resources. According to Salamon (1999),

almost 30 percent of total revenue for all nonprofit organizations came from government contracts and grants. The National Council of Nonprofits (2010) provided the most recent information about the source of revenues for all nonprofit organizations. The Council reported that almost 26.4 percent of total revenue for nonprofit organizations came from government spending. However, human service organizations have a different portion of government funding than other nonprofits. As shown in Figure 1, Boris and her colleagues addressed the allocation of revenue for human service organizations. They reported that almost 60 percent of their funding was provided by the government in 2009. Private philanthropy was 19 percent, service fees were 16 percent, and other income was 5 percent (Boris et al., 2010).

Figure 1. Financial Resources for Human Service Organizations



[SOURCE] Boris, E. T., Leon, E. D., Roeger, K. L., & Nikolova, M. (2010). Human service nonprofits and government collaboration: Findings from the 2010 national survey of nonprofit government contracting and grants. Center on Nonprofit and Philanthropy at Urban Institute Working Paper, p18.

In a detailed picture of government contracts and grants for human service organizations, Boris et al. (2010) reported that government agencies had approximately 200,000 contracts and grants with about 33,000 human service organizations in 2009. That is, each human service organization had almost six contracts and grants in 2009.

The second important financial resource for human service organizations is charitable donations. Due to a limited ability to increase service fees for clients, charitable donations have become the most important funding resource that human service managers aim to develop other than government funds. Since the government has retrenched spending on social welfare, human service managers have increased their intention to develop private contributions to make up for cutbacks in government support. According to Goss (1989), the fundraising initiatives for private charity such as hiring professional fundraisers and increasing fundraising events have increased in human service organizations since the welfare reforms instituted by the Reagan administration. Kettner (2002) stressed charitable contributions have become a significant part of many nonprofit agencies' annual revenue.

Donations have come from a variety of sources such as individuals, foundations, corporations, and private charities. According to the Giving USA Foundation (2011), estimated charitable giving from American individuals, corporations, and foundations was \$290.89 billion in 2010. Among total contributions in 2010, human service organizations received an estimated \$26.9 billion (9% of the total) in contributions, the third largest amount received among all types of nonprofits.

Additionally, both service fees and other income are other components of revenue sources for nonprofit organizations. However, service fees and other income are

important sources for nonprofits' income except for human service organizations. For example, the National Council of Nonprofits (2010) reported almost 50 percent of the total revenue for nonprofit organizations came from fees for services in 2008, and other income was 12.4 percent. However, for human service organizations only 16 percent of the total revenue came from service fees and 5 percent came from other income (Boris et al., 2010). Furthermore, it is unlikely that human service organizations can apply the financial strategies of increasing service fees and increasing investments. Human service managers have always approached service fees and investments with a certain amount of ambivalence. Human service organizations do not exist to make money because their mission is to help people in need. They aim to help individuals, families, and communities deal with a range of complex social, interpersonal, and individual problems.

People eager for their services are in need of help from others and are unable to pay beyond a certain amount for services. People with a very limited budget may decide that services are not a priority if they must compete for food, clothing, or shelter. According to Kettner (2002), the demand for services from clients unable to pay has increased while the demand for services from clients able to pay personally or via insurance has decreased. Therefore, there is a limit to increasing the service fees.

It is also difficult to apply business marketing strategies to human service organizations because human service organizations are typically driven by causes rather than by profits. Also, business strategies may not be effectively applied due to the crucially important features of nonprofit organization: (a) the value produced by nonprofit organizations lies in the achievement of social purposes rather than in

generating revenues; and (b) nonprofit organizations receive revenues from sources other than customer purchases (Moore, 2000).

### **The Importance of Understanding Financial Management for HSOs**

Financial management is a significant managerial function for human service organizations because all stakeholders in the organization such as clients, staff, boards, and donors have enormous interest in the effective management of fiscal resources. Ezell (2009) noted that clients care about effective financial management because they believe it is associated with better quality and quantity of services. The staff are also interested because fiscal conditions of their organization are directly associated with their salaries and benefits, ongoing work conditions, and the amount of resources they can devote to programs. In addition, donors such as government agencies, foundations, and private individuals are always concerned about the utilization of funds because they pay attention to the accomplishment of client service objectives and ongoing provision of funds to the organization.

Traditionally, financial management has been considered as developing and managing budgets and monitoring expenditures to secure the purposes of organizational spending and the efficiency of that spending. For example, Austin et al. (2009) describe financial management as fund development (e.g., writing proposals for grants or contracts) and preparing and monitoring budgets. The expected managerial capacity to manage fiscal factors includes ensuring that revenue streams are stable and adequate, that expenditures are within budget, and that account procedures are followed. In human service organizations, the responsibility of developing funds has been considered the board of directors' domain. The responsibility to direct the expenditures of budgets has

been regarded as a CEO or CFO's job. For example, Poertner (2006) and Poertner and Rapp (2007) stated that some authors stress it is not necessary to acknowledge the skills of financial management for human service managers because the responsibility for financial management lies with the chief financial officers (e.g., accountant or finance specialists).

However, it is necessary for managers to know how to interpret various financial management and monitoring reports because an agency's strategic plan should influence annual budgets as agency priorities change and agency leaders navigate opportunities in a constantly dynamic environment (Ezell, 2009). Furthermore, agency relationships with external funding resources should be analyzed when an agency has developed a strategic plan. In order for their organizations to survive and grow, human service managers must efficiently and effectively manage the human, financial, informational, and physical resources needed to accomplish fundraising, grant writing, and marketing

Weinbach (2008) stressed that financial management capacity such as writing grant proposals, negotiating contracts, and finding creative ways to obtain money from charitable contributions has taken on ever-increasing importance. In addition, human service managers have been pressured to devote themselves to developing funds in recent years because of increased competition for funding, decreased government funds, and other developments (e.g., block grants and privatization of services). The responsibility of developing funds also falls to the director and other managers when board members are either unwilling or unable to perform this function. As a result, developing fundraising skills and knowledge has become increasingly important to human service managers.

According to Weinbach (2008), managers in human service organizations openly spend more time attempting to raise money than they do spending it.

### **Understanding the Interaction of Government spending and Charity**

In addition to understanding the various revenue sources for human service organizations, human service managers should be able to identify the essential relationship among the different types of funding resources and the implications of the relationship for their organization. Due to a higher dependence on government funds, identifying and managing relationships with government funding is an important managerial responsibility for human service managers. That is, managers in human service organizations should be able to identify the domain within which the agency fits and develop a fundraising strategy to target the appropriate government funds. Specifically, it is critical for managers to understand how receiving government funding affects the level of philanthropic contributions to their organizations.

Researchers in public policy, public economics, or nonprofit management have devoted their energy to identifying the nature of the relationship between government welfare expenditure and philanthropic giving and its impact on nonprofit organizations, yet the nature of the relationship remains ill-defined. Theory specification of the government and private giving relations delineates two main effects on donors: 1) increased spending reduces the marginal gain to donating, hence reduces donations, 2) spending targeted at particular organizations acts as a quality signal, hence increasing donations. Based on the theoretical frameworks, empirical studies have examined which effect dominates. Some studies find crowd-out effect (e.g., Andreoni & Payne, 2003; Kingma, 1989; Schiff, 1990; Steinberg, 1985 ), some studies find crowd-in effect (e.g.,

Payne, 2001; Schiff, 1985, Smith, 2007), and some find no statistically significant effect (e.g., Khanna, Posnett, & Sandler, 1995; Lindsey & Steinberg, 1990)

Although the theoretical and empirical studies of government spending and charitable giving have addressed crowd-out or-in effect to some extent, there have been limitations to generalizing the findings. For example, most studies on crowd-out effect have been examined not with human service organizations, but with other types of nonprofit organizations such as public radio stations, art organizations, religious organizations, or elite universities. The nature of the relationship between government spending and private giving likely differs among different types of nonprofit organizations because of the varied composition of the revenue streams. Horne (2005, as cited in Tinkelman, 2009) notes that only one percent of the revenues of the religious sector was provided by government, while 56 percent of revenues of the nonprofits related to criminal issues was provided through government spending. Nonprofits associated with international affairs received 58 percent of their revenues from philanthropic donations; whereas hospitals formulated less than one percent of their budget from private giving.

Second, even though a few studies examined the interaction between government welfare expenditures and private giving to human service organizations (e.g., Amos, 1982; Schiff, 1990; Payne, 2001), researchers asserted the estimated interaction between government spending and private giving to human service organizations had limitations. Horne (2005) and Payne (2009) indicated problems with the quality of available data. Smith (2006) and Steinberg (1990) noted statistical errors. Therefore,



studying the crowd-out effect between government spending and private giving should use multidimensional approaches.

A better understanding of the nature of the relationship between government spending and private giving to human service organizations will provide a wide variety of benefits for human service managers. Obviously, research concerning the interaction of government spending and charitable giving provides insight on two levels—the effectiveness of financial management and overall social welfare policy. That is, human service managers would be able to develop more effective strategic financial plans if they knew that government spending acted as positive signals for private giving. For example, if part of the cost is hidden as future crowd-out of private giving, knowing the true cost of applying for government funding is important to managers in human service organizations. Tinkelman (2009) asserted that managers in nonprofits need to more accurately understand the interaction between government spending and charity in order to best select among funding alternatives and to optimize fundraising campaigns.

In addition, a better understanding of the interaction between government welfare spending and charitable contributions provides insight into ranking political positions about the government's role in providing public goods. For example, when total philanthropic giving was dramatically increased from \$130.89 billion in 1995 to \$157.69 billion in 1997 (Beck, 2000), crowd-out theories attributed the increase in private giving that occurred in 1996 and 1997 to a public response to the Clinton administration's welfare reform. Khanna and Sandler (2000) posited that knowing the interaction between government spending and private giving to nonprofit organizations has crucial public policy implications during a time in which governments are debating whether the private

sector can replace government support to nonprofit organizations for providing public goods.

Therefore, policy makers are interested in the ultimate level of public service provisions in order to decide the best funding mix for organizations to provide public goods. The effective level of public service provisions would be drawn based on a better understanding of the extent to which private contributions react to changes in government spending. Additionally, Steinberg (1993) emphasized that understanding the relationship between government spending and charitable giving is important in the design of tax code provisions concerning charitable donations.

Clearly, it is necessary for managers and nonprofit researchers to articulate an accurate relationship between government spending and private giving. Particularly, managers in human service organizations should strive to create a more intimate relationship with government by increasing their interaction with policymakers through lobbying and networking with external resources.

### **Theoretical Frameworks**

A number of theoretical approaches to organization-environment relations have been developed in recent decades since Katz and Kahn (1996, as cited in Kettner, 2002) addressed the applicability of systems concepts to social work practice. Each theoretical framework provides particular perceptions of how organizational structures, administrative processes, and patterns of management are associated with external environments.

A number of authors offered theoretical frameworks to explain the interaction between human service organizations and the environment, known as organizational

adaptation theories. The concept of adaptation includes buffering, bridging, sensing, and understanding the changing conditions of the environment (Evelyn, 2009; Hasenfeld, 2009). The purpose of adaptation is to maximize the effectiveness in adapting performances to ensure survival and to minimize the dependency on external organizations in the decision-making process. While interacting with the external environment, organizations gain knowledge about the impact of changes from the external environment, their strengths and weaknesses, and strategies for survival in their environment.

The main theoretical approaches that rely on this active process of adaptation are contingency theory, resource dependence theory, and political economy theory (Evelyn, 2009; Glisson, 1981; Hasenfeld, 2009; Jaskyte & Lee, 2006; Lecovich, 2001; Schmid, 2004, 2009; Wamsley & Zald, 1973; Zhao, Ren, & Lovrich, 2010). According to Hasenfeld (2009), these main theories address the most appropriate frameworks for analyzing the relationships between human service organizations and the fiscal environment.

### ***Contingency theory***

Before examining fiscal relationship theories, contingency theory should be considered because it provides an important paradigm for analyzing organizational structure related to the external environment. Glisson (1981) noted that the contingency approach provides a context for considering the unique characteristics of organizational systems that deliver services to human beings. In other words, this theory depicts organizational dynamic relations with both internal and external components of the organization.

This theory considers an organization as a social system that is interconnected with subsystems or the external environment. Hence, the contingency approach emphasizes the managers' responsibility not only to direct the functioning within the internal environment, but also to ensure desirable relations with the external environment (Glisson, 1981). According to Zhao, Ren, and Lovrich (2010), contingency theory asserts that managers should understand the three types of environmental elements that impact organizational management: 1) adaptation to the task environment, 2) adaptation to new technology, and 3) adaptation to the scale of production. Adaptation to the task environment refers to identifying the organizational structure and pattern of management as either organic or mechanistic. That is, in organizations with mechanistic structures, managers may focus on directing the internal environment because mechanistic firms predominated among the firms operating in a relatively stable task environment. Thus, managers have few chances to interact with the external environment. In contrast, an organic form of organization which is hierarchically flat in feature in terms of non-bureaucratic organizational structure tends to have a higher incidence of dynamic interaction with the external environment. Therefore, managers in organizations with organic structure should be able to evaluate the construction of their organization with regard to the external environment.

For human service organizations the organizational mechanisms are more likely to be an organic type because human service organizations predominantly depend on external resources to provide services to clients. Since human service organizations heavily depend on government agencies to provide funding for services, managers must understand the contingent approach to develop various strategies such as buffering and

bridging to adapt to the external environment. In addition, because consistent and adequate benefits from service fees and investments are not available for human service organizations, managers should focus on developing managerial strategies based on contingency theory.

Furthermore, managers using contingency theory are more likely to adopt new technology because the types of technology used by an organization are often seen as highly determinative of the structural arrangement (Zhao et al., 2010). Finally, the size of the organization is an important element in determining organizational structure and process for managers in human service organizations. Using contingency theory, managers should be able to indicate the effect of growth on the scale of operation for their organizations.

In summary, contingency theory provides a theoretical perspective considering an organization as one element in a social system. It also demonstrates that to effectively conduct their organization, managers should attempt to understand the relationship between the external environment (e.g., government welfare policies, pattern of charitable giving, and community resources) and their organization. Schmid (2009) stated that an organization which identifies and interacts with environmental components is more likely to have higher performance levels as well as a better chance of survival than one which does not. Therefore, contingency theory provides a significant rationale for understanding the interaction between government welfare spending and private giving to human service organizations in order to survive and thrive in intensively competitive environments.

### ***Resource dependence theory***

A second theoretical perspective for understanding the importance of the interaction between government welfare expenditures and private giving to human service organizations is resource dependence theory. Resource dependence theory explains the distribution of power within an organization by focusing on the organization's dependence on the environment (Jun & Armstrong, 1997). Resource dependence theory emphasizes political and economic dependencies on the environment. Since Pfeffer and Salancik (1978) proclaimed the importance of understanding the resource dependence theory, researchers have indicated that organizations would experience uncertainty of their survival depending on their adaptation to their environments (Callen, Klein, & Tinkelman, 2010; Evelyn, 2009; Hasenfeld, 2009; Hatch, 1997; Lecovich, 2001; Schmid, 2004).

Organizational dependency is defined as “The product of importance of a given input or output to the organization and the extent to which it is controlled by relatively few organizations” (Pfeffer & Salancik, as cited in Lecovich, 2001, p. 23). That is, “dependence” is the organization's need to construct internal mechanisms in order to manage or adapt to its external environments. The degree of organizational dependency, then, can be measured as the potency of the external organizations in the given organization's environment—particularly, in the process of the organization's decision-making.

Based on these conceptual frames, Evelyn (2009) and Schmid (2004) predicted that an organization must exchange resources in order to survive and that, in exchanges, power differences must arise. Particularly, the power-dependence issue matters for human

service organizations because human service organizations are heavily dependent on a variety of external financial resources (Smith, as cited in Lecovich, 2001). Smith (as cited in Lecovich, 2001) examined three types of human service organizations in Israel and found that the organizations were particularly affected when they developed their strategies and structures under pressure of external resources. Therefore, it would behoove managers in human service organizations to change their power-dependence relations with the environment and direct their activities toward maximizing their ability to acquire resources and minimizing the control by the external environment over their internal operations.

In summary, resource dependence theory provides a theoretical rationale for managers in human service organizations to manage their power and resource dependency on the external environment. First, they should reduce dependence on the external environments as much as possible by controlling necessary resources. They also should increase dependence of agents in the environment on the distinctive service and/or products of the organizations.

### ***Political economy theory***

Political economy theory is another significant theory which provides theoretical rationale to understand the interaction between government spending and private giving to human service organizations. Political economy theory focuses on organizational dependence on two fundamental resources: 1) legitimacy and power (political resources) and 2) production (economic) resources. The essential perspective of political economy theory is that organizations depend on the resources controlled by agents and interest groups in the external environment (Hasenfeld, 2009; Schmid, 2009). That is, in order to

survive and produce services, organizations must amass both political resources and economic resources.

Political resources refer to matters of legitimacy and distribution of power as they affect the propriety of an agency's existence (Hasenfeld, 2009). Economic resources refer to the maximization of efficiency and the combination of factors affecting the cost of producing and delivering a given level of services (Wamsley & Zald, 1973). According to Hasenfeld (2009), the core activities of an organization are determined by the rules and agreements of how resources are mainly assigned in the organization. Wamsley and Zald (1973) noted that the rules emerge through the process of negotiation and bargaining between political resources and economic resources which provide input to establish and maintain the organization.

The key theoretical concept of the political economy approach is that organizational activities are directed by interrelationships between political and economic resources. In particular, the interrelationship between the structure of legitimacy and power (political resources) and the system for producing and exchanging goods and services (economic resources) is an important element in determining organizational regulations and rules. Furthermore, through modification of the resource-allocation rules, significant organizational changes could arise such as establishment, termination, or alteration of services. This approach is important for human service managers because the activities of their organizations heavily rely on government welfare policy. Because of insufficient resources, human service organizations must be efficient and effective in producing and providing services. Therefore, based on the political economy approach,



human service managers should acknowledge the interrelationship of political and economic factors.

In summary, contingency theory indicates the importance of understanding an organization's interaction with the external environment. As part of the interaction with the external environment, contingency theory supports the necessity of understanding the relationship between government funding and private giving to human service organizations. According to contingency theory, managers in human service organizations should devote their efforts to interacting with their external environment to respond to exogenous increases in demands for their services. This is an important managerial responsibility because managing the interaction with the external environment is significantly associated with an organization surviving and thriving.

Resource dependence theory provides a theoretical rationale to understand the interaction between government funding for welfare provisions and private giving to human service organizations. According to resource dependence theory, managers are more likely to respond to cutbacks in preferred sources of revenues by pursuing less-preferred areas because directors should aim to change their power and resource dependence on the external environment. Managers should increase their efforts to obtain all available funding based on the most effective budget plans in order to change their power-dependence relations with the environment. In order to maximize autonomy of the organization in relations with the external environment, particularly government relations, human service managers should understand the impact of government funding and private giving to human service organizations because these two funding sources are their most important financial resources.

In addition, political economy theory supports the importance of the relationship between government welfare provisions and human service organizations. Political economy theory emphasizes organizational dependence on political and economic resources. Specifically, the surviving or thriving (even the existence) of human service organizations heavily depends on political legitimacy for welfare provisions. That is, based on government rhetoric of welfare policy, human service organizations may or may not face crucial financial challenges. According to political economy theory, organizational activities are affected by interactions between political and economic resources. Therefore, knowing the interaction between government welfare spending and private giving to human service organizations helps managers in human service organizations drive the political legitimacy for welfare toward affordability of the organization.

## **Chapter Two:**

### **The Impact of Public Welfare Expenditures on Philanthropic Giving**

The first research question is how changes in one source of income will interact with other income streams of human service organizations. That is, if the government increases funding for children in poverty, will private donations for children in poverty fall? Similarly, if a social work agency working for children in poverty receives or acquires new government spending (e.g., grants from the Child Poverty Act, 2010), will overall philanthropic giving to the agency, not only for child aid programs, but for all of its programs, fall? This question is associated with the ‘simple’ crowding effect between government spending and philanthropic giving to charity.

The main research question is what is the total effect of government welfare expenditures on private giving while considering the three components: federal spending, state spending, and private contributions, known as the ‘joint’ crowding effect. In order to identify the impact of the changes of government spending on welfare on private giving to human service organizations, two level of government spending were identified- federal and state government spending. Thus, the measurement of crowd-out becomes more complicated. Federal expenditures changes directly cause changes in both state government spending and donations. In turn, the induced change in state government spending causes a further change in donations. The combined effect of both causal paths is called “joint” crowd-out.

Describing the interaction is complex: directions of revenue interaction vary depending on types of nonprofits and a number of identified factors; a wide range of interaction effects were estimated based on addressed data resources for study; and a

various arguments about statistical analysis to examine crowd-out effects. Due to the complexities initiating interaction between government spending and private giving, these relationships need to be studied from various angles. Even though a large number of studies have attempted to measure the interactions between government spending and private giving, the job is far from finished. In particular, the existing empirical studies ignore the interaction between federal, state, and nonprofit revenue streams when estimating the crowd-out effect (Steinberg, 1993). The extent of the joint crowd-out is crucial for evaluating the efficacy of federal grants for social services. The study of joint crowd-out can provide detailed insight into the interaction between federal government spending for the public good and private giving to charity.

Before examining the relationship between government spending and philanthropic giving to human service organizations, empirical background of the crowd-out is presented in this chapter, including a conceptual definition of crowd-out or-in and the joint crowd-out; empirical results from prior studies on crowd-out; data resources, econometric specification, and data analysis for this study.

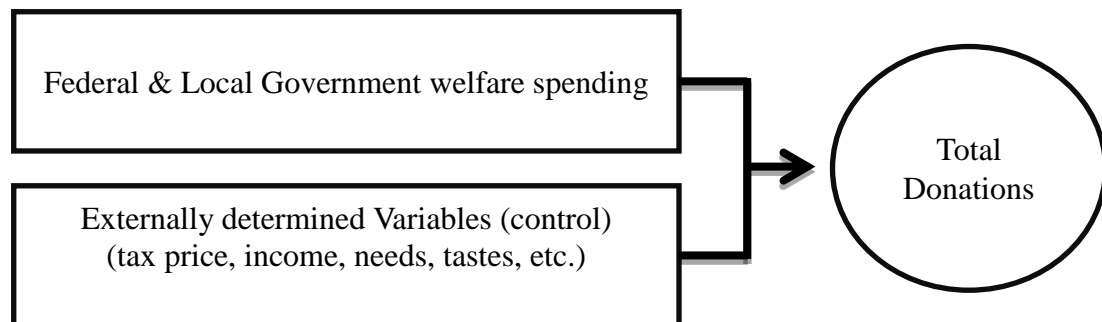
### **Definition of Simple, Joint Crowd-Out and Significance of Joint Crowd-Out**

As briefly indicated above, the term “crowding effect” refers to the concurrent changes in private giving to a public good when government funding for the same good is changed either negatively or positively. In responding to an increase in government expenditures (either in the form of direct service provision or through grants and contracts with nonprofit organizations), philanthropic individuals may decrease their donations. Economists refer to this phenomenon as crowd-out. The same effect can occur in the opposite direction. Government spending may escalate private giving to charity

because the government spending signals the quality of a public good. This phenomenon is identified as crowd-in.

Steinberg (1993) posited the estimated negative coefficient of the interaction between government spending and private giving to charity as the ‘simple’ crowd-out: the effect of aggregate government spending on aggregate donations. As illustrated in Figure 2, simple crowd-out estimates the relationship between government spending and charity, all else held constant. The simple crowd-out has been much studied both theoretically and empirically. Tinkelman (2009) found 46 empirical studies were associated with the simple crowd-out including Garrett and Rhine (2007), the most recent study in his research.

Figure 2. Simple Crowd-Out



Source: Steinberg, R. (1989). The theory of crowding out: Donations, local government spending, and the “New federalism”, p.12.

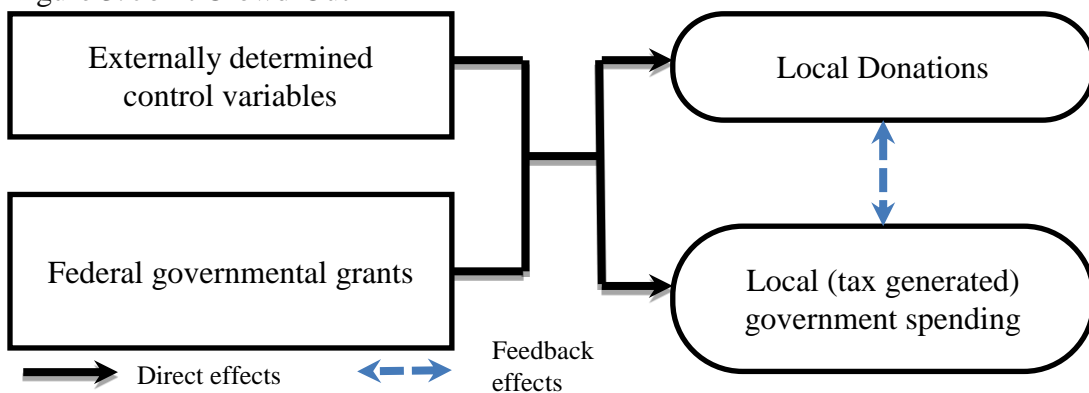
However, the simple crowd-out model has been criticized by researchers. For example, the estimation approach with simple crowd-out model has been criticized as suffering from endogeneity bias (Kingma, 1989; Smith, 2006; Steinberg, 1987). While indicating the limitation of the simple crowd-out model, researchers suggested some alternatives to indicate the relationship between government spending and private giving such as 2SLS (Two-Stage Least Square), instrumental variable techniques, or induct least

squares estimation of joint crowd-out (Payne, 1998; Smith, 2006; Steinberg, 1990). Specifically, Steinberg (1987, 1990, 1993) asserted the joint crowd-out can be an alternative to estimate the interaction between government spending and private giving to charity without endogeneity.

As indicated in Figure 3, joint crowd-out estimates the relationship between government expenditures and private giving while considering exogenous changes when the federal government transfers grants to state governments. That is, the joint crowd-out model estimates the total effect of federal government spending on both state government spending and private giving.

The basic assumption for joint crowd-out is that federal government spending has a wide variety of intertwining links because federal spending affects both state spending and private donations. Because state government spending and private donations both react to federal spending, the interaction between the changes in federal spending and the changes in state spending should be estimated in order to indicate the total effect of government spending on private giving. That is, joint crowd-out estimates the sum of direct and feedback effects.

Figure 3. Joint Crowd-Out



Source: Steinberg, R. (1989). The theory of crowding out: Donations, local government spending, and the "New federalism", p.12.

In addition, another advantage of examining joint crowd-out to estimate the interaction between government spending and private giving is that joint crowd-out estimation can provide political insight about federal government centered welfare provision, which is federalism. According to Steinberg (1990), if the estimated coefficient indicates total joint crowd-out—which is dollar-for-dollar crowd-out, the federal government should not provide public services because voluntary donations would completely replace government spending.<sup>2</sup> If there is joint crowd-in, the federal government expenditures are significantly efficient. This finding can provide political perspective about welfare provision. Therefore, joint crowd-out estimation is important to estimate an accurate crowd-out relationship between government welfare spending and private giving to human service organizations.

### **Theory of Joint Crowd-Out**

Insofar as examination of crowd-out is important for indicating the government's ability to provide public services, along with individuals' motivation for giving, a large body of studies has been examined for crowd-out effects. Previous empirical and theoretical studies have generally concluded that government expenditures partially crowd out private donations. The previous scholarship on the crowd-out hypothesis has examined several models based on the crowd-out theory, such as the simple crowd-out model and the joint crowd-out model.

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<sup>2</sup> Steinberg(1990)'s conclusion holds whenever positive donations occur at the desired level of total spending. Because donations cannot be negative, a sufficiently large amount expenditure would increase total spending.

*Simple crowd-out model*

Early theories of donations for public goods, such as Warr (1982), Roberts (1984), and Bernheim (1986), were developed based on the assumption that individuals have complete information on the menu of charities available and express their demands for the public goods through their donations (Andreoni & Payne, 2003; Rose-Ackerman, 1986). At one extreme, if donors derive utility solely from the provision of the charitable expenditures regardless of the source of funding, Warr (1982), Roberts (1984), and Bernheim (1986) proved that government spending on the public good crowds out donations to the same kind of public goods on a dollar-for-dollar basis (“completes crowd-out”): that is, one dollar of government subsidies will displace one dollar of philanthropy. This is because the increases in government expenditures, financed by taxing the donors, acts just like a redistribution of income.

However, a dollar-for-dollar crowd-out model was consistently rejected with statistical confidence by most empirical studies of simple crowd-out including Andreoni (2006), Heutel (2009), and Payne (1989). The studies asserted that a dollar-for-dollar replacement is only guaranteed under strong assumptions: that donors are purely altruistic in their giving and care only about the total provision of a charitable good ; that donors are indifferent between giving directly or giving indirectly by being taxed (Andreoni, 2006; Heutel, 2009; Payne, 1998, 1989).

The empirical studies with crowd-out effect following studies by Warr (1982) and Roberts (1984) have typically produced results based on the simple crowd-out model in which either fixed-sum government spending or government production reduce private giving. For example, Cuellar (2004) estimated the impact of government expenditures to



social welfare on total level of contributions to the poor based on Roberts (1984, cited in Cuellar, 2004)'s general methodology, which examined the simple crowd-out hypothesis. Horne (2006) examined the relationship between the change in government subsidy from 1998 to 1999 and the change in charitable giving from 1999 to 2000 using Form 990 data.

Although the simple crowd-out studies estimated a certain degree of crowd-out coefficients between government spending and private giving to charity, researchers indicated limitations of the results from the simple crowd-out studies. Steinberg (1987), Kingma (1989), and Smith (2006) asserted that if the interaction between government spending and private giving to charity is performed with OLS (Ordinal Least Squares), then the estimated coefficient with the simple crowd-out is biased and inconsistent because the government spending variable is endogenous.<sup>3</sup> For example, when people increased their demand for welfare services when Hurricane Katrina hit New Orleans in 2005, we would expect demands for both government and private contributions to be high. Undoubtedly, in response to high demand, private giving and public spending to provide public services should be increased. Thus, the estimated coefficient between government spending and private giving has more chance to be biased if we do not consider the situation, which is one of endogeneity.

Rose-Ackerman (1986) stated two limitations of the assumption for the simple crowd-out model (failure to consider various features of nonprofits and ignoring regulation of government funds) and demonstrated that government spending need not crowd out private donations. She probed the possibility that fixed-sum grants can

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<sup>3</sup> Endogeneity arises if there is a correlation between the parameter and the error term in the estimated regression equation. If the estimated coefficient  $\beta$  is associated with  $\varepsilon$ , the estimated coefficient is biased and inconsistent. Endogeneity exists when the model includes an endogenous explanatory variable (Chenhall & Moers, 2007).

increase private giving if they are accompanied by regulatory policies that raise the marginal benefits of private contributions.

***Joint crowd-out model***

Local governments receive grants from federal government in the forms of categorical assistance and general assistance such as revenue sharing. Thus, local government expenditures are precisely sensitive to changes in federal government funds. Simultaneously, local government is sensitive to change in individual donations. Therefore, Steinberg (1989) stated that federal government expenditures may be expected to alter both private donations and local government spending. In turn, induced changes in donations in local government expenditures have feedback effects on donations and vice versa (Steinberg, 1987). The total effect of the change of federal government spending on the changes of state government spending and private spending is denoted as joint crowd-out.

Steinberg (1987) developed a theoretical treatment of the joint crowd-out model that depends on a decisive voter model in which the voters are cognizant of private donors and of simple crowd-out, and vote accordingly (Lindsey & Steinberg, 1990). The fundamental assumption for the joint crowd-out model is that federal government transfers to state governments are exogenous. According to the joint crowd-out model, the exogenous changes in federal government spending affect both the changes in private donations and the changes in state and local government expenditures. The ultimate total effect should be regarded in order to estimate the interaction between government expenditures and private donations because each individual regards the donations of

others, state spending and federal spending as perfect substitutes for one another or vice versa.

Steinberg (1987, 1989) stated that joint crowd-out can be partial, zero, or negative in political-economic equilibrium. Joint crowd-out is generally partial, i.e., total expenditures will rise and donations will fall, but to a smaller degree than the total grants. This result is guaranteed if the simple crowding out of donations is partial. When there is simple crowd-in of donations, joint crowd-out is also likely to be partial, but zero or joint crowd-in is also possible. If there is a total simple crowd-out, which is a dollar-for-dollar crowd-out, then either state spending or total donations must be zero. In this case, joint crowd-out is not well defined. The joint crowd-out model is quite complicated. Some of these conclusions can be changed when federal grants are of the matching variety. For example, matching grants reduce the marginal costs of induced local government spending. Thus a matching grant will be able to purchase a larger service increment. With matching grants, the tendency toward partial joint crowd-out is reduced or reversed and total spending may go up by an amount that exceeds the grants (Steinberg, 1989).

### **Empirical Results: Crowd-Out/-In or Neither**

Since the late 1970s, researchers have measured the effect of a change in government funding for nonprofit organizations on private donations. The studies were attempted with a variety of processes using various datasets such as organizational level data, surveys of giving, and aggregates of individual income tax return data. Horne (2005) summarized the previous research on the crowd effect at two different levels: 1) at the aggregate level, examining government spending on public services or the interaction between overall government spending and total giving to charity (e.g., Abrams &

Schmitz, 1984; Jones, 1983; Steinberg, 1985, as cited in Horne, 2005); and, 2) at the organizational level, examining the interaction between government expenditures for specific charitable organizations (e.g., Andreoni & Payne, 2003; Borgonovi, 2006; Dokko, 2009; Gruber & Hungerman, 2007; Hughes & Luksetich, 1999). Tinkelman (2009) summarized empirical studies of interaction between government funding and donations by the aggregated level of data such as Form 990s data, surveys of giving to different types of charity, and individual income tax data for charitable giving.

Table 1 is a summary of 45 published or unpublished empirical studies indicating the interaction between government spending and private giving to nonprofit organizations in this study. The writer counted 21 studies which probed some degree of crowd-out coefficients; 5 studies which reported crowd-in coefficients; 11 studies which found both crowd-out and –in depending on the different types of nonprofit organizations or different levels of the government funds; and 8 studies which found no statistically significant relationship between government spending and private giving. Fifteen studies indicated crowd effects between government welfare expenditures and private giving to human service organizations as part of their results.

Among the 21 empirical studies reporting crowd-out, eight studies used data aggregated at the charity level such as the data on nonprofit revenues and expenses from federal tax returns filed by IRS Section 501(c)(3) organizations, known as Form 990. Four studies provided crowd-out effects using individual income tax return data, and nine reported crowd-out coefficients using surveys of charitable giving. For example, Kingma (1989), Andreoni and Payne (2008), and Dokko (2009) aggregated government funds and

private giving data from 990s. Andreoni and Payne (2008) found that total crowd-out of private giving is approximately 56 percent.

Table 1. Summary of Empirical Studies of the Crowded-Out by Major Finding

Data level	Partial/Full crowd-out	Partial/full crowd-in	Both crowd-in and out	No statistically significant relationship
Using organizational-level data (e.g., Form 990s, charity information from the organization)	Andreoni & Payne (2008), Brown & Finkelstein (2008), Dokko (2009), Gordon (2004), Gruber & Hungerman (2007), Hungerman (2009), Kingma (1989), Payne (1998)*	Arulampalam, Backus, & Micklewright (2009, NUS), Borgonovi & O'Hare (2004), Heutel (2009)*, Khanna & Sandler (2000, NUS), Smith (2007)	Andreoni & Payne (2003)*, Borgonovi (2006)^, Brooks (2000b), Hersey (2010), Horne (2005)*, Okten & Weisbrod (2000), Smith (2006), Steinberg (1987)	Brooks (1999, 2003) Hughes & Luksetich (1999), Khanna, Posnett, & Sandler (1995, NUS)*, Payne (2001)
Using aggregates of individual income tax return data	Abrams & Schmitz (1978, 1984*) Amos (1982)* Steinberg (1990)		Schiff (1990*)	Day & Devlin (1996, NUS), Lindsey & Steinberg (1990)*
Using survey of giving data (e.g., charitable giving from individual donors)	Cuellar (2004)*, Duncan (1999), Garrett and Rhine (2007) Hungerman (2005), Kingma & McClelland (1995), Ribar & Wilhelm (2002), Simmons & Emanuele (2004), Straub (2002), Steinberg (1985, NUS)*		Brooks (2000a)*^, Schiff (1985)*	Reece (1979)*

Note: - Studies are listed in alphabetical order within each type of data used.

- Studies were categorized in both crowd-out and - in, if the study reports both crowd-out and - in effects for different types of nonprofits or different levels of government funding.
- NUS indicates non-US data.
- \* indicates that the study attempted to estimate crowd-out with human service organizations.
- ^ indicates that the study reported a curvilinear relationship between government spending and donations
- Andreoni and Payne (2003) examined the relationship between government spending and giving of fundraising for nonprofit organizations, not about donations.

Kingma (1989) found that a dollar of government funding increase crowded out 53 cents of private giving to public radio stations. Dokko (2009) reported 50 to 60 cents crowd-out for art organizations. In addition, the following studies reported crowd-out interaction between government spending and private giving using organizational level data to aggregate charitable giving and government spending including Brown and Finkelstein (2008); Dokko (2009); Gordon (2004); Gruber and Hungerman (2007); Hungerman (2009); Kingma (1989); and Payne (1998). Consequently, the studies indicating crowd-out effect using an organizational level of data reported that a dollar of government funding to nonprofit organizations tends to result in the displacement of private giving between 14 and 60 cents.

Researchers also provided crowd-out coefficients using different data sources (Abrams & Schmitz, 1978, 1894; Amos, 1982; Steinberg, 1990). Instead of using 990s, the studies used individual income tax return information through the National Bureau of Economic Research TAXSIM program which contained itemized deductions by income class. Those studies using individual income tax return data reported that a dollar of government funding to nonprofit organizations tends to crowd out private giving of between 4.6 and 46 cents.

Furthermore, some studies used surveys of individual giving to obtain data on charitable giving and also noted crowd-out interaction of between government funds and private giving. For example, Simmons and Emanuele (2004) used a national sample of the activities of donors collected by the *Gallup Organization* and *the Independent Sector*, called *Giving and Volunteering 1996* (Independent Sector 1996, as cited in Simmons &

Emanuele, 2004). They found minimal crowd out between government expenditures and the donation of time and money. Cuellar (2004) estimated crowd-out coefficient using the American Association of Fund-raising Counsel's annual, *Giving USA*, and the various issues of the *Statistical Abstracts of the United States* for government expenditures. The following studies investigated crowd-out interaction using survey data at the organizational level: Duncan, 1999; Hungerman, 2005; Kingma & McClelland, 1995; Ribar & Wilhelm, 2002; Steinberg, 1985. The studies measuring individual philanthropic giving by surveys of recipient organizations found that a dollar increase in government expenditure tends to crowd out private giving to nonprofit organizations from a minimum of 2 cents to a maximum of 24 cents.

In contrast, a few studies determined that government funding to nonprofit organizations tends to stimulate private giving. As indicated in Table 1, five studies reported a crowd-in pattern (Arulampalam et al., 2009; Borgonovi & O'Hare, 2004; Heutel, 2009; Khanna & Sandler, 2000; Smith, 2007). All five of these studies investigated the interaction using organizational level data. For example, Borgonovi and O'Hare (2004) addressed crowd-in of government spending for art organizations such as art museums, theaters, and art institutions using the National Endowment for the Arts (NET) and Form 990 data from the art organizations. Heutel (2009) reported a statistically significant crowd-in effect of government spending to six types of nonprofit organizations (e.g., food, agriculture, nutrition, and human service charities) using 990s. Khanna and Sandler (2000) found government spending crowded in voluntary donations using *U.K. Charity Trends* and *U. K. Charity Statistics* data, which contained detailed accounts of income and expenditures of charities in the U.K. In another U.K study,

Arulampalam, Backus, and Micklewright (2009) found a crowd-in effect with *U.K. Charity Trends* data, in which a dollar in government spending crowded in 15 cents in private donations.

Other crowd-out studies have had mixed results. Eleven studies found mixed results based on the different types of nonprofit organizations (e.g., religious, health, and human service organizations) or different levels of government funds (e.g., federal funds vs. state funds, long-run government funds vs. short-run government funds). Among the 11 studies, seven addressed the mixed coefficient using organizational level data (Borgonovi, 2006; Brooks, 2000b; Hersey, 2010; Horne, 2005; Okten & Weisbrod, 2000; Smith, 2006; Steinberg, 1987). Two studies using individual income tax return data found both crowd-out and –in effects (Andreoni & Payne, 2001; Schiff, 1990). Using a survey of private giving data, two studies reported government spending either crowded out or in private giving depending on the type of nonprofit organizations (Brooks, 2000a; Schiff, 1985).

Using 990s, Horne (2005) estimated the crowd-out effect between government spending and private donations to 15 different types of nonprofit organizations (such as art/culture/ humanities, education, universities, environment, human service, youth development, animal-related). He reported that in the nonprofit sector as a whole, a dollar of government sources crowded in five cents in charitable giving. However, the crowd-in did not uniformly predict the interaction. Nine subsectors demonstrated a crowd-in effect of government funds on charity (e.g., arts and culture, education, college/ university, environment, medical research, housing/shelter, public safety/disaster, youth development, and human service organizations); whereas five subsectors demonstrated a



crowd-out effect (e.g., animal-related, recreation/sport, international/ civil rights/ social action, community improvement organizations). Using 990s, Smith (2006) estimated the interaction between the NEA grants and non- NEA grants (e.g., private donations and state level government spending to art organizations). He reported that NEA grants crowded out private donations, but NEA grants crowded in state-level government spending.

Some empirical studies found mixed effects using individual income tax return data. For example, Using the *National Survey of Philanthropy 1974*, a survey of some 2,500 households, Schiff (1985) reported that charitable contributions fell as local governments' funding increased. Specifically, he found that increases in certain types of government spending (e.g., cash transfers to the needy) crowded out donations, but increases in other types (e.g., spending on social services) stimulated charitable giving. Brooks (2000a) also studied the interaction using *Giving USA* data for charitable giving and U.S. Census data for government funds. He estimated the crowd-out effect for four different types of nonprofits (social and human service, health, arts and culture, and education organizations). He reported that a dollar in state government spending crowded out two cents in donations to social and human service organizations, while federal spending did not have a significant impact on private giving. Private giving to health organizations is crowded out by state spending, but is not statistically significantly affected by federal spending (Brooks, 2000a).

Furthermore, some studies indicated a curvilinear pattern, with crowd-in at low levels of government support and crowd-out at a high level. For example, Brooks (2000b) reported that some orchestras will tend to experience a leveraging effect up to about

\$8,200 in government support per concert; after this point, private support will begin to be crowded out. That is, Brooks (2000b) indicated a curvilinear relationship in which that lower level of government funding for symphony orchestra stimulated private giving, but higher government funding led to crowd-out. In another study using 990s, Hersey (2010) identified a curvilinear association between government spending and private giving.

Finally, some studies reported no statistically significant relationship between government spending and private giving including Brooks (1999), Day and Devlin (1996), Hughes and Luksetich (1999), Khanna et al. (1995), Lindsey and Steinberg (1999), Okten and Weisbrod (2000), Payne (2001), and Reece (1979). For example, Brooks (1999) found no significant relationship for symphony orchestras. Hughes and Luksetich (1999) found federal government spending did not have a significant interaction with government spending and private giving to art museums.

Several studies investigated the association between government welfare expenditures and private giving to human service organizations. Among 45 empirical studies, 15 addressed the interaction between government welfare expenditures and private giving to human service organizations as part of the analysis. The studies focusing specifically on human service organizations occasionally reported that state and local government spending crowded in private giving to human service organizations; and the studies found no significant association with the federal government spending. For example, Brooks (2000a) discovered one dollar in state government welfare expenditures crowded out two cents in private giving to human service organizations; while federal government welfare spending did not have a statistically significant association with private giving. In contrast, Schiff (1985, as cited in Steinberg, 1999) reported charitable

giving to social welfare charities increases when state and local government spending increases. Another study by Schiff (1985) reported that charitable giving to social welfare organizations fell as government cash transfers increased, but rose as other government welfare expenditures increased. Heutel (2009) found a crowd-in coefficient interaction between government spending and donations to human service organizations even though the size of the coefficient was the lowest statistically significant crowd-in rate. Andreoni and Payne (2001) also reported a significant positive relationship between government spending and fundraising efforts from human service organizations. Finally, Horne (2005) indicated a positive interaction between government spending and private giving to the human service sector by almost two cents.

On the other hand, consistent negative coefficients were reported for the interaction between government welfare expenditures and charitable giving to human service organizations. Garrett and Rhine (2007) discovered a crowd-out coefficient between giving to welfare agencies and state and local welfare spending, though it was not statistically significant. Cuellar (2004) discovered a dollar increase in government welfare expenditures crowded out private contributions to human service organizations by almost five cents. Payne (1998) found government contributions to human service organizations crowded out about 53 cents of private giving to human service organizations. Finally, Steinberg (1985) reported a very small crowd-out effect, with only five cents displaced.

For the last empirical study review, a few studies estimated the interaction between government spending and private giving using the joint crowd-out specification (Smith, 2006; Steinberg, 1987, 1990, 1993). Steinberg (1990) indicated that using

aggregate government spending would result in biased crowding-out estimates, because state and local grants are endogenous and may change in response to a change in federal spending on nonprofits. Measuring the joint crowd-out model, Steinberg (1993) discovered that federal welfare spending had a statistically significantly positive effect on state spending on welfare, but partially crowded out charitable donations. That is, when state government spending remained constant, federal government spending crowded out 4.6 cents of private giving, but if state government spending had not been allowed to respond to the change in federal grants, donations would have fallen by only 1.4 cents (Steinberg, 1993). Joint crowd-out has a much larger coefficient than simple crowd-out because state spending moves in the same direction as federal grants.

As summarized, the empirical evidence concerning crowd-out between government spending and private giving is somewhat mixed: some were with crowd-out, some were with crowd-in, some were neither, and some were both crowd-out and -in. However, a majority of the studies indicated that government funding to nonprofit organizations crowds out private donations (e.g., Amos, 1982; Hughes & Luksetich, 1997; Khanna et al., 1995; Kingma, 1989; Payne, 1998; Schiff, 1990; Steinberg, 1985).<sup>4</sup> Nevertheless, some papers still supported a crowd-in effect (Borgonovi & O'Hare, 2004; Garrett & Rhine, 2007; Heutel, 2009; Khanna & Sandler, 2000). Furthermore, some studies stated a curvilinear relationship, which crowd-in at low levels of government support and crowd-out at high levels (Borgonovi, 2006; Brooks, 2000b; Hersey, 2010).

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<sup>4</sup> Brooks (2003) stated these seven economic studies were the major studies which conducted crowd-out effects from 1982 to 1998.

Even some studies estimated contradictory results measuring the same dataset.<sup>5</sup> Generally, empirical studies have reported partial crowd-out effect. However, certain studies examining the relationship with human service organizations were more likely to report crowd-in interaction between government welfare expenditures and private giving to human service organizations.

### **Empirical Results: Limitations and Suggestions for Further Crowd-Out Study**

Empirical results about the interaction between government spending and private giving, researchers addressed the interaction in almost any way possible. Although a large number of studies of the government spending and private giving relationship do provide a strong foundation for this research, the analysis is far from finished because previous studies demonstrate important shortcomings. The main limitations are associated with the various data sources for the study, failure to estimate interactions, and sample size.

First of all, researchers criticized crowd-out studies using aggregated data at the charity level (Horne, 2005; Payne, 2009; Tinkelman, 2009). Using organizational level data (e.g., tax return data, Form 990s) are not granular enough to allow comparison of government spending with private giving (Horne, Johnson, & Van Slyke, 2005; Tinkelman, 2009). According to Payne (2009), charity-level data cannot demonstrate the entire reaction by a donor to a change in government funding. For example, organizational level data cannot prove whether donors stopped giving to a charity

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<sup>5</sup> Borgonovi and O'Hare (2004), Dokko (2009), and Hughes & Luksetich (1999) estimated the interaction with the NEA data. Borgonovi and O'Hare (2004) reported crowd-in relationship; whereas, Dokko (2005) and Hughes and Luksetich (1999) indicated crowd-in effect.

because the charity received more government spending or they just stopped giving to that particular charity.

The quality of charity level data also matters for two reasons: nonprofit organizations have different intentions when filling out the forms that reflect the charity's revenue and expenditures; and the quality of charitable giving and government spending information is likely to be inaccurate because many nonprofits are run by volunteers. In addition, some types of government spending (e.g., tuition grants and Medicare) would likely be recorded in the organizational Form 990 as program service revenue rather than as federal or state government subsidies. In addition, Tinkelman (2009) stated that studies using tax return data on individual itemized charitable deductions cannot measure charitable giving from individual to particular causes such as giving to human service organizations. Furthermore, composite government spending using charity level data cannot be precise because public spending covers many different types of programs (Tinkelman, 2009). Therefore, the findings from the previous studies using organizational level data (e.g., Andreoni & Payne, 2008; Borgonovi & O'Hare, 2004; Brown & Finkelstein, 2008; Dokko, 2009; Heutel, 2009; Kingma, 1989; Okten & Weisbrod, 2000; Smith, 2006; Steinberg, 1987) are difficult to generalize to indicate the interaction between government spending and private giving.

In contrast, a few studies used individual philanthropy data to address the relationship between government spending and private giving because of the inaccuracy of charitable giving information from organizational level data. For example, Schiff (1985) used 1974 data from the *National Survey of Philanthropy*, Day and Devlin (1996) used a *Canadian survey* from 1986 and 1987, Brooks (2003) and Garrett and Rhine (2007)

used charitable giving data from *Giving USA*. However, none of these empirical studies examined the interaction between government welfare expenditures and charitable giving to human service organizations using individual philanthropic data without endogeneity issues. Steinberg (1990) estimated the full set of interactions for social welfare charities. However, he used a proxy for individual donations (United Way allocations), whereas I used direct data on giving to people in need.

In addition, the estimated individual charitable contributions had reliability and validity issues even though a few studies used individual philanthropic giving datasets. That is, the survey methodology of charitable giving studies had been an issue for researchers. For example, in November 2000, the Center on Philanthropy at Indiana University assembled a group of leading researchers in philanthropy studies. Six scholarly papers—Havens and Schervish (2001), Hall (2001), Kennedy and Vargus (2001), Kirsch, McCormack, and Saxon-Harrold (2001), O’Neil (2001), Rooney, Steinberg, and Schervish (2001) — were prepared for a conference and addressed methodological issues in surveying giving and volunteering behavior. In the results, researchers emphasized the limitations of existing individual giving data such as response rates, oversamples, questionnaire design, respondent selection, and unit of analysis. In regard to improving surveys of charitable giving, researchers recommended these points: interviewers should sample households across the complete spectrum of income; interviewees should be the household member who knows the most about the household’s giving; interviewers should be well-trained; interviewers must use a variety of prompts to aid respondents’ recall; and interviewers should inquire about a broad range of information about voluntary giving (Havens & Schervish, 2001; O’Neil, 2001).

Another downside of previous studies is associated with the estimated results with simple OLS estimation (Payne, 2009; Smith, 2006; Steinberg, 1987, 1993; Tinkelman, 2009). Simple OLS estimation has been employed in many studies. However, some researchers stated that estimated coefficients of government spending and private giving with simple OLS equation are biased and inconsistent (Kingma, 1989; Smith, 2006; Steinberg, 1987). For example, Seaman (1980, as cited in Tinkelman, 2009) found simple OLS tended to overestimate the crowd-out effects while comparing simultaneous equations model to OLS models.

Similarly, Payne (1998) found significantly different results with 2SLS, which is an alternative to OLS designed to estimate endogeneity bias. After Payne (1998) raised the endogeneity and omitted-variable issues about the results from previous studies with simple OLS models, some researchers examined crowd out using 2SLS specification (e.g., Brooks, 1999; Dokko, 2009; Gruber & Hungerman, 2007; Hungerman, 2005; Payne, 1998) or lagged variables (Horne, 2005).

Other researchers argued that the possibility that the interaction between government spending and private giving changes by different levels or types of government funding. The vast majority of empirical studies posited either a simple linear or a log-linear relationship between government spending and private giving. However, researchers asserted both the level of government spending (e.g., federal or state government spending) and the length of government spending (e.g., long term or short term) should be considered to estimate the interaction (Borgonovi, 2006; Brooks, 2000b; Steinberg, 1990, 1993; Tinkelman, 2009). For example, Borgonovi (2006) and Brooks (2000b) stated that crowd-out effect should be estimated by distinguishing lower or



higher level of government spending. Steinberg (1990) asserted federal government spending and state government spending should be distinguished to estimate the crowd-out effect. Also, he estimated the total effect of the relationship between government spending and private giving because both state or local government and individual donors would react if federal government expenditures to a state or local government were changed.

In summary, prior studies have had insufficient data to compare the interaction between government spending and private giving. That is, using organizational level data is not granular enough to estimate the interaction because of incompleteness and inaccuracy of the reported data about government spending and private giving. For data analysis with aggregated data, the estimated coefficient with the sophisticated technique (simple OLS) was biased and inconsistent. Also, the relation between government spending and private giving is not a linear relationship.

Thus, researchers recommended some alternative methods to avoid the biased coefficient problem. For example, in order to deflect endogeneity and omitted-variable bias, some researchers addressed crowd-out effects with different statistical analysis (e.g., 2SLS) specification instead of using OLS or considering instrument variable techniques including, Payne (1998), Hungerman (2005), Gruber and Hungerman (2007), and Dokko (2009). Other researchers used joint crowd-out to avoid those problems (Kingma, 1989, Smith, 2006, Steinberg, 1987, 1990, 1993).

### Chapter Three: Research Methodology

In this chapter, conceptual definitions of key variables are given such as the definition of charitable giving to human service organizations and other control variables. Data resources, research equations, and data analysis are addressed.

#### Data Sources

The data used in this study to analyze the interaction between government welfare expenditures and private giving to human service organizations came from two separate sources: the *Center on Philanthropy Panel Study* (COPPS) and the U.S. Census datasets. The data on individual philanthropic giving to human service organizations were taken from the COPPS dataset. COPPS is a module of the Panel Study on Income Dynamics (PSID), the nation's first and only ongoing longitudinal study about charitable giving over time.<sup>6</sup>

Steinberg and Wilhelm (2003) highlighted the advantages of using the COPPS dataset. Particularly, they accent that the COPPS dataset contains high-quality contextual data including income, wealth, work hours, wages, health, family structure, and other demographic data. While considering the recommendations from the conference for the survey methodology of charitable giving study hosted by the Center on Philanthropy at Indiana University in 2000, Steinberg and Wilhelm (2003) and Wilhelm (2002) stated that among the existing philanthropy datasets in the U.S., the COPPS dataset most accurately estimates individual charitable giving. As follow up studies, the two papers by

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<sup>6</sup> PSID is fielded by the Institute for Social Research at the University of Michigan and has surveyed the dynamic and interactive aspects of family economic, demographic, health, and philanthropy from the nationally representative same households since 1968. In 2001, Indiana University added the philanthropic component in the PSID survey and has been accumulating data on philanthropic giving behavior every two years. The COPPS contains not only comprehensive, nationally representative data on charitable giving, but also solely encloses panel data on giving in the United States.

Wilhelm (2006, 2007) speak to the quality of the COPPS data, showing that COPPS has a far lower item-nonresponse rate than other giving surveys and that reported levels of giving track those in the “gold standard” cross-sectional study (the 1974 National Survey of Philanthropy) very well up to the 90th percentile of the income distribution.

For this study, the 2007 wave of COPPS dataset was used to aggregate the charitable giving to human service organizations.<sup>7</sup> The philanthropic questions were asked in 2007 about giving in 2006. Finally, a total of 8,289 households participated in the 2007 wave of the PSID and 8,110 households answered the philanthropy section. The family weights that are provided by the PSID research team at the University of Michigan to yield nationally representative results is used to estimate the charitable giving to human service organizations. The PSID research team provides the family weight variable because of the oversampling issue. In this study, the family weight variable is applied in the regression.<sup>8</sup>

For estimating philanthropic giving information, the COPPS survey covered philanthropic giving to charity with eleven different types of nonprofit organizations including the following: religious, arts and culture, combined purposes, education, environment and animal-related, helping people in need, health, international, neighborhood and community, youth and family, and other organizations.

For estimating total amount of charitable giving to human service organizations, the estimated dollar amount of philanthropic giving to human service organizations was

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<sup>7</sup> The COPPS 2007 data is available at <http://www.philanthropy.iupui.edu/Research/copps/#dataSets>. This data set was generated from the raw data with some cleaning explained in the user’s manual at the same site.

<sup>8</sup> The oversampling issue does not discussed in this paper and weights get at additional things, like attrition bias, as well as the initial oversample in the SEO portion of the data.

transferred as dollar per capita in order to examine the joint crowd-out effects. In order to estimate the per capita dollar amount of charitable giving to human service organizations, the estimated total amount of charitable giving to human service organizations was divided by the total number of family members per household.<sup>9</sup> In addition, the estimated per capita dollar amount of charitable donations to human service organizations was adjusted for inflation in order to estimate the size of the coefficient of joint crowd-out effect in constant dollars, using the CPI to adjust for inflation.

Individual levels of socio-economic demographic variables were taken from the COPPS 2007, including household's age, gender, education level, ethnicity, marital status, religion, employment status, health condition, number of kids, wealth, and income. In addition, the price of giving data was generated using COPPS 2007 by Wilhelm and Han (2012).

The data on federal and state government welfare expenditures in FY 2005 were taken from various sources of the U.S. Census datasets. First of all, the federal expenditures on public welfare in 2005 were taken from the U.S. Department of Commerce, Bureau of the Census. The data were released in February 2007.<sup>10</sup> The state and local government expenditures on public welfare were taken from the U.S. Census database that was generated by the Public Policy Institute (PPI). The PPI provided state and local per-capita public welfare spending in 2005 that was generated based on Census

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<sup>9</sup> The total number of family size was generated as follows: One person was added to the total number of children who are living with a household who is single, widowed, or separated. Two persons were added to the total number of children when a household was married in COPPS 2007.

<sup>10</sup> The federal government expenditures to state government for public welfare were retrieved from the Knowledge Center at the Council of States Governments (<http://knowledgecenter.csg.org/drupal/system/files/2.3.pdf>)

Bureau State and Local Government Finances.<sup>11</sup> Both federal government funds for public welfare programs to state and the state and local government expenditures for public welfare were estimated by a dollar per capita. The detailed federal and state government spending on public welfare in 2005 listed in Appendix A. Additionally, state levels of socio-economic characteristics were taken from the U.S. Census database as well.

### **Conceptual Definitions of Key Variables**

In this study, charitable giving to human service organizations was identified as giving to people in need and giving to youth and family organizations. The Panel Study Income Dynamic (PSID, 2010) defines philanthropic giving to people in needs as charitable giving to organizations that help people in need of food, shelter or other basic necessities. The conceptual definition of giving to youth and family organizations is the donation to organizations that provide youth or family services, such as to scouting, boy's and girls' clubs, Big Brothers and Sisters, foster care, or family counseling. Based on these conceptual definitions of charitable giving to human service organizations, the total amount of giving to human service organizations was estimated by the sum of these two types of giving. Although, the Center on Philanthropy Panel Study (COPPS) estimates twelve different types of charitable giving—particularly, the COPPS estimates the giving to organizations for combined purposes—the giving for combined purposes did not include the estimate of total contributions to human service organizations in this study.<sup>12</sup> Because the organizations for people in need and the organizations for youth and family

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<sup>11</sup> The State welfare government expenditures were retrieved from the Public Policy Institute of New York State, Inc. (<http://www.ppiny.org/reports/jtf/welfarespending.htm>)

<sup>12</sup> Charities that provide for combined purposes include the United Way, the Catholic Charities, the United Jewish Appeal, community foundations, and private foundations (PSID, 2010).

are on the front line these organizations provide direct benefits and services to people in need.

For data analysis, the estimated charitable giving to human service organizations was transformed as dollar per capita in this study in order to put government spending and donations on the same scale. Originally the COPPS data does report each household's giving as current dollar amount. In order to generate the dollar per-capita donations to human service organizations, the estimated total household giving was divided by the family members in each household in the 2007 COPPS.

The conceptual definition of government welfare expenditures was identified as the federal or state/ local government expenditures for public welfare, including federal assistance programs, cash assistance programs, and other public aid programs. According to the Government Finance and Employment Classification Manual (U.S. Census, 1/12/2012), public welfare expenditures include the following: Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), Medical Assistance Program (Medicaid), food stamps, and other public aid expenditures. Table 2 provides a detailed description of the welfare expenditures of the public welfare section. The government spending on public welfare measure is the sum of all the expenditures listed in Table 2.

Table 2. A Description of Public Welfare Program

Category	Definition
Federal Categorical Assistance Programs	The expenditures associated with three federal programs - Supplemental Security Income (SSI). - Temporary Assistance for Needy Families (TANF). - Medical Assistance Program (Medicaid).
Other Cash Assistance Programs	Cash payments made directly to individuals contingent upon their need, other than those under federal categorical assistance programs (e.g., poor relief; general relief; home relief; emergency relief; general assistance; refugee assistance; medical assistance, housing expense relief, energy assistance; Home Energy Assistance Program, or LIHEAP, emergency assistance).
Vendor Payments for Medical Care	Public welfare payments made directly to private vendors for medical assistance and hospital or health care, including Medicaid (Title XIX), plus mandatory state payments to the federal government to offset costs of prescription drugs under Medicare Part D. Payments to vendors or the federal government must be made on behalf of low-income or means-tested beneficiaries, or other medically qualified persons.
Vendor payments for other purposes	Payments under public welfare programs made directly to private vendors (i.e., individuals or nongovernmental organizations furnishing goods and services) for services and commodities, other than medical, hospital, and health care, on behalf of low-income or other means-tested beneficiaries.
Institutions	Provision, construction, and maintenance of nursing homes and welfare institutions owned and operated by a government for the benefit of needy persons (contingent upon their financial or medical need), and veterans.
Other welfare expenditures	All expenditures for welfare activities not classified elsewhere (e.g., regulation of private welfare activities; children's services, such as foster care, adoption, day care, nonresidential shelters, and the like; social services for the physically disabled, such as transportation; low-income energy assistance and weatherization intergovernmental payments; temporary shelters and other services for the homeless; welfare-related community action programs).

Source: U.S. Bureau of the Census (n.d.). Government Finance and Employment Classification Manual: Covering the activities of the Federal, state, and local governments.

In addition, the other control variables, measured at the state level, were taken from the U.S. Census database, including poverty rate, state median household income, percentage of population who are 65 years or over in the state, and the percentage of state level owner occupied houses. As for exogenous variables that significantly affect the

determinants of charitable donation, Andreoni and Payne (2008), Cuellar (2004), Schiff (1985), and Straub (2002) stated that the changes in charitable donations were significantly associated with those three state-level control variables.

First of all, the percentage of poverty level is included because previous studies (e.g., Andreoni & Payne, 2008; Cuellar, 2005) have found the poverty level to be significant determinants of donations. The state income is a significant factor in estimating the relationship between federal government spending and private giving to human service organizations. Cuellar (2004) and Straub (2002) stated that family income has a significant and positive effect on charitable contribution.

In this study, the measure of state income was estimated as per-capita median family income by state. The percent of population over 65 years old and the percent of housing units in a state that are owner occupied were important variables that have a significant impact on the relationship between government spending and private giving. According to Steinberg (1988), the percent of population over 65 years old has positive effects on charitable giving. That is, the higher the percentage of population who are 65 years or more, the more likely they are to donate more to charity. The positive association between age and giving has been repeatedly reported in philanthropic studies (Andreoni, 2006; White, 1989).

In contrast, the percentage of occupied housing units that are owner-occupied is anticipated to have a negative effect. Steinberg (1988) noted that a higher percentage of occupied housing rate affects the needs for charitable donations; thus, charitable giving would not be necessary. Therefore, the percentage of occupied housing units would negatively affect charitable giving. However, the effect is possible in the other direction.



Based on the empirical suggestion from previous studies, the writer included those four state level variables as independent variables in this study to estimate the crowd-out coefficient.

In addition, a variety of socio-economic variables were included in the long version of the reduced-form equation in order to estimate an accurate coefficient without bias. The differences in household demographics included price of giving, gender, education level, ethnicity, marital status, number of children, health condition, religion, employment status, wealth without house, and income.

In particular, the price of giving was examined in the regression equation because the price of giving generally affects charitable donation. In general, higher marginal tax rates reduce the cost of giving (price of giving), then the lower price of giving induces more charitable giving. That is, the price of giving has a negative association with charitable giving. The impact of the price of giving on charitable giving has been explained in several studies. For example, Clotfelter (1985, as cited in Cuellar, 2004) noted that donors were generally sensitive to variations in tax rates. Thus, the price of the giving is exogenous to the decision of how much to contribute. The price of the giving variable was included to estimate the crowd-out effect in Schiff (1985) and has been indicated in crowd-out studies ( Cuellar, 2004; Kingma, 1989; Straub, 2002).

The conceptual understanding about price of giving is that the estimated charitable giving amount is the amount of after-tax income which must be dedicated to transfer a dollar to charity. For example, the price is one dollar for non-itemizers and dollars (from 1\$ 1 to \$m), where m is the donor's marginal tax rate. Cash donations that made by living individuals not subject to the alternative minimum tax to eligible charities,

amounting less than 50 percent of adjusted gross income computed without any net operating loss carrybacks. PSID data which is original source of COPPS data, does not report tax information in detail, especially the PSID does not survey the actual marginal tax rate. Wilhelm and Han (2012) were able to generate the price of giving from a set of input variables tailored to tax-return data using the NBER's TAXSIM program. Wilhelm and Han (2012) addressed that the generated price of giving variable is appropriate to use in PSID data, even though PSID data does not fit the bill precisely.

For the simple state crowd-out equation, the independent variables were included as follows: federal government public welfare expenditures in 2005, the state poverty rate, the state median income, the percentage of total population who are 65 and over, and the percentage of occupied housing units in the state.

### **Descriptive Statistics of Government Spending and Charitable Giving**

As shown in Table 3, COPPS 2007 shows that 65.5 percent of all U.S. households donated to charity in 2006. Specifically, 35.2 percent of donor households contributed to human service organizations in 2006. For charitable donor households only, the median total amount of giving to charity was \$870 (average \$2,213). The median gift to human service organizations was \$200 (average \$500). For charitable giving including non-donor households, the median total amount of giving to charity was \$301 (average \$1,449). The median gift to human service organizations including non-donors was \$0 (average \$164). Other charitable donors' socio-demographic characteristics such as gender, education level, ethnicity, marital status, religiosity, and income are shown in detail in Table 3.

Table 3. Overview of Charitable Giving in 2006

Category	Giving Rate	Average amount per household	Median amount per household		
Overall Giving	65.5%	\$2,213(*\$1,449 )	\$870 (*\$301)		
Human Services Giving	35.2%	\$500(*\$164)	\$200(*\$0)		
Category	Percentage	Category	Percentage		
Probability of overall giving	65.5%	Catholic	30.0%		
Probability of human service giving	35.2%	Jewish	4.1%		
Female	28.95%	Protestant	64.0%		
Male	71.05%	Other non-Christian	1.5%		
High school or less	42.2%	Orthodox	0.4%		
College attendees	30.2%	Others	2.1%		
Bachelor degree	20.2%	Itemizer	58.9%		
Master/PhD degree	7.4%	Non-itemizer	41.1%		
White	74.0%	Working now	63.4%		
Black	13.6%	Unemployed	4.1%		
Asian or pacific islander	1.75%	Retired	19.0%		
Hispanic or Latino	7.9%	Disabled	4.7%		
Other race	2.8%	Other	8.8%		
Health condition	Excellent	20.6%	Category	Average (Median)	SD
	Very good	34.3%	Number of Children	0.6 (0)	1.02
	Good	28.7%			
	Fair	11.6%	Income in 2004	\$70,951 (\$49,770)	93546.7
	Poor	4.8%			
Married	49.7%	Wealth (exclude house values)	\$267,742 (\$24,200)	1455517	
Never married	22.4%	Total giving amount	\$2,213 (\$870)	4238.8	
Widowed	9.1%	Human services giving amount	\$500 (\$200)	963.2	
Divorced	15.7%	State & local expenditure in 2005	\$1,237		
Separated	3.1%	Federal expenditure in 2005	\$173.7		
		Average state income in 2005	\$34.484		
		Poverty level in 2005	12.9%		

Note: -Percentage of each socio-demographic variable was estimated after weighted with family weight 2007 variable. Also, the responding households who did not respond on philanthropic section were excluded to estimate the socio-demographic characteristics and philanthropic behavior.

-Private giving to HSOs and total giving amount were estimated with \$ per year in 2006 dollar.

-Federal, state, and local government spending on public welfare in 2005 were estimated with \$ per capita.

\* The estimated dollar amounts including both donor and non-donors.

According to the U.S. Department of Commerce, the federal government provided overall \$173.7 per capita for public welfare in 2005. The federal government paid out approximately \$622.6 per capita to California state and local governments for public welfare which was the largest amount of grants in 2005, followed by New York state (\$518.1 per capita), Michigan (\$221.0 per capita), and Colorado (\$216.1). In addition, the state and local government expenditures on public welfare were an average of \$1,237 per capita in 2006. In 2005, New York state paid out for public welfare almost \$2,236 per capita in 2005, which was the largest amount of grants among the 50 states, followed by Alaska (\$2,085), and Rhode Island (\$2,014). In contrast, the Nevada state government paid out \$718 per capita for public welfare in 2005, which was the smallest amount among the 50 states, following by Colorado (\$738) and Texas (\$866). The detailed information is stated in the Appendix D.

Results of the crowd-out effect of federal government expenditures on charitable donations to human service organizations were mixed. The detailed results from all regression analyses are summarized in Appendix A.

### **Econometric Specification**

The joint crowd-out estimation was outlined by Steinberg (1987) and has been presented recently in Cuellar (2004) and Smith (2006). In the Steinberg model (1987), the joint crowd-out model was developed based on the assumption that federal government transfers to state governments are exogenous. The exogenous change in federal government spending would lead to the changes in state government expenditures (simple government crowd-out). The exogenous change in federal government spending also leads to changes in donations in the state (simple donation crowd-out). In turn, state

government spending responds to induced changes in donations, and the combined effect of these two factors on state government spending is called joint government crowd-out.

That is:

$$\frac{dDON}{dGovFED} = \frac{\partial DON}{\partial GovFED} + \frac{dGovSTATE}{dGovFED} \times \frac{\partial DON}{\partial GovSTATE}$$

Donations respond both to the original federal grant and the induced change in state government spending, and the combined effect is called joint crowd-out of donation. The correct structural form equations are as follows:

$$1. DON_{is} = \alpha_1 + \beta_1 GovFed_s + \beta_2 GovSTATE_s + \beta_3 X_s + \beta_4 X_i + \varepsilon_1$$

$$2. GovSTATE_s = \alpha_1 + \beta_5 DON_{is} + \beta_6 GovFed_s + \beta_7 X_s + \varepsilon_2$$

Where:

$DON_{is}$  is per person giving in household  $i$  in state  $s$ ,

$GovFed_s$  denotes the per capita federal government welfare spending in state  $s$  in 2005

$GovSTATE_s$  indicates the per capita state government welfare spending in state  $s$  in 2005,

$X_s$  is all the state level control variables and is a vector as  $X_i$

$X_i$  denotes individual  $i$ 's socio-demographic characteristics as individual specific control variables

The reduced form of this structural model is:

$$DON_{is} = a_1 + b_1 GovFed_s + b_3 X_s + b_4 X_i + \mu_1$$

$$GovSTATE_s = a_2 + b_2 GovFed_s + b_5 X_s + \mu_2$$

The key identifying restrictions are that the donor cares only about total government spending, and the state government cares only about donations plus federal grants.

$b_1$  identifies joint crowd-out of donations and  $b_2$  identifies joint crowd-out of stage

government spending on public welfare. The simple crowd-out coefficient is estimated by the joint crowd-out of donations parameter ( $b_1$ ) and the joint crowd-out of state government expenditures ( $b_2$ ). The implied parameter for simple crowd-out of donations is  $b_1/(b_2 + 1)$ . In this study, the reduced forms were examined in order to estimate the coefficient of joint crowd-out.

### **Estimation Technique: Tobit Specification and OLS**

To identify the total effects of federal spending changes on state spending and private donations, three relationships were examined. First, this paper examined the joint crowd-out of donations while controlled without interruption. Second, the joint crowd-out of state spending was tested. Third, the simple crowd-out of donations is estimated based on the coefficients of the joint crowd-out of donation and the joint crowd-out of government spending while holding other variables constants.

In detail, first of all, the Tobit model is used to estimate the joint crowd-out coefficient between charitable giving to human service organizations and federal spending. The estimated coefficient with the Ordinary Least Squares (OLS) is inconsistent if a dependent variable has a number of its values clustered at a limiting value, usually zero. Greene (1999) stated that censoring issue can be leaded when a data is incompletely observed. That is, when data on the dependent variable is limited but not data on the repressors, censoring issue are occurred. COPPS data contains censoring issue because many households reported giving no money to charity in 2006. The Tobit model is an applicable analysis method to eliminate the censoring error, even though the Tobit model does not diminish the problem. However, the Tobit estimator's consistency rests only if conditional moment test of the homoscedasticity and normality assumptions are

conducted. According to Wilhelm (2006), although PSID data does not fulfill the homoscedasticity and normality assumption, the Tobit estimates are numerically similar to the estimates by more advanced and statistically consistent methods such as symmetrically censored least squares (SCLS) or censored least absolute deviations (CLAD). Thus, I examined the total effect of federal government welfare spending on state government welfare spending and charitable giving to human service organizations in this study (joint crowd-out of donations) with the Tobit model.

In addition, the Tobit regression results were interpreted with a margin which was predicted  $Y^*$  is greater than zero with calculated numeric derivatives and integrals ( $dydx$ ) because the raw Tobit coefficients are not directly useful, as they indicate the effect of an increase in the covariate on a fictional donations variable that can take negative values. Instead, I report the average unconditional marginal effect of each continuous covariate on actual donations in Table 4 below. This unconditional marginal effect incorporates expected contributions from those who do not donate prior to the increase in the covariate as well as increases in contributions from those who donate regardless. For dichotomous variables, I report the expected unconditional effect on donations when the covariate changes from 0 to 1.

Second, the joint crowd-out coefficient between state spending and federal spending was employed with OLS with robust error. The Tobit model was not attempted for this regression because state and federal government expenditures did not have a censoring problem. Robust standard error is used because standard error estimates of commonly applied covariance matrix estimation techniques are biased. Robust standard error improves the statistical efficiency of the coefficient estimates. King and Robert

(2012) reported more than 50,600 articles using robust standard error across all academic fields. Thus, robust standard error can estimate the joint crowd-out of government spending on public welfare actuality.

Finally, the simple crowd-out of donations was estimated using a simple function of the reduced-form coefficients. Steinberg (1993) noted that the coefficient of simple crowd-out of donations is able to be estimated by the parameter, the estimated coefficient of joint crowd-out of donations divided by the coefficient of joint crowd-out of government spending plus 1. This approach was used by Lindsey and Steinberg (1990), Schiff and Steinberg (1988), and Steinberg (1985, 1993).



## Chapter Four: Results

### Crowd-Out Estimations

The joint crowd-out of donations was directly revealed by the coefficient on federal spending in the reduced-form estimation. As shown in Table 4, the result on the joint crowd-out effect of donations suggests that the federal government expenditure on public welfare crowds out \$0.051 per capita in private contributions to human service organizations while holding state spending constant in the donations but the estimate is not statistically significant. That is, the result indicates that when a dollar per capita of federal government spending on public welfare is increased, 5.1 cents per capita of charitable donations to human service organizations would be decreased. The full results are stated in Appendix A.

Table 4. Joint Crowd-Out of Donations

Independent Variables	Tobit Analysis	Tobit analysis (with a new philanthropy giving)
Federal spending	-0.051(0.041)	-0.0313(0.0228) ^
State income	0.0009(0.001)	-0.0013(0.010) ^
State poverty rate	-1.372(1.784)	-13.103(13.091) ^
Price of giving	-1.849(0.318)***	-25.150(3.620)*** ^
State age 65 or more	-2.570(1.641)	-27.862(11.545) ^
State owner occupied house	-0.521(0.260)	1.410(7.028) ^
Total sample	6,629	6,629

-Dollar amount was estimated in a dollar per-capita.

- Dollar amount was adjusted for inflation in 2005 dollar value.

- Delta method standard errors are in parenthesis.

- The estimated coefficients are the estimated average marginal effect with respect to observable donations.

- The reported coefficients are the average incremental effect on observable giving relative to the excluded category.

- The reported coefficient for price of giving is an elasticity form.

- The estimated coefficients for the control variables are not displayed in this table.

- ^ additional joint crowd out coefficients with extended charitable giving to HSOs, including religious giving, combination giving, needy giving, youth and family giving

\*\*\*P<0.001, \*\*P<0.05, \* P<0.10

Although crowd-out is not statistically significantly different from zero, it is very significantly different from negative 1. Thus, we can confidently reject the hypothesis that joint crowd-out of donations is dollar for dollar. A 99% confidence interval has an upper limit of around 17 cents. Thus, the crowd-in effect cannot be rejected, but whether crowd-out or crowd-in, the magnitude is small. This result of the joint crowd-out is similar to those obtained by other empirical studies. For example, Schiff and Steinberg (1988) reported approximately 3.3 cents of joint crowd-out in social welfare donations. Lindsey and Steinberg (1990) found 4.6 cents of joint crowd-out in donations to social services.

Furthermore, as shown in Table 4, additional estimations for the joint crowd-out of donations was attempted to explore the robustness of the conclusion to alternative measures of donations. The joint crowd-out effect was tested with a new philanthropic giving variable.<sup>13</sup> The results with extended charitable giving information indicates that a dollar per capita of federal grants to public welfare crowds out 3.13 cents per capita of private donations, but statistically insignificant (p-value = 0.171).

The joint crowd-out effects of federal government expenditures on state and local level spending on public welfare (joint crowd-out of government spending) is revealed by the coefficient on federal spending in the reduced-form state spending equation. The coefficient of joint crowd-out of government spending is estimated while subtracting 1 from the coefficient in the state spending equation to avoid double counting. The results are presented in Table 5. The estimated coefficient of joint crowd-out of

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<sup>13</sup> A new philanthropic giving to human service organizations for the stacked regression was generated with the charitable giving not only to people in need and youth and family giving, but also to religious organization (the organizations for religious and combination giving (the organizations for multi-functional purposes such as Catholic Charities and the United Way).

government spending is 0.409, which is the coefficient with total state government spending. In order to avoid double counting, the coefficient of joint crowd-out of government spending was subtracted 1 from the coefficient—the former is  $0.409 - 1$ , which is (-0.591). Therefore, the result of the OLS regression suggests that federal government expenditure on public welfare crowds out 59.1 cents per capita in total state government spending on public welfare. However, as is true for the joint crowd-out of government spending, the estimate is not statistically significant. That is, when federal government spending on public welfare is increased by a dollar capital, approximately 59.1 cents per capita of state government expenditures on public welfare would be decreased but statistically insignificant.<sup>14</sup>

Table 5. Joint Crowd-Out of State Spending (Including Fixed Effects Panel Estimator)

Independent Variables	OLS Analysis	Fixed-Effects
Federal spending	0.409(0.553)	0.083(0.772)
State income	0.0186(0.013)	0.059(0.013)
State poverty rate	7.184(20.223)	14.065(33.010)
State age 65 or more	32.403(51.667)	-1.126(231.83)
State owner occupied house	-3.749(2.610)	-21.141(31.647)
Total sample	50	100

- Dollar amount was estimated in a dollar per-capita.

- Standard errors are in parenthesis.

- The state government spending is total state government spending on public welfare.

\*\*\*P<0.001, \*\*P<0.05, \* P<0.10

The joint crowd-out of government spending results was not statistically significant because of few observations. With only 50 observations for this dependent variable, it is not surprising that the covariates are generally insignificant. To see the

<sup>14</sup> The estimated coefficient of joint crowd-out of government spending was inconsistent with flypaper effect which reports that own-financed state spending goes up when federal grant goes up. However, the result was not significant because the estimated joint crowd-out of government spending was statistically insignificant.

effect of sample size on estimates, the information of government expenditures on public welfare in 2003 was added and tried variants. First, the stacked regression was examined while adding more government spending observations to the data because it is more robust to measurement error bias with more samples. Then a fixed-effect panel estimator was attempted to estimate the joint crowd-out of government spending. The fixed-effect panel estimator is usually more persuasive than OLS for panel data because it is more robust to exclude “omitted variable bias.” As shown in Table 5, the result of fixed-effects estimator indicates a smaller coefficient of crowd-out effect, but was statistically insignificant (59.1 cents with OLS vs. 91.7 cents with fixed-effects).<sup>15</sup>

The simple crowd-out of donations was estimated in this study after inferring the parameters from the reduced-form estimates for the joint crowd-out of donations and the joint crowd-out of government spending. According to Steinberg (1993), under the identifying assumption that simple crowding out of donations by federal grants is equal to simple crowding out of donations by state government expenditures, the parameter of simple crowd-out can be identified as quotients of reduced-form parameters.<sup>16</sup>

The result of simple donations crowd-out suggested that government expenditures on public welfare crowded out approximately 3.56 cents per capita of private charity to human service organizations. That is, if state spending had not been allowed to respond to the change in federal grants, private donations to human service organizations would have fallen by only 3.56 cents per capita. In addition, the approximate 95% confidence interval for simple crowd-out ranges from 44.68 cents to crowd-in 9.99 cent. While this is a wide range and so simple crowd-out cannot be

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<sup>15</sup> The former with fixed-effect panel estimator was  $0.083 - 1 = -0.917$ .

<sup>16</sup> In particular, the implied simple crowd-out of donations parameter is  $b_1/(b_2 + 1)$ .

confidentially signed. The results can confidentially reject the hypothesis of Warr (1982) and Roberts (1984) that simple crowd-out is 100 percent.<sup>17</sup>

The negative simple crowd-out effects between government spending and private giving have been probed in previous studies. Amos (1985), Schiff (1990), Steinberg (1985), and Payne (1998) reported the crowd-out coefficient with the federal level of expenditures to social welfare. In detail, Amos (1982) found a crowd-out of 46 cents in private donations. Payne (1998) discovered crowd-out of 53 cents, while Schiff (1990) found crowd-out of 40 cents. Steinberg (1985) found very small crowd-out effects (only 5 cents). The estimates from Amos, Payne, Schiff, and Steinberg's study were statistically significant. Other studies, such as Lindsey and Steinberg (1990) and Reece (1979), discovered the crowd-out effect with federal spending on social welfare, but the estimations were statistically insignificant. Overall, Brooks (2005) summarized that empirical crowd-out studies reported an average of \$0.36 crowd-out in donations to social welfare organizations. Compared to empirical studies, in this study, a much smaller joint crowd-out effect was observed, with only 4.9 cents displaced, similar to the result by Steinberg (1985).

In addition, compared to the size of simple crowd-out and the joint crowd-out, the size of the simple crowd-out of donations was smaller than the joint crowd-out (3.6 cents per capita vs. 5.1 cents per capita). The joint crowd-out is larger than simple crowd-out because state spending moves in simple direction as federal grants. That is, when federal spending increases, state spending increases because the state receives more

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<sup>17</sup> Because the simple crowd-out parameter is the ratio of two estimated asymptotically normal coefficient. It is Cauchy-distributed, and the t-distribution gives the wrong significance levels. Rather than report the exact significance level, which required approximation, I construct an empirical confidence interval from the bounds of the 95% confidence intervals for the joint crowd-out of donations and state spending

grants from the federal government. Lindsey and Steinberg (1990) found simple crowd-out of 1.4 cents and joint crowd-out of 4.6 cents. Based on both studies, it is clear that the estimated coefficient of joint crowd-out is larger than the estimated coefficient of simple crowd-out.

### **Other Economic and Socio-Demographic Variables**

The estimated coefficient between charitable giving to human service organizations and other independent variables are shown in detail in Appendix A. Higher state per capita income has a very small positive impact on charitable donations to human service organizations, but the estimate is not significant. That is, as per capita income is increased by a dollar, an approximately 0.09 cent per capita of donations to human service organizations is increased. A higher percentage of state level poverty has a negative but insignificant impact on private donations.

The price of giving has a negative impact on private giving to human service organizations. The estimate is statistically significant ( $p < 0.001$ ). That is, the result of the price of giving indicates that the price elasticity is -2.15, implying that a one percent increase in the price of giving causes a 2.15 percent decrease in the amount donated ( $p < 0.001$ ). The negative impact of the price of giving on charitable donations has been reported in previous studies. For example, Smith (2006) reported a negative but insignificant impact of the price variable on donation. Schiff (1985) discovered a higher coefficient of the price of giving on charitable donations than those of most previous studies, which generally ranged from 1.2 to 1.5—the coefficient was -4.97 in the Schiff (1985) study. However, the estimate was statistically insignificant. Compared to the general range of the price elasticity, the estimated price elasticity in this study was a little

higher than the general range of the coefficient. The range of the price elasticity can be varied because Bakija and Heim (2011) concluded different time-path of tax incentives across states imply an elasticity of charitable giving in response to a persistent change in price that is in excess of one in absolute value. The estimated price elasticity is not strictly comparable to most published studies because this study estimated a constant slope, rather than a constant elasticity functional form and because the estimates are for per capita giving whereas most others are for household giving.

The percentage of state level populations who are 65 years or over has a negative impact on private giving but the estimate is not statistically significant. The percentage of state level owner occupied houses has a negative but insignificant impact on private giving to human service organizations.

The results for the socio-demographic variables to estimate the coefficient on philanthropic giving to human service organizations are presented in Appendix A. Age, gender, education level, ethnicity, marital status, employment status, health condition, wealth, and income statistically significantly affect the amount of donations to human service organizations. For example, when a donor is a year older, donors are statistically significantly more likely to donate 93.2 cents in per capita giving to human service organizations than younger donors ( $p < 0.001$ ). Donors who have a master's or PhD degrees are statistically significantly more likely to donate 52.4 cents per capita to human service organizations than donors with a high school education or less ( $p < 0.001$ ). Married donors are statistically significantly more likely to donate 48.8 cent per capita to human service organizations than never married donors ( $p < 0.001$ ). When the income is increased

a dollar, donors are statistically significantly more likely to donate 0.02 cents per capita to human service organizations ( $p < 0.05$ ).

The OLS results of the joint crowd out of government expenditures with other independent variables are reported in Appendix A in detail. The results indicate that higher state per capita income has a positive impact on state spending on public welfare and the estimate is not statistically significant. That is, when a dollar per capita of state level income increased, state expenditures on public welfare is increased approximately \$1.86 per capita. A higher percentage of state level poverty has a positive and statistically insignificant impact on state spending on public welfare. The percentage of state level populations who are 65 or over has a positive impact on state spending on public welfare, but is statistically insignificant. The percentage of state –level owner-occupied houses has a negative impact on state spending on public welfare but it is statistically insignificant. That is, when one percent of state level owner occupied house increased, state governments would decreased \$374.90 per capita of their expenditures on public welfare, but the estimate is not statistically significant.



## Chapter Five: Conclusions

### Conclusion

Crowd-out estimates tell us how effective government expenditures on public welfare are in raising total expenditures on public services. Specifically, the joint crowd-out results address the more detailed impact of government spending on public welfare on state and private donations to human service organizations. Empirically, crowd-out effects have been probed to address the relationship between government involvements and private participations to provide social services under the classic crowding-out hypothesis. Under the classic crowd-out hypothesis, the government believes that government participation in providing public services crowds out private participation. That is, when a charitable organization receives government spending, philanthropic donations to the organizations could fall because donors let the given tax moneys substitute for the organizations that donate. This hypothesis has been supported by empirical studies. Although the crowd-out effects are empirically proven as a statistical truth, the relationship has been generally examined with philanthropic giving to different types of nonprofit organizations rather than human service organizations. In addition, the estimated coefficients from empirical studies have been repeatedly criticized by researchers, such as biased coefficients and limited information about philanthropic giving to nonprofit organizations. A few studies have probed the crowd-out hypothesis focused on human service organizations without the identified limitations. This study provided unique insight about the crowd-out effect for human service organizations using a superior data set for individual giving (COPPS) and to identify both simple and joint crowd-out effects.

Combining information from COPPS 2007 with the data on federal and state government expenditures on public welfare that was sourced by Census data bases, this study was able to provide information on charitable giving to human service organizations and federal and state government expenditures on public welfare. A reduced form was estimated in which contributions and state spending each depends on federal grants, income, price, poverty rate, the percentage of age 65 or over, the percentage of house ownership, and socio-demographic variables.

As addressed in the results, three conclusions seem apparent. First, the joint crowd-out of donations, if it exists, is small in magnitude, with a point estimate of 5.1 cents per capita in donations to human service organizations. The estimated simple crowd-out effect was even smaller than the estimated joint crowd-out effect.

In addition, federal government spending on public welfare crowds out state government spending on public welfare. The negative impact of federal government spending on state and local government spending was inconsistent result than other empirical studies. Researchers have reported the positive impact of federal government spending on state government spending is called ‘flypaper effect’—noting that money sticks where it hits (Chernick, 1099; Knight, 2002; Inman, 2008; Schiff & Steinberg ,1988; Steinberg (1990), Thornton, 2012).<sup>18</sup> Although, the results from this

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<sup>18</sup> According to Inman (2008), in the late 1960/s James Henderson and Edward Gramlich (1969) studied the direction of empirical research on how local government tax and spend. They reported an extra dollar of personal income increased government spending on the order of \$0.02 to \$0.05 but an equivalent extra dollar of grant-in-aid increased government spending by \$0.30 to often as much as full dollar. When they reported this effect, Arthur Okun call this larger effect of lump-sum aid on government spending a ‘flypaper effect’ which indicates money seems to stick where it hits. The flypaper effect appears to be a real phenomenon and has been repeatedly probed in previous studies which have consistently explained the crowd-in effects between federal spending and state spending. Chernick (1979) and Knight (2002) provided specification of a political contract between a central government and local governments as a way to

study found crowd-in effect of federal spending on state spending, it is unable to support or reject the flypaper effect because of large standard errors.

In summary, several implications follow from the results. The findings relating to the joint crowd-out effect lend support to the joint crowd-out theory (Lindsey & Steinberg, 1990; Schiff & Steinberg, 1988; Steinberg, 1983). Steinberg (1988) and Lindsey and Steinberg (1990) indicated that the estimated coefficients with the simple crowd-out could be smaller than the coefficients with the joint crowd-out. The results in this study lend support to the theory of joint crowd-out effects. Thus, the joint crowd-out could more accurately estimate the relationship between government spending and private giving. Based on the overall effects of federal government spending on private giving to provide social welfare services, the positive effects of government involvements to provide public services may be supported by the results from this study. Rose-Ackerman (1984) asserted that government spending to charity need not reduce total expenditures for providing public services and may even lead to increased private giving. The results in this study demonstrate that overall government efforts to fund public services do not have a serious negative impact on providing social services to people in need, even if the crowd-out effect does occur. This finding is extremely useful to social welfare policymakers or social work administrators charged with designing public welfare programs or enforcing public policies for people in need.

Furthermore, fixed-sum grants can increase private giving because the grants can increase marginal benefits of private donations. In addition, if public policy makers

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understand the ‘flypaper effect’. According to Inman (2008), over 3,500 research papers have supported the flypaper effect, including Henderson and Gramlich (1968, as cited in Inman, 2008), Gramlich (1969, as cited in Inman, 2008), Thornton (2012), Schiff and Steinberg (1988), and Steinberg (1990).

provide better information about the charities that received their donations, the charitable donors are more likely to donate to their charities.

### **Limitations and Suggestions**

In examining the interaction between government expenditures on social welfare and private contributions to human service organizations, there are certain problems arising from data limitations. Although, the philanthropic giving to human service organizations was conceptually identified as the charitable giving to organizations for people in need and giving to youth and family charities, the human services segment includes not only increasing the well-being of the poor, but also providing services for programs like disaster prevention and relief, recreation, environments, and athletics, many of which may benefit the non-poor. In this study, charitable giving to nonprofit organizations was not included to estimate the philanthropic giving to human service organizations. Thus, this study may have underestimated charitable giving.

Similar to the limitation of the conceptual definition for private giving to human service organizations, the conceptual definition of government expenditures of public welfare in this study may be limited to denoting government spending for social welfare. It is true that human service organizations have received government spending not only from the identified sources in this study, but also from other government resources. Some of the federal grants to human service organizations is passed on by the state government contracting out welfare expenditures or making grants to welfare organizations. The government data that used in this study is not allows recognizing this identification. Also, donors many not react to direct state provision of welfare services or provision through contracting out, or relatively untied grants. In this study, the different sources of

government grants were treated as the same government grants. That is, as Cuellar (2004) noted, the most difficult problem to overcome is to accurately match private and public expenditures. Consequently, the data on private charity and government spending to social welfare may not only understate private charity to human service organizations, but may also dampen the response of charitable giving to changes in government spending because of the identified conceptual definitions for private giving and government spending on social welfare in this study.

In addition, crowd-out effects may likely be more sensitive to large gift donors who have donated a large amount of money such as millionaire donors. According to *GivingUSA* Foundation (2011), approximately 20 percent of donors donated almost 80 percent of the total donations in 2010. Generally, large donors would be affected more by crowd-out than donors who give a small amount of money. For future empirical work, the joint crowd-out effect may be more precisely examined with charitable giving from millionaire donors.

Motivations of charitable giving studies have been examined by researchers such as Andreoni (2006) and Riber & Wilhelm (2002). However, we know very little about how donors respond either to changing ideological cues or to better information about the quality of charitable activity. In order to accurately understand the relationship between the change of government welfare spending and the change of private giving to human service organizations, the motivations of charitable giving in relation to political relationship should be clearly addressed.

**Appendix A: Joint crowd-out results**

Independent Variables		Per Capita Donations	Per Capita State Spending	Per Capita Donations (w/ a new giving)
Federal spending		-0.0515(0.0418)	0.409(0.553)	-0.313(0.0228)
State income		0.001(0.001)	0.019(0.013)	-0.0013(0.010)
State poverty rate		-1.372(1.784)	7.184(20.223)	-13.103(13.091)
State age 65 or more		-2.570(1.641)	32.403(51.667)	-27.862(11.545)
State owner occupied house		-0.521(0.942)	-3.749(2.609)	1.410(7.028)
^Price of giving		-2.152(0.325)***	-	-25.150(3.620)***
Age		0.932(0.260)***	-	0.932(0.260)***
Gender	Male	-16.250(9.439)*	-	-16.250(9.439)*
Education level	Some college	21.359(6.538)***	-	21.359(6.538)***
	College graduate	37.238(7.713)***	-	37.238(7.713)***
	Graduate	52.346(13.367)***	-	52.346(13.367)***
Ethnicity	Black	-12.175(9.015)	-	-12.175(9.015)
	Native American	30.006(29.317)	-	30.006(29.317)
	Asian	-82.219(22.471)***	-	-82.219(22.471)***
	Hispanic	-50.888(12.156)***	-	-50.888(12.156)***
	Others	9.176(19.446)	-	9.176(19.446)
Marital Status	Never married	-48.835(9.914)***	-	-48.835(9.914)***
	Widowed	-20.615(16.234)	-	-20.615(16.234)
	Divorced	-18.628(10.001)*	-	-18.628(10.001)*
	Separated	-41.047(19.576)**	-	-41.047(19.576)**
Religion	Catholic	9.585(15.562)	-	9.585(15.562)
	Jewish	34.173(23.850)	-	34.173(23.850)
	Protestant	8.680(14.729)	-	8.680(14.729)
	Non-Christian	33.494(25.099)	-	33.494(25.099)
	Orthodox	-3.502(39.287)	-	-3.502(39.287)
Employment status	Unemployed	-12.021(15.309)	-	-12.021(15.309)
	Retired	0.724(9.700)	-	0.724(9.700)
	Disabled	-28.455(16.108)*	-	-28.455(16.108)*
	Others	9.852(9.698)	-	9.852(9.698)
Health condition	Good	-3.187(6.349)	-	-3.187(6.349)
	Fair	-28.717(10.995)**	-	-28.717(10.995)**
	Poor	-8.401(13.069)	-	-8.401(13.069)
Number of Kids		2.372(3.086)	-	2.372(3.086)
Wealth with no house		6.162(3.504)*	-	6.162(3.504)*
Income		0.0002(0.000)**	-	0.0002(0.000)**
Total sample		6,629	50	6,629

- Marginal effect with numeric derivatives and integrals (dydx) were estimated, except the price of giving. The coefficient for the price of giving is elasticity form.

- Delta method standard errors are in parenthesis.

- The coefficients of per capita donations are estimated by Tobit, the coefficients of per capita state spending are estimated by OLS. The estimated coefficients are the estimated average marginal effect with respect to observable donations.

- The reported coefficients are the average incremental effect on observable giving relative to the excluded category.

- Stacked regression was estimated with extended giving variable to HSOs, including needy giving, youth and family giving, religious giving, and combination giving.

- Percentage of each socio-demographic variable was estimated after weighted with family weight 2007 variable. Also, the responding households who did not respond on philanthropic section were excluded to estimate the socio-demographic characteristics and philanthropic behavior.

\*\*\*P<0.001, \*\*P<0.05, \* P<0.10

**Appendix B: Federal, state and local government factors in 2005**

STATE	Federal expenditure (per capita)	State & local expenditure (per capita)	Median Income (per capita)	Poverty Rate	% of the total population over 65	% of housing units in a state
Alabama	\$0.0	\$1,120.0	\$29,685	16.9%	12.9%	70.5%
Alaska	\$74.5	\$2,085.0	\$35,456	10.8%	6.6%	63.0%
Arizona	\$142.3	\$983.0	\$30,088	14.4%	12.6%	68.2%
Arkansas	\$0.0	\$1,225.0	\$26,674	17.2%	13.5%	67.8%
California	\$622.6	\$1,225.0	\$36,868	13.3%	10.5%	58.4%
Colorado	\$216.1	\$738.0	\$37,474	10.9%	9.7%	67.8%
Connecticut	\$105.3	\$1,323.0	\$47,650	8.3%	13.0%	69.5%
Delaware	\$2.2	\$1,455.0	\$37,162	10.3%	13.0%	72.4%
Florida	\$0.0	\$992.0	\$34,140	12.8%	16.6%	69.6%
Georgia	\$74.6	\$907.0	\$30,986	14.5%	9.2%	66.8%
Hawaii	\$0.0	\$1,124.0	\$34,520	9.9%	13.6%	59.7%
Idaho	\$0.0	\$999.0	\$28,393	13.4%	11.2%	71.4%
Illinois	\$146.6	\$1,048.0	\$36,259	12.0%	11.5%	69.9%
Indiana	\$50.7	\$1,023.0	\$31,180	12.2%	11.9%	72.0%
Iowa	\$58.9	\$1,184.0	\$31,804	10.8%	14.0%	73.1%
Kansas	\$5.0	\$1,030.0	\$32,907	11.7%	12.4%	69.5%
Kentucky	\$12.0	\$1,351.0	\$28,323	16.9%	12.2%	70.6%
Louisiana	\$20.1	\$1,064.0	\$24,671	20.2%	11.4%	67.8%
Maine	\$13.9	\$1,889.0	\$30,886	12.3%	14.1%	71.8%
Maryland	\$0.0	\$1,159.0	\$42,077	8.3%	11.2%	69.0%
Massachusetts	\$52.1	\$1,779.0	\$43,466	10.3%	12.9%	64.0%
Michigan	\$221.0	\$980.0	\$32,800	13.1%	12.1%	74.7%
Minnesota	\$113.1	\$1,776.0	\$37,366	9.2%	11.6%	75.8%
Mississippi	\$79.1	\$1,289.0	\$25,033	21.0%	11.9%	69.9%
Missouri	\$17.3	\$1,027.0	\$31,313	13.6%	12.8%	70.6%
Montana	\$20.8	\$911.0	\$28,934	14.6%	13.3%	69.1%
Nebraska	\$12.8	\$1,132.0	\$33,000	11.0%	12.8%	68.2%
Nevada	\$26.5	\$718.0	\$35,818	11.1%	11.2%	60.7%
New Hampshire	\$74.0	\$1,119.0	\$37,925	7.6%	11.9%	73.0%
New Jersey	\$156.8	\$1,426.0	\$43,897	8.7%	12.5%	67.3%
New Mexico	\$0.0	\$1,466.0	\$27,947	18.4%	12.1%	69.3%
New York	\$518.1	\$2,236.0	\$39,945	13.9%	12.7%	55.3%
North Carolina	\$155.3	\$1,111.0	\$31,068	14.9%	11.7%	68.2%
North Dakota	\$20.3	\$1,146.0	\$31,331	11.6%	14.2%	67.5%
Ohio	\$143.4	\$1,450.0	\$31,848	13.0%	12.8%	69.9%
Oklahoma	\$13.1	\$1,137.0	\$29,946	16.4%	12.9%	67.9%
Oregon	\$82.6	\$1,048.0	\$32,194	14.1%	12.6%	63.8%
Pennsylvania	\$180.6	\$1,628.0	\$34,916	11.9%	14.6%	71.5%
Rhode Island	\$25.4	\$2,014.0	\$35,305	11.9%	13.6%	62.7%
South Carolina	\$13.8	\$1,105.0	\$28,266	15.6%	12.3%	70.1%
South Dakota	\$3.7	\$957.0	\$32,686	13.6%	13.6%	69.0%
Tennessee	\$134.8	\$1,257.0	\$30,990	15.6%	12.2%	69.3%
Texas	\$29.3	\$866.0	\$32,507	17.5%	9.6%	64.7%
Utah	\$11.4	\$924.0	\$27,268	10.5%	8.5%	70.6%
Vermont	\$1.0	\$1,799.0	\$32,766	10.4%	12.8%	71.1%
Virginia	\$83.3	\$951.0	\$37,568	10.0%	11.2%	69.6%
Washington	\$8.0	\$1,048.0	\$35,210	12.0%	11.1%	64.7%
West Virginia	\$19.5	\$1,291.0	\$26,068	18.0%	15.0%	75.4%
Wisconsin	\$100.9	\$1,296.0	\$33,303	10.2%	12.5%	70.1%
Wyoming	\$2.2	\$1,137.0	\$37,308	10.6%	12.0%	71.5%

Source: The Public Policy Institute of New York State, Inc. (<http://www.ppinys.org/reports/jtf/welfarepending.htm>) and U.S. Department of Commerce, Bureau of the Census, Released February 2007.

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- 4/ 11 - 8/11      Indianapolis, IN  
Part-time research assistant, Indiana University School of Social Work
- 4/07 - 4/11      Indianapolis, IN  
Part-time statistician, the Center on Philanthropy at Indiana University
- 8/04 - 8/06      Cleveland, OH  
Graduate Intern, Center on Urban Poverty and Social Change at Case Western Reserve University
- 8/03 - 8/04      Cleveland, OH  
Graduate Intern, Golden Age Center in Greater Cleveland
- 8/00 - 8/02      Seoul, Korea  
Full-time program coordinator & research assistant, The Center for Social Welfare at Catholic University of Korea

## **PROFESSIONAL SOCIAL WORK EXPERIENCES**

- 1/05 - 4/06 Cleveland, OH  
Part time community Organizer, Asian Service in Action, Inc.  
Grassroots policy outreach and advocacy project for minority community in Cleveland, Ohio, USA.
- 4/02 - 8/03 Seoul, Korea  
Full time consultant, SK Telecom  
Corporate social responsibility: Organizing, providing, and developing corporate philanthropic activities for public good.
- 4/99 - 8/00 Seoul, Korea  
Full-time social worker, Banghwa 6 Community Welfare Center  
Provided case management for independent living seniors and conducted home delivery meal program. Managed the donors and fundraising.
- 2/97 - 3/99 Seoul, Korea  
Full time counselor, Korea Support Center for the Homeless and Drop-in-Center  
Managed team that created and staffed first job training and placement programs for homeless.

## **PUBLICATIONS**

### **Manuscripts under review or in progress**

- Kim, S. J., & Fredrick, H. (In progress). Giving patterns by type of community: Comparing patterns of charitable giving between rural and urban donors. Manuscript under review for *Nonprofit Voluntary Sector Quarterly*.

### **Working Papers**

- Kim, S. J., Kou, X., & Kramarek, M. (2011). Religious Distance and Charitable Giving (Center on Philanthropy at Indiana University working paper).
- Kim, S. J. (2010). Pattern of charitable giving in COPPS 2007: Descriptive analysis for total giving, religious giving, secular giving and other subsector giving by socio-demographic characteristics (Center on Philanthropy at Indiana University research paper).
- Kim, S. J. (2010). Pattern of charitable giving change in COPPS: Comparing pattern changes between COPPS 2003 and 2005.
- Kim, S. J., & Fredrick, H. (2009). 2009 congregational economic impact study (Center on Philanthropy at Indiana University research project). Funded by Alban Institute and lake institute on faith & giving at Center on Philanthropy at Indiana University.
- Fredrick, H., McDormont, M., Kim, S. J. & Kou, X. (2009). Motivation and impediments to charitable giving (Center on Philanthropy at Indiana University research project). Funded by CCS for William B. Hanrahan CCS Fellowship.

- Kim, S. J. (2009). Pattern of charitable giving in COPPS 2005: Total giving, religious giving, secular giving by socio-demographic characteristics (Center on Philanthropy research project).
- Kim, S. J. (2008). Indiana gives 2008: Statewide individual giving (Center on Philanthropy research project).
- Kim, S. J. (2008). Indiana gives 2008: Corporate giving (Center on Philanthropy research project).
- Kim, S. J. (2008). Giving in Kansas City: Foundation giving (Center on Philanthropy research project).

## **PAPER PRESENTED AT PROFESSIONAL CONFERENCE**

### **National Conferences**

- Kim, S. J., Kou, X., & Kramarek, M. (2011). Religious similarity between donor and recipient is matter for philanthropic giving. Paper presented at Association of Research on Nonprofit Organizations and Voluntary Action (ARNOVA) 40th Annual Conference, Toronto, Canada.
- Kim, S. J. (2010). The impact of economic recession on congregational organizations in 2009. Paper presented at Association of Research on Nonprofit Organizations and Voluntary Action (ARNOVA) 39th Annual Conference, Alexandria, VA, USA.
- Kou, X., Brown, E., Mesch, D., Moore, Z., & Kim, S. J. (2010). Who decides revisited: Household decision making and charitable giving. Paper presented at Association of Research on Nonprofit Organizations and Voluntary Action (ARNOVA) 39th Annual Conference, Alexandria, VA, USA.
- Kim, S. J., & Frederic, H. (2009). The charitable giving difference between rural and urban donors. Paper presented at Association of Research on Nonprofit Organizations and Voluntary Action (ARNOVA) 38th Annual Conference, Cleveland OH, USA.

### **University Presentations**

- Kim, S. J., & Una, O., (2010). Patterns of charitable giving in the Center on Philanthropy Panel Study 2007. Paper presented at the 2010 IUPUI Research Day. Indianapolis, IN.
- Kim, S. J., McDermott, M., & Frederick, H. (2009). Understanding donor's motivation. Paper presented at the 14th Annual PhD Symposium, Indiana University School of Social Work, Indianapolis, IN.
- Kim, S. J. (2009, April). Giving patterns by type of community: Comparing different patterns of Charitable Giving Between Rural and Non-Rural Donors. Paper presented at The 13th Annual PhD Spring Symposium, Indiana University School of Social Work, Indianapolis, IN.
- Kim, S. J. (2008, April). Different patterns of charitable religious giving between Catholics and Protestants. Paper presented at The 12th Annual PhD Spring Research Symposium, Indiana University School of Social Work, Indianapolis, IN.

## **PROFESSIONAL DEVELOPMENT: CONFERENCES AND WORKSHOPS ATTENDED**

Preparing Future Faculty (Certification program), Indiana University-Purdue University (September, 2011 – April, 2012).

2010 - 2011 Workshop in Method, Consortium for Education and Social Science Research, Indiana University (September, 2011 – April, 2012).

Association of Research on Nonprofit Organizations and Voluntary Action (ARNOVA) Annual Conference (November, 2006 – November, 2012).

Korean Academy of Social Welfare Spring conference, Dea-Jun, Korea (October, 2002). Attended conferences related to social work practice in Korea.

Korea Academy of Social Welfare Autumn conference, Chun-Chun, Korea. (April, 2002). Attended conferences related to community development.

Center for Solution Focus Approach, Seoul, Korea. (September, 2001). Attended workshop for advanced level of solution focus therapist.

Center for Solution Focus Approach, Seoul, Korea. (October, 2000). Attended workshop for middle level of solution focus therapist.

## **VOLUNTEER EXPERIENCES**

8/11- 8/12

Indianapolis, IN

PhD representative : Serving for IUSW PhD committee as PhD student representative during 2011-2012 academic year

9/03- 4/05

Cleveland, OH

Translator: Translated for the Resident Representative Council meetings and papers for the tenants such as contracts, the rights of tenants and other printed information about all kinds of tenants' activities.

6/97- 8/97

Vladivostok, Russia

Community developer: Volunteered for community development by rebuilding elementary school and kindergarten and repairing public facilities such as roads, parks, and playgrounds

9/96- 12/97

Sydney, Australia

Home helper: Helped handicapped teenagers with daily activities.

4/94- 4/99

Geyungju, Korea

Volunteer staff at YMCA Geyungju, Korea: volunteer staff for children's outdoor programs such as summer camps, swimming programs for children, and so on.

2/92- 4/95

Pusan, Korea

Teacher: Taught factory workers and adults who had not completed regular education, in middle level Korean and English. Participated in fundraising for operational needs

## **PROFESSIONAL SERVICES**

2010 - 2011 Academic advisor: Developing Korean philanthropic index project, Statistical Research Institute at the National Statistics of Korea.

2005 - 2007 Advisory committee member: Corporate philanthropy activity, SK Telecom, Korea.



**PROFESSIONAL AFFILIATIONS**

2010- Present Society for Social Work Research (SSWR)

2008- Present Association for Research on Nonprofit Organization and Voluntary Action  
(ANOVA)

**OTHER EXPERIENCES**

8/00- 8/01      President, Graduate Student Council at School of Social Work at  
Catholic University of Korea

3/95- 3/96      Chairman, National Social Welfare Student Alliance

02/95- 03/96    President, Social Welfare Student Council, Dong-Guk University

02/92- 02/93    Chairman, Pusan High School Students Alliance, SiNaBeRo