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Does Price Matter in Charitable Giving? Evidence from a Large-Scale Natural Field Experiment

By Dean Karlan and John A. List*

We conducted a natural field experiment to further our understanding of the economics of charity. Using direct mail solicitations to over 50,000 prior donors of a nonprofit organization, we tested the effectiveness of a matching grant on charitable giving. We find that the match offer increases both the revenue per solicitation and the response rate. Larger match ratios (i.e., $3:$1 and $2:$1) relative to a smaller match ratio ($1:$1) had no additional impact, however. The results provide avenues for future empirical and theoretical work on charitable giving, cost-benefit analysis, and the private provision of public goods. (*JEL* D64, L31)

There is an extraordinary amount of money available. The lack is of good ideas on how to get the basket under the apple tree.
—Fundraising consultant Tony Kneer, *The Economist*, July 31, 2004

Private giving to charitable causes has significantly grown in the past several decades. Recent figures published by *Giving USA* show that in the United States, charitable gifts of money have been 2 percent or more of GDP since 1998, and more than 89 percent of Americans donate to charity (Aline Sullivan 2002). Experts predict that the combination of increased wealth and an ageing population will lead to an even higher level of gifts in the coming years (see, e.g., *The Economist*, July 31, 2004, 57). Such trends have left fundraisers, who are typically long on rules of thumb and short on hard scientific evidence, divided as to the most efficient means to attract these dollars. Indeed, even though the economics of charity has been well studied on the "supply" side, critical gaps remain on the "demand" side (James Andreoni 2006).

In an effort to better understand the economics of charity, we make use of a large-scale natural field experiment.[1] Specifically, we use a direct mail solicitation to explore whether, and to what extent, "price" matters in charitable fundraising. There is a rich and interesting literature that examines price effects via rebate mechanisms (such as changes in tax deductions) through which charitable contributions can be used to reduce one's tax burden (see, e.g., Charles T. Clotfelter 1985; William C. Randolph 1995; John Peloza and Piers Steel 2005).[2] Overall, it is fair to say that the four decades of empirical estimates of these supply-side effects vary widely, and it is difficult to make strong inference from the various price effect estimates obtained (Gerald Auten, Holger Sieg, and Clotfelter 2002).[3] Laboratory experiments, on the other hand, typically find that the level of giving to

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