



Does Public Funding Discourage or Shift Private Philanthropic Donation? Evidence for Fields of Welfare

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When governments dedicate money to particular fields of social welfare (e.g. health, social protection, international aid etc.), does this encourage or discourage private donations to those same areas? If public funding deters private contributions, do donors shift their support to other sectors of welfare? Currently, there is no definitive answer to these crucial questions, which are of the utmost importance at a time when governments dramatically reduce social welfare spending. Theory and research suggest both scenarios are possible.

This study, the first to analyze actual government spending and individual giving in specific fields of welfare in 19 countries, gives a nuanced picture of the relationship between public and private funding: While private donors may contribute to other fields than the government, the amount of money they give is not linked to the level of public expenditure.

[#welfare#public spending#private donation#altruism#crowding-in effect](#)

According to theory, altruism is of two kinds: **pure and impure**

- **Pure altruism** suggests donors act rationally, aiming solely to maximize public good. Under this assumption, an increase in government spending within a field would lead to a corresponding decrease in private donations, maintaining a constant total contribution. This is called the “**crowding-out effect**”.
- **Impure altruism** posits that the crowding-out effect, if present, is rather partial. Donors are considered “impure altruists” because they have motivations beyond pure public good, such as private benefits (such as the joy of giving, reputation enhancement, or adherence to social norms).
- Conversely, individuals might even be more inclined to donate to organizations supported by the government, perceiving them as more effective or trustworthy. In such cases, public funding can serve as a positive signal, encouraging additional private giving - a phenomenon referred to as the “**crowding-in effect.**”
- Previous studies have yielded **mixed findings**, often limited by their focus on single countries or aggregated national data. **This study overcomes these limitations** through **comparative analysis of 19 countries**, using actual public spending and private giving data in specific fields of welfare, which is promising for a better understanding of the relationships between those two.

Background

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Context



ERNOP Research Note

Academic articles on philanthropy through a practitioner lens

Take aways & Learnings

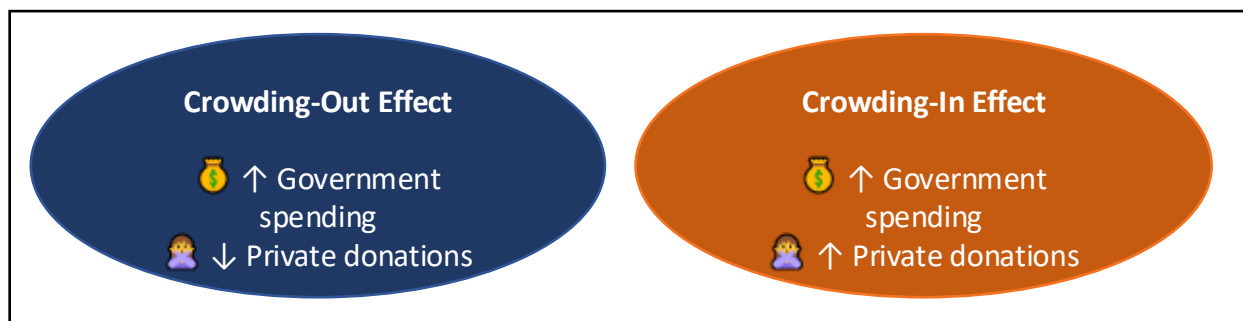


- The study's key finding is reassuring for nonprofit organizations: **public funding and private giving are most likely to go hand in hand**. They are **complementary rather than substitutes**. Generous government spending on public goods and services does **not discourage private philanthropy**.

A closer look, however, shows that the relationship differs if considering the **number of donors** or looking at the **amount donated**.

- **Donor numbers: The relationship varies by field of welfare.** In countries with higher government spending on health and social protection, more donors support causes such as the environment, international aid, and culture. The so-called "**crosswise crowding-in effect**" suggests that when the government sufficiently funds core welfare areas, donors may redirect their limited resources toward other causes.
- **Donation amounts: The level of government spending does not affect the total amount given by private donors** – neither overall nor within specific fields of welfare.
- These findings carry interesting implications for nonprofit organizations. While **government support does not discourage ("crowd out") private giving**, it also **does not necessarily lead to increased donations to the same fields**. That also means that private giving is unlikely to substitute for reductions in public expenditures.
- To explain these findings, the article suggests that donors operate with a relatively fixed or **limited "philanthropic budget"**, which leaves little room for additional giving when government funding declines.
- For nonprofit practitioners, this means that **private donations are unlikely to substitute for public funding cuts**. Instead, nonprofits may benefit from **positioning their work as complementary** to government efforts rather than as a replacement for them.

Figure: Crowding-Out versus Crowding-in Effect (own visualisation)



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