Presentation Transcript

May 14, 2020 – Webinar Donor Advised Funds and Their Critics

The Effective Philanthropy Learning Initiative at Stanford PACS hosted an online webinar with Q&A. Law, business, graduate, and undergraduate students shared their learnings, research, and recommendations from the winter Policy Lab practicum on donor advised funds led by Stanford Law Professors Joseph Bankman and Paul Brest, and Visiting Scholar Daniel Hemel.

Transcription sponsored by the Charles Schwab Corporation

The Effects of DAFs on Charitable Giving and on Operating Charities

FERNANDO RODRIGUEZ: Hi, everyone. I'm Fernando Rodriguez, a second year master's student in management, science and public policy. And, today, I'll be talking about the effects of DAFs on charitable giving and operating charities.

Direct evidence on the effects of DAFs on charitable giving is inconclusive. There are limitations to the data in terms of there's not a lot of data, and usually, information about DAFs is aggregated information. Moreover, it is hard to establish causality of any effect on DAFs because of confounding variables, the gold standard for those studies is RCTs and that's just not an option for DAFs. And the existing empirical studies are interpreted based on strong assumptions that might change the conclusion.

So given the limitations of direct evidence, we can look at the economic theory to give us a clue of the potential effects.

The first potential effect is that DAFs may reduce the transaction costs of charitable giving. It is easier for the donor to give non-cash assets because the DAF sponsor will be the one liquidating the assets and making the funds available to operate the charities. This is especially relevant if we think about a smaller operating charity that might not have the administrative capacity to liquidate the assets. We can think about a worker in a smaller operating charity trying to liquidate an asset that they don't know a lot about, compared to someone with experience in a DAF. It also makes transactions possible that wouldn't be if there were no DAFs. This is the case of splitting a non-cash asset into smaller gifts to several charities. The DAF can process the asset and then distribute the money to different operating charities.

There's also less administrative costs compared to foundations. DAF holders are more akin to individuals opting for private foundations, so they might be reducing the transaction cost of charitable giving for them. There are also incentives for donors to bunch their gifts to optimize and to obtain an itemized deduction. Having a single large transaction is less expensive than having several small ones. So this will reduce the transaction cost for the giving.

As a new potential effect of DAFs can have on charitable giving is that they may reduce the after tax price of charitable giving. Now, why is this important? Donors close to the indifference point of donation can have that additional incentive that makes them actually donate. So it can increase the number of donors. Moreover, the amount donated is also elastic to price. What does this mean? If we imagine a donor gets a benefit from donating, we can call this a warm glow. Unless there's absolutely no extra benefit from donating an additional donor, reducing the after-tax price will increase the amount donated. The desirability of the increased amount is arguable because some critics believe that tax dollars should not be used to subsidize charitable giving. But it is important to notice that the increase in the amount of giving is larger than the increase in the subsidy.

So now I'm going to talk about the effects on operating charities.

The first effect that's DAFs have on operating charities is they change the power dynamics between donor and donee. From our interviews, we know that most of DAF gifts are unrestricted funds, compared to project-specific funds. This eases constraints on operating charities and increases their ability for strategic planning.

DAFs also make available asset contributions to smaller operating charities. A relatively high share of contribution to commercial DAFs are non-monetary and complex assets. Smaller foundations would likely be unable to process such contributions, so DAFs make these funds available for them. However, commercial DAFs appear to be given mostly to larger organizations based on our anecdotal evidence. So the magnitude of this effect is unclear.

One last point is that DAFs potentially influence the ability of operating charities. But, in summary, they could delay the contributions to operating charities, but they could also smooth the contributions in times of recession.