



# The Power of Charity

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## Acknowledgements

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Thank you Sally. I am delighted to be speaking at this Pilotlight event on “The Power of Charity”. In this, Volunteers Week, what better time to be celebrating Pilotlight’s fantastic work to harness the power of volunteers to support charities? And I am especially pleased Pro Bono Economics (PBE), a charity I co-founded over a decade ago, is partnering with Pilotlight to support the sector at this crucial time.

To continue the theme of the day, I’d like to discuss briefly the contribution the charitable sector makes to our economy and society and the way that contribution has changed over the pandemic, before concluding with some thoughts on how this contribution could be further enhanced.

## The Contribution of the Charitable Sector

When it comes to charities’ contribution to our economy, my starting point is that this is systematically and significantly under-estimated in our National Accounts, under-appreciated in our public discourse and under-represented in our public policy discussion. In other words, relative at least to the public and private sectors, the charitable sector is third by both name and nature and that’s not right. That needs to change.

Why do I say that? Well let’s start with measurement. If I turn to the UK’s National Accounts, it tells me that the sector contributed just shy of £20 billion towards gross-value added in the UK in 2020. That is not a trifling sum, at a bit less than 1% of annual GDP. But it would still rank charities well outside the top ten sectors of the UK economy by value-added. It is also clear, however, that this measure captures only a fraction of the true value the sector generates.

For example, that number ignores almost entirely voluntary activities which, by definition, have no monetary value assigned to them. That’s a big omission as we know almost a third of the working population volunteer regularly and around the same number do so irregularly. For regular volunteering alone, that is around 2 billion hours per year of work, albeit

unpaid work - roughly around the same number as are worked in the financial services sector, the UK's 8th largest by value-added<sup>1</sup>.

A second big hole in the National Accounts when it comes to measuring the charitable sector's contribution is the social, as distinct from economic, value it generates. The public or social benefits of civil society, almost by their very nature, exceed – often far exceed – their private benefits. Moreover, these benefits are genuinely two-sided: they accrue *both* to those providing their time and skills through volunteering or civic participation *and* to those receiving this support, whether that is charities or those they help.

We know quite a lot about the scale of these two-sided benefits. We know volunteering is fantastic for skill-building, both social and technical, and for well-being. Indeed, volunteering ranks similarly to sport in terms of its well-being benefits.<sup>2</sup> We also know, including from research by PBE, that the social benefits of charitable activities often far exceed their costs. The impact report for Pilotlight published today also illustrates that clearly. None of these benefits, needless to say, are captured in our National Accounting measures.

Now, filling these measurement gaps is not easy. But estimates constructed by me and by PBE put the all-in benefits of the charity sector at closer to £200 billion than £20 billion.<sup>3</sup> In other words, it is plausible to think the decimal point is in the wrong place when it comes to the true societal contribution of the sector. This, I would say, is a truer measure of the “Power of Charity”. It would make charities one of the UK's most important sectors by social value-added.

As people who like quoting Einstein often keep reminding us, not everything that counts can be counted. And as Michael Sandel has discussed, there are perils in assigning monetary values to intrinsically non-monetary activities.<sup>4</sup> Nonetheless, our chronic understatement of the true contribution of the charity sector, for me, plays an important part in explaining its relative neglect in public discourse and public policy. What is not measured tends not to be managed.

And this, I would argue, has come at some considerable societal cost. One cost is the forgone opportunities to harness more of the potential of the sector – what economists would call an opportunity cost. If their true social

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<sup>1</sup> Law Family Commission on Civil Society, Civil Action

<sup>2</sup> Fujiwara. Pro Bono Economics, Employee volunteering schemes as a way of improving staff wellbeing.

<sup>3</sup> Haldane, The Third Sector and the Fourth Industrial Revolution.

<sup>4</sup> Sandel, What Money Can't Buy.

benefits were properly understood and appreciated – including by volunteers and charities themselves, as well as by businesses and policymakers – an even greater societal contribution could be made by them.

Another cost, a more immediate one, is that our economies and societies are currently quite unbalanced, with inequalities of many types including financial, spatial and generational. These inequities are, I believe, a root cause of many adverse societal side-effects, including populism, nationalism and political division. And while there is no single cause of these problems one of the most important is, for me, is that civil society – what Raghu Rajan in his recent book calls the third pillar – has been allowed to erode and subside over time.<sup>5</sup> Community and social capital has been allowed to depreciate. Strengthening that third pillar and rebalancing society I believe requires civil society to be stronger, and more of its potential to be unlocked.

## The Charitable Sector During the Pandemic

When it comes to unlocking that potential, events during the Covid crisis have, interestingly enough, shone a light on what is often hiding in plain sight. As at past times of crisis, civil society have risen to the challenge of the global pandemic, playing a crucial role in supporting those most vulnerable. Charities have repaired holes in the fraying social fabric, building social and civic capital at the same time when so much damage was being done to the health, wealth and happiness of many people.

During the depths of the Covid crisis, the Power of Charity was clear for all of us to see. You could see it locally in the surge in small neighbourly acts of kindness and in the 4,000 mutual aid groups set up across the UK<sup>6</sup>. And you could see it nationally too in those 750,000 NHS volunteers and in the rapidly rising demand for charitable services. More than half of the charities surveyed by PBE since the pandemic have seen an increase in demand for their services of more than 25%<sup>7</sup>.

For some charities, the rise has been far larger. We have seen a quadrupling of demand for foodbanks and a 700 per cent increase in demand for the domestic abuse hotlines. Without these services, the fraying of the social fabric risked becoming an unravelling. And this surge in demand is unlikely to abate as the crisis subsides. Indeed, PBE surveys

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<sup>5</sup> Rajan, The Third Pillar.

<sup>6</sup> Covid-19 Mutual Aid UK.

<sup>7</sup> Pro Bono Economics, 11-18 January 2021 Covid Charity Tracker.

suggest around 40% of charities expect demand to rise further over coming months, as support tapers<sup>8</sup>.

Let me give just one more example of how the sector has risen to the Covid challenge: the UK's vaccination programme. Many have, rightly, been lauded for their contribution to this fantastic collective effort, including the NHS, universities and pharmaceutical companies. But another of the heroes have been the vaccine volunteers helping organise the roll-out, who together have given perhaps ½ million hours of their time.<sup>9</sup> The volunteers from the London 2012 Olympics were the GamesMakers. The vaccine volunteers have been Gamechangers for our spirits.

This is no isolated incident. If you look over the course of social history, it is full of examples of the voluntary sector working in partnership with the public and private sectors to support economies – the three pillars sharing the societal burden. This three-way partnership, for me, holds the key to us building back not just better, but fairer and kinder. You need look no further than the vaccination programme for proof of the power of this partnership model and, within that, the power of charity.

If the pandemic has shone a light on the fantastic contribution made by charities and volunteers, it has also shone an uncomfortable light on some of the sector's fragilities, not least financially. At the say time demand for its services have surged, the supply of finance to the sector has fallen sharply. Around half of charities have reported a decrease in their income over the past 12 months and more than a fifth have seen a fall of more than a quarter<sup>10</sup>. The welcome financial support to charities from government has not offset declines in public donations and other income streams.

Some of these income streams will, hopefully, recover as the economy recovers – as an economist, I am increasingly optimistic on that front and most of the data are going the right way and really at pace. But whether incomes will rebound sufficiently strongly to meet the increased demands placed on charities seems more doubtful. PBE estimated that the pandemic produced a 2020 funding gap in the sector of around £10bn<sup>11</sup>. Its latest surveys point to a continued gap this year.

For many charities these gaps are already having consequences. Surveys have found more than 50 per cent of charities reporting a negative impact of Covid on their operations into next year, with 6 per cent fearing they

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<sup>8</sup> Pro Bono Economics, 11-18 January 2021 Covid Charity Tracker

<sup>9</sup> FOI NHS England

<sup>10</sup> Pro Bono Economics, April 2021 Covid Charity Tracker

<sup>11</sup> Pro Bono Economics, June 2-3 2020 Covid Charity Tracker

could go out of business within six months<sup>12</sup>. And we have already seen evidence of charities being forced into hard choices, including reduced service provision and redundancies. Without further financial support, it is possible these pressures could intensify through this year, at just the point demand is greatest.

## Empowering the Charitable Sector

Summarising, then, pre-Covid there was considerable untapped potential across the sector but signs, if anything, of the Third Pillar facing subsidence. Covid has demonstrated that potential, but has at the same time caused further financial subsidence. This backdrop provides an opportune moment to begin rethinking and refreshing the sector. And not just the sector, but also the way it partners with the public and private sectors.

At the end of last year, PBE launched an independent Commission on Civil Society, supported by the Law Family Foundation, whose aim is to do just that. The Commission complements the excellent recent review of civil society conducted for the government recently by Danny Kruger.<sup>13</sup> Over its two year life, we hope the Commission will provide ideas for how best to unlock the potential of the sector, including through improved measurement, philanthropic giving and volunteering. The Commission would welcome ideas from you all.

At the same time, the financial needs of the sector are immediate. If the sector's potential is to be unlocked, and if its societal contribution is to head due North over the medium-term, we must first avoid its capacity shrinking in the near term and it heading due South. But with finances tight, how is that financial support to be provided?

Let me suggest one particular avenue, outlined in greater detail in the report issued today by PBE, "Setting lockdown savings free".<sup>14</sup> The Covid crisis has generated a significant pool of extra savings among a number of households, especially older and richer households, due to restrictions on spending. Bank of England estimates would put that savings pool at anywhere between £200-250 billion – that is to say, multiples of the charity sector's funding gap.

Balanced against this, among poorer and younger households, savings have actually fallen as a result of the Covid crisis, to tide over cashflow

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<sup>12</sup> NCVO, COVID-19 Voluntary Sector Impact Barometer April 2021.

<sup>13</sup> Kruger Review.

<sup>14</sup> Pro Bono Economics, Setting lockdown Savings Free.

shortfalls. This has been accompanied by a rising fraction of indebted households. Research by PBE suggests between a third and half a million extra households could find themselves with problem debt during this year<sup>15</sup>. This is another example of rising imbalances across the economy, imbalances made worse by Covid.

Based on past experience, around an extra £0.5-1 billion of those windfall gains in savings would be expected to be gifted to the charity sector. That would be very welcome, but would still leave a significant financing gap for charities to bridge. It also begs the obvious question of whether more could be done to mobilise that pot of savings for charitable good, at a time when awareness of the crucial role of the charitable sector is elevated. A number of ways of doing that are possible, which are explored in greater detail in the PBE report issued today.

One option would be to run a co-ordinated campaign to encourage more charitable giving. Past research has shown the power of behavioural economics – or nudges – in increasing incentives to donate.<sup>16</sup> One potential way of nudging is to run a campaign to generate a new “social norm” around giving – for example, by emphasizing the relative good fortune of those whose balance sheets have improved in the pandemic and contrasting that with the hardship faced by so many others.

A second option would be to consider the temporary extension of the incentives to give charitably. This has happened previously – for example, the Millennium Gift Aid policy between 1998 and 2000 provided tax relief to support charities helping developing countries. If the government now was to increase the match element of Gift Aid from 25p to 30p in the £1, this could boost charity income by around £600 million a year and to increase the amount of giving from lockdown savings by 20-50%.

Alternatively, Government could drive a publicly-funded donation match programme. Research suggests matched donations are on average 2.5 times higher than unmatched donations. If you take our estimate of a giving boost from those “windfall savings” of £0.5-£1.2 billion and imagine that leveraged by matched funding from Government, you’re talking real money. You’re talking a rise in charitable income of closer to £5 billion.

Of course, these are only examples. Perhaps there are better schemes out there to mobilise these monies. But the key point is that these are

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<sup>15</sup> Pro Bono Economics, The impact of the Covid-19 pandemic on problem debt in the UK

<sup>16</sup> See, for example, Booth C, Leary K, Vallance F (2015): *Qualitative research to understand charitable giving and Gift Aid behaviour amongst better-off individuals*, HM Revenue & Customs Research Report 366 and Wiepking P, Breeze B (2011): *Feeling poor, acting stingy; the effect of money perceptions on charitable giving*, International Journal of Nonprofit and Voluntary Sector Marketing, 10.1002/nvsm.415.

examples of the kinds of imaginative thinking I think are now needed. Covid has generated an inflexion point for societies and, potentially, for the charity sector too. It is hard to think of a better time to be unlocking the potential of the latter in support of the former, to enhance the power of charity. As we recover from this awful crisis, this is just the sort of legacy we need now to be building.





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