

Financing of the national churches in the Nordic countries, England and Scotland

of

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Abstract

The level of financing varies greatly among the seven national churches. Measured as a percentage of GDP the national church in Finland has the highest level of financing at 0,61% of GDP in 2013, followed by the national churches in Sweden and Denmark. The national churches in Norway and Iceland has about 40%, and Church of England and Church of Scotland about a fifth, of the financing of the Finish national church, when measured as a percentage of GDP.

The main sources of financing are also different. The three national churches with the highest level of financing all have a taxation right. In Norway and Iceland the national churches are mainly financed by general taxation. In Scotland and England the churches are left to manage financing by themselves, like other charities, and the main sources of finance are donations and fundraising.

Comparing the sources and level of financing of seven national churches in the Nordic countries, England and Scotland shows that financing by a taxation right yields larger revenue for a national church then financing by general tax over the state or municipality budgets. Tax-deductible, private donations yield the lowest revenue of the three financing models.

Standard economic theory finds it hard to explain why volunteer tax yields revenue that are 5-8 time higher than volunteer donations; even though donations are tax-deductible and the church tax is not. The discussion draws on the psychology of Behavioural Economics to explain this phenomenon.

Key words: Cultural heritage, national churches, church tax, opting in/opting out, fiscal illusion

Introduction

The national churches in the Nordic countries, in England and Scotland constitute an important share of these countries' heritage¹, both material and immaterial.

All buildings prior to 1400 in Denmark are church buildings, and almost all paintings and sculptures before the renaissance are ecclesiastical. This heritage is still alive as 70% of church buildings that are still in use by the national church for weekly services and rite de passage are from 1100 to 1400².

The financing of the national churches therefore represent a large part of the total spending on cultural heritage maintenance. There is an intertwinement between the state and church in these seven countries, but mainly based on a historical path dependency, more than any rational consideration of the public role in relation to cultural heritage.

This paper analyses the financing of the national churches in a large comparative study which has not been conducted before. Multiple sources of data³ from seven countries are used in a comparative financial analysis. The national churches in the Nordic countries and in England and Scotland have many similarities⁴, but the level of financing differs greatly.

The investigation suggests a relationship between the source of financing and level of financing. Financing by *a taxation right* (1) yields a larger revenue for a national church than financing by *general tax* (2) over the state or municipality budgets. Tax-deductible, *private donations* (3) yield the lowest revenue of the three financing models.

Standard economic theory finds it hard to explain why volunteer tax yields revenue that are 5-8 time higher than volunteer donations; even though donations are tax-deductible and the church tax is not. The discussion draws on the psychology of Behavioural Economics to explain this phenomenon.

The purpose of this paper is to discuss possible explanations for the differences in the level of financing. The source of financing seems to be one explanation and the paper concludes by discussing possible explanations for the relationship between source and level of financing.

¹ Hjorth-Andersen, Christian 2013. *Hvad koster kulturen*. København: Jurist og økonomforbundets forlag.

² Homepage: kirkearkitektur.dk by Associate Professor Benny Grey Schuster, Theological Educational Centre [Løgumkloster](#).

³ Accountings, finance laws, government accounts, national statistics, church statistics, legislation, studies, governmental elucidations, reports, and interviews with key informants.

⁴ In terms of history, intertwinement with to the state, type and level of religiosity of the population, public role and public responsibilities.

Hypothesis “The source of finance is a determinant factor for the level of finance of a national church”

Question: Which economic theories can contribute to an explanation of the relationship between type of main financing source and level of financing?

In the end of the article it will be discussed in what way and to what extent economic elements such as general economic growth in society, governmental budget control and behavioral economic findings regarding opt in/opt out, fiscal illusion or free-riding can contribute to explain the relationship between type of main financing source and level of financing?

Theory and Methods

Different explanations for the difference in level of finance have been considered and investigated. The national churches have slightly different responsibilities regarding public service tasks, churchyard operation being the most costly of these. Whether or not a national church is in charge of churchyard operations or not might be an explanation for the different level of financing. As will be shown in the paper, deducting the costs of churchyards operations and other public service tasks does only explain a fraction of the difference in finance.

The economic situation of the country measured by GDP does also explain a part of the difference in level of financing. Adjusting for cost of public service tasks and for GDP still leaves a large difference in financing among the seven national churches.

The main contribution of the articles

Comparing the sources and level of financing of seven national churches in the Nordic countries, England and Scotland shows that financing by a taxation right yields larger revenue for a national church than financing by general tax over the state or municipality budgets. Tax-deductible, private donations yield the lowest revenue of the three financing models.

In order to compare the financial situation of the seven national churches a vast amount of data has been collected and analyzed. Data for each national church and country are often found in financial statements, national budgets and accounts, municipal budget and accounts, governmental statements and reports and in national statistics.

The method applied is financial analysis of public sector expenses.

Reflections on methods for comparison

The composition of the revenue of the national churches, the public service tasks and responsibilities and the legislation governing their income are different in the seven countries. It's necessary to understand these differences, and possibly adjust for the differences, before comparing the level of financing. Unless stated otherwise that accounting figures, financial statements, data on GDP, population and membership is from 2013.

The following pages will describe the considerations behind the choices made in the comparative study.

Funds outside the accountings of the national churches

It is not uncommon that the churches have assets to funds outside their own accountings. Sometimes when large fortunes are bequeathed to the churches, it is legally kept separately in a fund with a more or less specific churchly purpose. The fund is then administered by a parish or a more central church body.

In case distributions from the fund are registered as income by the church, the income is included in this study. In case where the activities are run over the accountings of the fund itself, there will be no trace of the money in the churches accountings and then it is, for practical reasons, not included in this comparative study. Though it definitely could be argued that it should.

There is not an overview of such funds with close ties to the national churches. As an example Lund Cathedral (Sweden) has a substantial amount of capital and is an independent fund. The figures regarding Sweden in this study do therefore not include Lund Cathedral and several other funds the like.

Choose a yardstick for comparison

We need to relate the financing of the national church to a measure of size, as not all the churches or the countries are the same size. As yardstick we need to find a measure which is related to the need for, or the ability to obtain, financing, e.g. to the production and the costs of the churches.

It could seem relevant to use the number of members as a yardstick, as the core business activities might vary according to the number of members; number of church service and ceremonies. The concepts of membership of the national churches in the Nordic countries are comparable, even

though the criteria's for membership are slightly different. Church of England and Church of Scotland have a very different concept of membership⁵, which means that the numbers of members are not comparable to the national churches in the Nordic countries. I will use membership numbers to compare between the national churches in the Nordic countries, but to include England and Scotland in the analysis I need to apply another measurement of size too.

As yardstick we can use the size of the countries, as the national churches all are nationwide organizations, performing church service, ceremonies and other activities for the benefit of the population in general, not only their members. The national churches also all play an official role in connection to the state, parliament and head of states (the royal family or the president).

Population is one measurement of the size of the country and it is fairly comparable. The Nordic countries have an exact number of the population on any given day. The only not counted for are illegal immigrants and unregistered emigrants, but these are very limited in numbers. The number of the population of England and Scotland is estimated based on population census and therefore less accurate, but will do for this analysis.

Other possible expression of the size of the countries could be the economic size. The economic size is often measured by GDP. For countries with a similar economic structure, as the Nordic Countries, Scotland and England, it is reasonable to use GDP as a common yardstick.

Using GDP as a yardstick is looking at the national church from outside, asking how large a share of the countries income the society allocates to the national church. Taking the perspective of the churches it could also be relevant to ask how much the national churches can buy for their revenue. 1000£ can buy you more food and labor in England than in Norway. To grasp this difference we can adjust for the respective purchasing power (PPP⁶) in each country. In this chapter I will take the outside perspective and use GDP to adjust the comparison and leave PPP out.

Yet other measures are size of the land in square feet. The lower the population density, the higher costs pr. capita we would expect for a nationwide church in order to undertake the same numbers of activities. Hence, we will expect higher costs in particular Iceland, Norway, Finland, Sweden and

⁵ The membership is associated with being "on the roll", which requires that a person over 16 years sign up to be on the electoral rolls. In England 2% are signed up to be on the rolls, in Scotland around 8%. In the Nordic national churches membership is associated with baptism or the membership of the parents. Infant baptism in the national church is part of the mainstream culture, which means that between 67-79% of the population in the Nordic countries in 2013 were members of the national national church.

⁶ Purchasing power parity

to a certain degree Scotland⁷. To keep it simple I have chosen only to use population and GDP as measurement of country size.

Other issues in conducting the comparison

Church of England (CofE) and Church of Scotland (CoS) collect their main income from members and other sources via donations and fundraising. This task is probably very resource-demanding.

In all five Nordic countries that state collects the main source of finance for the national church through the general tax collection of the country. In Finland the church pays a fee to the state for this service. This has many advantages for the churches, among others it means that the Nordic national churches has low or none costs of collecting membership fee and donations, and significant lower costs for member retention.

Tasks undertaken by the national churches

If the national churches undertook the same type of tasks, in the same proportional share, it would be more straightforward to compare the level of financing of the churches. The national churches does in fact undertake many of the same types of tasks, but that there is also variation.

It's a choice of whether or not to take the differences in tasks and responsibilities of the national churches into consideration before comparing the level of financing. In this article an attempt to do so is done.

One way to analyse the tasks of the national of churches is to divide them into two categories: public service tasks and church activities.

The two categories cannot be clearly distinguished. It is provided for in legislation that *Folkekirken*⁸ handles a part of civil registration in Denmark. It is also the law of *Folkekirken* to carry out confirmation teaching and to offer mini-confirmation. It seems therefore not possible to apply the law as a mean to distinguish between functions of welfare or religious nature of the activities.

In England and Scotland the national churches no longer have the economic means to maintain the old church buildings and are largely dependent on being able to apply for public funding for this

⁷ Population density (persons per km²) Iceland 3,2; Norway 16,7; Finland 17,9; Sweden 23,6; Scotland 67,5; Denmark 130,8; UK 264,3; England 407. Eurostat; Population Density.

⁸ The national church in Denmark

purpose. In the UK⁹ the public Heritage Lottery Fund was established to ensure funding for heritage preservation¹⁰, also in regard to churches.

In Norway many church buildings were owned privately up until around 1900's. With the ownership of a church building came also a taxation right: tithes, which revenue were to be used to run and maintain the church building. Tithes were abolished and many church owners gave the church building to the local parish to avoid the maintenance responsibility. The churches came often only with little land and the funds were not sufficient to maintain the church building. It was therefore decided nationally that it thereafter was the responsibility of the municipalities to run and maintain the church buildings and churchyards.

As the above cases show, when the church does not have the means to undertake the public service tasks they are responsible for, the public sector will step in financially to ensure the continued fulfilment of the public service tasks. I will utilize this aspect to define what is meant by public service tasks in this article.

Public service tasks: Tasks the national churches are responsible to undertake that the government will ensure is handled if a national church ceases to do so.

Examples include civil registration, cemetery operations, operations of crematoriums, maintenance of cultural heritage and the running costs of welfare institutions such as kindergartens and home for elderly,

Church activities: Any other activity than "public service tasks" as defined above.

Comparing the economic leeway for church activities.

By deducting all costs relating to the public service tasks the comparison will be of the economic leeway for church activities.

Within the economic leeway for church activities the national churches typically have a large degree of freedom to choose what activities the church will offer¹¹.

⁹ England, Scotland, Wales and Northern Ireland.

¹⁰ Heritage Lottery Fund writes on their homepage that the fund is the largest dedicated funder of heritage in the UK since 1994. The Fund has an annual budget of 375 mio. £ of which 20% is dedicated heritage.

¹¹ National churches are governed by different legislation and the churches are often not completely free to prioritize resources and activities. In Denmark, the national church is subject to a number of restrictions on what purposes they

Some national churches give priority to religious training of children and young people; some prioritizes Sunday mass in every church, while other national churches prioritize social or charitable projects such as supporting Christians in other countries. Regardless of the types and scope of church activities it is the total funding for church activities, which is compared in this article.

Costs of cultural heritage

In Finland the national church makes entries in the accounts according to whether the costs relate to cultural preservation or not. None of the other national churches are detailed about the registration of cultural heritage costs. Nor are studies made of the costs of cultural heritage conservation for church buildings. Entries are typically made in categories like: electricity and heat, maintenance and construction, but what part of this cost can be said to be costs regarding cultural heritage is difficult to determine, as the costs relates both to old and new, listed and non-listed buildings. Even if we could determine what costs are related to the maintenance of the listed buildings, it might not all be considered costs relating to public service solemnly, as the churches also benefits from using the buildings – often in the form of an exclusive right to use the church buildings.

One method could be to estimate what percentage of the total costs of items such as electricity and heat, maintenance and construction, should be regarded as cultural heritage. The issue is firstly what percentage to decide on and secondly that the national churches might have different ways of entering expenses into the accountings. I will therefore take another approach.

The Swedish Government has decided to grant the national church in Sweden¹² 460 mio. Swedish kroner in 2013¹³ (DKK¹⁴ 370 mio.) to cultural heritage maintenance. The Swedish national church' total cost of operation and maintenance of buildings is around three times the state grant. The Swedish national church is responsible for 3.377¹⁵ church buildings, which means an average state grant of about 110.000 DKK per church building.

can use funds for (Finance Act). The Swedish Church was also previously subject to such legislation, but due to the church freer position in 2000, the church is no longer subject to such restrictions.

¹² Svenska Kyrkan.

¹³ Svenska kyrkans redovisning för år 2014 angående de kyrkliga kulturvärdena och användningen av den kyrkoantikvariska ersättningen, Svenska Kyrkans rapport till kulturdepartementet, 2015. (appendix 2, page 41, table 2:2)

¹⁴ DKK=Danish Kroner

¹⁵ Same as above (appendix 1, page 35, table 1:1)

The 460 mio Swedish kroner is the amount that the Swedish politicians find the all tax payers shall help paying. The public good, the tax payers are asked to pay for is partly an existence value; the future existence of the church buildings and partly a use value; the appearance of the church building from outside and often possibilities to see the church inside. The tax payment does mostly not include a right to use the buildings. This is similar to tax financing of cultural heritage maintenance of castles or privately owned houses of cultural value. (Hjorth-Andersen, 2013, s. 60-63).

In other words, the grant expresses to what extent cultural heritage maintenance in relation to church building is considered a public good by the politicians, and therefore a task for which all taxpayers must pay. Therefore, I choose this as the indication of the level of the cultural heritage maintenance costs, which can be considered as a public task.

Using the numbers of listed church building, instead of all church buildings, might enhance the comparison. 87% (2944) of the Swedish national church buildings are listed. 61% of The Norwegian national church' buildings are listed buildings. The issue here is that the definitions and methods for designating protected and listed buildings are probably slightly different in the seven countries. In Denmark for example, church buildings are not assessed for cultural heritage value¹⁶.

Furthermore, in Norway, there might be a smaller number of listed church buildings, as the country in general has few very old buildings (Hjort-Andersen, 2013, p 63). From economic theory about scarcity, supply and demand, we will expect a higher willingness to pay for preservation of each old building in Norway, compared to countries with a larger number of old buildings.

To keep it simple I will use the total number of church buildings, for which the national church is responsible. As the national church in Finland has made specific entries regarding cultural heritage into the accountings, these figures are used for Finland.

Tax deductions and tax exemptions

All six countries have tax exemptions for the national churches, but the tax regulation varies from country to country. The churches are often exempted from property taxes, on some types of

¹⁶ 1750 churches out of 2345 churches are from before 1600 and there is the general rule, that buildings from before 1536 by definition are protected buildings. Some of the remaining approx. 600 church buildings also have cultural heritage value to varying degrees.

buildings, if not all buildings and land. The churches are also often exempted from income tax. Donations to the national church are often tax deductible.

If the purpose is to estimate the total costs of the churches core activities, then the value of the tax exemptions and tax deductions need to be included.

I have not made an attempt to estimate the value of these types of indirect tax financing and therefore this analysis will not take these values into account. I expect it to be of not too large importance for the comparison, as the regulation for tax exemption and deductions are not too different in the six countries.

In some countries the churches are exempt from VAT, fully or partly. The Norwegian church is recently exempted from VAT and this is calculated as part of the revenue for the national church in Norway, both in the financial accounting for the church and in this analysis.

Barter economics

The share of a non-registered barter economy is not the same for all seven churches. In Church of England and Church of Scotland voluntary work and non-monetary gifts make a substantial contribution to running the churches, where it is most likely insignificant for other national churches, particularly the ones best funded in Denmark, Sweden and Finland.¹⁷

In England it is common that volunteers are taking care for a number of tasks in the parish from fundraising, being responsible for member activities, community and social work, as well as simple maintenance of the buildings and the churchyard. In Denmark, these tasks will mainly, if not always, be the responsibility of employees of the church.

Church of England has about 7.000 paid priests and 28.000 ordained priests. In England it is common practice that retired priests still work for the church as ordained priests, on volunteer base and without payment. This phenomenon is more or less unknown in the Nordic countries.

I have not tried to estimate the number of volunteers or the value they create for the churches. The consequences of the barter economy in relation to this comparative analysis is that a church with a

¹⁷ The national churches in Denmark, Finland and Sweden do not emphasize a need for volunteers or non-monetary gifts. In Norway, the number of volunteers is carefully counted for each parish and for the activity it regarded. In Iceland (and on the Faroe Island) volunteers are conducting sermons as lay-priest, as the church cannot afford to have priests to conduct sermons in each village every Sunday.

large degree of non-registered income (Church of England and Church of Scotland) in reality is larger in scope compared to a church with less volunteer hours, than the figures in this analyses indicates.

Rectories and vicarages

In the particular field of housing for priests I have partly adjusted for the different practices in accounting.

Priests are often offered to, or have to, live in rectories and vicarages. Priests often pay a house rent to the churches, mostly a rent below market-value.

In the countries where the house rent is fixed below marked value, it would be most correct to estimate the “subsidiary effect” (e.g. the difference between paid house rent and marked rent), and to include this as a source of financing under the category of “income from capital”. For Norway this “subsidiary effect” is estimated and I am therefore able to include it in the total income for the Church of Norway. For the other countries there is no estimation of a potential “subsidiary effect” and I have not attempted to make such estimation for the Nordic national churches.

In England, Church of England is providing housing free of charge for priests as part of their employment contract and therefore the non-registered part is not only a “subsidiary effect”, but the total house rent. Regarding Scotland I do not have data on a possible “subsidiary effect” of housing for priests free of charge.

Church of England owns about 10.000 rectories and vicarages. The marked value of the rectories and vicarages are not estimated. There are about 7000 employed priests and also some of the retired priests live in rectories and vicarages free of charge.

With a rough estimate of the average marked rent at 10.000 pound a year, the value of the free housing for priest in England is about 100 mio. pound. This estimated value is added to the total income of Church of England in this analysis.

Piecing together the figures

None of the seven national churches has one overall financial statement. I piece together information from different sources in order to create comparable figures.

Nor is it obvious what organizational units the national churches consists of. For each national church I state the sources of financing included in the analysis.

In choosing which units to include for each country / national church in this comparison I am partly looking to which units the national church itself and the respective states considers as part of the national churches and thus include in official figures and accounts. On top of that, I include units, which enhances the comparability. In Norway for example, the finances of the local parishes are not included in any aggregate numbers or accountings. Despite of this it is important for this comparison that also this income are included in the numbers for the financing of the national church in Norway, as they are in the other countries.

My demarcation of each national church is influenced by what numbers are available and it's an attempt to make a demarcation of the national churches that may have relevance beyond the use for comparison in this chapter.

Core church activities, which are not included in the financial statements of the national churches, would be time-consuming to handle correctly in this analysis, as there are not aggregate financial figures I can use. These are for example; Priests financed by other public institutions than the national churches, education and training of priests, teaching of the religion of the national church in primary and secondary schools and public support for organizations in the periphery of the national church.

In this analysis I have taken a pragmatic, rather than correct, approach. The above-mentioned areas do only make up a small share of the total expenditure of the national churches, which justifies the pragmatic approach. England is a bit special in this regard as about 5.600 schools are run by Church of England. The schools are independent legal and economic entities and some of the CofE schools are in faith matters similar to a non-religious school as their religious education follows the agreed syllabus by the local educational authorities. Some of the CofE schools have a distinct CofE Christian focus. That CofE is affiliated with 5.600 schools means that the presence of CofE in society is larger than the figures in this chapter implies.

Church of Scotland is running other welfare institutions such as homes for elderly persons and this is part of the accountings for CoS. In order to compare I have deducted the operation of these welfare institutions in the part regarding Scotland. In the same way as mentioned above regarding

CofE, the running of welfare institutions with a distinct Cos Christian focus means that the presence of CoS in society is larger than the figures in this chapter implies.

In all seven countries most education and training of priests is conducted by the public financed universities. Some of the training takes place at priest seminars. These seminars are sometimes financed by the national churches, sometimes public financed, sometimes privately or a mix of the three. Where priest seminars are financed directly by the national church, or as in Norway, where it is financed as part of the state's financing of the national church, I have chosen to leave it in the figures. It would be more accurate to include all or none of the costs of education and training of priests. The system of having the primary education for priests at publicly financed universities are the same in the six countries and the differences regarding training at priest seminar does not greatly influence the comparison.

Other public institutions then the national churches finances priests, namely the military, but also prisons and sometimes hospitals or other welfare institutions. These costs are not included in the financial statements of the national churches. Priests are also often employed and paid by the national church to serve in other public institutions and in that case the costs are already included in the annual reports. I have chosen not to include these costs as accurate figures are difficult to find and because costs are small compared to the total spending of the national churches. In Denmark and Norway the military is financing around 40-50 FTE¹⁸ priests, which equals a cost of around 20-30 mio¹⁹. Dkr. a year. As Iceland does not have a military, not including these costs does influence the comparison between Iceland and the other countries slightly

All six countries have some degree and form of teaching of the religion of the national church in primary and secondary schools, though different in each country. I have also chosen not to include this in the comparison from the pragmatic reason that I do not have figures regarding the costs of this teaching and from an expectation that I would not alter the comparison.

Public support for organizations in the periphery of the national church is also common in all six countries. The national church or related organizations can often apply for support after the same regulations as charities and youth organizations. Organizations in the periphery of the national

¹⁸ Full times employees (FTE)

¹⁹ Calculated be a cost of 500.000 – 600.000 Dkr. Pr. FTE including all cost (salary, pension, social costs, expenses of deployment etc). The comparison could be more precise taking the level of salaries and other costs for each country into the calculation

church are also sometimes undertaken public service functions, partly or fully public financed. Some of these activities could be seen as core church activities for the national church.

To complete the picture of the financing of national churches core activities it will be correct to include the above mentioned areas. Due to the lack of data it is not included in this analysis, which limits this analysis to be a comparison of the level of financing between the national churches and not a measure of total financing for core church activities in and around the national churches.

Three Models for finansing

The seven national churches have different sources as their main source of income. In Denmark, Sweden and Finland the main source of income stems from a taxation right. In Island and Norway the national churches are mainly financed by general tax over state or municipality budgets. For the national churches in England and Scotland the main source of income is private donations and fundraising. In the following the three models of financing will be described.

A taxation right

The national churches in Denmark, Sweden and Finland has a taxation right. The taxation right is quite similar, but also a bit different in the three countries.

Danish Church tax consists of a local church tax and a national church tax. About 86% of the total church tax is the local church tax, the national church tax amount to about 14% of the tax.

The local church rate is set by the deanery committee after consultation with representatives of the parish councils. The deanery committee also overlooks the economy of each parish and approves tariffs for parish user-financed activities, including cemeteries.

The national church tax is decided by the Minister of ecclesiastical affairs. The church tax differs from 0,42 to 1,48% and the national, weighted average is 0,88 in 2013²⁰.

In Sweden the tax consists of a church tax, only paid by members and a burial tax, paid by all citizens. Both tax rates differs from place to place. The national, weighted average I 2013 for the church tax was 1,01²¹%, for the burial tax 0,22%, which makes a total of 1,23% in 2013

²⁰ <http://www.km.dk/folkekirken/oekonomi/kirkeskat/>

²¹ Statistics Sweden

In Finland the main financing of the national church is from two kinds of taxes; a personal income tax (church tax) decided by the church and a business tax (Public service tax), decided by the politicians.

The local level of the church receives the revenue from the church tax. The church tax rates vary from 1-2% and the national average was 1,4% in 2012²². This tax is only paid by members.

A share of the business tax accrues to the national church and also other religious organizations in Finland. The national churches' share of the business tax was 2,55% in 2009-2011 and 2,3% in 2012²³.

Common for the taxation system is that the taxation percentage is decided (mainly) by the national church and the tax is collected as an ordinary tax by the tax authorities, but only collected from members. Membership is typically obtained through infant baptism and from the age of 18 it is possible to unsubscribe from the membership²⁴.

General tax

The national church in Norway is mainly financed by general tax through the state budget and partly through the municipalities' budget. The financing is not dependent on number of members of the church, number of activities or the like.

The national church in Iceland is also mainly financed by general tax. Around half of the public financing is directly dependent on the number of members. This grant is a fixed amount, regulated by inflation, given per member over 16 years. The other half of the public finance is not dependent on the number of members.

Common for financing through general taxes is that the finances are under some sort of church-external, public budget control.²⁵

Donations and fundraising

²²<http://pastori2.evl.fi:8080/EVLsv.nsf/Documents/B3334111EB2A4A2BC22573E900351F75?openDocument&yp=y&lang=SV>

²³ It is being discussed whether the financing from the business tax shall be replaced by a funding through the national budget.

²⁴ Before the age of 18 the parents can unsubscribe the child from the membership.

²⁵ Budgetary control refers to the function of a central unit, which role is to ensure that the revenues and particular expenditures of underlying units are held within the span of certain margins. The highest level public budget control is conducted by the finance ministry of the country.

The main sources of finance of the national churches in England and Scotland are donations and fundraising. Some of the donations are tax deductible and that gives an indirect public financing. This is also true for the other national churches, but is of much greater relative importance for CofE and CoS. The indirect public financing through tax exception and tax deductibility is not calculated and is not included in the following analyses.

Common for financing through donations and fundraising is that the churches have to be very active in collection funds and probably spend a great share of their resources – both economically and volunteer workhours – in collecting funds.

Results and analyses

Comparing the level of financing of the national churches

In table 1 the financing of the national churches are shown without adjustments for different expenditures on public service tasks. In the top row the total revenue of the national churches are shown in local currency, then converted to Danish Kroner (DKK). In the third row the total revenue of each national church is shown as a percentage of the national GDP and compared by indexation.

Table 1. The total financing of the national churches (Core church activities and public service cost included)

	Denmark	Norway	Sweden	Iceland	Finland	England	Scotland
The name of the national church and abbreviation	Folkekirken (FK)	Den norske kirke (DNK)	Svenska Kyrkan (SK)	Thjodkirkjan (TK)	Suomen Ev. Lut. Kirkko (SuK)	Church of England (CofE)	Church of Scotland (CoS)
Total revenue (local currency)	8.165.000.000	7.431.581.000	20.500.000.000	4.875.156.000	1.236.804.300	1.495.398.760	153.943.000
Total revenue (converted to DKK)	8.165.000.000	6.616.309.667	17.242.550.000	229.938.496	9.225.941.676	13.434.812.000	1.383.039.306
Total revenue in % of GDP	0,43%	0,23%	0,53%	0,27%	0,61%	0,10%	0,12%
Index (Denmark = 100)	100	53	124	62	142	24	28
Total revenue per capita	1.457	1.310	1.804	714	1.692	253	260
Index (Denmark = 100)	100	90	124	49	116	17	18
Total revenue per member	1.843	1.721	2.712	938	2.247		
Index (Denmark = 100)	100	93	147	51	122		

In the last four rows the total revenue is compared by setting it in relation to the size of the population and for the Nordic national churches also in relation to the number of members.

In table 2 the costs of the public service tasks are deducted from the total revenue. In the top row the total revenue of the national churches are shown in local currency. In the next four rows expenditure regarding public service task are deducted. The result is the financing of core church activities, still in local currency, which is then converted in to Danish kroner (DKK). The amounts are quite different, which is to be expected as we have not adjusted for size of the churches or the countries yet.

Table 2. The financing of core church activities (public service cost deducted)

	Denmark	Norway	Sweden	Iceland	Finland	England	Scotland
Total revenue (local currency)	8.165.000.000	7.431.581.000	20.500.000.000	4.875.156.000	1.236.804.300	1.495.398.760	153.943.000
Churchyard operation	1.631.000.000	1.221.200.000	3.735.878.000	924.900.000			
Maintenance of cultural heritage	257.950.000	200.224.720	460.000.000	699.666.000	19.400.000	200.000.000	13.149.898
Other public tasks (civil registration, kindergartens etc.)	100.000.000		825.324.000				45.381.000
Costs in relation to public tasks (local currency)	1.988.950.000	1.421.424.720	5.021.202.000	1.624.566.000	123.100.000	200.000.000	58.530.898
Financing of core church activities (local currency)	6.176.050.000	6.020.156.280	15.478.798.000	3.250.590.000	1.113.704.300	1.295.398.760	95.412.102
Financing of core church activities (converted to DKK)	6.176.050.000	5.352.520.949	13.019.216.998	153.315.253	8.307.677.226	11.637.992.000	857.191.864

In table 3 only the financing of the core church activities is compared. Comparing table 1 and table 3 shows that even when we deduct the costs of public service tasks, there remains a large difference in the level of financing between the seven national churches. In table 1 total financing per capita ranges from index 15 (Scotland) to index 124 (Sweden). If the differences in public service responsibilities could explain the difference in total financing, then the differences should have decreased in table 3. But in table 3 the financing of core church activities ranges from index 17 (Scotland) to index 138 (Finland). We therefore have to look for other explanations for the differences in level of financing.

Table 3. The financing of core church activities in relation to population and members

	Denmark	Norway	Sweden	Iceland	Finland	England	Scotland
Financing of core church activities (converted to (DKK))	6.176.050.000	5.352.520.949	13.019.216.998	153.315.253	8.307.677.226	11.637.992.000	857.191.864
Population (pr. 1. January 2013)	5.602.628	5.051.275	9.555.893	321.857	5.451.270	53.195.216	5.327.700
Financing of core church activities pr. capita (DKK)	1102	1060	1362	476	1524	219	161
Index (Denmark = 100)	100	96	124	43	138	20	15
Members	4.430.643	3.843.721	6.357.508	245.184	4.106.025		
Financing of core church activity pr. member (DKK)	1394	1393	2048	625	2023		
Index (Denmark = 100)	100	100	147	45	145		

As can be read in table 3 the financing of the national churches core church activities per capita in Denmark and Norway are almost the same, in Sweden and Finland it is one third higher, in Iceland less than half and in England a fifth and in Scotland a sixth of the financing

for the Danish national church. The level of financing varies just as much if looking at financing per church member. The difference between Denmark on one side and Norway and Iceland on the other side decrease slightly, whereas the difference between Denmark, Finland and Sweden increases. The large difference in financing per capita or per member in Sweden is reflecting the sharp decline in memberships in Sweden in the last decade.

GDP is used as a yardstick of the size of the countries in table 4 and the financing of the national churches core church activities are seen as a share of GDP. In Denmark and Norway the financing of the national churches core church activities per capita are almost the same, but seen in the perspective of GDP the financing of the Norwegian church are only 56% of the Danish church. This difference reflects the relatively higher Norwegian GDP.

Table 4. The financing of core church activities in relation to GDP

	Denmark	Norway	Sweden	Iceland	Finland	England	Scotland
Financing of core church activities (converted to (DKK))	6.176.050.000	5.352.520.949	13.019.216.998	153.315.253	8.307.677.226	11.637.992.000	857.191.864
GDP (Current Euro) 2013	255.235.400.000	393.397.200.000	435.752.100.000	11.569.800.000	202.743.000.000	1.772.312.894.208	156.857.371.765
GDP 2013 (converted to DKK)	1.903.928.466.300	2.934.546.413.400	3.250.492.789.950	86.304.923.100	1.512.361.408.500	13.220.568.034.348	1.170.077.564.681
Index (Denmark = 100)	100	154	171	5	79	694	61
GDP 2013 (converted to DKK) per capita	339.828	580.952	340.156	268.147	277.433	248.529	219.622
Index (Denmark = 100)	100	171	100	79	82	73	65
Financing of core church activities in % of GDP	0,32%	0,18%	0,40%	0,18%	0,55%	0,09%	0,07%
Index (Denmark = 100)	100	56	123	55	169	27	23

The GDP per capita of England is about 73% of the Danish. Using GDP as a yardstick decreases the differences between the financing of the national church in Denmark and Church of England, down from a fifth (20%) to a fourth (27%).

Analysing the sources of financing of the national churches

The financing of core church activities in share of GDP varies from 0,55% in Finland down to 0,07% in Scotland. In table 5 the national churches are ranked after the share of GDP and the financing per capita and this is juxtaposed to the main source of financing for each church. The main source of financing for the national churches are either: Taxation rights, general tax, donations (tax exempt).

Table 5: Financing as % of GDP and main source of financing

	The main sources of financing							
	Financing (DKK) per capita	Index (Denmark = 100)	Financing as % of GDP	Index (Denmark = 100)	Taxation right	General tax	Donation and fundraising	Income from capital
Finland	1.524	138	0,55%	169	80%			
Sweden	1.362	124	0,40%	123	80%	2%		
Denmark	1.102	100	0,32%	100	78%	9%		
Norway	1.060	96	0,18%	55		85%		
Iceland	476	43	0,18%	55		78%		
England	219	20	0,09%	27			48%	27%
Scotland	161	15	0,07%	23			89%	9%

Findings:

Comparing the sources and level of financing of seven national churches in the Nordic countries, England and Scotland shows that financing by a taxation right yields larger revenue for a national church than financing by general tax over the state or municipality budgets. Tax-deductible, private donations yield the lowest revenue of the three financing models.

The differences in public service tasks, conducted by the national churches, does not explain the different level of total financing. Some of the national churches have several times more money to spend as they see fit, than other national churches.

In Finland, Sweden and Denmark the national churches have the financial means to offer a range of services, often free of charge, to their members, but also to the broader public. They do not have to gain revenue for activities or entrance to church buildings. Donations collected at church has are more symbolic meaning, than financial.

This is in sharp contrast to the churches in Scotland and England, where donations and fundraising is the foundation that secures the existence of the national churches.

The national churches in Iceland and Norway are in between. They have a stable and secure public financing, but a much lower level of total finance than the national churches in Denmark, Sweden and Finland.

Discussion and interpretation of the results

Table 5 shows that for these seven institutions financing by taxation right yields larger revenue for a national church than financing by general tax and financing by tax yields higher revenues than financing by tax-deductible, private donations.

In the following the results will be discussed in relation to the characteristics of the three financing models.

A. *A share of the growth in society*: Financing by a taxation right automatically insures the church a share of the society's growth. (Economic growth)

B. *Budget control*: Financing by general tax means being subject to centralized budget control and transversal (intersectoral) prioritization.

C. *Financing dependent on number of members* (or number of taxpayer) makes the churches financial dependent on their members. (The Nordic countries, except Norway)

D. *Taxation or donations*: Fiscal illusion, Visibility, Opt in/opt out,

F. *Free-riding*: Strategic, economic behavior

A. A share of the growth in society

An institution, with the legal power to levy a tax, set as a percentage (not as a fixed sum), will be affected by increases or decreases in the tax base. In times of economic recession tax revenues

decrease (unless the tax percentage be set up) and in case of economic growth in the community tax revenues will increase accordingly.

This could be understood as inflation adjustment. But growth is typically higher than the increase in consumer prices (CPI), making room for real growth in society.

In Denmark, allocations in the national budget is adjusted by the so-called Price and wage adjustment rate (PL-rate). This rate is based 40% consumer price index and 60% increase in state salaries. Wages typically increases more than consumer prices. In other words, most states institutions get their budgets adjusted by the PL-rate, while the church tax is adjusted on the overall

Population growth is also expanding the tax base. For church tax this is relevant in the case of population growth among its members, which is predominantly the original ethnic population. It has previously been the case in all the Nordic countries. In recent years there is no longer population growth in the original ethnic population. There is population growth due to immigration, but immigration typically does not expand the tax base of the national churches.

Furthermore, its common in the public sector to cut allocations due to expected efficiency gains. The national churches are allowed to keep efficiency gains. There has in recent decades been major administrative savings due to digitization, probably also in the national churches.

B. Budget control

The ministries of finance in each of the Nordic countries, in England and Scotland conduct budgetary control over the public spending. A balanced budget has high priority and any increase in spending above inflation, has to be argued and negotiated for. From this we could expect that the spending on national churches over the state budgets has increased by inflation, but not followed the growth in society. This has to be investigated in future research.

C. Financing dependent on number of members

The Norwegian model of financing becomes relatively more advantages as number of members – and thereby taxpayers – decreases. The Norwegian model of financing for the national churches is not related to the number of members of the national church. As the number of members in all the national churches is decreasing, there will be a break even between the taxation right model and the Norwegian model of financing in some decades from now.

D. Taxation or donations

It seems to be much easier to get people to pay an amount in tax, for which they do not receive tax deduction, then to get people to pay the same amount as a donation, for which they receive tax deduction. This it is not an expression of economically rational behavior and therefore calls for explanations.

Fiscal illusion

Both a taxation right or financing by general tax contains an element of fiscal illusion for the taxpayer. Giving donations requires the donor to give away money in a more visible and conscious way.

In Denmark and Sweden²⁶ there has been a real growth in church tax revenue, while the number of members has fallen. It is true as far back as we have data for (1947 for Denmark and about 1970 for Sweden).

Public Choice theory will explain the increase in church tax, as all other taxes, due to an element of "fiscal illusion": Members of the church does not notice what they pay in the church tax as it is paid directly from the salary by the employer. On the other hand, the members see the benefits the national churches produce: well-maintained buildings, possibility of having a rite de passage ceremonies and Christmas services free of charge. In addition to church tax that Danish state also pays a direct grant to the church, which may enhance the effects of the fiscal illusion, since this subsidy makes it more difficult for people to figure out the link between their payment and the activities of national church.

In both Sweden and Denmark the largest part of the church tax is decided locally by the parish councils. Fiscal illusion provides an incentive to the parish councils to slowly increase the church tax revenue, as it is likely not noticed be the church tax payers and therefore the church tax payers will not punish the parish council members for the increase or yet even demand more activities for the money.

Public Choice theory states that a case the citizens are affected by fiscal illusion, it will lead to over-consumption relative to the citizens' genuine utility in the area concerned.

²⁶ For Finland I do not have the revenue figures far enough back

Theory of fiscal illusion hereby gives one explanation why the national churches in Denmark and Sweden have been able to grow substantially more than consumer prices for a long period and at the same time experiencing a decrease in the number of members.

Visibility

In Finland church tax was until 1959 paid directly to the church, one a year in the end of the year. There were in ever increasing number of members unsubscribing from the church through the 1950'ies. From 1960 onwards the church tax was levied together with the municipality tax and therefore became less visible. From 1959 to 1960 there was a sudden drop in the number of subscription from 21.008 in 1959 to 8.467 in 1960. The number of unsubscription kept low through the 1960'ies and it did not reach the 1959-level again before 1984. The number of subscription has only recently been steadily more than 20.000 (since 2003).

The Finish case suggests that there is a connection between visibility of the church tax and the number of members unsubscribing from the church.

Opt in – opt out

Another possible explanation for the difference in the revenue between donation and church tax is that giving a donation is an opt in action, whether not paying church tax is an opt out action for most of the population in Sweden, Finland and Denmark.

Opting out of the national churches in the Nordic countries is not particular difficult; it might even be done by sending an e-mail. In other words, for an individual, the transaction costs are relatively low compared to the money saved by not paying church tax.

The difference of opting in or opting out is empirically studied in the field of organ donation. In some countries the citizens are potential organ donors from birth, which is called “presumed” consent. If a person does not want to be an organ donor it is possible to opt out. In other countries the citizens have actively to register as potential organ donor, which is called “explicit” consent or in economic term; opting in. Opting in or opting out is not expensive for the citizens, meaning that the transaction costs are low.

Eric Johnson and Dan Goldstein have shown that the choice of opting in or opting out is a major factor in determining consent rates in different European countries. At the time of the study the

consent rate in Germany was 12 %, where they had an opting in system. In Austria there is presumed consent and the consent rate was 99%²⁷.

Membership of a national church in the Nordic countries, England and Scotland also has a strong element of opting in or opting out. Most persons in the Nordic countries have become members of the national national church through baptizing before the age of one. It is possible to unsubscribe from membership, but until now few members do so.

In England and Scotland there is a different concept of membership. If a person wants to participate in the church elections, the person has to sign up on the electoral rolls. In England around 2% of the population is on the electoral rolls, in Scotland around 8%. And the Nordic countries between 65-77% of the populations are members of the national national church in 2013.

The differences of opting out and opting in can help explain why members do not unsubscribe, even though they could save money.

It also helps explain why financing of the national churches in Scotland and England is lower than in the Nordic countries. Paying donations is like opting in every time you pay. That demands a high degree of devotion in order to pay this money.

For church members in Sweden, Finland and Denmark paying church tax is the default. Not paying will demand opting out.

Further research has to look into what can explain that the populations in the Nordic countries allocate more resources to the national churches through taxes, then the populations in Scotland and England allocate to their national churches.

F. Free-riding

There is no sign of free-riding or other strategic, economic behavior in relation to the three national churches financed by a taxation right. The members could unsubscribe, thereby keeping between 0,5 – 2 % of their total income instead of paying it to a national church. After unsubscribing they would still benefit from a lot of work, done by the national churches, for example cultural heritage maintenance and they would still be able to go to the churches for religious services or concerts. Free-riding is a possibility.

²⁷ Eric J. Johnson and Daniel G. Goldstein; "Do Defaults Save Lives?" *Science*, Vol. 302, pp. 1338-1339, 2003

In surveys, rite de passage (ceremonies) is often stated as a reason to stay a member. It would be possible to act strategically though. Only one of the couple needs to be a member in order to get married in church or having their baby baptized.

None of the parents need to be members in order for the child to have a confirmation in church. For funerals membership is not compulsory for either the deceased or the widow(er) in order to have a funeral in the church.

Strategic, economic behavior would be to unsubscribe for membership and payment, and then sign up for membership before a church wedding and then unsubscribe again afterwards.

There is not a lot of research done on the reasons for staying a member or unsubscribing. But it is safe to say, that we do not see the above described strategic behavior.

Conclusion

Comparing the sources and level of financing of seven national churches in the Nordic countries, England and Scotland shows that financing by a taxation right yields larger revenue for a national church than financing by general tax over the state or municipality budgets. Tax-deductible, private donations yield the lowest revenue of the three financing models.

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Further study could investigate if there is a relation between the source and the level of finance and the utilization of volunteers. One hypothesis could be that the lower the level of finance, the greater the utilization of volunteers. In other words, there is a possibility that public funding is crowding out volunteers in the Nordic national churches. This could be studied provided access to data on financing, number of employees and volunteers over a period of time. The area of donations also needs to be studied further. One hypothesis to investigate could be whether a low level of public finance creates a focus on other sources of income, included donations.

List of Literature and data sources

Sources of information

The most important sources for this article are the national statistic bureaus in the seven countries, Eurostat (GDP), various information from the seven churches (homepages, statistics, yearly statements, financial statements), government reports, statements, national budgets and interview and email correspondence with key persons in the seven churches. Several data sources are mentioned in the notes to the chapter and a full list is available from the author.