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## **American Exceptionalism in Charitable Giving: The Case of Social Services**

### **Abstract**

Private Giving to charitable nonprofits in the United States has long been considered as exceptionally large in its magnitude in international comparison. However, evidence from an analysis of private giving in 25 countries shows that while Americans are indeed exceptionally generous in most fields of charitable giving, this is not the case for private giving to social services. The study explores explanations for this pattern based on variables that are commonly associated with charitable giving: government expenditure, income, need, tax policy, cultural preferences, and nonprofit sector size. However, none of these variables explain the international pattern of charitable giving. The study finds that the United State's relatively unexceptional international performance in social service giving can be traced to differences in the institutional relationship of the nonprofit sector to the State. This finding calls into question popular notions regarding the relationship of civil society to the State as a simple zero sum game suggesting a more complex relationship between the two.

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## **American Exceptionalism in Charitable Giving: The Case of Social Services.**

One of the more interesting questions in the field of not-for-profits is what explains the wide variety in levels of aggregate private giving across countries. The answer to this question is of considerable interest not just for philanthropic funds but also to policy experts who wish to evaluate and compare different models of combined public and private funding for social services, education, healthcare and international aid.

Much of the literature regarding charitable giving treats the United States as an exceptional case in international comparison (Bremmer 1988, 1; Lipset 1996). Charitable donations in the United States are said to exceed by far the level of donations in other OECD countries (Rose-Ackerman 1996, 705). Seymour Martin Lipset speaks of “(...) considerable sums, as well as time, that are contributed to philanthropic works, reaching heights undreamt of elsewhere (...)” (1996, 68). American exceptionalism in charitable giving could be considered as just one facet of the widely noted – even though debated – notion of the United States as an exceptional political economy (Shafer 1991; Kingdon 1999). However, due to paucity in comparative international data regarding national charitable giving, it has been difficult to assess these claims and to rigorously evaluate theories that propose to explain cross-country variance in private giving. Furthermore, past analysis of cross-country charitable giving often ignored the variance between different sub-categories of charitable giving ( e.g., giving to culture, education, social services) across different countries, settling for comparisons of charitable giving in the aggregate. New data reveals that while in many categories the United States leads the field in donations, this is not the case for social services.

This paper sets out to answer the question: Why is private giving to social services in the United States less exceptional than other categories of private giving in international comparison? I reach the conclusion that while one cannot rule out the significance of cross-national variations in cultural/ideological factors, a main cause for the variance, which has gone unreported in the literature, is a form of institutional crowding-out. The state crowds-out private donations to charities not through state funding, as often argued, but by creating a public perception that not-for-profits are little more than an extension of the state. Potential donors to charity prefer giving to charities that are not controlled by the state. Hence, they would channel their donations to institutionally independent, though not necessarily financially independent, charities. This finding has important implications for the long-standing debate regarding the appropriate boundary between state and civil society. State funding, in and of itself, does not necessarily come at the expense of charitable giving. State institutions, however, that leave little independent “breathing room” for the not-for-profit sector depress charitable giving and, consequentially, diminish civil society.

I begin by presenting the findings from the international comparison. Then I proceed to briefly discuss four general economic explanations for America’s social service uniqueness among other fields of charity. Finding these explanations unsatisfactory, I explore the question from a wider institutional and ideological perspective. I address some social and institutional differences between the United States and the countries that are more generous in giving to social services. This exercise will open up new avenues for further research in the field of charities and not-for-profits from an institutional perspective.

## Contours of the Data

At first glance, the common wisdom regarding “American exceptionalism” appears to be correct. Aggregate private giving (including religion) in the United States for 1995 was over \$132.5 billion, far ahead of Japan, which is second, with about \$11.5 billion worth of giving (Statistics Canada 1997; Salamon et al. 1999; Johns Hopkins, 2000; World Bank 2005). Accounting for population, private charitable giving per capita in the United States is \$259, still significantly higher than the runner-up – Israel – at \$202.

**Table 1: Country Rank of Private Giving per capita by Charity Category**

Rank	Total	In	Health	In	Education	In	Culture	In	Social	In
		\$		\$		\$		\$	services	\$
1 (highest)	US	258	US	59	Israel	87	US	50	UK	42
2	Israel	202	Israel	30	US	64	Spain	41	Belgium	38
3	Spain	123	Ireland	27	Sweden	32	Sweden	32	Austria	34
4	Sweden	121	Canada	18	Argentina	25	Israel	23	US	30
5	Belgium	118	Belgium	13	France	24	Belgium	23	Ireland	26
6	UK	117	Spain	11	Finland	23	Holland	19	Israel	26
7	Holland	105	UK	10	UK	20	Finland	16	Spain	19

Notes: Does not include volunteer time or religious worship giving.<sup>1</sup> Local currency was converted to 1995 constant American dollars based on the average official exchange rate as reported in the IMF’s *International Financial Statistics*.

However, examining the category of private giving to social services reveals a different picture. Private giving to social services per capita in the United States is \$30, ranking only fourth in the cross-country list (the United Kingdom, Belgium, and Austria are ahead of the United States in this category – see table 1). I have created a variable

named generosity that controls for differences in GDP per capita as a proxy for disposable income. A comparison of country ranking according to the generosity variable across categories (Table 2) is less supportive of the claim that the Americans are exceptionally generous than the comparison of giving per capita in Table 1.

**Table 2: Country Rank of Generosity Measure by Charity Category**

<b>Rank</b>	<b>Health</b>		<b>Education</b>		<b>Culture</b>		<b>social services</b>		<b>Total</b>	
1	<b>US</b>	2.2*	Israel	5.0	Spain	2.7	UK	2.2	Israel	11.6
2	Israel	1.8	<b>US</b>	2.4	<b>US</b>	1.8	Belgium	1.7	<b>US</b>	9.4
3	Ireland	1.6	Argentina	2.3	Sweden	1.8	Austria	1.5	Spain	8.2
4	Canada	0.8	Sweden	1.8	Belgium	1.0	Ireland	1.5	Sweden	6.7
5	Spain	0.7	Finland	1.3	Holland	0.9	Israel	1.5	UK	6.0
6	Belgium	0.6	France	1.2	Hungary	0.9	Spain	1.3	Ireland	5.6
7	UK	0.5	UK	1.0	Finland	0.8	<b>US</b>	1.1	Belgium	5.3

Notes: Column to the right of country name shows generosity figures. The Generosity measure is calculated according to the following formula: Generosity (category X) = Private giving (category X) per capita/ GDP per capita \* 1000.

Nonetheless, the United States is, in general, the second most generous country according to this measure as well. In the category of social services, however, the United States falls in the ranking to 7<sup>th</sup> among a total of 25 countries.

In the sub-category of health, on the other hand, the United States is a clear first in private giving per capita and this is also true when utilizing the generosity measure. What is the reason for these differences? Why does the United States seem to be exceptional in the level of its charitable giving in most areas – ranking either first or second – but not in

social services? The following section briefly examines a number of factors that the academic literature suggests are the main determinants of charitable giving.

#### **Four Explanations for the Lack of American Exceptionalism in Social Services**

Variance in private giving is often explained with reference to four economic determinants: government expenditure (crowd-out theory), income, need, and tax policy. Can one, or more, of these factors account for the patterns one witnesses in the international comparison of private giving?

##### *Government Expenditure*

The crowd-out theory postulates that government expenditure “crowds out” prospective private giving, all else being equal (Abrams and Schmitz 1978; Warr 1982; Roberts 1984; Brooks 2000; Andreoni and Payne 2003; Brooks 2004). In its most extreme articulation, it predicts a dollar for dollar substitution rate. Assuming that donors care about the recipients’ overall level of consumption, and not about who donates the money necessary to get the recipients to that level (‘pure altruism’), every additional dollar that the government gives is one less dollar out of the pockets of individual donors. Besides being widely accepted in economic circles,<sup>2</sup> the crowd-out theory is an influential force among politicians and policy makers resonating with the general conservative approach that expansion of the state is almost always at the expense of civil society. Crowd-out theory would constitute a reasonable explanation of the international charitable giving pattern if we find that:

a) the crowd-out theory applies to international comparisons of charitable giving, and b) the American government does more than the Austrian, Belgian, and British governments

(countries with higher per capita giving to the social services than the United States) to crowd-out social services than other categories of charity. Both claims, however, are false.

**Table 3: Correlations**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Log social service private giving		.85** 21	.28 24	-.50* 23	.38 24	.83** 24	.63** 23	.49* 22	-.22 23
(2) Log government expenditure	.85** 21		.52* 21	-.56** 26	.40* 27	.86** 28	.49** 27	.45* 26	-.54** 26
(3) Lowest 20% income share	.28 24	.52* 21		-.07 23	.11 24	.29 24	.18 23	-.13 22	-.52* 23
(4) Government Responsibility	-.50* 23	-.56** 26	-.07 23		-.11 30	-.43* 30	-.58** 29	-.53** 28	.16 30
(5) Position left – right continuum	.38 24	.40* 27	.11 24	-.11 30		.23 33	.26 32	.09 31	-.24 32
(6) Log average GDP per capita	.83** 24	.86** 28	.29 24	-.43* 30	.23 33		.59** 33	.51** 32	-.70** 32
(7) Share of social service nonprofit paid (FTE)	.63** 23	.49** 27	.18 23	-.58** 29	.26 32	.56** 33		.62** 32	-.35 31
(8) Share of volunteer social service (FTE)	.49* 22	.45* 26	-.13 22	-.52** 28	.09 31	.51** 32	.62** 32		-.07 30
(9) Church attendance (weekly)	-.22 23	-.54** 26	-.52* 23	.16 30	-.24 32	-.70** 32	-.35 31	-.07 30	

Note: For full specification of variables see Appendix. First row figure represents Pearson's correlation coefficient, second row represents relevant number of cases (N).

\*\* Significant at the .01 level (two-tailed); \* Significant at the .05 level (two-tailed).

A statistical analysis of the international data reveals that not only is there no negative correlation between government expenditure on and charitable giving to the social services, there is, in fact, a very significant positive correlation between the two variables

(table 3). More importantly, this relationship persists, with a very high  $R^2$ , even when GDP per capita is introduced alongside social service expenditure in an OLS regression model (see table 4, model 1). The variable of government social service expenditure is also significantly and positively correlated with the share of social service volunteers in the economically active population (table 3). However, in contrast to the case of charitable giving, this effect disappears once one controls for GDP per capita ( $r=-.13$ ,  $p \leq .545$ ).<sup>3</sup>

**Table 4: OLS Multilinear Regression (Dependent Variable: Log of Private Giving)**

	Model 1			Model 2			Model 3			Model 4		
	$\beta$	<u>Beta</u>	<u>p</u>	$\beta$	<u>Beta</u>	<u>p</u>	$\beta$	<u>Beta</u>	<u>p</u>	<u>p</u>	$\beta$	<u>Beta</u>
Log GDP per capita	.72	.37	.072				.761	.366	.069			
Log government expenditure	1.04	.58	.005	1.45	.82	.001	.960	.532	.017	.001	1.36	.75
Social service nonprofit paid										.354	.005	.151
Left-right political position							.014	.074	.572			
Government responsibility				-.01	-.08	.572						
$R^2$	.765			.709			.770			.731		
N	21			19			19			20		

The statistical analysis not only does not support the crowd-out theory, it indicates that crowd-in (i.e., public expenditure increases private giving) occurs. A comparison of American giving to the social services with the countries that were more generous in this



category also tends to rule out the crowd-out theory as an explanation of the international pattern. Instead of being less generous than the United States in government expenditure, Belgium, Austria, and the United Kingdom were, in fact, more generous than the United States as far as public expenditure on social services is concerned (OECD 2005). The crowd-out theory does not offer a viable explanation for why the United States excels in most charitable fields but not in social service giving.

### *Income*

A second explanation of charitable giving focuses on the supply side. Edward Wolff claims that a citizen's disposable income – and even more so wealth – is the best predictor of giving (Wolff 1999). Thus, in the international arena, one would expect countries where people have more disposable income and wealth to be higher-ranked givers. This theory does not fit the ranking of the United States compared to Austria, Belgium, and the United Kingdom in social service giving. More importantly, this theory is not sophisticated enough to explain differences in relative giving to different charity categories. While the supply side theory is appropriate for explaining why giving in the aggregate varies, it cannot explain why the American ratio of “giving to social services/total giving” is lower than that of Austria. Having more or less disposable income probably affects one's aggregate level of giving; as could be witnessed in a comparison of the developed to the developing countries. There is no clear causal link, however, between the level of disposable income and the *composition* of private giving. We must look to theories that can differentiate between different welfare categories in order to explain why one charity category does better than another.

### *Need*

The third factor explored in this section concentrates on the demand-side. One might expect that the greater the need in a certain field, the greater the private response in giving to charity.<sup>4</sup> In the case of the social service field, one could estimate need – among other measures – by reference to poverty rates and the share of aggregate income of the lowest income quintile in society.<sup>5</sup> I have utilized income shares in the international comparison.<sup>6</sup> The results, however, are inconclusive. The correlation coefficient is as expected negative – the higher the income share of the lowest income quintile, the smaller are charitable donations – but of no statistical significance (table 3). Within the United States, the United Kingdom, Austria, and Belgium, subset, where the need is greater (i.e., the United States), contributions to social services are actually smaller. Variation in need does not appear to play a part in explaining American exceptionalism.

### *Tax Policy*

Finally, several studies argue that in order to understand domestic and international variation in charitable giving, one must look not only at income, but also at price. And the price of giving is, to a great extent, determined by tax policy (Clotfelter 1985; Steinberg 1990). What kind of tax structure would lead to higher relative giving to social services in the United Kingdom (or Austria and Belgium) than in the United States?<sup>7</sup> Two possible configurations could lead to this result. First, in the United States there are more tax incentives for those who contribute to charities that do not belong to the social service category than to those who contribute to those charities.<sup>8</sup> Second, in the United Kingdom, Belgium and Austria, there are more tax incentives for those who contribute to social services than to other charities.

The United States tax code appears to be general and impartial as far as the type of the nonprofit one contributes to is concerned. It does not matter if one contributes to the opera or to a soup kitchen – the tax exemption is the same. Austria and Belgium have more restrictive tax codes, as far as charitable giving is concerned (Weisbrod 1991). Taxpayers have fewer incentives to give to charity in these countries than their counterparts in the United States (making it all the more surprising that they contribute more to social services in absolute terms!). More importantly, the tax codes are not biased toward giving to social services. Quite the opposite, in fact, in the case of Austria. The Austrian tax code offers special exemptions to contributors to scientific research and not to other charities (Ibid.). The United Kingdom does not discriminate between charities involved in social services and most other charities (Ibid.; Kendall and Knapp 1997). This admittedly was not the legal situation in Scotland until quite recently, where charity was defined as dedicated to the relief of poverty (Kendall and Knapp 1997). However, the definition of charity was amended in the beginning of the 1990s in a way that made it more inclusive. To sum up, little evidence supports the notion that social service giving in the United Kingdom, Belgium, or Austria, is higher than it is in the United States due to an inferior tax status (relative to other types of charities in the same country) of social service' charities in the United States, or due to a preferential status in Austria, Belgium, or the United Kingdom.

### **Political Culture, Ideology, and Institutions**

Differences in the levels of government expenditure, income, recipient' needs, and tax policy, offer little insight for understanding the American social service

charitable giving puzzle. In this section, I will explore two general factors (in three sub-sections) that have received far less attention in the literature: the differential effect of ideological-attitudinal differences across nations (or political culture) and differences in the structure of service provision.

### *National Ideologies, Attitude, and Culture*

The incorporation of culture or ideology into the study of charitable giving is essential because culture/ideology undoubtedly influences donor preferences, and thus potentially explains much of the variation in charitable giving. Nevertheless, the difficulties associated with identifying the specific cultural/ideological factors that make a difference and then creating measurable proxies for these factors, make such studies relatively rare. A study of cross-country charitable giving patterns, however, must pay attention to such factors given the substantial cultural and ideological differences between the case studies.

One cultural factor that is oft-cited in the literature is religious observance. Religious people are likely to give more to charity (and volunteer more) than non-religious people (Brooks 2003). Unfortunately, this tendency fails to shed light on why Americans lag behind the less religious publics of the United Kingdom, Austria and Belgium in charitable contributions to social services. Nor does statistical analysis show any significant correlation between church attendance and private charitable giving (table 3). Even when one focuses exclusively on the group of developed nations, thus reducing considerably the effect of widely divergent resources, church attendance has no significant effect on charitable giving ( $R=0.376$ ,  $p \leq .176$  for 15 developed nations).

Even if religiosity does not provide us with sufficient analytical leverage, a different cultural/ ideological factor might provide a possible explanation for the social service crowd-in effect reported earlier. The argument runs along the following lines: government expenditure and private giving are both affected by popular opinion regarding the need to support the needy. In countries in which there exists a generally favorable view of the needy, both government expenditure and private giving would be relatively high compared to countries in which general opinion is more critical of the recipient group. Although there is no necessary causal relationship between public expenditure and private giving according to this explanation, the two variables are positively correlated, thus producing a crowd-in phenomenon.

According to this explanation, the higher level of charitable giving in the United Kingdom reflects a more positive public attitude to the needy in general and giving to the needy in particular, in comparison to the United States. The United Kingdom is a state with a strong labor party that promotes – or at least used to promote – egalitarian ideals. The United States does not have left-leaning political forces of similar stature. The egalitarian ethos was never as widespread and influential in the United States as it is in the United Kingdom and continental Europe.<sup>9</sup> One might tie the greater currency of egalitarian attitudes in the United Kingdom, Austria and Belgium to more attention to the plight of the needy in charitable giving than in the United States. In other words, the reason that social service charitable giving in the United States is lower than in the other three countries is because Americans philanthropists find the poor to be less deserving than do their European counterparts. Indeed, there is a marginally significant and positive correlation between charitable giving to the social services across countries and the

percentage of survey respondents who view themselves as left of center (table 3).

Moreover, this relationship becomes significant once one controls for differences in national GDP per capita levels (  $R=.41$ ,  $p\leq.05$  two-tailed,  $N=22$ ). However, this effect all but disappears once one controls for public social service expenditure (table 4, model 3).

Apart from the result of the statistical test reported above, there is an additional reason to treat the "egalitarian ethos" explanation with caution. Even if one is distressed by the plight of the needy, it does not necessarily follow that giving to charity would be the best way to respond. Demands could be made on the state to support the needy to a greater extent instead of giving to the needy through charity. There is some evidence, indeed, to support this proposition. Based on the results of World Value Surveys, it appears that the greater the share of the public that agrees with the statement that "Government should take more responsibility to ensure that everyone is provided for", the smaller are per capita social service charitable contributions (table 3). This significant effect, however, becomes much smaller and loses its statistical significance once government social service expenditure, or GDP per capita, are introduced into the analysis (Table 4, model 2). Without international surveys that directly ask about public views concerning charitable giving, it is difficult to properly assess the hypothesis that variation in ideology explains variation in charitable giving.

#### *Nonprofit Sector Size*

For several years now, Lester Salomon and his collaborators have emphasized the importance of institutional structure in accounting for cross-national differences in volunteering and charitable giving (Salomon and Anheier 1998; Salomon et al. 1999). In an attempt to explain cross-national variation in volunteering, Salomon and Sokolowski

propose that volunteering is linked to the degree of persons' embeddedness in social networks that encourage volunteering. More specifically, they argue that "the greater the size of the nonprofit sector in a country, the greater the amount of volunteer participation." (2001, 10) A regression of volunteering over paid nonprofit staff, in 24 countries, appears to support this argument.

Salamon and Sokolowski's argument could easily be extended to the case of charitable giving: The larger the nonprofit sector, the greater the likelihood that potential donors would encounter charitable organizations, thus increasing the odds that they would donate money to these organizations. To evaluate this hypothesis, I correlated private per capita charitable giving with the share of social service nonprofit paid staff in the employable workforce. The result was a positive and very significant coefficient (see table 3). Controlling for GDP per capita did not influence the result's significance. However, when one introduces social service expenditure in an OLS regression model, the independent effect of nonprofit size all but disappears (see table 4, model 4).

A comparison of the relative shares of social service paid employment across the four countries is also inconclusive. Belgium and Austria lead the United States in the paid nonprofit social service share of the employable workforce. This result conforms to the hypothesis that the larger the nonprofit sector, the higher charitable donations. The nonprofit sector in the United Kingdom, however, is smaller than the American one, yet per capita charitable giving is higher.

Finally, even if the empirical evidence would have strongly supported the nonprofit size hypothesis, the direction of causality is still an open issue. There are numerous examples, especially in the United States, of causality running the other way:

that is volunteer-based organizations gradually expand by the addition of paid staff. The veracity of the nonprofit size hypothesis is questionable on both empirical and theoretical grounds.

### *Institutional Crowd-out*

A final explanation for the advantage of Austria, Belgium and Britain in giving to social service compared to the United States is related to the institutional structure of charities in the different countries. The following comparison shall focus primarily on the United Kingdom and the United States due to the paucity of readily available information regarding charities in Austria and Belgium.

In the United States, government relies heavily for the provision of services on nonprofit organizations (Young 2000). The American government was throughout the 20<sup>th</sup> century a firm believer in contracting out its functions to not-for-profits in all fields of social provision (Salamon 1987). The not-for-profits, all the same, retain a considerable degree of independence from government.<sup>10</sup> In the United Kingdom, the situation is different. Since the establishment of the post-war welfare state in Britain, the state has demonstrated a certain reluctance to cooperate with not-for-profits in the provision of services. The state took upon itself the direct provision of health, social security – and to a lesser extent – education. In the field of social services, however, the situation was somewhat different. The government relied to a greater extent on cooperation with existing not-for-profits in the provision of social services than in other fields (Kendall and Knapp 1997). With the advent of the welfare state following the end of the war, there was a widespread feeling that philanthropy was superfluous (Kendall and Knapp 1996, 55). However, at least in the social services public opinion changed. To



begin with, it soon became clear that the state's safety net was incomplete – poverty and need were not eradicated through state action (Deakin 1995, 43). More importantly, in the early post-war years, social service not-for-profits became more specialized in their provision (Ibid., 50; Kendall and Knapp 1996, 54-55). Thus, instead of providing the same general service that the state provided, they managed to *complement* state provision with specialized voluntary provision. Public recognition of the importance of the charities' function in these fields resulted in private donations and – though not always immediately – in state financial support. The Aves Committee's (1969) – a government committee authorized to examine the relationship between public agencies and voluntary organizations in the provision of social services – recommendations amounted to a call for even more collaboration of state and voluntary organizations in the provision of social services although the voluntary organizations were considered junior partners and not equals (Deakin 1995, 51-55). The social service charities in post-war Britain managed to carve out for themselves a realm of relatively independent action often partially financed and aided by the state.

The non- social service not-for-profits fared worse than their social service counterparts. In many instances, they were crowded-out by government that did not envision any role for them in the new British welfare state. The not-for-profits that provided social services, in contrast, continued to play a central role in British welfare. Since most philanthropists are not inclined to donate money directly to government,<sup>11</sup> it is unsurprising that British philanthropy aims not at health for example – where the NHS dominates – but instead gives to social services where the providers are non-government entities. To clarify, the argument here is not that government crowds-out private giving

through its financing function. Rather, crowd-out occurs because the government leaves no institutional room for not-for-profits by providing its services directly or by taking over the not-for-profits in a way that leaves them with no independent identity (e.g., the Medical Research Council). My contention is that in the case of the United Kingdom, social service private giving leads all forms of private giving because the welfare state structured the public space of not-for-profits in such a way that left very little room for an independent vibrant existence for most other not-for-profits. Philanthropists in the United Kingdom give to social services because, for many years, they lacked appealing options in other fields of charity. According to this argument, philanthropists do not respond directly to changes in government expenditure for a given cause as classic crowd-out theory implies. Rather the perceived image of not-for-profits as independent organizations, on the one hand, or as mere instruments of the state, on the other, guides donors' decisions regarding where to spend their money. Furthermore, not-for-profit institutional independence from government does not necessarily imply that not-for-profits do not contract with government for the delivery of services. As long as not-for-profits maintain institutional separation from government – separation that allows some autonomy in setting goals and decision-making – they are able to avoid institutional crowd-out in charitable giving.<sup>12</sup>

Does the institutional crowd-out theory – as opposed to financial crowd-out – apply to the cases of Belgium and Austria as it does to Britain? While lack of information prevents me from reaching any conclusions regarding the Austrian case, at least Belgium appears to conform to the British example. Mertens et al. claim that since the fields of education, healthcare, and research activities are controlled by government in Belgium,

citizens feel less responsibility toward these fields and prefer to donate to social services and development aid where government control is not as pervasive (1999, 53). As is the case in the United Kingdom, the main reason for the predominance of social service directed philanthropy in Belgium is not that it enjoys less government funding than other fields – in fact, public sector support constitutes a larger share of social service revenue than education or health revenue – but the relative institutional autonomy its charities enjoy (Ibid., 49). Thus, institutional crowd-out appears to be a good explanation of the pattern of giving in both Belgium and the United Kingdom.

## **Conclusion**

This paper does not offer one all-encompassing reason for variance in private giving across countries and across time. Nevertheless, institutional crowd-out helps explain the case of American exceptionalism in social services and, most probably, it could be advantageously applied towards explaining some cases of variation in one country over time. On the international level, significant institutional and cultural differences among countries could very well translate into substantial differences in aggregate private giving: private giving in specific categories that cannot be attributed to oft-cited variables such as the level of government funding, disposable income, need, and tax policy.<sup>13</sup> Institutional crowd-out is one such important variable and further study could provide us with a comprehensive list of significant institutional factors.

While this paper does not address directly why the United States is exceptional as far as aggregate charitable giving is concerned, it does offer at least one plausible answer. The not-for-profit sector in the United States has benefited from its collaboration with the

American government without losing its independent status. Receiving funding from the government enhances the capacities of the not-for-profit organizations and also awards them a “stamp of approval” that helps reassure donors that their contributions are not being embezzled thanks to state monitoring. This relationship allows not-for-profits to have public recognition as an important independent force in public life – a perception that encourages private giving. This not-for-profit – government relationship, where the state could both undercut private support for not-for-profits or enhance private support depending on the specific institutional framework the state provides, implies that the theory that posits that state intervention crowds-out civil society (when income, need and tax incentives are held constant) is over-simplistic. State funding does not necessarily mean a less active role for civil society.

This analysis has at least one important implication for present and future policy decisions. Right-wing Conservatives tend to believe that rolling back the welfare state would lead to the resurgence of civil society. This notion is particularly prevalent when expenditure directed at the needy is concerned (Tanner 1996, 135-149). However, as noted before, less government expenditure does not necessarily imply more private giving.<sup>14</sup> This study suggests that governments that wish to encourage private giving do not necessarily have to retreat from their commitments to public funding. Instead, governments should consider restructuring their relationship with not-for-profit organizations in ways that would limit state encroachment and enhance not-for-profit institutional independence.

## **Appendix: Variables and Data Sources**

The Johns Hopkins comparative nonprofit survey includes 24 countries: Austria, Belgium, Finland, France, Germany, Ireland, The Netherlands, Spain, United Kingdom, Australia, Israel, Japan, United States, Czech Republic, Hungary, Romania, Argentina, Brazil, Colombia, Mexico, and Peru. The data from these countries is for 1995. Slovakia is included with data from 1996, Italy with data from 1991, and Sweden from 1992. I have also obtained comparable data for Canada from the *1997 National Survey of Giving, Volunteering and Participating*. Thus, all together, this study utilizes comparative data regarding private giving from 25 countries. This study specifically takes advantage of the social service figures to construct a variable for per capita charitable giving to the social services. I use the natural log of this variable in order to reduce the positive skew and normalize the distribution.

Volunteer figures, used to construct the FTE social service volunteers' and for-profit paid employment' shares in the economically active population variables were obtained from the Johns Hopkins survey for 34 countries (Salamon, Sokolowski, and List 2003, tables B.1 & B.2; Johns Hopkins 2005, table 1).

Figures for GDP per capita and income shares are relatively easy to come by: this study obtained figures from *World Development Indicators* and *International Financial Statistics* for the appropriate years. The GDP per capita variable is defined as the natural log of average GDP per capita (indexed to constant \$USA) for the two years preceding and the year for which charitable donations data is available. The practice of averaging over previous years helps smooth out the effect of outlier years and reflects the expected lag in the effect of the independent variable on the dependent variable.

The government expenditure on social services variable is based on the log of a three-year average of the 'Social Security and Welfare' figures (combined local and central government) from the *Government Finance Statistics* yearbook. Not all 'social security and welfare money' is designated to helping the needy, nor is there a perfect overlap with the ICNPO social service category. Nevertheless, the lion's share of government spending on the needy, both in the form of services (which can be delivered by public or private entities) and in the form of transfers, is included in this category. Furthermore, the 'Social security and welfare' figures are very highly and significantly correlated with OECD figures for social expenditures ( $R=.941$ ,  $p\leq.001$ ) that are specifically designed to reflect government expenditure on the needy.<sup>15</sup>

The government responsibility variable is derived from responses to the World Value Survey question: "Do you think the first statement or the second one best describes your views: (1) The government should take more responsibility to ensure that everyone is provided for. Or (2) People should take more responsibility to provide for themselves." (Inglehart et al. 2000; European Value Study Group 2005). Each data point in the variable indicates the share of respondents who were closer to the former view than to the latter. The church attendance variable was derived from a survey question regarding church attendance. The variable reports the share of respondents who visit church on a weekly, or even a more frequent, basis. Finally, the left-right position variable is derived from responses to the question: "In political matters people talk of "the left" and "the right". How would you place your views on this scale, generally speaking?" Each data point reflects the percentage of respondents that situated themselves in the 1-4 range (out of 10) which is closer to the left.

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## Notes

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<sup>1</sup> Money donated to a religious organization is included in the appropriate field of activity together with secular donations (e.g., money for youth rehabilitation falls into the social services category). Nevertheless, given the informal nature of many donations to churches there is undoubtedly some underreporting of religious donations in all fields and countries.

<sup>2</sup> Crowd-out theory has been tested in at least thirty studies. Most of these studies found a significant negative correlation between government expenditure and individual charitable giving, although the effect was much less than a dollar for dollar substitution rate (Brooks 2004). In fact, at least four studies have found a positive relationship (“crowd in”) between the two variables. The evidence suggests that the crowd-out effect might help explain patterns of giving in one country. This, however, is not the case, as I will argue, for the international comparison. Furthermore, there is room to doubt that current models of crowd-out successfully explain the phenomenon, even in a single country (see fn. 14).

<sup>3</sup> Although there are clear parallels between charitable giving and volunteering, there are important differences between the two both in donor/volunteer motivation (e.g., pure altruism is more applicable to charitable giving than to volunteering) and in general contours (e.g., the United States is less exceptional in international comparisons of

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volunteering than in private giving across sectors). Due to these differences, it is better to separate the analyses of these two aspects of charity.

<sup>4</sup> The need factor is implicitly incorporated in theoretical models of crowd-out theory as total recipient consumption (Roberts 1984). Most of these studies control for need, usually by utilizing poverty rates, while focusing primarily on government expenditure.

<sup>5</sup> The overlap between the needy and the recipients of social service donations is incomplete. Nevertheless, it is clear given the INCPO definition of social services (see Salamon et al. 1999 for definition), that the lion's share of recipients in the different sub-categories of 'social services' would commonly be considered as 'needy'.

<sup>6</sup> I use the lowest quintile's share of income as a proxy for need, and not poverty, both because international comparisons of poverty (the more common proxy) are complicated by international variation in the definition of poverty and because income shares capture well the relative nature of 'need', especially in Western societies.

<sup>7</sup> In the discussion of tax policy and the state- not-for-profit institutional relationship, later in the article, I focus on a comparison of the United States, on the one hand, to the United Kingdom, Austria and Belgium, on the other, without complementing this with a large N' analysis. The main reason for this is the difficulty in obtaining comparable data on tax systems and institutional make-up, for so many countries.

<sup>8</sup> By tax incentive, I refer to the combined effect of the marginal tax rate and tax deductions for charitable giving.

<sup>9</sup> According to a 1987 comparative survey conducted by the International Social Survey Programme, 87% of Austrians and 74% of the British agreed "that there is too much inequality," as compared to only 56% of Americans. These numbers are even more

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impressive given the greater inequality in the United States (Evans 1993-1994, 124-128). Comparing the 1987 data to more recent surveys of British and American social attitudes it appears that the disparities have grown with time. For the United Kingdom see Roger Jowell et al.(1999, 5); for the United States see Susan Mitchell (2000).

<sup>10</sup> In the United States, according to Steven R. Smith and Michael Lipsky, (1993) the degree of nonprofit independence has changed over the years, but the public perception of the not-for-profits as autonomous actors did not fundamentally change since government visibility, in social services and other charity fields, remained low (117-119).

<sup>11</sup> It is an interesting question why this is true and if this has been different in the past (For example, the Smithsonian institute has been established through money bequeathed to the government).

<sup>12</sup> It is entirely possible that institutional crowd-out would exist without any concurrent financial crowd-out. In such a case, government does not increase funding for the needy, thus no financial crowd-out, but it does increase its control over charities making them less independent and less attractive to potential donors. It is, however, quite likely that institutional crowd-out plays some role in explaining the financial crowd-out phenomenon (in a single system): an increase in government funding often involves additional regulations and government control of nonprofit providers that receive the funding. Additional government involvement (not additional government funding) makes the charitable not-for-profits less attractive to donors (see fn. 14 for further elaboration).

<sup>13</sup> As mentioned before, without international public opinion surveys that probe views on charitable giving, it is difficult to accept or reject the hypothesis that differences in ideology or culture explain international variation in charitable giving.

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<sup>14</sup> In a recent survey, Horne, Johnson and Van Slyke (2005) found that most individual donors know little about the level and incidence of government financial support for their charities of choice. Furthermore, the majority of donors claimed that knowledge of the level of government funding would not affect their contribution-related decisions. While traditional crowd-out theory, which assumes that individual donors respond to the level of government expenditure, appears to be at odds with this finding, this is not the case for institutional crowd-out. According to institutional crowd-out theory, donors would care about the charity's perceived institutional independence and not about the share of its revenue that comes from government. As mentioned before, it would be surprising, however, if there was no connection between the level of government funding of charities and their degree of institutional independence. Funding, after all, usually comes with strings attached. This could help explain why studies have found evidence of some financial crowd-out: increased government finance of charities often entails greater government involvement in their operation, some loss of organization independence, and as a result, diminishing charity appeal to donors. (For an alternative explanation of crowd-out compatible with the survey results see Andreoni and Payne (2003)).

<sup>15</sup> The three year average of the OECD social expenditure variable also produces a positive and significant correlation with the private giving to social services variable ( $R=.534$ ,  $p \leq 0.26$  when controlling for GDP per capita). I prefer the *Government Finance Statistics* figures to the OECD because of the larger number of appropriate data points in the former ( $N=21$  compared to  $N=15$ ) and the fact that the yearbook includes most of the developing countries in the Hopkins survey while the OECD data does not.