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Some Reasons for Differences in Charitable Giving Between Countries

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Abstract - This paper employs cross country regression analysis on a large set of countries to look at a few potential determinants of differences in charitable giving across countries. In addition to present income, it finds that the perceived degree of control over future economic conditions matters for charitable giving. Religiosity and perceptions of corruption also appear to be relevant for charitable donations, with religiosity exerting a positive effect and corruption perceptions a negative effect on charity.

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Some Reasons for Differences in Charitable Giving Between Countries

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Abstract - This paper employs cross country regression analysis on a large set of countries to look at a few potential determinants of differences in charitable giving across countries. In addition to present income, it finds that the perceived degree of control over future economic conditions matters for charitable giving. Religiosity and perceptions of corruption also appear to be relevant for charitable donations, with religiosity exerting a positive effect and corruption perceptions a negative effect on charity.

With the advent of newest form of global capitalism, multinational enterprises and global production, the need for private charitable giving to ameliorate social problems such as poverty, assistance for the sick, for the aged, and for the unemployed is likely to steadily grow. Other sources of funds are likely to become smaller or may even dry up, while the social needs are apt to keep expanding at a rapid pace. The liberal notion that the government can take over private giving, or, substitute for private giving, is less tenable in the present environment. Capital has increased its bargaining strength with regard to government, society, and labor. Irrespective of whether labor force control is the consequence of repressive government, the most favorable conditions for capitalist production are low wages and a disciplined workforce. Capital is mobile and can threaten to leave in a moment by shifting jobs to lower wage locations. As a result, there is pressure for wages, human rights, and workers rights to decline. Because governments around the world fine themselves in intense competition to retain and to attract industry, the ability of governments to raise taxes from corporations for social purposes is diminishing. The average citizen's political strength to maintain a more benevolent social fabric and to ask governments for new social programs is waning.

The identification of the determinants of charitable giving is the first step in the process of finding new and effective ways to increase charitable giving. The purpose of this paper is to use international data to look at a few potential reasons for charitable giving.

Although there has been extensive empirical work using individual respondents to surveys within particular countries as the units of analysis, less work has been done using the country as a unit of analysis. The present study looks at a large cross section of

countries to study charitable giving. In addition, the study is unique in that it considers not one, but two financial variables. It looks not just at current income as a potential determinant of charitable giving, but perceived future financial state as well.

The first section of the paper reviews some of the recent literature on the sources of charitable giving. The second section develops an elementary model of charitable giving across countries using four potential explanatory variables. The third section discusses the sources of the variables that are used in the empirical section. The fourth section presents and analyzes the results of cross country charitable giving regressions. The fifth and final section concludes.

1. SOME SAMPLING OF THE LITERATURE

Using cross national survey data, Reitsma, Scheepers, and Te Grotenhuis empirically investigate people's disposition to donate to poorer countries for seven European countries, the Netherlands, Belgium, Great Britain, Poland, Hungary, Italy and Portugal (Reitsma, Scheepers, and Te Grotenhuis 2006). Adjusting for education, gender, income, household size and other variables, they find that church attendance, church attendance by respondent's partner, and the extent of a respondent's political interest have a positive effect on giving to poorer countries, but that free riding has a negative effect.

List provides an overview of the market for the charitable giving of money in the United States (List 2011). He focuses on the three major players in the market (donors, charitable organizations, and the government), and the interplay among the players. Some of his observations and beliefs include the notion that there is an asymmetric relationship between economic activity and charitable giving so that giving goes up more with the uptick in economic activity than down with the downtick, that individual giving is positively related to education and income and that the giving-income relationship is U shaped, that the majority of monetary contributions are targeted to religious causes, and that the price elasticity of giving is probably in the neighborhood of unity or somewhat elastic.

Instead of trying to explain total charitable contributions, Micklewright and Schnepf use micro survey data from the United Kingdom to focus on the reasons behind a single kind of charitable donations,

donations for overseas development (Micklewright and Schnepf 2009). They find that overseas giving is strongly positively correlated to education, and, that, unlike other forms of giving, income does not seem to be important for overseas donations once other factors are taken into account.

Increased secularism may be a source of reduced private charitable giving. Brooks uses the Social Capital Benchmark Survey for 2000 to look at differences in charitable giving in the U.S. between secular and religious people (Brooks 2003). He finds that religious people are much more inclined to give to charitable causes even after adjusting for political beliefs, income, education, age, and other demographic characteristics. He discusses two possible reasons for this divergence. First, that secularists see the government, rather than private charities, as the preferred institution for dealing with societal problems, and, second, that, religion is a key institution for developing the social capital that provides the necessary underpinning for charitable giving.

Adloff reviews the charity literature for the U.S. and Germany in order to profile the circumstances in which people in the U.S. and Germany become more charitably active by volunteering time, setting up philanthropic organizations, or donating money (Adloff 2009). Individual characteristics and conditions that favor greater charitable activity include greater religiosity, greater integration of individuals into social networks, higher levels of education, higher income, and more effective organization of charities.

Wang and Graddy use Tobit regression on data for the U.S. from the 2000 Social Capital Community Benchmark Survey to look at the potential effect of social trust and other variables on giving for religious and for secular causes (Wang and Graddy 2008). They discover that social trust matters for both types of giving. In addition, they find that, besides trust, other social capital variables, such as network bridging and civic engagement, along with human and financial variables are relevant for both kinds of giving, and that happiness and religiosity are important for religious giving but not for secular giving.

As a rule, economists consider price as critical in decision making. Using a demand side perspective, Karlan and List use a natural field experiment to investigate the price effects on charitable giving (Karlan and List 2007). They analyze the donations from direct mail solicitations of a nonprofit organization in the U.S., and find that the amount of donations and the rate of response to solicitations increases when matching grants are employed, but that greater matching grants beyond dollar for dollar appeals have no additional effect.

Piper and Schnepf use micro survey data for Great Britain to look at the effect of gender on charitable giving (Piper and Schnepf 2008). In general, they find,

after adjusting for income, education, age, and other characteristics, that women are both more likely to give to charities and to make larger contributions than men when they do give.

II. A SIMPLE MODEL OF CHARITABLE GIVING ACROSS COUNTRIES

The paper considers a simple model of charitable giving that consists of a single equation. The equation is as follows.

$$G = f(F, R, C) \quad \partial G / \partial F > 0, \partial G / \partial R > 0, \partial G / \partial C < 0$$

In the equation, G is the amount of charitable giving, F is the financial condition of people in the country, R is the degree of religiosity, and C is the amount of corruption in the country. The partial derivative of charitable giving on financial conditions and the partial derivative of charitable giving on religiosity is hypothesized to be positive, while the partial derivative of charitable giving on corruption is predicted to be negative.

In general, better financial conditions are expected to lead to increased charitable giving in a country. Two aspects of financial conditions of people within countries will be considered. The first is the capacity to give. It is assumed that the greater people's capacity to make monetary contributions in a country, the greater will be the likelihood and the amount of their contributions. People who are not even able to satisfy their own basic needs with their financial resources, who, monetarily, are just keeping their heads above water, while they may have the disposition to make monetary contributions to others, are not in a position to do so. The capability to give requires surplus income, that is, income that exceeds the subsistence level of income. The bigger this surplus, the greater is the capability to give.

The second financial item considered to be relevant for the amount of giving in a country are people's sentiments regarding their future financial condition, whether they feel secure over their financial future, and whether they feel confident they are in a position to determine their own financial future. Even when people's incomes are currently very high, if they have great fear for the future, that the floor is going to drop out of their life, they will be very hesitant presently to part with their money for charitable or for other reasons.

The first non-financial variable that is theorized to be a determinant of country charitable is religiosity. Greater religiosity is predicted to lead to increased charitable giving. All the major religions in the world extol the virtues of alms giving to the poor, and do their very best to make their members charitable, and charitable conscious.

The last variable on the right hand side of equation is corruption. It is hypothesized that greater corruption leads to less charitable giving in a country. People want their charitable contributions to go to the poor. They do not want to be scammed. To the extent that corruption exists in society, charitable contributions are less likely to achieve their intended target, and are more prone, one way or another, to be waylaid into undeserving ends.

III. DESCRIPTION OF DATA SOURCES

The measure of country charity is the world giving index of the Charities Aid Foundation for 2010 (Charities Aid Foundation 2011). Using answers to questions from Gallup World View World Poll questionnaires, the world giving index takes into account with equal weight three different aspects of charity in its construction, contributing money, helping strangers, and volunteering time. The index is available for 153 countries for 2010. The potential range of the index is from a low value of 0 to a high value of 100. For 2010, Australia scored the highest index value with a score of 57 and Burundi and Madagascar were tied for lowest value with a score of 12.

Gross domestic product per capita for 2005 in real 2000 dollars is utilized to capture the standard of living of people in different countries and their financial capability to make charitable contributions. The data for per capita gross domestic product comes from the World Bank (World Bank 2011). Gross domestic product per capita is given the variable name GDPPC.

The measure used to assess the extent people feel they have some personal control over their future economic destiny is the percentage of positive responses to the survey question, "can people in this country get ahead by working hard, or not?" The data, for the most part, is for the year 2010, and comes from the Legatum Institute website (Legatum Institute 2012). The Legatum Institute's source for the data is the Gallup World Poll (Gallup 2012). The variable is labeled with the name FUTURE FINANCIAL CONTROL.

The index brought into play to quantify religiosity is the percentage of individuals answering yes to the survey question, "Have you attended a place of worship or religious service within the last seven days?" Once again, the data comes directly from the Legatum Institute, the Legatum Institute's source is the Gallup World Poll, and most of the data is for the year 2010. The variable is called RELIGIOSITY.

The measure of corruption is derived directly from Transparency International's corruption perception index for 2008 (Transparency International 2008). It is ten minus Transparency International's corruption perception index for 2008. The reason for the not using the Transparency international's corruption perception index on its own as a measure of corruption is that the

index is inverted. Transparency International's corruption perception index has a range between zero and ten with higher values indicating lower levels of corruption. Subtracting ten from Transparency international's corruption perceptions index makes the corruption measure easier to interpret with higher values of the corruption measure indicating higher levels of perceived corruption. The variable is named CORRUPTION.

IV. THE EMPIRICAL FINDINGS

Table I shows the results of cross country regressions of the world giving index on gross domestic product per capita, and on the three other potential explanatory variables. The table is arranged with the first column listing the potential explanatory variables, and with each of the next four columns showing the results of a single regression run. The body of the table contains estimated coefficients and their associated t-statistics. For a given variable entering an equation, the top value is the estimated coefficient. Underneath in parenthesis is its associated individual t-statistic. Asterisks under the t-statistic indicate levels of significance. Three asterisks indicate significance at the ten percent level or better; two asterisks signify significance at the five percent level of significance or better; and one asterisk indicates significance at the ten per cent level or better. The first row of the table numbers the regressions, the second to last row gives the r-squared values for each regression, and the last row tells the number of countries entering each equation.

Table 1 : Cross Country Regressions of Charitable giving Index on per Capita Gross Domestic Product and other Variables

	(1)	(2)	(3)	(4)
CONSTANT	.2798 (28.57) *	.0552 (1.26)	.0442 (1.01)	.1439 (2.31) **
GDPPC	.000049 (6.62) *	.0000054 (7.22) *	.0000062 (7.20) *	.0000034 (2.34) **
FUTURE FINANCIAL CONTROL		.0027 (5.04) *	.0022 (3.88) *	.0023 (3.99) *
RELIGIOSITY			.0009 (1.80) ***	.0012 (2.41) **
CORRUPTION				-.0176 (-2.36) **
RSQ	.235	.430	.447	.467
N	145	109	109	108

The table contains four equations. The first is the regression of charitable giving on the income variable itself, GDP per capita. The second equation, shown in the third column of table I, adds perceived future financial control to the first equation. The third

regression equation includes, as an additional explanatory variable, religiosity. Finally, the fourth equation, adds corruption perceptions as fourth and final independent variable.

The results indicate that each and every one of the four explanatory variables matter for charitable giving across countries. In general, when any of the variables enter an equation, they have the appropriate estimated sign and their estimated coefficients are significant at the ten percent level of significance or better.

Looking at the third row of table I shows that GDP per capita, the income variable, is positive and significant at the one percent level of significance or better in all four equations. The second financial capability variable, future financial control, is also positive and significant at the one percent level of significance in the three equations in which it appears. Religiosity has the expected positive sign. It is significant at the ten percent level or better in the third equation and significant at the five percent level or better in the fourth equation in which all four explanatory variables appear. Finally, corruption perceptions, as expected, has a negative estimated coefficient in the fourth equation, the only equation that it enters, and is significant at the five percent level of significance or better.

Overall, the four variables as a group are quite good at explaining the variation in charitable giving across countries. Focusing on the fourth equation, the equation containing all four explanatory variables shows that the four variables in conjunction explain over forty-six percent of the cross country variation in charitable giving. This occurs in a cross section containing 108 countries.

V. CONCLUSION

There is not just one dimension to an individual's financial condition. This study finds that not only does the present state of an individual matter for charitable giving, but the expected future state as well. In addition, consistent with a lot of other studies, the present study finds that religiosity is positively associated with charity. It also finds that corruption, right in line with those who maintain that trust is a basic underlying social requirement for charity, has a negative effect on charitable giving.

In terms of the future, several other variables still need to be investigated to assess their potential impact on charitable giving. Wealth, or better still, wealth over expected remaining years of life, is likely to be important for charitable giving, especially charitable giving in the form of philanthropy. Time availability also really needs some further examination. For instance, because of differential time constraints, volunteering for charities, all other things being equal, is apt to be higher for retired

people, and families in which only one spouse works, as compared to younger households and households in which both adults work.

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