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Philanthropy in  
the American Economy  
*An Introduction*

SOLOMON FABRICANT



INTERESTING facts about the structure of our economy, as well as the generosity of our people, are revealed in Dr. Dickinson's report on the changing position of philanthropy in the United States during the period from 1929 to 1959—one of a number of publications resulting from the National Bureau's study of the economic aspects of philanthropy.<sup>1</sup> As we reflect upon the facts revealed in this report, important questions arise concerning the respective roles of philanthropy, collective action through government, and the pursuit of self-interest, in promoting the well-being of the community at large. To note the outstanding facts and point to some of the questions they raise is the purpose of this introduction. It will, I hope, serve also to complement Dickinson's report.<sup>2</sup>

<sup>1</sup> Some preliminary results were presented in Frank G. Dickinson's "The Growth of Private and Public Philanthropy," in Eastern States Health Education Conference, *Voluntary Action and the State*, New York Academy of Medicine, 1961, and my "An Economist's View of Philanthropy," *Proceedings of the American Philosophical Society*, April 1961. Both papers are reprinted in F. G. Dickinson (ed.), *Philanthropy and Public Policy*, New York, National Bureau of Economic Research, 1962. This volume includes also papers prepared for a Conference on Philanthropy sponsored by the National Bureau and the Merrill Center for Economics: on fiscal and other economic aspects of philanthropy, by W. S. Vickrey; on a theory of philanthropy, by K. E. Boulding; on hospitals and philanthropy, by Eli Ginzberg; and on philanthropy and the business corporation, by Covington Hardee. In addition, the book includes two papers on the conference itself: its highlights, as seen by F. G. Dickinson, and reflections on the discussion, by W. L. Thorp. Ralph L. Nelson's monograph, *Economic Factors in the Growth of Corporate Giving*, will soon be published jointly by the NBER and the Russell Sage Foundation.

<sup>2</sup> The present paper includes some portions of the paper read before the American Philosophical Society. I have drawn also on Chapter 7 of my *Trend of Government Activity in the United States since 1900* (NBER, 1952). My indebtedness to Dickinson, and to Nelson who prepared some of the major estimates of private giving, will be obvious. I have benefited also from discussions with the members of the NBER advisory committee on the philanthropy study and the participants in the Conference on Philanthropy; from comments on this

## I

Especially noteworthy is the fact that philanthropic giving—private and governmental giving “in which generosity is the primary motive,” as Dickinson puts it—rose much more rapidly than did payments for commodities and services bought. In 1929, private giving in the form of charity to individuals and of contributions to churches, schools, hospitals, and similar institutions, was about 2 per cent of the value of the gross national product. By 1959, according to Dickinson’s calculations, the fraction had risen to 3 per cent. Governmental giving to meet needs classified under such budget categories as welfare, health, and education, which was 3 per cent of GNP in 1929, had jumped to 9 per cent by 1959. Total philanthropic giving, then, had risen from 5 per cent of GNP to 12 per cent over the thirty-year period. To judge from less formal estimates available for recent years, the high level of 1959 has at least been maintained since. In Dickinson’s vivid language: “The economy now tithes. The scriptural one-tenth has been attained by a generous people!”<sup>3</sup>

Not everyone is willing to admit as “philanthropic” all, or even any, of the governmental payments included in these totals of philanthropic giving. Indeed, the doubts—which arise from strong views on national policy and not merely academic opinions concerning proper language—led to some of the most spirited moments of debate in the discussions held in the National Bureau-Merrill Center Conference on Philanthropy and Public Policy.

Yet whatever they are called, the governmental payments classified as philanthropic by Dickinson belong in a discussion of the place of philanthropy in the American economy. If not themselves philanthropic, they are, in the technical language of economists, “substitutes,” and

paper, particularly by Geoffrey H. Moore and Ralph Nelson; and from a reading of the background papers prepared for the conference, of the chapter on philanthropic contributions in C. Harry Kahn’s *Personal Deductions in the Federal Income Tax* (published for the National Bureau in 1960 by the Princeton University Press), and two doctoral dissertations—M. K. Taussig’s *The Charitable Contribution Deduction in the Federal Income Tax* (Thesis, Massachusetts Institute of Technology, 1965), and R. A. Schwartz’s *Private Philanthropic Contributions—An Economic Analysis* (Thesis, Columbia University, 1966).

<sup>3</sup> *Philanthropy and Public Policy*, p. 30.

probably "close substitutes," for philanthropy. The increase in the scale of these governmental payments is therefore relevant, even when the primary concern is private philanthropy.

But there are also other "substitutes" for philanthropy besides the governmental payments to which Dickinson points. Our society has developed a variety of means to cope with the needs of its less fortunate members and to enhance the well-being of all. Governmental activities classified under budget categories that do not meet Dickinson's criteria of philanthropy may also help to avoid illness, or lessen its severity, or assure a family's capacity to carry the burden when it falls upon them. And the same may be said of activities in the market sector of the economy that no one would consider philanthropic. Indeed, it is not going too far afield to recall that the moral justification of our type of economic system is its great effectiveness in harnessing self-interest for the benefit of the entire community. The economic activities covered by the market portion of GNP now serve the common good more effectively than before. This improvement is also an advance in the battle against misfortune and the wider struggle to enhance the well-being of our citizens. It also, then, is in some degree a "substitute" for philanthropic giving, and should be mentioned in discussing the changing position of philanthropy in the American economy.

People think of philanthropy in terms of the motives that spur it, of course, as well as in terms of its objectives. From this point of view, too, our perspective must be wide when we consider the position of philanthropy in our economy. For philanthropy is spread wider through economic life than most people will recognize at first sight. Philanthropic giving, we say, is motivated by generosity; and ordinary economic transactions, by self-interest. But as Dickinson is careful to note, while generosity is the primary, it is not necessarily the sole, motive of philanthropic giving. Similarly, self-interest may be primary but it is not always the only motive in ordinary economic transactions. If there is a touch of philanthropy even in the market place—just as there is a touch, or more than a touch, of self-interest among the motives in philanthropic giving—it deserves notice.

There are other questions that invite attention. Why has governmental philanthropy risen in relation to national product? Why has not private philanthropy fallen, with governmental giving rising so rapidly? Have

higher income tax rates, coupled with the deductibility of philanthropic contributions on tax returns, played a large role in supporting private philanthropy?

## II

If we are to understand the role of philanthropy in economic life, we must first note the diverse ways in which the philanthropic motive manifests itself in the life of a market economy such as ours.

Philanthropy, according to the dictionary, is "love towards mankind; practical benevolence towards man in general; the disposition to promote the well-being of one's fellow-men." If this is its meaning, philanthropy is present in more aspects of economic life than most of us are aware of. There is an element of philanthropy in many of our actions, which we are prone to overlook.

One reason for this is a tendency to let our definition of philanthropic purposes and philanthropic giving be influenced by the regulations of the Internal Revenue Service. We recognize, of course, that for tax purposes these regulations permit deduction of contributions to organizations but not to individuals, and we would all agree that contributions to persons, outside the family at any rate, belong in an aggregate of philanthropic giving. Few of us, however, wonder whether we should not depart in a similar way from tax regulations that permit the deduction of contributions to churches and veterans' organizations, but not of contributions to political parties or "propaganda" organizations—which also aim, or claim, to promote the well-being of man in general.

Another item omitted from the list of tax-deductible contributions—in this case because it is also omitted from the list of taxable incomes—is the income earned on the property of foundations, hospitals, universities, churches, and other nonprofit institutions, and put by them to philanthropic use. We may remember the money incomes derived from the endowments of these institutions. But the rental value of the plant and equipment they own and use for philanthropic purposes is often overlooked, perhaps because this rental is seldom recorded even in their own accounts.

Another reason why philanthropy is underestimated is that we usually define giving in a narrow way. We tend to forget that to forego income

also is to give. Thus, the tax code permits the deduction, on tax returns, of contributions in cash or property, but not of contributions in the form of personal services or (in large part) of the services of property. Nobody keeps books on the time housewives or even corporate officials spend in philanthropic activities, but such contributions must make up a substantial sum, as Dickinson notes.

Every economist can point also to a less obvious sense in which philanthropy may be broader and its role larger than any ordinary figures on philanthropic giving would suggest. The clergyman or scientist who accepts an income lower than he could obtain in another respectable calling, because he prefers to occupy himself with work deemed to be of greater social value, also is making a philanthropic contribution. It is very similar to the contribution of time and money made by others in support of church or research institute. How much there is of this sort of giving is even more a matter of guesswork. I suspect there is a good deal.

Indeed, there is an element of something like philanthropy in almost every activity of economic life, when people temper their search for personal advantage with some regard for the welfare and opinions of their fellowmen. It is there in lesser degree and it is less calculated than in the choice of an occupation, but I do not believe it is negligible. No one is philosopher enough to disentangle the motives involved in restraining one's passions and one's selfishness. No one is able to decide how much of this restraint is to be credited to what is, in a literal sense, true philanthropy, how much to a calculation of one's long-run personal advantage, and how much merely to keeping within the law. However, if even a fraction of this kind of "giving" to society at large belongs in the realm of philanthropy, it is important to our assessment.

I have just said that no one is able to disentangle motives, and I cannot pretend to do so myself. But surely a philanthropic thread is woven also into many of our "purely selfish" motives. The desire to keep within the law is not entirely a wish to avoid confinement or a money fine. The fear and shame of violating the law is a reflection, in part, of one's regard for the welfare and opinions of his fellowmen. Similarly, the acceptance of a lower rate of pay than one could obtain in another occupation, because one likes to do basic research or social work, is not only a response to one's "likes." Why do people "like" to add to knowledge or to work with people needing help? It is easy to recognize the selfish



element in philanthropic giving. We should not overlook the philanthropic element in our selfish actions.

Indeed, in this broad sense philanthropy is a necessary condition of social existence, and the extent to which it is developed influences an economy's productiveness. For decent conduct pays large returns to society as a whole, partly in the form of a higher level of national income than would otherwise be possible. Underdeveloped countries are learning that, despite their hurry to reach desired levels of economic efficiency, time must be taken to develop the kind of business ethics, respect for the law, and treatment of strangers that keep a modern industrial society productive. Widening of the concepts of family loyalty and tribal brotherhood to include love of man "in general" is a necessary step in the process of economic development.

I have been pointing to the philanthropic element in our ordinary work-a-day activities. But I must add that if philanthropic giving is "primarily" motivated by "generosity," to repeat Dickinson's words, this is to say also that there may be a secondary element of self-interest in the motivation. Although we are less likely to overlook it—it is easy to notice the mote in another man's eye—it requires more than the bare mention I have given it.

The "economic" return a giver may expect, in addition to the "unselfish" satisfaction of helping others, may take the form of better relations—or the avoidance of worse relations—with customers, employees, or the general public. Presumably, giving by business corporations is likely to be heavily influenced by such considerations, and therefore not easily distinguishable from advertising or employee fringe benefits. But giving by individuals also is not always free of such motives; in contributing to a hospital building fund, for example, there may be the sensible wish to help ensure the availability of hospital facilities in case of personal need.

A rather different kind of example is provided by contributions to churches. Religious institutions may be viewed not only as philanthropic organizations but also, and even primarily, as organizations producing certain services required by their members. Seen from this standpoint, the philanthropic giving is less than the total contribution paid to a religious institution by the wealthier (or more faithful) parishioner. It is only the excess over the cost of the services he received. The beneficiaries are those who contribute less than the cost of the services they receive.

Presumably the same qualification can be put on contributions to other membership organizations, such as those of veterans, which also are included in the Internal Revenue tax-deductible list of philanthropic institutions.

Against this background, let us now take a closer look at Dickinson's estimates of private philanthropic giving, in order to identify the particular aspects of philanthropic activity covered by the estimates, and to see how well the estimates cover them.

### III

Philanthropic giving, as already stated, is defined as "giving in which generosity is the primary motive." Or, to cite the fuller definition with which Dickinson begins, philanthropic giving is "giving away money (or its equivalent) to persons outside the family and to institutions without a definite or immediate *quid pro quo* for purposes traditionally considered philanthropic." After scouting out the available information, Dickinson put together estimates of the following items to make up his total of private philanthropic giving:

	<i>Million Dollars</i>		<i>Percentages of GNP</i>	
	<i>1929</i>	<i>1959</i>	<i>1929</i>	<i>1959</i>
Gifts of living donors:				
To institutions—tax deductible	1,084	8,545	1.04	1.77
To persons outside the family—not tax deductible	434	3,418	.42	.71
Charitable bequests—tax deductible	154	810	.15	.17
Gifts by business corporations—tax deductible	32	482	.03	.10
Money income and imputed income on the property of foundations and other institutions used for philanthropic purposes	517	1,675	.50	.35
Total private giving	2,221	14,930	2.13	3.09

Three questions arise: the exclusions; the adequacy of the estimates of what is included; and whether the omissions and errors in the statistics raise serious doubts about the trend in private philanthropic giving.

The estimates, it can be seen, include tax-deductible gifts by living donors, estates, and business corporations; gifts by persons to persons outside the family, which are not tax-deductible; and the cash and imputed incomes on the endowment and other property of philanthropic or partly philanthropic institutions, which are neither taxable as income nor tax-deductible when used for philanthropic purposes. Dickinson's total for 1959 is half again as large as the total of tax-deductible contributions alone.

Not included are contributions to institutions omitted from the Internal Revenue's approved list, the value of volunteer services rendered in charitable causes, and giving in which "generosity," though not the primary motive, may not be entirely negligible. In a study of the national accounts recently begun at the National Bureau, John Kendrick provides a tentative estimate for one of these items, the value of "volunteer labor." It comes to as much as 1 per cent of the official GNP in 1929 and 2 per cent in 1965.<sup>4</sup> Inclusion of the estimate for this item alone would raise the ratio of private philanthropic giving to GNP to 3 per cent in 1929 and 5 per cent in 1959.

Dickinson's concept of private philanthropic giving, then, is broader than the concept built into the Internal Revenue code. But it is narrower than the concept that might be associated with philanthropy viewed in all its aspects. It is close to the traditional concept partly because that is the traditional concept, and partly also because adequate estimates of some of the items that Dickinson would have wanted to include could not be made.

Even the items included in Dickinson's total of private giving could be estimated only approximately. The largest item, the estimate of gifts by living donors to institutions, consists of contributions in cash and kind which are tax-deductible within specified limits. The limitations are unimportant, since very few persons or families make contributions in excess of the limits. More important is the fact that the contributions are shown only when deductions are itemized on the tax return. On most returns advantage is taken of the standard deduction, for it exceeds the amount that would otherwise be deductible. The Internal Revenue's tabulations of *Statistics of Income*, the primary source of the data on contributions actually deducted, must therefore be pieced out with estimates

<sup>4</sup> He warns that the estimate is subject to considerable revision. See *47th Annual Report of the National Bureau of Economic Research*, June 1967, p. 11.

for contributions by those using the "standard deduction," and also with estimates for those whose low incomes make filing of a return unnecessary. Some error in the estimates may result also from a tendency to exaggerate deductions for tax purposes, though there is a partial offset in contributions made but forgotten by tax-time.

A check against the estimates, and some information on the uses to which the funds are put, is provided by Dickinson's table of contributions received by institutions. This covers gifts from living donors and corporations, bequests, and income on endowments. In 1958 (estimates are not available for 1959), these receipts were as follows:

	<i>Million Dollars</i>
Religious organizations	4,036
Parochial schools	896
Higher education	1,057
Secular health	810
Secular welfare	950
Miscellaneous	344
Total	8,093

The sum of receipts in 1958 is less than the corresponding sum of contributions reported—roundly, \$8,100 as against \$9,800 million. In 1930, the earliest year available, the two were roughly equal, however. Reported receipts therefore rose less rapidly than did reported contributions—about 450 per cent as compared with almost 600 per cent. The two estimates are not strictly comparable—the receipts estimate, for example, does not cover all recipient institutions, and it is in part net of collection expenses—and some discrepancy is to be expected on that account. On the whole, therefore, the check broadly confirms the order of magnitude of the level of private giving, and also—though less closely—of its rise since 1929.

Much more doubtful is the estimate of gifts to persons. Because these are not deductible under the tax regulations, there are no tax statistics with which to start. Dickinson was compelled to make the estimate by assuming gifts to persons to be a constant percentage of gifts to institutions, basing this assumption on a variety of impressions, including some derived from consumer expenditure surveys made by the Bureau of Labor Statistics for the mid-1930's, 1950, and 1960-61. It is possible

that the rise of institutionally organized philanthropy, together with (and in part on account of) the increase in income tax rates, led to a shift between 1929 and 1959 from direct person-to-person giving to giving through institutions. Had such a shift taken place, the rise in the estimate of person-to-person giving would be overstated. The BLS and other information available are not sufficient to eliminate the possibility entirely.

Since a major interest of many readers will be in the trend of private giving, it is well to ask what some alternative assumptions would do to the estimate of the trend. Suppose we were to assume that no rise had occurred in the ratio of person-to-person giving to GNP, and, further, that the trend reported by receipts was closer to the truth than that reported by contributions. On these assumptions, which Dickinson discarded as rather extreme, we would reach an estimate that indicated constancy, rather than a rise, in the ratio of total private giving to GNP. It should be stressed that even this estimate would not indicate a decline in the ratio.

There is a further question. A glance at the list of institutions receiving contributions shows that religious organizations received about half the contributions reported. If religious organizations were considered to be not philanthropic but rather membership organizations producing services for their members, a viewpoint mentioned above, total private giving would be very substantially reduced. But the rate of increase in private giving would be raised slightly, not lowered, if all or a constant fraction of the contributions to religious institutions were excluded. This, of course, is because there was a decline in the share of religious contributions in the total of private giving.

To return to Dickinson's estimates: Private philanthropic giving rose from less than three billion dollars in 1929 to almost fifteen billion in 1959. This is an increase of 570 per cent in "current dollars," of almost 300 per cent in dollars of constant purchasing power,<sup>5</sup> and of 170 per cent in such dollars per head of the population. Real income per capita also rose, and perhaps this provides the best backdrop against which to place the rise in real private philanthropic giving per capita. It amounts to comparing the rise in private giving directly with the rise in national product or income, as Dickinson does. As already mentioned, private

<sup>5</sup> The decline in the purchasing power of the dollar is judged by the rise in the consumer price index.

giving as a percentage of gross national product rose—from 2.1 per cent in 1929 to 3.1 per cent in 1959, if we accept the digit after the decimal point as significant. It rose more rapidly in relation to disposable personal income—from 2.6 per cent in 1929 to 4.4 per cent in 1959. Neither standard of comparison is quite satisfactory, as national income accountants know—the estimate of giving includes bequests, for example, which are not made from current income—and this is one reason why Dickinson uses several standards. However, any reasonable alternative would show a similar trend.

As we have seen, this estimate does not cover every aspect of philanthropy in economic life, and in some respects it may cover too much. While it corresponds fairly closely to what most people would consider to be philanthropic giving, the questions raised about the effect on the estimate if marginal items not included were added, or some included were subtracted, as well as the questions about the accuracy of the items included, cast some doubt on the estimate. For these reasons it seems best to express the trend in conservative language: Private philanthropic giving probably rose as rapidly, and perhaps more rapidly, than the national product between 1929 and 1959. There is very little doubt that private giving in real terms rose more rapidly than population.

#### IV

Government provides many free services and “gives away money” for many purposes. There are not only payments to unfortunates but also payments to persons (poor and otherwise) blanketed into the social security system at a ripe old age, when the system was started and when its coverage was broadened; not only disaster relief to farmers but also payments under the Agricultural Adjustment programs; not only public assistance but also work-relief; not only the free services of state employment agencies but also those of the police, the courts, and the military; not only free medical care but also free parks; not only domestic aid but also foreign aid; not only cash payments to libraries and museums but also the annual value of their exemption from property and income taxes.

Dickinson guided himself by the criteria specified in his definition of philanthropic giving—that the payments or services not only be “without

a definite or immediate *quid pro quo*" but also be "for purposes traditionally considered philanthropic." What he chose to include in his estimate of public philanthropy is indicated by the following tabulation:

	Million Dollars		Percentages of GNP	
	1929	1959	1929	1959
Veterans' programs (excl. aftercost of war)	261	2,503	.25	.52
Public aid	68	4,088	.06	.85
Other welfare	95	1,091	.09	.23
Health and medical	428	3,413	.41	.71
Free schools	2,260	16,454	2.16	3.41
Social insurance (excl. insurance paid for by beneficiaries or employers)	—	14,506	—	3.01
Public housing	—	166	—	.03
Foreign aid (excl. military)	—	1,633	—	.34
Total	3,112	43,854	2.98	9.08

This tabulation summarizes under a few categories many different programs carried on at the several levels of government, federal, state and local. The item of public aid, for example, includes a variety of programs under such titles as old age assistance, aid to dependent children, aid to the blind, aid to the permanently and totally disabled, "general" assistance, work programs, and surplus food distributed to needy persons. The full list is given in Dickinson's detailed tables, and it was of course an even fuller and more detailed list that he consulted before deciding which governmental program fitted his concept of philanthropy.

Even with his criteria in mind, questions arise. Included are items some people would exclude from an estimate of public philanthropy. The social insurance item, they would insist, is insurance, not philanthropy, even though the present beneficiaries receive far more than would be due them on actuarial principles; veterans' programs, even excluding the aftercosts of war, constitute a payment for services rendered; and free schools in a democracy are no more philanthropic than free roads. Not included by Dickinson are items some would include. One is the value of the property-tax exemption privilege enjoyed by private philan-

thropic institutions, which (I would guess) may have had a value of something like \$500 million in 1959. In the discussions of Dickinson's preliminary estimates at the philanthropy conference there was more concern about his including too much than too little. In estimating the total he considers basic, therefore, Dickinson has tried to be conservative. More important, he has accompanied his estimate with a warning that it might be too inclusive for those who prefer a narrower definition of philanthropy, and has emphasized that the details he provides make it possible to fit other, narrower, concepts of public philanthropy.

From the point of view of those who prefer a total that includes all government outlays that can be thought of as philanthropy or as alternatives to, or substitutes for, private philanthropy, Dickinson's estimate is too low. All the items included by Dickinson, since they are for "purposes traditionally considered philanthropic," help to meet needs that have spurred private philanthropic giving. But not every governmental outlay or service that is for "purposes traditionally considered philanthropic" is included in Dickinson's total if it failed to meet his other criterion—that there be no "definite or immediate *quid pro quo*." This is one reason why Dickinson's basic total of public domestic philanthropy is less (by about 15 or 20 per cent) than the corresponding total of domestic social welfare expenditures under public programs compiled by Ida C. Merriam of the Social Security Administration—the total from which Dickinson started when he prepared his estimate.

In Dickinson's basic total of public philanthropy, then, we have an estimate of governmental outlays on a major class of rather close substitutes for private philanthropy. While there can be differences of opinion on just what items belong here, and also on just how well government philanthropy can substitute for private philanthropy, there can be no doubt that governmental outlays "for purposes traditionally considered philanthropic" have grown very rapidly since 1929, both absolutely and in relation to private philanthropy. The story is one of more governmental operation in 1959 than in 1929 of the institutions that provide services of a philanthropic character, more payments of a philanthropic character by government to persons, more contributions by government to privately run institutions to support the philanthropic services provided by these institutions, and more governmental support in the form of taxes foregone.



## V

Governmental philanthropy as estimated by Dickinson does not cover all the substitutes for private philanthropy that have grown in importance since 1929. Excluded from his estimate, and also from the larger total of social welfare expenditures published by the Social Security Administration, are governmental payments for such services as water supply, sanitation, and sewage disposal, many of which are supplied at less than full cost or even without specific charge. Perhaps these are not as close substitutes as is a public dispensary for a private hospital's free clinic, in the short run at least, but the rising volume of these and other governmental services—whether supplied free or not, whether for purposes traditionally considered philanthropic or not—must be mentioned in our discussion.

A major example of this other class of substitutes for private philanthropy is the social insurance paid for by employees or paid on their account by employers. The great bulk of old age, survivors, and disability insurance (OASDI) benefits was classified by Dickinson as public philanthropy because only about 5 per cent of the benefits paid out under the system since passage of the Social Security Act was met by employer and employee premiums (social security taxes) paid on behalf of the beneficiaries. On the other hand, workmen's compensation—which also appears in Mrs. Merriam's list of social welfare expenditures—is much closer to being an actuarially sound insurance system, and was therefore excluded by Dickinson from his category of public philanthropy. Benefits under this kind of insurance, as well as the excluded 5 per cent of OASDI benefits, belong in our list of substitutes because they help to meet "philanthropic-type needs" when they arise.

Social insurance is just one member of one class of arrangements constructed to meet philanthropic-type needs. Not only governmentally sponsored but also purely private insurance policies—which are bought in the market place and which no one would classify as philanthropy—have become increasingly important. Their spread and strengthening have made a major contribution to the ability of an individual or family to cope with accidents, ill-health, and death. When Pierce Williams' pioneering study on *The Purchase of Medical Care through Fixed Periodic*

*Payment* was published by the National Bureau in 1932, near the beginning of Dickinson's period, this kind of insurance was of small importance. Growth since then in these and other market provisions for meeting the needs of medical care, hospitalization, and the like, has been phenomenal. By 1950 over 8 million employees were already covered by insured basic medical plans. By 1959 the number covered had doubled, and many employers were adding coverage also of major medical insurance for the protection of their employees. Blue Cross and similar types of group insurance against the costs of medical, surgical, and hospital care are "fringe benefits" into which few job applicants fail to inquire nowadays.

The growth of private pension systems is still another example of a substitute for philanthropy—in this case, old age assistance. The growth of these systems and of the funds flowing into their reserves was so rapid during the 1950's that concern began to be expressed about their impact on saving and the capital markets. Even the country's consumer loan system, which has spread and become more efficient, can be counted among the substitutes for philanthropy, for it is available to meet emergencies and educational costs, as well as other needs.

Perhaps most important has been a whole series of changes since the 1920's that have reduced the risk of ill-health, death, or unemployment, and thus have served to lessen or even eliminate the need to turn to others for help. Emerson Andrews has recalled to students of philanthropy Maimonides' words that in the duty of charity, "the most meritorious of all, is to anticipate charity, by preventing poverty. . . . This is the highest step and the summit of charity's golden ladder."<sup>6</sup> That we are reaching for this step is signified by numerous developments. In the governmental sector we now have a high employment policy, for example, which we have been endeavoring to improve in a variety of directions; and we continue to strengthen public health measures. In the private sector, there have been successful efforts to reduce the accident rate and to devise new methods of medical treatment. Also far reaching in its effects has been the increase, even speedier than earlier generations enjoyed, in the nation's productivity, and thus in the real income available to the average family to put aside for "a rainy day." And it is note-

<sup>6</sup> Quoted in F. Emerson Andrews, *Philanthropic Giving*, Russell Sage Foundation, New York, 1950, p. 35.

worthy that the poorer families have increased their incomes more rapidly than the average since 1929.

A telling example of the effect of some of these developments on philanthropic-type needs is provided by the greatly reduced incidence of orphanage, referred to by Dickinson.<sup>7</sup> Between 1900-11 and 1965 the decline in the death rate reduced by almost two-thirds the probability of a husband twenty-five years old dying before he had reached the age of forty-five and his first born child the age of eighteen. Even over the period of immediate concern to us, we can be sure that the reduction has been significant.

Not all the developments since the 1920's have served to lessen philanthropic-type needs. The reduction in death rates, just noted, coupled with a decline in birth rates, meant also that a larger proportion of the population now dies old and the burden of old age is correspondingly greater. On net balance, however, taking account as well as one can of the pluses and minuses, it seems fair to say that there has been a reduction in the need for private philanthropy—judged, I hasten to add, by the standards of the 1920's.

I have provided only a few illustrations, but the direction and general character of the various developments outlined are fairly clear. So, too, are their causes. Many are the natural results of free enterprise: it pays to invent better things or better ways to do things. Another set of developments may be seen as the fruit of earlier philanthropic investment in research. A major factor has been intensified governmental efforts to improve the operation of the economic system—efforts which came in response to better knowledge of the sources of poverty, higher incomes, raised standards of well-being, and the working of the democratic process.

There must have been much overlapping and interaction among the factors involved. Thus, factory inspection by governmental and compulsory workmen's compensation insurance probably had something to do with incentives to reduce industrial accident rates. The expansion of government and along with it the imposition of a heavy progressive income tax encouraged the development of private pensions and other fringe benefits. And these in turn—the rapid growth of private pension funds is a current example—have been stimulating efforts to widen government regulation.

<sup>7</sup> See the paper presented by him to the N.Y. Academy of Medicine, cited above, p. 46. The figures I quote are from the Metropolitan Life Insurance Company, *Statistical Bulletin*, April 1967.

Many of these factors have also influenced philanthropic giving. The sources of the rise in the "nonphilanthropic" activities of government have in large part been the sources of the rise in governmental philanthropy. And the tax increases that supported the rise in both kinds of government activity have affected private incentives to give for philanthropic purposes.

The factors affecting philanthropic giving constitute a large subject and require more deliberation than can be given to them here, but a few things need to be said.

## VI

"The disposition to promote the well-being of one's fellow-men" can lead to private giving, to governmental giving, or to efforts to improve the "social arrangements under which the free pursuit of self-interest," in George Stigler's words, "is at worst harmless and at best greatly helpful to the rest of the community."<sup>8</sup> The three are not entirely separable. Economic research supported by private as well as governmental grants is aimed at improving these social arrangements, and social experiments by private philanthropic organizations have often paved the way for sound improvements and extensions of governmental philanthropic activity. But the distinction will bear making.

There is little doubt that in modern times, at least, improvement of the operation of the social system has commanded most of the efforts devoted to promoting the general well-being, and in the long run has also contributed most. But these efforts can vary in intensity and effectiveness. A remarkable feature of the decades covered by Dickinson was the strengthening of these efforts, and on the whole also of their effectiveness in promoting social welfare.

Hardly less remarkable, however, was the great expansion of governmental giving: from 3 to 9 per cent of GNP. What is the explanation?

Some people might be tempted to say, complacently, that the American people have become more generous, or, complainingly, that socialistic notions have invaded the country. But neither, nor both together, make a sufficient answer.

It is a little more informative, and perhaps more objective, to list

<sup>8</sup> Introduction to Adam Smith, *Selections from the Wealth of Nations*, New York, 1957, p. ix.

improved knowledge of the needs of the people, higher standards of decency and well-being, more resources with which to support governmental giving, and the working of the democratic process, to which I have already referred. These factors, which underlay the rise of governmental activity generally, are also the factors that influenced governmental giving.

But much more than a list would be required if we wished to understand and appreciate the process through which governmental philanthropic giving was pushed up after 1929. As in explaining the trend of government activity generally, we would need to consider the tendencies towards increase in governmental giving already present in 1929 and ask how they were modified or strengthened by the forces that entered the scene in the years that followed.

We would have to point to change in population composition, and note how the decline in number of children per family meant a higher value put on each child, and stimulated demands by parents for longer and better schooling for their children, and more and better health, sanitation, hospital, and recreational services; and how the increase in the percentage of older people in the population, together with urbanization, made the problem of the older worker more serious and forced the establishment of old age assistance programs and old age and survivors' insurance. Increase in population and its ceaseless movement westward also brought the end of the frontier around 1890, and this—along with the decline in the rate of population growth in the 1920's and 1930's—came to be a major factor in the theories of economic maturity and stagnation that provided ammunition for proponents of government action.

Advance in science and technology also contributed, and its role would have to be included in any adequate sketch of the factors involved in the rise in governmental giving. Progress in economic science and statistics brought increased knowledge of incomes and living and working conditions, and strengthened the possibilities of dealing with social problems through governmental action. Progress in chemical and biological science made possible and stimulated government enterprise to deal with sanitation and illness. Even more important, advance and diffusion of physical and biological science and technology brought industrial change, greater economic interdependence, and urbanization, which in turn greatly expanded the number of those favoring government programs to deal with slums and unemployment. Industrialization meant also higher

real income per family, and this helped raise standards of assistance by government and made it possible to meet the costs.

The recurrence of business depression played its part. We are too close to the great depression of the 1930's, and its influence then and later on social security, labor, banking, agricultural, and other legislation, to forget its role. When fluctuations in business and employment became less violent after the war, attention was shifted to economic growth and government's responsibility to foster it. More and better educational and health services per capita came to be justified as long-term investments in productive capacity.

Developments in other parts of the world could not be neglected. Innovations in social legislation and standards in their application have been imported from Europe for many years, and more recently much has been made of the growing economic, political, military, and scientific power of some of the centrally planned economies. "Socialist ideology" gained ground also in the United States, while those who opposed it favored a "positive program for democracy" to ward off radicalism by training the strong forces of government on economic and social problems. Also important, of course, were changes in the international situation, which brought war and the increased possibility of war, and better knowledge of the problems of poverty, disease, and ignorance that trouble the world. Programs for international relief, rehabilitation, and development were instituted. And the residues of war were reflected in our veterans' programs.

The major developments that unearthed old economic and social problems and created new ones, that forced the problems upon the attention of the people and expanded our knowledge of how to deal with them, that raised standards of social responsibility and increased the country's ability to meet these standards—these and other developments would belong in any adequate explanation of the rise of government philanthropy.

## VII

Compared with the large expansion between 1929 and 1959 of government's efforts to promote the well-being of our people, the change in private giving from 2 to perhaps 3 per cent of GNP seems modest

indeed. Nevertheless, it also is noteworthy—perhaps even surprising to some readers—and invites explanation. Why should there have been a rise, or even maintenance, of the ratio of private giving to GNP during a period when economic and social welfare improved and governmental giving jumped so sharply?

If the growth of private giving were largely a reflection of a rise of giving for religious purposes—purposes that are not directly supported by government (except in a small way through property-tax exemption) or by the market—the answer might be found in a religious revival. But philanthropic giving to religious organizations, as the statistics provided by Dickinson show, has risen no more rapidly, and probably a little less rapidly, than private contributions for other purposes. The question remains.

Part of the explanation may be something akin to a religious revival, namely, a rise in standards of well-being—or, in other words, a strengthening of the disposition to promote the well-being of our fellow-men. Another part of the explanation may be the changes in tax rates and other provisions of the tax code, already mentioned more than once, which have reduced the cost of giving, especially to those in the high tax brackets. Still another part of the answer may be the rise in the general level of income per capita, if philanthropic giving is the kind of “good” to which people tend (on the average) to devote a larger share of their income when they become richer—or, taking account of the diversity of the objectives of philanthropic giving, if private giving of this kind is a significant fraction of the total, and is growing rapidly enough to offset, or more than offset, declines that have taken place in the fraction of philanthropic giving for purposes now satisfied by government. The respective roles of these several factors are not entirely clear, but something useful can be said about each. We begin with taxes.

The rise in income tax rates between 1929 and 1959 lowered the cost to the taxpayer of “deductible” philanthropic contributions by the change in the marginal rate of tax—the tax on the top dollar of his income, approximately. Per dollar of contribution, the cost to those with taxable incomes of \$100,000 or more, fell from about 86 cents in 1929 to 16 cents in 1959 or 81 per cent. For those in the lower income brackets the reduction was of course less—a decline of 58 per cent for those with incomes of \$50–100 thousand, 46 per cent for incomes of \$25–50 thou-

sand, and 23 per cent for incomes of \$10–25 thousand.<sup>9</sup> This reduction in “price” must have helped to encourage private philanthropic giving.

It is easy to exaggerate the importance of the tax incentive in the present case, however. There is no such incentive for families with incomes so low that they do not file any tax return. Nor is there any tax incentive for those who pay taxes but do not itemize their deductions. The “standard deduction,” which removes the tax incentive to make philanthropic contributions, has been permitted since 1941, and by 1958 was used by two-thirds of all taxpayers. The contributions of the two groups combined equaled 30 per cent of all contributions in 1958.

Even for taxpayers who do itemize their deductions, the rise in income tax rates may have had only a modest effect, if not on their own contributions, then on the aggregate amount of all contributions, which is our concern. To judge from the rough evidence, the elasticity of response of contributions to changes in tax rates appears to be such that a given percentage reduction in the “price” of contributions would tend to be accompanied by no greater and perhaps even a smaller percentage increase in the amount contributed.<sup>10</sup> More important, taxpayers in the high tax brackets, for whom the reduction in price was greatest, are relatively few in number. Despite their high incomes and their relatively high contribution rates, their contributions account for only a small fraction of all contributions. In 1958, for example, the contributions reported by taxpayers with incomes of \$25,000 or more equaled no more than 12 or 13 per cent of all contributions. Even a substantial percentage increase in the contributions of the upper income groups, because of large tax-rate increases, would mean a much smaller rise in the total of all contributions by “living donors.”

There is evidence—to be presented by Nelson—that donations by business corporations also have been influenced favorably by tax rate changes. Some part of the increase in corporate contributions relative to corporate net profits—from 0.3 per cent in 1929 to 1.0 per cent in 1959—therefore also reflects the rise in tax rates. And we know that estate taxes and other considerations, such as the wish to retain family control of a company, have influenced giving.

While, then, we should not exaggerate the importance of taxes, neither

<sup>9</sup> I am indebted for these estimates to Harry Kahn.

<sup>10</sup> The evidence is quite mixed, as the reader will see if he consults the studies by Kahn, Vickrey, Nelson, Taussig, and Schwartz, cited in footnotes 1 and 2.



should we count them as negligible. Changes in the tax system between 1929 and 1959 very likely encouraged philanthropic giving. Taxes thus help to explain why private philanthropic giving did not decline relative to the nation's income.

## VIII

The rise in income taxes between 1929 and 1959 tended, of course, to reduce disposable income, as well as the "price" of giving. In this way, the rise in taxes tended also to reduce philanthropic giving. But other factors besides taxes affected incomes. Indeed, the depressant effect of increases in income taxes on disposable income was greatly overpowered, on the average, by factors that worked to push income up, such as the increased productivity of the economy referred to earlier. Income per family, after taxes and adjusted for price changes, rose by approximately 50 per cent between 1929 and 1959. Has this rise been a significant factor in supporting private giving?

All of us know, and both tax return compilations and consumer surveys confirm, that the higher the level of family income in any year, the higher is the average amount of philanthropic contributions. It will be surprising to most people, however, that this is not true of the *ratio* of contributions to current income (before or after taxes). In the lowest segment of the income range, below about \$5,000 in 1939 (when the standard deduction did not complicate the relevant statistics), the ratio was inversely correlated with income, apparently due to the fact that the lower income groups are more densely populated by old people who may be maintaining the contributions to churches and other institutions which they were accustomed to make when they were younger, sometimes paying for them out of capital. In the middle range, between about \$5,000 and \$25,000 in 1939, the percentage of income devoted to philanthropic purposes remained approximately constant, neither falling nor rising with income. Higher contribution rates began to appear only after an income level of about \$25,000 had been reached. As already mentioned, however, not many taxpayers are in the higher income brackets. In the light of these facts, and the further fact that the income distribution was somewhat narrowed between 1929 and 1959, it does not appear that a 50 per cent increase in real income per family could

have exerted more than a modest upward push on the ratio of philanthropic giving to income.

The simple comparison of taxpayers at different income levels in a given year may be misleading, however. The higher income brackets of any single year include a larger than average proportion of taxpayers who have risen to that level only temporarily, and the lower income brackets include a larger than average proportion of taxpayers who have fallen to that level only temporarily. If the contribution in any year is determined in accordance with the taxpayer's normal or average income, rather than his income of that year, the cross-sectional data would underestimate the contribution rates of the high-income brackets and overestimate the contribution rates of the low-income brackets. The effect on the contribution rate of a rise in income from one year to another would tend to be understated.

On the other hand, the use of personal foundations as a channel and reservoir between high-bracket taxpayers and philanthropic institutions may mean that for these taxpayers an unusually high income is accompanied by an above-normal contribution, and an unusually low income, by a below-normal contribution. This would reduce the bias mentioned.

Only a large allowance for the bias would significantly alter the impression that, on the whole, the rise in income has been less powerful in maintaining or raising private giving than might be presumed on the basis of cross-sectional data relating to a single year.

There are other grounds for accepting what would otherwise remain a rather uncertain conclusion. Consider, for example, what we might expect to see as we look back to times when real incomes were lower than they are now or than they were in 1929. Had income had any large effect on philanthropic giving, over the long run, the percentage of 1929 income contributed to philanthropy would have been much bigger than the corresponding percentage in 1900; bigger in 1900 than in 1870; and bigger in 1870 than in 1840. Though the information is sparse, and certainly not available in the statistical terms Dickinson has provided for 1929-59, there is little reason to believe that such a pronounced upward trend would be found in private giving.

It seems reasonable to expect the ratio to normal income of contributions (or at least of some kinds of contributions), at any given income level, to be a function of *relative* income, and the average contribution income ratio to be independent of the average absolute level of income.

If philanthropy is the "disposition to promote the well-being of one's fellow-men," it is always possible to follow its bent whatever the current condition of one's fellow-men. The entrance of government into philanthropy on a large scale, like the general rise in income, has not altered the fact that resources are always scarce, that the general well-being can always be improved, and that satisfaction of the disposition to improve it can always be rewarding.

Further, it is quite possible, even likely, that the disposition to promote the general well-being—the "taste" for philanthropic giving—was somewhat strengthened after 1929. Some of the same factors that served to expand governmental philanthropy might well have tended also to cause such a shift in tastes. This appears to have been the case not only in family giving, but also in business giving, as Nelson notes in his study of business-corporation philanthropy.

All in all, then, stability or even rise in the ratio of private giving to income since 1929 in the face of a great improvement in social welfare between 1929 and 1959, can be explained by a combination of three factors: a tax effect, a rise in real income per capita, and a shift in preferences. But we cannot be sure of the order of their importance.

If this reasoning is near the mark, it would appear that the assumption by government of a large responsibility for philanthropic giving served to keep private philanthropic giving from rising even more rapidly than it did. We can be sure, in any case, that it served to shift the direction of private philanthropic giving. As government entered a field, private philanthropy sought and found other fields in which to operate. It was mentioned at the philanthropy conference, for example, that private agencies devoted to the blind no longer concern themselves with the relief of poor blind people, but still find something to do.

Were the task of promoting the general welfare taken over entirely by government, private philanthropy—like private business enterprise—would shrink severely. Perhaps such a development can be read in the history of Soviet Russia. But while our country has expanded government philanthropy it has also continued to encourage private philanthropy, by partial subsidy through the tax system and by special arrangements, as in the case of the Red Cross.

Other questions of policy deserve to be mentioned before we conclude. But first, another word on the role of philanthropy in economic life.

## IX

To say that philanthropy is a necessary condition of social existence and that the extent to which it is developed influences an economy's productiveness is not to say that philanthropy—love of man in general—is a sufficient condition of social existence, or that it is the major force in economic life.

Practical men see fewer possibilities than do others of getting the world's business done on a philanthropic basis. We are sinners more than saints. It is all too evident to the discerning eye that love of man in general, though it influences a wide range of behavior, is in limited supply, and is limited therefore in the role it can play in the economic and other aspects of life.<sup>11</sup>

Perhaps an analogy will clarify my point. It is one thing to follow the written and unwritten rules of the game, even when the umpire is not looking and even when the rules have been altered in a direction of which one does not approve. It is quite another thing to treat one's opponent more gently than the rules require. I have been underscoring the contribution of the first, not of the second. Indeed, I hasten to add that the strength of the philanthropic motive, and the success with which it can be called upon in the day-to-day business of life is sometimes exaggerated. This is evident when special appeals are made to businessmen not to profiteer, to consumers to avoid selfish accumulation in anticipation of price rise, or to employers and trade unions to compose their differences in the light of the public good. Study of human behavior has not made economists optimistic about men's response to such appeals. In Adam Smith's words: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their own advantages."<sup>12</sup>

Economists might wish it to be otherwise, but their analysis stops them

<sup>11</sup> Cf. D. H. Robertson, "What Does the Economist Economize?", *Economic Commentaries*, London, 1956.

<sup>12</sup> *The Wealth of Nations*, Book I, Chapter II; p. 11 in the edition cited above, note 6.

from putting much hope in philanthropy as a large means of getting the ordinary work of the economy done.

To continue with the analogy, more progress has been made by joining together to tighten, and teaching ourselves to follow, the rules that govern us all, than by persuading the individual player to rise above the rules. It is for this reason that thoughtful men anxious to promote the well-being of their fellowmen have devoted their energies to improving "those social arrangements under which the free pursuit of self-interest is at worst harmless and at best greatly helpful to the remainder of the community."

## X

The questions opened up by Dickinson's estimates of philanthropy in the American economy range widely. They include not only questions concerning the factors that have influenced philanthropic giving, and questions concerning the role of philanthropy in economic life, but also questions on policy like those put before the Conference on Philanthropy. These questions are worth repeating here:

What is the appropriate "division of labor" among government, the market, and private philanthropy, in meeting human needs most effectively? Have the appropriate lines of division changed; do they continue to change; in what direction should they change? Should government continue to subsidize (or encourage) private philanthropy through the various provisions of the tax system? Should government expand or contract its direct support; or alter the ways in which it directly supports private philanthropy? What of the respective roles of the federal, state and local governments? Should philanthropy, for purposes of governmental support, be redefined in any way? In what directions should private philanthropy concentrate its efforts, taking account of past and prospective expansion of governmental activities and of market developments (private insurance, etc.)? What media of giving should be favored by private givers? <sup>13</sup>

To be more specific about one or two of these questions, is there any need to support private philanthropy when government is taking over more and more of the burden of helping the needy, financing higher as

<sup>13</sup> *Philanthropy and Public Policy*, pp. ix-x.

well as lower education on an increasing scale, and beginning to support the sciences, arts, and humanities? Should not the trend toward public philanthropy be encouraged, and should not private philanthropy be expected to retire from the scene—except as the chief support of religious activities, which the Constitution reserves for the private purse? Or is there, on the contrary, substance to the argument that private philanthropy performs certain useful social functions that cannot be entrusted to government: that it is essential to human progress that we seek to discover and test better ways to live and work together—that this requires independence of thought, initiative, and willingness to invest in what may sometimes seem to be extreme or impractical ideas—that these requirements are not easily met by government? Should we not continue to depend on “voluntary associations,” which John Jewkes once said “are the life-blood of free society; they have in the past led to much of our progress in education, social insurance and health services . . .” ?<sup>14</sup>

Is there substance also to the claim that there is a need to foster private philanthropy even in routine areas, such as running the hospitals—that voluntary participation in such activities, in the form of contributions of time and money, constitutes an essential exercise of the spirit of brotherhood basic to social existence—that this sense of responsibility for one another needs to be instilled in the young, if civilization is to be maintained in a world in which each quarter-century sees a new generation—that teaching our children to develop their philanthropic “instincts” is a function not only of the family, school and church, but also of the voluntary association—that, in addition, competition between private and governmental philanthropic institutions is good for both?

Even to pose such questions means to take a broad view—to look at our entire social organization, to consider its moral as well as its economic roots, and to ask how our society has responded and should respond in the future to the stresses of technological and other change. The reader will know by now that it is easier to stir up such questions than to answer them. He will not be surprised that Willard Thorp’s reflections on the philanthropy conference concluded with a plea for further study.

<sup>14</sup> *Ordeal by Planning*, New York, 1948, p. 206.

The reader will also realize that statistics which raise such questions deserve close study. He will want to acquaint himself with their derivation and the details I have been forced to skirt. He will want to see what Dickinson himself has to say about them.

Solomon Fabricant