

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Philanthropy and Public Policy

Volume Author/Editor: Frank G. Dickinson, ed.

Volume Publisher: NBER

Volume ISBN: 0-87014-468-5

Volume URL: <http://www.nber.org/books/dick62-1>

Publication Date: 1962

Chapter Title: An Economist's View of Philanthropy

Chapter Author: Solomon Fabricant

Chapter URL: <http://www.nber.org/chapters/c1989>

Chapter pages in book: (p. 1 - 10)

# An Economist's View of Philanthropy

SOLOMON FABRICANT

*National Bureau of Economic Research and  
New York University*

---

OF THE many aspects of philanthropy that attract the economist's attention, I shall point to three. One relates to the place of philanthropy in economic life; the second, to the remarkable acceleration that our generation has seen in the use of government and market to meet or obviate philanthropic-type needs; the third, to the causes that have kept private philanthropic giving rising with the nation's income, despite this development.

Let me mention immediately that I feel better able to raise questions than to answer them. The subject is complex. To take a broad view of philanthropy—and this is my objective—means to look at the entire social organization, to consider its moral as well as its economic roots, and to ask how society has responded to the stresses of technological and other change. But perhaps the best way to stir up questions is to be positive. I shall try.

Philanthropy, according to the dictionary, means "love towards mankind; practical benevolence towards man in general; the disposition to promote the well-being of one's fellow-men." If this is what we mean

NOTE: The author is indebted to Dr. Frank G. Dickinson and Dr. Ralph L. Nelson, of the National Bureau of Economic Research, for most of the estimates cited. The studies by Drs. Dickinson and Nelson are being financed by grants from the Russell Sage Foundation. Use was made also of the chapter on philanthropic contributions in Professor C. Harry Kahn's *Personal Deductions in the Federal Income Tax*, published for the National Bureau in 1960 by Princeton University Press.

[Reprinted from *Proceedings of the American Philosophical Society*, Vol. 105, No. 2, April 1961.]

## *Philanthropy and Public Policy*

by philanthropy, then philanthropy is spread far wider through economic life than most people will see at first sight. There is a touch of philanthropy in many of our actions. Of course, there is more philanthropy in the motivation of some of the things we do, and less—even none—in others. But philanthropy is more universal than is generally supposed. We tend to underestimate its role.

For this, one reason is inadequacy of statistics. When we ask how important philanthropy is in economic life, we stumble over poor information. Few of us would want to let our definition of philanthropic purposes and philanthropic giving be determined by the regulations of the Commissioner of Internal Revenue. These permit deduction for tax purposes of contributions to organizations, but not to individuals—outside as well as inside the family circle, strangers as well as friends. Contributions to organizations set up in the United States are deductible, but not contributions to organizations set up under foreign laws. Contributions to churches and veterans' organizations are deductible, but not those to political parties or propaganda organizations. Yet we tend to slip into a definition determined by the tax regulations. The available statistical information is largely confined to income tax data—how can we supplement these data? An independent definition is difficult—what should we add to the Commissioner's list, what subtract, and how support our changes? And to the extent that it influences the organization and direction of giving, the tax code justifies concentration on the deductible items. Statisticians are aware of the limitations of estimates, based largely on tax data, that current philanthropic giving equals 2 or 3 per cent of the nation's total income, but find it easy to forget the limitations. The public often is not even aware of them. Inclusion of philanthropic contributions to individuals and institutions not now on the Commissioner's approved list—even with allowance for overstatements on tax returns—might almost double the percentage.

Another reason why philanthropy is underestimated is that we usually concentrate on giving in a narrow sense. 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 housewives' or even corporate officials' time spent in philanthropic activities, but such contributions must make up a substantial sum. If we were bold enough to make an estimate, we would have to add it not only to philanthropic giving, but also to national income, which does not include such "im-

## *An Economist's View of Philanthropy*

puted" items. But the former would be raised proportionately more than the latter, and the ratio of philanthropic giving to income would be pushed up significantly.

Every economist has in mind also a less obvious sense in which philanthropy may be broader and its role larger than any ordinary figures on philanthropic giving could 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 a matter of guesswork. I suspect there is a good deal of it. Indeed, is there not something like it in almost every activity of economic life, when we temper our search for personal advantage with some regard for the welfare, sensibilities and opinions of our 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 long-run assessment of one's 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. For decent conduct pays to society as a whole large returns, one form of which is a higher level of national income than would be possible otherwise. Underdeveloped countries are learning that in their rush 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 concept of family loyalty and tribal brotherhood to include love of man "in general" is a necessary part of the process of economic development.

I have just said that no one is able to disentangle motives, and I cannot pretend to do so myself. But—this is a third reason why we tend to underestimate philanthropy—should we ignore the philanthropic element that is woven also into our "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, sensibilities and opinions of our fellowmen. Similarly, the acceptance of a lower rate

## *Philanthropy and Public Policy*

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. Should we not also recognize the philanthropic element in our selfish actions—and the importance of maintaining and strengthening this element? I do not think we can really understand the operations of a market economy if we think of it as populated by the vulgar conception of the economic man. The inhabitant of the economist's economy is a civilized person.

But to say that philanthropy is a necessary condition of social existence 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 of economic life. We are sinners more than saints. It is all too evident that love of man in general, though it influences a great deal of behavior, is in limited supply, and is limited therefore in its role in the economic and other aspects of life.

Perhaps an analogy will clarify my point. It is one thing to have the habit of following 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 philanthropic 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, 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.

Economists might wish it to be otherwise, but their analysis stops them from putting much stock in philanthropy as a large means of getting the ordinary work of the economy done.

To continue with the analogy, progress has been made by joining

## *An Economist's View of Philanthropy*

together to tighten, and teaching ourselves to follow, the rules that govern us all, not from depending upon the individual player to rise above them.

Progress has been made also by joining together in collective action, through government, to promote the well-being of our fellowmen. During the past three decades the trend in this direction has been accelerated, and the rise of this and other ways to meet or anticipate philanthropic-type needs constitutes the subject of my second main observation.

One could slur over the difference between an individual's voluntary gift to the poor widow and the governmental assistance that is financed by taxation, and consider them both to be philanthropy. As we all know, the pressures to give "voluntarily" come from without as well as within, and the difference is therefore sharp only in a legal sense. But the term philanthropy may be, and usually is, restricted to voluntary payments by individuals and private corporations; governmental payments are then thought of as a substitute for these.

Whatever the terminology, however, one can hardly understand the role of philanthropy without a look at what government does. Whatever the terminology, also, it is desirable to make a distinction between private and governmental giving. Since government provides many free services and writes checks for many purposes, there will be obvious questions on what to include in governmental giving—whether, for example, to count not only payments to unfortunates, but also payments to persons blanketed into the Social Security system at a ripe old age; not only disaster relief to farmers, but also payments under the Agricultural Adjustment programs; not only domestic, 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. But while there will be differences of opinion about the purpose and magnitude of many individual items, by any reasonable criteria the aggregate of private and governmental philanthropy bulks large. A preliminary estimate, which includes governmental items some people would exclude and excludes items some would include, reached in 1958 something over a seventh of the national income.

My examples point also to some of the directions taken by governmental philanthropy since the 1920's. The story is one of more governmental operation of the institutions that provide philanthropic services, of more philanthropic payments by government—both to persons and to privately run institutions in support of the philanthropic serv-

## *Philanthropy and Public Policy*

ices they provide, and of more governmental support in the form of taxes foregone.

A word needs to be said also about a parallel development in the marketplace. It was almost thirty years ago that the National Bureau published Pierce Williams' *The Purchase of Medical Care through Fixed Periodic Payment*. What has happened since in this and other market provision for meeting the needs of medical care (such as Blue Cross), of support in old age (such as private pension systems), and of still other "philanthropic-type" demands, constitutes another strand in the developments we are viewing.

To still another series of changes attention must be drawn in any broad view of philanthropy. Emerson Andrews has recalled to students of philanthropy Maimonides' words that the highest degree 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." That in some major respects we are reaching, or reaching for, this step is the significance of numerous developments. In the governmental sector we now have an employment policy, for example, and we continue to improve public health measures. In the private sector, there have been successful efforts to reduce the accident rate, and to discover new methods of medical treatment. Most important has been a speedier increase in the nation's productivity than earlier generations enjoyed, and thus in the real income available to each family. This kind of "substitution" for philanthropy has always been a major goal of much of man's efforts.

The direction and general character of the various developments I have outlined are fairly clear. So, too, are their causes. Some are natural results of free enterprise: it pays individuals 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 the rise of governmental activity in response to better knowledge of the sources of poverty, higher incomes, raised standards of well-being, and the working of the democratic process. This is a very large subject, and I shall merely mention that there must have been much interaction among the factors involved. Thus, the rise of government and along with it the imposition of a heavy progressive income tax has encouraged the development of private pensions and other fringe benefits and has directly affected the incentives to give for philanthropic purposes—which brings me on to my third main observation.

The figures that are being gathered together in a National Bureau

## *An Economist's View of Philanthropy*

study of philanthropy indicate that private philanthropic giving, as ordinarily defined, has more than kept pace with the national income or product. Indeed, a very preliminary estimate suggests a rise, in the ratio of private philanthropic giving to national income, from about 2 per cent in 1929 to between 2 and 3 per cent in 1958. But even if not so sharply upward, it is remarkable to find a rise in a period in which governmental and market activities and devices to take care of philanthropic-type needs have expanded so much. What is the explanation?

The reason is not to be found, I should say, in a relative rise of private giving for religious purposes—purposes that are not directly supported by government (except in a small way through tax exemption) or by the market. Indeed, philanthropic giving to religious organizations, which accounts for something like half of the total of private giving reported, has apparently risen somewhat less rapidly than private contributions for other purposes. Our question remains.

I would suggest, first, that there has been a shift from the kind of giving that is not covered by the statistics—giving by persons to other persons, and the giving of personal services and the services of property—to the kind of contributions that do get into the statistics. For this presumption, several reasons may be offered: government has taken over a very large share of the responsibility for the relief of unfortunates; the development of such market devices as Blue Cross has been rapid; contributions from persons to persons are not deductible under the income tax code and therefore now tend to be made indirectly through institutions; philanthropy has become professionalized in the sense that the scale of philanthropic institutions has grown, and the specialization that has taken place in this as in virtually all other economic and social activities has caused the displacement of voluntary work by professional service.

A second factor that comes quickly to mind is taxes. These are probably part of the explanation. Taxes can be very powerful influences on economic behavior, as economists would be among the first to admit. Yet it is easy to exaggerate their importance in the present case.

On the giving of the lower-income groups, where a very substantial part of all philanthropic giving originates, taxes may have only a small if any effect. The tax rates are low, and the standard deduction—permitted now for almost twenty years—has removed the tax incentive to make philanthropic contributions. It is worth mentioning that the introduction of the standard deduction in the early 1940's produced no obvious effect on the amount of philanthropic contributions reported on personal income tax returns.



## *Philanthropy and Public Policy*

As for the middle and upper income groups, income taxes reduce the cost—or “price”—of a philanthropic contribution by the marginal rate of tax. But they also cut the capacity to give by reducing income by the average rate of tax. The average is smaller than the marginal rate of tax, but comparison of the two rates is in itself insufficient to determine the net effect. Some economists, believing the effect on disposable income to be the more powerful, conclude that the high progressive income tax has tended to discourage contributions to philanthropic causes. It is true that the percentage of persons or families whose contribution to philanthropic causes comes near to the limit of tax deductibility is very low, and that the percentage of corporate profits contributed to philanthropic institutions, about 1 per cent, is much less than the maximum of 5 per cent that is allowed. But we know also that in some situations a contribution is costless; and there are estate taxes and other considerations—such as the wish to retain family control of a company—which influence giving. I expect that on net balance the tax system encourages philanthropic giving, but I find it difficult to believe that taxes constitute the dominant factor explaining the trend of philanthropic giving relative to the nation's income.

Real income per family is another factor in every economist's list. Such information as we have indicates that the higher the level of family income in any year (after a certain moderate income level has been reached), the higher is the ratio of philanthropic contribution to income or total expenditure. Inference from these “cross-sectional” data for a given year would suggest that the doubling of real income per family since the 1920's has been a powerful force pushing up the ratio of philanthropic giving to income. But there might well be technical flaws in such an inference, as economists have learned from studies of the “consumption function.” Also, the data at hand fail to discriminate between the tax and the income effects. Further, it may not be the average level of income that, in any given situation, determines the percentage of income given for philanthropic purposes, but rather the distribution of income among families. Within the United States, it is interesting to observe, income inequality has declined since the 1920's, partly as a result of developments already mentioned. On the other hand, we may now be more keenly aware than before of the great disparity between incomes here and those in the rest of the world, and this would tend to work in the other direction. On the whole, I suspect that income, like taxes, has been less powerful in maintaining or raising private giving than quick inferences from available statistics might lead one to suppose.

## *An Economist's View of Philanthropy*

Since we are speculating, let me add still another factor to the list. The increased knowledge and greater sense of collective responsibility, which have contributed to the rise of governmental activity in the philanthropic area, may have been accompanied by a heightened sense of the personal responsibility each of us feels for the welfare of his fellowmen. The professionalization of philanthropy and the rise of organized fund raising, to which reference has been made, may have assisted in this development. If it has taken place, it, too, has helped to maintain private giving. If my surmise is correct, there is here a sign—along with other signs, such as the changing attitude towards racial discrimination—of moral progress. But it would be very difficult to confirm the surmise without somehow measuring the contribution of all the other factors mentioned, a job still to be done. The possibility should be kept in mind that I see signs of moral progress only because I would like to do so.

We have been approaching, in this brief review, one of the fundamental questions that confronts every society. It is the question put sharply by Jeremy Bentham a hundred and fifty years ago, when he asked what should be the respective roles of government and of private enterprise—and we would distinguish, further, philanthropy—in advancing the common good? What ought to be done by government? What should be reserved to the people, pursuing their private interests or their philanthropic?

As did Bentham, we know—our national policies reveal the conviction—that each has its appropriate function and its special strength; that while government, market, and philanthropy are competitive, they are also complementary.

And we know, too, as did Bentham, that the optimum combination varies with the existing circumstances—with the stage of development of the society and of the capacities and habits of the people. When we look ahead, therefore, we can see further changes in the respective roles of government, market, and philanthropy in meeting the problems created by the continual change about us. But that private philanthropy will continue to play an essential role in our society—feeding and exercising and strengthening, with its teaching and its example, the spirit of brotherhood basic to social existence; using its independence of thought and its initiative and its “venture” capital to seek and discover and test new ideas and better ways to do things—of this we can have no doubt.

