

## **EconoFact Chats: Charitable Giving in the United States**

**Laura Gee, Tufts University**

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Michael Klein:

I'm Michael Klein, executive editor of EconoFact, a nonpartisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at [www.econofact.org](http://www.econofact.org).

Michael Klein:

Charity is a centerpiece of religions. St. Augustine wrote, "charity is a virtue which, when our affections are perfectly ordered, unites us to God, for by it, we love him." In the Jewish tradition tzedakah, charitable giving is a commandment and a moral obligation. The Quran says that there is a recognized right for the needy and deprived over our wealth. For Hindus, giving is an important part of one's Dharma, one's religious duty, and each person has a Dharma towards family, society, the world, and all living things. The Buddha urged his followers to give without any expectation of personal reward, to transform the individual from a self-centered, greed-driven existence, to one that is other-centered and greed-free. But in economics, we typically think of people as self-centered, and perhaps even greedy. Given this, what can economics add to our understanding of charity.

To discuss this, I'm very pleased to welcome to EconoFact Chats, Professor Laura Gee, my colleague at Tufts University. Along with an impressive list of publications in peer-reviewed journals, Laura's research has been cited in popular press outlets such as CBS News, Fast Company, Forbes, and the Chicago Tribune. Laura, welcome to EconoFact Chats.

Laura Gee:

Nice to be here, Michael. Thanks for having me.

Michael Klein:

To begin with, what are the estimates of the amount of charitable giving in the United States each year?

Laura Gee:

So, according to Giving USA, which is a publication that comes out annually, in 2021, Americans gave \$484 billion to charity. That was about a 4% increase over the last year where they measured, but if you adjust for inflation, which was extremely high that year, it's actually pretty flat. In fact, as a portion of GDP, giving in dollars in the U.S. is usually around 2% of GDP, and has been for quite some time. This actually doesn't always include everything, though, because we don't just give gifts of money, we also give gifts of time, so if you look to other places that are trying to measure those things, they value those as about a \$200 billion worth of time that are being given, which is about 50 hours per year from each volunteer. About 25% of Americans report volunteering in any given year.

Michael Klein:

So, Laura, giving can take many different forms, everything from supporting soup kitchens, to donations to the opera. What's the breakdown of charitable giving across categories, such as the social safety net, community projects, the arts, and other categories?

Laura Gee:

That's a great question. So let me start with thinking about the money stuff, because money is easier to measure, sometimes. So in terms of monetary donations, the most dollars every year in the U.S. go towards religious organizations. And so, you had a really fitting beginning to this little chat that we're having talking about religion, and how religions dictate that people should give. So 25% of the dollars go to religion. Next highest is education, which is about the same as also the amount that goes to human services, which I think includes things like fighting hunger for people in need, housing issues, things like that. Another big one is health, so that would include research about diseases, et cetera, and then further down the line are contributions to things like the arts, the environment, and animal wellbeing.

Michael Klein:

What about contributions in terms of time, rather than money?

Laura Gee:

Yeah, so the ordering for volunteering is actually different than it is for monetary donations, which I think is a really interesting aspect to think about how people give, 'cause that means they maybe don't think of gifts of time and money as perfectly substitutable with each other. So the number one thing for volunteering is giving time towards hunger, and helping the unhoused. When I typically think of this, I think about the idea of around the holiday season, people will often go and volunteer to hand out meals on Thanksgiving, or around the Christmas holidays, and December holidays to people who are unhoused, or people who are having hunger issues. The next largest thing after giving time towards hunger and those who are unhoused is health, and then, in third place in that time giving stuff is religion. So it's a slightly different ordering than money.

Michael Klein:

So giving to these different types of charities obviously appeal to different motives. What does economics have to say about the various motives for charitable giving?

Laura Gee:

This is a really great question. I think the contrast in what categories are highest for money, versus highest for time, is a really interesting starting point for this question. So like you started this conversation with, many religions have a codified monetary donation, such as tithing or tzedakah. So while there are relatively fewer religions that have codified suggestions for volunteering hours, as far as I know, and so, it makes sense that maybe we see the largest portion of money going towards religion, maybe less so for other things.

Michael Klein:

What do you mean by "codified for monetary donations?"

Laura Gee:

So I mean that some religions, so let's take for example Mormons, they are supposed to, by dictate of being a Mormon, contribute 10% of their income to the Mormon church every year.

Michael Klein:

So is there some controversy about what "income" means?

Laura Gee:

There is. So there's some really interesting work out there by a couple of economists that is looking at this idea that income is, when you're thinking about what counts as income, it's a fungible idea. So obviously you get a paycheck, you get your W-2, that's income. But what about if you got a \$500 cash gift from a friend, or a family member? What if instead you got a couch from a family member that was worth \$500? Are those things actually income? And so, it's been really interesting to think about that, because since Mormons are supposed to tithe, give 10% of their total income towards the church, the question is, do they fungibly, self-servingly, interpret what is income and what isn't income for themselves? And so, these two economists looked at whether or not Mormons indeed do this. So they kind of maybe say, "Oh, it's not income if it's a couch, but it is income if it's money," and they find that people don't really, perhaps because they know that God is watching

Michael Klein:

Members of the LDS church seem to be pretty consistent about this, and they have this codified tithing. What about, for example, passing around the donation plate?

Laura Gee:

Yes. And so, that's another place where there is, in churches, quite often they will pass around a donation plate, and each person gets it, and they see what the other person gives in. And so, there it's not necessarily codified, it's not saying you have to give, but they're certainly a social pressure to giving. You don't want to be the one person who doesn't put in some money, and then furthermore, you can see what the person before you put in, and will set a social norm for the amount of giving. So in both of these things, obligation and pressure from an external source is a big driver of the monetary donation.

Michael Klein:

In the Jewish tradition, there's a lot of giving that goes on before Yom Kippur, and there's a famous joke about that where people keep giving more and more, and finally, the last person stands up and announces that he's going to give \$1 million, anonymously. How important is it that people know that their gifts are actually going to be acknowledged or not? Is there any research on that?

Laura Gee:

There is a lot of different research on that. So, some of that research comes from economists who do lab studies, which just means that they bring people into a computer lab, and they have them... Basically, they give them money to come in, and then they ask them to make donations to a charity, and they'll randomize whether or not the group of people comes in and everyone can see who gave, or whether or not they won't see that information. They find, in those settings, that when they make it public, that the donations are non-anonymous, essentially, then the number of people who donate goes up, and also the amounts go up.

Michael Klein:

So this reason for charity is being a codified religious thing, can be thought of in crude, economic terms as your membership dues for your religious group, but economics typically focuses on individual choice. In this context, what does economics say about charitable giving?

Laura Gee:

So I think economists have often viewed charitable giving as a bit of a puzzle, because I think, like you said, the traditional economics model, and by that, I mean this one that's this super stylized human being who only cares about their own consumption. Well, if we only care about our own consumption, and by "consumption," I mean the food that I'm eating, the house that I live in, the gifts that I buy my children,

those things, actually even the gifts I buy for myself, not even the gifts I buy for my children, any sort of charitable giving would just mean you could consume less. And so, our traditional models would predict that no one should be giving to charity.

Michael Klein:

So then why, or how have economists come to terms with this? Because we do see, as you mentioned, a lot of charitable giving.

Laura Gee:

Yes, we see these \$480 billion given, 2 billion worth of volunteering time given, so why is that happening? One thing that economists have put out there is that maybe, actually, people enjoy the act of giving itself. So it's actually a consumption good to make a donation. The popularized name for this is "the warm glow of giving." Then, if giving is itself an enjoyable activity, just like going to the movies or something, it's going to be something that you want to do.

Michael Klein:

What about other aspects of giving? For example, we often hear, when we're listening to, say, public radio, that they say, "well, we need 10 more donors in the next 20 minutes to reach our goal of another person kicking in another \$5,000." Have people looked at the effects of this kind of incentive on giving?

Laura Gee:

Indeed, they have. I myself have worked on this. So I think what you're pointing to is this idea that people like giving when they feel like they're going to be pivotal to reaching some goal. And so, we have this idea that some charitable giving is like you need to reach this threshold, either number of givers, or amount of money. And so, as we get closer and closer to that goal, you feel more and more personally pivotal to reaching the goal. So, actually, what I've done is run some studies, both in a lab experiment setting where people came in, and they made decisions where I could observe everything they're doing, and we told them we're one away from our goal. Well, in that setting, people were more likely to donate than if I didn't tell them we're one away, and then I also paired that, actually, with a huge field study where I sent out different versions of letters to potential donors.

When I sent out those different versions of letters, one version of the letter said, "please give," and one version of the letter said, "hey, we have a goal, and we're one away from the goal. Please give." We did find that when we say we're one person away from this goal, people are much more likely to donate.

Michael Klein:

Another thing that I faced, Laura, is sometimes I get calls from organizations, and then I look them up, and I find out that a lot of the money goes to overhead. And so, I'm much more reticent to give to an organization like that. Is there systematic evidence of that kind of behavior?

Laura Gee:

Indeed, there is. So if you go to Charity Navigator, or one of these websites that tells you about different charities, they'll tell you what the overhead ratio is. Just as a reminder, overhead's just the money that a charity uses to pay for things that are not directly the services that they're giving. So CEOs' salaries, office space, et cetera. People don't really like the idea that they're giving money to a charity to pay the CEO's salary. They like the idea that they're giving money to a charity to buy malaria mosquito nets, and things like that. So there are indeed studies that find that if you show lower overhead, or if the charity themselves offers to cover the overhead from a third party donor, that people are more likely to donate.

Michael Klein:

Drawing on other personal experience, my wife and I think about how much money we want to spend on charitable giving every year. So we have a budget for that. Do other people seem to act in this way, too, if they give more to one charity, so they end up giving less to another?

Laura Gee:

It's a really good question, and one that I wrote a handbook chapter about for The Nonprofit Sector Handbook. It's really hard to answer, honestly, because what we'd want to know is how many altruistic acts in total you did. So not just the amount of money that you and your wife gave to charities, but also how much time did you volunteer. Maybe informal giving, both of time and money, like did you babysit a friend's kids when they were in need? Did you buy someone lunch when they were in need? Stuff like that. Did you give somebody your sofa when you were done with it? So it's pretty much impossible to kind of measure all their altruistic acts that a person does in a year, or over their whole lifespan.

Michael Klein:

So, for example, I regularly give blood, and I guess I think of that as an altruistic thing, but it doesn't impinge upon how much money I give. I have those separate, at least in my mind. Does that seem to be the case with monetary donations alone? Are those separate from what people do in terms of, as you say, volunteering time, or things like that?

Laura Gee:

Yeah, so this is a really good question. So one thing that's documented out there is that people who give money are also more likely to give time, but that doesn't mean that the two things are necessarily going to increase with each other all the time, because one's causing the other one to increase. It could just be that those are the type people who love giving in all different forms. So here, the evidence that I find most compelling is these studies where people come into a lab setting, and they basically give them amount of money, and they also give them a budget of time while they're in the lab, and ask them how they want to trade off between those two things in terms of doing stuff for charities, like stuffing envelopes or donating money. What they find in these control studies is that, basically, gifts of one type going up tends to make gifts of the other type go down.

Michael Klein:

So, Laura, you're speaking a lot about lab studies, and I guess that's perhaps the only way we can get some reliable information, but do you think that these lab studies offer us a good window into the world?

Laura Gee:

I think that they're a first step. So, for instance, I think it's really hard, like I said, to measure all of the time and money that people would give in their whole lives, and understand how those two things substitute between them, but we can also look to things outside the lab. So, for instance, back to the question of, are you going to give to, maybe, a Red Cross type of place, or are you going to give to the opera? One thing that they've looked at is, if there's a natural disaster, donations to the Red Cross go up a lot. And then the question is, does that mean that suddenly donations to other things like the opera are going to go down? Actually, when we look at that data, we don't see that much change. So it seems as if people are willing to expand that altruism budget for a natural disaster, and that it's not a fixed amount in total of altruistic acts.

Michael Klein:

So that's interesting, because in other areas of economics as well, people look at both these controlled experiments, and what people call as natural experiments. So I guess something like having a hurricane, and then giving to the Red Cross is kind of a natural experiment. The lab studies are more like controlled experiments. So what we see in other areas of economics is happening there as well. Laura, I'd like to ask one final set of questions. If charitable giving is so important, and there are all these goals that we would like to see; support of the arts, support of the disadvantaged, and so on, support of healthcare and research, why doesn't the government just do it? Because the government is supposed to be the expression of the will of the people.

Laura Gee:

So, I think this is a really interesting question, and one that I will admit is not my area of expertise. The U.S. has much higher per capita charitable giving than most other countries. We also have much fewer codified social services for people. So, for instance, we don't have universal healthcare. The other countries that give a lot, they give half as much as the U.S., and they also have a lot more social services, like universal healthcare, New Zealand and Canada being the [inaudible 00:17:14] that go around the same amount.

Michael Klein:

So is there something like an altruistic budget overall where people see the government doing things, and they feel perhaps they don't have to do as much?

Laura Gee:

I think that's very possibly true, yes, that people see that the government's providing this thing, and then they feel less need to provide it privately.

Michael Klein:

So, in the absence of the government stepping in, a lot of people in the United States do in fact then step in and provide money for the disadvantaged, provide money for arts, provide money for basic healthcare research, and so on?

Laura Gee:

Exactly, and I think that actually goes along with a lot of the ethos of the founding of the United States, that everyone individualistically gets to decide what they feel is important. And so, in the U.S., I think that there's this mentality that individuals don't want to be told what is important for them to donate to. They rather want to get to choose. I'm the type of person who thinks the arts are really important, so I'm going to donate to the arts, or I'm the type of person who thinks that giving to unhoused people is important, so I'm going to give to that.

Michael Klein:

So I guess this brings us kind of full circle back to the way we started in thinking about economics as individual choice, and people would rather, perhaps in the United States, choose on their own, rather than have the government as a manifestation of their broader population choices for where to give money.

Laura Gee:

I think that is a very apt description.

Michael Klein:

Well, I hope that people continue to give a lot of money, because there are a lot of good causes out there, and I appreciate you sharing your insights on this with us today on EconoFact Chats. So it was very good speaking with you, Laura. Thanks for joining.

Laura Gee:

Thanks for having me.

Michael Klein:

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