

What Do Markets Need?

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During my time in graduate school, I became very aware that those views which were informed by my faith were not represented in the academy. The Association of Christian Economists (ACE) provided me a community to explore how my faith and intellect could be integrated with one another. Perhaps it sounds almost quaint to say that somebody of good intellect cannot be a serious Christian, but we live in a world in which there is disagreement over whether faith and intellect contradict each other. I am grateful to the Association for its efforts to provide a space for faith in the economics arena, and it is an honor to have the opportunity to review some of the research that I have produced since the time I joined ACE.

In 2008 there was a series of symposia, sponsored by the John Templeton Foundation, which addressed questions about moral reasoning and scientific inquiry (Templeton Foundation, n.d.). One particular session explored the question of whether private markets corrupt morality. Although this is by no means a new question, it holds a more prominent place in public consciousness in the wake of the financial crisis. Long before the current market meltdown, there had been a substantial debate over the relationship between capitalism and morality.

In my view, the question of whether capitalism and morality are inconsistent with each other is the wrong one to ask. Instead of inquiring whether private markets corrupt morality, one should ask whether bad morality actually corrupts markets. I believe a problem of virtue underlies the current market problems, and I will use data on private charity to support this case. I am going to show the connection between charity and prosperity, and also demonstrate the importance of private morality in the proper functioning of markets. As academics and policymakers try to determine the causes of the recent market turmoil, we should give equal consideration to the crisis of character that has led to these problems in markets. For this reason, I believe faith has a very important role in informing the policy response to the financial crisis.

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1 Americans' Charitable Giving

As we begin a discussion about charity, I will sketch a rough landscape of the size and extent of American philanthropy, and how it compares to other countries (see Brooks, 2006, ch. 6). Americans give very generously and have done so for as long as we have been collecting data. In 2006, seventy-five percent of donations came from private individuals, which is higher than any other country. In total, Americans gave about \$300 billion in private donations to charity, which surpasses the entire national income of Sweden, Denmark, and Norway. If a country's GDP was the size of American's level of charitable contributions, it would be about the thirtieth largest in the world.

Seventy-five percent of charitable giving comes from people like you and me writing checks every year to our favorite charities. The remaining contributions come from foundations, corporations, and bequests. Furthermore, roughly fifty to sixty percent of people volunteer their time each year. Putting this in an international context, there is an extraordinary difference between Americans and Europeans. Every year, Americans give three and a half times as much, on a per capita basis, as the French, seven times as much as the Germans, and fourteen times as much as the Italians.

Some believe these observed differences are due to differences in tax regimes across countries, while others theorize that America's higher per-capita income explains the difference. When you correct for taxes and income, however, a significant difference remains between charitable giving in the United States and that of other countries, demonstrating a clear cultural difference in Americans' giving habits. What is the significance of this cultural difference? How can our faith inform what we understand about economics and, in turn, help us to better steward the resources around us? How does charitable activity, which most of us would say is virtuous, affect us economically? In this talk I will address each of these questions.

2 Do You Have to Have it Before Giving it Away?

It seems like it would be common sense to think you have to have money before you give it away. In a standard economic model, a budget constraint requires that income must equal expenditures. In the real world, you spend some of your paycheck on food and housing, you put some of it away in savings, and you give some of it away. According to an economist, everything you spend must equal your income in the end. Philanthropists, however, hold a much different view about charitable giving: if they give more, they will get richer.

In 1905, John D. Rockefeller claimed "God gave me my money." Usually, this quote is used to illustrate that Rockefeller believed he was

entitled to wealth amidst the grinding poverty of America's Gilded Age. But what he actually meant is that God gave him his money to use as he saw fit for the good of his fellow man. This may seem a little strange theologically, but he believed that he had money in order to give it away. Conversely, he believed the day he stopped using it toward this end would be the day that God would take his money away. He saw an inter-relationship between what he gave and what he received. Perhaps not coincidentally, this mindset is extremely common among entrepreneurs in this country, who turn out to be some of the most generous citizens and biggest philanthropists.

A few years ago, as I was researching philanthropy at Syracuse University, I hypothesized that Rockefeller was wrong. I sought to show that you need to have money before giving it away. I began my analysis using the 2000 Social Capital Community Benchmark Survey (Brooks, 2006, pp. 191-195). In the study, roughly 30,000 households and forty-one communities were asked about their charitable giving and social capital habits, providing the most comprehensive look at what Americans do for each other voluntarily. My original research agenda was to show that you cannot take people's money away and expect them to have more of it!

My initial analysis of the data confirmed what we have always known: when people earn more, they give more away. I estimated that when a family's income increases by one percent, their giving will also increase between .7 and .9 percentage points. Using an instrumental variable approach, I also found some evidence that the opposite was also true. When you correct for the appropriate variables, I found that when people give more, their incomes also increase. Specifically, I found that the marginal effect of giving on income was about 3.75. In other words, if you have two families with the same education level, region of residence, profession, and number of kids, but one family gives \$100 more to charity more than the other, the giving family will earn \$375 more. The income difference seems to be attributable to the charitable gift.

I found these results puzzling. A few years later, a colleague of mine suggested that I look at the question from an aggregate standpoint over time. I decided to examine real, charitable, per capita giving in the United States, from 1954-2004 (Brooks, 2006, pp. 203-204). The first trend that I easily identified was that both per capita income and per capita charitable giving rose substantially over the fifty-year period. While real per-capita income increased 150 percent, per-capita charitable giving increased 190 percent. Americans have gotten a lot richer, but we have also given even more of our wealth away.

I decided to look again at the relationship between income and charitable giving. Using vector autoregression techniques, I found, again, that average per-capita income has indeed driven charitable giving. I also

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found the reverse to be true: a one percent increase in private charitable giving results in about a \$2 billion dollar increase in private giving, which translates to about a \$39 billion dollar increase in GDP over time. Of course, \$39 billion dollars in our GDP is not very much; it is equivalent to funding U.S. operations in Iraq for three months. But think about what the multiplier could mean if the entrepreneurs are right. If it were true that \$2 billion in charity this year translates to \$39 billion in GDP, then it would mean jobs, growth, and new opportunities.

3 Giving, Stress, and Productivity

At this point in my research I was still skeptical, and consulted colleagues outside of the economics profession, including a psychologist who studies charitable giving. When I described my results to him, his response was startling: he said that his profession has known about this trend for 30 years. Psychologists, however, do not measure prosperity in terms of money, but rather in terms of happiness, thriving, and optimism. For thirty years they have known that when people give more, they improve their quality of life. And of course, when people have a higher quality of life, they make more money because they tend to work harder and more joyfully.

I examined the psychological literature on the relationship between charitable giving and happiness in search of an explanation for why charity leads to greater income. I discovered two strands of the psychology literature that explain how people improve their quality of life and become more productive when they give more to other people. The first is what happens to them neurologically, and the second is what happens to them socially.

A neurological explanation for giving sounds strange to those outside of the world of brain research, but it is a very relevant question for people who study the neurological aspects of our personalities. In the late eighties, researchers discovered evidence of an effect called “The Helper’s High,” which is that we release endorphins when we give to others (Luks, 1988; 1992). Although this is an interesting result, we are not especially interested in charity and feeling good physically, but rather the connection between charity and success.

Subsequent research has shown that giving can lower stress hormones in the body and lead to greater productivity (Luks, 1992). Management studies also identify that people who do their jobs with less stress can do them more happily and more productively over a longer period of time, without experiencing burn-out. One study from Duke University in the mid-1990s measured the stress hormone levels of senior citizens in a controlled experiment where some of them were asked to give massages to babies (Field, Hernandez-Reif, Quintino, Schanberg, & Kuhn, 1998). The researchers measured the differences in stress hormone levels in

the study's participants. They found that those who were giving comfort to these little children lowered their stress hormone levels dramatically compared to those that were not. In case you were wondering, it also turns out that it is much better to give a massage than to get one.

The literature is widely consistent. Study after study shows that a great way to lower stress hormones is to serve other people. One of the very powerful findings in the literature is on the social effects of charitable giving and the way that people treat you when they see you doing charitable acts. Several years ago, researchers at a British university examined this phenomenon in the context of cooperation games (Hardy & Van Vugt, 2006). A typical cooperation game looks something like this: a large group of people are divided into relatively small groups. Participants begin the study with a sum of money and are asked the amount they wish to give to the common fund in front of the group. Once everyone has contributed, the leader doubles the common fund and spreads it out equally among the group. The optimal strategy for everyone is complete cooperation: if everyone puts in all of their money, everybody gets 200 percent back. The dominant strategy, however, is to hold all your money and hope everyone else contributes their money, because then you come out with almost 300 percent of what you put in, depending on the size of the group. Of course, what you find in the experiment is that people are neither perfectly cooperative nor perfectly uncooperative, however, people do cooperate more when they are being watched.

An interesting wrinkle in British study occurred when the researchers added a second phase in which each group was asked to elect a team leader for a second task after the cooperation game. The participants did not know each other and only knew the level of cooperation in the first phase, but more than 80 percent of the time, the biggest giver from phase one was elected as the leader in phase two. Thus, the Christian imperative that leaders should be servants turns out to be an empirically-supported strategy. When a person is seen serving, they will be perceived as a leader, which also relates to prosperity and success, since those who are elevated to leadership positions perform better economically than those who are not.

In contrast to my hypothesis, the evidence indicates that giving is good for me, my community, and indeed my country. Moreover, it is not good just because of the way that it makes me feel, but because it leads to economic growth. Although I do not have the space to outline the benefits of giving on health and civic engagement, it is safe to say that there is a robust literature in those areas as well (see Brooks, 2006, 151-153). It is clear that a prosperous nation depends on a culture of generosity and service, so the next topic I explore is the demographic differences among those who give the most.

4 Who Gives?

The Social Capital Community Benchmark Survey shows that people who take their religious faith seriously give significantly more in charity than people who do not (Brooks, 2006, pp. 36-37; Wuthnow, 1999). The literature defines “religious” as those who attend a house of worship at least once per week. Roughly 91 percent of religious people give compared with 66 percent of people who never attend a house of worship. Further, 67 percent of religious people volunteer their time versus 44 percent of secularists. People who are religious give four times as much to charity each year as secularists, even when differences in income are accounted for.

A second question is whether levels of giving differ across faiths. For example, I am Roman Catholic, and for years I have been told that we do not give anything, we serve less, and we are less connected to our communities. The root of the problem with all of these studies is defining the variable “Catholic.” Because many social scientists do not really understand the experience of faith, they measure religious faith incorrectly. To control for faith, they insert a dummy variable for the faith a person identifies with: Protestant, Catholic, Jewish, other, etc. This approach does not measure the intensity of religious practice, which is what really matters when you are trying to explain the variance in the data on charitable giving. When you correct for what people do, rather than measuring their association, the results are very different: 92 percent of practicing Protestants give, 91 percent of practicing Catholics give, 91 percent of practicing Jews give, and 89 percent of practicing Muslims give (Brooks, 2006, pp. 36-37). The empirical action is in practice, not in religious identification.

One might speculate that religious people give to their own organizations, but the data prove otherwise (Brooks, 2006, pp. 38-39). After removing religious giving from the total, 71 percent of religious people give to non-religious causes, compared with 61 percent of secularists. Similarly, 60 percent of religious people volunteer, compared with 39 percent of secular people. The religious gap also persists across formal and informal giving. Religious people are twice as likely as seculars to give blood, help the homeless on the street, give up their place in line, and give back change mistakenly given to them by a cashier at Wal-Mart. The list goes on and on. In ten years, I have never seen one type of charitable giving where religious people do not utterly dominate secularists.

Why is there such a big difference between people of faith and secularists in charitable giving? There are two general explanations: nature and nurture. The nurture explanation holds that we learn to give as kids, while the nature explanation holds that some people are wired for giving, while others are not. There is evidence for both of these explanations.

Religious people, for example, are presented with the opportunity to give every week. The offering plate comes right in front of you, which is very reinforcing. Church teaching also says that it is good to give, and religious institutions also create more opportunities to give to really good causes.

New lines of research also suggest that nature determines whether or not one gives to charity (Lykken & Tellegen, 1996). In recent studies, researchers tracked identical twins in their forties who were adopted to separate families at birth and asked them about their preferences and beliefs. Most studies found that far more of our personalities are explained by genetics than we ever thought. Nearly 40 percent of religiosity is explained genetically, according to most studies. Although none of the difference in religious identification is explained genetically, the intensity of practice is. 40 percent of variation in political views is likewise explained by genes and 50 to 80 percent of baseline cheerfulness is explained genetically. How little of our personality is at our disposal! It is logical to imagine that a charitable disposition is partly genetic.

5 Christian Applications

What do these findings mean to me as a Christian economist? It is hard to even skim the Bible without finding a lot of references to charity: “but give what is inside the dish to the poor, and everything will be clean for you” (Luke 11:41). The obvious lesson from this passage is to give more because it is a good thing to do. But the data say that the primary beneficiary of charitable giving is the giver himself. Therefore, as part of our Christian apostolate, we have a teaching role about giving, about virtue itself, and about teaching this kind of virtue. We also have an opportunity when we think about public policy to spread Christian virtue throughout our economy by thinking about private charity as a public policy matter.

So how do we generate more charitable giving among others? The first thing to do is to dispel that the myth that you have to have it before you can give it. A second myth is that giving makes us poorer. The data say that giving makes you richer—in both financial and non-financial ways. A third myth is that people do not give because they are selfish. We are selfish, but we are not *naturally* selfish, we are *unnaturally* selfish. When we are our best selves we give.

A final myth is that we can afford to do without charity. We hear this in academia. If we just did our job in this country we would be providing for our needs publically and we would not need to give charitably. I have confronted this argument again and again. But I can tell you this with great confidence: The day that we substitute public subsidies for private charity in every realm is the day we start to get unhealthier, unhappier, and poorer.

How do we get beyond these myths? The first is teaching and the second

is to encourage a culture of giving. The evidence says that giving is largely a learned behavior. The question for us is what can we do to teach this more among our students, in our families, and in our communities? A second question is how we can give more publically. I realize this contradicts a very important principle: “when you give to the needy, do not let your left hand know what your right hand is doing” (Matt. 6:3). Anonymous giving might be the best, but public giving also has large multiplier effects.

6 Conclusion

My research has dramatically altered my thinking on the subject of charity, not only as an economist, but as a citizen, a teacher, and a Christian. Giving is good for all of us; it enhances our emotional and physical well being, and even increases our standard of living. It contributes to stronger communities and a stronger America. Moreover, preserving America’s culture of generosity will be an integral part of the health, happiness, and prosperity of our nation. Giving is itself a gift. So my last word is to you: for the giving you do in your lives—which enriches our nation—I say congratulations and thank you.

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