Chapter II

Explanations for Cross-National Differences in Philanthropy

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In this chapter we will provide a theoretical overview to answer the question of why some people in some countries donate more often and higher amounts to nonprofit organizations than others. There are two types of answers to this question. First of all, aggregated individual-level differences between people can account for cross-national differences in philanthropic behavior. If people in some countries on average have more of the individual factors known to promote philanthropic giving, this can explain why people in that country are more likely to give and give higher amounts. These are compositional explanations. An example of a compositional explanation is educational level. We know that people who are higher educated display higher giving behavior (Bekkers & Wiepking, 2011b; Brown & Ferris, 2007), among others because they have more resources available in the form of income and knowledge about nonprofit organizations and their needs. If people in a country are on average higher educated, this can explain why people in that country are more generous donors. Other aggregated individual-level factors that are known to influence philanthropic behavior are for example financial, human, and social resources and religious, political, and prosocial values (Bekkers & Wiepking, 2007).

However, the real added value of this edited volume, and our primary interest, lies in the first opportunity to examine the importance of context on the likelihood and level of individual philanthropic donations. One example of the influence of a country’s context on individual philanthropic behavior is the impact a country’s fiscal incentives for giving has on individual donations. Although there have been stringent tests of tax effects on philanthropic giving (Bakija, 2000; Peloza & Steel, 2005), most of these tests have been conducted using US data. In order to understand the effect of different fiscal incentives, one needs to either study changes in one tax system over time, or study different systems simultaneously. Although there have been some changes in the US tax system for philanthropic donations, these changes are very modest compared to the variation in tax systems across the 26 countries included in this edited volume. In this volume we will be able to qualitatively examine the relationship between a large range of fiscal incentives for giving and individual philanthropic behavior. In addition to fiscal incentives for giving, we expect other contextual effects to influence individual philanthropic behavior, including type of nonprofit sector, market and government failure, government policy (including government subsidies), regulations for
the nonprofit sector, and culture (including religion and fundraising professionalism). Next, we will use the current interdisciplinary literature to provide contextual explanations for philanthropic behavior.

**Contextual explanations**

We develop eight contextual explanations for cross-national differences in philanthropic giving, based on type of nonprofit sector (social origins theory), economic theories (including government failure and market failure), government policy (including government subsidies and fiscal incentives), regulations for the nonprofit sector, and culture (including religion and fundraising professionalism).

**Type of nonprofit sector**

According to Salamon and Anheier’s (1998) social origin theory, the historical development of social, political, and economic state-society relationships in a country result in four different ideal types of nonprofit sectors: liberal, social democratic, corporatist, and statist nonprofit sectors. This categorization is based upon a two dimensional approach in which level of government social welfare spending and size of the nonprofit sector determine the nonprofit sector type, and is derived from Esping-Andersen’s (1990) types of welfare state regimes. Table II.1 represents this categorization.

*Table II.1*  Nonprofit sector types according to Salamon and Anheier’s social origins theory (1998).

<table>
<thead>
<tr>
<th>Government social welfare spending</th>
<th>Nonprofit sector scale</th>
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<tbody>
<tr>
<td>Low</td>
<td>Low</td>
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<tr>
<td>High</td>
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| Low | Statist | Liberal |
|     | Social democratic | Corporatist |

Source: Salamon & Anheier (1998, p. 228, Table III)

Countries with a liberal nonprofit sector are categorized by low government spending on social welfare and a large nonprofit sector. In these countries, the voluntary private provision of public goods is favored over public provision, as there is significant ideological and political opposition against a strong state. The provision of public goods is perceived as a role of the voluntary nonprofit sector, not
the state. Examples of countries with a liberal nonprofit sector are the United States and the United Kingdom. In contrast to countries with a liberal nonprofit sector, countries with a social democratic nonprofit sector are categorized by high government spending on social welfare and a small nonprofit sector. In these countries, a strong opposition of working-class groups has resulted in a large welfare state in which the state dominates the provision of public good and services. At the same time, the nonprofit sector in social-democratic countries can be active, but mainly outside the realm of welfare state provisions considered essential, such as health care, education, and social benefits. Examples of countries with a social-democratic nonprofit sector are Sweden and Italy. Countries with a corporatist nonprofit sector are categorized by high government spending on social welfare and a large nonprofit sector. In these countries, both the state and nonprofit sector are strong; thus, they work together in the provision of public goods and services. Examples of countries with a corporatist nonprofit sector are Germany and France. The fourth and final type of nonprofit sector is the statist nonprofit sector. In countries with a statist nonprofit sector, a country’s elites are in control of the public good provision, and this leads to both low government spending on social welfare and a small nonprofit sector. An example of a country with a statist nonprofit sector is Japan.

Based on the social origins theory, Salamon and Anheier (1998) predict that in countries in which both a liberal and social-democratic nonprofit sector dominate, private philanthropy is the primary source of funding of the nonprofit sector. In countries with a corporatist nonprofit sector, the primary source of funding is the government. Finally, in countries with a statist nonprofit sector, fees and contributions will dominate the nonprofit sector funding. The data collected in the Comparative Nonprofit Sector project supports this assumption (Salamon & Anheier, 1998).

Economic theories

The nonprofit sector has attracted attention from economists who seek to explain the existence and role of the nonprofit sector. Demand theories are more popular as they explain nonprofits as a response to either market failure, where markets cannot provide optimal levels of goods and services, or government failure, where the public sector organizations cannot satisfy the demand for goods and services for all its citizens.
First we briefly review these two well accepted economic theories, market failure and government failure, and then discuss their potential influences on philanthropic giving. In economic terms nonprofit organizations are allowed to generate surpluses (which equal the revenues subtracted with the costs); however, such surpluses must be reinvested into the objectives of the nonprofit organization. No actor in the organization (directors, trustees, managers, staff, volunteers, etc.) has any proprietary rights on the surplus. This characteristic of nonprofit organizations distinguishes them clearly from for-profit organizations.

**Market failure**

Market failure results because of the nature of goods and services that the market must provide. Not all goods and services are private in nature, in that all the benefits and costs can be captured by the consumer and seller alone. Many goods and services are either fully or to some degree public in nature; hence, the market is inefficient in providing them. As such, some goods and services are relegated to the government (such as defense), while others may be relegated to the nonprofit sector (such as religion). A seminal paper by Hansmann (1986) argued that certain goods and services suffer from a problem of ‘asymmetric information’ and that a ‘contract failure’ arises for these goods and services between the consumer and the producer. Hansmann (1987) argued that contract failure arises in either the purchase or consumption of certain goods and services, where a consumer may not be able to evaluate accurately the quantity or quality of the purchase or consumption of the good or service. The producer will have greater information, and thus may have the incentive or opportunity to take advantage of the purchaser or consumer.

For example, consider the purchase of child care by a parent, where the consumer is the child. Due to the very nature of the service, the parent is unable to monitor the quality of the service and the child (the consumer) may also not be able to evaluate the service accurately. The child care giver (the producer of the service) may have the opportunity (being unsupervised) and the incentive (cutting down on the effort and costs) to exploit the situation in his or her favor. Under such conditions, Hansmann argues, a producer that is a for-profit firm has a ‘profit’ motive, and the service provided can differ than the one contracted for. If on the other hand the profit-motive was removed, he argues there is a lower probability of contract failure (Hansmann, 1987). Thus, it is posited that nonprofit
organizations—who are under a ‘non-distribution constraint’ on its surplus—are less likely to take advantage of the contract failure that may arise, which sets them apart from for-profit organizations and gives them a competitive advantage in those goods and services where there is a higher potential of contract-failure. Nonprofit organizations are likely to flourish in the provisions of those goods and services where commonplace contractual mechanisms cannot protect the consumer from dishonest producers and make for higher levels of ‘contract failure’. In other words, purchasers and consumers are likely to gravitate away from for-profits towards nonprofits when purchasing or consuming goods and services that require the producer to be trustworthy.

Contract failures in some subsectors of the nonprofit sector are more acute than others (for example, in health and religion as compared to sports and museums). Depending on country-level context (such as culture and level of development), these goods and services can be produced either by the nonprofit sector or the government in an attempt to resolve the contract failure. The question then arises: what impact, if any, does contract failure have on philanthropic giving? In an indirect manner we can argue that how countries resolve contract failure will indeed impact philanthropic giving. For example, contract failures in the areas of health and religion can be resolved through the nonprofit or government sectors. If the government decides to subsidize the services—such as through a church tax or provision of health insurance—then the level of philanthropic giving will decrease. However, if there is no involvement of the government (provision or subsidy) in the production of these services, we expect that philanthropic giving will be higher as nonprofit organizations seek alternative funding. Indeed, one can argue that government actions will impact philanthropic giving—a trend that is further discussed in the section ‘Government policy in the nonprofit sector’.

Government failure

Weisbrod (1977) made the first attempt at providing a theoretical economic explanation for the existence of the nonprofit sector. Unlike the market failure theories in economics that explain the existence of public goods, Weisbrod (1975) suggested that the nonprofit sector’s raison d’etre was the failure of the public sector (government) in providing certain goods and services. In doing so, he provides the demand side explanation of the existence of nonprofits. When government provides public goods and services such as roads, parks, policing, and healthcare, it does so in response to what
its citizens want. However, government may not satisfy all the citizens, many of whom either demand different services or different levels of existing services. Governments may fail to satisfy citizen demands since they respond through the political process, which determines the quality and quantity of the goods and services to be provided by the government. The political process in democratic states responds to the median voter; as a result, the preferences of median voters are most likely to be reflected in government’s decisions. ‘The median voter theorem’ predicts that with elections that are won on majority votes, the views of the elected government officials reflect the view of the median voter, and all voters on one side of the median voter will constitute a majority. As government-elected officials must secure their re-election to office, the decisions made on the quantity and quality of goods being provided will be influenced by the median voter.

Satisfying the median voter generally results in unsatisfied citizens who do not exercise political power. In countries with heterogeneous populations (such as people with different tastes due to religion or immigration) this problem is generally more exacerbated than in countries where the population is homogenous. Thus, where minorities exists, citizens with different tastes from the majority may be unwilling to consume the quality or quantity of the goods and services the government provides. These citizens have four alternatives: migration, formation of lower level of government, resort to the private sector, and resort to the nonprofit sector. Citizens may express their preferences by moving to another jurisdiction where the government provides goods and services that match their preferences (Tiebout, 1956). At best, they create a lower level of government in which they represent the majority and have goods and services provided according to their preferences. Certain goods and services can be bought in the private sector, and citizens can purchase these goods and services through the market to fulfill unmet demands. If the market can provide private-good substitutes, consumers can either buy the goods and services they wish or rely on government-supplied goods and services, depending on the difference in costs to the consumer and his/her preferences. Finally, for some goods and services—especially those which give rise to market-failures (as described above)—citizens can either organize nonprofit organizations that produce these goods and services or can get them from an existing one. As Weisbrod (1977, p. 30) writes, “…a class of voluntary organizations will come into existence as extra government providers of collective-
consumption goods [and serve to] supplement the public provision (which can be zero) and provide an alternative to private-sector provision of the private-sector provision of the private-good substitutes for collective goods.” Thus, if nonprofits provide substitutes, the consumers can choose to receive these goods and services from nonprofits, again depending on relative costs (in comparison with government or the market). In these cases where there exists a heterogeneous demand for goods and services, the market and the nonprofit sector supplement the role of government.

The government-failure hypotheses explain why there will be a private production of certain goods and services; however, why it occurs in the nonprofit sector needs some explanation. For goods and services where both market failure and government failure occur, it is clear that the nonprofit sector will have a comparative advantage, and goods and services may be better positioned in this sector than others (Rose-Ackerman, 1986). For other goods and services, where there is no clear competitive advantage, Handy (1997) provides a theoretical explanation for the co-existence of all three sectors, and why consumers with differentiated demands patronize nonprofit sellers of goods and services even when similar services are provided by government or for-profit organizations: consumers are willing to trade quality for efficiency and price. As Chaves (1998) sums up succinctly, either the excess demand or differentiated demand explains the existence and size of nonprofit sector.

We can then expect that countries with a heterogeneous population are likely to have a larger nonprofit sector than countries with a more homogeneous population. Turning to individual philanthropic giving, the question arises: how does the size of the nonprofit sector impact philanthropic giving? Clearly, philanthropic giving is a function of many individual and contextual determinants. In this particular case the context we consider is the size of the sector, which has a direct positive influence on giving. When a country’s nonprofit sector is larger, there is likely to be greater demand for philanthropic revenues for the sector, especially for those countries where philanthropic revenues are an important source of revenue for nonprofits.

**Government policy in the nonprofit sector**

Governments in different countries interact in various ways with their local nonprofit sectors. Two important interventions governments can make to affect private giving to nonprofit organizations are
1) providing government support to nonprofit organizations and 2) providing fiscal incentives for private donations.

**Government support**

Governments may affect private contributions to public goods by providing support or subsidies to nonprofit organizations. Classical economic models of public goods imply that government provision of public goods crowd out private contributions (Andreoni, 1988). When governments provide public goods, the need for individual philanthropic donations is expected to be lower. We illustrate this with an example from international relief: the case of the Haiti earthquake. In January 2010, a disastrous earthquake demolished a large part of Western Haiti, including the capital Port-au-Prince. In an attempt to relieve the suffering in the disaster-stricken and impoverished country, people in many countries took out their wallets and donated generously.

Figure II.1 shows the private donations made by individuals in ten Western countries to support victims of the Haiti Earthquake. Overall, people in these ten countries have been very generous when it comes to supporting unknown others. The per capita donations in these ten countries ranged from €7.10 to €0.90, with the Swiss being most generous and the Italians least generous. At the country level, people in the United States donated the highest amount of money overall, giving a total of 653 million euro. The Belgians donated the lowest amount of money, giving 19 million euro.
The donations in Figure II.1 relate only to the individual philanthropic donations. For example, the US government alone has committed 171 million US dollars in Official Development Assistance (ODA) (Goodley, 2010).

Classical economic theory would predict crowding-out of private donations by ODA (Atkinson, 2009). In the case of Haiti, the higher the government provision of Official Development Assistance (ODA) for Haiti, the lower the expected need for private donations by citizens. However, empirical studies have rarely provided support for such a crowding-out effect. Studies find at best partial crowding-out (Brooks, 1999; Brooks, 2000).

We argue that government subsidies for nonprofit organizations have two opposing effects, which we illustrate using the case of supporting victims of the Haiti earthquake. On the one hand, in line with the crowding-out hypothesis, direct government funding to international relief organizations that provide emergency aid in Haiti lower the need for these organizations to solicit private donations.
from citizens. Lower levels of fundraising will limit the awareness of the needs of the Haiti earthquake victims by citizens. If citizens are unaware of the beneficiaries’ needs, then fewer and lower levels of private donations will be made (Bekkers & Wiepking, 2011a). Another argument in support of the crowding-out hypothesis is that citizens behaving purely altruistically may consider government funding as an alternative source of funding that takes away the need for private contributions. The same argument can be made for private giving to other types of nonprofit organizations receiving government subsidies, such as organizations supporting the arts or those with a focus on healthcare, education, or sports.

We may also expect a crowding-in effect from government subsidies. First, government subsidies increase the total budget of nonprofit organizations, providing these organizations with greater financial means to spend on fundraising and creating awareness of beneficiaries needs. Increased fundraising and creation of awareness will result in an increase in private donations, and hence a crowding-in effect. A second argument in support of the crowding-in effect is that government subsidies to nonprofit organizations can signal a trustworthy reputation of the nonprofit organization receiving funding (Salamon & Anheier, 1998). Private donors look for guarantees that their donation will reach the intended beneficiaries and be spent as effectively as possible (Bekkers, 2003). Signals displayed by nonprofit organizations to facilitate trust include accreditation seals and celebrity ambassadors, but also government funding can be viewed as a sign of trustworthiness. Citizens may find that when the government trusts an organization enough to provide subsidies, they can trust this organization as well.

**Fiscal incentives**

In addition to providing subsidies, governments can influence private philanthropic giving using fiscal policies (Colombo, 2001). In many countries, philanthropic giving is tax deductible. Providing philanthropic donors with fiscal incentives for giving will increase the total volume of donations to nonprofit organizations in a country, and can thus explain cross-national differences (Dehne, Friedrich, Nam, & Parsche, 2008; Koele, 2007). Moreover, many countries grant tax exemption to nonprofit organizations.
**Regulation of the nonprofit sector**

Organizational integrity, good governance, accountability, and transparency are important issues for nonprofit organizations (Irvin, 2005; Kearns, 1994). Across different countries, nonprofit organizations are subjected to different nonprofit regulatory systems that in best cases promote accountability and transparency, but in worst cases give governments full control over the nonprofit sector and its organizations.

In many countries, nonprofit organizations are subject to some form of government regulation. Government regulation can relate to requirements for the establishment of nonprofit organizations, but also to requirements for the operation of these organizations, standards for integrity, as well as control mechanisms and accountability (Lipsky & Smith, 1989). Often, complying with formal government regulation is a prerequisite for achieving and maintaining nonprofit status, which also frequently incurs fiscal benefits. Government regulation is typically difficult to enforce due to limited resources to monitor and control the large numbers of nonprofit organizations (Young, 2000).

In addition to government regulation, there are two different types of voluntary regulatory systems: self-regulation and third party monitoring (Ortmann & Svitkova, 2007).

In a self-regulatory system, nonprofit organizations themselves create an organization that—in collaboration with all member organizations—establishes a code of conduct with which all member organizations voluntarily comply. There is no formal monitoring of this system. An example of a self-regulatory system is the Code of Conduct and Fundraising Practices in the UK. In the UK, nonprofit organizations that become members of the Institute of Fundraising are required to adhere to the Code of Conduct and the Code of Fundraising Practice. In these codes, they pledge to “conduct themselves at all times with complete integrity, honesty and trustfulness; respect the dignity of their profession and ensure that their actions enhance the reputation of themselves and the Institute and not misuse their authority or office for personal gain” (Institute of Fundraising, 2013).

An example of a third-party monitoring regulatory system is the Central Bureau of Fundraising Accreditation Seal in the Netherlands. In the Netherlands, nonprofit organizations can apply for an accreditation seal from the Central Bureau of Fundraising [Centraal Bureau Fondsenwerving (CBF)]. Organisations who apply for this seal, are accredited based on regulations
regarding their board, monitoring principles, policy, fundraising, and reporting. The most well-known criteria is that organizations with a CBF accreditation seal are only allowed to spend 25 per cent of their annual revenue on fundraising costs (CBF, 2012). Bekkers (2003) shows that nonprofit organizations in the Netherlands that have been accredited by the Central Bureau of Fundraising perform significantly better in fundraising.

**Culture**

**Religion**

Not only individual religious values and beliefs motivate philanthropic behavior (Cnaan, Kasternakis, & Wineburg, 1993; Norenzayan & Shariff, 2008), religious context is also of importance (Bennett, 2013; Borgonovi, 2008; Lim & MacGregor, 2012; Ruiter & De Graaf, 2006). People’s philanthropic behavior is influenced by the religiosity of the people in their direct environment. Ruiter and De Graaf (2006) argue that people in more devout countries will be more likely to volunteer, because their social networks are more likely to be devout. Both religious and secular people will be recruited through these devout networks, in which the norm to volunteer could be stronger and the social pressure greater to comply with requests for volunteer work. Their results show that the average level of religiosity in a country has a positive relationship with individual volunteering in over fifty countries.

Borgonovi (2008) studies the effect of religious context and religious heterogeneity on giving and volunteering in different US counties. She argues that religious heterogeneity (pluralism) increases the quality of religious networks, thereby fostering greater giving and volunteering: “By fostering greater choice and more competition, religious pluralism may foster giving and volunteering indirectly by increasing the probability that people will attend religious services” (Borgonovi, 2008, p. 107).

**Professionalism of fundraising**

The professionalism of fundraising in a country is extremely important for its level of philanthropic giving. Some studies estimate that up to 85 per cent of the donations are a direct result of solicitation (Bekkers, 2005; Bryant, Jeon-Slaughter, Kang, & Tax, 2003). If people are asked to make a donation more often and more professionally, they will be more likely to give (substantially). The major
fundraising strategies employed by nonprofit organizations, as described by Sargeant (2005), are direct marketing, community fundraising, fundraising events, payroll giving, major gift fundraising, and legacy fundraising. Between countries, large variation exists in the methods and the professionalism with which fundraising is employed. One key indicator for the level of fundraising professionalism in a country is the presence of a formal body representing and regulating members working as fundraisers; in many cases, these formal bodies also offer training and accredited qualifications. Another key indicator is the presence of financial advisory professionals who support potential (major) donors with their giving strategies.

In the next section of this volume, experts on philanthropy and the nonprofit sector will provide detailed information on the context for philanthropic giving in 26 countries. The country specialists describe in detail the role of historical developments, the role of the government, fiscal and legal policies dealing with philanthropic donations, and the professionalization of fundraising in their countries. For countries for which representative national-level surveys on philanthropic donations are available, the authors also report on the participation rates and levels of giving and relate these to socio-economic background variables available across all national-level surveys.
References


In B.A. Weisbrod (Ed.), *The Voluntary Nonprofit Sector* (pp. 51-76). Toronto, Canada: Lexington Books.