

Americans: Stingy or Generous?

To become an American is to join the most generous community on Earth. It is sometimes said that Americans donate more to good causes than the rest of the world put together. I am not sure this point can be statistically demonstrated but I believe it to be true. Hence the fifth reason for joining America: Its vast wealth-creating capacity and huge drive for enrichment is balanced by an equally determined will to share the fruits.

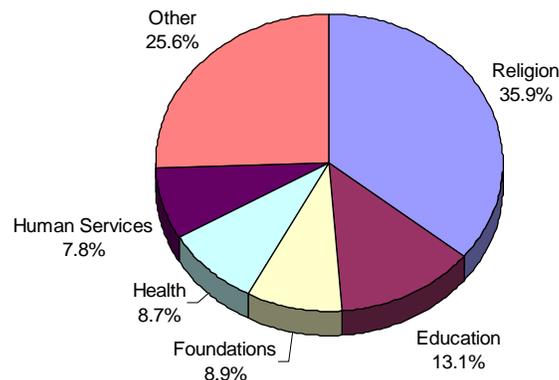
Ten Reasons for Identifying with America, Paul Johnson, Forbes, May 13, 2002

Several weeks ago, a United Nations official accused the United States of being “stingy” in terms of giving aid to tsunami victims in South Asia. When challenged by the State Department, the U.N. official clarified his statement, saying that Americans aren’t being stingy in helping tsunami victims but rather in terms of overall aid compared with other countries. On the other hand, British historian and essayist, Paul Johnson, who is quoted above, gives America high praise indeed for its generosity expressed both in public projects and in private charities. So who is right? Are Americans, in fact, stingy compared with others? To attempt to answer this question, it behooves us to look at both private contributions to charity and America’s record of public giving as a nation.

Charitable Giving in the U.S.

In 2003, Americans gave a total of \$241 billion in charitable gifts. Despite the challenging economic times, charitable giving rose almost 3% from 2002, when charitable contributions were \$234 billion. This equates to about 2.3% of the U.S. gross domestic product, a proportion that has remained steady since 1998. Individuals and charitable bequests make up the largest percentage of giving by far. In 2003, living individuals donated \$179 billion, while bequests accounted for \$21.6 billion. Foundations gave \$26.3 billion, and corporations contributed the smallest amount at \$13.5 billion.

Where Does the Money Go?



Source: Giving USA

The amount of charitable giving in the U.S. of \$241 billion is actually considerably understated, because it counts only cash and not the monetary value of volunteer work. According to *Independent Sector*, in 2003 Americans contributed \$266 billion worth of time to charitable entities. This was based on a value of \$17.12 per hour, but even if minimum wage is used, this non-cash giving comes to an additional \$100 billion.

Why Do Americans Give So Much to Charity?

Some maintain that Americans give generously because the U.S. is a wealthy nation. As Rabbi Daniel Lappin writes in his book, *Thou Shall Prosper, Ten Commandments for Making Money*: “Another error in confusing cause and effect is the mistaken belief that having wealth enables charitable giving. Many really do believe that the United States is the most charitable nation in the world because it is also the wealthiest. In reality, charitable giving contributes to wealth creation. It is far more likely that the United States evolved into history’s greatest wealth-creating machine because of its deeply ingrained cultural habit of giving. This is true not only on a national scale but also on a personal scale.”

Others believe that our tax system encourages charitable donations by making them tax deductible, and by not taxing non-profits, this sector is seen as an attractive alternative to government and the private sector. However, other wealthy countries have similar features in their tax codes yet charitable giving by individuals is very modest in these countries. Or, consider the countries of the former Soviet Union. In recent trips by one of our principals to the Czech Republic and Ukraine, discussions with the local inhabitants revealed that charitable donations in these countries are almost unheard of. The heavy fist of communism destroyed all private initiative including charity, and this legacy still weighs on the culture.

No, Americans give generously to charities for two main reasons. First, during the first three centuries in this country, almost all of our institutions were funded by private charitable giving: schools, colleges, universities, hospitals, libraries, art museums and churches. The colonies, later the state governments, and the federal government did not have the revenue nor the mandate from its citizenry to establish and manage our key institutions. The Constitution forbade the establishment of a national church. Unlike the practice in Europe or Asia where the state, ruled by kings or emperors, levied taxes and then was responsible for the establishment of most institutions, this was the work of America’s citizenry then, and remains so largely today. The other main reason America gives so much is attributable to its religious inclination. America remains one of the most religious nations on earth; more than 40% of its citizens go to a church, synagogue or mosque three or more times a month. And congregations in the Judeo-Christian tradition are taught to give a tithe (10% of their income) to their church or synagogue and to the poor and disadvantaged. To quote Rabbi Lappin again, “You give away money because on some deep level, you recognize that doing so does more for the giver than it does for the recipient.”

Regional Patterns of Charitable Giving in the U.S.

Each year, the Catalogue For Philanthropy publishes a U.S. Generosity Index. The Index takes each state’s income and the level of individual charitable donations and compares this data with the other states. Here are the results for 2002:

2002 Generosity Index

Most Generous	Least Generous
1. Mississippi	44. Connecticut
2. Arkansas	45. Minnesota
3. Oklahoma	46. Wisconsin
4. Louisiana	47. New Jersey
5. Alabama	48. Rhode Island
6. Tennessee	49. Massachusetts
7. South Dakota	50. New Hampshire
8. Utah	
9. South Carolina	
10. Idaho	

While some New England states have relatively large amounts of charitable giving in absolute terms, New England comes out at the bottom in the Generosity Index. While it is not empirically clear why, Yankees have had a long and well-deserved reputation for being frugal, if not tight-fisted, and this data confirms it. On the other hand, why do Southern states lead the Generosity Index year after year? Is it because the religious impulse is more deeply rooted in the South? Or perhaps the culture of “Southern hospitality”? While it is intriguing to speculate on giving patterns in the U.S., the most recent data from the Catalogue For Philanthropy show that the differences in giving by state are, in fact, in a narrow band of 1.5%-2.8% of income. In every state, charitable giving continues as a significant positive force in society.

Public Giving (Foreign Aid)

The Organization for Economic Cooperation and Development reported that the world’s major countries gave \$108.5 billion in foreign aid in 2003. Of this, the U.S. gave \$37.8 billion – 35% of the total. The second largest giver of foreign aid in absolute terms was the Netherlands, which gave \$12.2 billion. However, in relative terms, the U.S. gave only .34% of its national income in foreign aid, while the Netherlands gave 2.44%. This is what the U.N. official pointed to when backing up his claim of American stinginess. Other big donors of foreign aid were Ireland at 1.83%, Norway (1.49%), and Switzerland (1.09%). If one measures charitable giving solely by foreign aid as a percentage of national income in recent years, then the U.S. appears miserly indeed. But there are several factors that need to be taken into account. The first is that the U.S. has provided much of Western Europe and Asia with a defense umbrella that has allowed these nations to spend little on national security compared with the U.S. Secondly the U.S.’s military power has been invaluable in providing rapid on-the-spot aid in times of international disasters such as the recent tsunami. American military planes, ships and personnel have been working around the clock in South Asia to help tsunami victims. Moreover, private charitable aid exceeds U.S. government aid. In a 2003 article in *Foreign Affairs*, Carol Adelman found that in 2000, private aid was \$35.1 billion versus \$22.6 billion in U.S. government aid. The private aid came from many sources including \$6.6 billion from private volunteer groups, \$3.4 billion from churches and \$2.8 billion from corporations.

Finally, America's record on foreign aid over the past half century has been second to none. In 1943, the U.S. helped to organize the United Nations Relief and Rehabilitation Administration (UNRRA) and has been by far its principal benefactor. In the years immediately after World War II, the U.S., through UNRRA and in meeting other specific emergencies, provided \$9 billion in aid by 1947. On top of this, \$13 billion was spent on the Marshall Plan which provided aid to Europe to prime the pump and get its economy functioning again. These were huge amounts 60 years ago, as demonstrated by the fact that the entire U.S. national income in 1948 was only \$36.5 billion. But there was more. President Truman, in his Inaugural Address in 1949, advanced his Point Four program as part of his "program for peace and freedom," a pledge of "a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas." Over the subsequent decades, Point Four was enhanced by bilateral aid agreements, and by the early 1970's, over \$150 billion had been spent, two-thirds of it outside of Western Europe. As Paul Johnson in *A History of the American People* writes, "This effort, in absolute or relative terms and from whatever viewpoint it is regarded, was wholly without precedent in human history, and is likely to remain the biggest single act of national generosity on record."

Another source of aid to other nations is private transfers of funds such as remittances by Americans and resident alien workers in the U.S. to their families abroad. According to the Inter-American Development Bank, remittances to Latin America alone totaled \$38 billion in 2003 – a sum larger than all official foreign aid. Of this, \$31 billion came from the U.S.

Andrew Carnegie, when he was 33, promised to give away whatever money he had before he died. Having come to America in 1845 with his family at age 12, he was immediately forced to go to work. Despite his limited education, he later became one of the richest men in America when he sold his interests in the newly-formed U.S. Steel for \$480 million in 1901. He then spent the next eighteen years giving away his fortune. For example, he built 1,946 libraries in small towns across the U.S. And he almost succeeded in giving his whole fortune away before he died. One could learn a lot about philanthropy from Carnegie. And it is our goal at Bradley, Foster & Sargent, Inc. to help grow the wealth of our clients so that philanthropy – whether on a small or a large scale – will be a possibility for all.