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# Inequality and Charity

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**Summary.** — We study empirically the relationship between inequality and active charity participation. Increased inequality can trigger feelings of empathy and compassion, thereby increasing altruism, and it can enhance the worm-glow feeling associated with giving. However inequality can also increase social distance and, therefore, social segregation, decreasing the participation to charities because of a weaker identification with the needy. Our empirical analysis features individual data on charity participation from the World Values Survey, merged with country-level information on inequality from the World Bank Development Indicators. We find that income inequality is positively associated with the probability to actively participate in charitable organizations, even after controlling for economic, sociological, demographics, cultural, and religious factors. We also find that women, religious people, and more educated individuals have a higher probability to actively participate in charities. Since charitable organizations mostly perform redistributive tasks, we also checked whether the generosity of the welfare state crowds out the participation in them, but we found no evidence of this relationship.


*Key words* — social capital, solidarity, welfare

## 1. INTRODUCTION

Why do we help others? Perhaps the foremost motivation is that we are all moved by feelings of empathy, compassion, and reciprocity, albeit with different intensities, so that our individual utilities depend also on the well being of others. But pure altruism is not the end of the story. An additional motivation is the desire to be publicly praised and acclaimed, maybe to gain social status. Another possibility is that helping others provides, by itself, an utility to the helper, the so-called "Warm-glow" feeling. Helping others is also a moral and religious duty in many cultures, which means that many are compelled to help just to adhere to a social norm. All of these motivations, combined together, explain the existence of institutions that foster altruistic, pro-social, behavior, such as charity organizations and mutual aid groups. In this paper we try to understand whether economic fundamentals can also explain the existence of those institutions, over and above other determinants. More specifically, we study the relationship between income inequality and the active involvement in charitable organizations.

From a theoretical standpoint, the relationship between inequality and charity is ambiguous. On the one hand, the sociological literature highlights a negative relationship between inequality and solidarity. The reason is that inequality increases social distance, leading to social segregation. This lower frequency of interaction, in turn, reduces the willingness to help others because they are increasingly perceived as different (Durkheim, 1893; Wilkinson & Pickett, 2009; Paskov & Dewilde, 2012). Moreover, there is often a preference for income homophily in social interactions, so that increased inequality decreases the willingness to join social activities (Alesina & La Ferrara, 2000). On the other, pure altruism implies that inequality fosters solidarity (Bowles & Gintis, 2000; Fehr & Schmidt, 1999) and, therefore, charity participation, especially if inequality is the result of reduced incomes at the bottom of the distribution (Charness & Rabin, 2002). One example is an increased unemployment in recession (Galbraith, 1998), which heavily hits low-skilled, low-wage workers. Another example is a wage decline for unskilled workers due either to skill-biased technological change (Bound & Johnson, 1992) or to wage competition from abroad. Similarly, impure altruism also implies a positive relationship between inequality and charity participation, for instance as a consequence of the warm-glow theory of giving (Andreoni, 1990). More precisely, an increased inequality, determined by an increased number of people in need, enhances the utility of the giver because of the feeling of a higher social value of her actions. Lastly, increased inequality might simply mean that there is a bigger number of opportunities for charitable giving, or that there is a bigger number of relatively richer individuals with a smaller marginal utility of consumption, who find charitable giving more attractive.

The open question, then, is which of the two sets of contrasting effects is more important empirically. We tackle this issue looking at individual data from the World Values Survey (WVS henceforth), a very extensive study aimed at comparing cultures. In particular, we measure individual charity participation with the answers to the WVS question that asks about membership in charitable or humanitarian organizations, coding a dummy for "Active" participation. We focus on the last two waves of the survey, respectively 2005–09 (wave 5) and 2010–14 (wave 6), and we collect data for the biggest possible number of countries. We then run probit regressions of the individual active charity participation on a country-level measure of inequality, either the Gini coefficient or the income share of the highest 10%, controlling for several cultural, religious, sociological, demographic, and economic factors.

We find evidence of a positive relationship between inequality and charity participation: residents of more unequal countries are characterized by a higher probability to be actively involved in charities. We believe that our result is important because charity arguably improves the standard of living for many, which contributes to partially offset the negative social

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consequences of inequality. We also find that the commitment to religious values explains the probability to actively participate in charities, along with gender, education, age, and employment status. In particular, women, religious people, and more educated individuals are characterized by a higher probability of active charity participation. Since charitable organizations are often a substitute to public services, or perhaps a reaction to an insufficient level of them, we also regressed charity participation on the generosity of the welfare state. The idea is that public expenditures in areas such as health and education should crowd out the participation in charities that provide the same goods and services. We find no evidence of this relationship.

A potential problem of our empirical specification is the possible endogeneity of inequality, which could be determined by charity participation, making it difficult to interpret the regression coefficient. In greater detail, Putnam (1993) claims that associationism affects economic performance, because: " [...] Organizations instil in their members habits of cooperation, solidarity and public spiritedness" (Putnam, 1993), which can be beneficial to long-run growth. Since growth affects inequality, for instance if it is the result of skill-biased technological change, we could have an endogenous regressor. However Knack and Keefer (1997) show that there is no relationship between associationism and growth, which actually rules out this possibility. Furthermore, Olson (1982) provides some additional, theoretical, argument against Putnam's theory. [1] Specifically, since many organizations promote their special interests only, it is likely that they might lobby to secure them, often at the expenses of society as a whole. The pursue of special interests, in turn, hampers long-run economic performance.

The rest of the paper is organized as follows. Section 2 discusses the related economic and sociological literature. Section 3 describes the data set and the summary statistics. Section 4 summarizes the main results and their robustness. Section 5 discusses the relationship between inequality, charity participation, and the welfare state. Section 6 concludes.

## 2. RELATED LITERATURE

This paper is closely related to the literature on social capital (Putnam, 1993; Sobel, 2002), given that the participation in charitable organizations, being a social activity, is often used to measure it (the "Communitarian view" of social capital stressed by Woolcock & Narayan (2000)). In this sense our paper is close to Alesina and La Ferrara (2000) and Lancee and Van De Werfhorst (2012). The first finds, among other results, a negative relationship between income inequality and associational activities in a sample of US cities. The second a negative relationship between inequality and civic participation in a sample of European countries. Unlike these previous contributions, we focus on a different sample, that encompasses individuals in several countries, but we focus on a single social activity, charity participation, rather than civic participation in general. We finally come to the opposite conclusions, most likely because charity participation depends only marginally from the preference for homophily in social interaction, as in the Alesina and La Ferrara (2000) model. In a related contribution, Uslaner and Mitchell (2005) find, in a sample of US states, that inequality predicts lower trust, which in turn determines a lower volunteering rate. However they do not find the same relationship for charitable giving. Our result is also different from Paskov and Dewilde (2012), who find a negative relationship between inequality and solidarity ("The willingness to contribute to the welfare others") in a sample of European countries.

In a related contribution, Putnam (2000) highlights the possible causes of the declining social capital in the US, such as the privatization of leisure, determined by an increase in TV watching, and the increased female participation in the labor market. Following his work, we control, in our regression, both for the internet use, which is perhaps the modern form of leisure privatization, and for gender, since women are typically more socially minded than men (Andersen, Bulte, Gneezy, & List, 2008; Croson & Gneezy, 2009). Knack and Keefer (1997) study instead the relationship between associationism and economic performance, finding no empirical evidence. Their work is especially important for our empirical identification, because it excludes the possibility of endogeneity of inequality. Another related work is Glaeser, Laibson, and Sacerdote (2002), where the authors build a dynamic model of social capital accumulation and then test it empirically. They find, among other results, that social capital accumulation rises and then declines with age and that it is negatively associated with geographical mobility. Building on their work, we control for age in our regression and we study the effects of geographical mobility considering a dummy for first- or second-generation immigrants.

Many researchers are nevertheless skeptical about the social capital literature. Among others, Durlauf (2002), highlights, in general, the problems that many empirical studies of social capital share, that potentially invalid their conclusions. Bowles and Gintis (2002), more radically, object the very terminology "Social Capital". The reason is that the term capital typically refers to something that can be owned, like a machine or an education, while the notion of social capital refers to relationships among individuals. In other words, social capital is about "What people do rather than what people own". For this reason, they argue that it would be better to talk about "Community" instead of social capital. We believe that the participation in charitable organization is indeed a measure of community. In addition, Bowles and Gintis view the communities as a response to market and state failures, something that we test empirically.

There is also an economic literature on charity, but it mainly focuses on donations to charitable organizations, rather than on the active involvement in them. Among others, Warr (1982) analyzes the efficiency effects of redistribution in the presence of private charity. Andreoni (1988, 1990) shows that a simple economic model with purely altruistic preferences is unable to explain charitable contributions unless it is augmented with non altruistic motives, such as the desire for a warm-glow (Arrow, 1975; Sen, 1977), the desire to acquire respect, the possibility of making new friends or potential mates, or the wish to be publicly praised. Along the same lines, Glazer and Konrad (1996) explain charity as a way to signal personal wealth without relying to conspicuous consumption. In a different, experimental, contribution, Gneezy, Keenan, and Gneezy (2014) show that potential charity donors are willing to contribute less to charities with high administrative and fundraising costs, so that a plausible strategy to increase donations is to clearly state that the money will not be used to cover those.

## 3. DATA

The data on the participation in charitable organizations are from the WVS. This survey is part of an ongoing experiment to compare several aspects of culture around the world. More