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Faith-based charity and crowd-out during the great depression☆

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Abstract

Interest in religious organizations as providers of social services has increased dramatically in recent years. Churches in the U.S. were a crucial provider of social services through the early part of the twentieth century, but their role shrank dramatically with the expansion in government spending under the New Deal. In this paper, we investigate the extent to which the New Deal crowded-out church charitable spending in the 1930s. We do so using a new nationwide data set of charitable spending for six large Christian denominations, matched to data on local New Deal spending. We instrument for New Deal spending using measures of the political strength of a state's congressional delegation, and confirm our findings using a different instrument based on institutional constraints on state relief spending. With both instruments we find that higher government spending leads to lower church charitable activity. Crowd-out was small as a share of total New Deal spending (3%), but large as a share of church spending: our estimates suggest that benevolent church spending fell by 30% in response to the New Deal, and that

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government relief spending can explain virtually all of the decline in charitable church activity observed between 1933 and 1939.

Keywords: Crowd-out; Charitable giving; Religion; Great depression

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Recent years have seen increased interest in religious organizations as providers of social services. Starting with the passage of "charitable choice" legislation in the 1990s and continuing with the establishment of Faith-Based and Community Initiatives Centers throughout the executive branch of the Federal government, policy makers have dramatically increased the opportunity for church-state cooperation in aiding the poor. Part of the impetus behind this policy trend is the argument, advocated by individuals such as the influential Marvin Olasky (1992), that the current welfare state is inferior to the relief services historically offered by churches and other private organizations. As Olasky writes, "Isn't it time we realized that there is only so much that public policy can do?… Isn't it time to realize that only a richness of spirit can battle a poverty of soul?" (page 232). These statements have been disparaged by some researchers; Katz (1996) states that Olasky's work represents a "fundamental misreading of the evidence" (page 371, note 122).

It is certainly true that churches and other faith-based charities played a larger role in the past than they do today, in particular compared to the size of the government. In 1926, congregations spent over $150 million on projects other than church maintenance and upkeep (Bureau of the Census, 1930). That same year state governments spent $23 million and local governments spent $37 million on programs the Census Bureau identified as charitable in nature, and relief spending undertaken by the Federal government was negligible.[1] Yet church charitable activity fell dramatically starting in the early 1930s, at the same time that the role of the government grew through the New Deal. This raises the central question of whether the growth in government social service provision "crowded-out" charitable activity by churches.

We know very little, however, about the interaction between public sector spending and church benevolence, either during the depression or today. Indeed, this uncertainty extends to the larger literature on the crowd-out of private charitable contributions by government activity. Despite theoretical and laboratory results suggesting that crowd-out should be large, the empirical literature on crowd-out yields a wide variety of estimates, most close to zero.

In this paper, we directly measure the impact of government spending on church charitable activity, with two goals: to understand specifically how the government interacts with church benevolence, and to provide more generally a convincing estimate of the extent of crowd-out in one sector. To do so, we investigate the extent of crowd-out of charitable church spending by government relief spending during the Great Depression. This is a particularly interesting era to analyze both because of the crucial role that historical faith-based charity plays in current policy debates, and because the New Deal represented an extraordinary expansion in the role of government, as public-aid expenditures increased more than six-fold from 1933 to 1939 (National Resources Planning Board, 1942).

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[1] These government activities include expenditures on outdoor poor relief, poor institutions, temporary homes for women and girls, care for children, care for the blind, deaf, and mute, and other charitable spending. The state data come from Table 11 of the Bureau of the Census (1927) and the city data come from table 12 of the Bureau of the Census (1928).