Is Altruism (Always) Good for Society?

The Problem of Particularistic Giving in a Diverse Society

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Abstract

Altruism is regarded as worth encouragement by public policy. However, altruism is rarely universal, directed at people in general or to the needy in particular. The vast majority of donors give most of the money to organizations that serve people like them in terms of religion, ethnicity, class, culture, etc. Only about one-third of donations go to the needy. This giving pattern: (1) deepens in-group loyalty and out-group enmity and (2) strengthens economically organizations that are in-group oriented. This has a negative effect on intergroup relations, exacerbates fractionalization and polarization in society, and reduces the level of useful cooperation and trust among individuals who belong to different groups, which in turn has negative economic, political and social consequences.

Public financial support in the form of tax advantages for charitable donations and the tax advantages enjoyed by nonprofit organizations supported by these donations should be reconsidered.
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The Problem of Particularistic Giving in a Diverse Society

1. Introduction

Many societies like philanthropy and the nonprofit sector through which most philanthropic activity is carried out. This is expressed through laws and policies that favor them financially and provide them with legal protections not afforded to other institutions.

A century ago, the US Congress passed the income tax deduction for “… contributions or gifts actually made within the year to corporations or associations organized and operated exclusively for religious, charitable, scientific, or educational purposes, or to societies for the prevention of cruelty to children or animals, no part of the net income of which inures to the benefit of any private stockholder or individual, to an amount not in excess of fifteen per centum of the taxpayer's taxable net income as computed without the benefit of this paragraph. Such contributions or gifts shall be allowable as deductions only if verified under rules and regulations prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury.” (War Revenue Act, ch. 63, 1201(2) (1917)).

A large body of law and public policy has evolved since then to encourage philanthropic activities through taxes and regulation (see Simon, 1987). Hundred years on, with a nonprofit sector that is a tenth of the economy and individuals giving away nearly 2% of their income to charity for a total of about a quarter trillion dollars, it is time to ask how
the philanthropic sector contributes to the resolution of some of the major challenges facing society.

The specific reasons for preferential treatment of charitable giving and nonprofit organizations are not well understood. “Policy makers at all levels of government have consistently failed to satisfactorily explain why they grant tax exemptions to charities. Nor do the existing schemes of exemptions and exceptions form a principled framework” (Brody, 1998). Nor do arguments presented in courts involving legal attempts to curtail exemptions help clarify why supporters of the charitable sector think the exemptions are socially desirable (Brody, 1998).

Policies supporting parts of the charitable sector have been challenged over time and many proposals for reform have been put forth (Colinvaux et al., 2012). Some argued that policies supporting the charitable sector pose unfair competition to for-profit firms. Others argued that the tax loss is not offset by the benefits provided by the sector. Yet others demanded that the sector, particularly the hospital segment, provide substantial charitable services.

Why, indeed, should government support charitable giving and nonprofit organizations? Scholars provide two classes of explanations. First, philanthropy and the nonprofit sector help with the provision of semi-public goods such as aid for the needy, culture, education and health, thus relieving the government from a financial burden (Weisbrod, 1974; Hansmann, 1981). Second, the charitable sector enhances pluralism and diversity in society (Simon, 1978, Douglas, 1987, Brennen, 2006/7). The present paper asks questions related to both explanations but does not address them directly. It examines
philanthropic giving and finds that the majority of money donated by the great majority of donors goes towards organizations that serve in-group members rather than the poor. The paper argues that in an era of growing poverty and inequality as well as increased fractionalization and polarization, the charitable sector provides too little aid to the poor and too much support for in-group organizations – too much pluralism and diversity.²

The philanthropic space is where groups representing diverse perspectives and interests are most active; more so than in the for-profit sector, where actors are driven by a similar goal (profit) or the public sector, where the governing principle is provision of universal and nondiscriminatory services. Indeed, the nonprofit sector and philanthropy thrive on diversity, be it cultural, economic, ethnic or religious (e.g., James, 1993, Ben-Ner and Van Hoomissen, 1992, Wiepking, Bekkers and Osily, 2014).³ Cultural, economic, ethnic, political and religious diversity generates heterogeneity in demand for semi-public services; satisfaction of demand requires provision that is specific to the needs of particular groups. In many cases, governments provide universal services, not tailored to particular groups, and for-profit firms are often unable to garner the trust of various groups to enable provision. Hence provision falls to the members of diverse groups themselves that succeed in tapping into altruistic giving and willingness to work for the group’s needs to benefit individual members (Hansmann, 1980; Ben-Ner and Van Hoomissen, 1991). Altruistic, charitable or philanthropic giving is strongest when it is directed at members of one’s in-group. Giving is predominantly directed not to the poor or to society in general but to groups based on culture, socio-economic status, religion and so on.
Philanthropy has made important contributions to society. At the same time, from a perspective relevant to the challenge of facilitating a more harmonious society, we must acknowledge some facts about the philanthropic sector, facts that are not well known and not widely discussed by the general public or among scholars of philanthropy: (1) most philanthropy is not principally directed at meeting the needs of the needy, and (2) that most giving by the vast majority of donors is directed to members of donors’ in-group defined in terms of religion, ethnicity or cultural preferences.

In-group giving affirms, reproduces and deepens extant divisions across different groups. The charitable sector’s organizations are probably the most important venues for articulation of group identity, through religious organizations, cultural institutions, ethnic associations and so forth. Public policies that encourage giving to these organizations and the operation of these organizations unavoidably provide support to the maintenance and deepening of divisions among groups.

Diversity has numerous benefits, but negative consequences arise from deepening differences among groups; this lead to hostility, less cooperation, and more conflict. The paper proposes to enhance support for giving to the poor, the needy and to universal goals, and reduce support for in-group giving and organizations supported by this giving.

The paper is structured as follows. The next section reviews studies of giving, focusing on the identity of both donors and recipients. Section 3 provides a theoretical exposition of bases for giving to different groups. Section 4 concludes with a recommendation to revise tax and regulation policy towards charitable giving and nonprofit organizations with the goal of encouraging a more united and harmonious society.
2. Patterns of philanthropic giving

Figure 1 illustrates the familiar big philanthropic-giving picture in the US. In 2014, contributions totaled $355.38 billion, 72% of which came from individuals. The largest proportion, nearly a third, was given to religion, $114.90 billion in total, followed by education, human service, and gifts to foundations. The category of religion includes religious congregations and houses of worship, the organizing or national offices of denominations and faith groups, missionary societies, religious media, and organizations formed for religious worship, fellowship, or evangelism. Excluded from the religion category are faith-based organizations offering healthcare, education, or social services, as well as those working internationally; these are included in other categories.

To understand the role of philanthropy and the nonprofit sector in dealing with the challenge of a diverse society it is necessary to evaluate who gives to whom. There are no studies that match the identities of donors with those of recipients; the literature examines mostly giving by the area in which the receiving nonprofit organizations are active (see the literature review by Andreoni and Payne, 2013). This section reviews the few studies that permit identification of some attributes of donors and beneficiary organizations in observational and experimental studies.

2a. Observational evidence on giving to poor, and who gives to whom

The classification used by Giving USA (based on the National Taxonomy of Exempt Entities) does not identify separately giving to charity in the dictionary sense of the word: giving to those in need. An in-depth examination of the question of where donations go and an evaluation of who are the beneficiaries of nonprofit activities is presented in Who
Benefits from the Nonprofit Sector? The book, edited by Charles Clotfelter, published in 1992, revealed an unexpected and often ignored point: nonprofit organizations do not operate primarily for the benefit of the poor. The book’s chapters examined whether the beneficiaries of nonprofit organizations in various industries, including healthcare and education, are poor or otherwise.  

A 2007 study by The Center for Philanthropy at Indiana University (conducted on behalf of Google) attempted to uncover how much individual charitable giving is aimed at activities that benefit directly and primarily the poor. The study focuses on IRS income tax exempt individual giving, using several linked data sources.

The study estimates total individual giving in 2005 at $252.55 billion, comparable to the figure produced by Giving USA. Figure 2 shows that 30.6% of giving is “focused on needs of the poor,” whereas the rest (69.4%) is “non-poor giving.” Giving to poor is distributed across several activities, including healthcare, education and meeting of basic needs.

The study also examined giving by donor income. Of the 110 million households reporting to the IRS in 2005, 90.4% earned less than $100,000, 7.4% earned $100,000 to $200,000, 2.1% earned $200,000 to $1 million and 0.2% earned more than $1 million (Center for Philanthropy, 2007, Table 1). Figure 3 shows the distribution of giving by these four income groups to different areas of activity (industries). Religion is the most important target of giving for all but the wealthiest households, and particularly for the lowest earning group, which represents the huge majority of households.
Figure 4 distinguishes, for each area of activity, the proportion of donations from the four income groups that is focused on poor vs. non-poor; this is akin to Figure 2, above, but with more detailed information about areas of activity. Giving to religion, excluding giving to religious organizations for purposes focused on the needs of the poor, absorbs more than half of the giving by a huge majority - 97% - of households.

Furthermore, the two lowest income groups give proportionately much more to activities focused on the poor than the two highest income groups. The highest income groups give most of their donations for activities that are not focused on the poor in arts and culture, education and health.

When all donations are combined in Figure 5 the proportion of donations going to poor, including religious benevolences for the poor, is 30.6% (same as in Figure 2). The role of religion is less prominent, because we are combining all income groups, and the two highest income groups donate more than the other two income groups. But as noted above, the great majority of donors give most of their donations to religion.

Figure 6 replicates Figure 5 by the four income groups and illustrates the fact that the great majority of donors direct most of their donations religion, followed by activities concerned with the needs of the poor. In panel a, 64% of the total amount donated by 90.4% of households that make donations goes to religiously affiliated organizations (including religious benevolences) and 22% goes to poor. In panel b, representing 7.4% of households, 55% go to religious organization and 26% to poor. In panel c, representing the very well to-do 2.1% of all households, 23% goes to religion and 24% to poor.
Finally, in panel d, representing the 0.2 households that made in 2004 more than $1 million, 20% goes to religion and 19% to poor.

The great majority of donors direct the majority of their giving to religious activities, activities not focused on the poor. We are interested in understanding these data to throw light on to whom do people give and what motivates giving.

What motivates giving to religion? Not surprisingly, religious organizational affiliation and strength of religious beliefs were found to be positively associated with giving to religion. Does religious motivation also affect secular giving? Studies of giving in different countries and different religious traditions have found that religious affiliation and religiosity were associated with both religious and other giving (e.g., Bekkers and Wiepking, 2011, Bekkers & Schuyt, 2008, Lyons and Nivison-Smith, 2006, Park and Park, 2004, Reed and Selbee, 2002, Bielefeld et al., 2005, Jackson et al. 1995, Forbes and Zampelli 2013).

However, one cannot interpret the findings of these studies to mean that religiosity inspires people (in the causal sense) to give more to out-group. Giving to religious purposes is, as will be argued later, giving to in-group. These studies do not identify what are the secular activities that tend to be more strongly supported by more religious donors, and most consider as religious giving only giving to places of worship rather than to religious institutions in general. This is an important issue, since the question is whether the activities classified as secular are indeed universalistic, such as giving to environmental causes, or particularistic, such as giving to choirs that have a religious mission or to ethnic groups related to a particular religion. “Religious giving” and
“secular giving” may be too broad relative to the question of in-group vs. out-group or particularistic vs. universalistic giving.

Mersch et al. (2014) introduce an alternative classification of philanthropic giving, dividing recipient organizations into three categories: religious congregations, religiously-identified organizations (RIOs), and not religiously-identified organizations (NRIOs). Giving to congregations is mainly for religious activities, while RIOs are nonprofit organizations with religious orientation that provide services such as basic needs and health care. Mersch et al. (2014) analyze an email survey of 1,951 people in non-Jewish households. They find (in a regression analysis) that people who attend frequently religious services donate 128% more to RIOs than their religiously unaffiliated peers; they also give 41% more to NRIOs is 41% but the difference is not statistically different from 0%. Thus, in this particular sample, the more religiously inclined significantly more than their religious counterparts to religiously-oriented organizations but not to secular organizations.

Bekkers and Wiepking (2011) find in their literature review that religiosity explains giving to religious purposes, but does not predict giving to secular purposes consistently across studies. Choi and Dinitto (2012) conclude that religious identification is positively associated with religious giving but not with secular giving.

Brown and Ferris (2007) find that religiosity increases giving to religious organizations but decreases giving to secular causes. Using very detailed data and a large number of observations (more than 22,000) they find that after controlling for many demographic variables and for measures of social capital, religiosity has a highly significant positive
effect on religious giving and a smaller and a highly significant negative effect on secular giving. List (2011) comments that “religious gifts may be motivated by something different than motivations underlying gifts to other charitable organizations.” He is probably right, but what are the differences?

The question of the relationship between the religiosity of donors and the identity of the targets of their giving is important for assessing the effects of giving on the strength of in-group ties and relationships with out-group members. The studies reviewed above shed only partial light on this matter. Generally, religious giving means giving to organizations that belong to the donor’s own religious denomination. When giving is directed at a congregation, it is generally the donor’s own congregation. In the US, congregations are, for the most part, segregated by race and ethnicity, and socio-economic status (for example, 43% of American churches are completely racially homogenous, Dougherty, 2003, Figure 1). They are less welcoming of people from a different background than that of their members (Wright et al., 2015).

In conclusion, giving to religious institutions is an expression of a narrower identity than religious affiliation alone would imply. It often encompasses a particular religious perspective, race, ethnicity and class. Furthermore, for the great majority of donors it seems that giving to organizations that are not identified in statistical reports as religious giving may still be correlated with the key attributes of the religious organizations. Thus most of the income tax-exempt giving to nonprofit organizations is in-group oriented. And it is oriented not to minor or secondary dimensions of identity such as hobbies or musical preferences over which people differ and disagree, but to dimensions that are
central to individuals’ worldviews, dimensions over which people disagree, conflict and fight.

2b. Experimental evidence on who gives to whom

To understand altruistic giving, economists and other behavioral and social scientists rely on an experimental procedure called the “dictator game” (Fehr and Fischbacher, 2003). The first use of this procedure may be attributed to Henri Tajfel and colleagues (e.g., Tajfel and Turner, 1979), who conducted “minimal group” experiments that explored in-group vs. out-group giving. In a dictator game, subjects in the role of ‘senders’ or ‘dictators’ are given an endowment, for example, $10, which they can share with another person, the ‘recipient.’ In the generic procedure subjects make their decisions anonymously, so that recipients don’t know who sent them money, if any, nor does the experimenter. There is a lot of heterogeneity in amounts sent, with mean sending around one-third of the initial endowment (for a survey, see Engel, 2011).

Several experimental studies have investigated some aspects of the relationship between donor and recipient. Most studies looked at in-group vs. out-group giving, where the definition of group was some variant of Tajfel’s minimal group, or actual identities (e.g., political party orientation, Kranton et al., 2013, neediness and race, Fong and Luttmer, 2011). The findings are qualitatively the same as in Tajfel’s experiments: subjects give more to in-group than to out-group (Chen and Li, 2009).

Eckel and Grossman (2004) explored giving by religious donors and found that the greater generosity of religious individuals compared to nonreligious individuals is confined to churches and church-based institutions and does not extend to secular
charities. In this experiment, religious subjects are found to give more to religious institutions than nonreligious subjects, but the two groups give similar amounts to nonreligious institutions.

Decety et al. (2015) conducted dictator game experiments with children aged 5-12 in six countries. Children were given an endowment of favored stickers and told that they can share some of them with children from their own school who were not included in the experiment. Children from religious families (Christian and Muslim) shared significantly less of their endowment than did children from non-religious families. They conclude that, contrary to the children’s own parents’ stated perceptions as well as what appears to be the common belief, children raised in religious families are actually less altruistic than children from nonreligious families.

In the most comprehensive exploration of the “who gives to whom” question, Ben-Ner, McCall, Stephane and Wang (2009) investigated giving in a sequence of 91 dictator games each played with a $10 endowment. The 91 alternative recipients were classified in the analysis as similar (in-group) and dissimilar (out-group) relative to the dictator in several categories: family, political views, sports-team loyalty, religion, musical preferences, TV viewing habits, food preferences, and more. In this student sample, there is a tendency to prefer members of the in-group, especially family who on average receive about $3.3 more than strangers, whereas people with similar political orientation get $1.6 more than those with different politics, down to $0.48 more for people who dress similarly than those who dress differently, and so on. But everyone (on average), including out-group members, gets a donation. But, one may reasonably argue, real-life
giving decisions are not made sequentially out of identical endowments. Instead, individuals or households decides how to allocate their income among various uses, including philanthropic donations. Alternatively, they may set aside a certain sum dedicated to donations and then choose how to allocate it among potential beneficiaries. In addition to the dictator game reported in Ben-Ner et al. (2009), they conducted an experiment not reported in that paper. That experiment will be termed here the *allocation game*.

The allocation game experiment was conducted with the same subjects who participated in the dictator game described above, and immediately following it. Participants were asked to allocate a sum of $100 among up to 10 people from the list of people with which they were already familiar. As shown in Figure 7, the allocations were heavily skewed towards family members, who together received 41%, on average. The poor and other ‘needy’ received another 35%. The remaining amount was spread over other persons, 15% in-group and 9% out-group.7

Does favoring in-group over out-group depend on dictators’ religiosity? Using the Ben-Ner et al. (2009) data, we regressed the difference in giving to in-group and to out-group in each identity category on the frequency of attendance at religious services reported by dictator subjects and demographic control variables. We found a positive and significant association between frequency of attendance of religious services and the degree of in-group favoritism in religion, nationality, sports fanship and socio-economic status. Thus more religious subjects are more in-group oriented on several dimensions of identity.

*2.c. What does this mean?*
Figure 7 shows that a little more than a third of the endowment is allocated on average to the poor and needy. This is similar to the average allocation in Figure 5. Who are the other, non-poor, recipients? In Figure 7 they are “family,” the ultimate in-group, who received 41%; 15% was given to non-family in-group (all other recipients who are similar to the allocator-donor in political preferences, nationality and so on); finally, 9% was given to out-group (recipients who are dissimilar from the subject along the identity categories defined for in-group).

In this allocation game in-group receive more than half (56%), poor receive one-third, and out-group 9%. Figure 5, based on data on IRS exempt giving, excludes giving to family members, and includes giving by the rich. The poor received nearly one-third, whereas religion (in-group) also received nearly one-third. The remainder, a little more than a third of total donations, cannot be assigned to in-group or out-group on the basis of the extant information, but even if it were allocated half and half, the total in-group for all donors would average nearly half of all donations. This distribution reflects all donors, where donations by the wealthy, who give a much smaller proportion of their donations to religion, dominate total giving. If we exclude the two upper earning groups, a tiny minority in the population, and concentrate on those who earn less than $200,000 in Figure 6, then we conclude that the vast majority of people give most of their donations to members of their in-group. This is akin to the picture in Figure 7, showing the average decision in the allocation game by subjects, students at a public university who are willing to come to an experiment for a small pay, who most likely come from families whose incomes are below $200,000.
We conclude that suggests that most people direct much of their giving to in-group members. At this point it is useful to take a broader perspective on the question of philanthropic or altruistic giving to help understand these findings.

3. Why altruistic giving? Who gives to whom?

3.a The complementarity between selfishness and altruism: biology and evolution

Why do people give voluntarily to benefit others at a cost to themselves, without expecting anything in return? There is a large literature that seeks to answer this question emphasizing individual predispositions and values, social pressure, price sensitivity, and contextual factors (for reviews, see Bekkers and Wiepking, 2011 and Andreoni and Payne, 2013). This section emphasizes two complementary explanations to why people give in general, biological and cultural, and how these explanations help understand who gives to whom in terms of in-group and out-group giving, and donor and recipient incomes.

Genes drive individuals that carry them to act in particular ways. Genes that survived over countless generations must have the property that they seek to multiply – those that do not have this property would have been long displaced by those that do. The same genes reside in multiple individuals. Identical twins have identical genetic makeup (with slight possible variation that does not merit discussion here). Siblings share only about half of their genes, and distant relatives share less. This is Hamilton’s (1964) theory of inclusive fitness, which suggests that genes incline the individuals who carry them to care about those who carry the same genes.
Genes act through the individuals who carry them. Human behavior is guided by “traits” that overall promote the successful reproduction of individuals who carry them. The greater the similarity between the genes of two individuals, the more likely it is that the traits that they possess will incline them to care about each other. Traits that reflect greater care for individuals with similar genes will be selected during the process of human evolution over traits that lead to behavior that is indifferent to other individuals’ gene reproduction. Setting aside for a moment the question of how individuals can identify others who carry similar genes, let’s consider first the question of what traits would emerge through the evolutionary mechanism in the context of the present discussion.

Evolutionary biologists and psychologists suggest that this mechanism would generate two related traits. The first and most obvious trait is selfishness. Generating and safeguarding resources enhances the reproductive capacity of an individual directly through health and longevity, which allow the individual to have more offspring.

Abundance of resources also allows an individual A to share some resources with individuals B and C (for example) who can have a better chance of reproducing the genes that A, B and C share in common. This is the second trait, altruism. In this telling, altruism is complementary to selfishness rather than competing with it.

A simple way of thinking about this is to imagine A as a young person, say a woman with a limited income ($3,000 per month). She needs to invest in her health, food, shelter and so on to ensure her ability to bear children (selfishness) and help them grow to reproduce further her genes (immediate-kin altruism). So A will keep most of her money to herself
and for her children. An older individual, $A^+$, who is past the reproductive age and has a higher income ($6,000 a month), will invest more in others who are genetically related to her than does the younger and poorer person. Finally, someone who is really wealthy ($A^{++}$) will have an opportunity to invest in the reproductive capacity of more distant kin, going beyond children, nieces and nephews, especially if these are already well off and can ensure their own successful reproduction. In economic terms, this calculus reflects maximization of reproductive capacity by equalizing the marginal returns from different investment opportunities.

But humans are more than automatic executors of the reproductive drive of genes, because the route to reproduction is paved with many strategies, some of which are in conflict with each other and (over time) even with the overarching goal of maximum gene reproduction. For example, reproduction requires a sex drive. While the sex drive diminishes along with the physical ability to reproduce, the evolved human machine is imperfect and the two trends are temporally imperfectly correlated. As a result, for many individuals satisfying the sex drive may compete unproductively with the drive to reproduce one’s genes, which could be best met at a certain age by transferring resources to others who bear the same genes, even if in a much smaller proportion than the individual in question. But unmistakably, the gene reproduction motive suggests that older and wealthier individuals would spend a much larger share of their income to enhance the reproductive capacity of their genes through other carriers of their genes, that is to say, other individuals.

3.b Give and take, love and hate: biology and culture
Who are these genetically-related other individuals? We can think of them as belonging to a series of expanding rings around individual $A$, with diminishing genetic commonality. In the first ring is immediate family, followed by extended family, followed by rings populated by people who are increasingly more distantly related to $A$. (There are many terms used to designate the different rings for people and other species, such as core, bond, clan, tribe, troupe, nation and so on). When individuals who are in the first ring are already well resourced (thanks to their own resources or those shared by $A$), more distant kin will receive donations. And who are these more distantly kin?

Biologically speaking, the answer is obvious. In practice, the answer was obvious when people lived in small groups – all kin, all the time. But as societies grew in size and became more dispersed, the natural distinction between kin and non-kin was gradually blurred, but the drive to distinguish between them was not erased. So people look for signals for relatedness: language, features, skin color, religion, culture, customs and clothes. The attributes that signify relatedness vary over time and place for various reasons, and with an individual’s personal experiences. Overlap among attributes such as common religion, ethnicity, language and territory has a stronger effect on identifying shared genes.

We established the need for an individual to acquire resources to support oneself and to extend support to kin. The drive to obtain resources may entail attempts to take resources from others who are (or are thought to be) genetically less related. Symmetrically, related individuals need protection from others. This is the simple story of the complementarity not only between selfishness and altruism, but also between them and hatred directed at the ‘other’ (for a slightly more complex story, see Shaw and Wong, 1989 and Choi and
Bowles, 2007). But the biological impulse does not dictate permanent war against non-kin, for this would be a bad reproductive strategy (Bowles, 2009).

In small societies, the biological impulse suffices for the expression of kin altruism. Kin altruism has been identified in non-human species (De Waal, 2008). In more complex societies people who are genetically related may be geographically dispersed and cannot all be identified and distinguished from others. Altruism aimed only at detectable kin is excessively restrictive because it prevents helping the reproductive capacity of related individuals. Acting just on instinct – helping those who appear to be kin, and being indifferent to or hostile towards others – does not work well. Instinct must be tempered and complemented by more refined strategies. Such strategies are incorporated in norms and values of compassion towards and cooperation with groups that go beyond immediate kin. As noted earlier, these broader categories vary with local and historical specific circumstances, but tend to be focused on religion, beliefs, nationality, skin color and such, and especially on attributes that overlap.

Inculcation of favorable attitudes towards one’s group and reaffirmation of its values is carried out through various means. One class includes institutions such as schools, religious institutions and family, which transmit and reaffirm values through teaching, preaching and setting examples. Inculcation of favorable attitudes towards in-group is frequently accompanied by cultivation of unfavorable attitudes towards out-groups, particularly those that are, have been, or are feared, to compete for resources. Attitudes towards out-group thus span the spectrum from indifference through concern or fear to outright hatred.
Reaffirmation of connection to one’s group can also achieved by practicing the group’s customs, wearing its clothes, engaging in its rituals and making sacrifices for the group. Making a sacrifice is often a very effective means of strengthening the connection to a group (e.g., Kanter, 1972; Iannaccone, 1992). A particularly common form of sacrifice is philanthropic contribution. Philanthropic contributions have an obvious instrumental purpose, such as building a school, renovating a place of worship and funding a museum. But the bonding aspect of making the contribution may be as important, as anthropologist Maus (1954) emphasized.

The theoretical framework offered above helps explain the patterns of charitable donations and of giving in the dictator game experiment described earlier. First, the vast majority of individuals give most of their donations to members of their in-group. Second, young people seem to give more to family members than to other but more distant in-group members.\(^\text{11}\) Third, higher income is associated with shifting some of the giving from closer to more distant in-group.\(^\text{12}\) This pattern of giving operates both as an expression for the biological strategy for reproductive fitness and as a related cultural reinforcing mechanism for the in-group orientation of the donors.

4. Conclusions and law and policy recommendations

The charitable sector is regarded by many as if it were charitable in the classic sense of the word: “Of or relating to the assistance of those in need” (Oxford Dictionary online). Help for homeless, assistance to earthquake survivors, aid to poor children and support for involuntary migrants are probably activities that symbolize the charitable sector in the eyes of most people, scholars included. The charitable sector benefits from various tax
and regulatory advantages conferred by local, state and federal governments. Although policy makers never stated a rationale for granting these advantages during the past century when they were gradually enacted, there is little doubt that in the mind of the public and many scholars the reason is the desire to reward and encourage charitable acts.

But the reality is that most money that qualifies for charitable income tax deduction – and much of the money donated by the vast majority of donors – goes to in-group activities, which are oriented towards the groups with which donors are affiliated: religious, social, cultural and similar organizations, organizations that enjoy various tax and regulatory advantages. Only about one-third of donations goes to the poor and needy (including in-group).

There are strong biological and cultural forces that account for this pattern of giving. As de Tocqueville noted, the immigrant-forged American society relied heavily on voluntary associations, long before special treatment was afforded to charitable donations and activities. These organizations provide important social capital and the benefits associated with it, such as social order, sense of belonging, overcoming problems of collective action, and practicing participatory democracy, and contribute to pluralism and diversity in ideas and practice.

What constitutes beneficial pluralism and diversity under some conditions may turn into factionalism, sectarianism and polarization on issues that are central to society under different circumstances. Many of these issues – climate change, gay marriage, threat of terrorism, income inequality, national budgets and debt, role of religion in the public
sphere, abortion rights, immigration and so on – require policy responses that are difficult to craft and carry out in a splintered or polarized society.\textsuperscript{13}

In a splintered or polarized society the charitable sector may feed on and reinforce oppositional identities and attitudes. Oppositional attitudes may manifest in benign behaviors, such as preference for certain types of rituals, food, music, or dress. These may also reveal themselves in less benign behaviors, such as favoritism towards in-group members and discrimination against out-group members, and exhibition of more cooperation, trusting and trustworthiness towards in-group members than toward out-group members. This hampers cooperation in economic transactions, social interactions and in the political sphere, resulting in a less efficient and productive economy and polity (e.g., Alesina and La Ferrara, 2005, Putnam, 2007). Furthermore, such attitudes may also result, in some circumstances, in hostile behaviors towards out-group members.

In a society where universalistic institutions are not well established the benefits of strong in-group orientation, assertion of distinct identity and belonging and in-group social control may well outweigh the costs associated with negative inter-group behaviors. Encouragement of pluralism through reinforcement of group boundaries and separateness may serve broad social goals such as growth and equality. In contrast, in a society that experiences polarization and splintering along religious, ethnic and racial, political, cultural and other demarcation lines, the benefits of strong in-group orientation are probably overwhelmed by the costs inter-group strife.\textsuperscript{14} This casts doubt on the desirability of public policies that encourage in-group focused donations and activities.
So what can be done? In addition to broad policies aimed at alleviation of polarization and inter-group conflict and poverty alleviation, there are several measures that can be taken in the specific context of tax policies directed towards the charitable sector.

Generally, such measures would increase the cost of activities that exacerbate inter-group divisions and encourage activities focused on alleviation of poverty.

A sweeping measure would eliminate all tax benefits for charitable donations and for nonprofit organizations, with the exception of poverty alleviation. Designation of activities as “poverty alleviation” is a complicated task, but the careful classification of “poor and needy” developed by the Center for Philanthropy at Indiana University study (2007) is a good start. A related attempt to distinguish poverty-servicing charities from other nonprofit organizations is made by Abrams (2015).

The elimination of the tax exemption for charitable donations to nonprofit organizations not directed at poverty-servicing charities will increase the price of giving to these organizations and will reduce giving to them. The continued deductibility of giving to poor may encourage increased giving by those who want to make contributions to charitable purposes but find the relative price of giving more encouraging of giving to poverty alleviation. The elimination of tax benefits to nonprofit organizations (such as the exemption from federal income tax, and possibly elimination of local property tax exemptions, which is under local jurisdiction) will increase their costs and likely reduce the level of their activity, but will not affect poverty-servicing charities.

The magnitude of the reduction in non-poverty oriented nonprofit activity in different areas pursuant to the elimination of the charitable donation tax deduction depends
principally on the price elasticity of giving in different activities, as well as the time frame of analysis (the long term effects will be weaker than the short term ones). The average price elasticity has been estimated to be less than one (see Steinberg, 1990, Auten et al., 2002, Cordes, 2011); if elasticity were unity and the average marginal tax rate were 25%, then donations would drop by 25%. Donations are not the main source of income for most organizations (on the whole donations represent about 13% of total revenues; see Colinvaux et al., 2012).

There is a lot of heterogeneity in price elasticity, reflecting donor preferences for an activity as well as donor income. Elimination of the deduction will likely cause some donors to reduce their contributions and some will discontinue their donations altogether. This is precisely the objective of the proposal: weaken the bonds of individuals to their particularistic groups. So this proposal implies, as intended, reduction in the size of giving to the segment of the nonprofit sector that is not oriented towards poverty services, but it will obviously not eliminate it.\textsuperscript{15}

A portion of the amount gained by increased income tax revenue (the value of forgone taxes associated with the charitable exemption is estimated to be around $50 billion, and probably much more in forgone federal tax exemption on income earned by nonprofits) could be dedicated to alleviation of poverty through poverty servicing nonprofit organizations or government institutions at the federal, state and local levels. This would require thoughtful policy discussion and choices that deal with the major societal challenges that poverty poses.
An alternative proposal would distinguish among organizations whose purposes are clearly universalistic from those that are clearly particularistic, in-group oriented. The universalistic purposes would retain their current tax advantages whereas the particularistic ones would lose them. Purposes that belong somewhere on the spectrum would be treated in some relation to their position. The problem with this proposal is that it entails complicated determinations of purpose and invites lobbying, and would induce organizations to disguise themselves as more universalistic organizations than they actually are. This proposal would generate a web of definitions, rulings, and legal interpretations that over time would come to resemble the current situation (Simon, 1987).
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2 Much has been written about the increased polarization and conflict, in politics and other spheres. For the US, see, for example, Hare and Poole (2014) and Barber and McCarthy (2015). See also note 15.

3 Andreoni et al. (2011) find that an increase in an individual’s neighborhood ethnic and religious diversity is associated with lower charitable giving. The effects vary in sign across ethnic and religious groups; it is difficult to reconcile this study’s findings with those of the rest of the literature.

4 The chapters in the book show that charity is not the central activity of the nonprofit sector in the six principal areas in which it operates: health, education, religion, social services, arts and culture, and foundations. Nonprofit organizations provide insignificantly more health care to the poor than do for-profit ones, but the difference is insignificant. In secondary and post-secondary education, nonprofit organizations provide less charitable services than do public institutions. About 30% of nonprofit religious congregational expenditure is philanthropic, but it is still not clear how much of such philanthropic went to the poor. The provision of social services is dominated by nonprofit sector. Yet only 27% report that over half of their clientele are the poor. About 53% of the organizations have only few or even no poor clients.

5 Whereas the richest two groups make up 2.3% of households, they contribute more charitable giving than the remaining 97.8%; of course, they also take much more of the total income (which cannot be discerned from these data).

6 The paper also reports differences in subjects’ willingness to work, commute or share an office with in-group vs. out-group members, with resulting in similar ordering of identity categories.

7 The proportions may have been influenced by the number of different persons listed in various categories.

8 There are many differences between the experiment and the data in the Center for Philanthropy (2007) study. The subjects in our study are young students with possibly different concerns than the broader population. Subjects faced a different set of targets for their giving than do actual donors, especially in the absence of religious organizations as potential recipients (inclusion in the experiment of people identified by their religion is not a close substitute for a religious congregation). Crucially, family members were recipients in the experiment but giving to family is not tax exempt hence it is absent from the philanthropic donations data.

9 The theoretical framework developed here builds on Ben-Ner and Putterman (1998) and Ben-Ner et al. (2009) and the literature cited therein, hence citations in the rest of this section will be kept to a minimum.

10 Individuals encounter varied circumstances and traits must be conducive to reproduction over multiple contingencies. Individuals also have many actions – behaviors – at their disposal. Hence traits and behaviors may exhibit local contradictions. Hence the qualifier ‘overall’ (more about this, later).
The comparison between giving in experiments and giving that is measured (and sanctioned as tax exempt) by the IRS is flawed because the latter cannot include family. Income and age are correlated so it is not possible to assert, in the present analysis, whether it is age or income that cause this shift in the giving pattern, or both, as argued in the present section.

Surveys by the Pew Charitable Trusts provides evidence of clustering of (correlation among) views and attitudes noted in the text, and polarization in the sense of lesser tolerance of different views and the people that hold them. See, for example, “7 things to know about polarization in America” (http://www.pewresearch.org/fact-tank/2014/06/12/7-things-to-know-about-polarization-in-america/), “How Americans feel about religious groups” (http://www.pewforum.org/2014/07/16/how-americans-feel-about-religious-groups/) and “Ideological divide over global warming as wide as ever” (http://www.pewresearch.org/fact-tank/2015/06/16/ideological-divide-over-global-warming-as-wide-as-ever/).

Some may argue that not all variants of religious, political, cultural, ethnic and other groups and identities are equally oppositional or conflict-prone: among religions, some are more peaceful than others, among political orientations, some are more prone to violence than others, or among musical preferences, some are associated with people who are more belligerent than others. While there may well be points in time when such a statement may be valid, it is clearly invalid from a historical perspective. Every variety of religion, political orientation, ethnicity and so on has been historically associated with bad, good and other behaviors.

Tax exemptions of charitable giving and nonprofit organizations are common in other countries, but are not universal. In particular, Finland has almost no tax benefits associated with giving to nonprofit organizations or operating them (Search for Common Ground, 2012). Nonetheless, its nonprofit sector employs 6.3%, about two-thirds of what the US nonprofit sector’s share (Pevcin, 2012). Taxes are of course only one factor that impacts the size of nonprofit activities.
Figures

Figure 1: Charitable donations by individuals, foundations and corporations, by type of receiving organization, 2014. *Source: Giving USA, 2015.*
Figure 2: Estimated charitable giving (excluding giving to foundations), by focus on the needs of the poor vs. non-poor. *Source: Figure 3 in “Patterns of Household Charitable Giving by Income Group, 2005,” The Center for Philanthropy at Indiana University*
Figure 3: Estimated charitable giving by income range and by recipient, $ in billions. Source: Figure 1 in “Patterns of Household Charitable Giving by Income Group, 2005,” The Center for Philanthropy at Indiana University.

Figure 4: Allocation of giving (estimated) by income group. Source: Figure 4 in “Patterns of Household Charitable Giving by Income Group, 2005,” The Center for Philanthropy at Indiana University.
Figure 5: Estimated charitable giving to poor, religion and other purposes. Source: Calculated from various tables in “Patterns of Household Charitable Giving by Income Group, 2005,” The Center for Philanthropy at Indiana University
Figure 6: Estimated charitable giving to poor, religion and other purposes, by income group. Source: Calculated from various tables in “Patterns of Household Charitable Giving by Income Group, 2005,” The Center for Philanthropy at Indiana University
Figure 7. Average allocation of $100 endowment in the allocation game experiment. See text for details.