How charities and religion (should) solve the problem of social spending [1]

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At the beginning of January, the UK?s Charities Aid Foundation published a report on the World Giving Index [3]. The ASI already covered this topic [4] and the emphasis was how this index can recognize between-country differences in their respective levels of social capital.

One would expect that the outcome would see countries with strong egalitarian welfare states topping the list, as they have a much better sense of social capital developed than the 'ruthless' USA, where self-interest and greed allegedly drive the incentives of individuals.

Well, surprisingly (or not surprisingly at all), the US tops the list, followed by other Anglo-Saxon countries. As well as Ireland and the Netherlands, the USA, Australia, New Zealand, the UK, and Canada make up the top 7 in the list. And even though countries like Denmark (17), Sweden (40), Norway (32) or Germany (26) are ranked high enough, countries like France (80), Spain (83), Italy (104), Portugal (127) or Greece (151) apparently don't have any sense of social capital at all.

How does one explain these obvious differences between the Anglo-Saxon countries and the welfare state continental European countries? One paper [5] provides a particularly interesting insight. A paper by Scheve and Stasavage (2006) uses religiosity to explain the difference in social welfare spending and redistribution between countries. Using a cross-country analysis they conclude that countries with higher levels of religiosity have lower levels of state welfare spending. They use this conclusion to explain the differences in between-country levels of redistribution.

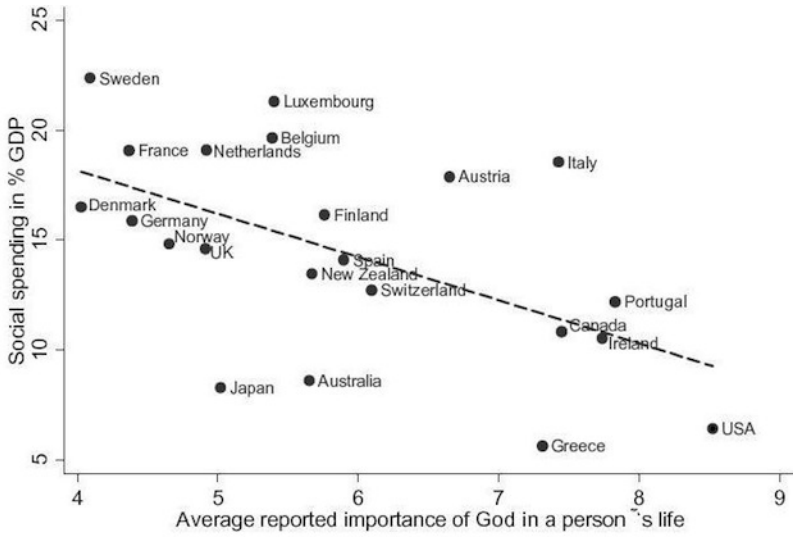

Figure 1. Religiosity and social spending.

As they show in Figure 1. (pg 259 of the paper) European welfare states (such as Sweden, Denmark, France, Germany, Norway etc.) experience traditionally high levels of social spending (measured as a % of GDP) while simultaneously religious beliefs (measured by the importance of God in a person?s life) are not very high (averaging between 4 and 5 on a 1 to 10 scale). On the other hand, countries in which religious

beliefs play an important role (between 7,5 and 8,5 on the same scale) in an individual?s everyday life (such as the US, Ireland, Canada, Portugal) the level of spending tends to be much lower, 5 to 10 percent on average, thus strengthening their initial hypothesis. Therefore religion could act as a substitute for an inadequate level of state funded social insurance.

But why are then churches and charities so much more involved in countries with lower levels of welfare spending? Does the importance of God influence people to be more cooperative and thus engage in charitable activities? Or is religious awareness, as in the case of the UK, irrelevant to the fact that people are more charitable?

Consider the implication of inter-church competition to explain the reasons behind why churches in some countries offer more services to replace government welfare programs. One should look at the difference between countries with one dominant religion and one dominant church and those with many churches (with same or different religious beliefs) and observe that in countries with multiple churches there exists a certain level of competition between them. In these cases offering services such as child day care may be a way to attract more people to their church. Observing this the government has less incentive to invest into the provision of these services.

There may exist a reverse causality in this case ? it?s not due to the fact that the government decided to lower social spending that the churches have increased the level of services they offer, but quite the opposite ? it is due to the competition between churches to lure more and more people in that signals to the government to lower their social spending levels. Charitable donations can be tracked in the same direction; due to the fact that more people tend to privately solve the coordination problem in the demand for social insurance, there is less need for the state to step in and provide it.

If this is indeed true, it should act as a signal to countries such as the UK or Ireland to lower their welfare spending, since private incentives and charitable organizations are likely to take over from the government and provide services such as child day care, private schools, hospital care, retirement homes, homeless shelters, soup kitchens etc. The Salvation Army does just that, as do many other UK organizations. Perhaps it isn't quite sure how much the private sector can 'offload' the government in its welfare spending, but it should be given a chance to do so, particularly in the Anglo-Saxon countries where social capital is undoubtedly very high.

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