



Philanthropy & Competitiveness

By Christos Cabolis

December has arrived! And the winter holidays are just around the corner! A big part of the world celebrates, families and friends get together, communities convene to observe rituals and enjoy each other. An important part of these traditions is the exchange of presents. This is also the time when households decide to donate to charities, which focus on issues of their concern. It is not surprising that non-profit organizations intensify their appeals for donations to interested individuals and philanthropy funds. After all, giving and sharing is the underlying principle of the season.

This edition of the Criterion of the Month reflects on the issue of giving. It attempts to examine whether the IMD World Competitiveness dataset can provide insights on the consideration of charitable donations.

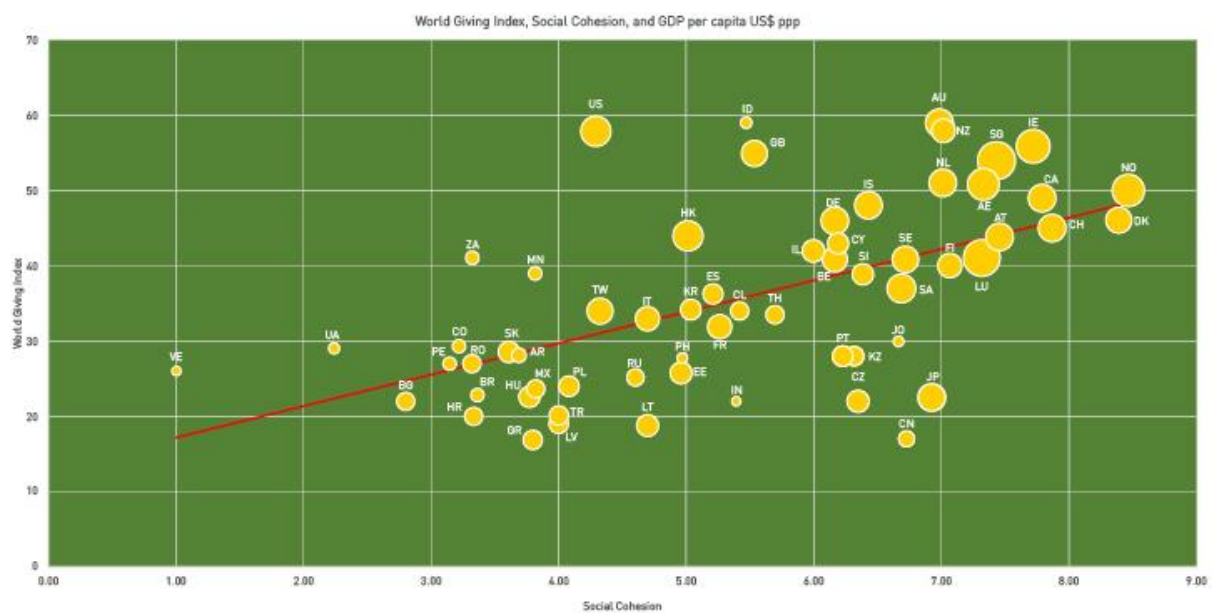
To do so, we incorporate information from the *World Giving Index (WGI)*, data that is published by the *Charities Aid Foundation*. The index combines three behavioral actions: helping a stranger, donating money, and volunteering time.

An important determinant for charity is income. Studies have found a positive relationship: the higher the income, the higher the charitable contribution. When the unit of interest is the country, as is the case with the data collected by the IMD World Competitiveness Center, we can examine the GDP per capita in \$US at purchasing power parity (ppp). The correlation between the latter and the WGI for 2018 is relative strong and positive (0.60).

The issue of giving at the country level can be approximated by the preferences of citizens for the welfare state and redistribution. A broad range of research indicates that the more heterogeneous the residents of a country are (with respect to culture, for instance) the lower the preferences for redistribution. In other words, we are more willing to give to people who are “like” us. Interestingly, the IMD Executive Opinion Survey includes a question that captures the essence of homogeneity in a country. Specifically, we ask mid- and upper-level managers whether “Social Cohesion is high” in their country. The correlation between the Social Cohesion and WGI for 2018 is also relatively strong and positive (0.57) confirming the results of the research.

We combine the relationships above in Figure 1. WGI is measured in the vertical axis while the Social Cohesion is reported in the horizontal. The size of the circles indicates the size of the economy in GDP per capita (\$US ppp) units. The strong positive relationship is evident.

Figure 1: Relationship between charitable giving attitudes & social cohesion



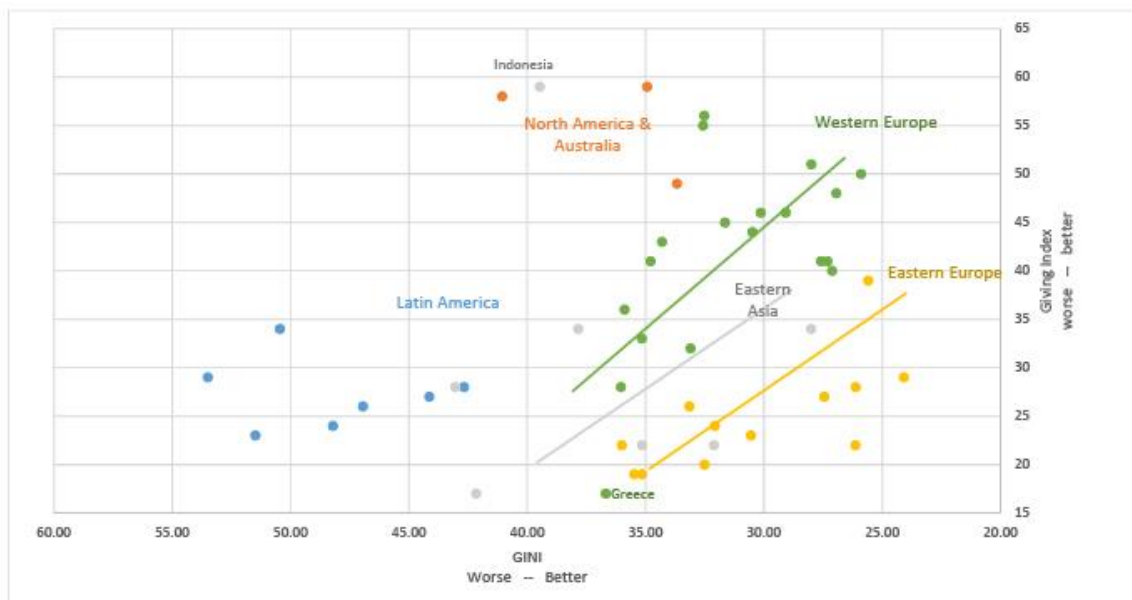
Source: IMD World Competitiveness Center Dataset & Charities Aid Foundation (WGI)

There is no doubt that charitable acts benefit communities. For example, donations or volunteering can enhance the capabilities of research institutes, increase the services provided of hospitals in a city, allow a local museum an exhibition of important pieces of art or address the environmental decline of a local forest or lake. Charitable contributions can also alleviate social issues like homelessness in a city or hunger in a town etc. But can they make a real and

lasting difference at the large scale of a country? An intriguing question is, whether philanthropy can substitute public policy. That is, is the level and magnitude of philanthropy capable, by itself, to address concerns that affect, or should affect, a country?

Let us consider the issue of inequality for instance, by employing the Gini coefficient under which a value equal to 100 implies perfect inequality and a value equal to zero suggests perfect equality. When we try to find the nature of interaction between the WGI and the Gini coefficient the result is, no-correlation. In fact, the correlation coefficient was -0.18. However, a remarkable pattern emerges if we attempt to distinguish among different regions. Figure 2 captures the relationship between charitable attitudes, which is measured in the vertical axis, and the Gini coefficient of a country, which is measured in the horizontal axis.

Figure 2: Relationship between charitable giving attitudes & Gini coefficient



Source: IMD World Competitiveness Center Dataset & Charities Aid Foundation (WGI)

In this instance, though, we distinguish among the different regions of the world. Both North & Latin America exhibit no relationship between the two variables. However, Western and Eastern Europe as well as Eastern Asia exhibit a relatively strong relationship with correlation coefficients between 0.55 and 0.70. In fact, the relationship indicates that the more equal a region is, as captured by the Gini coefficient, the higher the charitable attitudes of the citizens, which implies that if society wants to address the issue of inequality, it cannot rely solely on charitable contributions. Instead, the philanthropic offerings will be more effective if the appropriate public policy framework exists.

This point does not minimize in the least the importance of charitable acts. On the contrary, it implies that the difference in scale between small communities, cities and towns on the one hand and states on the other may affect the lasting effect of a contribution. It suggests that sustainable results and impact from charitable acts may be larger within a public policy environment that shares similar concerns.