

Individualism, economic freedom, and charitable giving

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Abstract: We investigate the role of individualistic social rules and norms in charitable giving. Individualism in market societies is often criticized as corrupting morality and discouraging charitable giving. We contest that view. We propose direct and indirect mechanisms through which that occurs. In the direct channel, individualism encourages self-interested giving. In the indirect channel, individualism contributes to charity by reinforcing economic freedom. We use evidence from a large cross-section of countries and several measures of individualism to investigate both channels. Our empirical findings confirm each channel and support the insights of classical liberals, such as Adam Smith and David Hume, and more recent studies in the humanomics tradition, which argues that there is virtue to individualism.

Keywords: philanthropy, culture, individualism, institutions, classical liberalism

JEL Classification: B52, D64, D31, L14

1 Introduction

One of the defining features of market societies is a robust voluntary sector (Aligica 2016). A rich literature in economics considers the rationality of altruism (Becker 1998), the extent to which taxation crowds out voluntary contributions (Abrams and Schitz 1978), and how charitable giving varies with the cost of giving (Chuan and Samek 2014), income (Brown et al. 2012), and competition for such rewards as recognition or prizes (Duffy and Kornienko 2010). But a puzzle remains: why do countries differ so profoundly in their levels of (and attitudes toward) charitable giving? According to the Charities Aid Foundation (2019), which publishes the World Giving Index (WGI), “There is no ‘secret ingredient’ that makes a country generous.” According to the WGI—which measures helping strangers, donating money, and volunteering time—the most generous countries are all over the world, such as the United States, Myanmar, New Zealand, Australia, Ireland, Canada, the United Kingdom, the Netherlands, Sri Lanka, and Indonesia.

This paper investigates the role of individualism in charitable giving. Individualistic societies are those that value individual fulfillment, personal responsibility, and relationships with those outside one’s in-group. Though critics suggest individualism undermines virtues such as generosity, we consider contrary mechanisms first developed in the tradition of classical political economy, especially the “doux commerce” hypothesis (Hirschman 1982), which posits that self-interested pursuit of gains through trade has broader, usually positive, effects on the attitudes and behavior (Matson 2020). Originating in French Enlightenment-era works—especially Montesquieu (1777a, XX.2)—and later found in Mandeville (1988 [1714]), Smith (1982 [1759]), and Hume (1994 [1742]), these arguments fell out of favor within mainstream economics for much of the twentieth century (Boettke 1997). But interest in these works has re-

emerged alongside growing interest in endogenous preferences (Bowles 1998) and the cultural dimensions of economic activity and as experimental evidence identifying success in trade as a cause of prosocial conduct has accumulated (Smith and Wilson 2019).¹ This contemporary research, alongside the work of individualistic thinkers such as James Buchanan recognizing important roles of other-regarding preferences (Carden, Caskey, and Kessler forthcoming), calls for deeper consideration of the ways in which charity relates to social rules that prioritize individual over collective means of achieving the common good.

We posit direct and indirect channels that link individualism to charity. The direct channel is individualism's influence on preferences and norms that promote self-interested giving, which Andreoni (1990) calls warm-glow giving. We expect that social rules that encourage motivations that are not purely altruistic increase the overall amount of donations. Individualism also might operate through the indirect channel of encouraging exchange with strangers, thus expanding what classical liberal economists referred to as the circle of sympathy. This channel recognizes markets as moral spaces that socialize people to treat others, including strangers, with dignity and respect (Smith and Wilson 2019; Storr and Choi 2019). Individualism may also operate on charity through its relationship with economic freedom. Individualism is associated with a host of positive economic outcomes, including productivity (Gorodnichenko and Roland 2017) and entrepreneurship (Bennett and Nikolaev 2020). Our particular interest is in the association of individualism with economic freedom (Nikolaev and Salahodjaev 2017). Much of the economic significance of economic freedom lies in its robust association with the wealth of nations (Berggren 2003). We suggest it is also linked to charity, and we expect both

¹ Alongside the renaissance of classical liberal insights into social rules, scholars have also recently renewed interest in the constitutional theories of Smith (Weingast 2017) and Hume (Rizzo 2020).

individualism and economic freedom to charity, given the association with individualistic social rules, economic freedom, and wealth.

Theorizing a link from individualism to charity requires us to consider the possible advantages of collectivism, such as the possibility that collectivist societies increase giving by increasing reciprocity and trust. We argue that individualistic societies are not clearly disadvantaged in the dimension of reciprocity and, what is more, that they are more likely to encourage trust, especially among strangers, than collectivist societies. A large component of charity involves giving to strangers, which suggests that the in-group orientation of collectivist societies constrains their giving. And giving derived from in-group orientation is not precluded by individualism (see, by way of comparison, Pan and Houser 2019). Munger (2015) and Ealy (2014), invoking Polanyi ([1946] 2013), argue that the core of charitable giving is allowing individuals to form their own associations, leveraging their knowledge, connections, and talents. Thus, while collectivist social norms encourage certain types of prosocial behavior through their effect on in-group solidarity, such as voluntary contributions to local public goods (Tsai 2007) (including community projects enabled by norms favoring contributions of in-kind labor [Murtazashvili 2016]), we expect individualistic social rules to increase charity overall.

To test our hypotheses, we use evidence from a large cross-section of countries and several measures of individualism, including Hofstede's (2001) individualism-collectivism index, the index of survival versus self-expression from the World Values Survey (WVS) (Inglehart and Oyserman 2004), and measures of generalized tolerance. Each represents a quantitative measure of culture, or what David Hume referred to as national character (Sent and Kroese 2020). Our empirical results show that individualism is indeed associated with charitable giving, as is economic freedom. The results support the argument of classical liberals that

commercial society and the social and cultural institutions that support it are sources of the common good.

Our results speak to the valid concerns raised by critics of individualism and, more generally, of capitalism, including Bromley (2019), who argues that capitalism is confronting a crisis deriving from its reliance on John Locke's possessive individualism; Piketty (2014), who advances a wealth-tax proposal to address increasing inequities resulting from capitalism; and Catholic philosophers such as Deneen (2018), who believe that individualism is generally incompatible with sociability and moral living. In addition, conservative schools of thought, including the German ordoliberal tradition and the Freiburg school, question the strong connection between individualism and harmonious order. Ordoliberals believe instead that individualism undermines the coherence of society and call upon governments to instill the values of self-discipline, justice, honesty, and public-spiritedness (Vanberg 2004).

Our finding that individualistic societies are more generous provides at least a partial response to these criticisms. It also harkens back to Friedrich Hayek's fascination with the "true individualism" of Smith, Hume, and Adam Ferguson (Kolev 2010) and connects to more recent work in the classical liberal tradition that find a relationship between individualistic values, liberalism, and prosperity (McCloskey 2019; McCloskey and Carden 2020). Likewise, charitable giving is itself a spontaneous order, which, as Boettke and Coyne (2005) define it, is order resulting from deliberate action without an overall plan. No planner could have anticipated how much giving occurs in grocery stores, on Facebook, or through GoFundMe campaigns.

2 The economics of charity

Early economic studies of charity recognized that utility maximization includes altruistic behavior (Danielsen 1975). These studies constituted a return to the insights from Montesquieu (1777b, I.i), who suggests that without a natural inclination to share in one another's pleasure, humans would be too fearful to associate sufficiently to form permanent communities. Natural sympathy is also a core premise of Smith's (1982 [1759]) thought: "How selfish soever man be supposed, there are evidently some principles in his nature which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it" (I.i.1).

Becker's (1974) approach is somewhat narrower in conceiving of charity as a consumption good. Roberts (1984) and Abrams and Schitz (1978) validate Becker's theory that public transfers crowd out private giving in finding that increasing government relief payments reduced private giving to aid the poor. Andreoni's theory of warm-glow giving, like Becker's theory, posits that utility-maximizing individuals feel better about themselves for giving to others, as such giving increases the ability of others to consume goods and services. Additional motivations for charitable giving include insurance against the vagaries of both markets and government provision of services (Becker 1974), solidarity among givers and those receiving gifts (Gupta et al. 1997), and public recognition of one's generosity (Duffy and Kornienko 2010). Relatedly, the public choice literature finds that many public goods are provided privately, including lightships (Candela and Geloso 2018), roads (Klein 1992), enforcement activities (Leeson and Rogers 2012), and crisis responses (Boettke et al. 2007). These findings are not limited to local collective action or to small groups, as the economic theory of clubs predicts (Leeson 2011). Millions of people a year contribute to providers of public goods,

including the Red Cross and National Public Radio (Andreoni 1995). This surprisingly prosocial behavior has important parallels to philanthropic activities.

Departing from narrow homo economicus assumptions in the above ways presents a challenge in explaining variations in broad social outcomes. It means there are more moving parts to consider and fewer elements of any model to take as given. For example, generosity can be influenced along at least three dimensions: preferences, cultural norms, and institutions. To add further complexity, these dimensions can influence each other: Cultural norms may influence the expression of preferences (Kimbrough and Vostroknutov 2016). People may have preferences about processes that ultimately generate institutions (Dold and Khadjavi 2017). And cultural norms and institutions may influence preferences (Bowles 1998; Poulsen and Svendsen 2005).

Further complications arise because formal and informal institutions may have direct and indirect effects on outcomes of interest (Berggren and Bjørnskov 2020; Rode 2013). This literature identifies culture as a relatively unexplored variable while noting that valid instruments to make plausible causal inferences are often hard to identify. We address this challenge by focusing on culture as a key variable, explaining how direct and indirect channels of influence relate to market institutions, and use instrumental variables to identify a plausible causal relationship from individualism to charitable giving.

3 The individualism-collectivism dimension of culture

Though the literature on charitable giving offers many insights, it has yet to explicitly consider how charity is shaped by culture. Economists are increasingly turning to culture to explain

economic phenomena (Williamson 2009; Williamson and Kerekes 2011). Guiso, Sapienza, and Zingales (2006) define culture as relatively stable customary beliefs and values that ethnic, religious, and social groups transmit from one generation to the next. It refers to social rules that influence what people do and how. As Storr and John (2020) explain, there are two general views of culture in economics: culture as a constraint on individual behavior (Belloc and Bowles 2013; Coyne and Williamson 2012) and culture as an interpretive lens through which people interpret the world (Chamlee-Wright and Storr 2011; Grube and Storr 2015; Storr 2013). According to the culture-as-lens perspective, multiple cultures may reside in the same individual because people view the world through multiple lenses (Storr 2004). Each perspective sees culture as an important explanation for individual behavior.

The economics literature focuses on the consequences of individualistic social rules and finds that individualism is associated with economic outcomes such as wealth creation (Williamson and Mathers 2011), entrepreneurship (Bennett and Nikolaev 2020), reductions in income inequality (Nikolaev et al. 2017) and gender inequality (Davis and Williamson 2019), and ecological sustainability (Cai et al. 2020). Triandis (1988) explains that in individualist cultures, behavior is determined largely by personal goals and the attitudes and values of families and coworkers, while behavior in collectivist cultures is largely determined by the goals, attitudes, and values shared by a specific group of persons (the collectivity). As Franke et al. (1991, 166) understand it, “Individualism pertains to societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family . . . [while collectivism] pertains to societies in which people from birth onwards are integrated into strong, cohesive in-groups.” Importantly, individualism does not mean society consists of self-contained, atomistic individuals (Hayek 1948, 23). Rather,

individualistic societies have ties among individuals that extend beyond a specific in-group, with the ties beyond the in-group encouraged through market exchange. Gorodnichenko and Roland (2011) describe individualism as a measure of the extent to which individuals take care of themselves as opposed to being strongly integrated in cohesive groups. Individualist societies value individual freedom, opportunity, advancement, and recognition. Collectivist societies value harmony, cooperation, and relations with superiors. That is, individualism is a measure of personal freedom versus conformity.

Specific features of individualism include the view that everyone takes care of herself and her immediate family, an “I” consciousness, privacy rights, speaking one’s mind, treatment of others as individuals, and use of languages in which the word “I” is essential. Collectivist societies view people as born into extended families or clans that protect them in exchange for loyalty, have a “We” consciousness, believe in belonging and harmony, classify people into in- and out-groups, and use languages that avoid the word “I” (Hofstede 2011).

4 Individualism and charitable giving

4.1 Direct channel: tolerance for self-interested motives

The direct channel through which individualism influences charity centers on how individualism influences norms and preferences that affect giving, which is a cultural effect and not simply an indirect market or income effect. Individualism is expected to increase charitable giving by relaxing social constraints on selfish giving. In this regard, individualistic norms increase the psychic benefits one receives from contributing to the collective good and from the public approbation that results.

Hayek (1982, 52) expresses similar sentiments in observing that “the freedom to pursue [one’s] own aims is . . . at least as important for the complete altruist as for the most selfish.” Likewise, Mandeville (1988 [1714]) views charity as “that Virtue by which part of that sincere Love we have for our selves is transferr’d pure and unmix’d to others,” a virtue that can often be “counterfeited” by other passions (253–54) such as pity (for those less fortunate than ourselves) and pride and vanity (which “have built more Hospitals than all the Virtues together” [261]). Accordingly, Mandeville argues that John Radcliffe’s (1650–1714) decision to make a generous posthumous bequest to the University of Oxford reflected his prideful desire for immortality and led him to neglect his immediate relations. Mandeville’s conception of selfish giving aimed at achieving fame is reflected in the idea of giving out of the desire for public recognition or personal commitment to a cause, which we distinguish from giving out of relational obligation.

Cultural acceptance of doing good for others for purely selfish reasons is significant because when people act out of self-interest, they may feel guilty about it. Indeed, there is often a stigma attached to doing things that benefit ourselves even though such behavior might contribute to the collective good (Brennan and Jaworski 2015). Providing people with an incentive, such as a gift or a prize, can make them feel better about giving to others (Berman and Small 2012). Relatedly, individualistic cultures may encourage use of incentives to raise funds. Though charities may offer positive incentives to increase giving (prizes associated with selfish giving), donors may perceive that prizes crowd out sincere expression (Barasch et al. 2016). By making incentive-based giving more socially acceptable, individualistic societies increase giving.

Individualistic norms are also likely to support giving that generates emotional benefit, such as warm-glow giving. Barasch et al. (2014) find that individuals do not penalize prosocial actors based on whether such actors are motivated by expectations of rewards (such as prizes) or

other benefits such as a reputation for giving, culture may, at the margin, influence such attitudes. Individualistic cultures are more likely to accept giving that is purely motivated by self-interest and less likely to shame people for it and therefore may encourage charity. After all, both pure self-interest and pure altruism maximize utility from the perspective of individualistic cultures.

4.2 Indirect channel: expanded circle of sympathy

Individualism may also contribute to charity indirectly through its effect on market activity. A key claim of classical political economy, as influenced by Adam Smith, is that “commerce *itself* played a *civilizing* role in society” (Boettke and Smith 2014, 40). Though people are naturally partial to their own interests, they possess a strong inclination to sympathize with those around them. We derive pleasure from others’ approval, as “man naturally desires, not only to be loved, but to be lovely” (Smith 1982, III.2.1). For Smith, the general desire to conduct ourselves in a way that would attract approval if our conduct were observed is what it means in practice to be morally motivated.

The strength and scope of this prosocial attitude depends on socialization and the context in which people act, including family upbringing, schooling, and commercial life. Greater practical familiarity with peaceable association with strangers is likely to make us more sympathetic to their interests (Forman-Barzilai 2010; Paganelli 2017). Commerce is pertinent for socialization of this kind, as it makes people dependent on one another throughout their daily activities (Smith 1982, III.3.5).

Even if we assume that individuals engage in trade to make themselves better off, a spillover benefit of commercial life within individualist cultures is that people are likely more comfortable associating with those who start off as strangers rather than associating exclusively

within close-knit communities (Smith 1982, VI.2.1). The market process has properties that not only tap into our capacity for “mutual sympathetic fellow feeling,” but also promote individuals’ maturation by aligning their conduct with the “moral rules, just rules, that govern our conduct in impersonal markets” (Smith and Wilson 2019, 5–8). Insofar as market systems rely upon peaceful, voluntary exchange (most often between strangers), commercial interactions create an ethic of treating strangers with dignity and respect (Cowen 2021; McCloskey 2010).

Relatedly, Choi and Storr (2019) and Carden et al. (forthcoming) argue that individuals in market societies tend to be more altruistic, less likely to be materialistic and corrupt, and more likely to be trusting and trustworthy. Storr and Choi (2019, 166) note that while individuals (on average) in market and nonmarket societies self-reported having helped a stranger at roughly the same frequency, individuals in market societies donated more money than those in nonmarket societies. In addition, in the tradition of Hayek (1982, 121) and Smith ([1776] 1981), a key feature of social interactions is that treating strangers with respect encourages prosocial behavior, including altruism. Markets may also provide more opportunities for individuals to meet people who share similar commitments and to establish specialized institutions aimed at pursuing a specific charitable cause (Hayek 1982, 54).

Though the benefits of economic freedom are numerous, it has costs as well. Berggren and Nilsson (2020) find that economic freedom is associated with antisemitism while the rule of law, by reducing vulnerability, reduces antisemitism. Even so, our expectation is that both individualism and economic freedom expand the circle of sympathy and in doing so increase charitable giving, while noting that the rule of law is likely necessary to address biases that result in part from economic freedom.

4.3 Countervailing mechanisms

Collectivist cultures have advantages as well, such as coordinating people in pursuit of common goals (Gorodnichenko and Roland 2017). There are at least two margins along which one might expect collectivism to encourage charitable contributions: reciprocity and trust. But, for each, there is not a clear advantage for collectivism over individualism.

The literature on relational contracting, with its emphasis on how tightly knit groups compel socially beneficial behavior (Landa 1981), suggests that collectivism could encourage prosocial behaviors. However, Bruni and Sugden (2000) explain that reciprocity can be thought of as a feature of either individuals or communities. For example, in models of reciprocal altruism, it is individuals, not communities, who take on the costs of achieving the collective good (Fehr and Gächter 2002). Experimental evidence suggests that those engaging in altruistic punishment of norm violations derive satisfaction from it (Crockett et al. 2010).

Trust, which refers to an expectation about individuals and institutions (Braithwaite and Levi 2003), is associated with contributions to collective action, including charity (Chamlee-Wright and Storr 2011). But there is no clear theoretical advantage for collectivist societies in generating trust. The WVS self-expression index, which Inglehart and Baker (2000) relate to individualism, includes an individual's trust in those outside one's in-group (that is, strangers) as one of its components; collectivist social rules, in contrast, value trust places in one's in-group. Inglehart and Baker's argument is supported by the literature on social capital, which can be divided into bonding and bridging capital (Putnam 1993). While collectivists have an advantage at bonding, individualists may have an advantage at bridging; and bridging is likely to increase charitable giving because of reciprocity, as explained above. Meadowcroft and Pennington (2008) and Pennington (2011) find that markets generate bridging social capital through the

process of exchange, while bonding capital, associated with collectivism, undermines it. In addition, Berggren and Jordahl (2006) find that trust is associated with economic freedom. It is reasonable to consider the lower levels of economic growth in collectivist societies as, in part, a byproduct of such societies' in-group orientation and distrust of outsiders (Putnam et al. 1994). Thus, while collectivist societies may have higher in-group trust, this trust may undermine altruism and an orientation toward treating strangers with dignity and fairness (see, by way of comparison, Akbari et al. 2019).

5 Data and empirical strategy

Our dependent variable is philanthropy, measured by the Charities Aid Foundation's WGI. Ranking over a hundred countries from 2009 to 2019, the WGI is measured along three dimensions of philanthropic behavior: helping strangers, donating money to charity, and volunteering time. The WGI ranges from 0.16 in China and Greece to 0.58 in the United States, with higher scores indicating more philanthropic behavior.

We consider three measures of individualism. One oft-used measure is Hofstede's (2001) individualism-collectivism dimension of culture. In Hofstede's (2011) conceptualization, the individualist-collectivist spectrum reflects the degree to which people are integrated into groups. Individualistic societies exhibit loose ties between individuals, and everyone is expected to look after herself and her immediate family, while people in collectivist societies are integrated into strong, cohesive in-groups and often extended families. In collectivist societies, individuals protect their in-group and oppose other in-groups. The individualism-collectivism index measures the extent to which society accepts and reinforces individualistic versus collectivist

security, whether respondents describe themselves as very happy, and whether respondents think one has to be very careful about trusting people. Inglehart and Oyserman (2004) demonstrate that the individualism-collectivism measure taps into the same cross-cultural variation as survival versus self-expression, each measuring the extent to which people give priority to individual choice over survival needs. The index ranges from -2.5 (most survival oriented) to 2.5 (most self-expression oriented).

We also consider tolerance as an alternative measure of individualism. Tolerance is an important component of the WVS's dimension of survival versus self-expression. It is considered especially important in commercial societies, in part because of its relationship to economic freedom (Berggren and Nilsson 2013). Tolerance is measured as the fraction of the population that mentions tolerance as an important quality of children; it ranges from 0.36 in Ethiopia to 0.88 in Andorra in our sample.

We include a set of additional variables that, based on existing studies, we hypothesize affect charitable giving. First, we control for income because previous studies show that charitable giving and prosocial behavior are correlated with national income (Becker 1974; Kyriacou 2016; Acs and Phillips 2002). Becker's theory, discussed above, provides a justification for treating charity as a consumption good. The data for GDP per capita are taken from the World Bank.

Second, we take economic freedom into account. Economic freedom is associated with wealth (Nyström 2008), entrepreneurship (Bjørnskov and Foss 2008), and happiness (Bennett and Nikolaev 2017; Frey and Stutzer 2010). We expect economic freedom to have direct effects on entrepreneurship and an indirect effect on it through affecting individuals' resources and characteristics, including strengthening self-efficacy and alertness (Boudreaux et al. 2019).

Based on our discussion of indirect effects earlier, we hypothesize that economic freedom, by extending the circle of sympathy and increasing opportunities for giving, increases philanthropy. Further justification for this hypothesis is provided by Teague, Storr, and Fike's (2020) finding that economically free societies are less materialistic. The economic-freedom variable is from the Fraser Institute's Economic Freedom of the World Index. The index ranks over 160 countries in five areas: size of government; legal structure and security of property rights; access to sound money; freedom to trade internationally; and regulation of credit, labor, and business.

Third, we consider the influence of democracy on charitable giving. Democracy is measured using the Polity IV database. According to Reich (2018), decentralization of power in liberal democracies ought to encourage charitable giving, and a feature of liberal democracies is generous tax breaks for philanthropy. Relatedly, Acs (2013) contends that atomism is a challenge in democracy and that philanthropy is the glue that holds democracy together.² Each perspective suggests democracy is associated with charitable giving.

Fourth, we consider inequality, measured by the Gini index. The findings on inequality's influence on charitable giving are mixed. Using experimental evidence, Anderson, Mellor, and Milyo (2008) show that inequality reduces charitable giving. In contrast, Payne and Smith (2015) point out that when redistribution goes from non-donors to donors, reductions in income inequality could increase philanthropy.

Fifth, we control for crime rates. Chamlin and Cochran (1997) find that contributions to United Way, a behavioral approximation for the value of charity, are associated with lower crime

² Frank Knight (1946) makes a similar point in arguing that the individualism of democracy requires ethics in order to constrain behavior of politicians, thus foreshadowing recent concern about democratic norms as a redoubt against democratic backsliding (Trantidis and Cowen 2019).

rates. This suggests charitable contributions may also be associated with lower crime rates, as the WGI includes them in its measure for charity. It is not clear from existing research whether charity causes lower crime or vice versa.

Finally, we consider a set of additional control variables: globalization, human capital, corruption, and government size. We include these separately because some are closely related to or are components of the other measures. For example, trade and size of government are components of the Economic Freedom of the World Index and also part of the globalization index. The reason to expect globalization to influence charity is because globalization is associated with cosmopolitanism, tolerance, and reliance on markets (Berggren and Nilsson 2015; Gygli et al. 2019). We expect it to influence charitable giving by expanding the circle of sympathy, for similar reasons as discussed above.³ The globalization variable is from the KOF Index of Globalization, which includes measures of economic (trade and investment flows), social (spread of ideas, information, and people), and political globalization (participation in international political organizations). Human capital, measured by education level, is associated with philanthropy (Bekkers and Wiepking 2011), though some studies conceive of philanthropy as an investment in human capital (Day and Devlin 1998). Government size, a measure of general government final consumption expenditure, is included because increases in government spending crowd out private giving, though, as Acs and Dana (2001) argue, the mere presence of larger welfare states does not eliminate charitable giving. Regional fixed effects are also included to capture unobserved region-specific time-invariant differences across countries such as geography or climate. The descriptive statistics are reported in table 1.

³It is also possible that globalization could generate other processes that undermine charity, such as increasing inequality (Bergh and Nilsson 2010).

Table 1: Descriptive statistics

Variable	Description	Mean	Std. Dev	Min	Max
WGI	World Giving Index, 2010–19 Source: Charities Aid Foundation	32.508	10.056	16	58
Individualism	Individualism/Collectivism Index, 2010 Source: Hofstede and Minkov (2010)	39.170	22.075	6	91
Survival	Survival/self-expression index, 1981–2014 Source: World Values Survey	-0.102	0.541	-0.910	1.405
Tolerance	Proportion of population that mentions “tolerance” as important child quality, 1981–2014 Source: World Values Survey	0.673	0.112	0.361	0.881
GDP	GDP per capita at purchasing power parity, logged, 1990–2018. Source: World Bank	9.147	1.138	6.717	11.481
Freedom	Economic Freedom index, 1990–2018 Source: Fraser Institute	6.688	0.924	4.183	8.852
GINI	Gini index, 1990–2018 Source: World Bank	39.526	8.085	25.041	61.714
Democracy	Democracy index, 2000-2018 Source: Polity IV project	3.221	6.062	-10	10
Crime	Crime rate, 1990–2018 Source: World Bank	7.625	9.789	0.212	75.325
Globalization	KOF index of globalization, 1990–2017 Source: Gygli et al. (2019)	54.296	14.462	27.571	87.607
Education	Education index, 1990–2018 Source: UN	0.575	0.174	0.148	0.897
Corruption	Corruption perceptions index, 1995–2018 Source: Transparency International	40.977	20.009	10.615	93.787
Government size	General government final consumption spending as % of GDP, 1990–2018 Source: World Bank	16.781	8.328	4.246	89.159

We estimate the impact of individualistic culture on charitable giving using an OLS model specified as follows:

$$Philanthropy_i = \alpha_o + \beta Individualism_i + X_i\gamma + \varepsilon_i \quad (1)$$

Here i indexes individual countries, $Philanthropy$ is our dependent variable, $Individualism$ is our key explanatory variable, and X is a vector of control variables. β and γ are the coefficients

associated with *Individualism* and the vector of control variables, respectively, and ε is the error term.

6 Empirical results

6.1 Baseline results

Table 2 reports results using OLS with heteroskedasticity-adjusted standard errors. Columns 1–3 report the results in which individualism is measured by the individualism-collectivism index, the index of survival versus self-expression, and tolerance, respectively. The coefficients for all three measures of individualism are positive and significant which suggest the results do not depend on the choice of measure. The effects are also sizable. For example, a one-standard-deviation increase in a country's individualism-collectivism index is associated with less than a half-standard-deviation increase in its philanthropy score. Economic freedom is also statistically significant and goes in the expected direction. The results show inequality increases charity, which suggests charity responds to society-wide needs, while there is no statistically significant relationship between charity and GDP per capita, democracy, or crime, contrary to expectations, though by including measures of individualism and economic freedom, our analysis includes several factors that are associated with wealth.

Table 2: Determinants of charitable giving: Main results

	(1)	(2)	(3)
Individualism (Measure 1)	0.137** [2.05]		
Survival (Measure 2)		13.652*** [5.05]	
Tolerance (Measure 3)			32.949*** [3.21]
GDP per capita	-1.493 [1.11]	-1.926 [1.33]	0.478 [0.30]
Freedom	7.031*** [3.66]	0.584 [0.27]	4.205** [2.26]
Democracy	-0.578 [1.66]	-0.229 [0.84]	-0.136 [0.60]
GINI	0.344*** [2.78]	0.104 [0.69]	0.284** [2.25]
Crime	-0.111* [1.69]	0.018 [0.17]	-0.075 [1.30]
Constant	-15.637 [1.06]	44.311* [1.89]	-33.905* [1.84]
R^2	0.25	0.33	0.28
N	75	78	75

t-statistics in brackets

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Table 3 assesses the link between individualism and philanthropy using alternative control variables including corruption, government size, globalization, human capital, and regional controls. All three measures of individualism remain positively associated with charitable giving. Regional controls are important to consider because geography could pick up unexplained variation in the model. The results show that European and South American countries are less likely to be associated with charitable behavior than are North American countries—the reference group in our regressions. Since our analysis controls both for social rules encouraging individualism and for a host of formal rules, as suggested by the literature, these effects should be picking up the effects of geography and other unobservable aspects that may influence

charitable giving.⁴

Table 3: Determinants of charitable giving: Alternative controls

	(1)	(2)	(3)
Individualism (measure 1)	0.148** [2.46]		
Survival (measure 2)		9.042*** [3.29]	
Tolerance (measure 3)			30.633*** [3.59]
GDP per capita	0.759 [0.39]	0.039 [0.01]	-0.064 [0.02]
Corruption	0.256*** [3.07]	0.142 [1.46]	0.125 [1.36]
Government size	-0.699*** [2.97]	-0.240 [0.76]	-0.346 [1.42]
Globalization	-0.152 [0.71]	-0.124 [0.50]	0.106 [0.51]
Education	10.346 [0.80]	3.002 [0.24]	5.943 [0.53]
Africa	-0.370 [0.09]	-4.289 [1.00]	-6.616 [1.25]
Asia	-3.611 [1.12]	-3.757 [0.89]	-7.720 [1.66]
Europe	-10.588*** [3.90]	-10.039** [2.59]	-14.817*** [3.31]
Oceania	0.039 [0.01]	1.543 [0.33]	2.844 [0.61]
South America	-8.348*** [2.85]	-9.069** [2.56]	-13.155*** [2.90]
Constant	28.243** [2.12]	41.852** [2.63]	11.028 [0.62]
R^2	0.49	0.48	0.52
N	82	83	82

North America is used as the reference group

t -statistics in brackets

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

⁴ Although there are good reasons to consider how geography influences prosperity, such as through the link between climate, tropical disease, and wealth (Acemoglu et al. 2001), we are unaware of any theoretical reason to expect a region's geography to influence charity.

Given that the WGI comprises three dimensions (helping strangers, donating money, and volunteering time), we assess the relationship between individualism and each dimension of the WGI and report the results in table 4. Individualism using the measures of survival/self-expression and tolerance is significantly related to all dimensions of generosity. When using the individualism-collectivism measure, it is positive and significant only for helping strangers.

6.2 Extended analysis

Our analysis shows that individualism is positively associated with charitable giving though it could be that charity influences social rules, including individualism. For example, when one receives a contribution from a stranger, that may contribute to an individualistic orientation. To assess the possibility of a causal relationship, we use two-stage least squares (2SLS) with pathogen stress and pronoun drop as instrumental variables. The parasite-stress theory of values and sociality links pathogens, a major source of mortality and morbidity, to the development of cultural attitudes, beliefs, and values concerning in- and out-groups (Fincher et al. 2008; Murray and Schaller 2010; Thornhill et al. 2009). People living in regions with higher exposure to pathogenic stress are more likely to develop prejudice against out-groups and therefore shape their cultural values associated with sociality (Wu and Chang 2012). This instrument has been used to show how individualism contributes to the development of economic freedom (Nikolaev et al. 2017) and entrepreneurship (Bennett and Nikolaev 2020). Murray and Schaller (2010) provide an index of historical prevalence of infectious diseases to measure pathogen stress. We expect the *Pathogens* instrument to be negatively correlated with our variable for individualism.

Table 4: Analysis of subdimensions of World Giving Index

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
WGI dimension	Helping strangers	Donating money	Volunteering time	Helping strangers	Donating money	Volunteering time	Helping strangers	Donating money	Volunteering time
Individualism (measure 1)	0.186*** [2.92]	0.134 [1.30]	0.090 [1.33]						
Survival (measure 2)				7.943*** [3.21]	21.771*** [5.16]	10.743*** [3.60]			
Tolerance (measure 3)							37.034*** [3.37]	41.393** [2.46]	19.463* [1.89]
GDP	-3.493* [1.86]	1.890 [1.07]	-3.184** [2.34]	-1.891 [1.02]	-0.887 [0.37]	-2.950** [2.03]	-1.341 [0.71]	3.357 [1.38]	-0.621 [0.42]
Freedom	5.155** [2.36]	10.404*** [3.72]	5.873*** [2.93]	2.018 [1.07]	-0.896 [0.23]	1.199 [0.58]	3.368 [1.56]	5.650** [2.01]	4.129** [2.33]
Democracy	0.555*** [3.63]	0.176 [1.04]	0.298** [2.06]	0.319* [1.81]	0.009 [0.04]	-0.001 [0.01]	0.467*** [2.77]	0.218 [1.20]	0.170 [1.17]
Gini	-0.827* [1.85]	-0.954** [2.31]	0.041 [0.13]	-0.454 [1.38]	-0.174 [0.46]	-0.098 [0.35]	-0.375 [1.31]	-0.052 [0.16]	-0.035 [0.13]
Crime	-0.053 [0.57]	-0.254*** [3.00]	-0.048 [0.71]	0.167 [1.37]	-0.298* [1.80]	0.158 [1.18]	0.019 [0.19]	-0.294*** [3.39]	0.032 [0.42]
Constant	21.758 [0.96]	-62.981*** [3.95]	-4.937 [0.31]	39.702** [2.17]	49.284 [1.16]	39.276 [1.64]	-5.652 [0.29]	-75.081** [2.64]	-23.481 [1.25]
R ²	0.25	0.35	0.20	0.22	0.37	0.24	0.24	0.34	0.17
N	75	75	75	78	78	78	75	75	75

t-statistics in brackets

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Rules on use of personal pronouns are a stable feature of language. Some languages, such as English, make the use of subject pronouns obligatory. Those that drop pronouns are associated with collectivist cultures because personal pronouns signify individuals (Tabellini 2008). Kashima and Kashima (1998) argue that languages that forbid dropping first-person pronouns put more cultural emphasis on individuals. That feature of language has been used as an instrument for cultural individualism (Alesina and Giuliano 2015; Feldmann 2019; Kyriacou 2016; Licht et al. 2007). Pronoun drop is associated with collectivist cultures. We expect languages that forbid pronoun drop to be associated with individualistic social rules. We construct a variable *Pronoun Drop*, which equals 1 if languages drop pronouns and 0 otherwise.

Table 5 presents the 2SLS results. The first-stage regression results suggest that pronoun drop is a significant instrument for all measures of individualism, while pathogen prevalence is causal only for the individualism-collectivism index. In the second-stage results, we find that instrumented individualism, using three measures, is positive and statistically significant across all model specifications, suggesting a causal relationship between individualism and philanthropy. Specifically, a one-standard-deviation increase in the individualism-collectivism score leads to an increase of more than one standard deviation in the WGI score. The results suggest that an exogenous increase in individualism would result in an increase in charitable giving. For example, a collectivist country that opened its border to immigration with countries with higher-than-average individualism would likely see an increase in charitable giving as a result.

Table 5. Charity and individualism: Instrumental-variables analysis

	(1)	(2)	(3)
Panel A: Second stage results			
Dependent variable: charity			
Individualism (measure 1)	0.606*** [2.82]		
Survival (measure 2)		35.281*** [2.68]	
Tolerance (measure 3)			129.596** [2.60]
GDP	-6.736** [2.12]	-8.594 [1.59]	-2.158 [0.57]
Freedom	2.745 [0.86]	0.190 [0.07]	2.320 [0.90]
Democracy	-0.261 [0.47]	-0.559 [0.88]	-0.001 [0.00]
Gini	0.535** [2.02]	0.117 [0.42]	0.328 [1.39]
Crime	-0.087 [0.76]	0.085 [0.45]	-0.052 [0.52]
Constant	35.371 [1.08]	112.439* [1.68]	-64.151* [1.70]
<i>N</i>	64	61	60
Panel B: First-stage partial results			
Dependent variable: individualism			
Pathogens	-9.254* [1.78]	0.043 [0.34]	-0.007 [0.21]
Pronoun drop	-14.264*** [3.06]	-0.335*** [2.82]	-0.85** [2.67]
<i>F-stat</i>	12.7	10.87	2.57

t-statistics in brackets

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Panel B shows the coefficients for the instruments only in the first-stage regressions.

7 Conclusion

We argued that individualism increases charitable giving through two channels. In the direct

channel, it makes self-interested giving more socially acceptable. The indirect channel relates individualism, economic freedom, and the classical liberal concept of the extended circle of sympathy. Our empirical results, which hold with three different measures of individualism, show that individualism is indeed associated with higher levels of charitable giving. Further, using instrumental variables, we found that this relationship is plausibly causal. It thus appears that individualistic values contribute to markets as a moral space, in this case by encouraging charitable giving.

One of the implications of our study is that the link between individualism, capitalism, and collective well-being is more complicated than critics of capitalism believe. We found that rather than contributing to antisocial behavior, individualism contributes to prosocial behavior. That finding may appear counterintuitive, though it is in line with the insights of classical liberalism and the more recent humanomics literature, which sees social benefits from individualism as a moral system.

Second, because individualism in the world, as measured by the WVS, has been increasing (Inglehart and Baker 2000), our results suggest a plausible explanation for increasing charity over the past several decades. An avenue for future research is to consider changes in charitable giving in response to gradual shifts in social rules.

Third, our research contributes to work that realizes that institutions can be thought of as bundles with trade-offs. This is most clearly illustrated by research on pandemic disease, in which economic historians have found that institutions such as individualism and economic freedom reduce government's ability to impose constraints on movement of people, which contributes to greater challenges in controlling pandemics, at least in the short run (Troesken 2015). These same institutions have advantages on other margins, such as increasing wealth

(Bologna Pavlik and Geloso 2020). In application to the COVID-19 and earlier pandemics, this line of research finds that economic freedom indeed provides constraints on ability to control the spread of disease (Geloso and Murtazashvili 2020a, 2020b). A further implication of this research is that the bundle of individualism and economic freedom may also generate more charitable giving, thus offering a cushion for society if government is unable or unwilling to provide one to address the economic fallout from measures to control the spread of disease. In this regard, individualism may explain variation in the philanthropic response to COVID-19 across the world.

Finally, from a policy perspective, public policies that encourage and support individualism and economic freedom, rather than eroding sympathy, may encourage it.

There does not appear to be a contradiction between capitalism and philanthropy. Acs and Phillips (2002) argue that one critical ingredient that differentiates American capitalism from other forms of capitalism (namely, Japanese, German, and Scandinavian) is its focus on both wealth creation (entrepreneurship) and the reconstitution of wealth (philanthropy). Individualism contributes to both. Thus, our findings suggest that along with offering some praise for commercial culture (Cowen 2009), we ought to praise individualism both for its support of commercial culture and for encouraging charitable giving.

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