

Benevolence and Freedom

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I'm the president of AEI, an institution that shares the ideals of Hillsdale College, which is a truly distinguished institution, the most important institution of higher learning that has tried to restore the most important ideals we hold so dear at AEI: maximizing liberty, increasing individual opportunity, and strengthening entrepreneurship. These are things that have lasted the test of time and we believe will define our strength as a nation and that will insure that the United States continues to be a gift to the world. But of course, that is in our hands.

How will we insure that? Part of the answer to that question is through you: with what you are doing with Hillsdale College and your own institutions.

I'm so honored to be with you tonight, in some way to enrich your thinking, if possible. I'm going to talk about benevolence and freedom, about charity and liberty, and what these two things have to do with one another. I'm hoping that I'll be able to convince you that they have a lot to do with one another.

To begin to inspire your thinking on this theme, I want to refresh your memory with a quote from John D. Rockefeller in 1905. That year Rockefeller famously said, "God gave me my money." Now, that is usually taken out of context today. It's taken as evidence that John D. Rockefeller was a bad man: he was a man who believed that God gave him his vast wealth at a time of grinding poverty in the midst of America's Gilded Age.

That's not what he meant; that's not even what he said. Here's the full quote: "God gave me my money. I believe the power to make money is a gift from God, to be developed and used to the best of our ability for the good of mankind."

John D. Rockefeller believed that he had money for the purpose of being charitable. Further, he believed that without charity, he would not have been given prosperity.

Now, before I came to AEI, I spent a decade working with entrepreneurs. I spent a decade working in policy and business schools. And I had the great, good fortune to meet some of the most successful people in America. I found that a lot of entrepreneurs today share John D. Rockefeller's core belief. It might not be a theological view, but it is philosophically the same. They believe that they are prosperous because they give; it is a causal relationship. They believe that the gears of the universe somehow turn such that if they were to stop giving, they would stop getting.

Now I'm an economist, which means to say that I generally specialize in answering questions no one has asked. But in this case, I thought to myself, several years ago, "I wonder if that's true." To be quite frank with you, I thought it wasn't. I thought that the entrepreneurs really had it wrong. As an economist, I thought that you have to have money before you give it away. So I thought, "I'm going to get some data. I'm going to test that hypothesis. And I'm going

to find that you do indeed have to have the money before you give it away. And next time an entrepreneur tells me that, I'm going to say, 'No, no, no, earn it first and then you can give it.'"

I'm going to tell you what I found. I'm going to take you through a bit of research I did, and in a nutshell I'm going to show you that I was wrong. I was really wrong, and Rockefeller was right. I'm not just going to show you that; I'm going to tell you what I think it means. I'm going to tell you a little bit about how it changed my research and in fact how it changed my life, and how it helped me to understand freedom a little bit more.

But before I do that, let's go over a few of the basic facts of charitable giving, the amazing landscape of philanthropy in America today. Each year Americans give about \$300 billion to charity. To put that in perspective, Americans give more money to charity each year than the entire gross national product of Sweden, Denmark, or Norway. Americans give more than the entire GDP of all but about 30 countries in the world.

Seventy-five per cent of Americans give money away each year. Fifty to sixty per cent volunteer their time. And this, in point of fact, is truly extraordinary by international dimensions. Are Americans more generous than others around the world? The answer is manifestly, "Yes!"

Now of course you wouldn't know this from the rhetoric of today's politicians. In 2004 our former President Jimmy Carter said in a speech at St. Olaf's College, "You know what the problem with Americans is? They just don't care about the less fortunate of the world."

That just doesn't hold up to empirical scrutiny.

The average American gives about three and a half times as much per capita as the average French citizen, seven times as much as the average German and fourteen times as much as the average Italian. Americans give more, privately, charitably than the citizens of any other country in the world that keeps data on the subject. Now if you're me, you think, "Sure, but we're richer, and we have a different tax system."

What happens when you correct for taxes and income? The answer is we still give ten times as much as the Italians. This truly is a cultural difference. This is a true cause for celebration if you believe, as I do, that giving freely, without coercion from government is a wonderful miracle, and something to be defended and something to be protected. This really is how we differ from people in other countries.

Why do we give so much? Economists like me will typically tell you we give so much because we're pretty wealthy. We have a lot of money. But the entrepreneurs will tell you, "That's the reason we're so wealthy. The causal link goes the other way."

My research question is: which is pushing and which is pulling? Is the charity pushing or pulling with the income? Which comes first: charity or income? Or both? To answer that question, I went to a famous data set, the Social Capital Community Benchmark Survey. This

survey was collected by researchers around the country, led by scholars at Harvard University. It was the single largest, best data base on giving, volunteering, and activities people engaged in -- not for money but only to help each other. It was 30,000 families in 41 communities around the United States: big cities, little towns, north, south, east, and west, an incredibly rich source of understanding about what people were doing outside of their jobs for each other, voluntarily.

For the first time, we had a window into who was doing what for whom. And I used the data; it's a large data set; it's complex; and I was charting it on my computer in my office when I was teaching at Syracuse University. I was looking forward to proving my hypothesis that you have to have it before you can give it away. You're not going to get rich simply because you're giving away your money. No one ever came into my economics class to hear me say, "You want to know how to make a lot of money? Give all your money away."

Economists don't talk that way, because it doesn't seem right, so I was looking forward to finding this relationship. Indeed, one of the things I found was when people get wealthier, they do give more money away.

If you would increase your income by about ten per cent, you would increase your charitable giving by seven per cent. Here's where it gets complicated. The relationship runs the other way, too. For example, here is what I found:

If you were to take two families that are just the same, the same education level, they live in the same town, they are the same race, they are the same religion, they have the same number of members of the family, but one gives \$100 more to charity each year than the second, the giving family will earn on average \$375 more in income.

And it's causal; it works actually because of the charitable gift.

When I found this, I was perplexed, because the data were contradicting my theory. When I found this, I did what college professors do whenever that happens: I got rid of my data. I got new data, and they said the same thing. I ran new models, and they said the same thing. I was in a cognitive mess at this point. I thought, "Obviously, there is nothing wrong with my theory. I'm doing something wrong."

I sat on this for a while. I sat on the results. I came up with a new idea. Here's how I'm going to test this: I'm going to look at the whole country over time. I'm going back to the mid-1950s and I'm going to look year after year after year, and I'm going to ask, which is pushing and which is pulling over time? When Americans give more, does that actually make GDP go up, or when GDP goes up, does that make people give more in America?

Once again, the answer is both. From the mid-1950s to the present, the average American per capita earns 150% more than a family would have earned in the mid-1950s. That's an extraordinary run up in per capita income. You hear a lot these days about the rich are getting richer and the poor are getting poorer. That's nonsense, patently untrue.

The truth of the matter is here's where it gets more interesting: how much more do people give per capita than in the 1950s? 190% more per capita -- in real dollar terms. What this tells us is that we are extraordinarily rich, productive, getting richer, and disproportionately giving more and more and more of our income away. This is a testament to American exceptionalism. My question is, of course, which is pushing and which is pulling? And you do, once again, find both. You find that when GDP goes up, people do give more. But more interestingly, when Americans give more, causally this pushes up GDP. Specifically, if we were to increase per capita giving by just one per cent, in the nation as a whole giving would go up about \$2 billion. That would lead to causally a stimulation of GDP of \$39 billion. \$2 billion turns into \$39 billion.

This is to say, \$2 earns the country \$39. Now, if that's true, it's not just a good investment philosophy, it's a patriotic act. At that point, if we can stimulate our GDP by simply doing nice things for each other, we can create jobs and growth and prosperity through the entrepreneurial act of putting our capital at risk philanthropically: an incredible idea. But I wasn't willing to accept it yet, because it still didn't seem quite right. I didn't want to accept it yet because it seemed like hocus-pocus. It seemed like theology more than economics. And I'm willing to accept some theology, because I'm a practicing Christian. But I didn't want it to make its way into my study of economics, not yet.

Now I was having a conversation with a friend of mine who is a psychologist, who does work on the psychology of charitable giving. And I was explaining this funny paradox. I said, "I'm getting this weird thing in my data. I keep finding over and over again that when people give, they actually get richer."

He said, "Oh, we've been finding that for thirty years. The problem with you economists is you don't have any imagination. We don't look at what happens with money when people give to each other. We look at what really matters: happiness. Happiness, that's the real coin of the realm. That's what gets people up in the morning and gets them to do their work and to spend time with their families. That's what really motivates their decisions. We've been finding for thirty years that when people give to each other, they get happier."

Indeed, the data support this manifestly. People who give to each other, people who give to charity, are forty-three per cent more likely to say they are very happy people than people who don't give to charity. Giving one time per week will increase your chances of saying you're a very happy person by fifty per cent. Giving blood will increase your chances of saying you're very happy by fifty per cent.

And furthermore, we know it is caused by giving, based on laboratory experiments using human subjects. There are a series of experiments in which high school students, for example, are asked to volunteer to tutor under-privileged inner city kids, and they will do a typical experiment and then they test their mood before and after. And sure enough, you have an

elevation of mood in virtually 100% of the cases and even much higher when people have volunteered to help, as opposed to those who don't.

Furthermore, researchers find you can permanently elevate your mood by putting charitable giving patterns into your life as a matter of course. It's funny; we know that money can't buy happiness, but I can actually give you the secret. I can sell you a \$1000 in happiness right now, but you have to write the check to your favorite charity. I suggest the American Enterprise Institute or Hillsdale College.

This is starting to look like some kind of deep magic. The question is not whether it is true that people get happier when they give, but the question is why.

Here's why I care about it: I have 200 people at AEI. We have a community of scholars and staff. One of the things that I have learned over the past two years is, when you're interviewing an employee, the first thing you want to find out is how happy the person is. That's really what you want to know. If you have a choice between two people of equal skills, always hire the happier person. They will do their job more joyfully, they will probably drink less, they are more likely to stay in the job, and they are more likely to put up with things they don't like, because that is an inevitable part of anyone's job. Happier people are more successful people.

This is my link. Suddenly, I was starting to figure out what I was seeing in the data. If giving makes you happy, and happy makes you successful, that's the reason people appear to earn more money when they give to other people. They can transform themselves into happier, more satisfied, more fulfilled people.

The question then is: why does giving make you happy? There are answers to this question that come from brain science and social science. I'm going to tell you about a couple of things. There are two explanations. Why do people get happier after they give?

The first answer is that it changes their brains, literally. The second reason is that it changes the way people treat them, and it makes them lift up the givers and make the givers more successful. We have evidence to this effect.

First, giving will change your brain: in the late 1980s, a couple of psychologists found, much to their amazement, that when people give to each other, or volunteer for each other, they stimulate endorphins in their brains. Endorphins are the chemicals in your brain that make you feel high, so that when you drink alcohol or take drugs, it stimulates endorphins. This was called by researchers "the helpers high." They found that people got a little buzz after they volunteered or after they helped each other. This was a really interesting study for me, and I read it with great satisfaction, but it wasn't very useful for me to explain why givers make more money. To explain why it wasn't useful, I'll note that by saying that I went to high school with a lot of guys who specialized in getting high. I've kept in touch with a couple of them over the decades, and I can tell you it was not a pathway to success. But later studies about the brain did

illuminate why giving would make you happy, and being happy would make you successful, and these were studies of stress.

In the mid-1990s, there was a relatively famous experiment at the Duke Medical School in which senior citizens were asked to give massages to infants, which shows you that you can get tenure for anything.

In this experiment some of the senior citizens did not give massages to infants and some did. The whole idea was to do a nice thing for someone who cannot reciprocate and then to see what happens to the level of stress. Obviously, the level of stress of the babies went down, but what we really cared about was the level of stress for the senior citizens. They were shocked to find that stress hormones were reduced by fifty per cent simply from the act of giving a baby a massage. There are three stress hormones: cortisol, epinephrine, and nor epinephrine. Those are the chemicals, the hormones, that light you up like a Christmas tree when someone cuts you off in traffic or insults you or makes you angry.

Those were the exact hormones that were reduced by the simple act of kindness in this experiment. Subsequent experiments back this up manifestly. If you do nice things for other people, if you behave charitably, you will experience less stress. Stress is a wonderful predictor of life's satisfaction and happiness.

The second line of research talks about what happens in people's behavior toward you. It turns out that when people observe you as a giver, they will perceive you as a leader. Here is a wonderful experiment that showed that. At the University of Kent, about eight years ago, a group of economists and psychologists performed a cooperation game. A cooperation game is one in which human subjects are given some money and asked to contribute some of it to a common fund. So if you all came in and got a \$20 bill, I would say, "Put as much of the \$20 into the can as you want and I will look in the can and count up that money; I'll double it, and pass it out equally to the participants in the experiment."

As you're thinking about it, the best strategy is for everyone to put in 100% of their \$20, and I would double it, and everyone would get \$40. But if you're thinking a little more strategically, you'll say, "Yes, but if I'm the only one who keeps my \$20, then I get a big chunk of everyone else's money, too. I get closer to \$30, \$40, \$50; I get a much better return." This is a classic experiment in which we measure how much people cooperate with each other. The standard thing for economists to study is to see if men cooperate less than women, which of course they do, and if people cooperate more when they are being watched, which of course they do. And these are the kinds of things we typically do.

At the University of Kent, in this particular study, here's where it got interesting: the researchers had a second phase to the experiment up their sleeves that they hadn't shared with the participants.

The second phase was, after they had tallied up and measured the cooperation and everyone saw who had cooperated and who did not, they broke the group up into small teams to perform a menial task, such as solving a puzzle. What they really wanted to know was, who the team leaders would be, because they were supposed to be elected by the teams freely. They wanted to see how the election of leaders was correlated with the giving in phase one. In eighty-two percent of the cases, the biggest giver was elected leader of the group from the first phase of the experiment.

The researchers interpreted this as evidence that when people observe giving, they see leadership. This is empirical verification of the servant leader hypothesis you've heard about it in church; you've heard about it from your mother; you've heard about it from all sorts of moral authorities, and I can tell you the data bear it out. Givers are observed to be leaders. And of course, leaders are more successful than followers. If you give, you'll be lifted up into leadership; if you're lifted up into leadership, you will prosper. Now, I've found linkages that make it perfectly clear that I didn't necessarily find the workings of a metaphysical force when I saw that you get richer when you give; rather there are some earth bound explanations for it.

Here is the paradox: why didn't I just believe that all along? My religious views have told me this forever. But I couldn't believe it because I was sitting behind the barrier of what I had learned in graduate school. That's the problem with graduate school; it pounds all the faith and goodness out of you to the point that you can't understand or believe the most basic workings of the universe. It actually took senior citizens massaging babies before I understood this truth.

There are many studies that reinforce this. Studies show that people who give get healthier. Volunteering one time a week is as good as quitting smoking. Givers are better citizens; they read the paper more; they contact their public officials more; they are more involved in public policy decisions.

In other words, you can't get around the fact that giving makes you healthier, happier, and richer. Charitable giving makes better communities. It makes a more prosperous nation. It makes happier, healthier, and richer citizens. It really is a miracle. It is a great thing, and it is part of how we exercise our freedom.

So, how do we get more of it? The first answer to that is to address a few myths about benevolence.

The first is that giving makes us poorer. That is what I'm trying to show tonight. Giving doesn't make us poorer; it makes us richer. We have the data. It is a terrific investment. If the multiplier effect is \$3.75 for every dollar you give, that is doing better than my pension. It is part of a diversified portfolio of what you do with your money, your time, your energy, your affection.

Myth #2 is that people are naturally selfish. I hear this all the time. People say, you have to get past the fact that people are naturally selfish. People are not naturally selfish! When we

are our best selves, we are givers. We can be made selfish by society, by consumerism, by relationships, by whatever, but that is not our natural selves. People are naturally giving.

Myth #3 is that America can afford to substitute government for private giving. This I've heard my whole career: "If the government really did its job, we would have what we need already." I say that is completely false. The day we stop giving privately is the day that we start getting unhealthier, unhappier, and poorer. The government is making the case that it should be the provider of first and last resort for more and more public goods. We must demand that we be given our place as givers for the sake of our happiness, our health, and our wealth. This is a gift to ourselves and to future generations.

Myth #4 is new in this current crisis, and it is that the free enterprise system makes people less giving. That is empirically false. It is in point of fact that free people who earn their own success are the same people who most freely give of themselves. The people who believe in the free enterprise system and practice entrepreneurship are America's best and most prolific givers. Those who consider themselves victims or wards of the state are the people least likely to give.

The most generous givers in America today are the working poor. The least generous people today have the same amount of money but are the non-working poor. There is a fundamental difference between those who earn their success and those who do not.

In point of fact, the free enterprise system unlocks charitable giving. The next time you hear that free enterprise makes people selfish, you can say, "That's not consistent with the facts; that's not consistent with the data." In truth, benevolence and freedom are simply inseparable. If we get rid of one, we get rid of the other.

How do we get more giving? The answer is that we need to teach it. Giving is a learned behavior. We know this because we see patterns in families and in communities we actually have DNA studies. WE know that is one of the areas in which we inherit the least. People learn this the most. This is nurture and not nature.

How can we teach it? There are basically three ways:

Empirically, the three best ways to learn about charitable giving are (1) in families: (2) in houses of worship; (3) a distant third is in schools.

I can't make people grow up in charitably giving families, and I don't want to make people go to church, but I can say something about how we can teach this in our schools. As a matter of fact, we can all talk about this as a core competency to citizenship, a core competency for freedom, and a core competency for prosperity.

So I ask this: what are we doing to have an educational system that shares this basic truth with future generations?

The second way we teach giving is by example and this with appropriate humility. One of the things we do know is that humans are prone to mimicry. When somebody is successful, others will mimic the house they live in or the car they drive or the region they live in. If successful people give publicly, other people will follow that, too.

I say this with all humility, I know that “when thou doest alms, let not thy right hand know what thy left hand doeth.” Perfectly, the biblical injunction is against giving publicly, yet what I see in the data is that when people give publicly, they bless lots of people around them, because they are induced to give as well. I’m wrestling with this.

I can tell you that I love it when people give to the AEI do so publicly, because it makes my job much easier. What does that do to your soul? You’ll decide that for yourself.

Third, we should not discourage it by taking away all responsibility from people. Once again, the day we take away the responsibility for people to help each other is the day we lower our standard of living and we lower our quality of life. That has very strong public policy connotations. Obviously, I feel very strongly about this.

How do you give more? You can write more checks or volunteer more hours. But the real way is to give the gift of giving. Help people prosper themselves by understanding the deep magic of giving.

As an American, charitable giving is great for lots of reasons. We have non-profit organizations, universities, hospitals, arts groups, all manner of non-profits adding up to about ten per cent of America’s economy that are supported by your charitable gifts. I now realize that everything that you do in your private lives, charitably, seen and unseen, is responsible for the fact that we live in the richest, freest, most entrepreneurial country in the history of the world, and for that, my last word to you tonight, is thank you.