Economic Contribution of Philanthropy:
A Critical Analysis

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Much has been written about the economic contribution of philanthropy. Giving apparently makes people happier and as such should be encouraged as a general improvement in wellbeing is a 'good thing'.

Of course if the money is allocated to good causes it helps improve overall welfare. It can thus create social benefits but also economic ones - a 2012 study for the *Philanthropic Society* in the US, for example, has estimated that if all direct short term and longer term impacts of some $37.85b of domestic foundation grants in 2010, which are only a part of the philanthropy market there, had created 500,000 direct jobs in that year, rising to 1million within one year if all direct and indirect and short and longer term linkages were included. In addition they estimated that the benefits to the US economy are long lasting, leading to better healthcare, enhanced educational opportunities and a better quality of life.

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Similar impacts can probably be calculated in other countries where donations are significant. But the use of standard economic techniques to translate the total amount spent into number of jobs created by using direct, indirect and induced multipliers may not give us the whole picture here.

First of all what exactly are we measuring? Converting the money or time donated into a percentage of GDP and therefore assigning it a status as contributing that amount to the economy is debatable. To what extent is it additional? Much of it may have been facilitated by less tax paid by the individual or corporation concerned in the first place because of this donation, and, as such, has already reduced the contribution to the economy's GDP. Depending on how it is spent, if it either 'vanity' giving – say naming a university department after your name, or addressing a cause close to the heart of the funders – like the Gates. This may not represent the best use of resources. That is the case even if it can be classified as investment if it goes to enhance skills say or assist innovation in the creative sector or develop a cancer treatment.

Using tax receipts or relative cheaply raised public sector debt to pay for things like cancer research from a central government budget could arguably prove better value for money. It could also be enhancing wellbeing more than the same money spent on tackling a cause without necessarily having done a proper cost benefit analysis at the start.

And the inefficiencies in the system can be huge. Charities are not the world's best run entities. There is concern that the administrative and fundraising efforts often eat up too much of the overall funding that is eventually raised. Kurt Hoffman in 2013 estimated that on that basis some 33%, or £125b raised by charities between 2010 and 2012, was 'wasted'. In fact one study calculated that the cost of raising funds, if all effort is costed, can be much more expensive than paying interest on a bank loan to raise that same amount.

Charities are also often in need of specialist support to operate more efficiently. The *Cass Business School* has been studying this and channelling pro-bono support to the third sector through its *Centre for Charity Effectiveness,* supported by many of my colleagues in the *Worshipful Company of Management Consultants* of which I was Master a few years ago. Millions of pounds worth of advice on areas such as governance, leadership and management and strategic thinking are given away free each year to organisations and individuals in the not for profit sector. Similarly *Pro-Bono Economics,* a charity set up a few years ago by senior economists in the private and public sector, also gets engaged in providing support. It assigns individual volunteer economists or accesses consulting firms willing to do so to work with charities. They are then mostly, though not exclusively, involved in conducting evaluations to demonstrate the impact of the charities' or their social enterprises' activities and they assist with their ability to tap funds - either in the form of grants or as contractors to the government.

Even if this type of help removed some of the inefficiencies of the system, there would still be questions about assigning a value to these activities. Using an estimate of likely jobs created by the amount of donations made may not be a particularly good measure. Some jobs may be less productive than others especially if they are the result of lots of disparate activities going on, often competing with each other for the same general cause. Coordination may be best. And there are similar problems with estimating the contribution to the economy of other aspects of philanthropy such as volunteering. This has become a hotly debated issue in the UK following the Conservative party pre-election manifesto pledge to give the right to workers to an extra 3 days off for volunteering on full pay.

But we can't easily observe the output of volunteers. Andy Haldane, Chief Economist at the *Bank of England,* in a talk he gave to *Pro-Bono* Economics in 2014 used *Office of National Statistics* methodology which looks at the value of labour input into these activities as a proxy for their market value. By estimating the number of hours put in by volunteers and multiplying them by the median hourly wage paid in the areas where most volunteering takes place the *ONS* calculates that volunteering was equivalent in 2012 to some 1.5% of GDP. And this without taking into account the wider private and social benefits of doing this volunteering.

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But how productive is that time? It is possible of course that because the individuals who are volunteering are enthused they will work harder and be extra productive. The opposite of course may be the case as these volunteers are amateurs in general in terms of fundraising say, or planting trees, and a lot of time may be wasted. And although they may acquire better communication and team working skills as a result, they may have acquired even better skills in areas where they have a greater expertise already or where the immediate results may have been more wealth creating. Therefore the opportunity cost may be very high.

This could again be tempered by the fact that the pleasure of giving something back may be making workers more productive when they are back doing their day jobs. But if they volunteer at a time paid for by the firm, this is an extra cost to companies which would need to be compensated for by either raising prices to the consumers or hiring fewer people – or making less profits and paying lower salaries and dividends.

So, basically – we just don't know. And it is here that I declare a sympathy with Professor Michael Porter's argument that where philanthropy is most effective it is where it is a strategic 'corporate philanthropy' that enhances the standing and product offering of a firm while seeing wider economic benefits and company profitability go hand in hand. It is a similar principle to the thought that complying with the norms of corporate social responsibility, which could include 'strategic volunteering' to assist the local community for example, is not against profit making. Instead, properly done it enhances it.

Of course, there are many causes which individuals feel passionately about and where funds are given to organisations to pursue them - such as encouraging society to tackle climate change or highlighting the problems created by rising inequality. Here too strategic thinking helps hugely to increase the chance of success. At the very basic level, a lack of planning and evaluating the risks of failure causes a loss to society in terms of the money and time spent pursuing the cause if nothing comes of it. It could all have been spent elsewhere or differently to better effect. Arguably it is even worse if foundation money is used to lobby for a cause based on passion and instinct – or self-interest, rather than proper cost benefit analysis, particularly if it pushes for and succeeds in achieving a sub-optimal solution that ends up being detrimental to economic growth and to society's wellbeing. The fact that it may have made people feel better as a result, for a while at any rate, is not a sufficient compensation.

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It is obvious that not everyone can do this well. Much of what is termed 'strategic philanthropy', in other words ensuring that activities are focussed on what Paul Brest in an article in April 2015 describes as 'addressing solutions' has been criticised because of charities' and foundations' inability often to undertake the right analysis; ensure that staff in their organisation and the communities where they may want to operate or those involved in the causes they want to pursue are properly engaged in that strategy; being prepared and having the capacity to assess the risks of failure; and monitor the impact of their strategy. Big corporates are used to this. This is much more where the focus should be as the other softer benefits of philanthropy and volunteering, though obviously valuable in themselves, are much more difficult to pinpoint and measure. And the rest of the spending in what should be a 'public good', like cancer research may be more effectively provided by the government which at present absolves itself of the need to do so in the right quantities by the philanthropy industry's enthusiasm in filling the gap.

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She is currently a Fellow of the Society of Business Economists, an Academician of the Academy of Social Sciences, on the Council of the Institute for Fiscal Studies, on BIS' Panel for Monitoring the Economy, on the City AM's shadow monetary policy committee, a Visiting Professor at the Guildhall Faculty of Law and Business of London Met University and at Birmingham City University, a Patron of Pro-Bono Economics and of the charity Working Chance and she also sits on the Advisory Board of the central banking think-tank OMFIF. She co-founded GoodCorporation in 2000, a company set up to promote corporate social responsibility and in 2010-11 served as Master of the Worshipful Company of Management Consultants. She has also been the author of numerous publications. She is co-author with Andy Ross and Peter Urwin of: It's the Economy Stupid, Economics for Voters, Biteback Publishing, 2015.