COMMENT ON BOETTKE AND PRYCHITKO

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Peter J. Boettke and David L. Prychitko provide a valuable contribution to the debate on the relationship between the compulsory power of the state, the capitalist search for private monetary profit, and the spontaneous ordering of associations—the nonprofit sector. While there is general agreement across the political spectrum that the nonprofit sector plays an important role in American society, the exact nature of that role is in dispute.

Lester Salamon (1999) suggests that the nonprofit sector is not an independent sector but is an effective partner of the state and represents a viable "third party governance." Boettke and Prychitko (emphasis added) argue "that the sort of 'third party government' advocated by Salamon would distort the incentives for nonprofit innovation, *and weaken the ability of philanthropists and social entrepreneurs* to fill in the gaps that might be left by for-profit firms before government bureaucracies expand to fill the supposed vacuum." Before this Austrian interpretation of the nonprofit sector advocated by Boettke and Prychitko can be properly evaluated, we need to be a little clearer on the relationship between the nonprofit sector and economic development in general and the role of philanthropy in particular.

The word philanthropy literally means "love of mankind." Philanthropic acts manifest the generosity of the giver. In this comment, what we mean by philanthropy is giving money or its equivalent away to persons and institutions outside the family without a definite or immediate *quid pro quo* (Boulding, 1962).

Seeing a linkage between philanthropy and economic development is not new. In *Corruption and the Decline of Rome*, Ramsay MacMullen (1988) discusses how charitable foundations were partly responsible for the flourishing of Rome and how their decline coincided with the loss of the empire. The roots of American philanthropy can be found in England in the period from 1480 to 1660. By the close of the Elizabethan period, "it was generally agreed that all men must somehow be sustained at the level of subsistence" (Jordan, 1961: 401). Though the charitable organizations at the beginning of this period in England were centered around religion and the role of the Church, by the close of the sixteenth century, religious charities comprised only 7 percent of all charities (Jordan, 1961: 402).

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How is this philanthropic behavior explained? According to Jordan, there was the partly religious and partly secular sensitivity to human pain and suffering in sixteenth-century England. Doubtless, another important motivating factor was Calvinism, which taught that "the rich man is a trustee for wealth which he disposes for benefit of mankind, as a steward who lies under direct obligation to do Christ's will" (Jordan, 1961: 406-7).

Beginning with the Puritans, who regarded excessive profit-making as both a crime and a sin (and punished it accordingly), there is a long history of Americans who have questioned the right of people to become rich. In view of the popular prejudice against ostentatious enjoyment of riches, the luxury of doing good was almost the only extravagance the American rich of the first half of the nineteenth century could indulge in with good conscience (Tocqueville, 1966 (1835): 40).

Andrew Carnegie exemplified the ideal Calvinist. Carnegie put philanthropy at the heart of his "gospel of wealth." For Carnegie, the question was not only, "How to gain wealth?" but also, importantly, "What to do with it?" *The Gospel of Wealth* suggested that millionaires, instead of bequeathing vast fortunes to heirs or making benevolent grants by will, should administer their wealth as a public trust during life (Carnegie, 1889). Both Carnegie (at the time) and Jordan (as a historian) suggest that a key motive for philanthropy is social order and harmony.

Philanthropy remained part of an implicit social contract stipulating that wealth beyond a certain point should revert to society. Individuals are free to accumulate wealth, but the wealth must be invested back into society to expand opportunity. Therefore, much of the new wealth created historically has been given back to the community to build up the great social institutions *that have a positive feedback on future economic development* (Chernow, 1999).

The American model of entrepreneurship and philanthropy in the nineteenth century was followed by a period of progressivism (increasing role of government) in the early years of the twentieth century. Though the period of the 1920s was one of technological change and prosperity, underlying economic problems resulted in the collapse of the world economy into the Great Depression of the 1930s. This period, together with that of World War II, changed the role of the government and the philanthropic activities of the entrepreneur. It is not our point here to argue that the role of philanthropy was to provide social welfare—such as health insurance, social security, and unemployment insurance. Indeed, the rise of the state in the twentieth century was in some ways a rise of social welfare, provided by government.

This function of social welfare, however, is distinct from the pure function of philanthropy that arises from issues of what an individual should do with personal wealth. The rise of the welfare state, with its high marginal taxes, high inheritance taxes, antitrust laws, and the abolition of private property in some societies, tried to eliminate the role of private wealth altogether. In fact, in a socialist state the only role for philanthropy might be religious giving.

What is interesting is that in the United States the rise of the welfare state did not coincide with a decline in philanthropy. In fact, according to a study by the National Bureau of Economic Research (Dickinson, 1970), total private domestic philanthropy as a percentage of U.S. Gross National Product between 1929 and 1959 increased from 1.7 percent to 2.3 percent. This figure is not significantly different from the 2.5 percent that Americans contributed to philanthropic causes in 2003. Why did Americans continue to fund philanthropy at at a fairly constant level even as the federal government stepped into the business of social welfare?

One answer was suggested by Soloman Fabricant, and has been echoed by many others (Dickinson, 1970: 8):

> …in this broad sense philanthropy is a necessary condition of social existence, and the extent to which it is developed influences an economy's productiveness. For decent conduct pays large returns to society as a whole, partly in the form of a higher level of national income than would otherwise be possible. Underdeveloped countries are learning that, despite their hurry to reach desired levels of economic efficiency, time must be taken to develop the kind of business ethics, respect for the law, and treatment of strangers that keep a modern industrial society productive. Widening of the concepts of family loyalty and tribal brotherhood to include love of man "in general" is a necessary step in the process of economic development.

The key issue, therefore, in the debate on the role of the nonprofit sector is the *voluntary* nature of the contribution of the donor. As Boettke and Prychitko point out in Salamon's model "many nonprofits often bypass the responsibility of persuasion and voluntary exchange and instead seek support from the state. In this regard, to accept Salamon's advocacy of third-party government, which in effect seeks to legitimate nonprofit firms as arms of state action, would further weaken the effectiveness of nonprofit organizations to promote economic development by encouraging them to engage more in political rent-seeking than in marketplace persuasion."

What is unique about America is not that it has "an intricate 'mixed economy' that blends public and private action in ways that few people truly understand" (Salamon, 1999), but that a crucial component of American economic, political, and social stability rests on the role of philanthropy in American society. The fulcrum of this relationship is between the *private* and the *nonprofit* sectors. What differentiates American capitalism from all other forms of capitalism is its historical focus on both the creation of wealth (entrepreneurship) and the reconstitution of wealth (philanthropy) through an independent nonprofit sector (Acs and Phillips, 2002).

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