Welfare budget lessons from Pre-Industrial England: why the ‘big society’ idea may not work

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Cutting welfare spending is unlikely to lead to an increase in private voluntary work and charitable giving, explain ***Nina Boberg-Fazlic*** *and* ***Paul Sharp****. Using historical data from late eighteenth and early nineteenth century England, they illustrate how parts of the country that saw increased levels of spending under the Poor Laws also enjoyed higher levels of charitable income.*

Why does Europe lag behind the US in terms of charitable giving? One long-debated explanation is the existence of a ‘crowding out effect’, whereby government spending crowds out private voluntary work and charitable giving. The idea is that taxpayers feel that they are already contributing through their taxes and thus do not contribute as much privately. The idea of crowding out has caught the imagination of politicians, most famously perhaps as part of the flagship policy of the British Conservative Party in the 2010 general election: the so-called ‘big society’. If crowding out holds, spending cuts could be justified by the notion that the private sector will take over. Our study speaks against this, however. In fact, we find the opposite: higher welfare spending seems to be associated with *higher* levels of charitable giving.

Crowding out not a new concern

Crowding out makes intuitive sense if people are only concerned with the total level of welfare provided. However, many other factors might play a role in the decision to donate privately and, in fact, studies on this topic have led to inconclusive results. Our work takes a new approach, making use of historical data which is ideally suited to shedding light on this issue. Specifically, we use data on per capita charitable income and public welfare spending in England between 1785 and 1815, a time when welfare spending was regulated locally under the Poor Laws, which were described by the Dutch-born British economic historian Mark Blaug as ‘a welfare state in miniature’.

At the time of our study, Poor Law spending was increasing rapidly, largely due to strains caused by the Industrial Revolution, from around 1 to almost 3 per cent of GDP. This increase occurred despite there being no changes in the laws regulating relief during this period and led to concerns among contemporary commentators and economists. Edmund Burke expressed the belief that mandatory contributions through the poor rate would crowd out voluntary giving, thereby undermining social virtue. Thomas Robert Malthus famously believed that the increase in spending was due to a disincentive effect of poor relief. By providing incentives not to work and to marry early and thereby have more children than could not be afforded, he stated that the Poor Laws ‘create the poor which they maintain’. Concerns were also raised about the administration of charitable trusts, as well as the Poor Laws themselves.

Historical data provides answers to modern debates

The upshot of this concern was the commission of reports, providing us with detailed information on the levels of spending and generosity in terms of who received how much relief for how long by county. By examining this question within a single country, we avoid some of the obvious pitfalls of studies which for example compare levels of charitable giving between countries: these might differ for many reasons besides ‘crowding out’. The data is presented in map form in figures 1 and 2. Already from this some connection between higher welfare spending and higher charitable income in the south and east might be discerned, although we take the analysis much further than this.

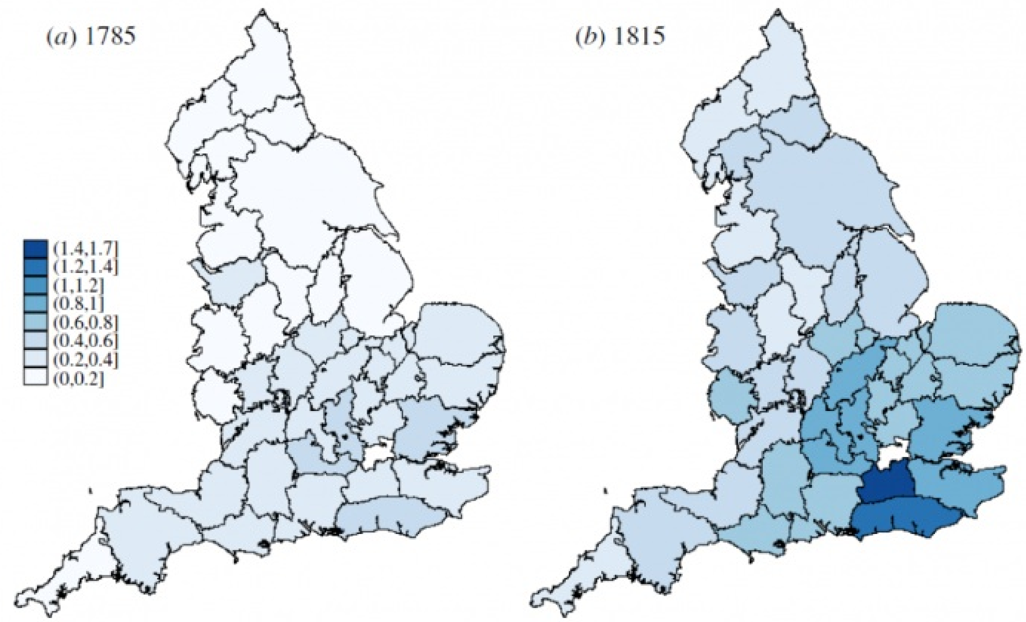

Fig. 1. *Per Capita Poor Relief Spending*

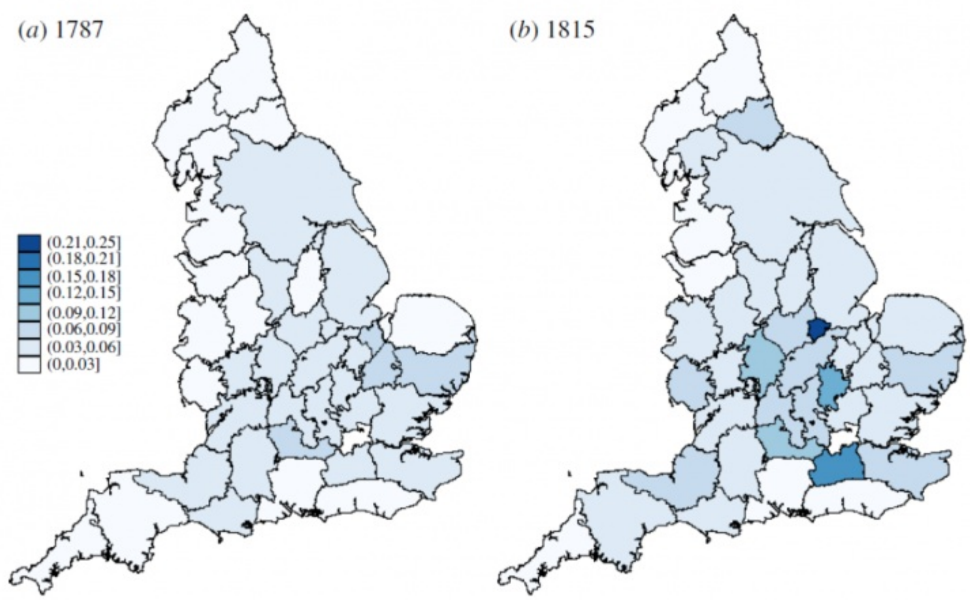

Fig. 2. *Per Capita Charitable Income*

Teasing the effect of welfare spending on charities out of the data

In order to establish a causal empirical link between welfare provision and charity, we make use of a third factor which determined the generosity of poor relief. This factor is related to the risk of labourers migrating out of the parish at times when they were seasonally unemployed, which they were increasingly likely to be as the Industrial Revolution led to the decline of cottage industry in the countryside.

The main attraction for migrants was London which was by far the largest city in England and the only place which drew labour from the whole country. This was a problem for labour-hiring landowners, since the timing of the peak season was unknown (it being determined by the vagaries of the English weather). Thus, historians have pointed out that the poor relief system was exploited by the politically dominant class of landowners to keep labour in the parish and was thus more generous in areas where migration costs were lower (i.e. those closer to London). By demonstrating that proxies for migration costs to London determined (in part) poor relief, we can identify econometrically a causal relationship between welfare provision and charitable giving.

No evidence for ‘crowding out’

We find no evidence for ‘crowding out’, but rather that areas with higher state provision of welfare actually enjoyed higher levels of charitable income. Exactly why this might be the case is an open question: perhaps public emphasis on support for the poor fosters a ‘culture of giving’ encouraging the richer parts of society also to contribute more privately. Or perhaps different parts of the country had different cultures of generosity.

Whatever the explanation, the empirical facts are clear. Nevertheless, the public debate of the turn of the nineteenth century now largely repeats itself more than two hundred years later. Since the end of the Second World War the size and scope of government provision has come increasingly under attack. Economists might be able to provide a multitude of theoretical justifications for this, but we believe that the crowding out hypothesis should not be one of them. On the contrary, there might even be evidence that government can set an example for private donors.

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Note: you can read the full article on which the above draws here.

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