

Charitable Giving

Andreoni & Payne

Comments by Louis Kaplow

Overview

- Phenomena to be explained
- Perspectives toward explanation
- Leading toward
 - Guiding future research
 - Policy prescriptions

Title

- Charitable Giving *in the United States*
- U.S. is a *radical outlier*
 - More than *twice* % of GDP of #2
 - *Order of magnitude* more than many other OECD countries
 - True even omitting religious giving
 - “American exceptionalism”
- Central puzzle of why people give so much despite FRP is largely a puzzle of why *Americans* do whereas others not so much
 - Implications for what sorts of explanations likely to be important

Additional Facts to Explain

- Giving of *time* (see Andreoni 2006 survey)
 - Perhaps similar order of magnitude (i.e., huge)
 - May well be complementary to giving of \$
 - Therefore, would like to study together
- Religious giving
 - Large and some patterns different
 - Many components, however, overlap with nonreligious giving (e.g., *Catholic Relief Services*, ...)
 - Interaction with politics: Brooks, *Who Really Cares* (2006)
- Self-focused giving (aside from religious)
 - Alma matter
 - Arts (when attend where you give)
 - Networking (board member giving, galas, ...)
 - Monuments (hospital atriums, university buildings,)
 - Collectively, these constitute a large chunk of the remainder (nonreligious)
 - Put another way: studies, e.g., of giving to social services are studying 10-20%
 - Which may well behave very differently from the rest
- Greater giving by individual A may *increase* giving by individual B
- Charitable bequest puzzle (under-appreciated)
 - Giving inter vivos produces large income tax savings in addition to bequest tax savings, so why such large charitable bequests?

Explanation: Individual Decisions

- Altruism / warm glow *interaction* is an important feature to emphasize, as authors do
- Gross / net issue for warm glow giving [LK prior: 1998, 2001, 2008]
 - Is individuals “warm glow” calibrated on their net sacrifice or on the total gift that is a consequence of their action?
- Methodological issues: experiments
 - Frames may not be what the researchers think
 - Subjects may not register “artificial” aspects of scenarios
 - May react (strongly) to other triggers
 - Neuroscience reinforces
 - fMRI: does not overcome framing, but evidences it
 - e.g., Greene et al., *Science* 2001 on moral emotions: identical outcomes; different choices, reflective of different brain processing

Explanation: Strategic Choice

- Resurgence of focus on the charities themselves important
- Need to explore the black box further
 - Objective function? Why is the principal? Self-perpetuating boards
 - Charities are a *subset* of nonprofits
 - Hansmann and others
 - Governance issues
 - Compare: corporations with large block versus dispersed shareholders
 - E.g., authors' aside that a few large donors is *undesirable* due to becoming overly dependent / responsive to them
- Crowd-out results re: fundraising effort suppression
 - Demonstrates the high payoff to this agenda
 - Interpretation?
 - Large diminishing returns to charities' work?
 - Satisficing?
 - Temporary diversion of efforts: need to manage the gov't expansion, so less energy for fundraising in the interim
- Would benefit from a greater Industrial Organization perspective
 - Differentiated products, with advertising / marketing: are huge literatures
 - Survey aptly observes that competitive fundraising not obviously different
 - But might be, and we are queasy about welfare economics of advertising to begin with
 - Greater concern that some charitable solicitation generates negative utility (guilt)?

Explanation: “Social Exchange” & “Empathic, Moral, or Cultural Urges”

- Important in light of
 - What needs explaining / nature of the activity
 - Not obvious that will be easy to study changes in giving due to changes in these sorts of influences
- What makes humans unique?
 - To the contrary! Our subconscious is what’s least unique
 - e.g., sources in LK&SS, *Fairness versus Welfare* 2002)
 - fMRI studies on emotions, framing, ... relate to these aspects
 - Yet may mean all the more powerful
- Audience
 - Are we our own audience? Yes!
 - Much charitable giving has non-“public” character
 - “Ask” often has audience of one (the asker, often anonymous or a stranger)
 - Much is also social (friends, co-workers, galas, ...)
- Overemphasis on “asking” as distinctive to charities
 - Ordinary goods/services are advertised and retailed, heavily
 - Decisions and biases, emotions, for advertisers/marketers to prey on, ubiquitous
 - Huge image / social / prestige bases for *much* consumption (homes, cars, clothing, ...)
 - Negative utility: Is relieving guilt that different from combating: body odor, lack of sex appeal, uncoolness, being of lower social rank, ...?

Policy Prescriptions

- Survey is largely conventional:
 - Focus on elasticity
 - Concern for crowd-out
- Literature as a whole has lacked a normative framework for assessing charitable giving
 - Problem is akin to public goods, externalities in many respects, yet the standard methodological approach to these is absent

Pigouvian Subsidy Perspective

- My previous research (e.g., 2008 book, *IER* forthcoming on externalities) suggests as rough first cut:
 - Optimal subsidy is first-best Pigouvian subsidy (equal to marginal externality of a gift)
 - Independent of “marginal cost of funds”
 - So focus on elasticity, crowd-out – which are a sort of “efficiency of marginal \$ of gov’t expenditure” – are inapposite

Core Framework

- Giving is like expenditure on a commodity
- Embed in Mirrlees optimal income tax problem, with commodity taxes / subsidies
 - Atkinson-Stiglitz (1976) result for basic case, generalized
- Transfers – private – how differ from expenditures on ordinary commodities?
[LK: 1996, 1998, 2001, 2008] [and see Kopczuk]
 - Positive externality on donee
 - Negative externality on treasury (income effect on donee, given preexisting income tax)
 - Effects on marginal social value of redistribution

Extension to Charitable Giving

(Sketched in 2001 essay, 2008 chapter)

- Charitable organizations as *intermediaries*
 - Distribution system (conduits) for, e.g., human services
 - Producers, e.g., for medical research, having citizens broadly as ultimate beneficiaries
 - Implies can apply private transfer analysis
- **Aside: Foundations**
 - Alter ego to donor (Gates), or
 - Perhaps additional intermediary between donor and standard intermediaries (“fund of funds”)
 - Foundations and advisors as shoppers for donors (different from the “ask” focus in survey)

Application (cont.): Differences I

- Standard externalities (e.g., a warm glow giver supports medical research, which benefits many)
- Cross-donor externalities (when altruism is present, my gift benefits other altruists toward that cause)
- Redistributive dimension more pronounced than with most intra-family giving
 - Social benefit regarding positive externality to donee much larger
 - Concern for work incentives at bottom
 - Giving causing reduction in marginal social value of further redistribution may be larger

Application (cont.): Differences II

- Variation of these features across types of charities
 - Religion
 - Medical research
 - Poor (domestic or international)
 - Arts
 - Self-monuments
- Greater observability of transferors' motives
- Other optimal tax considerations
 - Arts leisure complements? (implying should tax; or subsidize less?)

Why Subsidize *Giving* Rather Than Charities Themselves, or Direct Government Provision?

- Possible justifications
 - Decentralization, heterogeneous preferences
 - Monitoring
 - Distrust of government
 - Capitalize on feedbacks to donors' utility
 - Which should be viewed as part of social welfare
 - Recall above on negative aspects of giving not that distinctive
 - Additional positive social and personal feedbacks? (Brooks 2006)
- Implications for policy toward giving?
 - Differential, donee-based subsidy, in the limit, at odds with some justifications for not providing directly