

Giving to the Tired, Poor and Huddled Masses

The Economics of Philanthropy

As Americans, we like to think of ourselves as a generous, compassionate people, and we are not above patting ourselves on the back or allowing politicians to pander to us for this alleged character trait. However, measured simply by the percent of government expenditures allocated to domestic or international relief, compared with other developed nations, we tend to bring up the rear. And our foreign aid budget, excluding military outlays, is miniscule. We were even chastened publicly by a U.N. official and *The New York Times* for not giving more toward disaster relief in Asia after the 2004 tsunami.

But in charity and many other dimensions, we do seem to be a peculiar people, oftentimes to the consternation of the rest of the world. For example, much of our charitable assistance is private not public, whereas private philanthropy in Europe is practically nonexistent. In 2007, Americans—families, business firms and foundations—donated more than \$300 billion to charities, the bulk of which came from individual citizens.

Support for the visual and performing arts comes from the public trough in Europe, whereas here well-heeled benefactors, through annual giving and augmenting endowments, underwrite a substantial portion of the operating and maintenance costs; and we don't object to paying for our own concert tickets and entrance fees. Abroad, someone who actually gave money to a university would be considered in need of mental health counseling. (Our tax systems, such as the treatment of non-profit groups and tax credits for donations, provide indirectly as well.)

Furthermore, more than half of the U.S. population donates time to community activities and more far-flung causes; these volunteer efforts are larger and perhaps even more important than the dollar flows.

The combined contributions of time and money by Americans are large and impressive by themselves, but even more so from an economist's viewpoint because private initiatives to feed and care for the hungry, provide housing for the poor or respond to some unexpected tragedy entail what economists call a "public goods" problem. That is, while most of us want to pitch in, each of us has an incentive to sit back and others contribute. By itself, withholding our modest contribution won't make much difference one way or the other to the recipients, but then, collectively, our rational response is to not give at all. That is the primary reason why however well intentioned, attempts to redistribute significant amounts of money from rich to poor voluntarily usually fail, and thus we rely on the tax system, where we can't avoid the collection plate, to address this inherent defect.

By Allen R. Sanderson

As I have recently discovered, there is at least one other obstacle to overcome. Collectively, our charitable organizations march to different, and often times annoying, drummers. They, along with politicians, managed to get themselves exempted from normal non-solicitation or "do not call" restrictions that govern for-profit firms. How did they learn of my existence and proclivities to donate to worthy causes? Because they swap and barter their donor lists among themselves. When credit-card companies or long-distance phone

service providers do this, we condemn them roundly.

About this time last year, as part of my regular routine and feeling more generous than usual, I doubled the number of groups to which I usually write end-of-year checks. Within the next few months and throughout 2008, I heard from more than 10 times the number of these organizations which wanted me to support a cause or a perceived need. And unabated, my mailbox began to overflow with solicitations. I feel like I belong to some fruit-of-the-month club from hell. I now regularly receive on a monthly or even more frequent basis solicitation letters from humanitarian and other non-profit organizations that want me to respond to the latest crisis or their threatened budgetary shortfall, to help stamp out hunger or break the cycle of poverty, to assist refugees displaced by political strife, to augment funds available to help find a cure for a particular disease or to combat an on-going malady, to combat one alleged impending environmental disaster or another, to support right-wing or left-wing political organizations that want to ensure that human rights and individual freedoms are protected, at least according to their definitions and preferences, and, of course, to continue to support education and the arts, broadly defined to include almost any institution provides some programming or has exhibits that have to be fed or dusted on a regular basis. And all of these requests are, of course, urgent—it says so on the envelope.

I believe strongly in doing more than my part to alleviate suffering, and I hope that we will not be deterred by the short-term thought of our retirement funds or paychecks disappearing. Tough times, certainly, but it's no time to stiff those for whom life is tough every day. But I also don't believe, in tough times or not, in wasting money. So maybe this year it's time for some creative and corrective actions to discipline charities just as we do commercial establishments that are so heavily dependent upon on repeat business for survival. What could those be?

For starters, cross off any organization that uses the bulk of its contributions for administrative largess or cannot demonstrate that its activities are actually effective—shortcomings common to many of these feel-good groups. Maybe send a check and a note with a warning that if I hear from them again in the next six months, regardless of the calamity, I will cross them off next year's giving list. Refuse to contribute to any group that shares its donor names without first obtaining permission.

Or write a check for \$1 to each one, ensuring that at some point they will realize that it costs more to solicit me than they are going to get in return, and perhaps they will have an incentive to remove me from their (in many cases duplicative) solicitation lists; after all, while there will always be starvation, hurricanes and disease, that doesn't mean that the appropriate number of responding agencies is infinite.

Finding the right scale is important in virtually all enterprises; turning a cold shoulder to wasting scarce resources is not the same thing as being uncaring. And disciplining these groups will in the end alleviate suffering, not increase it. Then next year we can find ways to extend these efforts to the public sector. □