WHO? WHEN? WHERE? HOW? WHY?

SOME ECONOMIC PERSPECTIVES ON BENEVOLENT BEHAVIOR

BY ALLEN R. SANDERSON

Whether dropping coins into Salvation Army kettles or making public television pledges, in 2013 Americans will give more than $300 billion to charity and also volunteer countless hours. These individual contributions swamp amounts given by foundations and other sources, and they vastly exceed what is provided *comme d'habitude* in other nations.

Who and When?

However measured, there is a direct relationship between educational achievement and giving. The same holds for age: the old give more than the young. Women give more than men. There is no correlation between race/ethnicity and giving. And none of these groups is immune from the business cycle.

Income itself is more complicated. It seems to be U-shaped: the poor and the rich give more than the middle class. In a controversial 2006 book, *Who Really Cares*, public-policy scholar and American Enterprise Institute president Arthur C. Brooks compared giving habits of religious conservatives and secular liberals, and came to the conclusion one might expect from the AEI, though on the whole this volume is thoughtful and well-researched.

Co-mingling geography, politics and religion, "red" states give more than "blue" states.

Where?

Religious organizations are big recipients of charity, but it also depends on income level: those on the lower economic rungs are more likely to give to churches and synagogues, those higher up support the arts, higher education and environmental causes.

Reducing benefits to the rich—see below—would probably decrease the total amount of giving and also change its composition.

How?

Although there are the periodic food and clothing drives, charities prefer cash. To an economist the rationale is that money doesn't have the deadweight losses associated with in-kind transfers. And while volunteer activity is to be encouraged, the economist might suggest that "donors" spend that same amount of time in the office, where presumably their time is more valuable, and then donate these extra earnings. (Think opportunity cost and comparative advantage.)

Why?

In *The Wealth of Nations*, we find Adam Smith's famous assertion: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." Is charity just another good like beer or bread? Is giving different than any consumption decision from which one could derive personal satisfaction and perhaps garner some measure of social esteem?

The fact that donors usually choose the minimum contribution for membership or award categories, and only infrequently give anonymously, suggests that altruism is not the sole motivation.

And are the motives and marketing of charities any different than those of Ford, Anheuser-Busch, or a cell-phone provider? Like any firm they use resources to produce goods and services that appeal to their customers. In fact, learning some economic principles and business strategies would make non-profit organizations more effective.

D.C.

The 16th amendment, ratified in 1913, gave Congress the right to levy taxes on income. Four years later, Congress allowed taxpayers (who itemize) to exclude charitable contributions from their taxes. Though the tax code and other mechanisms are rife with subventions for activities or behaviors we may want to encourage, including supporting sports teams, luring corporate headquarters, or home ownership, should charity for the wealthy be one of them? (Three biggest "tax charity" recipients are mortgage interest payers, those who receive non-taxable employer-provided health benefits, and donors to generously-defined charities.)

To wit: For someone in a 30 percent tax bracket, that $1,000 United Way contribution only costs $700; $300 would have gone to the government otherwise. But a family in the bottom 40 percent of the income distribution that donates $1,000 to a church gets approximately $0 because it is unlikely to be paying any personal income tax at all, or at a far lower rate, so that gift may cost close to the full $1,000.

The U.S. has the most generous tax incentives and also the most charitable giving. Coincidence?

Down the Road

The political left and right have proposed various tax-code revisions—capping the amount one could deduct from an itemized list, or broadening the tax base and lowering tax rates. Both would effectively reduce the benefits of giving, especially at the top of the income ladder.

Perhaps one might want to tailor allowable deductions to match societal priorities—poverty v. education v. the environment v. abandoned animals v. disaster relief v. that second home v. political parties—thus redefining what constitutes charity and then prioritizing it. Doing them all is simply not an option: the "1%ers" don't have *that* much money to confiscate! ❑