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One Economist's View of Philanthropy

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THE theoretical economist's ideal model of the economic system is one in which each participating unit lives in its own compartment, completely isolated from all others except through the process of economic exchange. The market is such that prices are precisely determined by competitive forces as modified by taxes and other well-defined and specifically legislated provisions. Within these bounds each economic unit acts only in terms of its own direct interest, trusting in an unseen hand to bring harmony out of conflicting interests. But such a pure competitive economic system, even if it could be realized, would be far too rigid and heartless to serve as the economic basis for a tolerable society. To be viable at all, such a system must provide at least some softening of the corners and relaxation of the rigid rule of self-interest.

Some of this relaxation comes, in the earlier stages of economic development, from the sheer lack of universality in the economic system itself. Not every economic good acquires at the outset the characteristics of inviolable private property; gleaners, squatters, and scavengers eke out an existence in the interstices of the formal system. But as property rights become all-encompassing and the system becomes more complex, the interstices change in character: they are no longer the refuge of the dispossessed but rather the arena for the nimble, the venturesome, and often the unscrupulous. Whether from a growing social conscience, an advancing ethical standard, or response to the sheer importunities of the indigent, some forms of succor for the unfortunate or the underprivileged emerge as a significant element in nearly all the more highly structured civilizations. These range from

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casual almsgiving through tax-supported public welfare systems to international aid such as that under the Marshall Plan.

Voluntarism Versus Compulsion

Given that there are important functions to be performed outside the economist's marketplace, it becomes appropriate to attempt to appraise the various institutions performing them. One scale on which they can be ranged is the degree to which the individual contribution is voluntary rather than compulsory. At the one extreme lies the alms given in secret, for which there is no motive beyond the desire to respond to the promptings of conscience, and at the other is the heavy hand of the tax collector, obtaining funds for purposes which in many cases overlap considerably with those for which strictly voluntary gifts are used. Ranging in between are contributions made under varying degrees of social or other pressure, such as the importunities of the panhandler, the sanctions of the clerical hierarchy, the threat of social ostracism, the withdrawal of such benefits as good will, or the superstitious fear of losing the favors of Dame Fortune. The history of the development of the welfare state can be told, in part, in terms of the growing need for works of public beneficence beyond the ability or at least the willingness of the public to respond voluntarily, and the substitution of tax-financed welfare disbursements for voluntary charity as a consequence. An ultrarationalist might claim that the result of this trend would be to so develop public welfare programs that there would be little or no need for private charity. While there has been a pronounced shift, in recent decades, in the relative roles of tax-supported and voluntary public welfare outlays, there are limits beyond which this trend does not seem likely to go. Under almost any conceivable development of the public sector, there will remain areas where voluntary support will be more appropriate; and in many areas, where either method of financing might be possible, voluntary financing has advantages that are not to be lost sight of.

Church and State

One of the largest areas in which voluntary giving is likely to remain the main resource is the support of religious institutions. To be sure, in a theocratic state, support of the church and support of the state are often so intermingled that the distinction between tax and tithe almost disappears. In countries with an established church, establish-

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ment usually carries with it some degree of financial support from funds collected in a compulsory manner, whether termed taxes or tithes; however, this can vary all the way from virtually complete support to a mere grant of minor special privileges.

Even where the principle of separation of church and state is the rule, various privileges accorded churches and similar institutions amount to a fairly substantial subsidy. In the United States, their property, amounting to some \$15 billion, is largely exempt from property tax; at effective rates averaging probably between 1.5 and 2.5 per cent, this is an effective subsidy on the order of \$300 million. Even greater is the subsidy in effect granted through the deduction allowed for contributions in computing the individual income tax: of \$5.6 billion claimed for such contributions in 1958 returns itemizing deductions, probably \$3 billion or more went to religious organizations.¹ This is deducted in returns with marginal rates averaging about 30 per cent, indicating a subsidy on the order of \$900 million (in the sense that, had this \$3 billion not been given to churches, \$900 million of additional income tax would have been collected). In the face of subsidies thus aggregating over \$1 billion a year to specifically religious activities, the furor over public aid to religiously controlled or sponsored education, to say nothing of the use of public school buses by parochial school students, brings up questions of the relative digestibility of gnats and camels.

Nevertheless, separation of church and state requires, at the very minimum, that religious institutions have sufficient voluntary support to eliminate the danger that subsidization, through tax exemption or otherwise, will provide an occasion for undue interference of the state in the affairs of the religious body, or vice versa. State subsidies in the form of deductions allowed for contributions have the virtue that they are distributed with reference to the independent voluntary support that the various institutions attract, so that the question of budgetary allocation does not arise. Conversely, since the allocation is automatic, there is little likelihood that lobbying for an increased share will arise, though we have seen that where the degree of interest in specific activities, such as church controlled schools, varies among faiths, a religious issue can become intermingled with political issues.

While preserving a nation from the taint of establishment on the

¹ The American Association of Fund-Raising Counsel estimates that religion accounts for 51 per cent of all philanthropic giving, and presumably a larger proportion of individual than of corporate and foundation giving, but possibly a smaller proportion of upper income bracket giving covered by the standard deduction.

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one hand and godless secularism on the other does require some voluntary support of religion, this support need not be completely private, as tax deductibility shows, nor need it be in all cases strictly gratuitous. Though most forms of "selling" religious services have their obnoxious features, it must be recorded that in the past considerable revenues have been obtained for religious organizations by practices that range from simony in its explicit form, through sale of indulgences, fees for marriages and other rites, to pew rentals, and the like. While many of these practices represent relatively innocuous ways of obtaining church funds, the lingering taint of simony on the one hand and commercialism on the other has led to their deemphasis. Even where fees are retained in conjunction with religious rites, either the amount is left largely to voluntary determination, or an amount is specified for the aesthetic elaboration of a ceremonial which, in more spartan form, is available without charge. While the practice is often inferior to the theory, the ideals usually expressed concerning the financing of religious institutions call for voluntary contributions commensurate with the means of the faithful, and sanctioned primarily by the urgings of the individual conscience, rather than by any threat of ostracism or of the withholding of ritual benefits.

The practical working out of the separation of church and state however, has led to many economically wasteful practices. In many instances, public educational facilities are unavailable for activities that have a religious or sectarian aspect. This is one factor in the complex of forces that has resulted in a quasi-duplication of educational facilities, one set being used five days a week for secular education and the other, generally inferior set, being used often only one-half day per week for religious education. The situation is at its extreme when, under "released time" arrangements, students are dismissed from public school ahead of the normal time in order that they be enabled to attend religious classes of a type approved by their parents, but in separate, and in some cases distant, facilities. There would seem to be a significant inconsistency in subsidizing the construction of religious facilities through tax exemption on the one hand, while on the other denying the use of alternative facilities that would otherwise be idle, on the grounds that this would involve the establishment of a religion by the state. To be sure, many religious groups would doubtless still wish to provide separate facilities that could be more closely integrated with the other activities of the congregation, but in terms of the economics involved, if they choose to

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do this it should only be after considering the full costs of the alternatives.

As is usually the case with special tax exemptions, those to religious bodies involve special problems and unintended effects. Restrictions on tax exemption of church property vary from one local jurisdiction to another. In rare cases exemption is applied to all property owned by a religious organization, regardless of character or use. Where the religious organization is in a position to derive explicit revenue from the property, an exemption so inclusive is obviously open to serious abuse: its benefits are capable of being multiplied beyond all reason through the expansion of activities only remotely related to any religious purpose. Not only is the loss of revenue a problem, but in many cases there is more or less direct competition with enterprise not favored with comparable tax privileges, and there are obvious grounds for complaint.

In order to prevent such abuses, exemption is more often limited to that part of the property devoted specifically to a religious use and not operated for revenue. But this also, when applied too rigorously, leads to economic waste. A common example is that of a church, located near a suburban shopping center and railroad station, which is encouraged, if not actually required by zoning ordinances, to provide a parking lot on its property for its congregation. This lot is then kept vacant during most of the week, though neighboring streets are parked as solid as the regulations will allow, lest the revenues that might be obtained from operating the parking space during the week be considered to forfeit the tax-exempt status of the property.

Even where appropriate adjustments are possible, so that the more obvious inefficiencies do not arise, there is a considerable bias introduced into the choice of means by which philanthropic purposes are served: land and buildings are favored with tax exemptions which do not apply to salaries.² To be sure, this may be regarded as merely the removal of a bias which otherwise afflicts economic activity in general, but even so, the consequences are probably inferior to what would result if a less prejudicial form of support for the activity were available.

² Where education is concerned, this is another factor contributing indirectly to the tendency to provide bricks rather than brains.

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Public and Private Contributions

Even outside the peculiarly sensitive area of religion, there are large areas where for one reason or another the more cumbersome apparatus of the state seems a less appropriate means of effecting the desired results than private contribution. In some cases this is because the activity in question appeals to a restricted class of individuals: the maintenance of a dog cemetery, or the maintenance of bird sanctuaries, or support for the climbing of Mt. Everest. Examples of this sort are, however, increasingly hard to find: Goddard's experiments with rockets could not find support through public appropriations, but we now find a million-fold expansion of his line of effort carried out with public funds. Private philanthropy very often provides limited means for initiating an activity which may later receive large public support once its value has been demonstrated.

In some cases the advantage of privately financed philanthropy arises from a greater freedom of action: the ability to discriminate in dispensing benefits, for example, may be necessary either to arrive at clear-cut results or to prevent the available resources from being spread uselessly thin; public auspices are more likely to find themselves handicapped either by beneficiaries who congest facilities, demanding a share as of right, or by sheer bureaucratic demands for some sort of uniformity. The Arrowsmith dilemma is often a vexing one, but when it occurs in a public operation the choice of long-run scientific advance rather than short-run palliative is much more likely to seem, to many, an abuse of power.

Another reason for entrusting an activity to privately financed agencies is the cumbersomeness of public agencies in dealing with relatively small-scale activities. To be sure, a considerable degree of improvement is possible in the administration of support for small projects through the establishment of subsidiary agencies, subcontracting, and the like, but there is always the basic conflict between, on the one hand, the expenditure of the time and effort of high-level decision-making bodies on matters of small magnitude in which they have relatively little basis for judgment, and on the other, the dilution of underlying accountability and responsibility to the point where there are excessive opportunities for waste or extravagance (or merely the undue promotion of the hobbies of individual administrators).

Closely related to this is the idea that activities financed through voluntary contributions are more efficiently and more economically

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carried out than when financed from public funds. Certainly administrators and employees of voluntary agencies who are aware that they are spending the widow's mite, or that the probability is slight that "there is more where that came from" are likely to be somewhat more concerned to use what they have carefully than where the vast resources of the state are available. An additional argument often cited is the fact that voluntary agencies are often able to secure conscientious work at wages that are considerably below the rates which comparable work would command in public employment, and below the going rates generally; in addition a considerable amount of free volunteer service is often obtainable. But too much should not be made of this: the response to the proposal for a Peace Corps indicates that under proper circumstances large amounts of volunteer effort can be mobilized under public as well as under private auspices; the ability to secure competent services at lower wage rates should properly be regarded not as an economy in the use of resources, but partly as the eliciting of an additional contribution in kind from these employees. It is possible that if these employees were to do the same work under public auspices at higher pay they would devote part of the difference to the support of other philanthropy. It is also possible that they derive more immediate satisfaction from doing the work under private auspices than they would under public; indeed, in a completely rational market this would be the necessary inference to be drawn from the fact of the wage differential.

To some extent, also, this efficiency differential may be considered a scale effect: where an activity is conducted on a large scale, and especially where it acquires a quasi-official status, as with the Red Cross, the identification of the administrator or employee with the contributor tends to diminish, and the pressure for efficiency tends to relax. Moreover, in large scale philanthropic enterprise there is often no clear-cut criterion of efficiency comparable to that provided in a large industrial organization whose accounting procedures provide allocated profits and losses as figures of merit. To this extent, then, the argument for voluntary activity on the basis of efficiency may be applicable primarily to activities that can be carried out on a small scale rather than those which by their nature require large scale effort.

Costs of Financing

Over-all efficiency is not merely a matter of expenditure of funds, but also of their collection. Here the picture is confused and the variety of

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situations is great. The marginal cost of public funds can be thought of as comprising three components: the marginal administrative cost of collecting increased sums in taxes, the marginal taxpayer compliance cost occasioned by an increase in the tax burden, and the marginal misallocation cost. Misallocation cost is the loss of economic efficiency which results from the distortions introduced into the operation of the economy by increasing tax rates and which induces more and more drastic adaptations, taken either directly or at several removes, to the changes in relative opportunities which the tax increase brings about. These adaptations may or may not have as a conscious intent the minimization of the tax burden. Rough ideas of average administration and compliance cost are comparatively easy to come by; the corresponding marginal costs may be somewhat more elusive, but in most cases will be relatively modest. Of course, one must be wary of estimating marginal administrative and compliance costs on the basis of the assumption that an increase in public expenditure is automatically to be covered by a simple increase in, say, the individual income tax rates. It cannot be concluded thereby that, since the only difference is in the size of the figures on the returns, these marginal costs will be negligible. Rate increases tend to provoke elaboration of the law, the litigation of issues that otherwise would not be raised, and increased evasion which in turn calls for increased countermeasures; moreover increased pressure for revenue may induce the introduction of new taxes. But by and large these costs will be minor. The misallocation cost is the great uncertainty, and in the absence of well-grounded estimates, opinions as to the magnitude of this cost will vary widely according to political complexion. A low over-all estimate for the cost of federal funds might run as low as 10 per cent, whereas for a hard pressed municipality with a poorly administered tax system the marginal cost of public funds might well run as high as 50 per cent.

The cost of voluntary contributions has a somewhat different composition. There is little here to correspond to the misallocation cost involved in taxation; it is difficult to think of potential contributors taking any drastic action to avoid the obligation to contribute, although some avoidance action may take place. Travellers may consciously or unconsciously avoid areas where beggars abound; in our own culture the prevalence of unlisted telephones may be, in small part, a corresponding phenomenon. But in the aggregate this is likely to be a negligible matter. Similarly, the time the individual takes in examining various appeals and discarding them or responding to them

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is probably far smaller in absolute amount than the effort expended in preparing tax returns, though in proportion to the total volume of contributions it may be more nearly comparable. The marginal effect may also be relatively larger: a larger aggregate of contributions probably means a larger number of appeals and of responses, to a much greater extent than a larger tax burden means a more numerous array of taxes.

The cost of solicitation is another matter. In cases bordering on fraud, costs have been known to cover a major fraction of the receipts. At best, even a minimal solicitation, acknowledgment, and maintenance of lists of contributors is likely to be a substantial fraction of the cost of operation. This is particularly true of any organization that depends on the repeated contributions of large numbers of small contributors rather than the special favor of a few large contributors or foundations.

The nominal costs of solicitation may not, however, be a true representation of social costs. A considerable amount is often spent for reports and other literature produced either as an essential part or as an adjunct to the principal activity of the agency. At one extreme the value of this information to the contributor as a matter of interest or usefulness may justify the cost of its distribution, wholly aside from any incidental effect that its distribution may have in encouraging contributions. At the other extreme the literature may be of little value except as a means of inducing the contributor to maintain his contributions. Since not much is available in the way of uniform reports on the outlays of philanthropic agencies, particularly of the smaller units, the question of where particular agencies draw the line between outlays for fund raising and outlays for other activities is largely academic.

Many agencies in raising funds find it psychologically effective to affix postage stamps to the return envelopes, which constitutes a somewhat different type of expense than that involved in other costs associated with fund raising. Since this involves a lower postage rate than when business reply envelopes are used, there may even be some saving in those cases where the response rate is high. To the extent that the rate differential reflects the extra cost to the post office of handling business reply mail, this saving is a genuine one in terms of resources. On the other hand if a fairly large percentage of the postage stamps remain unused, this is in effect a diversion of some of the contributed funds to the post office, as a kind of offset to the benefits of tax exemption. To the extent that some of the addressees are induced to spend

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time and effort salvaging the stamps, this is then of course part of the net social cost of the fund-raising operation. If this practice is psychologically effective, however, it probably impairs rather than improves the degree to which philanthropic contributions reflect the genuine underlying interests of the contributors.

There are other methods of raising philanthropic funds which have their own peculiarities, ranging from the church bazaar through bingo to the beaux-arts ball. The varied motivations for and benefits derived from these activities in addition to the fund-raising goal resist easy generalization. At one extreme the philanthropic aspect does little more than cast a mantle of respectability over indulgences that would otherwise be condemned; too often the price exacted for this cachet is absurdly low. In other instances the benefit becomes an activity worthwhile in its own right and needing only the catalyst of charitable purpose to bring it off. But there are many cases where a cold hard look at the relation between the results and the effort and sacrifice that went into them would produce a finding that the game was not worth the candle. To be sure, all ventures, whether for profit or for charity, entail some risk; the peculiar mixture of free and costly goods and services in philanthropy makes the evaluation of the results peculiarly difficult.

Interaction in Giving

There remains, however, perhaps the largest and the most difficult element in the social cost of voluntary and of public finance: the meaning to the contributor of giving up the amount contributed, voluntarily at one extreme and compulsorily at the other. A strict positivist might claim that in the case of a voluntary contribution the donor, on balance, gains in satisfaction at least as much as he would by spending the money in other ways (otherwise he would not have made the contribution). This might be valid in the case of an atomistically motivated contribution; in practice however we are in a situation akin to that of monopolistic competition where one's own behavior is expected to influence that of others, and so in making a choice one must allow not only for direct, but also for these indirect effects. The phrase sometimes used in connection with more substantial donations "in consideration of the gifts of others" is not a mere legal form but has economic substance. Financing a given public welfare service by taxation in a community of peers could then be considered merely a formalization of this implied agreement. Even if we set up a rigorous

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model of the situation, including the living standards of all members of the community as arguments in the utility function of each donor, it is no longer necessary to say that a donation by *A*, designed to increase the standard of living of *X*, *Y*, and *Z*, must yield *A* as much utility through this effect as it would if spent to raise *A*'s own standard of living. *A* will expect that *B* and *C* may also be induced by his gift to contribute to the same or similar objectives. The combined effects of *A*'s original gift plus that of the induced gifts on the standard of living of *X*, *Y*, and *Z* will provide for *A* a level of satisfaction equal to what he would have obtained had he kept the amount of his contribution for himself. Indeed, in some instances this interdependence of giving is formalized by the device of conditional or matching gifts, whereby a donor pledges to contribute a given amount provided that some specified amount is raised from other sources, or agrees to contribute in proportion to the gifts obtained from others. The donor might derive satisfaction from the direct consequences of his gift, sufficient to compensate him for making it, even without considering the effects of the gifts induced from others, but some fairly significant degree of interdependence does exist. From the point of view of welfare economics, this can be considered as a case of compounded external economies: not only do the expenditures of *X*, *Y*, and *Z* have favorable neighborhood effects on *A*, but the facilitating of these expenditures by *A* has favorable repercussions on *B* and *C*, and vice versa.

On the other side, it is not always clear that the payment of a tax or compulsory contribution is to be considered a clear net burden on the taxpayer, even before the benefits purchased with the tax are taken into consideration. If all similarly situated individuals are required to pay comparable tax increments, each taxpayer may feel relatively just as well off. In absolute terms, he may feel considerably better off than he would have felt if he had been singled out for a discriminatory levy. There is even some experimental evidence for this contention in the results of certain game experiments conducted at RAND and elsewhere. These indicate that at least in some situations in which the possibility of a competitive relationship is present there is a natural tendency on the part of individuals to maximize their relative rather than their absolute position. In the situations studied, two individuals not known to each other and having no direct means of communication with each other were asked to select on a given signal one of two actions, there being four possible combinations thus resulting. Previous to each series of trials each of the two individuals was shown a payoff matrix

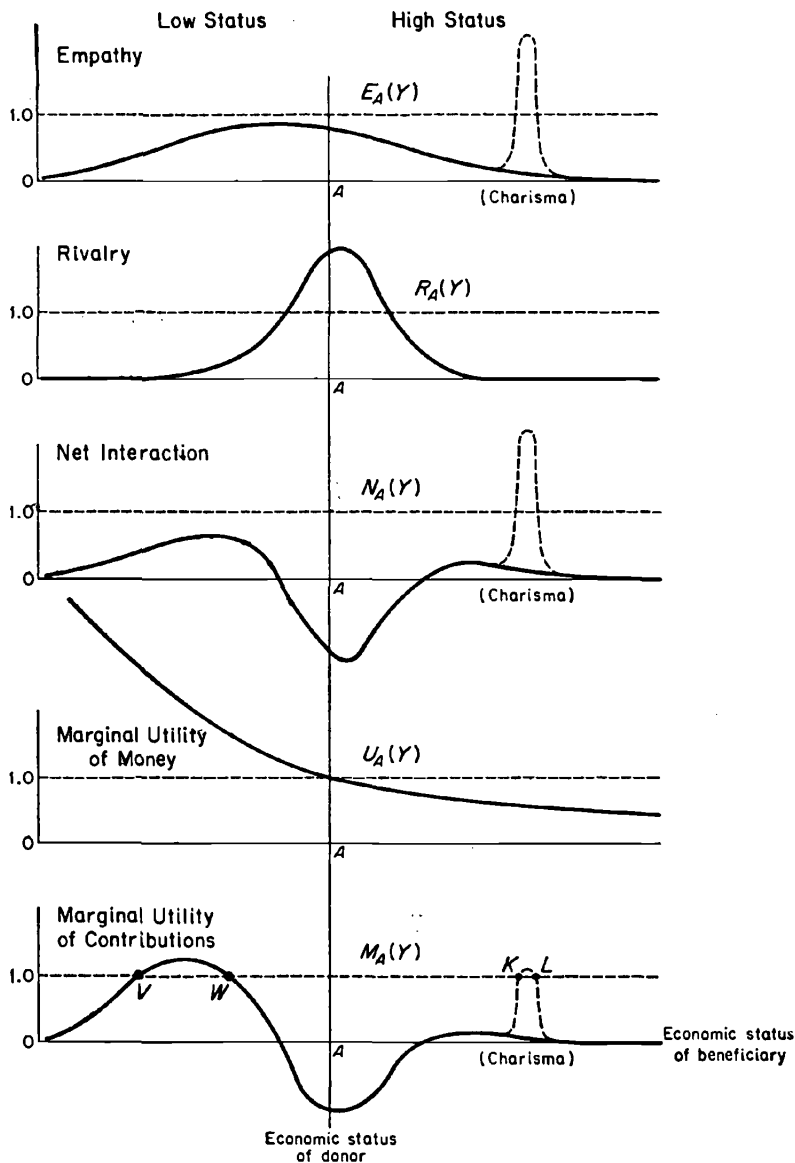
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specifying the amounts that each player was to receive in the event of each of the four outcomes, the sum of the winnings of the two players being variable rather than constant. Results differed with variously structured payoff matrices, but the principle upon which a wider variety of the results could be rationalized than any other was that the players acted with the intention of maximizing the difference between their own winnings and those of their opponents.

There is, to be sure, a certain element of contradiction between a hypothesis that the motive of A is to outdo B and that hence B 's success is a negative element in A 's satisfaction, on the one hand, and that A can derive satisfaction from improvements in the situation of X , Y , and Z resulting from his gifts and those induced thereby from others. But this contradiction can probably be adequately resolved by assuming that where the individuals involved are of roughly comparable status, as A and B , the competitive or negative element may tend to predominate, particularly in a situation structured to resemble a game where success tends to be regarded as predominantly a relative matter, whereas between individuals such as A and X , comparability is so remote as to make any competitive element almost irrelevant, and the element of empathy becomes controlling.

This situation can be roughly pictured in the following diagram. We can think of individuals ranked along a line according to income or economic status, Y , relative to a particular individual A ; the degree to which A obtains satisfaction from the welfare of others may be described in a curve $E_A(Y)$, which typically has a peak near A and tapers off in either direction, the exact shape depending on the temperament of the individual A ; a secondary and fairly sharp peak may exist for some charismatic leadership group near the top of the status scale. Similarly, we can describe the influence of the typical rivalry between A and others in a curve $R_A(Y)$, somewhat similar to $E_A(Y)$, but much more sharply peaked, dropping off rapidly to a level of practically zero within a relatively short distance on either side. Rivalry being a negative interaction and empathy a positive one, by subtracting R from E we get the net interaction or neighborhood effect, $N_A(Y)$, which may be negative in the neighborhood of A , but can be thought of as having a positive peak at an income some distance below Y_A , and possibly one or two other peaks at an income above Y_A . Further, we can draw a marginal utility of income curve $U_A(Y)$, as perceived by A , representing the amount of satisfaction that A thinks individuals at different income levels will receive from an increment of income (or of expenditure on their behalf) and multiply

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$N_A(Y)$ by $U_A(Y)$, and also by a factor representing the "contagion effect" of A 's contributions on the contributions of others (it would be very difficult to say anything specific about the variation of this contagion effect between contributions for activities benefiting different

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income levels); the result can be shown as a curve $M_A(Y)$, representing the marginal utility to A of a contribution by him for the benefit of persons of status Y . If a horizontal line is drawn at a level representing the marginal utility of income to A , cutting $M_A(Y)$ at V and W , and possibly also at K and L , then the individuals in the status range indicated by V and W can be considered the natural objects of A 's bounty. The possible KL range can be considered to cover the case of the charwoman who knits a shawl for the princess, or more generally of the MP who as her representative votes for a substantial civil list, though cases of this sort can be fitted only somewhat awkwardly into such a scheme.

Of course, in addition to distances measured by income or economic status, there will also be distances in terms of age, race, culture, geographic location, and other characteristics to which a similar discussion might apply.

The net result of these considerations seems to be that it is not possible to say anything very definite from a strictly behavioral point of view on the relative subjective sacrifice involved in the making of a gift and the payment of a tax, though on balance the evidence may seem to point to the tax as more painful than the gift, but not by anything like the amount of loss suffered, say, if the same quantum of resources had been destroyed by some uninsured catastrophe.

Philanthropy and Redistribution

Private and public philanthropy are both often regarded primarily as instruments for the redistribution of resources so as to diminish economic inequalities. But the differences between the degree to which public and private philanthropy accomplish this are probably much more striking, in terms of the evidence available, than casual observation would lead one to expect. The analysis of the preceding section might indicate that the natural objects of philanthropy of a given economic stratum are those located only a moderate distance down the scale, rather than at the bottom. Such data as we have as to the character of giving indicate that the difference in economic level between donor and beneficiary is comparatively small. According to the 1950 BLS-Wharton School sample survey, 32.6 per cent of all gifts were in the nature of family and reciprocity gifts having a minimal redistributational content; 21.4 per cent were gifts for the support of individuals, including alimony, representing some redistribution, but in most cases largely among relatives and spanning a relatively narrow

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spread of status. Another 29.4 per cent of all giving was to religious institutions, and while these might be thought of as agencies through which redistribution would take place, a very large fraction of this amount is spent for the maintenance of activities in the congregation, and only a minor fraction finds its way to the support of outside activities. Moreover, as public welfare agencies have taken over a large portion of the burden of caring for the indigent, the channeling of alms through religious agencies has correspondingly diminished in importance. Further, the ratio of gifts to religious organizations to discretionary receipts was remarkably constant over all the income levels covered by this survey. To consider that redistribution amounts to any very substantial part of this category of contribution would require the assumption that the individual's share in the consumption of religious services constitutes, in technical economic terms, a very "inferior" good, indeed!

The next largest single category among objects of individual philanthropy is education. Here again, casual observation suggests that the beneficiaries tend to belong to social and economic strata not very far removed from those of the donors: private schools and colleges are supported in considerable measure by their own graduates; students at such institutions are often drawn from social strata not far removed from those of the chief benefactors, and even scholarship holders come in large measure from middle class rather than the poorest strata in the population. Indeed, some of the giving of this kind could well be regarded as the repayment of a loan or at least of the reciprocation of a previous gift, and thus have no redistributive consequences at all.

Not enough is known about the remainder of private philanthropy to warrant much being said without further appraisal. But the overall picture would appear to remain one in which the role of philanthropy in redistribution is relatively slight.

This impression is somewhat reinforced by the examination of the figures available from income tax returns on the distribution of charitable contributions by income classes. Data on contributions are unfortunately limited to those returns of taxpayers who elect to itemize deductions; in 1958, the latest year for which data are available, such returns were only 35 per cent of the total number, though they accounted for slightly over half of the adjusted gross income. As shown in Table 1, the proportion of returns that itemize deductions increases steadily with income. It can be presumed therefore that, since a relatively large amount of contributions would be one of the factors inducing taxpayers to itemize, *ceteris paribus*, the itemizing taxpayers

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TABLE
REGRESSIVITY OF NET CHARITABLE
(money figures in

Adjusted Gross Income Class	Total No. of Returns (1)	No. of Itemizing Returns (2)	Per- centage of Re- turns Itemiz- ing (3)	Gross Contributions of Itemizers (4)
None	384,258	—	—	—
Under .6	3,950,030	26,090	0.66	2,164
.6 to 1.0	3,060,247	207,591	6.78	14,435
1.0 to 1.5	4,120,276	451,900	10.97	41,067
1.5 to 2	3,570,536	613,555	17.18	66,235
2 to 2.5	3,689,218	845,169	22.91	104,089
2.5 to 3	3,723,909	962,390	25.84	134,649
3 to 3.5	3,742,848	1,126,380	30.09	176,263
3.5 to 4	3,729,578	1,304,349	34.97	218,021
4 to 4.5	3,745,242	1,452,898	38.79	263,750
4.5 to 5	3,639,977	1,574,279	43.25	298,951
5 to 6	6,375,555	3,253,856	51.04	654,731
6 to 7	4,676,947	2,605,487	55.71	602,241
7 to 8	3,226,844	1,797,271	55.70	457,855
8 to 9	2,171,701	1,223,286	56.33	348,207
9 to 10	1,452,594	795,245	54.75	252,924
10 to 15	2,488,095	1,496,835	60.16	610,286
15 to 20	588,262	425,450	72.32	249,564
20 to 25	264,732	213,829	80.77	161,334
25 to 50	369,939	325,166	87.90	373,703
50 to 100	91,715	88,070	96.03	254,865
100 to 150	14,080	13,811	98.09	99,799
150 to 200	3,863	3,804	98.47	48,984
200 to 500	3,956	3,934	99.44	115,374
500 to 1,000	536	534	99.63	47,424
1,000 & over	244	243	99.59	96,921
Total	59,085,182	20,811,422	35.22	5,693,836

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1

CONTRIBUTIONS, 1958
thousands of dollars)

Adjusted Gross Income of Itemizers (5)	Col. 4 Col. 5 (per cent) (6)	Net Cost of Contrib- tions (7)	Disposable Income (8)	Col. 7 Col. 8 (per cent) (9)
—	—	—	—	—
10,046	21.54	2,164	a	a
174,300	8.28	13,626	116,505	11.70
578,099	7.10	37,343	386,684	9.66
1,077,804	6.15	58,034	757,164	7.66
1,905,776	5.46	89,656	1,392,209	6.44
2,653,578	5.07	114,048	1,970,476	5.79
3,659,665	4.82	146,627	2,731,357	5.37
4,900,598	4.45	179,374	3,681,170	4.87
6,172,608	4.27	214,427	4,634,058	4.63
7,481,243	4.00	249,627	5,639,531	4.43
17,837,342	3.67	539,887	13,343,556	4.05
16,861,809	3.57	485,414	12,580,871	3.86
13,430,839	3.41	366,550	9,959,190	3.68
1,354,116	3.36	271,653	7,645,980	3.55
7,525,975	3.36	197,250	5,527,028	3.57
17,710,772	3.45	473,574	13,005,654	3.64
7,297,241	3.42	172,665	5,323,023	3.24
4,758,024	3.39	104,426	3,418,940	3.05
10,913,850	3.42	207,649	7,460,084	2.78
5,823,403	4.38	93,790	3,553,809	2.64
1,615,248	6.18	26,244	923,337	2.84
651,423	7.52	9,970	377,432	2.64
1,109,114	10.40	12,440	649,997	1.91
357,883	13.25	4,172	231,307	1.80
498,205	19.45	8,481	353,896	2.40
145,358,961	3.92	4,079,091	105,663,258	3.86

a Negative disposable income.

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will, on the average within each income class, make relatively greater contributions than nonitemizing taxpayers. Nevertheless, over ranges where the proportion of itemizing taxpayers does not change too abruptly, the figures presented in Table 1 represent reasonably well the degree to which contributions are concentrated in the upper income classes.

Column 6 shows the crude ratio of gross contributions reported to the adjusted gross income of itemizers. It is seen that in the lower income classes singling out the itemizers is highly selective of those taxpayers with relatively large contributions. This selectiveness is somewhat less severe as incomes increase; the proportion of contributions drops to a low of 3.36 per cent in the \$8,000-\$9,000 class, thereafter rising gradually to a maximum of nearly 20 per cent for incomes over one million dollars. This is a reasonably progressive showing, particularly as the maximum limit for the individual on the deduction of contributions is in most cases 30 per cent of adjusted gross income.

To assess properly the effect of contributions on the distribution of income, however, it is necessary to consider the fact that only part of the gross contribution reported represents a net sacrifice to the taxpayer; depending on the marginal tax rate, a fairly substantial part of the cost of the contributions represents a reduction in the tax that would otherwise have become due. On the basis of a composite weighted mean marginal rate, derived from the marginal rates for the various categories of taxpayers in each income class, the net cost of the contributions is given in column 7. It is appropriate to consider this net cost in relation to the net disposable income the taxpayer would have had, had he made no contributions (see col. 8 of Table 1). This is obtained by taking total income, correcting it to reflect in full the capital gains and losses reported for the current year, subtracting all allowable deductions, and also the income tax itself, and adding the cost of the contributions as given in column 7. The resulting ratios are given in column 9, where it is apparent that instead of the proportion of contributions increasing with income, there is a substantial and steady decrease in the percentage of disposable income sacrificed, except for a modest increase in the top income class.

These figures are also, of course, subject to considerable bias through the selective effect of considering only itemizing returns, but this factor is hardly sufficient to change the general picture for income classes above \$5,000. There are other biases that would tend to strengthen the trend shown: in the absence of data, no adjustment was made to include tax exempt interest and similar items in the disposable in-

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come. Nor are capital gains unreported for income tax purposes represented in the figures, whether because the assets are held to the death of the taxpayer or, more relevantly for present purposes, because they are used as the medium in which the gift is made. In this latter increasingly frequent case, not only is the gain not reported, but the full market value of the asset is used as the basis for the charitable deduction, so that the cost of the contribution is even less, on this account, than that shown in the table. While this practice is one well-known to fund raisers, there are no data available on its magnitude. Its prevalence, however, should quiet any qualms that one might have about the inclusion of realized capital gains in a disposable income figure to which the cost of the contribution is to be related.

To what extent does the tax deductibility of gifts stimulate giving? Unfortunately the data available provide very little evidence on this question. At the lower level, we do have separate data for taxable and nontaxable returns at the various income levels, but the effect of selecting only itemized returns is to make the ratio of gifts to disposable income uniformly higher for the nontaxable returns (Table 2). Also, since the classification of returns is by adjusted gross income, returns in a given income class are more likely to be nontaxable if they have large contributions. The combined effect of these two influences is to mask completely any possible tendency for the tax deduc-

TABLE 2

CONTRIBUTIONS IN TAXABLE AND NONTAXABLE RETURNS, WITH ITEMIZED DEDUCTIONS, 1958

ADJUSTED GROSS INCOME CLASS (thousands of dollars)	TAXABLE RETURNS			NONTAXABLE RETURNS			Ratios of Gross Contribution to Adjusted Gross Income (per cent.) Tax. Nontax.		Ratios of Net Cost of Contribution to Disposable Income (per cent) Tax. Nontax.	
	Total Number	Itemizing		Total Number	Itemizing					
		Number	Per Cent of Total		Number	Number	Per Cent of Total			
None	—	—	—	384,258	—	—	—	a	—	b
Under .6	—	—	—	3,950,030	26,090	0.66	—	21.54	—	b
.6 to 1.0	1,296,407	67,066	5.17	1,763,840	140,525	7.97	6.76	9.07	6.51	15.56
1.0 to 1.5	2,127,075	228,159	10.73	1,993,201	223,741	11.23	6.42	7.79	6.91	13.12
1.5 to 2.0	2,111,329	389,618	18.45	1,459,207	223,937	15.34	5.94	6.51	6.31	10.63
2.0 to 2.5	2,537,591	584,426	23.03	1,151,627	260,743	22.64	5.45	5.49	5.82	7.96
2.5 to 3.0	2,807,388	744,640	26.52	916,521	217,750	23.76	5.02	5.26	5.34	7.38
3.0 to 3.5	3,062,908	948,514	30.97	679,940	177,866	26.15	4.80	4.88	5.09	7.00
3.5 to 4.0	3,232,549	1,147,777	35.51	497,029	156,572	31.50	4.37	5.06	4.59	7.09
4.0 to 4.5	3,488,552	1,339,914	38.41	256,690	112,984	44.01	4.22	4.91	4.45	6.82
4.5 to 5.0	3,465,499	1,488,801	42.96	174,478	85,478	48.99	3.97	4.45	4.32	6.39
5.0 and over	21,522,836	12,114,799	56.29	206,227	132,022	64.17	3.66	7.04	3.47	12.17
Total	45,652,134	19,053,714	41.74	13,433,048	1,757,708	13.08	3.85	5.80	3.71	8.73

^a Negative adjusted gross income.

^b Negative disposable income

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TABLE 3

EFFECTS OF TAXABILITY AND NONITEMIZING ON REPORTED CONTRIBUTIONS, 1940-41

INCOME CLASSES ^a (thousands of dollars)		THOUSANDS OF RETURNS				Percentage of Returns		Ratio of Gross Contributions to Net Income in Itemizing Returns (per cent)	
		Itemizing		Nonitemizing		Itemizing			
		1940	1941	1940	1941	1940	1941	1940	1941
0 to 1	Taxable	529	794	—	894	100	47.0	2.86	4.24
	Nontaxable	1383	1143	—	369	100	75.6	2.67	3.58
	Total	1912	1937	—	1263	100	60.5	2.73	3.90
1 to 2	Taxable	2905	3403	—	3277	100	50.9	2.68	3.21
	Nontaxable	2108	2334	—	2527	100	48.0	1.56	1.93
	Total	5013	5737	—	5804	100	49.7	2.19	2.70
2 to 2.5	Taxable	914	2317	—	1275	100	64.5	2.12	2.41
	Nontaxable	2545	553	—	958	100	36.6	0.92	1.58
	Total	3459	2870	—	2233	100	56.2	1.25	2.25
2.5 to 3	Taxable	912	1695	—	753	100	69.2	2.10	2.33
	Nontaxable	887	150	—	199	100	43.0	1.03	1.54
	Total	1799	1845	—	952	100	66.0	1.56	2.27
3 to 4	Taxable	1014	1644	—	—	100	100	2.08	2.04
	Nontaxable	6	33	—	—	100	100	1.23	1.14
	Total	1020	1677	—	—	100	100	1.93	2.02
4 to 5	Taxable	394	514	—	—	100	100	2.11	2.12
	Nontaxable	^b	1	—	—	100	100	(1.80)	(1.27)
	Total	394	515	—	—	100	100	2.11	2.12

^a Itemizing returns by net income; nonitemizing, by gross income.

^b Less than 500.

tion in taxable returns to induce a higher level of giving. Data for earlier years is available by net income classes, and without the complication of the nonitemizing return; the data for 1940 and 1941 are compared in Table 3, showing the effect of the introduction of the standard deduction for returns under \$3,000; Table 4 compares 1943 and 1944, showing the effect of extending the standard deduction privilege to incomes above \$3,000. However, the data are open to the interpretation that the taxability of the return merely makes the taxpayer more careful to list all of his contributions, whereas the filer of the nontaxable return may simply not bother to list all of his deductions, even though his contributions may be just as large.

TABLE 4

EFFECTS OF TAXABILITY AND NONITEMIZING ON REPORTED CONTRIBUTIONS, 1943-44

INCOME CLASSES ^a (thousands of dollars)		THOUSANDS OF RETURNS				Per Cent of Returns		Ratio of Gross Contributions to Net Income in Itemizing Returns (per cent)	
		Itemizing 1943	1944	Nonitemizing 1943	1944	Itemizing 1943	1944	1943	1944
<i>Taxable and Nontaxable Returns</i>									
Negative	Nontaxable	17	192	—	—	100.0	100.0	—	^b
0 to 0.5	Taxable	218	—	—	—	100.0	—	8.33	—
	Nontaxable	644	80	1601	3181	28.7	2.4	4.62	9.70
	Total	862	80	1601	3181	35.0	2.4	5.55	9.70
0.5 to 0.75	Taxable	754	131	1293	1914	36.8	6.4	5.06	5.80
	Nontaxable	208	159	376	693	35.6	18.7	2.03	9.43
	Total	962	290	1669	1607	36.6	15.3	4.45	7.46
0.75 to 1.00	Taxable	1106	304	2016	2646	35.4	9.6	4.46	6.57
	Nontaxable	121	103	95	117	56.0	46.8	2.38	6.76
	Total	1227	407	2111	2763	36.7	12.8	4.25	6.61
1.00 to 1.25	Taxable	1332	412	2276	3065	36.9	11.9	4.25	6.54
	Nontaxable	128	66	111	71	53.5	48.2	1.50	8.28
	Total	1460	478	2387	3136	38.0	13.2	4.01	6.72
1.25 to 1.50	Taxable	1467	469	2313	3044	38.8	13.4	3.89	6.30
	Nontaxable	—	95	—	—	—	100.0	—	7.39
	Total	1467	564	2313	3044	38.8	15.6	3.89	6.45
<i>Taxable</i>									
1.50 to 1.75		1517	512	2371	2947	39.0	14.8	3.64	6.15
1.75 to 2.00		1646	523	2135	2880	43.5	15.4	3.38	5.70
2.00 to 2.25		1628	513	1842	2617	46.9	16.4	3.20	5.50
2.25 to 2.50		1579	511	1556	2359	50.4	17.8	1.86	5.33
2.50 to 2.75		1446	519	1289	2268	52.9	18.6	3.09	5.02
2.75 to 3.00		1680	495	1069	2019	61.1	19.7	2.74	4.89
3.0 to 3.5		2991	873	—	3260	100.0	21.1	2.42	4.83
3.5 to 4.0		1685	621	—	2165	100.0	22.3	2.37	4.72
4.0 to 4.5		902	422	—	1356	100.0	23.7	2.32	4.77
4.5 to 5.0		509	273	—	766	100.0	26.3	2.27	4.46
5 to 6		469	305	—	628	100.0	32.7	2.27	4.49
6 to 7		250	174	—	244	100.0	41.6	2.31	4.38
7 to 8		166	97	—	123	100.0	44.1	2.26	4.04
8 to 9		120	73	—	78	100.0	48.3	2.28	3.93
9 to 10		95	58	—	54	100.0	51.8	2.25	3.85
10 to 15		231	180	—	118	100.0	60.4	2.11	3.52
15 to 20		101	93	—	14	100.0	71.5	2.12	3.21
20 to 25		54	53	—	14	100.0	79.1	2.15	3.07

^a For 1943, net income; for 1944, adjusted gross income.^b Negative income.

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TABLE 5
PROGRESSIVITY OF NET CHARITABLE BEQUESTS, 1959
(money figures in thousands of dollars)

GROSS ESTATE CLASSES	TAXABLE AND NONTAXABLE ESTATES			NONTAXABLE ESTATES		
	Disposable Estate (1)	<i>Net Cost of Charitable Bequests Per Cent of Disposable Estate</i>		Disposable Estate (4)	<i>Net Cost of Charitable Bequests Per Cent of Disposable Estate</i>	
		Amount (2)	(3)		Amount (5)	(6)
0 to 60	450	—	—	450	—	—
60 to 70	365,685	7,138	1.95	250,625	7,033	2.81
70 to 80	426,829	7,671	1.80	192,765	7,069	3.67
80 to 90	403,697	9,303	2.30	183,464	8,353	4.55
90 to 100	586,049	6,534	1.69	180,359	5,560	3.08
100 to 120	694,739	12,846	1.85	315,741	10,399	3.29
120 to 150	825,212	17,218	2.09	153,383	12,914	8.42
150 to 200	928,677	22,930	2.47	44,413	16,805	37.84
200 to 300	1,101,702	30,580	2.78	29,005	17,784	61.31
300 to 500	1,062,246	41,110	3.87	22,598	19,233	85.11
500 to 1,000	1,111,714	57,663	5.19	19,051	16,212	83.13
1,000 to 2,000	714,490	44,834	6.27	8,737	7,544	86.35
2,000 to 3,000	280,095	35,316	12.61	5,191	3,748	72.20
3,000 to 5,000	224,218	28,731	12.65	2,421	2,382	98.39
5,000 to 10,000	205,581	22,705	11.04	4,607	1,707	37.05
10,000 to 20,000	131,592	12,466	9.47	—	—	—
20,000 and up	68,793	23,283	33.85	—	—	—
Total *	9,068,299	516,447	5.695	1,435,603	159,536	11.11

* Calculated from average ratios.

Other somewhat inconclusive evidence may be gleaned from estate tax returns. Here the calculation of the ratio of net cost of contribution to net disposable estate shows a definite though somewhat irregular increase with size of gross estate (Tables 5 and 6). On the whole one would expect that a wealthy taxpayer, anxious to take full advantage of the tax deduction, would do his giving during his lifetime so as to obtain the benefit of the income tax deduction in addition to the avoidance of the estate tax. But of course a similar argument could be made in favor of noncharitable *inter vivos* dispositions to take advantage of the gift tax. In some cases earlier disposition during

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TABLE 6

EFFECTS OF CLASSIFICATION BASIS ON CHARITABLE BEQUEST RATIOS, 1959

CLASSIFICATION BY NET ESTATE ^a			CLASSIFICATION BY GROSS ESTATE			
<i>Net Estate Classes</i> (thousands of dollars) (1)	<i>Charitable Bequests as Percent- age of Gross Estate</i> (2)	<i>Average Gross Estate</i> (thousands of dollars) (3)	<i>Gross Estate Classes</i> (thousands of dollars) (4)	<i>Charitable Bequests as Percentage of Gross Estate</i>		
				All Estates (5)	Taxable Estates (6)	Nontaxable Estates (7)
Under 60	—	52.0	Under 60	—	—	—
			60 to 70	1.78	0.09	2.51
			70 to 80	1.64	0.26	3.25
			80 to 90	2.11	0.44	4.08
			90 to 100	1.55	0.49	2.77
60 to 80	1.97	102.5	100 to 120	1.70	0.69	2.96
80 to 100	3.65	132.3	120 to 150	1.92	0.71	6.90
100 to 150	2.82	173.5	150 to 200	2.34	0.80	26.49
150 to 200	3.76	248.9	200 to 300	2.86	1.38	46.91
200 to 300	3.28	340.3	300 to 500	3.91	2.31	66.19
300 to 400	3.54	486.1				
400 to 500	5.22	633.4	500 to 1,000	5.44	4.06	73.13
500 to 600	11.40	801.7				
600 to 700	4.81	907.8				
700 to 800	11.54	1,105.4	1,000 to 2,000	6.77	5.82	72.55
800 to 900	4.59	1,147.5				
900 to 1,000	3.97	1,250.5	2,000 to 3,000	14.07	12.97	76.82
1,000 to 2,000	7.26	1,818.1	3,000 to 5,000	15.16	14.17	92.12
2,000 to 3,000	13.76	3,425.5				
3,000 to 4,000	5.70	5,129.0	5,000 to 10,000	15.36	14.84	48.68
4,000 to 5,000	28.07	8,350.0				
5,000 to 7,000	8.05	7,799.0	10,000 to 20,000	17.20	17.20	—
7,000 to 10,000	7.08	11,847.0	20,000 and over	52.03	52.03	—
10,000 to 20,000	4.06	19,246.0				
20,000 and over	0.16	31,676.0				
Total	5.10	259.5	Total	5.74	5.10	9.66

^a Taxable estates only.

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the lifetime of the donor may run up against the 30 per cent limit on the deductibility of charitable contributions in the income tax, whereas no corresponding limit exists for the estate tax. On the whole, the evidence would seem to indicate that, viewed as demand for a commodity whose price is reduced by the tax deductibility, demand for "gross charity" has an elasticity smaller than one, and that, while the deductibility may increase the gross amount of contributions, it does so by less than the tax relief granted. The net effect, therefore, is to decrease the aggregate amount of net sacrifice incurred by the donors, the increase in the proceeds to the beneficiaries being a burden borne entirely by the fisc. One may well question whether it is sound public policy to thus subsidize much more heavily the charities favored by the wealthy as distinct from those appealing primarily to the poorer contributors.

Although I have not looked into this matter recently, my impression from earlier surveys is that the United States is almost unique in the degree to which charitable contributions are subsidized through tax exemption. In the United Kingdom, in order to qualify for exemption, the gift must take the form of a transfer of income, in line with the British predilection for considering only more or less repetitive transfers as entitled to consideration under the income tax. In effect, a donor must enter into a covenant with the beneficiary to pay a stated sum regularly for a period of five years or more; when he makes these payments he withholds the normal income tax, and the beneficiary as an exempt entity is entitled to put in a claim for a refund of the tax thus withheld on its income. It is not clear to what extent, if any, this has the psychological effect of inducing the donor to make a net payment of as much as the gross gift would have been without the tax, so making the tax refund a net increment to the resources of the beneficiary, or whether only the same gross gift tends to be made in any case.

The most clear-cut cases of tax-induced philanthropy seem to derive from the estate tax, where the establishment of a philanthropic foundation under friendly control may be the means of avoiding the dissolution or loss of control of a family corporate empire. It has been claimed that this was a significant factor in the creation of the Ford Foundation. While these instances are striking when they occur, they are probably relatively few in number.

If there were a substantial response of philanthropic contributions to the inducement of income tax deductibility it would seem that it would show up in a comparison of data for 1930-31, when the top

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TABLE 7
EFFECTS OF RATE INCREASES ON CONTRIBUTION RATIOS, 1930-33

<i>Net Income Classes (thousands of dollars)</i>	<i>Marginal Tax Rate, Per Cent</i>		<i>Gross Contributions as a Percentage of Net Income</i>				<i>Net Cost of Contributions as a Percentage of Disposable Income</i>			
	1930- 31	1932- 33	1930	1931	1932	1933	1930	1931	1932	1933
100 to 150	25	56	3.68	4.41	4.87	3.60	3.01	3.86	6.02	2.81
150 to 200	25	37	3.86	4.26	5.75	3.73	3.25	4.02	6.08	3.77
200 to 250	25	58	3.89	4.87	6.04	3.92	3.28	4.56	16.34	3.24
250 to 300	25	58	4.01	4.45	4.72	3.96	3.35	4.04	5.87	2.88
300 to 400	25	59	4.29	5.03	7.37	3.44	3.53	4.55	5.89	4.08
400 to 500	25	60	4.48	5.10	6.40	3.98	3.74	4.28	6.62	3.13
500 to 750	25	61	4.39	5.79	7.00	3.97	3.61	4.95	•	2.65
750 to 1000	25	62	4.90	6.28	5.37	5.62	3.98	6.60	4.45	2.90
Over 1000	25	63	6.86	6.24	8.67	3.58	5.62	5.72	9.53	2.34
Over 500	25	62 ±	6.01	6.14	7.29	3.99	4.92	5.63	12.50	2.52
Over 100	25	59 ±	4.67	5.11	6.04	3.80	4.13	4.62	9.07	2.93
All returns			2.72	2.92	3.30	2.68				

* Negative disposable income due to large capital losses.

combined normal and surtax rates were 25 per cent on incomes over \$100,000, and 1932-33 when the rates at these income levels were more than doubled, to from 56 per cent to 63 per cent. But examination of this material, as presented in Table 7, indicates no such responsiveness.

External Economies and Diseconomies in Fund Raising

The pursuit of the contributor's dollar has obvious external economies and diseconomies not greatly dissimilar to those encountered in any kind of selling activity. There is, on the one hand, the likelihood that funds obtained through appeal may impinge on the funds available for other contributions, and on the other, that appeals may reinforce each other by enhancing the general level of giving. It is hard to determine just what would be the socially optimal proportion of effort to put into fund-raising activities. Aside from curbing the more extreme practices that take undue advantage of psychological predilections or that verge on fraud, it is not clear just what modifying influences would, on balance, be in the public interest.

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Contributions and Macro-Economic Equilibrium

There is a sense in which the claim of the advertising industry that it is a great creator of aggregate demand has a counterpart in the soliciting of charitable contributions: to the extent that they are made out of savings and that the proceeds are immediately disbursed, the contributions tend to be a stimulus to the economy. Of course this stimulus will be desirable or undesirable according to whether the economy is or is not suffering from underemployment. If contributions were relatively higher in periods of depression than in prosperity, as seems to some slight extent to be the case, they would constitute a stabilizing factor in the economy. It may be doubted, however, whether this is more true of charitable contributions than of many forms of personal expenditure.

On the other hand, to the extent that charitable gifts or bequests are made in the form of endowment funds, there may be a depressing effect on the economy; the gift may have the effect of reducing the level of expenditure of the donor or of those who would have been his beneficiaries in the absence of the charitable bequest. Probably this effect is not large enough to be a primary concern.

Summary

The main suggestion that emerges from the above discussion is that the methods and degree of public support to privately controlled philanthropy needs to be thoroughly reexamined. Complete absence of any subsidy of religion by the state is a gross fiction. Tax exemption, particularly the deduction under the income tax, seems to be much more an expression of the general predilection in this country for privately organized and controlled philanthropy rather than a significant stimulus to *net* giving. A concession that seemed moderate enough when originally introduced has grown and changed shape with increases in tax rates and the complexities of the law, so as to produce results that are not only bizarre on occasion, but in their over-all pattern seem to conform to no defensible social policy. The unacknowledged and haphazard array of subsidies that result from present special tax privileges call for replacement with more uniform and explicit arrangements that can be brought into line with desirable public policy.