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Charity, Publicity, and the Donation Registry

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Summary

Many Americans donate little or nothing to charity, but according to Robert Cooter and Brian Broughman, our social environment is the cause, not human nature. They propose a small policy change to increase transparency and elicit generosity inspired by experimental evidence about the nature of giving.

KEYWORDS: charity, charities, donations, contributions, publicity, information, donation registry, social norms, social goods

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In 1997 Vice President Al Gore and his wife gave \$353 to charity from income of \$197,729, or 0.2 percent of income. The mean contribution in their income bracket is ten times higher or 2.0 percent.

Commentators groaned that the Gores ought to set a better example. Americans need it. Recent polls show that approximately 30 percent of American households, including many with high incomes, donate nothing. Most people who do contribute give less than one percent of their annual income, despite religious and cultural traditions that require much more.

These facts seem to confirm the standard economic assumption that people are narrowly self-interested. Experimental evidence, however, shows that people behave generously in the right circumstances. Instead of being inalterable traits, generosity and stinginess respond to the social environment. Unfortunately, our system of anonymous charity stifles generosity.

After public criticism, the Gore family increased its charitable giving the next year from 0.2 to 6.8 percent of income. The fact that the Gores disclosed their charitable contributions, however, is unusual. Most people keep such information private. Although few Americans are under the level of public scrutiny that the Gores were, many Americans would be more generous if other people observed their level of giving.

The state is well placed to give the missing information to the public. Taxpayers should be able to disclose information from their tax returns. Specifically, taxpayers should be able to direct the IRS to post to the Internet their ratio of charitable contributions to income. Disclosure on the “donation registry” would be voluntary as a matter of law, but subject to social pressure. If the state enables disclosure, social norms will do the rest and donations will increase dramatically.

The Nonprofit Sector

In 2003 nonprofits received over \$240 billion in private donations, and over 18 billion hours of volunteer labor. Combining donations with sales of goods and government grants, nonprofit organizations account for nearly six percent of U.S. national income. The nonprofit sector provides a broad range of social goods, including poverty relief, education, medical services, scientific research, art, and religion.

In supplying social goods, charities have several advantages over the state. First, being voluntary, donations distort incentives less than taxes. Second, being focused, many donors monitor performance of charities, rewarding good performance and punishing bad performance. Third, the state's majoritarian politics fails to supply the mix of social goods required by a diverse population. According to Burton Weisbrod, an economist at Northwestern University, as the population of a democracy diversifies, charities should expand and fill gaps in the state's supply of social goods.

Charity's Problem: Publicity

Given its importance, economists should develop mechanisms to increase charitable giving. Instead of tax deductions, which are the typical prescription, economists should take inspiration from behavioral experiments that link charity to information. In a typical public goods experiment a group of four or more subjects receive "tokens" for money. A subject can either keep her entire allocation of tokens or contribute some to a public good that is shared with the other players. In the usual experimental design, the group's payoff is maximized when each subject contributes all her tokens to the public good, but contributing nothing and free riding maximizes the individual's payoff. A narrowly self-interested player will keep all of her tokens, while an altruistic person will contribute to the public good.

The results of these experiments reveal principles of charitable giving. First, when an individual's contribution is anonymous and unobservable by other participants or the experimenter, she will make a significantly smaller contribution than when others can observe her behavior. *Anonymity stifles generosity, while publicity encourages it.*

Second, subjects contribute less when they are unable to communicate. Isaac and Walker gave subjects the opportunity to talk with each other before deciding how much to contribute. The other participants could not observe the actual investment by each subject. Still, conversation increased contributions. *Communication reinforces a norm of cooperation.*

Third, contributions are higher if subjects can punish free riders. In a public goods experiment, Fehr and Gächter let players observe the contribution of each participant. Based on this observation, subjects could punish a participant by reducing her payoff. Doing so, however, costs the punisher and was not in her self-interest. Regardless, *the mere threat of punishment increases contribution levels.*

Applying these results, the social environment of the U.S is ideal to elicit stinginess. First, donations are often anonymously made from the privacy of one's home. Charities, who understand the importance of publicity, publish lists of donors by contribution level and use fundraising events to increase visibility. Yet these charities do not know a person's total giving to all charities. Except for some public officials like Al Gore, the level of total giving by each individual is unknown.

Second, few Americans discuss their donations with each other. If people discussed their donations concretely, they would reach more agreement over whether, say, three percent is enough or too little. For a clear standard of civic obligation to emerge, discussions of charity must move from the abstract to the concrete.

Third, because we cannot identify them, free riders escape social sanctions. This problem especially afflicts obligations that are "disjunctive" rather than "conjunctive." To illustrate the difference, we are obligated to make a donation to "A or B or C or" In contrast, the duty not to lie or cheat or steal applies to "A and B and C and" Whether instances of the obligation are linked by "or" or "and" affects free-riding. Establishing violations of a conjunctive obligation requires a *single* observation. In contrast, detecting a violation of a disjunctive obligation requires *aggregate* information. To illustrate concretely, a university might disclose individual donations in its alumni magazine. We cannot conclude, however, that an unlisted alumnus is uncharitable, because he may have donated generously to another cause. For disjunctive obligations, preventing free-riding requires aggregate information, which in turn requires some centralization of information.

Available data in the U.S. and other countries confirms the dismal predictions suggested by these facts about charitable contributions. Using IRS data, Figure 1 shows the average ratio of contributions to income for itemizing taxpayers. The average itemizer donated 3.2 percent of annual income. While extensive, the data in Figure 1 is biased, because approximately 65 percent of taxpayers do not itemize. Non-itemizers typically donate a smaller portion of their income, causing Figure 1 to overstate contributions. The average non-itemizer donated 1.5 percent of annual income.

Average behavior is not *typical* behavior. As figure 2 demonstrates, the median contribution is less than one percent, and almost a third of the population gives nothing.

Figure 1: Contribution Ratios from 2001 Tax Returns

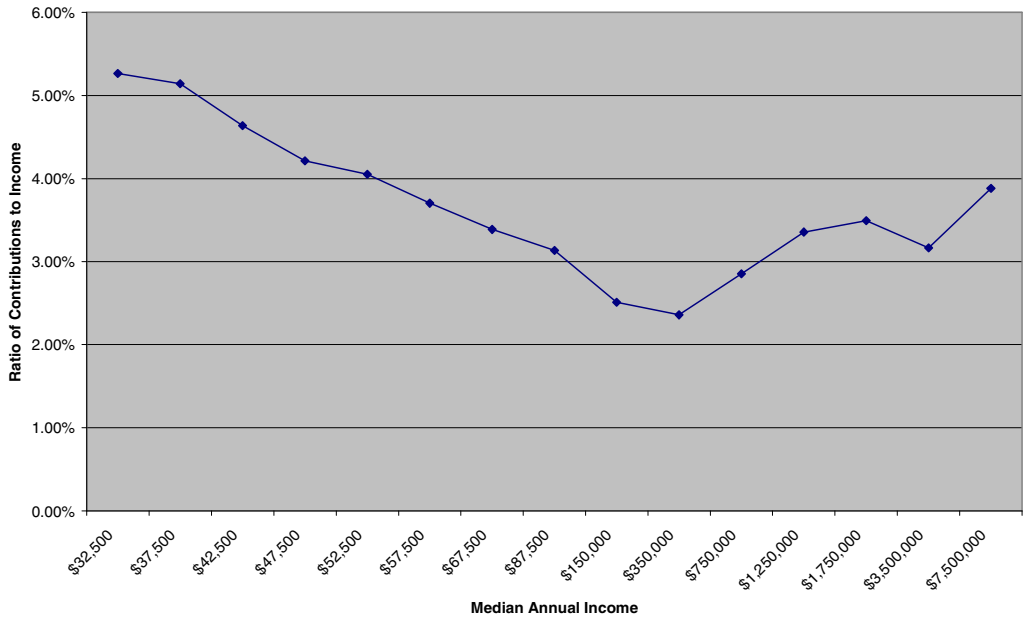
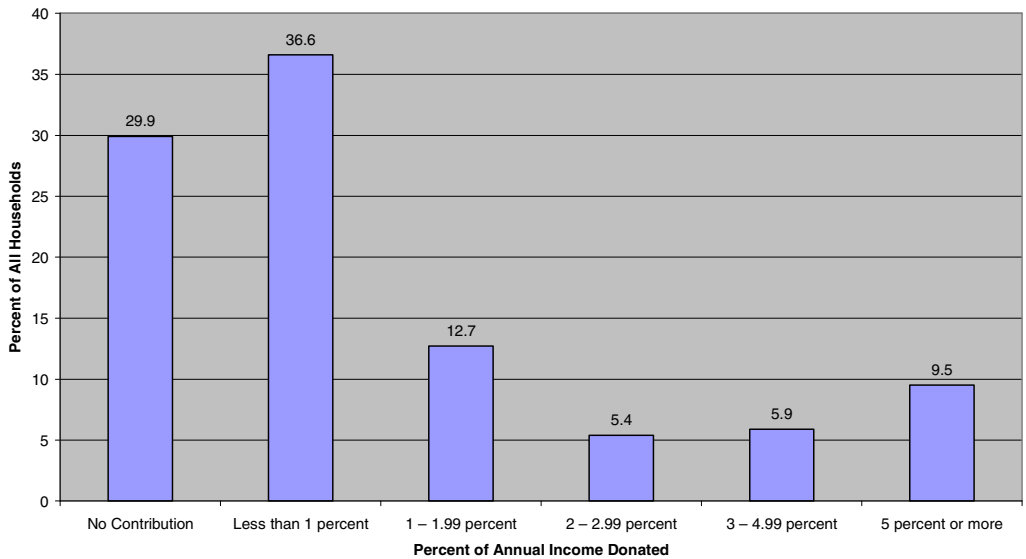


Figure 2: Distribution of Household Contribution Levels in 1998



Source: Independent Sector, *Giving and Volunteering in the United States, 1999* (Washington: Independent Sector, 1999), chap. 1, pp. 38-39.

According to Figure 1, low-income itemizers donate a significantly higher proportion of income than high-income itemizers, but this fact is misleading. Unlike high-income taxpayers, most low-income taxpayers do not itemize and those who do have exceptionally large contributions. This fact presumably explains away the regressivity in Figure 1. When non-itemizers are included, a flat contribution ratio of approximately two percent is a reasonable estimate for all but the wealthiest Americans. Very wealthy households, those with income over \$10 million, contribute a significantly higher ratio.

Surveys also show that religious people donate more money and time to charities than non-religious people. Some religious organizations like the Mormons create an ideal environment to trigger generosity and they induce many members to tithe (give 10%).

The Solution: The Donation Registry

To increase donations, we propose that nonprofit organizations work with the IRS to create a donation registry on the Internet. The registry would publish the ratio of a person's contributions to annual income, while keeping private the person's absolute contributions and income. Specifically, the IRS could add an optional box to the tax form authorizing disclosure. Disclosure would be voluntary. If the box is checked the IRS would automatically transmit to the donation registry the taxpayer's name and her ratio of deductible contributions to adjusted gross income for the year. A typical entry on the registry would look like this:

Tax Year	Name	Contribution Ratio
2004	John Doe	5%

Would anyone volunteer to be listed? No doubt, some people may be reluctant to disclose out of modesty or a desire for financial privacy. To overcome reluctance, charities should apply social pressure to public figures such as politicians, business leaders, sports heroes, and actors. Charities should emphasize that disclosure demonstrates civic responsibility and encourages others. Like Al Gore, public figures who do not disclose or give too little should be shamed. After public figures start to disclose, we envision a gradual spread to most taxpayers who itemize. Organizations should aim for participation by their members in the donation registry much like they currently aim for participation in the United Way.

Economic theory provides another reason why people would voluntarily list themselves. Those with high contributions will tend to list themselves, whereas those with low contributions will be reluctant to list themselves. Thus a failure to list oneself will allow others to guess that one has low contributions. This fact may unravel the group that refuses and cause almost everyone to list themselves. In fact, this experiment was recently conducted in our law school with regard to teaching ratings. Just as the theory predicts, all but one teacher chose to list his or her ratings.

Behavioral studies find that contribution levels are twice as high when donations can be observed as compared to complete anonymity. The donation registry should significantly increase donations, possibly doubling them. Even a modest increase in the average donation will significantly increase funding for social goods. For example, if the mean contribution ratio were increased by half of one percent (from 2.1 to 2.6 percent) this would result in approximately \$50 billion in additional revenue for charitable organizations.

Refinements and Extensions

Alternate methods could be used alongside the registry to encourage donations. For instance the IRS could send a 'challenge letter' to each taxpayer who did not disclose over the registry. The challenge letter would compare the individual's donations to the contributions of others in the same income bracket.

Our concept can also encompass volunteering. For example, the American Bar Association recommends that lawyers perform at least 50 hours of volunteer legal services for clients of limited financial means each year. A volunteer registry could publicize pro bono work by lawyers or by law firms. The 'pro bono registry' would disclose which lawyers (and which firms) actually live up to the ABA standard, and would use publicity to encourage higher levels of volunteering. In fact, some states have adopted pro bono reporting requirements. In Florida, for instance, lawyers are required to report each year whether or not they have performed pro bono service or, alternatively, provided direct financial support to nonprofit legal service providers. According to Talbot D'Alemberte, former president of the American Bar Association, Florida's reporting program has significantly increased volunteering and monetary contributions by its lawyers. Doctors, accountants, and many other groups could establish similar volunteer registries.

Conclusion

Conservatives and liberals often share the belief that more social goods require higher taxes. They are wrong. More donations could finance more social goods without increasing taxes or expanding state bureaucracy. Economists should use experimental findings to design policies that elicit more donations to pay for more social goods. The first requirement is to publicize donations by individuals. For this purpose, the IRS should add a check box on income tax forms for the taxpayer to consent to publishing the ratio of contributions to adjusted gross income. The donation registry would make the contribution ratio of individuals observable to the public, provoke concrete discussion about charitable obligations, and facilitate social sanctions for shirkers. The aim is to develop a civic standard of responsible giving to supplement the religious standards of particular faiths. With a little state action, social norms will do the rest.

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