Charity, Publicity, and the Donation Registry

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Summary

Many Americans donate little or nothing to charity. The cause is our social environment, not human nature. Experiments show that people are generous when their contributions are observable by others. Although specific charities publicize the contributions of some individuals, a person's total contribution to all charities is generally unobservable. We propose a small policy change to increase transparency and elicit generosity. Specifically, we propose a donation registry to publicize the proportion of income that individuals donate to all charities. Participation would be voluntary as a matter of law, but subject to social pressure. The disclosure created by the registry should significantly increase funds for social goods without increasing taxes.

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Charity, Publicity, and the Donation Registry

In 1997 Vice President Al Gore and his wife gave $353 to charity from income of $197,729, or 0.2 percent. The mean contribution in their income bracket is ten times higher or two percent. Commentators groaned that the Gores ought to set a better example.[1] 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. Yet, like the Gores, 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.

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

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[1] CNN, A. P. (1998). Gores' Charitable Giving Raises Some Eyebrows. http://www.cnn.com/ALLPOLITICS/1998/04/15/gore.taxes/.

punishing bad performance.[2] In contrast, taxes have such diffuse uses that special interest groups do most of the monitoring. Third, majoritarian politics may fail to supply the mix of social goods required by a diverse population. According to Weisbrod, 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 usual 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.*[3]

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 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. Private charities, however, do not know a person's aggregate giving to all charities. Except for some public officials like Al Gore, the level of 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,

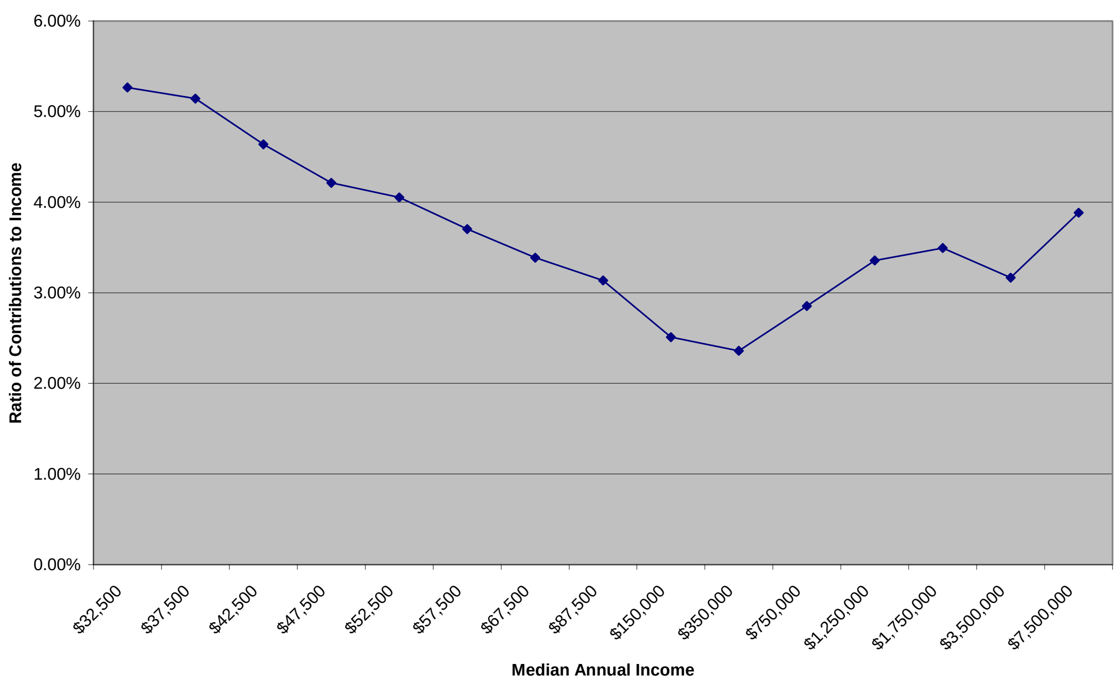
[2] Cite to Edlin …
[3] See Hoffman, et al. (1996) and Bohnet and Frey (1999).

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 an "or" or an "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 centralized information.

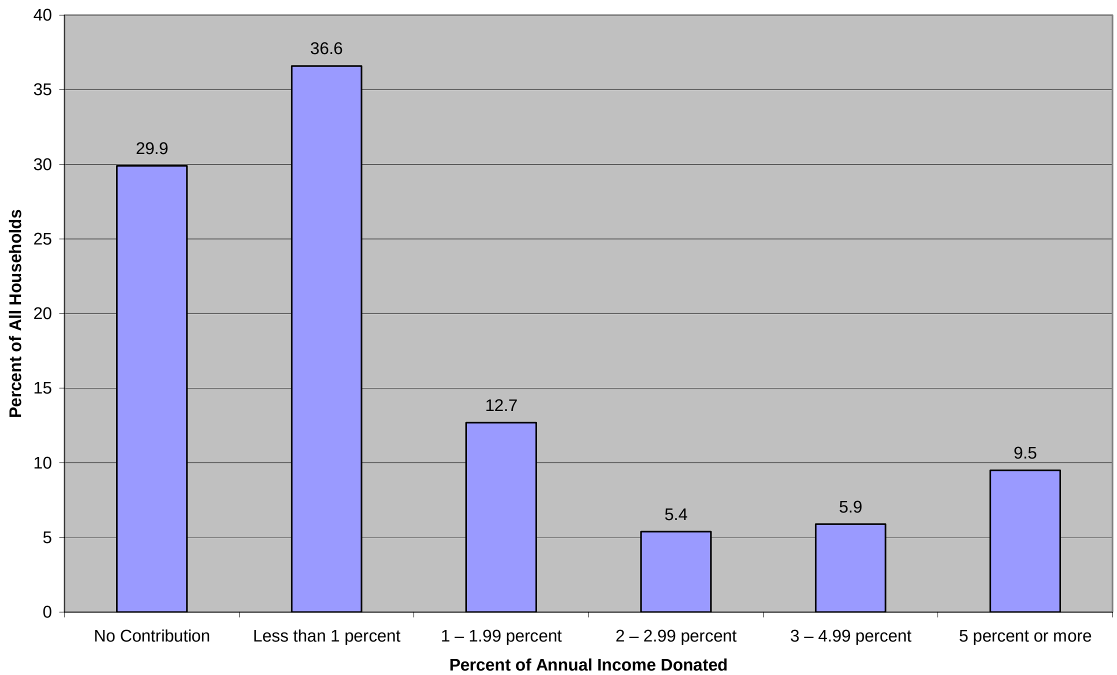
Available data in the U.S. and other countries confirms the dismal predictions suggested by these facts about charitable contributions. Using IRS data, Figure 1 shows average ratio of contributions to income for itemizing taxpayers. The average itemizer donated 3.2 percent of annual income. While extensive, 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.

Figure 1: Contribution Ratios from 2001 Tax Returns



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.[4]

Figure 2: Distribution of Household Contribution Levels in 1998



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. In contrast, very wealthy households (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

[4] Figure 2 is based on data from Independent Sector, Giving and Volunteering in the United States, 1999 (Washington: Independent Sector, 1999), chap. 1, pp. 38-39.

contributions and income. Specifically, the IRS could add an optional box to the tax form authorizing disclosure. Disclosure would be voluntary by law. If the box is checked the IRS would automatically transmit to the donation registry the taxpayer's name and 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%

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 itemizer. Organizations should aim for participation by their members in the donation registry much like they currently aim for participation in the United Way.

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.

Objections and Refinements

We briefly discuss some objections and refinements of our idea. As proposed, the donation registry does not reach non-itemizers, who have no need to list their charitable contributions on their tax returns. Revising the law to allow a charitable tax credit for non-itemizers would solve the problem. While we favor a partial tax credit for charitable giving, this proposal would face many political obstacles. Alternatively, non-itemizers could simply be allowed to declare their contributions on their tax return for informational purposes. Although the declared contributions would not affect the individual's tax liability, it would enable non-itemizers to participate in the donation registry.

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.

Since the donation registry does not indicate absolute income, it works best if people conceive of the charitable obligation as a flat ratio regardless of income level. However, a 'progressive registry' could be constructed. Rather than listing the taxpayer's ratio of contributions to AGI, the progressive registry could list her contributions relative some progressive target, such as her total tax liability. In our view, discussing such refinements should be postponed until people accept the idea of having a donation registry.

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. 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. Flawed policies, not human nature, cause low and erratic donations. Economists should use experimental findings to design policies that elicit generosity. More donations would translate into more social goods, without increasing taxes or expanding state bureaucracy. The first requirement is to publicize information about total 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 ratio of contributions to income observable for many people, 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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