

THE ECONOMICS OF PHILANTHROPY



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AGENDA

- What is philanthropy?
- Determinants
- Implications

WHAT IS PHILANTHROPY?

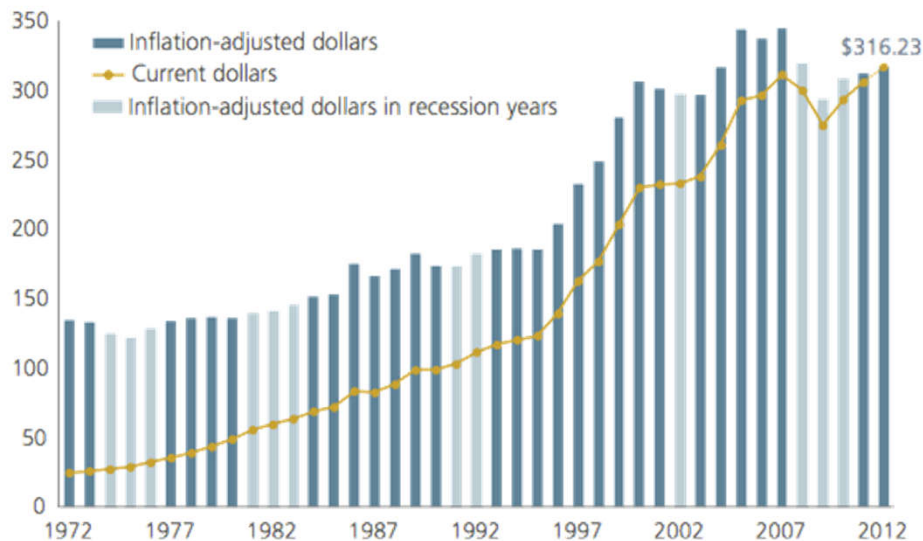
- “Philanthropy is defined as benevolent behavior, usually in the form of charitable gifts, toward others in society.”



SCOPE

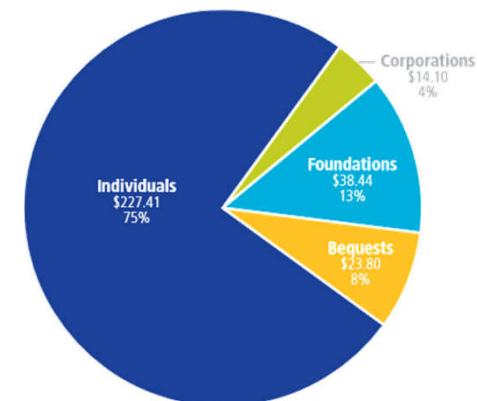
	 World Giving Index ranking	 World Giving Index score (%)	 Helping a stranger score (%)	 Donating money score (%)	 Volunteering time score (%)
United States of America	1	61	77	62	45
Canada	2	58	64	68	42
Myanmar	2	58	46	85	43
New Zealand	2	58	67	67	40
Ireland	5	57	64	70	37

Total giving, 1972–2012
(in billions of dollars)



CHARITABLE GIVING BY SOURCE

2009 Contributions: \$303.75 billion
by type of recipient organization
(\$ in billions – All figures are rounded)



MODELS

- Rational choice of donation:

$$U = u(d) - u(p) > 0$$

then donate

- U is the net utility from donating
- $u(d)$: utility from donation
- $u(p)$: utility from alternative uses of money
- Large donors > \$200k per year

U(D): WARM GLOW

- Intangible, positive feelings derived from the act of helping others
 - Influences the types of charities to donate to
 - “Compassion collapse”



U(D): REWARDS

- Prizes and rewards
 - NPR
 - List (2005):
Incentives increase the rate and average amount of donation

Table 2: Summary Statistics

	VCM	Single-Prize Lottery (SPL)
Total Households Approached	1186	963
Total Households Home	446	363
# of Households that Contributed	113	165
Percent of Households Contributing	25.3%	45.5%
Total Amount Raised	\$452.27	\$688.04

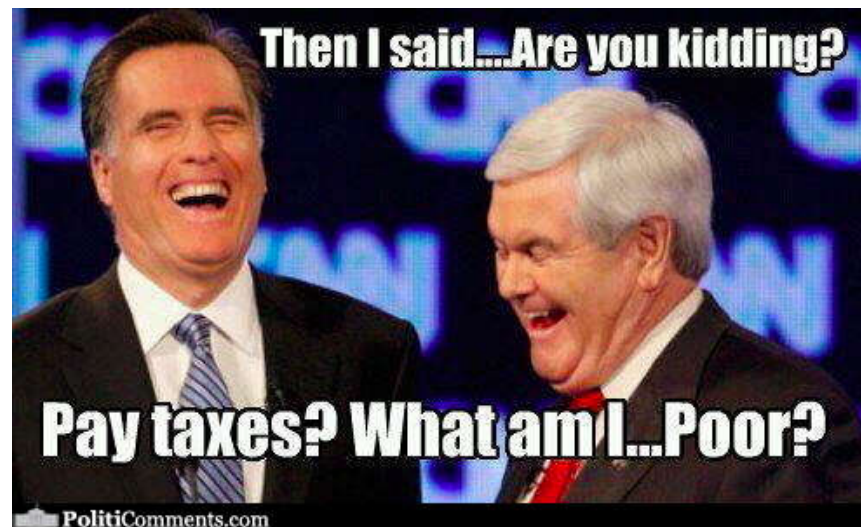
U(D): HYPERAGENCY

- Hyperagency is the ability to be a producer and creator of the organizational life of the society rather than simply a supporter and participant
- Rich like having control of how their donations are utilized



U(D): TAX POLICY

- Tax subsidies heavily skewed towards rich
- Reasons: wealthy more likely to itemize and reduced tax liability is worth more



U(D): SIGNALING

- Signaling
 - Wealth
 - Compassion
 - 75% of donations above \$50 million are given to hospitals, universities and the arts
- Category Reporting
 - Prestige
 - If bracket < original amount
then donate the original amount
 - If **Cost of giving** > **Benefit of prestige**
then the donor will donate the original amount



U(P): INCOME EFFECTS

- Self-defined level of financial security
 - The Great Recession reduced total giving by 7.0% in 2008 and by another 6.2% in 2009.
- Additional motives at play:
 - Identification with the fate of others
 - Gratitude
 - Desire for Hyperagency
 - Minimalizing estate taxes

Table 5-5. Charitable Giving by Net Worth and Financial Security
Percent, unless otherwise noted

Level of financial security ^a	Less than 8	8 or 9	10	All levels
<i>Panel A: Net worth of \$15 million or less</i>				
Average charitable donation (dollars)	32,114	69,036	369,778	116,778
Average share of income contributed	5.0	6.6	23.4	9.5
Average share of net worth contributed	0.4	0.5	3.0	1.0
<i>Panel B: Net worth of more than \$15 million</i>				
Average charitable donation (dollars)	228,333	1,044,265	3,779,159	2,234,681
Average share of income contributed	7.6	19.2	51.0	32.9
Average share of net worth contributed	0.7	2.0	3.9	2.8
<i>Panel C: All levels of net worth</i>				
Average charitable donation (dollars)	58,872	603,839	2,598,988	1,108,707
Average share of income contributed	5.4	13.5	41.5	20.4
Average share of net worth contributed	0.5	1.3	3.6	1.8

POLICY IMPLICATIONS

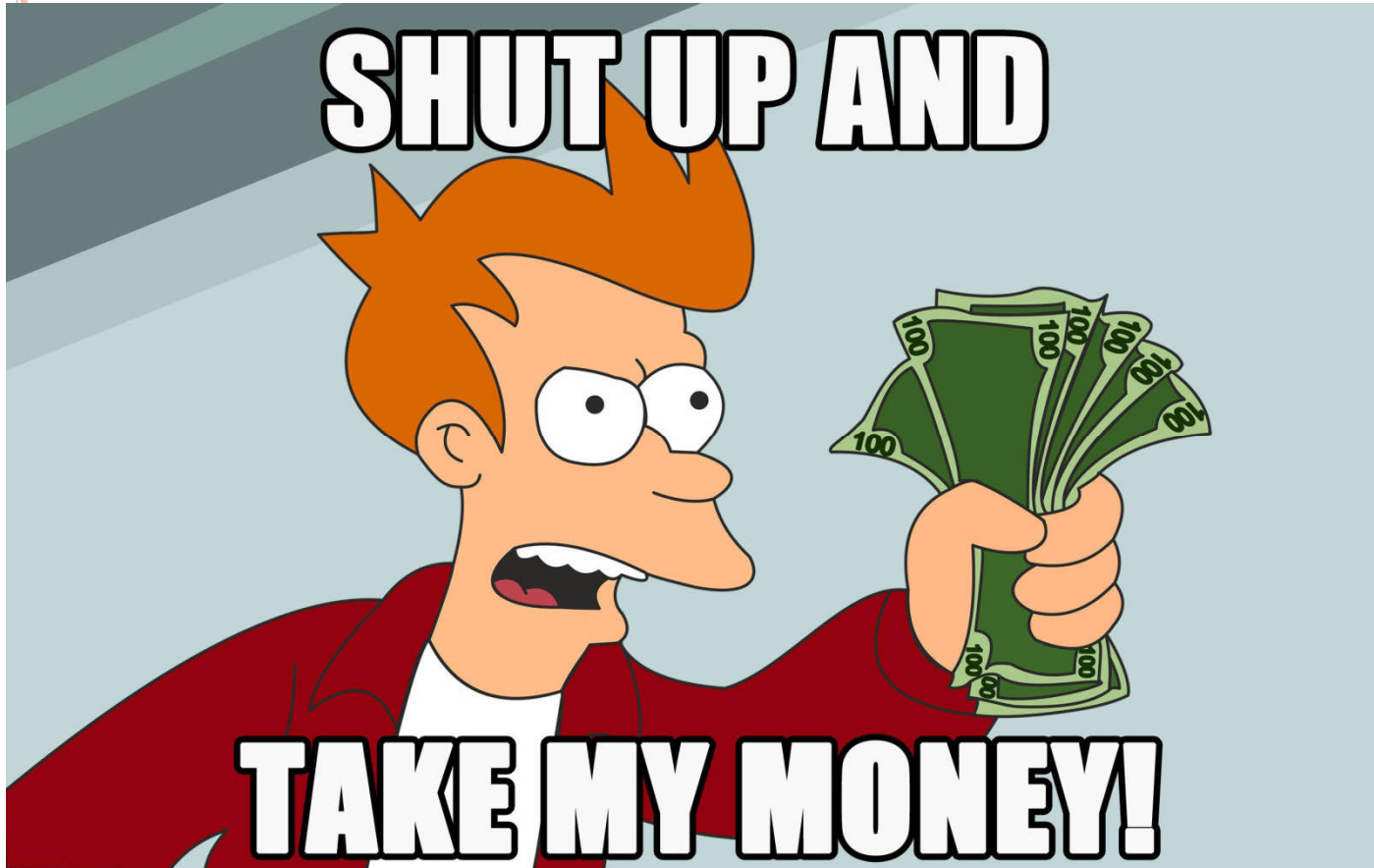
- Philanthropy is a rational choice that people make
- Increased visibility of donations: bumper stickers, community awards, category reporting (signalling)
- Offer prizes and rewards to attract more donations
- Irrational donations? Landry et al (2009)
Beauty effect:
 - Attractive solicitors generate more donations

	Donation	Donation Prior
Remove WF Beauty N = 33	3.30 (1.08)	4.21 (0.65)
Add WF Beauty N = 27	4.85 (1.91)	3.56 (0.49)

AREAS FOR FURTHER RESEARCH

- International philanthropic landscape
 - U.S. vs. other countries
- Foreign aid and foreign policy
- Non-monetary donations
 - Time, labor
- Effects of technology/internet on donations -> social media
- Moral issues
 - Are donations for the wrong reasons sustainable?
 - Quantity of donations vs. quality

QUESTIONS?



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