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# The Poor Law Revisited

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IT MIGHT be argued that philanthropy has no place in economics—that it consists of “noneconomic” acts which should more properly be studied by other disciplines. But these acts are substantive and substantial, and have reason to be of interest to the economist. They affect the allocation of scarce resources, the distribution of income, and the flow of funds through the public sector. Philanthropy presents its claims on the assets of the individual, the business enterprise, and the government. In turn it provides recipients selected on a wide variety of bases with a kind of unearned income which might be charged against the economy as an external cost in the form of social overhead. Philanthropy does not fit into the traditional economic production and income distribution model.

On its institutional side, philanthropy has developed rapidly expanding organizational forms whose handling of assets, income, and expenditures does not correspond to the theory of the business firm with its cost and revenue functions. Nor, except for public agencies themselves, can the behavior of philanthropic enterprises be explained by the principles which relate to expenditures and revenues in the public economy.

To some extent there is a precedent for economists to consider these matters. Adam Smith saw the operation of the English Poor

NOTE: This paper, stimulated by the discussions at the Merrill Center concerning philanthropy, is not a summary of the conference, but represents one participant's reaction to that stimulant some six months later. In refreshing his recollection, the author has relied heavily upon notes made at the time by Edward J. Kane of Princeton University and the acute comments of his wife, Clarice Brows Thorp.

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Law as interfering with labor mobility. Malthus criticized it much more strongly as an ineffective palliative. Sismondi argued for putting all responsibility for the workers' illness and old age on the employer in order to make certain that it would be carried as a labor cost and not a public charge. John Stuart Mill, on the other hand, was against patriarchal and paternalistic arrangements whereby the poor relied on their superiors "to do all that is necessary to ensure their being, in return for labour and attachment, properly fed, clothed, housed, spiritually edified and innocently amused."<sup>1</sup> He was in favor of rugged individualism even as to amusement and, where public charity was necessary, held that it should be so limited as to assure a built-in motive for the individual to seek an alternative, perhaps even by seeking employment. Alfred Marshall<sup>2</sup> carried on the classical tradition by including the "injudicious poor law" among the causes which, early in the nineteenth century, brought "the working classes into the greatest misery they have ever suffered." He also argued that the principle "that the State should take account only of destitution and not at all of merit" reduces savings, to the extent that they become less essential in providing for an individual's future.

Classical economists, then, tended to regard charity and philanthropy primarily as interferences with proper economic motivation, providing rewards for economic dereliction. This point of view is often expressed today in the public debates concerning domestic and foreign government aid. However, one finds surprisingly little about philanthropy in current professional economic literature. To be sure, a brief description of "social security" through government programs appears in most elementary economic textbooks, and various aspects of such programs have been examined from time to time. Economists have recently begun to pay some attention to the economics of education and of health. And the increased assumption of "welfare" burdens by the state encourages the everlasting debate over the proper boundary between the private and public sector.

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As soon as one begins to explore this area, it becomes apparent that it is of substantial economic importance and that major changes are

<sup>1</sup> John Stuart Mill, *Principles of Political Economy*, Book IV, Chapter VII, Section 1.

<sup>2</sup> Alfred Marshall, *Principles of Economics*, Book IV, Chapter IV, Section 2, and Book IV, Chapter VII, Section 4.

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taking place. It is not merely a set of arrangements for taking care of paupers and unfortunates, but it reaches into strategic areas such as education, research, and foreign relations. The government is now active on a large scale in many of the fields, such as old age and disability, traditionally (except for pauper cases) occupied by the family or the private agency. In research, the government also has become a prime mover, though national drives to collect funds from individuals, particularly for projects involving medical research, have reappeared; they were discouraged earlier by the effort to consolidate all appeals in annual Community Chest and United Fund drives.

The corporation as donor and the rapidly growing foundation represent fairly recent entrants into the field whose importance is mounting rapidly. Private agencies have moved into the area of family adjustment problems and the foreign missionary is now overshadowed by new types of private and government foreign aid projects. On the other hand, the consumer is now paying for a larger share of his hospital and medical care. In total, what is probably a growing amount of resources is being allocated in a shifting pattern through changing institutional arrangements.

It is perhaps worth noting that these changes have themselves raised questions about the use of the term "philanthropy." The concept always has been more operational than logical. The effort to distinguish according to motive runs into all the complications of multiple causation and the hedonistic calculus. Areas and functions do not provide a clear basis for distinction. Philanthropy in common parlance is broader than charity, since it includes such activities as support of education, research, and cultural activities. One can question the extent to which support of education and, even more, of research belongs under the heading of philanthropy. What distinctions, if any, should be made as to support of public schools, parochial schools, private colleges, and state universities? To be sure, public charity has always been recognized, but how deal with publicly operated social security (financed in part by the beneficiaries), research supported by Defense Department funds, state government support to universities, and foreign assistance, to none of which are the taxpayers voluntary contributors? Perhaps it is best to regard this as another dimension of the "mixed economy," where flexibility and change are replacing firm and fixed parameters and perimeters.

To some extent, this philanthropic revolution is a reflection of changes in the nature of modern living, of shifting objectives in our social values, and of a new relationship now generally accepted be-

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tween the government and the individual. Higher incomes more widely distributed have alleviated the general problem of poverty so that less energy goes today into the ancient and honorable practice of distributing Thanksgiving baskets to the hungry and more into the rising problem of poverty of symphony orchestras and creative artists. An increasing proportion of the eligible age group is demanding higher education but the higher income levels have not kept down an increased demand for scholarships. Another new set of problems arises from increased urbanization, particularly when it involves large national or racial groups. The philanthropic revolution is also a reflection of new and needed additions to knowledge. New developments in sociology and psychiatry have suggested ways of dealing with problems of maladjustment. And new technology needs research both in development and application—as in the case of the use of television in education.

Most important as a force for change in the central core of philanthropic activity has been the acceptance of general social responsibility for the protection of the individual against economic want resulting from old age, unemployment, disability, and other misfortunes. Since the mid-thirties, government programs have rapidly expanded. They have been “assurance” rather than “insurance,” if the first is taken to mean the provision of protection and the latter to mean an actuarial distribution of risk. However labeled, government programs have come to occupy a large part of the area formerly covered by the family and the private agency.

### *Individual Giving*

There are innumerable questions here which should challenge an economist. First, consider microeconomic matters. What do we know about the process of donation? How can one rationalize in general terms the behavior of the foundation or the corporation or even the individual donor? Perhaps the individual has some means of measuring his own satisfactions so that he can compare the pleasure of obtaining a receipted statement for his contribution to the American Red Cross with the pleasure of possessing a new pair of shoes, as easily as he can compare the latter with some additions to his library. But if he does so compare, he must plug in to his personal computer all the variables of social pressures, habit, emotional appeal, misinformation, and social and individual scales of values.

Some information is available about individual giving. Perhaps the

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most startling is that on 46 per cent of the tax returns reporting annual incomes in excess of \$250,000, deductions for contributions were less than 2 per cent of income. There are various explanations of this phenomenon beyond that of individual attitude—that many individuals have highly unstable incomes, that some high income recipients succeed in concealing the fact from all solicitors, and that there are wealthy migrants who are not members of any "community." Similar factors also may affect the behavior of lower income groups. At any rate, it seems clear that one cannot easily assume the existence of a relatively stable or relatively simple function called the "propensity to give." One can readily list elements which must bear on choice and rejection but little study has been made of their relative significance. It can be said that the current trend in personal giving seems to be less in the direction of redistributing income and more toward the support of professional activities and provision for collective wants.

In actual fact, the individual donor is poorly equipped to make a rational selection among the appeals which he receives. He is to some degree protected from rackets by the Treasury's selection of agencies, contributions to which are eligible for tax deduction. In some areas there are local regulations concerning solicitation. Perhaps there ought to be a philanthropy guide for the average man. Most contributors would like to know what proportion of the funds given reaches the alleged objective, what is the importance of the problem and the potential for achievement, and how efficient is the operation. While such ideal comparisons are obviously impossible, it may be that more can be done to help the giver in making his allocations. If the objective is "social climbing," expert advisors are available. The Community Chest is a device for allocation among applicants. But individual donors who make their own choices have little objective information on which they can rely. To the extent that donations are made by corporations, foundations, and government agencies, it can be assumed that they are likely to rely upon staff members who are experienced in the screening process.

Up to this point, the discussion has been in terms of material contributions without noting that there are donors who give services where no economic record is made. Volunteer services range all the way from considerable personal sacrifice to calculated investment. Little seems to be known about this part of the philanthropic process. Even if it were decided to recognize volunteer services by imputation, the problem of what valuation to impute would provide another hurdle. How value the services of the company vice-president who

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heads the local drive—especially since part of his activity may be on company time (and with its blessing); or the housewife who helps in the hospital on Tuesdays and plays bridge on other days. Volunteer work is an important factor affecting the broad flow of philanthropic activity. But has it a reverse income elasticity, so that it will fall as incomes rise? Is it a substitute for or a stimulant to cash contributions? It is worth noting that any change in the extent of volunteer activity is almost certain to affect the apparent dollar cost of these services.

It would be helpful to know more about the income elasticity of individual giving. The subelasticities appear to vary with age and income—lower income and older groups tend to give relatively more to religious institutions, for example. There also appears to be a degree of cyclical variation, particularly since certain of the needs are clearly reflections of variations in business conditions. But the most basic problem is the relationship between rising incomes and philanthropic contributions. This is no easy matter to assess, particularly in view of the tax angles and the increased activity of government in the field. Thus one cannot easily explain the past trend or extrapolate into the future.

Presumably, detailed scrutiny of the behavior of the individual donor can be avoided, in the manner to which economists are accustomed, by taking spender choice for granted and leaving most of the basic problem of how personal priorities are established to other disciplines. But the foundation, the corporation, the nonprofit philanthropic agency, and the government are man-made entities which operate within man-made rules. At least the economist should be concerned with the rules, so far as they exist, and with their absence if they do not exist. He has some obligations to consider how, and possibly even how well or badly, the presumed functions of these agencies are being performed in the philanthropic area (however that is defined) and what future developments are likely to be.

### *The Corporation as Donor*

The corporation case has many interesting facets. Presumably, a corporation is operated by management in the interest of the stockholders. Its objective is profit maximization. Under such a simple proposition, there seems to be no place for philanthropy in the literal sense. But perhaps in its own interest the corporation can contribute to what would be regarded as charitable purposes: it needs the good will of the police so it contributes to their welfare association; it salvages em-

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ployee time if a competent local hospital is near, etc. Such contributions may qualify as costs of doing business and may be treated as such by that final taxonomic authority, the Commissioner of Internal Revenue.

Where is the line to be drawn between costs and philanthropy? A corporation has a general interest in the availability of educated personnel. Does this justify contributions to distant colleges and universities? Does it help if the corporation limits its contributions to institutions which have provided at least one graduate for its payroll? Or, to push the line even further, since the private corporation would be destroyed if there were a communist takeover in the United States, is it performing a service to its stockholders if it supports general economic education or various anticommunist organizations?

Until relatively recently, the idea that a corporation might make contributions other than those clearly in its own interest was open to serious legal question. However, various state laws have been enacted which protect boards of directors from stockholder action, and the federal corporation income tax permits a deduction of philanthropic contributions up to 5 per cent of corporate income. Obviously, this tax deduction acts as a multiplier and provides a considerable incentive, as indicated by the fact that corporate contributions increased substantially during the last year of the high corporate excess profits tax. The stockholders play very little part in this matter, either by approval expressed at the annual meeting or by the indirect controls of full and detailed disclosure.

One can never tell when publicity will break out concerning this or that corporate action, and the corporation must keep not only its stockholders in mind but also its employees and customers. All groups can be disturbed by allegations of scandal and even by the mere accusation of impropriety. As a form of protection from just this sort of thing, corporations and corporate foundations seldom give grants to individuals, but contribute to institutions, projects, and causes. Except for support to higher education, the tendency seems to be to focus on grants for services in communities in which the corporation operates and to channel them through noncontroversial agencies which would presumably be approved by the overwhelming majority of the stockholders. (Such a guide tends to rule out contributions to sectarian religious organizations.)

Corporate activity in connection with philanthropy can be viewed as diminishing the extent of voluntarism in private giving. The direct contribution of corporation funds is hardly a voluntary act by the



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stockholders, and this together with payroll deduction plans is providing an increasingly large proportion of Community Chest and United Fund collections. In some cases, corporate contributions (plus those treated as costs) are large in size and their allocation has considerable social significance. There is little information concerning the actual disposition of these funds, but under the circumstances there is reason to expect that they are used to support conservative and "safe" activities.

It seems likely that the amount of corporation giving will increase and its scope will broaden. Greater support may be anticipated for cultural activities and research in those areas in the humanities and social science not under the aegis of the National Science Foundation. With the clear trend toward building a special staff for screening applications and appeals, a professional group is becoming established which will have an interest in the maintenance and promotion of corporate giving, and which can present possible philanthropic projects to the appropriating authorities in an effective manner.

### *The Foundation*

The problems of the foundation take quite a different turn. Foundations are not new inventions. Both Carnegie and Rockefeller antedate World War I. However, the present scale of foundation growth is new. On the average, one hundred new foundations are formed every month and there were more than 13,000 foundations at the beginning of 1962. Most of these are small, but several very large additions are expected within the next decade. With the public becoming ever more educated to the tax and other advantages which can accrue to the founder of a foundation, such growth is not unlikely.

The foundation receives funds from some donor and then must administer them. To some extent, of course, this is merely a rechanneling of private giving, but the total probably is increased in the process. The primary requirements of this enterprise are that it must not make a profit (except that it may make a capital gain) and must give away its income. The original terms of the trust may call for dispersal of the principal over some period of time and may define broadly or narrowly the purposes to which its funds can be used.

The foundation buys "proposals" rather than "results." It finances activities whose value can perhaps never be determined. There is no analogue of the market or the voting booth to enforce any discipline upon it. The original gift may include detailed instructions to the

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trustees, but frequently the trustees (usually self-perpetuating) have only a general sort of welfare direction given them by the original donor. What then is their specific guide and to whom are they responsible? The answer appears to be that the trustees in such a case have an extraordinary degree of freedom to dispose of funds as they see fit without review by anyone. They may of course be sensitive to public relations and the always possible Congressional inquiry.

The larger foundations have developed staffs which screen proposals received, as well as think up projects themselves. At the other extreme are the large number of small foundations which are merely different legal forms for individual giving. These are likely to follow the donor's line of interest, often emphasizing activities in the immediate community which depend otherwise on individual gifts. However, even this process of institutionalizing contributions may have one useful result, in that it may lead to more careful consideration of alternatives. At present there seems to be little exchange of information and experience among either large or small donors but it probably is inevitable that formal kinds of exchange will develop eventually.

Strangely enough, this new form of enterprise has received very little study except through self-analysis—but there has been much of that. (The Ford Foundation began such a self-evaluation late in 1960.) We know little about the social costs of foundations (exemptions from taxes and expert time consumed, for example), the nature of their process of decision-making, their optimum size, what factors limit their activity, and what are the appropriate areas for their functioning. A few foundations are highly conspicuous but there are additional thousands, often very small, about which little has been written. Bornet's<sup>3</sup> study of nonprofit enterprises is the only real cross-section study which exists, even though substantial amounts of data are obtainable since the law requires annual reports to be filed and to be available for inspection.

Though it is frequently argued that full disclosure provides some form of protection, it also is argued that a greater degree of publicity or disclosure might be bad because one of the great values of this new institutional form is its freedom to experiment and innovate. While disclosure might avoid public misunderstanding and tend to encourage competition among the foundations themselves, it would seem likely to encourage conservative performance and "safe" grants. Nevertheless, the large foundations have clearly been under some

<sup>3</sup> Vaughn Davis Bornet, *California Social Welfare*, Englewood Cliffs, N.J., 1956.

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kind of inner compulsion to report their activities in considerable detail.

There is every reason to expect substantial increases in the sums disbursed by foundations. To some extent, there has been little need to worry about misallocation in the past because of the limited scale of operation and the number of independent operators. The problems assume a different social and economic significance if one envisages something like a doubling of the foundation population in each size bracket. It is becoming increasingly clear that the larger foundations cannot act as retailers; they are finding it necessary to make their contributions in large blocks to other existing institutions. This becomes a kind of wholesaling operation, with retail distribution by the university, research agency, or professional group. While this process does tend to strengthen the already successful, it probably widens the range of projects and individuals who can obtain support.

Since there are no maximum wage laws, the foundations are free to use unusual economic inducements to draw staff persons from other areas. If the more inflated predictions are true, the expansion of foundation funds and the necessity for their expenditure may lead to an increasing number of high-level individuals being drawn away from various pursuits in order to dispense funds to those who were left behind. This may add to the forces leading to increased welfare in academic circles!

What is the test of excellence for the foundation? The ordinary business firm can be judged by its profits and if it is grossly inefficient, it will not long survive. A foundation can survive any number of bad grants; its survival depends solely on competent investment skill. Even if it is responsible enough to undertake self-evaluation, it will do so according to its own scale of values. It is not enough for a foundation to lie on the couch and listen to itself, but where can it turn for competent criticism, and what yardsticks should the critic use? Perhaps a new chapter needs to be added in the textbooks after the theory of the firm to deal with the theory of the foundation. But someone will have to construct that theory first. And when he does, he will want to give some attention to the peculiarities of the corporation-sponsored foundation which operates not from a capital fund but from occasional (often annual) corporate appropriations.

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### *Government as Donor*

One of the main arguments in support of corporation and foundation giving is that this aids in the preservation of our pluralistic society, i.e., it reduces the function of government in that society. There is no question but that among the greatest changes in recent years in the area of philanthropy has been the extent to which the government has expanded its "welfare" activities. In large part, this is a substitution of government-given assurances through formal rules for long-established but uncertain private activities. As a result, voluntary agencies are almost completely out of the "relief" business; they have mostly redirected their activities and have become therapeutic agencies, family and youth agencies, agencies for the blind, and the like.

Social scientists have paid much more attention to government entry into the field than to private activity. In part this is because there is substantial documentation and public debate. Because the problems are more familiar, they are here given little attention despite their scale and scope. Among the notable issues is that of the division of function among federal, state, and local levels. Local administration of programs has persisted despite an increasing portion of federal finance and considerable federal standardization of operations in such matters as eligibility requirements, quality of personnel, and rights accorded welfare recipients.

### *The Recipients of Aid*

So far the discussion has dealt primarily with the donors. A new set of behavioral problems are created for the recipients of aid. Here we must distinguish between a possible intermediate recipient, that is, an agency which is seeking support, and the ultimate recipient. As a general proposition, it can be said that a large part of government aid goes directly to the ultimate recipient. Social security payments would be a clear case and aid to hospitals and universities may be regarded as aid to the final beneficiary. Private donors are likely to make their contributions to organizations, since that is the way to achieve tax deductions.

However, the picture is not quite so clear as it appears above. The interplay of private agency and government has taken various forms. To some extent, welfare needs have developed their own self-supporting institutions: private pension plans; income, disability, and retire-

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ment insurance; and medical plans. And even when the government has entered a field, it may still deal with the problem by contributing to the current operating costs of the services of private agencies. Such arrangements preserve the identity of the voluntary agency providing the service but may restrict its area of activity, or limit its freedom to innovate. Government support seems necessary where private givers are reluctant to contribute, possibly because the problem is unpopular (family desertion or racial discrimination) or because there is skepticism as to the effectiveness of social work techniques.

Perhaps the largest group of ultimate recipients are those who receive government aid through various welfare and social security programs. This process has an effect both upon the recipient and upon his confreres. The possible undermining of individual ambition has long been discussed in connection with social security provisions. Today, opponents of some form of subsidized medical care argue that added public support will place undue burdens on the medical profession. In the academic world, considerable attention has been paid to the possible conflict between those in the same university engaged in generously supported research and those who are teaching or working on problems which are less appealing to grantors. And sometimes internal conflicts are created for those who receive grants. Economists, for example, appear to have exaggerated notions as to the speed and effectiveness with which they can complete a research project. The receipt of a grant and failure to hold to the schedule set out in the application lead to guilt feelings. For most economists who appear to have production potentials, the summer reading period has disappeared.

Perhaps the most immediate problem is that of how relations can be most efficiently and expeditiously established between donor and grantee. The initiative may come from either side—a foundation may be seeking a man to carry out some project which it is eager to sponsor or a man with a project may be seeking financial support. The problem is similar to that of college entrance, where the process of matching is so wasteful, nerve-racking, and long-drawn-out. But applicants for grants are busy people who cannot, like the college-admission seeker, visit a number of foundations and study their catalogs. Like any market or employment operation, better information concerning availabilities and alternatives might help. How much time and energy is exhausted under present conditions would be difficult even to guess.

One great change has taken place in recent years in the relationship

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between grantor and grantee. In the twenties it was regarded as quite improper for a teacher to receive assistance from a business enterprise and even to use pamphlets and other teaching material from business sources. Today there is no longer the automatic suspicion of tainted money and a sell-out. Possibly the academic world has more confidence in its own morality, perhaps business is less demanding; certainly there is less feeling of inevitable antagonism between the two. Nevertheless, the donee still may have his doubts about the attitude of some interested donor, and may look to the more "objective" foundation to support him with a minimum of interference. Nevertheless, the problem remains because even the process of selection is a kind of interference by those who hold the purse strings.

There are additional complications. One can never know how many proposals are developed for personal reasons, such as prestige, or the free trip, or because of institutional pressures. Applications are inevitably shaped to achieve their purpose. If the applicant is not able to strike an immediate match, he may accept suggestions for alterations—or he may exhaust himself in the search for a sponsor. Perhaps this disorderly process may produce the high spots in any random distribution but it has unfortunate aspects of waste. It is hard to regard it as an efficient method of balancing resources against short- and long-run needs.

Another group needs some mention—the workers in the various philanthropic service agencies. To some extent they find themselves in a special category. The largest employers of such workers, the nation's hospitals, have argued that unless they are exempt from labor legislation they could not continue to hire the relatively "unemployable." Religious organizations have invoked the church-state rubric. And the situation of the paid employee is affected by the numbers of voluntary workers whose presence influences wage levels, working conditions, and discipline.

### *Sources of Funds*

From the point of view of the over-all use of resources, the macro-economic considerations, there are also a number of important problems which should be explored. Traditional economic processes operate in some sectors of the philanthropic area. The economics of hospitalization and medical care have been transformed by the new institutions such as Blue Cross and Blue Shield. This development has brought about a much closer balance of costs and payments and re-

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duced the part of the operating costs which depends on philanthropy. Similarly, increased tuitions in various educational institutions have been of importance. Growth in the use of commercial loans for education and educational institutions, hospitalization and surgical insurance schemes, and private pension plans provide ample illustrations of the extent of adaptation that has occurred. Nevertheless, for hospitals and educational institutions, the provision of new capital requirements still largely depends on government or philanthropic aid. (This situation is obscured by the development of federal government action as a guarantor for certain capital loans.)

One of the interesting phases of the over-all distribution of resources is the great assist given to philanthropy by the government through tax measures. The donor is encouraged to make contributions to religious, charitable, and educational organizations by an allowance of tax deductions which may reach 30 per cent of adjusted gross income. In addition, by giving capital assets instead of money, a donor can realize a capital gain without becoming subject to the usual capital gains tax. And charitable bequests in any amount are fully exempt from the estate tax. (State inheritance laws vary on this point.)

The organization itself is exempted from local taxation on its property and, as a nonprofit enterprise, from any tax on its income. In most states, it enjoys another special privilege—immunity from tort liability for the acts of its employees. There are other special exemptions, such as the exemption from the transportation tax for persons traveling on university business. To what extent would these organizations survive without this help? Is this a true separation of the state and religious establishment? What about the burden on local taxpayers in a community where much property is exempt? Special notice should be taken of the foundation in this respect, since undoubtedly much of the motivation for transferring personal assets to a foundation arises from the voracious nature of the income, capital gains, and inheritance tax structures.

In fact, under some circumstances, contributing can be profitable. Suppose a man in the 91 per cent income tax bracket holds a security now valued at \$10,000 for which he paid \$2,000. If he sells it and pays 25 per cent capital gains tax, he is left with \$8,000 cash on hand. But if he gives the security to a charitable institution, he can deduct the full amount and thus reduce his income tax by \$9,100. Not only is he better off by \$1,100 but he has the credit for being a generous donor! The fact that the proportion of people itemizing their deductions rose from 50% to 70% between 1948 and 1958 can be considered an indi-

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cation that the process of deduction encourages philanthropic giving.

Neither the origins of these forms of special treatment nor their impact on the total flow of private contributions to philanthropy are at all clear. Certainly, the usual efforts to divide contributions into public and private are misleading, since that part of private gifts which is offset by a reduced tax should logically be credited to the public sector. This privileged position for philanthropy may be attributed to the social value of the objectives involved, the lack of direct reward to the donor (the tax deduction is described by one author<sup>4</sup> as "a sort of monetary ointment to salve the strain of charity"), the outgrowth of early common law concepts, or the constitutional dichotomy between church and state. One objection to the present situation is that the wealthy contributor has such great leverage and can, in a sense, give away other taxpayers' money at his discretion anywhere within the boundaries of the tax deduction provision. The tax inducement operates on the large donor more than on the small, and influences the beneficiaries to take the unusual position of arguing against a reduction in income tax rates or in the capital gains tax.

### *The Allocation of Resources*

It is difficult to find what over-all forces determine the allocation of these funds. For example, why is so much money going into medical research and so little into racial problems? Any one field, of course, can be the popular area of the moment, or even the "safest" from the point of view of popular (or Congressional) criticism. Somewhere there is an ultimate limit on the expansion in any field, set by the availability of competent manpower. Competition among grantors to support research by members of some limited group can lead to more and more generous grants and possibly to the creation of unfortunate scarcities in the other areas in which those with the same competence are required. Too much promotion of a narrowly defined area can attract scarce intellects into relatively barren or overplowed fields. This is particularly true if one thinks too much in terms of projects rather than people.

Shortage of manpower is a form of control which will operate only at extremes and cannot assure the appropriate allocation of funds among such diverse claimants as medical research, museums, religious

<sup>4</sup> Philip E. Taylor, *Economics of Public Finance*, New York, p. 432.



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bodies, family welfare agencies, university scholarships and fellowships, symphony orchestras, and nonprofit cemeteries. So far as operation within the public sector is concerned, the usual forces which play upon the political organs are there. So far as the agencies which exist on drives are concerned, one can say that the public does have something to say about allocation. But here results depend primarily upon the effectiveness of the appeal to donors, which may be more a matter of presentation than substance.

### *The Need for Further Study*

Even to put these problems in proper perspective, much more is needed in the way of information. The National Bureau has undertaken its study in large part because of its special interest in national income measurement. To the extent that nonprofit organizations (including nonphilanthropic ones, such as labor unions and country clubs) employ individuals, pay rent, and purchase goods and services from business, they contribute to the estimates of gross national product; other disbursements, such as cash handouts, material gifts, and dues, are disregarded. The concept of transfer payments is employed for certain activities of government, business, and individuals in order that *A*'s income when transferred to and spent by *B* will not be counted twice as income and once as expenditures. These transfer payments do not appear in gross national product or national income estimates.

The statistical estimates will give a quantitative setting, but this is only a beginning. Suppose the data verify the general belief that endowments and activities of foundations, educational institutions, and church groups are growing at a rapid rate. Resulting shifts in economic strength may affect economic activity and the allocation of resources. If one counts government expenditures, it seems certain that the total will mount. Coverage tends to broaden and programs to be extended. The emphasis on the aged, the new programs for aid to distressed areas, the limited experiments in relocation and retraining, and efforts at urban planning and redevelopment—all are potential claimants for much greater resources. The private agencies also have new areas to occupy, as, for example, the hard-core problem family, the juvenile delinquent, the migrant to the city. And other areas need both government and private help—the problems of race, promotion of culture, and the city youth drop-outs from school, to list only three. Both private and public agencies are operating on an un-

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precedented scale in foreign countries where age-old problems appear in old and new forms.

Despite the fact that it has always been with us, there is much about philanthropy which is not known. The practitioners may be competent in their special fields—the social worker with her cases and the hospital administrator with his budget. But the broader problems of requirements, performance, cost, organizational effectiveness, and appropriate public policy are all in need of exploration. The lack of conclusions by the conferees at the Merrill Center was clear evidence of the limited knowledge which carefully selected experts could bring to bear on the questions under discussion. The need is apparent for much more research in depth, and for a continuous review of policy relating to the location and basis of responsibility in this important area.