

SCSU researcher finds way to up charitable contributions

Wednesday, May 26, 2004

ST. CLOUD, Minn. – Individuals contribute significantly more—anywhere from 20% to 100% more—when their donations are matched than they do when a portion of their donations is “rebated” or returned to them. That’s what St. Cloud State University Economics Professor Philip Grossman and his research partner, Catherine Eckel, professor of economics at Virginia Tech, discovered this past year in field and laboratory experiments.

“This finding has important implications for government policies,” said Grossman. “It suggests that replacing the current system of tax rebates with an equal-cost matching subsidy system could increase contributions to charitable organizations.”

He offers the following example to illustrate the pair’s finding. Let’s assume an individual gives \$1 to a nonprofit and itemizes this contribution on his tax return. If his marginal tax rate is 20%, he saves \$0.20 in taxes. In other words, he has given \$0.80 to the charity, and the government has given \$0.20. Under a matching subsidy system, since people tend to contribute more, the individual might give \$0.90. A government match of \$0.20 to the charity brings the total contribution to \$1.10.

In addition to generating greater support for nonprofits, a matching subsidy system would also be much easier to implement, according to Grossman. “The government would need to know only how much a nonprofit received in contributions before providing a match,” he said. “It would require less record keeping and less policing than the system of tax deductions currently in place.”

The pair’s research results are especially timely not only because nonprofit organizations are struggling in these economic hard times, but because of attention given to recent flat tax reform proposals, many of which would remove virtually all deductions available under the current tax code. “If the deduction for charitable contributions is eliminated, tax-exempt, nonprofit, and charitable organizations may suffer,” said Grossman. “A matching subsidy system provides an alternative method of supporting these organizations.”

Grossman and Eckel received financial support for their work from the Aspen Institute and the National Science Foundation. They are planning three additional field studies to further test their results.

To obtain a free copy of their report, e-mail pjgrossman@stcloudstate.edu or call 320-308-4932.

SCSU, located 70 miles northwest of the Twin Cities, offers 175 majors, minors and pre-professional programs in Business, Education, Fine Arts & Humanities, Science & Engineering, and Social Sciences, and 50 master’s degrees through its School of Graduate Studies.