

Charities and Disaster Relief Applying Classic Principles of Public Finance

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Document date: December 07, 2001
Released online: December 07, 2001

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[1] When charitable collections for disaster relief are large and related to a specific set of incidents, then charities face new and difficult issues in the selection of beneficiaries and the types of benefits they will provide. This contrasts with the more typical fund-raising cause, where collections will be small relative to a need, or even if initially large, will be outstripped considerably by needs over time. In those circumstances, it is much easier to allocate resources toward the stated need in ways that are both efficient and acceptable to the public.

[2] In the case of the September 11 attack, however, collections have been very large and directed mainly at the victims of the horrible incidents on that day. In various speeches, government officials have claimed that collections have been in excess of \$1.3 billion which amounts to about \$200,000 per victim. How to pay out this amount has become complicated, moreover, because of government provision of substantial support through an airline bailout bill and because many of the families of victims also had pension, life insurance, and other coverage.

[3] While there is no easy way to allocate money in this type of case, classic principles of public finance offer a guide for thinking about these issues. The principles most at issue here are progressivity or vertical equity, equal justice or horizontal equity, individual equity, and efficiency. These principles do not always lead to the same conclusions. It appears that various charities have been attempting to apply these principles but not always in a consistent manner.

Progressivity or Vertical Equity

[4] Under this principle, a society concerned about the needs of its members attempts to devote relatively greater resources to those with greater needs. Most charities involved in helping victims' families after September 11 seem to have some notion of this principle in mind. Some ask for a statement from families about their particular needs and resources, including income and assets; many are bent toward dedicating more resources to families with young children.

Equal Justice or Horizontal Equity

[5] Two people in identical circumstances generally have the right to be treated equally. This fundamental concept drives many of the pressures for fairer treatment under the law, whether the issue be civil rights, voting rights, or the distribution of taxes and benefits. Charities traditionally apply this rule within a recipient group. For instance, every poor person who gets help from a food bank has access to the same food. On the other hand, the food bank only covers people in an area; generally speaking, it cannot apply the rule universally among all poor within a few square miles, much less the world. In the case of contributions after September 11, advertising by some charities led some contributors to believe that the recipient group would be confined to families of those killed or wounded on that day. In other cases, the contributors themselves may have believed this even if the charity said nothing.

Individual Equity

[6] The principle of individual equity suggests that one is entitled to one's own property and the fruits from one's own labor. Where private contributions are involved, it allows individuals to pick their charitable causes rather than have them be determined by someone else. In the case of public and private insurance, it generally means that if the insured-against event occurs, those in the same circumstances and subject to the

event to the same degree should get back an expected return proportional to what they put into the pool. Where there is some return involved, individuals should get a fair market rate of return on their investments.

[7] This principle helps explain why deposits to pension plans generally receive the same rate of return regardless of the needs of the depositors. The individual, having saved a portion of his or her wage, is presumed to be entitled to a market return on that saving. Similarly, if two people of the same age and health invest in the same life insurance pool, then the family of a person who invests twice as much is presumably entitled to twice as many benefits in the case of death. In many public and private compensation cases, likely including the compensation fund set up for victims' families by the government, some funds are provided on the basis of wage replacement. The loss for which coverage is provided, in other words, is measured partly by those wages that otherwise would have been earned but were then taken away from the family.

[8] Some charities seem to have acceded to this principle in part -- for example, by offering to cover mortgage payments for individuals for awhile, even though those with larger mortgages would naturally get larger amounts of help.

Efficiency

[9] This principle has a wide number of applications, but in general it implies a type of analysis that would maximize benefits relative to costs. Some costs might be administrative. If high, an administratively simpler plan might be preferred to others mainly on the grounds that the net amount going to all beneficiaries would be greater.

[10] But society also applies this principle to justify its support of education. In general, the greatest benefits from educational subsidies go to those who, by taking advantage of the education, succeed the most. As a consequence, the net result is generally not progressive -- for example, the person who does not have the skills to go to college may have the greatest needs and the person most likely to succeed anyway may get the most help. But society generally believes that the gains from education tend to benefit everyone, and therefore it is willing to accept this result. Charities have devoted some September 11 funds to educational assistance. Some of it likely will be based on current income of parents, thus giving it back some progressive tilt.

Application of the Principles

[11] Even if there were not conflicts among these principles, they would not be easy to apply. Here are only a few examples:

- If progressivity is accepted, the degree of progressivity must be established. The most progressive scheme would give nothing to one person until everyone else had been raised fully to that person's income, wealth, or other measure of well-being. Almost no program, public or private, goes this far. But then, what is the right degree?
- If terrorism continues, then under the principle of horizontal equity a charity might conclude that it would like to respond equally to all victims of terrorism. Should anthrax victims, for instance, be excluded from such funds raised in response to the events of September 11? What about other future victims from other terrorist incidents? And what happens if the number of victims rises considerably and, as a result, future collections per family decline significantly?
- Individual equity considerations lead charities to conclude that contributors deserve some control over the use of their contributions, even when the charities might feel independently that other considerations (for example, covering future terrorist victims) might deserve greater weight. But how should decisionmaking be allocated? Should victims also have some say over the use of funds collected on their behalf?
- Another tough issue is that the greatest losses suffered on September 11 were by the victims themselves. By attempting to help families, both government and charities are attempting to do what they can for the living -- a sort of efficiency notion -- even though the victim who has no family or the child victim with no dependents has suffered an equal or greater loss.

[12] Not only is each principle independently difficult to apply, but they do not always lead to the same conclusion. While horizontal equity is usually compatible with all the other principles, progressivity often competes with individual equity and efficiency. When legislators agonize over these principles in the design of social programs, they, too, come to diverse conclusions. Some programs such as welfare and Food Stamps are distributed with a fair degree of progressivity by allowing benefits only for the poor or near-poor. Other programs, such as public sector retiree plans, follow the individual equity principle. Many programs represent compromises. Large public programs such as public education or Medicare are funded more by the rich than the poor, but on the benefit side they are provided more or less on an equal basis for all persons. Social security provides more benefits to the rich than the poor largely on the individual equity notion that the rich pay in more, although the program also attempts to redistribute progressively by giving the rich a lower rate of return (for example, the rich might contribute four times as much but get back only twice as much).

[13] As we will discuss next, the potential conflicts among principles, and in applying each principle, should not lead charities to throw up their hands, but rather to think rigorously about what they want to achieve and to advertise accordingly.

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