



Does giving to charity lead to better health? Evidence from tax subsidies for charitable giving



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ABSTRACT

In the United States, charitable contributions can be deducted from taxable income making the price of giving inversely related to the marginal tax rate. The existing literature documents that charitable giving is very responsive to tax subsidies, but often ignores the spillover effects of such policies. On the other hand, a growing body of literature documents that giving to others reduces stress and strengthens the immune system, which results in better health and longer life expectancy. These findings imply that tax subsidies for charitable giving may have positive spillover effects on health. This paper investigates this hypothesis using data from Center on Philanthropy Panel Study (COPPS), the philanthropy module of the Panel Study Income Dynamics (PSID). Understanding the spillover effects of charitable subsidies on health is quite important given the existing literature that links health status to several important economic outcomes. The results show that charitable subsidies have positive spillover effects on health. In particular, the implied cross-price elasticity of health index with respect to giving is -0.13 . These results are robust to potential endogeneity of income and highlight the positive externalities created by tax subsidies for charitable giving.

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1. Introduction

In the United States, charitable contributions are tax deductible. This policy makes a charitable donation less costly for those who itemize deductions in their federal or state income tax returns. According to the most recent estimate, the federal government was estimated to have 47 billion in foregone revenue in 2012 due to millions of households who itemized charitable deductions in their federal tax returns (Joint Committee on Taxation, 2010). The economic rationales for providing tax subsidies for charitable contributions are well-documented.¹ The existing literature also documents that the amount of charitable contributions is very responsive to tax subsidies. However, the indirect effects of charitable subsidies are relatively unknown.² In addition, recent studies in medicine and psychology document that giving to others leads to better health outcomes. This finding implies that tax subsidies for charitable giving may have positive spillover effects on health. In this

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¹ Andreoni (2006) provides an extensive discussion of the relationship between charitable subsidies and giving.

² An exception is a handful of studies which investigate the spillover effects of charitable subsidies on volunteering and religious attendance. See, for example, Menchik and Weisbrod (1987), Brown and Lankford (1992), Feldman (2010), and Gruber (2004).

paper, I investigate this hypothesis using data from a unique survey that contains information on charitable giving and several different health outcomes.

Understanding more about the determinants of health is quite important since an extensive literature links health with several important economic outcomes. For instance, [Bhargava, Jamison, Lau, and Murray \(2001\)](#) and [Bloom, Canning, and Sevilla \(2001\)](#) show that health outcomes are associated with economic growth. Health is also a major determinant of several labor market outcomes. [Grossman \(1972\)](#) presents a model in which illness prevents work so that the cost of ill health is lost labor time. [Stewart \(2001\)](#) examines the impact of health status on the duration of unemployment spells and finds that individuals with impaired health will have significantly longer unemployment spells. Several studies also document the significant relationship between health and educational outcomes such as school attendance, cognitive ability, and learning. In particular, [Bils and Klenow \(2000\)](#) document the positive effect of good health on investments in education at the national level. [Bleakley \(2003\)](#) finds that deworming of children in the American South had a positive impact on their educational achievements while in school, whereas [Miguel and Kremer \(2004\)](#) show that deworming of children in Kenya increased school attendance. Health is also linked with saving decisions and demographic outcomes.³ Therefore, understanding the indirect effects of charitable subsidies on health and health related outcomes are important and findings from empirical analysis may help policymakers to make informed choices about the spillover effects of charitable subsidies.

In order to investigate the relationship between charitable behavior and health, I use data from a household level survey which contains detailed information on charitable giving and several health outcomes for the household head: the philanthropy module of the Panel Study of Income Dynamics (PSID).⁴ A major difficulty in identifying the relationship between charitable behavior and health is the two-way causality between these two outcomes. I argue that tax subsidies for charitable contributions affect health status only through charitable giving and hence, they are exogenous to health once income and other household and individual level characteristics are controlled for. Therefore, following [Gruber \(2004\)](#) and [Yörük \(2013\)](#), I exploit the variation in the subsidization of charitable giving in the United States over time, across income levels, and across states and use the tax subsidy rate of giving as an instrument for the propensity to give and the amount of contributions in order identify the relationship between charitable behavior and several health outcomes. I expect that the subsidy rate should be positively correlated with charitable giving but uncorrelated with the unobserved variables that may affect health outcomes after income and several observable factors that are associated with charitable behavior and health are controlled for.

The results imply that tax subsidies have positive spillover effects on overall self-reported health status. In particular, a one percentage point increase in the subsidy to charitable giving leads to a 0.004 point increase in the health index. I also find that the estimated cross-price elasticity of health with respect to giving is -0.13 . In order to investigate the potential channels through which charitable giving affects health, I estimate the effect of charitable subsidies on the probability of suffering from several health problems. My findings indicate that the tax subsidy for giving is significantly associated with the probability of suffering from a lung disease, emotional and psychological problems, and arthritis. Although tax subsidies seem to have positive spillover effects on other health related problems such as high blood pressure, diabetes, cancer, heart attack, and obesity, these effects are not statistically significant. These results are robust to the potential endogeneity of income and the possible existence of omitted factors that vary jointly by income level and year, jointly by state and year, and jointly by state and income level. Using the subsidy rate for charitable giving as an instrument for charitable behavior, I also document the relationship between charitable behavior and health. I find that a one log point increase in the amount of charitable contributions is associated with approximately 0.085 point increase in the health index.

The rest of this paper is organized as follows. The next section presents a review of the existing literature which documents the relationship between charitable behavior and health. Section 3 presents the data and discusses the empirical methodology. Section 4 discusses the results and presents several robustness checks. Section 5 provides a discussion of policy implications and concludes.

2. Literature review

2.1. Tax subsidies and charitable behavior

Tax subsidies for charitable giving is part of the US tax system and of other tax systems around the world. On the one hand, this policy reduces tax revenues. On the other hand, it decreases the effective price of charitable donations and hence, encourages more of it. Suppose that t is the marginal tax rate faced by an individual. Each dollar given away to charity costs less than a dollar if this individual itemizes deductions in her tax return. Therefore, the effective price of a dollar worth of charitable donation is $1 - t$ for those who itemize deductions and 1 for those who do not ([Andreoni, 2006](#)). If giving is price elastic, that is, if the price elasticity of giving is less than negative one, then the cost of allowing tax subsidies for charitable giving,

³ [Hurd, McFadden, and Gan \(1998\)](#) show that increased expectation of longevity leads to greater wealth-holding at the household level in the United States. Using cross-country data, [Bloom, Canning, and Graham \(2003\)](#) find a positive effect of life expectancy on national savings. [Schultz \(1997\)](#) argue that reduced infant mortality, increased numbers of surviving children, and rising wages for women can lower desired fertility.

⁴ Although the PSID reports charitable contribution amount for each household, it does not contain any information on the factors that may have driven charitable giving. Therefore, it is not possible to determine whether altruism is the main factor that drives charitable giving at the household level. [Khalil \(2004\)](#) further discusses the relationship between altruism and charitable giving.

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