A Moderate Compromise: Economic Policy Choice in an Era of Globalization
(Excerpt) - by Steve Suranovic (Palgrave McMillan, 2010)

Chapter 9 - Voluntary Transfers

A competitive free market economy, absent involuntary transfers, will lead to higher incomes for whoever is able to provide the greatest benefit to others. Some successes will arise because the person works long and hard, others successes will accrue to those who are smart or clever, while still other successes will arise by sheer luck.

Low incomes will accrue to those less fortunate. Some may earn less because they are not willing to work hard, some will not have the skills or abilities needed by others, and some will have low incomes because of bad luck.

In the natural animal world, the weakest animals are generally left to fend for themselves, which in most circumstances results in early death. The stronger animals simply do not have the resources and capacity to care for the infirm without jeopardizing their own survival or the success of their more resilient offspring. As a result, the weak are left to an unpleasant fate.

A personal example of the cruelty of nature occurred one day as I was hiking near Washington DC. A mother goose was walking along with several goslings following her closely. One gosling was obviously crippled, limping with great difficulty to try to keep up with its siblings and its mother. To add insult to injury, every time this poor gosling caught up to the group, the mother goose would viciously attack the crippled offspring and chase it away. Clearly, this young goose was being abandoned by its mother and by mother nature. It would not live long with its limited capabilities and lack of support from its mother.

As humans, we might evaluate the behavior of the mother goose in terms of our common moral codes and suggest that perhaps she is evil, however, we normally don't attribute moral behaviors to animals. Clearly the mother goose is acting according to her nature. Instinctively she abandons her weak offspring. Biologically this makes sense since extra time and devotion to the weakest member would reduce the resources she can provide to her healthy offspring, thus giving the healthy ones a lower chance of survival. By abandoning the weak she provides extra support for the strong. Of course, she is probably not thinking this, nor is she concerned about what other geese think. Instinct and nature is often cruel, but it is also natural.

In contrast, human society has achieved the ability to produce much more than is necessary for the mere survival of the species from generation to generation. That surplus has also arisen naturally via the successful expansion of the voluntary exchange mechanism; what Hayek called the spontaneous economic order. However, as demonstrated in the previous chapter, that mechanism does not assure that everyone will thrive. Such a system could leave weaker members behind, much like the poor gosling.

The presence of a surplus in human society, though, makes it possible to act with compassion to those less fortunate. A sufficient surplus enables some to transfer resources to the less fortunate to allow them, at the minimum, to survive, where otherwise they may not, and at a maximum to enable them to achieve a level of well-being comparable to those with much better natural endowments.

Today, in a rich society, there is no reason why a competitive economic system cannot be compassionate to the less fortunate at the same time. The wealthier and the more fortunate can afford to forgo some consumption, some profit, to transfer resources to the less fortunate and help assure that everyone, even those in dire circumstances, can enjoy some of the basic pleasures of life.

There are two ways to achieve the necessary transfer. First, society can force individuals to transfer benefits to others involuntarily. All governments are capable of achieving this with taxation and transfer programs. Alternatively, society can inspire people to give voluntarily to others in need. The latter method seems preferable to the former.

Probably this is the main reason voluntary transfers, or giving, is highly praised. John D Rockefeller, who made his fortune in the oil industry and later established a philanthropic foundation once said, “Think of giving not as a duty but as a privilege.” Winston Churchill said, “We make a living by what we get, but we make a life by what we give.” Maya Angelou, the well-known novelist said, “I have found that among its other benefits, giving liberates the soul of the giver.” Talking about government’s responsibility towards others, former US President Jimmy Carter said, “Government is a contrivance of human wisdom to provide for human wants. People have the right to expect that these wants will be provided for by this wisdom.” Marian Wright Edelman said, “Service is the rent we pay to be living. It is the very purpose of life and not something you do in your spare time.” Finally, John F. Kennedy said, “Ask not what your country can do for you, but what you can do for your country.”[i]

Each of these statements highlights the high regard most people have for giving, service and charity. For many, charity is a moral imperative. Christians are taught the story of the Good Samaritan from the Book of Luke in the New Testament. In the parable, Jesus tells of a traveler who is robbed, stripped and left for dead. Two people pass him by and leave him in distress. Later a Samaritan stops and provides assistance. Similarly, the Koran encourages Muslims to "give food out of love for Him to the poor and the orphan and the captive: ... only feed (them) for Allah's sake; .. desire … neither reward nor thanks." In both cases, giving to others, especially those in greater need, is considered morally righteous. One is encouraged to give, and to expect or demand nothing in return.

In modern societies voluntary transfer activities are widespread and have developed in a variety of ways. They occur whenever one person receives a benefit, transferred from someone who gives voluntarily. Perhaps most voluntary transfers occur person to person, or family to family, as with gift giving for holidays and birthdays. Some voluntary transfers occur via private organizations that have been created to fulfill a larger charitable purpose. Finally, a considerable amount of voluntary transfers occur as a result of government activities, also designed to fulfill some social purpose.

In this chapter we'll highlight the many different ways voluntary transfer profit manifests itself in modern societies. Afterwards we'll assess how voluntary contributions can be stimulated to alleviate the hardships expected in a free market competitive economy. First we'll consider civil society.

Household and Community Transfers

Perhaps the most significant voluntary transfers occur every day within individual households. Consider a typical family with a husband, wife and several children. By earning wages from work during the week, the adults in the family generate income to provide for the food, shelter, and other needs of the entire household. The children do not typically contribute to the income of the family, until they are older, and thus all of the benefits they receive come as a voluntary transfer from their parents. To make this arrangement possible, the parents need to make income in excess of what is needed to provide for themselves. In other words they need to produce a surplus.

In some families the surplus is used to provide for elderly family members; parents or grandparents who are unable to work and provide for themselves. Sometimes one families' surplus is given to more distant relatives; an aunt, uncle or cousin who has fallen upon hard times.

Families also transfer goods and services to each other in the form of gifts. Gifts are given to one another on special occasions like birthdays and weddings, and holidays such as Christmas and Passover. Sometimes gifts are given simply as a sign of love or friendship.

Clearly, families give to each other enormously and it is perhaps the most important form of voluntary transfer that exists in human society.

Civil Society

What is broadly known as civil society has grown in prominence in recent years. Mostly these organizations arise out because the organization's founders recognize a need or demand in a community or in the world that is not being adequately satisfied. Because the needs are widely varied, so too are the organizations themselves. Even the labels given to these types of organizations are diverse. They include charities, non-profit organizations (NPOs), foundations, non-governmental organizations (NGOs), the "third", the social economy and, of course, civil society.

The Johns Hopkins Comparative Nonprofit Sector Project provides a workable definition for civil society. (Salamon, et al. 2004) First, an organization must have some structure and regularity to their operations, but need not be constituted as a formal legal entity. Second, the organization must be private rather than public, especially in their operations and decision making, although they may receive substantial funding from a government. Third, the organization does not distribute profit to shareholders, instead reinvesting any profit back towards the prime objectives. Fourth, the organization must be self-governing and not controlled by an external group. Finally, membership and participation is voluntary. No coercive measures are used to obtain funding or to solicit labor assistance.

Civil society organizations have been created to support numerous special causes, including cultural interests, education, research, health and social services, environmental concerns, development and housing issues, civic advocacy and religious congregations. The organizations collect donations from individuals, companies or governments and use these funds to finance assistance for a group of people in need.

There is a bewildering array of organizations. Some charities focus on a particular local need. For example, Miriam's Kitchen in Washington DC provides regular meals to the homeless in the community. Other charities are national in scope, such as the American Red Cross, which is well known in its role to collect blood donations and provide numerous others forms of health emergency assistance. Finally, some charities have become truly global, such as Doctors without Borders, which offers emergency medical assistance to people affected by war and natural disasters, especially in less developed countries that cannot cope with these emergencies.

Some charities are run by religious organizations, such as Christian Charities or Islamic Relief. Some focus on health issues like the San Francisco Aids Foundation.

Others provide 'Freedom from Hunger.' Some organizations perform essentially *expressive functions.* These include advocacy groups like the Save Darfur Coalition, environmental groups such as the National Wildlife Foundation, and human rights groups like Amnesty International.

Philanthropic foundations are usually the best funded since they typically have a primary contributor whose name is attached. These foundations provide grants for research and social projects using the investment income from a large stock of assets that make up the initial contribution. Since the asset stock remains in place, it can support operational expenditures and giving for an indefinite period of time. Foundations also solicit additional contributions to help maintain their program levels or to expand. The three largest foundations in the US in terms of total historical giving are the Gates Foundation at $2.8 billion as of 2006, the Ford Foundation with giving of $532 million, and the Robert Wood Johnson Foundation with giving of $346 million.[ii]

Corporations also establish foundations to promote social benefits for others and to generate a certain amount of goodwill for themselves. The largest corporate foundations in terms of giving are the Aventis Pharmaceuicals Health Care Foundations with $217 million, the WalMart Foundation with $155 million and the Bank of America Charitable Foundation with $123 million of total giving over their histories.[iii]

Communities have also established foundations to provide assistance for individuals in need locally. These provide vehicles for individuals and local businesses to contribute to an endowment they know will be reinvested for people in need in the local community. Among the largest of these is the New York Community Trust with total lifetime giving of $157 million, and the Greater Kansas City Community Foundation with $140 million.[iv]

The size of the civil society sector around the world is large, important and growing. Overall, the Foundation Center estimates that in 2005 total giving by all US foundations amounted to just over $10 billion. This is just a fraction of what takes place around the world. The Johns Hopkins Comparative Nonprofit Sector Project estimated that in the 35 developed and developing countries they studied, civil society contributed around $1.3 trillion in expenditures per year in the late 1990s, employed approximately 1 million workers and engaged about 190 million volunteers.

Although many activities of non-profit and civil society organizations represent examples of voluntary transfers, not all the activities of non-profit organizations can be classified as such. For example, some non-profits operate much like a business in that they provide goods and services to customers who themselves contribute money to finance those services. Examples are hospitals, universities and religious organizations. A non-profit hospital, for example, receives a substantial amount of its operating revenue directly from its patients or the patients' insurance companies and provides services to those same individuals. A non-profit university collects tuition from students to fund its educational services, also, provided to those same students who pay the tuition. Finally a church that collects donations from parishioners, uses some of the contributions to build facilities such as the church itself, that in turn provides services to the same group of contributors. Thus, despite classification as non-profit organizations, a substantial portion of these institution's activities are better classified as voluntary exchange rather than voluntary transfers. In each case above, individuals give money in exchange for the medical, educational and spiritual services that are offered in return.

Of course, some portion of these institution's activities do correspond to voluntary transfers. Hospitals collect donations and receive government funds to help defray the costs of uninsured patients. Universities use tuition and contributions to provide scholarships to especially bright students who may not be able to afford full tuition. Finally, religious organizations use some of their donations to provide essential goods and services to poor families in the community and around the world.

Other civil society organizations, especially those performing an expressive function, are also not obvious examples of voluntary transfers. This includes organizations like soccer clubs, opera companies, fraternities and sororities, book clubs and the girl scouts. For most of these groups the purpose of the "club" is to organize activities that will most benefit the group itself rather than individuals outside the group. For this reason, contributions to these groups, too, more closely resemble voluntary exchange activity rather than voluntary transfers.

The point to emphasize is that while much of what civil society organizations do correspond to voluntary transfer activity, much of it does not. The distinction can raise several tangential issues. For example, one might ask why a non-profit organization that receives contributions from customers and provides services to them is not responsible to pay taxes like other businesses that also provide services in exchange for money. I have no answer for this, but it is a question worth considering further.

Government Taxation

Government expenditures are typically put into two categories; 1) spending on goods and services, and 2) transfer payments. How to characterize government in terms of the three profit mechanisms is difficult and likely to be evaluated differently by different observers.

The first issue involves the way in which government collects revenues and whether it is deemed voluntary or involuntary. In authoritarian countries without democratic representation, one can easily argue that government revenues are involuntary. In contrast, if a democratically–elected legislature implements excessively high taxes, many members could lose the next election to candidates vowing to reduce taxes. Thus, in representative democracies, the people have some power over the actions of its government and thus government revenues might be called voluntary.

In the writings of libertarians and other staunch free market advocates taxation is sometimes described as theft or robbery. On their website, the Ludwig von Mises Institute posts an except from Chodorov (1962) titled "Taxation is Robbery" that begins with an Encyclopedia Britannica definition of taxes as, "that part of the revenues of a state which is obtained by the compulsory dues and charges upon its subjects."[v] The fact that taxes are compulsory supports his claim that taxes are robbery. Chodorov continues with an account of the origins of government taxation:

> A historical study of taxation leads inevitably to loot, tribute, ransom and the economic purposes of conquest. The barons who put up tollgates along the Rhine were tax-gatherers. So were the gangs who "protected," for a forced fee, the caravans going to market. The Danes who regularly invited themselves into England, and remained as unwanted guests until paid off, called it Dannegeld; for a long time that remained the basis of English property taxes. The conquering Romans introduced the idea that what they collected from subject peoples was merely just payment for

> maintaining "law and order." For a long time the Norman conquerors collected catch-as-catch-can tribute from the English, but when by natural processes an amalgam of the two peoples resulted in a nation, the collections were regularized in custom and law and were called taxes. It took centuries to obliterate the idea that these exactions served but to keep a privileged class in comfort and to finance their internecine wars; in fact, that purpose was never denied or obscured until constitutionalism diffused political power.[vi]

Taxation clearly can support the lifestyle and the military activities of an elite ruling class. And given that the ruling class invariably finances an armed force that can, if needed, also threaten its own subjects, it is surely possible to classify taxation as involuntary transfers.

Nonetheless, the fact that legal sanctions are in place to assure tax compliance and also that tax avoidance is commonplace in most democratic countries may suggest that not all individuals are willing to pay their full tax obligation. Alternatively, it could just mean that individuals are attempting to free ride. If many people avoid taxes such that it leads to an increase in tax rates for the non-avoiders, then tax avoidance can reasonably be seen as an involuntary transfer, fueling the anger and resentment that is frequently aroused in political discussions.

It is difficult to know the specific government programs to which citizens of a country would voluntarily contribute. It may depend on the nature of the spending that the taxes are used to support. Some programs might only solicit support from a fraction of the citizenry. Some might solicit voluntary support only up to a particular funding level, but not beyond. Thus, for any particular government program, different individuals with different preferences and beliefs about government's role, would voluntarily contribute different amounts. This makes it impossible to know what proportion of government to count as voluntary and what to consider involuntary. Certainly, some people in the US feel the taxes they pay are not overly burdensome because they recognize the valuable services that are being provided. At the same time, there are others who decry the confiscatory nature of taxation and feel the government sector is much larger than it should be.

Government Spending

Taxation used to support government expenditures on goods and services is more like voluntary exchange rather than transfer profit. For example, consider tax revenues used by a local government to finance the town fire department. Protection from fire damage is a service that most households and businesses would be willing to pay for on a private market. However, due to the public good characteristics of fire protection service and the difficulties with preventing free riding, it makes sense to provide this as a government service.

Many other types of government spending provide for public goods that are desired by a substantial portion of the population. This includes expenditures on national defense, road construction, upkeep of parks, police protection, education and much more. Most of these expenditures should perhaps be classified as voluntary exchange activities since the goods and services are demanded by and provided to the taxpayers. Nevertheless one problem with this classification arises because of the degree of the good or service provision.

Take national defense as an example. Surely, most everyone believes that government should provide for an adequate national defense. No village, city or country has ever been completely safe from the threat of conquest by other groups. Although we might argue that defense expenditures themselves are technically involuntary, because they are forced upon us by those who threaten us, we can also accept that realistically, we cannot simply wish those threats away. Thus, given the reality of threats, people will voluntarily pay for protection. However, while most everyone wants protection, not everyone desires the same degree of protection. In the US today, many people believe that national defense spending is excessive. They do not think the US needs so many nuclear weapons, aircraft carriers or nuclear submarines. At the same time these individuals have little direct control over how the taxes they pay are used. Consequently they are likely to feel they are being forced to pay more for defense than necessary.

To illustrate, suppose a person calculates that the portion of his taxes that goes to national defense is $4000. Suppose further the person believes that an adequate national defense could be provided if defense expenditures were 25% less. In this case, the individual would voluntarily contribute $3000 of taxes towards defense, but also believes that the additional $1000 is excessive. The $3000 portion of his taxes is certainly voluntary exchange activity, but the remaining $1000 is an *involuntary transfer*. Because defense is a public good, the provision of the additional $1000 benefits other people who prefer a higher level of security. The extra $1000 may also benefit individuals working in the defense industry. Thus, this component of the spending involuntarily transfers benefits from one person to others.

Government Transfers

The second type of government expenditure is known as transfer payments. As the name implies, transfer payments involve money that is simply transferred from taxpayers to selected recipients; the government does not receive a good or service in exchange for the expenditure. Examples of transfer payments include social insurance programs, unemployment insurance, welfare programs, medical programs for the poor or elderly and government subsidy programs.

As with government spending, some transfer programs, or some portions of programs, are reasonably considered voluntary while some, or some portions, are involuntary. Judgments will vary from person to person and program to program.

With respect to social insurance, taxpayers contribute to programs during their working years and receive benefit payments after retirement, or in the event of disability. The programs are like pension plans. Contributions are a form of saving for the future, while the benefits received later are the returns from that saving. However, in most countries, the transfers go directly from today's working population to today's retired population; there are no savings that accumulate and no return on investment to finance the future benefits. Instead, future benefits will be paid out of taxes collected from future taxpayers. In countries where taxpayers sufficiently outnumber recipients, individuals are mostly content with the system. In these cases social insurance can be thought of as voluntary transfer programs.

However, in many developed countries the number of retirees is rapidly increasing while the proportion of working contributors is falling. This will lead to considerable strain on the system especially if taxes must be increased substantially to pay for the larger group of future retirees. In the US, many young people believe they will not receive social security payments in the future if the system continues as is, because it may ultimately fail. If this were to occur, or if the pressures of maintaining these systems become difficult, the voluntary nature of these programs may become increasingly involuntary.

In the case of welfare programs, many countries have implemented programs designed to improve the well being of the nation's poor. An underlying concern motivating these programs is the inequality of income that arises in free market systems. To mitigate these inequalities countries often implement progressive tax systems that require higher rates of taxation for higher income households and lower, or even negative taxes, for low income households. In these ways, using the taxation system and welfare programs, income can be equalized to some degree across the population.

Whether these programs are voluntary or not will depend greatly on the individual views about inequality and progressive taxation. Surely there will be mixed sentiments both within and across countries. Thus, while a substantial proportion of these transfer payments will surely be deemed, by taxpayers themselves, as voluntary, some unknown percentage is likely to be involuntary.

Finally, in the case of government subsidy programs, perhaps only a small percentage might be viewed as voluntary. The recipients of these subsidies, such as the agricultural industries in many countries, would surely favor the transfers. However, the subsidies they receive are much greater than the extra taxes they must pay, so there is no surprise here. In addition, many people are convinced of the importance of supporting family farms and agricultural traditions, or to maintain agricultural production for national security reasons. These individuals might voluntarily contribute to support these programs. However, for many others who recognize the higher costs of food that result, the regressive nature of these subsidies, and the damaging effect the subsidies have on poor farmers around the world, they would clearly prefer not to contribute to these subsidy programs. Since they have little direct control, their tax portions can be considered involuntary.

A Voluntary Transfer Industry - Insurance

Voluntary transfer activity is not restricted to the non-profit and government sectors. Insurance is one service industry that plays a critical economic role by applying the principle of voluntary transfers.

Insurance is a method to reduce risk. It is also another example of a voluntary transfer program. Insurance services are offered to a group of people who face a positive probability that a catastrophic event will occur. The event will either cause severe financial losses, as with home or business destruction from a tornado, or will require a substantial expenditure to prevent a catastrophic outcome, as with a heart transplant operation. For an insurance program to be effective it is necessary that the catastrophic event occur only to a subset of the pool of people seeking protection. This enables the insurance company to use the sum of the contributions from those who do not suffer a loss to be used to cover the claims of those who do suffer a loss. Since the participants in the insurance pool voluntarily contribute their money, which in turn is transferred to others who suffer a catastrophic loss, insurance is an example of voluntary transfers.

Note that the voluntary component of insurance only corresponds to the value of the claims that are paid. An insurance company will also collect additional contributions to pay for the services provided by the company. These include the financial management of the funds that are held in escrow to be used in the event that claims are submitted, the actuarial services to assess the probabilities of insured events within its client pool, and the work involved to verify the validity of the claims. Monies used to pay for these actions should be classified as voluntary exchange since they represent payment for services rendered.

Fairness and Voluntary Transfers

Voluntary transfers refer mostly to charity and philanthropy. It involves a unilateral transfer in which the giver voluntarily gives to a recipient. Voluntary transfers are easily justified as fair with respect to most, though not all, conceptions of fairness.

First, since any harm that is caused, is caused to the person voluntarily making the transfer, there is no infringement of privacy fairness. Neither party has reason to object. Perhaps one exception would be if the recipient of the gift feels belittled because of the gift. For example, some poor households may hold a moral conviction that one is supposed to provide for oneself. In this case, a gift of food and clothing, that may seem necessary to the giver to raise the family up out of poverty, may nevertheless undermine the recipient's self esteem. Acceptance of the gift could make the recipient worse off in these circumstances, although it would be unintentional.

By a similar logic voluntary transfers should also conform to the golden rule. If a person wants others to give to them when in a condition of dire need, then it makes sense to give to others in need when a person can afford to do so. However, one problem with voluntary transfers, and the golden rule more generally, is that sometimes the recipient's preferences are not the same as the giver's preferences. For example, a giver's donations of food and toys for the holidays may not match the recipient's desires. This problem has inspired an alternative version of the golden rule called the Silver Rule, which says, "do unto others as others would have done unto them." In essence the Silver rule encourages the giver to put himself in the position of the recipient and imagine the recipient's preferences. If this can be accomplished effectively then voluntary transfers are also more effective. If it is not achieved then at worst the giver gives and the recipient receives little that is desired.

In terms of maximum benefit fairness we might at first blush argue that voluntary transfers are neutral since the value of what's given is equal to the value of what is received. However, it may be incorrect to think that the giver only suffers a loss equal to the size of his gift. Because voluntary transfers are generally considered praiseworthy, the giver may receive psychological benefits. If the giver is sufficiently wealthy, these psychic benefits may even exceed the loss of utility caused by the transfer. Since the recipient also benefits, voluntary transfers can produce a net gain. This is the argument that altruism may actually serve one's self interest. In these circumstances, the transfers are fair vis-à-vis maximum benefit fairness.

Since in most instances, though not all, voluntary transfers tend to be made by those who are wealthier and received by those in greater need, when transfers occur, the distribution of wealth and income shifts towards greater equality. Thus, voluntary transfers tend to be fair in terms of distributional fairness.

With respect to reciprocity fairness, either positive or negative, voluntary transfers are neutral at best. Although one could argue that because a person gains at another's expense it violates reciprocity, this argument is muted because of the voluntary nature of the transfer. Also with respect to non-discrimination fairness, voluntary transfers are clearly discriminatory. However, here again, although one can argue that it violates nondiscrimination fairness, most observers would be reluctant to do so since the discrimination tends to favor the less fortunate.

Table 9.1 offers a summary of the fairness characteristics of voluntary transfers. Voluntary transfers are mostly fair except for several categories for which violation of the principle is neutralized because of the voluntary nature of the transfer.

Table 9.1
Consistency of Voluntary Transfers
with Fairness Principles

Distributional	Yes
Nondiscrimination	Neutral
Golden Rule	Yes
Positive Reciprocity	Neutral
Negative Reciprocity	Neutral
Privacy	Yes
Maximum Benefit	Neutral

Conclusion

This chapter has demonstrated how voluntary transfers are manifested in a variety of ways; from the activities of a typical household, the basic functions of charities raising money to be used for people in need, to the operation of basic insurance markets, voluntary transfer activities are widespread. In many instances voluntary transfers occur in the private sector as with household transfers, non-profit organizations and civil society. However, transfers made by the government sector are much more significant in magnitude and importance.

One problem with identifying and classifying voluntary transfer activities is that it is sometimes confounded with involuntary transfer profit. This is especially true with respect to government transfers. The need to implement sizeable penalties in the event individuals or businesses do not pay their legally required share of taxes means that some percentage of people must be forced to comply. Different observers clearly see things differently though. At one extreme are some libertarians who contend that all taxation is theft. For them perhaps all government activity is involuntary. At the other extreme are those few who would be happy to pay higher taxes in order to foster a more equitable distribution of income.

The chapter has shown that voluntary transfers are mostly fair and just mechanisms largely because of the freedom of choice. This lies in contrast to the unfairness of involuntary transfers highlighted in Chapter 7. Thus, whether the mechanism applied to alleviate harm caused by a free market mechanism is voluntary or involuntary is a very important distinction.

The moderate compromise position is to encourage and promote voluntary transfers but to discourage or prohibit involuntary transfers. In some cases this is easy to identify. For example, household transfers are perhaps the best way to provide for unmet needs because members of a household have the best information about what others in the family need most. However, this solution only works to the extent that the family has an adequate surplus to satisfy the needs of other members. When that surplus is insufficient, a person may need help from outside the household or family.

That help can come from civil society organizations. These groups typically form because members of a community recognize an unmet need and work to satisfy those needs by soliciting contributions from others who have both a surplus and a willingness to contribute for the cause.

When civil society is inadequate to ameliorate hardships, people can and do turn to government. Here the issue of voluntary versus involuntary contributions becomes critical. Certainly there are some government programs that are widely popular. Many people are willing to contribute some amount of taxes for social insurance for example. However, what often begins at a level that most will accept, often ends up at a level that many find excessive.

In the US, social security began in the 1930s. Initially, the amount of money collected from each working participant was small and the ratio of workers to retirees remained very high for a long time. This made it possible to offer generous retirement benefits that were paid out of the much larger contributions. However, as the number of retirees rises relative to the working population, to maintain the promised benefits may require a substantial increase in per person contributions. Thus, what began as an acceptable transfer program may require substantial involuntary contributions to sustain.

Another feature of government is the fact that benefits from involuntary transfers are usually concentrated in the hands of a relatively small interest group while the costs are dispersed across the entire tax base. This contributes to a substantial amount of rent-seeking that can slowly but surely increase the size of government. For example, many people, evaluating just one transfer policy, may feel that the benefit to a disadvantaged group is worth the small cost. If in each legislative session, only a small number of transfer requests are made, then again taxpayers may feel that the total cost of several programs is worth it. However, after many years of individually inconsequential transfer programs, taxpayers may suddenly realize one day that the sum total of all the small effects over many years actually has a major effect. Along the way the transfer programs shift from being voluntary to involuntary. Thus, while there may be early acceptance of government intervention when the government is small, support begins to wane as the size of government grows. But once policies are in place it is very difficult, politically, to change them.

In his memoirs Alan Greenspan writes about a disagreement he had with Ayn Rand over voluntary contributions to fund the activities of government:

> According to objectivist precepts, taxation was immoral because it allowed for government appropriation of private property by force. Yet if taxation was wrong, how could you reliably finance the essential functions of government, including the protection of individuals' rights through police power? The Randian answer, that those who rationally saw the need for government would contribute voluntarily, was inadequate. People have free will; suppose they refused?" (p.52)

Thus, concerns about free riding are valid, as are concerns that, with government, involuntary transfers may get out of hand. The moderate compromise can involve government but it is important to establish mechanisms to prevent government from becoming too large. How large is too large will vary from society to society, as will the extent of assistance to provide to others.

[i] Found online at Wisdom Quotes (http://www.wisdomquotes.com/cat_giving.html)

[ii] A complete and more recent list can be found at The Foundation Center website at http://foundationcenter.org/findfunders/topfunders/top100giving.html

[iii] A complete and more recent list can be found at The Foundation Center website at http://foundationcenter.org/findfunders/topfunders/top50giving.html

[iv] A complete recent list can be found at http://foundationcenter.org/findfunders/topfunders/top25giving.html

[v] See "Taxation is Robbery," The Ludwig von Mises Institute, Accessed at http://www.mises.org/etexts/taxrob.asp on April 21, 2008.

[vi] Chodorov, Frank (1962) pp. 216-239.