DGR Status for 'info-philanthropy' – Recommendation 13 of Government 2.0 Taskforce

The Government 2.0 Taskforce Report argues that "Australian policy makes should minimize obstacles to info-philanthropy being treated as an eligible activity to qualify for deductible gift recipient and other forms of legal status which recognize charitable or philanthropic purposes." (page 76). 'Info-philanthropy' is defined as '[t]he building of public information goods and platforms for public benefit' (page xv)

Economic assessment

Information as a pure public good

The principle economic argument for recognising charitable status is that these 'information goods and platforms' are pure public goods - that is, they are non-rivalrous in consumption and non-excludable.

The classic argument is that public goods would be under-supplied in the private market, hence additional government intervention (in this case, a subsidy) is justified to improve overall wellbeing.

Technology helps solve the public goods problem

The need for government intervention in response to perceived market failures is contingent on technology.[1] In the case of information provided on the internet, the rest of the Report presents a strong case that 'web 2.0' technology delivers small (usually non-monetary) benefits to individuals, and sufficiently low costs, that many 'information public goods' have already been produced by the market.

Owners and creators of web 2.0 websites are able to capture benefits in a number of ways. Principally, as the report points out, non-monetary reputational benefits probably prevail in the case of very low cost activities (editing Wikipedia, for example). In addition, some platforms are supported by advertising (for example, Google), or by making some part of content excludable (for example, Choice Magazine).

These are compelling examples of how, in practice, the theoretical market failure is overcome.

Arguably, some public goods may still be underproduced, but DGR status may not be effective

The existence of private markets, enabled by technology, to solve public good problems does not mean that the theoretical social optimal is produced. This leaves open an argument for government subsidy, where the marginal benefit of the subsidy exceeds the marginal cost of providing it (that is, the marginal cost of funds for government).

Assuming that the benefit of subsidy in the case of DGR status goes to the donee, and not donor, it is still not clear on what margin the subsidy would improve the provision of the public good. On the margin of information provision itself, the pure public good characteristic of the information means that this subsidy have no effect (contrast with providing a subsidy to a soup kitchen, means that an additional number of homeless will be fed).

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[1] Foldvary, Klein, *The Half Life of Policy Rationales,* New York University Press, New York, 2003, pg 2

A case where an outlay (but not through charitable status) may be justified.

Nevertheless, there may be an existential margin on which some form of government subsidy may be appropriate. That is, it is possible to conceive of some services in which the government would like to create a market (for example, collecting information on the location of pot holes), but for which the fixed costs of building an information platform are too large for any individual's interest.

In this case, the best form of government subsidy may not be by grating charitable or DGR status to info-philanthropy as a whole, but rather by offering something of a 'prize' for building the best platform by a certain date. This means that the subsidy can create public good on the margin of existence in cases where the public benefits of doing so can be weighed against the cost of funds.