

Statistical, Identifiable and Iconic Victims

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Abstract:

We draw out implications of the identifiable victim effect – the greater sympathy shown toward identifiable than statistical victims – for public finance. We first review research showing (1) that people respond more strongly to identifiable than statistical victims even when identification provides absolutely no information about the victims, (2) that the identifiable victim effect is a special case of a more general tendency to react more strongly to identifiable others whether they evoke sympathy or other emotions, and (3) that identifiability influences behavior via the emotional reactions it evokes. Next, we discuss the normative status of the effect, noting that, contrary to the usual assumption that people overreact to identifiable victims, identifiability can shift people's responses in a normatively desirable direction if people are otherwise insufficiently sympathetic toward statistical victims. Finally, we examine implications of the identifiable victim effect for public finance. We show that the identifiable victim effect can influence the popularity of different policies, for example, naturally favoring hidden taxes over those whose incidence is more easily assessed, since a hidden tax has no identifiable “victims.” Identifiable other effects also influence public discourse, with much of the debate about government spending and taxation being driven by vivid exemplars – *iconic* victims and perpetrators -- rather than any rational calculation of costs and benefits.

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In the most ideal vision of public finance, each dollar of government spending is allocated where it can do the most good, and taxes are levied and revenues spent to the point where the marginal value of a public dollar is equal to that of a private dollar. There are, of course, many ways in which reality falls short of this ideal. The political system doesn't necessarily aggregate preferences the way a market would; politicians and government workers may be corrupt or have their own personal agendas; and different groups have different incentives and capabilities to coordinate and lobby for their interests.

In this paper we focus on yet another reason for why taxation and government spending can go awry: *human psychology*, and specifically the lack of proportionality between human sympathy and the wants and needs of those toward whom the sympathy, or lack thereof, is directed. As Adam Smith observed in the Theory of Moral Sentiments, we often feel little sympathy toward people who are highly deserving of it. He illustrates the point vividly with the hypothetical case of a European man who gets more upset over losing his little finger than over a calamity that wipes out the entire population of China. However, the disproportionality can also go in the opposite direction. As Smith also points out, "we sometimes feel for another, a passion of which he himself seems to be altogether incapable," as illustrated by the dismay of the mother of a sick child which, as he puts it, "feels only the uneasiness of the present instant, which can never be great" (1759: 8p). Smith adds dryly that "we sympathize even with the dead, who themselves experience nothing" (1759: 8p).

Our main focus is on one specific source of arbitrariness in human sympathy: the disproportionate sympathy and attention to identifiable as compared with statistical victims. In the first major section of the paper, we review research that documents this phenomenon and helps to identify its causes. We show, first, that people respond more strongly to identifiable

than to statistical victims, even when identification provides absolutely no information about the victims. Next, we show that the identifiable victim effect is a special case of a more general tendency to react more strongly to identifiable others, whether they evoke sympathy or other emotions such as anger. We also show that the effect of identifiability operates through its impact on emotion – that identifiable others evoke stronger emotional reactions, which motivate stronger behavioral responses.

At first glance, “identifiable other effects” would seem to lead to excess beneficence or punishment for high profile individuals versus the much greater mass of “statistical” individuals. In the second section of the paper, we show that this intuition may be misleading because it assumes that the treatment of statistical individuals which the public would choose is appropriate -- i.e., is a “first best” situation with the correct level of beneficence and punishment and in which there is no misallocation among victims or perpetrators. In fact, people may be insufficiently sympathetic toward statistical victims or insufficiently punitive toward statistical perpetrators; in either case, identifiability could shift people's responses in a normatively desirable direction.

The third section of the paper examines the implications of identifiable other effects for public finance. Greater attention to concrete cases with identifiable victims than to pallid statistics potentially influences the popularity of different policies, for example, naturally favoring hidden taxes over those whose incidence is more easily assessed, since a hidden tax has no identifiable “victims.” Identifiable other effects also have ramifications for political discourse. Because that is what the public responds to, it is not a surprise that much of the debate about government spending and taxation is driven by vivid exemplars – *iconic* victims

and perpetrators -- rather than any rational calculation of costs and benefits. We discuss some interesting instances and reflect upon the implications.

Background

Several lines of research have shown that individual cases motivate people more powerfully than statistics, even when the latter are objectively more informative. Borgida and Nisbett (1977), for example, found that students who were selecting courses paid much more attention to the verbally expressed opinions of a single individual who had taken a class during the previous year, than to carefully compiled statistics about levels of student satisfaction derived from a census of students. Hamill and coauthors (1980) found that subjects reading a vivid description of a single welfare recipient changed their view of welfare recipients (relative to a control group) more than those who received valid statistics about welfare recipients. Hendrickx, Vlek, & Oppewal (1989) likewise found that public health and safety warnings changed behavior more effectively when they were linked to people and anecdotes than when they were based on statistics. Finucane and coauthors (2000) found that people reacted much more strongly to a risk that was presented as a relative frequency -- e.g., 1 out of 100 -- than the same risk represented as a probability -- e.g., a 1% chance. They argued that the frequency representation makes people think more about specific individuals, and hence to react more strongly emotionally, than does the probabilistic representation. Loewenstein and Mather (1990) examined the relationship, over time, of public concern about different types of risks and the objective levels of those risks. They found that public concern generally tracked problem severity fairly closely, but that for a number of the risks there were periods of public 'panic' during which indicators of fear suddenly spiked, often with no change in the level of the

underlying problem. All of the panics that broke out could be tied to specific vivid cases that captured the public's imagination – e.g., news that Rock Hudson had contracted AIDS.

Identifiable Victims

One of the most developed lines of research in this area has investigated the "identifiable victim effect," a phenomenon first described by Thomas Schelling in a 1968 article titled "The life you save may be your own." Schelling noted that "the death of a particular person evokes anxiety and sentiment, guilt and awe, responsibility and religion, [but that]...most of this awesomeness disappears when we deal with statistical death." Schelling might have foretold the 1987 events following the fall of 18-month-old Jessica McClure ("Baby Jessica"), down a narrow well in Texas. Within hours her plight was a national sensation. Her face constantly appeared on every news channel, and people reacted with tremendous sympathy, which took the material form of hundreds of thousands of dollars sent to her family to assist in the rescue effort. She was indeed rescued, and her misfortune paradoxically turned into an incredible fortune. She now has a \$700,000 trust fund which she will gain access to on her twenty-first birthday.

Although casual empiricism, such as the tale of Baby Jessica, supports Schelling's intuitions, until recently there was very little positive evidence for such an effect (see Jenni & Loewenstein, 1997). Demonstrating the effect proved difficult because identifying a victim generally means providing information about him or her, and it is always possible that strong reactions to the victim are due to the information provided rather than to identifiability alone. For example, the outpouring of support for Baby Jessica may have stemmed, not from the fact that she was an identified victim *per se*, but because she was a *cute* identified victim. Small and Loewenstein (2003) circumvented this problem, and provided the first unconfounded empirical

demonstration of the effect, by showing that simply indicting that there is a specific victim, without providing any personalizing information, increases caring.

In one study, Small and Loewenstein (2003) created “victims” by giving all subjects in a group \$10 and then having half lose their money. In a dictator game subjects who had retained their endowment could contribute a portion of it to the “victims” who had lost theirs. The only information available to dictators about the particular victim who would receive the contribution was an I.D. number assigned to that victim by the experimenters and drawn at random by each dictator. Victims were “identified” if the dictator drew the number before deciding on how much to give and “unidentified” in all the other cases, where the dictator drew the number right after deciding on the amount of the contribution. This very weak form of identification had a large impact on contribution levels. Gifts to identified victims were significantly greater than gifts to unidentified victims, even though participants did not know and would not learn anything about the recipient other than his or her I.D. number.

In a second, field, study, potential donors were presented with a letter requesting money for a house being built for a needy family by Habitat for Humanity. The letter described several families on a waiting list to move into homes. Identifiability was manipulated by informing respondents that the family either “*has been selected*” or “*will be selected.*” In neither condition were respondents told which family had been or would be selected; the only difference between conditions was whether the decision had already been made or was just about to be made. Contributions to the charity were significantly greater when the respondents were informed that the recipient family had already been determined, demonstrating that the concreteness of a determined family compelled people to give more.

Identifiable perpetrators

If people are more sympathetic toward identifiable victims, will they also be more punitive toward identifiable perpetrators? Small and Loewenstein (2004) applied the research design from their work on the identifiable victim effect to address this question. Participants who had behaved cooperatively in a social dilemma by contributing their funds to a common pool were given the opportunity to penalize another participant who had behaved in a self-interested fashion by refusing to contribute. Contributors who chose to penalize had to pay a fraction of the penalty out of their own pocket. Analogous to the studies of identifiable victims, contributors made the decision to punish either just before or just after they had drawn the identification number of a non-contributor and had no other information about the non-contributor. Consistent with the victim studies, participants levied greater punishment, at their own expense, on *identified* non-contributors than on *unidentified* non-contributors.

Beyond generalizing the earlier work to a different target (perpetrators instead of victims), Small and Loewenstein (2004) also examined whether differences in punitiveness toward identifiable and unidentifiable perpetrators were associated with different affective reactions. Participants reacted with greater anger and blame toward an *identified* perpetrator than toward an *unidentified* perpetrator. Furthermore blame and anger mediated the relationship between identifiability and punishment: Although identification is positively related to punishment, almost all of the variation in the decision to punish is explained by blame and anger after controlling for whether or not the victim is identified. More specifically, in a regression of the decision to punish on an identification variable and a measure of blame and anger, the blame and anger measure is strongly significant, but the identification variable is not.

This research suggests that the identifiable victim effect is a special case of a more general “identifiable other effect” whereby *any* identifiable target evokes a stronger emotional and moral reaction than an equivalent, but unidentifiable target.

Are Identifiable Other Effects Good or Bad?

The Baby Jessica episode raises the specter of potentially large efficiency losses flowing from the disproportionate influence of identifiable others on public attitudes and sympathies. On the victim side, the danger is that available charity and government dollars will flow to particular high profile individuals while the mass of statistical victims will be shortchanged. It is hard to come up with any coherent theory of allocation that would support Baby Jessica receiving \$700,000 upon reaching adulthood while 16% of American children continue to live in poverty, unrelieved by government spending or charity. It might seem that identifiable other effects are pernicious, leading to a misallocation of social resources. However, a general conclusion along those lines may be quite wrong.

An initial question is whether or not those who are moved by identifiable other effects are making “correct” or “desirable” assessments. In some contexts, there is a strong argument that such effects play a crucial role in guiding behavior in the proper direction. For instance, many scholars have suspected that the extreme violence of modern warfare and the mass atrocities of the past century stem, at least in part, from the lack of identifiability of the victims. Lorenz (1966); Morris (1967); Glover (1999). Suppose a soldier pushes a button to drop a bomb in an urban area that kills a group of “enemy” troops but also kills and maims innocent bystanders. Would the same act of warfare occur if the soldier engaged in it had to kill and maim both the troops and innocent bystanders one by one and in person? Dropping a bomb in an urban area involves a degree of identifiability that is much weaker than in the unidentified conditions of the

studies discussed in the previous section. The soldier who pushes the button knows that some innocent bystanders may die or be injured but does not know the exact number or nature of the victims.

It is possible that identifiable other effects serve as an important component of what Sunstein (forthcoming) describes as “moral heuristics – moral short-cuts, or rules of thumb, that work well most of the time, but that also systematically misfire.” In the case of warfare, identifiability may reduce the tendency for non-combatants to be killed or injured. Even if, consistent with the studies discussed in the previous section, soldiers experience an enhanced desire to kill “identifiable” enemy troops because they are seen as “perpetrators,” the soldiers will feel offsetting inhibitions if a by-product is the death or injury of civilians perceived to be innocent victims. The end result may be a military strategy that reduces civilian casualties. This strategy has a strong connection to explicit moralizing in the West since reducing such casualties is an important element of the “just war” doctrine, which is one of the two most widely held theological positions toward war – the other being pacifism. As Lorenz (1966) and Morris (1967) suggest, it may be that human mechanisms for making moral judgments are designed for face-to-face interactions in small groups and are not able to function well in situations such as modern warfare that involve anonymous and statistical lethal attacks on other human beings. In such contexts, identifiable other effects would tend to restore our “true” morality, as it would function in small group, face-to-face settings. In modern societies although such effects may result in systematic overcompensation of certain high profile victims such as Baby Jessica, but it is possible that the effects propel behavior in a desirable direction most of the time.

The central problem in the Baby Jessica case is the failure to equate marginal benefits per dollar of aid expended. Shifting some of the aid dollars from Baby Jessica to other more

desperate victims would improve social welfare. However, the failure to equate marginal benefits per aid dollar may be consistent with a second best optimum. Suppose, for example, that we would provide massive aid to individuals suffering from hunger if we were able to experience the condition of each victim. In this situation, highlighting the plight of individual victims would trigger identifiable other effects that would tend to reveal the “correct” preferences toward such victims. Consider three outcomes:

- (1) Charities exploit “identifiable other effects” to induce tax-subsidized donations. As a result, the charities are able to save 10% of the hunger victims. The other 90% die of starvation.
- (2) Charities apply the same money resources (including the revenue cost of the tax subsidy) used to save 10% in situation (1) in the most efficient manner. As a result, 20% are saved instead of 10%.
- (3) All the victims die because no aid is forthcoming.

Although situation (2) is better than situation (1), the real (second best) choice may be between (1) and (3). Exploitation of identifiable other effects in situation (1) resulted in 10% being saved. The same money resources could save more statistical lives *in theory*, but there is no impetus to do so in the absence of the identifiable other effects. Small, Loewenstein & Slovic (2004), demonstrate that this dilemma may be quite common. They elicited donations for a cause (Save the Children's battle against hunger in Africa) using either a pitch that emphasized statistics about the problem or that showed a picture of a single charismatic victim -- a Malawian girl. Crossed with this experimental treatment, they instructed half of the subjects about the identifiable victim effect (in generic terms that did not take a position about whether identifiable victims elicit too much sympathy or statistical victims too little) before they elicited a contribution. Providing this information had a negative impact on donations in the identifiable

(photograph) condition, driving donations in this condition down to the level obtained with statistics.¹ Although Save the Children may be somewhat hamstrung when they raise money for specific victims, it is likely that the money they raise aids many people beyond the specific victims they post on their website. Thus, even if raising money for specific victims distorts aid allocation somewhat, it may very well provide a better outcome than soliciting aid purely on the basis of statistics.

Furthermore, the government might not be able to do any better than charities. The political impetus to provide aid may depend on parading high profile victims before the public and thereby exploiting identifiable other effects in exactly the same manner as a charity campaign. This approach, however, might then constrain the government to favor the same more limited set of victims as in the case of charity-driven aid with the end result being the same – saving 10% instead of 20% from starvation in the example above. It also might be true that charities are much better than the government at identifiable other campaigns. The government alternative might result in a higher death rate. It also is worth noting that charities and donations to charities receive very large tax-subsidies in the United States and in some other developed countries. In addition, the associated tax rules condition eligibility for such subsidies both on the nature of the charitable activities and on the mode of operation of the charities. As a result, the extent, content, and operational methods of charitable activities are shaped substantially by tax policy, and the charitable sector is very much part of the scheme of “public finance” in these countries.

In sum, the normative implications of identifiable other effects are subtle and context-dependent. Despite the Baby Jessica case, these effects are not necessarily pernicious. In some

¹ They obtained a similar result when, rather than explicitly teaching subjects about the effect, they accentuated the difference between the two appeals by presenting *both* types of appeals -- statistics and the photograph -- together.

situations, outcomes will deviate sharply from deep and noble human desires absent the prompts that arise from identification. With these considerations in mind, we are ready for a more detailed examination of the role of identifiable other effects in public finance.

Identifiable and Iconic Victims and Perpetrators in Public Finance

The differential reaction to statistical and identifiable others has diverse ramifications for public finance. So far, we have discussed cases that would fall on the “spending” side of the public finance equation: allocation of aid among victims of hunger or poverty. But identifiable other effects will tend to have a strong influence on the tax side also, even in areas that are “technical” and not very familiar to the general public. In this section we provide multiple examples where the effects may be important, drawing primarily from the tax side. We conclude the section with an extended analysis of one example, the alternative minimum tax, showing how the ambiguity about the normative significance of the effects plays out in a real world example.

Some Examples

Hidden taxes: Ultimately, all money raised by taxes, or by any other means, has to come out of someone's pocket. The incidence of any particular tax may not be obvious because price changes induced by the tax may shift the burden from the nominal payor (the entity or individual who remits money to the government) to someone else. Economists traditionally have studied the actual incidence of different taxes and have not attached much importance to the identity of the nominal payor. However, the psychology and therefore the politics of taxation may turn on who *appears* to pay the tax as opposed to who actually bears the burden. The public will tend to ascribe the burden to the nominal payor and to ignore taxes that they do not explicitly pay. For example, to most consumers, the VAT tax is simply part of the purchase price of an item. The nominal payors are businesses. One argument against adopting a VAT tax in the U.S. has been

the worry that there would be too little resistance to raising taxes via the VAT exactly because it is “hidden.”

Similarly, it is well known that wage withholding increases the palatability of an individual income tax. Since individuals do not make direct payments to the government equal to the withheld amounts, they tend to think of the withheld portion as not being theirs in the first place. McCaffery (1994a) points out that corporate income taxes are a classic example of a “hidden tax.” The short-run incidence of these taxes is unclear, but corporations are the nominal payor. For most of the public, it may seem obvious that corporations (i.e., shareholders) pay the taxes, but many economists believe that the long-run incidence falls largely or entirely on labor, and even the short-run incidence may fall partly on labor and consumers as well as on shareholders. Russell Long, one of the most powerful and influential tax legislators in his long reign as chairman of the Senate Finance Committee, summed up the psychological appeal of “hidden taxes” in his very famous and often-quoted aphorism, “Don’t tax him, don’t tax me, tax the man behind the tree.”

It is important to note that the entire concept of a “hidden tax” hinges on psychology and appearance. Consider the classic example, the corporate income tax. This tax may fall on consumers, various factors of production such as labor or raw goods suppliers, or on shareholders. In one perceptual state of the world, each of these groups might believe that it bears the entire burden of the tax. In this situation, the tax certainly is not “hidden.” The polar opposite case, where each group believes the tax falls on some other group(s) is the paradigmatic case of a “hidden tax.” Thus, a “hidden tax” in its pure form is one where all of the possible ultimate payors believe that the tax is being paid by someone else. Similarly, we might say that a tax is “hidden” with respect to one particular group if that group believes, perhaps

counterfactually, that some other group(s) bear the entire burden of the tax. It is obvious from this definition that whether a tax is “hidden” or not is an empirical issue. Psychology and perception play a crucial role. A VAT may be “hidden” with respect to consumers despite the fact that it is enumerated on their sales receipts if consciously or unconsciously they believe, perhaps counterfactually, that it is really being paid in its entirety by other groups such as the owners of the businesses that sold them the goods or services.

Estate taxes: If one followed the usual tenets of political economy, the estate tax should be wildly popular among the American electorate. Historically, the tax has been levied on only a tiny fraction of individuals, and it certainly *appears* to be a source of several billion dollars of revenue, thus *apparently* reducing the tax burden on everyone else.² The reason for its lack of popularity has been the topic of considerable speculation and debate.

One explanation that has commonly been offered is that many people expect to become wealthy, and that, as a result, far more people think they will be negatively affected by the estate tax than will actually be the case. Nonetheless, it is hard to imagine that this delusion affects a large enough proportion of the population to create the existing and historical level of discomfort with the estate tax. An at least equally salient explanation involves the clever marketing by individuals whose heirs really stand to lose from the estate tax. Graetz (1983), attempting to explain the “mysterious” unpopularity of the tax, observes that “[i]t is often said that opponents of tax increases hide behind selected widows” and that “when one considers estate taxation, both widows and orphans are readily at hand.” He also notes that “the objections of owners of small businesses and farms” are an “important political obstacle to estate taxation” despite the fact that the assets of these individuals comprise a very small portion of the base for the tax. The specter

² McCaffery (1994b) discusses evidence that the tax actually may lose revenue when certain subtle interactions with the rest of the tax system are taken into account.

of individual small business owners or farmers being forced to sell out what their parents had built up in order to pay estate taxes created a politically compelling victim scenario entirely apart from the political power of these groups as such.

Even more perversely, as Adam Smith pointed out in the *Theory of Moral Sentiments*, there seems to be a natural tendency to reserve some of our most profound sympathy for the high and mighty rather than for the downtrodden who are so much more deserving of it:

When we consider the condition of the great, in those delusive colours in which the imagination is apt to paint it, it seems to be almost the abstract idea of a perfect and happy state. It is the very state which, in all our waking dreams and idle reveries, we had sketched out to ourselves as the final object of all our desires. We feel, therefore, a peculiar sympathy with the satisfaction of those who are in it. We favour all their inclinations, and forward all their wishes. What pity, we think, that any thing should spoil and corrupt so agreeable a situation! It is the misfortunes of kings only which afford the proper subjects for tragedy (1759: 72).

Smith's description brings another, more recent Briton, Princess Diana, to mind.

Tax Compliance: the History of the Taxpayer Compliance Measurement Program (“TCMP”): For many years, the federal government engaged in annual comprehensive TCMP audits of 50,000 “lucky” taxpayers chosen quasi-randomly. “Comprehensive” was taken seriously. The audit covered all items on the tax return and included requests for taxpayer documentation for all such items. For example, the auditor asked for cancelled checks or other evidence for every charitable contribution. Although TCMP audits were very painful for the taxpayer, TCMP audit data was invaluable for the government. Using the data, it was possible to

adjust the government's audit strategy (via "DIF scores") to be much more precise in collecting missing revenue and policing non-compliance.

It appears that the program met its demise largely because "victim" concerns became salient. The experiences of various audited individuals became public, exposing the comprehensive (and painful) nature of the audit and emphasizing the fact that it fell at random on taxpayers not suspected of any wrongdoing. As a result, the TCMP audit picked up the acronym "audit from hell" and was an early and prominent casualty of the taxpayer rights movement. The IRS halted the program in 1995. From a policy perspective, this result is curious because of the obvious benefits of the program. Part of the problem seems to have been a strong reluctance on the part of the IRS to compensate the "victims" of the audits by monetary payments or otherwise in the face of a public belief that these "victims" richly deserved such compensation.

This pattern and the subsequent history of the TCMP suggest that identifiable other effects may have been decisive. For several years after the demise of the TCMP, the IRS did not run any programs to generate data. Finally, in 2002, the IRS implemented the "National Research Program." It involves examining about the same number of returns as under the TCMP audit scheme, but the approach is much less uniform. Some returns are examined by information check, some by correspondence, some by a sit-down audit that is not line-by-line, and some (but only very few) via line-by-line audits. There is no standard "NRP audit." This non-uniform approach makes the "victim" designation much less applicable. Instead of 50,000 identifiable instances, each of which is a standard "audit from hell," the whole situation is quite murky, with many taxpayers receiving quite lenient and "polite" treatment. It will be more difficult to find "iconic" victims in this group. If a particular person goes public with what seems like

mistreatment, the IRS can argue that this instance, although perhaps unjustified and mistaken, is exceptional rather than representative of the process.

An Extended Example – the Political Origins of the Alternative Minimum Tax

Potential examples of psychological phenomena from real life lack the clarity of experimental results. It often is easy to posit alternative explanations. We conclude this section with an example that is particularly hard to explain without resorting to identifiable other effects. In addition, at the normative level, the example raises the general set of issues concerning the beneficial or detrimental nature of the effects in a very clear manner.

The Alternative Minimum Tax (“AMT”) ensures that high-income taxpayers pay a certain minimum amount of tax on income that excludes many of the preferences and deductions available under the “normal” tax rules. To the extent that these preferences and deductions create incentives for socially valuable activities, the AMT is harmful because it blunts these incentives. On the other hand, the AMT ensures that high-income taxpayers cannot abuse the preferences and deductions to pay little or no tax.

Much of the economic debate about the AMT turns on the degree to which tax preferences are capitalized. For example, if the highest tax bracket is 40% and tax exempt state and local bonds yield 5% along with taxable alternatives such as Treasury bonds or corporate bonds, then high-income individuals who invest in the tax-exempts receive a two-percentage-point subsidy. At the same time, the state and local government issuers, the intended beneficiaries of the exemption, do not receive preferential lending rates compared to corporate and federal issuers. On the other hand, if competition among high-income individuals to hold tax-exempt bonds drives the yield on those bonds down to 3% (versus 5% for Treasury and corporate bonds), then high-income taxpayers receive no after-tax benefit. In that case, the entire

subsidy (in the form of the national government's revenue loss) flows to state and local government issuers. The tax benefit is fully capitalized, and, as a consequence, it is not a matter of concern if a high-income individual reduces his or her taxes to zero by earning income solely from tax-exempt sources. That individual's pre-tax income will be lower by an amount equal to what the tax would have been. In effect, the individual is subject to an implicit tax at the full statutory rate. Depending on individual perceptions, this implicit tax may be at least partially "hidden" from the "victim" payors and from members of the public who might have sympathy for those payors.

The precursor of today's AMT passed in 1969, but serious AMT-like proposals were floated much earlier. Russell Long, the powerful chairman of the Senate Finance Committee quoted above, proposed and was pushing just such a proposal in the mid-1960s, but it did not catch on. An incredibly powerful "identifiable other" event in early 1969 almost certainly triggered enactment. Graetz & Schenk (2002) describe this event and its aftermath in detail.

In the last few weeks of the Johnson administration, Joseph Barr was serving (temporarily) as Treasury Secretary. In January 1969, only days before the Nixon administration took the reins at Treasury, Barr made a public statement that 154 taxpayers had adjusted gross incomes of \$200,000 or more (approximately \$800,000 in 2004 dollars) but taxable incomes of zero. This announcement generated more letters to Congress during 1969 than the Vietnam war, the principal and most passionate political issue of the day. Before the end of that year, Congress passed a 10% add-on tax applicable to certain preferences, the precursor of the current AMT. It is hard to avoid the conclusion that identification of the 154 taxpayers was critical in ensuring passage. In the years preceding 1969, it was very clear and public that there were some very generous deductions and preferences in the Code that would permit high-income taxpayers

to reduce their tax burdens substantially. Nonetheless, the earlier AMT-like proposals, such as the one championed by Russell Long, did not pass or even achieve much political salience despite strong support from key politicians and policy makers. Furthermore, passage in 1969 occurred in the face of a new Republican president, an individual much less likely to support such measures than his populist Democratic predecessor.

Assuming, as seems to be the case, that identifiability effects were critical in bringing the AMT into the Code, the question arises as to whether this influence was beneficial or pernicious. Not surprisingly, the outcome of that question depends heavily on one's view of the AMT itself, and radically different characterizations of Barr's political act are conceivable.

On the negative side, the AMT may be viewed as blunting the impact of deductions and preferences that make policy sense while also adding considerable unnecessary complexity to the Code. This view is particularly salient if the deductions and preferences are largely capitalized into asset prices. In that case, the high-income recipients actually receive little or no benefit but are subject to implicit taxes in the form of lower pre-tax returns. The hidden nature of the implicit taxes may have provided necessary political support for the system – a beneficial application of the identifiable other effect. Under this scenario, Barr's political act appears pernicious, severely hampering a well functioning political and economic arrangement by exploiting a detrimental version of the identifiable other effect in a demagogic and McCarthy-esque way during the dying days of a defeated administration.

On the positive side, the AMT may be viewed as offsetting the unintended distributional consequences of preferences and deductions. This view is enhanced if some of the deductions and preferences themselves are of questionable efficacy as public policies and/or are not offset by lower pre-tax returns. This perspective leads to a very different characterization of the Barr

episode: Barr's heroic and politically brilliant application of the identifiable other effect allowed the general public to see what was really happening in a concrete way. True human aspirations, so apparent in small group interactions but often lost in the anonymous and ponderous operation of modern societies, triumphed as a motivated populace galvanized politicians to undertake curative political action.

Conclusions

Strong identifiable other effects, involving both victims and perpetrators, emerge unmistakably from experimental research. This research shows that only a very weak degree of identifiability results in significant effects. Individuals, drawing from their own resources, will be substantially more beneficent toward victims and more punitive toward perpetrators if they know that a particular victim or perpetrator is involved, even if the individuals know nothing about the actual identity or history of the chosen victim or perpetrator.

Identifiable other effects play a potentially important role in diverse domains, and public finance is no exception.³ We have detailed some important tax and spending phenomena that are difficult to explain without invoking such effects. These instances arise from masking identifiable targets through hidden taxes as well as from making them more salient in various ways to the public and the political process.

Although it seems clear that identifiable other effects are important for public finance, our discussion leaves unresolved whether such effects are (in the net) beneficial or detrimental to the functioning and structure of public finance systems. Due to the intellectual association of such effects with the psychological literature concerning behavioral and cognitive "errors" it is

³ There are a myriad of examples from contexts other than public finance. For instance, Calabresi & Bobbitt (1978: 138) discuss the significant role of Franklin Delano Roosevelt as high profile victim in prompting the relatively high (almost entirely private rather than government) expenditures on eradicating poliomyelitis that "are hard to explain in terms of risk of equivalent harm."

easy to presume that the net effects are detrimental. However, although identifiable other effects sometimes may lead to deficient outcomes, a case can be made that these effects function as an important component of moral intuition. This role may be particularly significant in the modern world, allowing human beings designed to function in small group and face-to-face situations to attach appropriate salience to the statistical or anonymous processes generated by governments and other large organizations. Not surprisingly, answering the question of detriment in particular instances turns out to be highly dependent on the factual and political context.

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