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Notes on a Theory of Philanthropy

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In view of the importance of philanthropy in our society, it is surprising that so little attention has been given to it by economic or social theorists. In economic theory, especially, the subject is almost completely ignored. This is not, I think, because economists regard mankind as basically selfish or even because economic man is supposed to act only in his self-interest; it is rather because economics has essentially grown up around the phenomenon of exchange and its theoretical structure rests heavily on this process. Exchange is a reciprocal transfer. Philanthropy, apparently, represents a unilateral transfer. In an exchange, something is transferred from party *A* to party *B* and something else from *B* to *A*. The ratio of these two quantities is, of course, the ratio of exchange and if one of the exchangeables is money, then this ratio is a price. The price system is a basic one for the economist and he tends to regard society as being organized by it. This is true even in national income economics for money income always represents quantity of commodity multiplied by its price. In a single transfer or gift, however, there is no price, for nothing is given in exchange. The economist, hence, feels rather at sea. When he finds himself in an area of social life which is apparently priceless, he hardly knows what to do.

It is tempting for the economist to argue that there are really no gifts and that all transactions involve some kind of exchange, that is, some kind of *quid pro quo.* If we drop a dime in the blind man's cup, it is because the blind man gives us something. We feel a certain glow of emotional virtue, and it is this that we receive for our dime. Looked at from the point of view of the recipient, we might suppose that the blind man gives out a commodity or service which consists in being pitiable. Even if we look upon the transaction as an exchange, however, it is clearly a very curious one. The dime in the cup is a clear enough transfer of assets from the donor to the recipient. What passes from the recipient to the donor, however, is mysterious. There is no conservation of assets here. The glow of self-righteousness which is felt by the donor may have no corresponding emotion, feeling, or disutility in the mind of the blind man. That which is in some sense cost to the blind man, that is, what he gives up, is not the same thing as the receipt to the donor. This phenomenon, of course, is not peculiar to the situation of the pure gift. It is true of almost any transaction or exchange involving services. Thus, we are familiar with the fact that in the wage bargain, what the worker gives up is not what the employer receives. Even though what the employer gives up is physically what the worker receives (money), the significance of the cost to the employer may be very different from that of the receipt to the worker. We have here a transaction which is much more complicated than the simple exchange of wheat for money on the wheat market, in which what is given up by the seller is of the same order as what is received by the buyer. It begins to look, therefore, as if some of the peculiarities of philanthropy penetrate rather deeply into the economic system.

We should notice, also, that the basic concept of the gift, that is, the unilateral or one-way transfer, extends far beyond what is usually thought of as philanthropy. It applies to anything which may be classified as a transfer payment, whether this is made by the private donor, a foundation, or by government. Transfer payments, especially the payments by government, are coming to be an increasing element in our economic life. They presumably have much the same kind of impact on the economy that philanthropic gifts have, although their legal position and their mode of organization may be very different.

It might be argued, therefore, that all unilateral transfers whether these are the transfer payments of government, for instance, in agricultural subsidies or social security payments, or whether they are the grants of foundations, or even simple gifts among individuals, should be regarded as elements in what Talcott Parsons calls the "polity" rather than the economy. A very interesting question, somewhat peripheral to the main issue, is whether interest payments or even bank loans should be regarded as part of the system of unilateral transfers; that is, again, as elements in the polity. There is here, it is true, a form of exchange over time—an exchange of money now for money later. In the immediate present, however, this looks very much like the unilateral transfer and the curious attitude of the United States government towards interest payments, which it allows as a deduction from income in much the same way as charitable contributions, is an indication and recognition of the peculiar status of this form of transfer. What we have here is clearly a continuum with ordinary acts of exchange at one end and charitable gifts at the other, but with a great many intermediate forms and stages.

Just as a loan may be regarded as a short-run gift but as a long-run exchange, so may outright gifts be in this category. In some societies, indeed, almost all gifts are essentially what the anthropologists call "silent trade"; that is, almost always made in the expectation of a return gift. It has been argued by some anthropologists that gifts essentially antedate exchange as a social institution, and that exchange arises out of a mutual transfer of gifts. In our society the exchange of gifts at Christmas is perhaps a case in point. Even though it is supposed to be more blessed to give than to receive, most of us probably find that if our gifts strikingly exceed our receipts, or the reverse, we feel a little uncomfortable.

A very interesting but very complex example of long-run exchange is that among the generations. In any short period of time, it is clear that the people in middle life, who for the most part produce the real income of society, have to share this real income both with the young and with the old. The middle-aged must support the unproductive, whether the lack of productivity is the result of immaturity or of senescence. The problem of how much such support the middle-aged should give is always a rather critical matter of social policy, about which there may be a good deal of disagreement. This question, too, is related to the problem of interest. The property of society is mostly held by the old. If rates of interest and, indeed, rates of profit are high, the middle-aged have to contribute large amounts of the current products of society to the support of the old. If rates of interest and of profit are low, it is probable that there will be a redistribution of income away from the old, perhaps even away from the young, towards the middle-aged.

There is clearly here, something that looks like an exchange across the generations. The young are supported by the middle-aged in the hope that when the middle-aged are old, the young, who will then be middle-aged, will then support them. Thus, when we are young, we receive more than we contribute to society, in middle-age we pay off this debt, and indeed more than pay it off, by supporting both the then young and the then old. In middle-age, therefore, we not only pay off the debts of youth, but we build up a positive balance with society which we then draw upon in age. This rather idyllic picture is not, of course, always observed in practice. For society as a whole, however, it is not an unplausible description of the relations among the various age groups. In the end what looks like philanthropy often turns out to be disguised exchange—exchange, that is, over a period of years. This still does not prevent these transactions from looking very much like philanthropy in the short run.

We now come to the very interesting question of the motivation for genuinely unilateral transfers, that is, a *quid* for which there is no *quo*, not now, in the future, nor in the past. This raises the question as to whether there is anything that might be called "rational" philanthropic behavior. What are the standards, in other words, by which we can judge whether a man, or a foundation, or even a government is giving away its money wisely. It is clear that in practice we do have some standards and it therefore must make some kind of sense to talk about rational philanthropy. Philanthropic donations, that is to say, are not wholly random or arbitrary. They are capable of criticism according to some kind of welfare function even though the function may be very difficult to specify.

In a formal sense, of course, it is possible to deal with this situation by the ordinary theory of utility. We suppose that an individual or an organization has a certain amount of income to dispose of—to divide among various competing uses of which the philanthropic use is one. The formal solution to this problem is that the marginal utility of the "dollar" should be the same in all uses. Otherwise, of course, it is possible to increase the total utility by transferring dollars from one use to another. That is, we give to charity up to the point where we feel that an extra dollar given does not represent to us the same utility as a dollar devoted to other purposes, such as the purchase of commodities or the addition to our net worth. This theory is so formal that it cannot help being true. Its truth, however, does not guarantee that it should be interesting, and unless we can specify more about the nature of the utility function, this theory says very little more than: we do what we do. We may, however, at any time reexamine our mode of life and expenditure and decide that we have been putting too much in one line and not enough in another, and that hence the marginal utilities of the dollar were *not* equal—we were doing something, in other words, which on further examination proved to be irrational. It is this possibility of further examination which saves utility theory from complete emptiness. Utility theory does call our attention to the fact of cost and sacrifice and to the real nature of the problem which is involved in decisions of this sort. It saves us from notions of absolute requirements which are so congenial to the military man and to the engineer. The idea that everything has its price may expose us to the charge of cynicism but it should at least save us from the danger of a false absolutism.

Utility theory will mislead us, however, if we conclude from it that the motivation for philanthropy is no different from that for other forms of expenditure. There is nothing in this theory which suggests that all motivations are alike, even though they can be reduced formally to a single factor which we call utility. In fact, the motivation which leads to expenditure for philanthropic purposes may be very different from that which leads us to build up a personal estate or to purchase consumption goods for our own use. I refer here particularly to "genuine" donations, that is, gifts for which there is no identifiable *quid pro quo* even in the shape of a personal gratification. There is a real moral difference, I think, between the gift which is given out of vanity and the desire for self-aggrandizement or the desire to be merely fashionable, and the gift which is given out of a genuine sense of community with the object of the donation. It is this sense of community which is the essence of what I regard as genuine philanthropy. The name philanthropy, itself, which means of course, the love of man, is a clue to the essential nature of the genuine article. When we make a true gift, it is because we identify ourselves with the recipient. Even pity, which is not always a particularily ennobling virtue and which easily slips over into vanity and self-congratulation (there but for the justice of the universe, rather than the grace of God, go I!)—even pity is the manifestation of self-identification with the pitied. It is this capacity for empathy—for putting oneself in another's place, for feeling the joys and the sorrows of another as one's own—which is the source of the genuine gift. It is because "no man is an island," because the very realization of our own identity implies in some sense that there is a common identity in humanity, that we are willing to "socialize" our substance and to share with the afflicted. This is "charity" before the word became corrupted by vanity and fashion. It can be dealt with quite easily in utility theory by considering the utility of one person a function not only of his own wealth or his own income, but a function of the wealth and income of others. This assumption does not necessarily destroy the theory of exchange (as I

Pure and impure altruism

show later), although, altruism could be carried to the point where the utility functions of two exchangers are identical over the field of possible distribution of commodities between them. In this case the parties simply move immediately to their mutual optimum in the field and whether this is done by gift or by exchange really makes very little difference. This, however, is highly unlikely. We love our neighbor, but not quite as ourselves. As he gets more and we get less, we rejoice indeed in his affluence, but at some point our dissatisfaction with our own penury is likely to exceed this vicarious enjoyment. Once we admit this fact, exchange reestablishes itself.

If we regard the philanthropic donations of an individual as an expression of his sense of community with others, a great deal that may seem mysterious or irrational about the phenomenon falls into place. Obviously, the more an individual identifies with some cause, community, or organization, the more likely he is to support it and the greater will be his donations to it. This is why the immediate face-to-face group and the reference groups with which he has identified himself always figure largely in the amounts given by an individual. When he gives to his children, for instance, he gives in a sense to an extension of himself. When he gives to a church of which he is a member, he is expressing his identity with a community a little larger than the family but fulfilling some of the same functions. As he contributes toward it, therefore, he is contributing in a sense toward part of his larger self. The larger the community, however, the harder it is to finance it by pure donations; the more tenuous the sense of identity, the less the individual feels that the community is an integral part of himself. It is a rare nation or state, therefore, that can rely on the motive of identification, that is, of genuine philanthropy for the support which it requires from its citizens. We have, therefore, the phenomenon of taxation which might be regarded as compulsory philanthropy. Baumol has pointed out that such compulsory philanthropy may be quite rational in a situation where an individual will make a contribution willingly if everybody else makes one, but would be unwilling if other people did not. Hence, an individual may advocate his own coercion simply because it is accompanied by the coercion of all the other members of the community. In large, heterogeneous, and anonymous communities in which the individual loses the sense of face-to-face contact with the other members, it is almost always necessary to reinforce philanthropy with coercion and to provide for unilateral transfers, such as taxes, under some kind of penalty for failure. Even in private communities, the threat of expulsion can

Preview andreoni Rao and a retort to those who say DG is not relevant be an important factor in inducing the individual to pay what looks at first sight like a purely voluntary contribution. There may, in other words, be elements of coercion even in the relationship of the individual with a purely private organization or community.

Up to now, I have been dealing mainly with the philanthropy of the individual. I now turn to the problem of the professional philanthropist, as exemplified by the foundation. We here run into a problem and a set of motivations which may be very different from those of the private individual donor. The foundation is a specialized giver. The amount which it gives is usually determined by the conditions under which it has been set up (although there may be some latitude in this regard). Consequently, its donations are not, like those of the individual giver, sharply competitive with alternative uses in consumption or in saving. Once the donor has decided to set up the foundation, the question as to how much it should give is largely taken out of the realm of decision-making. The problem of the foundation, therefore, is not so much whether its sense of community with the object of the gift merits an extra dollar drawn from competing uses, but rather, whether the money should go to one deserving object or another. The main problem of the foundation, in other words, is that of the choice among possible recipients of its bounty.

Begin FOUNDATIONS

This raises the question whether we could have a theory of the foundation in the sense in which we have a theory of the firm. It is obvious that the two institutions differ sharply. The theory of profit maximization, while it is subject to many exceptions and qualifications, is at least a reasonable first approximation to the theory of the firm. We seem to have no such first approximation in the theory of the foundation. Nevertheless, a foundation must make choices much as a firm does. It has to decide that *A* is worthy and *B* is not. It must develop a policy according to which it makes and, perhaps even more important, justifies its decisions. Even though its purpose is to do good rather than to make profits and even though profits have a certain objectivity of measurement which the good has not, nevertheless, it is presumably in the interest of a foundation to do more good in its own estimation rather than less. The notion of the maximization of good, although it may not lead to a clear mathematical and objective rule of action, is at least a theoretical beginning.

A foundation faces one problem (which may also be present in the firm) in what may be an acute degree. A firm may find that it makes much the same amount of profit over a large area of its field of possible choice—in this case its actual decisions are, in a strict economic sense, indeterminate. Likewise, a foundation may come to feel that it will do about the same amount of good in widely differing areas and for widely differing distributions of its largesse among various objects. Under these circumstances, the problem of "maximizing behavior" is a very difficult one because the maximizing principle gives us no clear rule for action. It is not surprising, therefore, if organizations develop rules of thumb or what might be called rules of exclusion. A wide and open field gives us agoraphobia. We therefore build fences across it and around it. We say we will not do *A*, we will not do *B*, we will not do *C* and by the time we have excluded these possibilities by rule, there may be only one alternative left to us, *D*, which we then select. One can see this happening constantly in the foundations—one of the first decisions that a board of directors of a foundation makes is what it will *not* do. It partitions the general field and almost always decides to limit itself to a small area.

The process of decision-making by successive elimination is, of course, not confined to foundations. Every individual, organization, or society, when absolute rationality, that is, "maximizing" behavior is despaired of, retreats into taboo, ritual and rule of thumb. There is, perhaps, more excuse for this kind of behavior in the foundation than there is in many other forms of organization. Even in the foundation, however, it frequently represents a retreat from responsibility. An organization which follows this principle also is in grave danger of finding its principles obsolete. The world is apt to change more rapidly than our rules about it. A foundation which decided, for instance, to support only a particular area of medical research might find itself left high and dry when this particular area encounters success.

Even though it is very difficult to specify the exact form of the welfare function of a foundation, there is a certain analog of the market in the mutual competition of foundations for grantees and of potential grantees for foundation support. There is even a certain analogy between the "states of the market" as we develop this in the theory of monopoly and imperfect competition and the various possible states of the relations between foundations and their grantees. We can visualize the situation, for instance, of extreme monopoly of the granting power. The totalitarian socialist state would be such a monopoly. Here the success of a potential grantee depends upon his ability to present his case before the right persons and the right channels within the monolithic organization of the granting power. By contrast, suppose a situation analogous to perfect competition in which there are a large number of foundations and a large number of grantees. Here there is a possibility of shopping around. An applicant who is unsuccessful with one foundation may turn to another and vice versa. There is in fact some competition among the foundations for desirable applicants, but ordinarily we may assume that the amount which applicants are seeking is very much in excess of what the foundations are able and willing to grant. Hence, the rationing function has to be performed by the foundation rather than by the applicant.

It would be very interesting if we could develop theorems relating the state of the granting market in regard to monopoly or competition to the desirability of the results and if we could, for instance, make a case against monopoly of the granting power, as we can make a case against monopoly in exchange relationships. I have an intuitive feeling that some such proposition is plausible. I would not be so presumptuous, however, as to attempt to demonstrate it. We need in the first place, some measure of the success of the granting program. What is it, in other words, that would make one distribution of grants among the potential applicants better or worse than another such distribution? Strong cases can easily be cited. The Ford Foundation, for instance, is rarely blamed even by its most vociferous critics for rejecting a proposal to plant a 3,000-mile-long rose garden along the frontier of the United States and Canada as a symbol, or perhaps as a memorial, to the peaceful relations established along this border. Once we leave the patently absurd, however, there seems to be room for strong differences of opinion as to the wise course to follow in the making of grants. The rejected suitors naturally feel hurt and indignant. Foundations may tend to minimize this hurt by giving everybody a little. This seems, indeed, to have been the principle of The Ford Foundation. It is subject to the criticism that it results in a large number of weak proposals and weak institutions instead of a few strong ones. It is arguable, for instance, that Rockefeller did more for American education, even for the salaries of professors, by establishing a single strong University of Chicago than The Ford Foundation has done by broadcasting its largesse.

The problem of the ideal structure of foundation grants is complicated by the fact that the effects of these grants are often not what either the donor or the recipient intend. This is mainly owing to the varying elasticities in the supply of labor, especially intellectual labor. When a grant is given for a certain purpose, the assumption is that there exists a market within which the accomplishment of this purpose can be bought. If in fact, a supply of whatever it is that embodies the purpose is highly inelastic, the main result of the grant will be to bid up the price of this supply rather than to increase its quantity. In the long run, of course, if the grant is repeated and continuous, supplies tend to be more elastic. Most foundation grants, however, do not operate in the long run. Thus, if a number of foundations start giving grants for, shall we say, studies in Chinese, the main result is to bid up the price of Chinese specialists, sometimes to the point where the traditional structure of incomes is seriously disturbed, and yet there is not much increase in the total body of Chinese studies produced. The competing programs spend most of their time, energy, and money in bidding the specialists away from each other.

Just as we used what might be called the principle of reexamination to rescue the theory of utility from total formalism, so we might invoke the same principle in the theory of grants. A foundation may certainly regret having made a grant and an applicant may even regret having received it; there may be afterthoughts and reexaminations. One of the institutional problems, therefore, is the learning process by which the foundations and other granting agencies learn from their mistakes. One difficulty here in attempting to use the analogy of competition is that in a market situation, especially in perfect competition, a firm which makes serious mistakes will go out of existence. The only fatal mistakes which a foundation can make, however, are in its investment policy, not in its granting policy. As far as I can see, there is nothing in social ecology which would lead to the elimination of a foundation which indulged in the uttermost folly in its grant-making, provided that its investment policy was sound. Foolish or irresponsible grant-making might, of course, in the long run stir up enough social resentment to lead to the disestablishment of the foundations. The dissolution of the monasteries stands as a solemn historical warning. The presence of immortals is always an embarrassment to a mortal society, and it is certainly easy to imagine that the foundations might become such large and significant centers of private power that the state will be forced to disestablish them. This follows from the position of the foundation as an element in the polity rather than in the economy. The prospect of disestablishment in the future, however, is little safeguard against mistakes in the present.

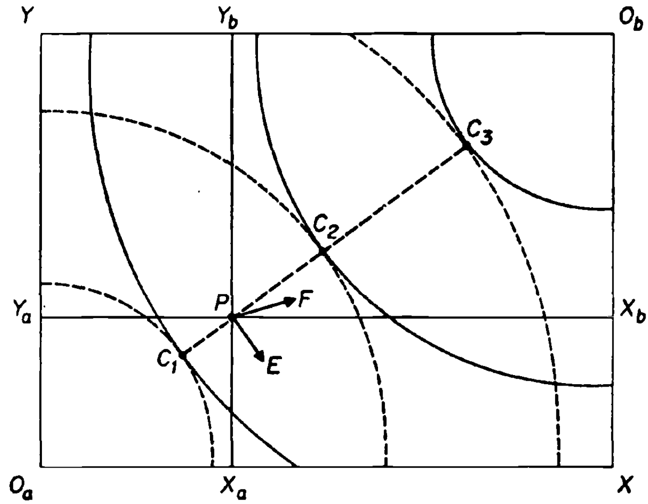
By way of conclusion, if the case for competition among foundations is a strong one, one wonders whether there is not also a case for something like an antitrust law for foundations. The very large foundations do represent a source of political and economic power, which however wisely exercised, is politically irresponsible; that is, not responsible to anybody beyond a self-perpetuating body of trustees. A situation like this in a society always contains the seeds of potential danger. A law which would compel the split of any foundation exceeding perhaps $100,000,000 would at least distribute this power more widely, would lessen the possibility of really disastrous mistakes, and would give the applicant a better chance to shop around. Even a superficial knowledge of the activities of foundations suggests that it is the small ones which are frequently the most creative and imaginative. The larger a foundation gets, the more it begins to look like an arm of government and the less justification there seems to be, therefore, for the private exercise of this power.

Appendix: Altruism and Utility

The theory of exchange or bilateral monopoly, as developed in the first instance by Edgeworth, can easily be adapted to any degree of altruism that we wish. In the usual exposition, we indicate the distribution of two commodities between two exchangers by the position of a point P inside the box O_aXO_bY—O_a being the point where exchanger A has none of either commodity, and O_b the point where exchanger B has no commodity. O_aX is the total amount of commodity X and O_aY is the total amount of commodity Y to be divided between the two exchangers. Thus at the point P, exchanger A has Y_aP of commodity X and PX_a of commodity Y; exchanger B has PY_b of commodity Y and PX_b of commodity X. In pure exchange, of course, there is no change in the total quantity of the two commodities. Exchange is merely a rearrangement of assets.

In the usual analysis, we suppose that each party to the exchange has a utility function represented by indifference curves—the solid curved lines being those for A, the broken lines being those for B (see Figure 1). We suppose that A's utility increases the more he has of anything and the less B has, and B's utility increases the more he has and the less A has. This is the usual nonaltruistic case. If we visualize the utility functions in the third dimension above the plane of the paper, A's utility function is a mountain which rises continuously as we go away from O_a in any direction. B's utility function is a mountain which rises likewise as we go away from O_b in any direction. The heavy dotted line $C_1C_2C_3$ is the contract curve or the locus of the points of tangency of the two systems of indifference curves. It is easy to show that from any point in the figure not on the con-

FIGURE 1

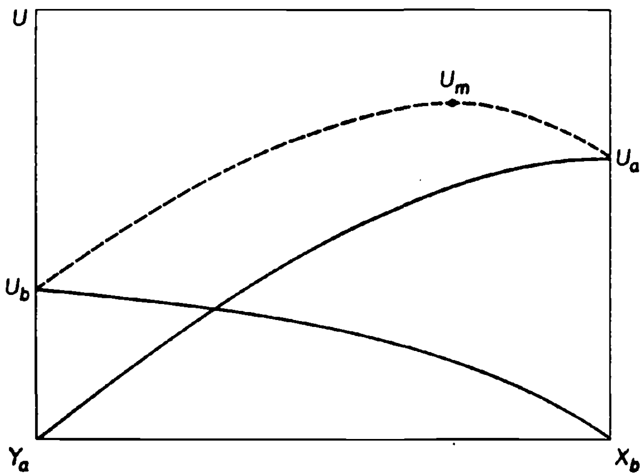


tract curve, it is possible to reach points on the contract curve by some process of exchange which will make both parties better off.

In the ordinary case, *A*'s utility depends only on the amounts of commodity which he possesses, and similarly for *B*. There is no reason, however, why we should not extend the analysis to include the case in which *A*'s utility depends not only on what he has, but also on what *B* has. In this case, we might suppose that *A*'s total utility consists of two parts—the part which is derived from his own possession of the two commodities and the part which is derived from his contemplation of *B*'s possession of them, that is, from altruism. Thus, suppose we take a section of the three-dimensional utility surfaces along the line Y_aX_b (see Figure 2), where utility is measured in the vertical direction. We may suppose that Y_aU_a represents the direct utility to *A* of the increase in commodity *X*. The curve X_bU_b represents the indirect utility to *A* as he contemplates *B* increasing the amount of commodity *X* which *B* possesses. The sum of these two utility curves is the curve $U_bU_mU_a$. We are assuming here, of course, all sorts of shocking things about the measurability and comparability of utilities, but this may be unavoidable.

In Figure 3, we return to the axes of Figure 1 and draw the indifference curves of the two parties which would correspond to the utility functions of Figure 2. The solid lines, as before, represent the indiffer-

FIGURE 2



ence curves of party A and the dotted lines of party B. It will be observed that the corresponding utility functions now exhibit a maximum at M_a and M_b respectively. This means that as we move from M_a toward O_b, A's utility actually declines, in spite of the fact that he is gaining more goods, because the direct gain to himself is outweighed by the pity which he feels at B's miserable poverty. Similarly, B's utility declines as we move from M_b toward O_a.

Consider now, the line $H_aM_aK_a$ which is drawn through all the points where A's indifference curves are vertical, and the corresponding line $L_aM_aN_a$ which is drawn through all the points where A's indifference curves are horizontal. These lines, intersecting at M_a, divide the field into four regions. In the region $O_aH_aM_aL_a$, A's indifference curves are the same as in Figure 1, that is to say, he is selfish in both commodities. In the region $M_aN_aO_aK_a$, he is altruistic in both commodities. It is impossible, formally, to distinguish this case from the case where the commodities have become discommodities, but in our case, we suppose they have become discommodities to A because of his altruism. He cannot bear to have more of them at B's expense. In the region $L_aM_aK_aX$, he is selfish in regard to commodity Y and altruistic in regard to commodity X. This situation is exactly reversed in the area $H_aM_aN_aY$. Similar lines, $H_bM_bK_b$ and $L_bM_bN_b$, can be drawn through M_b and a similar analysis performed for the party B. These two sets of lines divide the field into nine regions. To avoid further confusion in the figure, we number these from one to nine

FIGURE 3

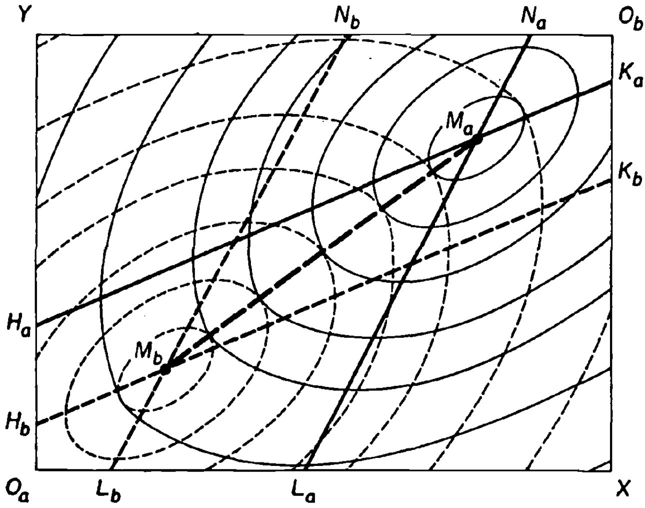
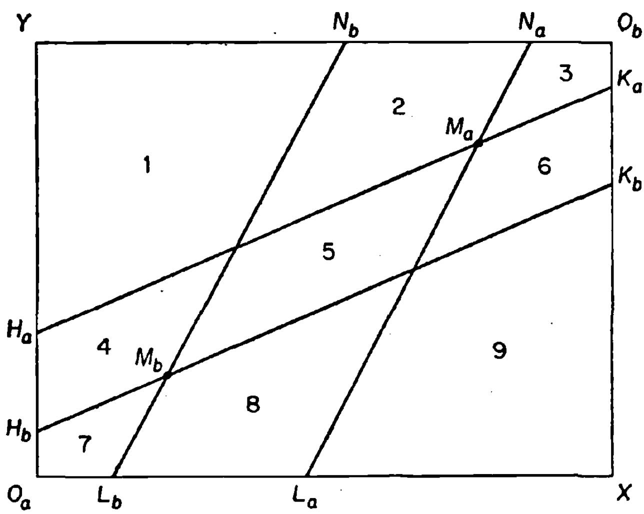


FIGURE 4



in Figure 4. In the central region, 5, both parties are selfish in both commodities. The situation is essentially the same as in Figure 1. The contract curve joins M_b to M_a and the analysis of exchange follows exactly as it does in Figure 1. In region 7, A is selfish and B is altruistic in both commodities. Exchange is impossible from any point within the region. B will simply give A both commodities until the point M_b is reached. This is, therefore, a region of two-commodity philanthropy for B. Similarly, the region labeled 3 is a region of two-commodity philanthropy for A, and from any point in this region, we proceed immediately to M_a. Regions 2, 4, 6, and 8 are characterized by the fact that each party is altruistic in one commodity and selfish in another, and that the commodity in which one party is altruistic will be that in which the other party is selfish. In region 1, both parties are altruistic in X and selfish in Y; in region 9, both parties are altruistic in Y and selfish in X.

We see in this figure that both exchange and philanthropy are special cases of movement within the field of the figure. Exchange is a movement in any direction on a line with a negative but not infinite slope, such as for instance, PE in Figure 1. Here each party gives up one commodity to the other and receives the other commodity in return. A horizontal movement is a pure gift of commodity X, thus a movement from P toward X_b in Figure 1 is a gift of commodity X from A to B. A movement from P to Y_a is a gift of commodity X from B to A. Similarly a vertical move in either direction is a gift of commodity Y. A move along a line with a positive slope, such as PF in Figure 1, represents a gift of both commodities. If we define a "trading move" as a move which makes both parties better off than they were before, we see that, in region 5, only exchanges can be trading moves. In regions 1 and 9, both exchanges and gifts of both commodities by either party in certain proportions can be trading moves. In regions 7 and 3, exchanges cannot be trading moves. In regions 2, 4, 6 and 8, exchange may be a trading move, and gifts of the two commodities in certain proportions by only one of the parties may also be trading moves.

In the case of total altruism, where each party regards the interest of the other as identical with his own, the points M_a and M_b move together until they coincide. When this happens, regions 2, 4, 5, 6 and 8 disappear. Both parties will move towards a single optimum, either by exchange in regions 1 and 9 or by gifts of both commodities in regions 3 and 7. It is interesting to note that even in this extreme case, exchange is not wholly ruled out; but, of course, the contract curve shrinks to a single point and there is no conflict.