

Charitable Giving

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Alan Auerbach, Raj Chetty, Martin Feldstein, Emmanuel Saez, editors

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Introduction

Another review on Charitable Giving?

- Andreoni (2006), “Philanthropy” in *Handbook of Giving, Reciprocity and Altruism*
- Vesterlund (2006), book
- Andreoni (2001) Encyclopedia SBS
- Andreoni (2008) New Palgrave
- Andreoni, Harbaugh, and Vesterlund (2008), New Palgrave
- Bekkers (2008), journal
- List (2011) *J. Econ Perspectives*
- special issue of the *Journal of Public Economics* edited by Andreoni and List (2011).

Main issues of 2006 Review

- Feldstein-Clotfelter themes
 - Effect of taxes
 - Identification
 - Importance of exogenous tax changes
 - Reliance on function forms for identification
 - Value in natural experiments.

Main issues of 2006 Review

- Crowding out of giving by government grants
 - Tying government to private charities
 - Simultaneity problems
 - Instruments
- Gifts by the Very Wealthy
 - Estate giving
 - Effect of estate taxation
- Optimal Tax Treatment of giving
- Volunteering vs Cash giving
- **NEW**: Considering charities as active parties.
 - Fundraising

How has the Literature Developed since 2006?

- An explosion of Experimental work, especially on fundraising
- Expansion of Behavioral Economics influence on research
- Both lab and field experiments have been influencing research
- Sometimes the research has outstripped the questions.
 - Like driving too fast for your headlights
 - A gold rush to do new field and lab studies, especially on fund raising.
- Very little in the areas included in the 2006 Handbook chapter

How will this review be different?

- Focus on Literature after 2006
- New Themes
- Go deeper into a smaller number of papers
 - Less on what we know
 - More on how we get to know it.
- Highlight *new* methodological questions regarding inferences from experimental research
- Refocus the literature on the most relevant research questions
- Write a shorter review that people may actually read.

Organization

The Four Approaches

1. Individuals
2. Giving as a Market
3. The Inherent Sociality of Giving
4. The Giver's Mind

1. Individuals

- **Non-strategic**
- Given incentives, how do individuals respond.

2. Giving as a Market

The Players

- Donors: Suppliers of Funds
- Charities: Demanders of Funds
- Government: Policy Interventions
- **NEW** Foundations: Intermediaries

Study the *interactions* of the players

3. Sociality of Giving

- Giving is inherently social
- The **Context** becomes important
 - Somebody is *watching*
 - People are *judging* each other
 - Somebody is *asking*
- The Human bond is important
 - Intellectually recognizing a need
 - Emotionally feeling the need
 - Acting on those feelings
 - By giving
 - By avoiding giving

4. The Giver's Mind

- More precise understanding of what moves people to give
 - Why would people avoid a fundraiser?
 - Why is it hard to say 'No'?
 - Why do we feel guilty not giving ?
 - Why do we feel good about giving?
 - Why do we sometimes feel both?
 - Why do we care to know the answers to these?
- BIG questions:
 - What does this mean for the structure of charitable markets?
 - How does this affect policy?

Background:

What Gives?

Figure 1: Total US Private Giving, 1970 to 2010
\$Billions (Real, Base Year 2010)

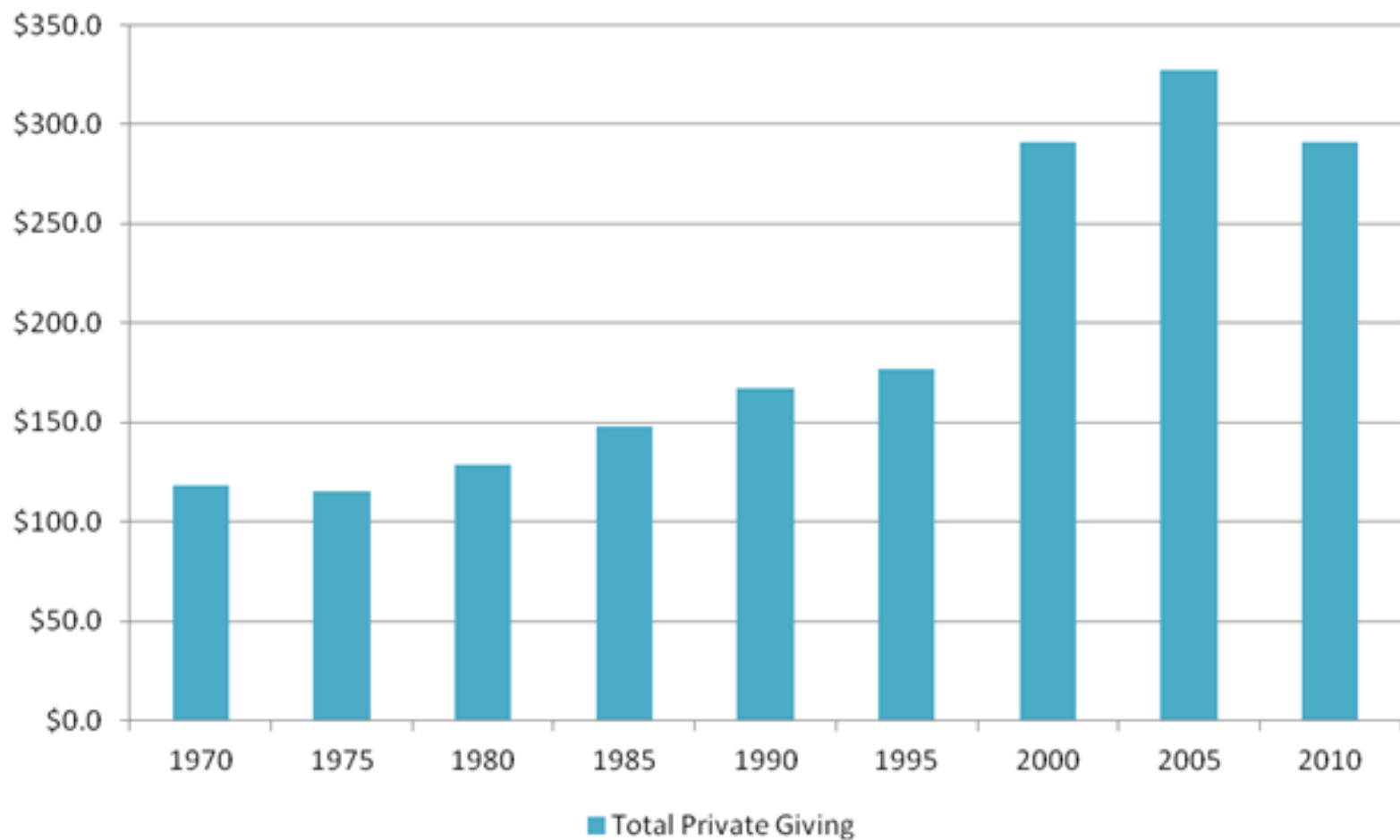
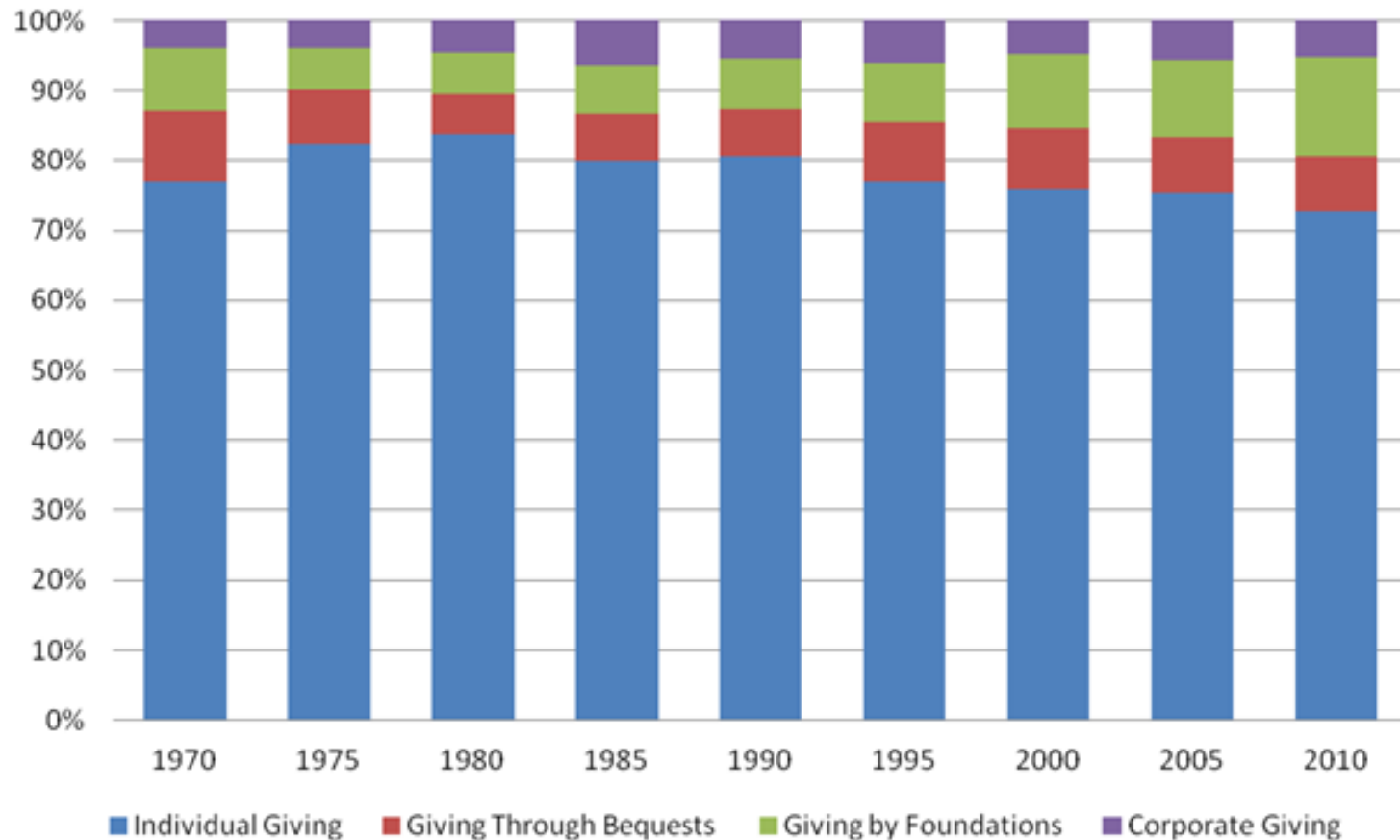
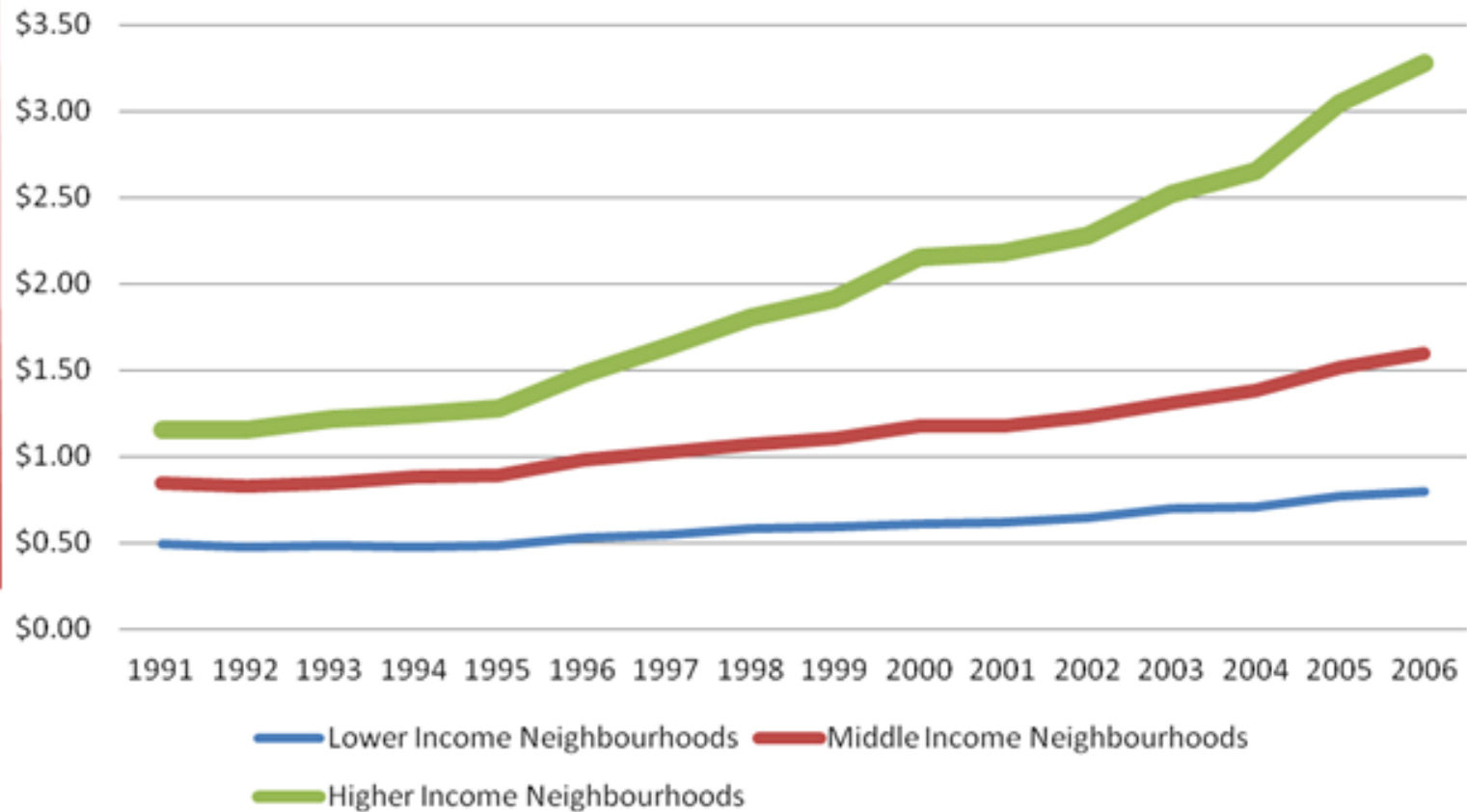


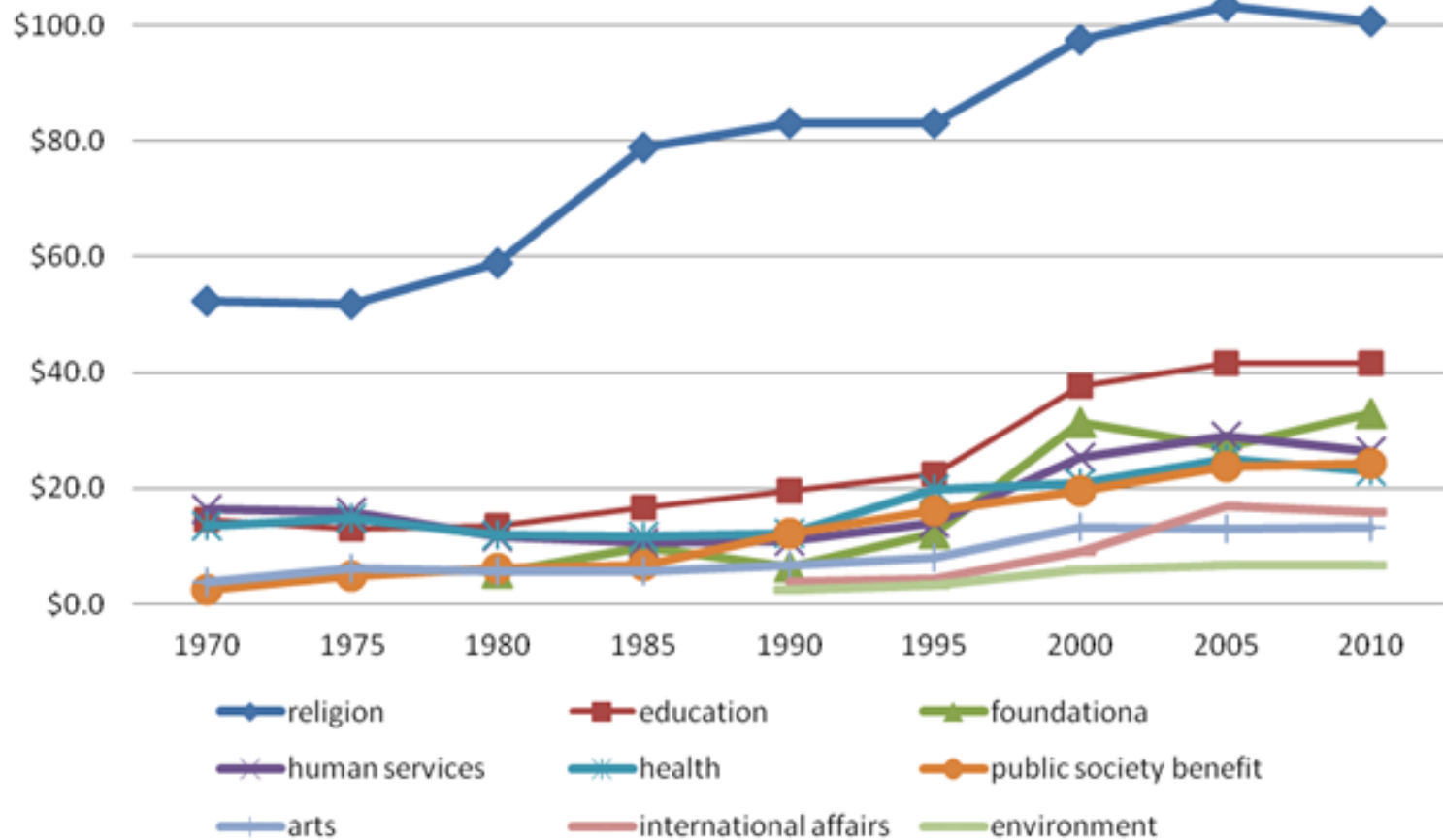
Figure 2: Changes in US Giving by Giving Type, 1970 - 2010



**Figure 3: Total Reported Donations, by
Neighbourhood Type
Billions of Dollars, Real \$**



**Figure 4: Total Private Giving By Charity Type
\$Billions (Real, 2010 Base Year)**



1. Individuals

Karlan and List.

‘Does Price Matter in Charitable Giving?’, AER 2007

- Exogenous variation in price/income is difficult in tax data
- Can control in a field experiment on matching gifts.
- Let
 - g = gift *received* by charity
 - d = donation *out-of-pocket* by giver
 - c = consumption
 - y = income
 - t = marginal tax rate
- Subsidy/rebate: $c + (1-r)g = (1-t)y,$ $d = (1-r)g$
- Matching gift $c + d = (1-t)y,$ $g = (1+m)d$
- Rearrange $c + [1/(1+m)]g = (1-t)y$ $p = 1/(1+m)$

Karlan and List

- 50,000 mailings
- Primary conditions
 - 1/3 Control: *no mention of a match*
 - Treatment 1: 1-to-1 match $p=0.5$
 - Treatment 2: 2-to-1 match $p=0.33$
 - Treatment 3: 3-to-1 match $p=0.25$

Karlan and List

- Issue: *Marginal-illusion*
- Match comes with a Maximum
 - What if it is met?
 - In practice....it is often met by definition
- Secondary Controls
 - Low Cap: \$25,000
 - Medium Cap: \$50,000
 - High Cap: \$100,000

Karlan and List

- Returns from 50,000 mailings
 - 2% response rate
 - 300 controls (1.8% response)
 - 735 treatments: about 245 of each (2.2% response)
- Finding 1: Extensive effect 1
 - The existence of a match increased propensity to give
 - By 22% = $2.2/1.8 - 1$
- Finding 2: Extensive effect 2
 - Match alone increased from \$0.81 to \$0.97 per mailing.
 - Increase of 19%

Karlan and List

- Finding 3: No Intensive Effect
 - No intensive margin effect of the match on d , out-of-pocket donation
 - d per mailing = \$0.94, \$1.03, \$0.94
- Finding 4: Or perhaps Big Intensive Effect
 - g per mailing rose a lot with match, all the way to \$3.75 per mailing.
- Finding 5: No effect of limits
 - Marginal illusion or not?

Karlan and List

Conclusions by authors:

- “First, we find that using leadership gifts as a matching offer considerably increases both the revenue per solicitation and the probability that an individual donates.”
- “Second, at odds with the conventional wisdom, we find that ...match ratios ... have no additional impact.”
- “Furthermore, in light of the fact that Martin Feldstein (1975) shows that price elasticities vary among the types of charitable organizations, it is important.... (to explore) robustness to other charity types.”

Karlan and List

Comments

1. Feldstein and the “conventional wisdom” use g , not d , and find g is usually near unit elastic. But

$$\varepsilon = (dg/dp)(p/g) = -1 \text{ is the same as } dd/dm = 0$$

Questions:

1. Which is the right finding for policy? Using d or g ?
2. Is it significant that the match didn't have a dominant income effect and *reduce* d ? Crowd out other giving? Could this be a success of matching?

Huck and Rasul

“Matched fundraising: Evidence from a natural field experiment,” J Public Econ 2011

- Karlan and List need additional controls to make their claims
- The very fact of a leadership grant conveys information
- Conditions
 - C: Control, No mention of leadership gift
 - L: Leadership gift mentioned, **but not match**
 - M1: L + a 0.5 to 1 match is stated
 - M2 : L + a 1 to 1 match is stated
- C vs L isolate the effect of a leadership gift
- L vs M1 and M2 isolate the effect of match

Huck and Rasul

Findings:

- All the increase is due to the Leadership gift
- Matches actually have a dominating income effect
 - Higher matches *lower* d
 - That is, g is inelastic wrt p.
- Charities would be better off just announcing the lead gift and having no match.
 - Marginal-illusion?
 - Narrow budgeting?

Caveats to Both Experiments

1. Special sample.

- Karlan and List: Lefty U.S. political organization
- Huck and Rasul: German opera patrons giving to poor people

2. Self-selected for treatment

- Impossible to know who opens the envelope
- Is opening correlated with the openness to be influenced by the treatment?
- Does this mean other methods that can measure the effect of the treatment on the treated could get different results?

2. Charity Markets

Theory

Correa and Yildirim (2011) “A Theory of Charitable Fund-raising with Costly Solicitations”

- Full integration and generalization of
 - Andreoni (1998) on Leadership Giving
 - Andreoni and Payne (2003) on “latent” supply of fund raising
 - Andreoni and McGuire (1993) on identifying free riders
- Givers must be asked before they give
- The charity commits to a fund drive at cost C
- Charity selects a set S of potential donors to solicit

Result:

- Charity can select set S and fundraising goal that is successfully reached.
- Crowding out is incomplete because charities alter fundraising in response to government grants.

Crowding out in Canada

Andreoni and Payne 2011b, “Crowding out Charitable Contributions in Canada: New Knowledge from the North.”

- Data from over 6000 Canadian charities for 15 years
- Sources of revenue
 1. *Tax Receipted gifts*
 2. *“Revenue from fundraising events,” e.g. galas, runs*
 3. *Foundations and other charities*
 4. *Government grants*
- Excellent demographic data
- Instruments on political representation

Crowding out in Canada

Findings

- As with prior studies, overall crowding out is high
 - almost 100%
- But, individual donors are crowded *in*
 - Using grants as signals?
 - Only give less because fundraising falls
- Fundraising events are reduced by the charity
 - Most onerous form of fundraising?
- Foundations and other charities are crowded out by grants.
 - Best informed givers?

Crowding out in Canada

In Sum:

1. Individuals may use grants as signals of quality
 - Explains crowding in
2. Foundations may see grants as a reason to go elsewhere.
 - They are typically better informed givers.
 - Illustrates the important new power of foundations
3. Charities may see grants as a reason to reduce fundraising
 - Supports model assumptions that charities see fundraising as a necessary but unpleasant activity.

3. The Sociality of Giving

Why do People Give?

- Why do reporters keep asking me this question?
- Why is the answer so difficult?
- Maybe because there are many motives and not all of them are easily captured with simple economic stories.
- Need appeals to ethics, sociology, and psychology to enhance our economic model.

Audience Effects

Andreoni and Bernheim, “Social Image and the 50-50 Norm: A Theoretical and Experimental Analysis of Audience Effects.”
Econometrica, 2009

- Intuition
 - Alice has \$20 to divide with Bob.
 - Cultural norms say 50-50 is most fair
 - Suppose Alice cares that others think she’s a good person
 - Suppose without an audience, Alice most prefers to give Bob 45%
 - With an audience, 45% would reveal her true type, while for a mere 5% she can appear as altruistic as those who care much more
 - Audience makes her behave *more* altruistically

Audience Effects

- Intuition, continued.
 - Bob has \$20 to divide with Cindy.
 - Suppose without an audience, Bob most prefers to give Cindy 2%
 - With an audience, 2% would reveal his true type, which is not much better than the perfectly selfish types.
 - Bob can save 2% and not suffer much loss in social image by pooling with the perfectly selfish types.
 - For the right distribution of types, this tradeoff is worthwhile.
 - Audience makes him behave *less* altruistically

Audience Effects

- Audiences can enhance or suppress altruistic behavior.
- This “Double-Pooling Equilibrium”
 - Fits experimental data precisely
 - Is validated by further experiments in the paper.
 - Provides a useful framework for understanding the social interaction of giving.

The Power of Asking

Andreoni and Rao, "The Power of Asking: How Communication Affects Selfishness, Empathy, and Altruism" J of Public Economics , 2011

- Alice can divide \$20 with Ron
- Conditions
 - *Baseline:* Silent
 - *Ask* R can Request ← one way
 - *Explain* A can justify ← one way
 - *Ask-Explain/Explain-Ask* Both ← two way

The Power of Asking

Results

- *Baseline:* 16% given
- *Ask* “50:50 is Fair”
24% given
- *Explain* “I’m Sorry”
6% is given
- *Ask-Explain/Explain-Ask* “50-50 is Fair”
29% is given
order doesn’t matter

The Power of Asking

Followup

- Subjects make *Ask* decision
- Same subjects also make *Explain* decision
- Randomly pick roles and one-way communication condition to carry out.

Results:

- Same as Two-way communication.
- Putting yourself in the others shoes was the same as communicating with them.
- Justification without empathy is also powerful → give 0
- Empathic reasoning can defeat justification → more equality

Socio-Economics of Giving

Andreoni, Payne, Smith, Karp, “Diversity and Donations: The Effect of Religious and Ethnic Diversity on Charitable Giving” Nov 2011.

Diversity is known undermine public provision of public goods.
What about private provision?

- Data from Canadian tax filers
- Aggregated to neighborhoods of about 5,000 households
 - Impressive detail about ethnic and religious backgrounds.
- Apply methodology of Vigdor (2002, 2004)
 - Fragmentation Index (FI)
 - Measures the likelihood that two randomly matched people are from the different group: higher FI = more diversity
- 4 Censuses, 15 years, 17,000 neighborhood-year observations.

Socio-Economics of Giving

Results

- Average donation \$200 per year
- Ethnic Diversity
 - 10 percentage point increase in FI = 14% reduction in giving
- Religious Diversity
 - 10 percentage point increase in FI = 10% reduction in giving

Socio-Economics of Giving

Results

Effect differs in magnitude and *sign* across groups

- A 10 increase in FI...
 - \$92 increase by *non*-minorities
 - \$390 increase by blacks
 - \$111 decrease by east Asians.
 - \$69 decrease by Catholics
 - Lower education among majority groups is most averse to diversity.
- See also Hungerman (2009), Fong and Luttmer(2009, 2011)

4. The Giver's Mind

Do people dislike giving?

Dana, J., Cain, D., and Dawes, R. (2006). “What you don't know won't hurt me: Costly (but quiet) exit in dictator games.” *Organizational Behavior and Human Decision Processes*.

Dana, J., Weber, R., Kuang, J., 2007. “Exploiting moral wiggle room: experiments demonstrating an illusory preference for fairness.” *Economic Theory* 33 (1), 67–80

Are we making people worse off by asking them to give?

Do people dislike giving?

Two new studies on self-selection into giving

DellaVigna, List, and Malmendier, (2011). “Testing for altruism and social pressure in charitable giving.” Quarterly Journal of Economics, Forthcoming.

Andreoni, Rao, and Trachtman, (2011) “Avoiding The Ask: A Field Experiment on Altruism, Empathy, and Charitable Giving”

Avoiding the Ask

- Salvation Army bell ringers in December 2009
- Suburban Boston Supermarket
- Two main doors, far apart.
- Experiment 2x2 design:
 - Bell ringer at 1 door (easy to avoid) or 2 doors (difficult to avoid)
 - Bell ringer is silent or says “Please give today”
 - Over 4 days we count traffic and giving in 64 22-minute blocks.
 - Counted over 17,000 passersby
- Note:
 - Well known charity
 - Easily scripted and controlled
 - With 2 doors, we know the effect of treatment on treated + selection

Avoiding the Ask

Results

1. The power of asking?
 - Percent of givers nearly doubles
 - Amount given nearly doubles
2. Avoiding the *silent* ask?
 - No avoidance of silent bell ringers
3. Avoiding the *verbal* ask?
 - When people could avoid....30% did
4. Seeking a chance to give?
 - At most, 2% of shopper seek out a chance to give.

Avoiding the Ask

Conclusions and questions

1. Does this test Altruism?
 - Does an altruist give at *every* opportunity?
2. Why to people avoid such a simple request?
 - Feel guilty saying no?
 - Afraid they would say yes?
3. Why are these feelings powerful?
 - Part of an empathic mental mechanism?
 - The mechanism worked in small groups of clan and kin
 - In today's world it must be moderated
4. Maybe avoidance is a form of self-control?

Conclusion

Four Approaches

1. Individuals facing a solitary economic choice
 - Price and income elasticities
2. Giving as a “Market”
 - Players: Donors , Charities , Government, Foundations
 - Strategic Interdependencies.
3. The Inherent Sociality of Giving
 - The power of Audience & Asking
 - Social Image, Self-image, Diversity
4. The Giver’s mind
 - Giving as a process
 - Intellectual awareness + empathic concern -> action
 - Is there a role for policy?

Topics that need more study

- Concentration of wealth
 - What does it mean for the types of goods provided?
- Religious giving
 - Who benefits, how, and what does it cost
- The incidence of the tax deduction
- The rise of foundations
- How strong are the social forces of giving?
 - How far do we need to go to understand policy?

The End

You are a generous audience.



Next big idea in charitable giving research?

- Nature endowed us with mechanisms that make us behave generously to those who genuinely need help.
 - Sympathy
 - Empathy
 - Guilt
 - Shame
 - Pride
 - “Warm glow”
- Now opportunities to be generous abound, as do opportunities to be exploited
 - Giving is a complicated psychological **process** that must be monitored and moderated.
 - How do fundraisers defeat this?
 - What interest do policy makers have in protecting it?