Why Do People Give?

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The vast majority of Americans make charitable contributions. In 2000, 90 percent of U.S. households donated on average $1,623 to nonprofit organizations. Why do so many people choose to give their hard-earned income away? What motivates them to behave in this altruistic or seemingly altruistic manner? The objective of this chapter is to present a short summary of what economists have learned about the motivations for individual charitable giving. This is a question of substantial importance, as individual contributions account for more than 80 percent of total dollars given. If we do not understand why people give, then how can we encourage them to become donors or to increase their contributions, and how can we determine the effect of changes in the economic environment will have on giving?

One way to think about charitable giving is that it is just like the purchase of any other commodity. That is, we expect contributions to depend on how much we earn and how costly it is to give. In the first part of the chapter I examine how individual’s income and the price of giving affect her contributions. Depending on how individual’s respond to these factors is crucial not only for predicting how total donations respond to changes in tax policy and how fund managers can take advantage of these changes, but also for determining how the government best can design subsidies such as the tax deductibility of donations to nonprofits. While the similarity with ordinary commodities is clear when we examine responses to changes in income and prices, it is less so when we want to determine what motives to make such purchase or contribution. What is it that gave us in return from these transactions? What tradeoffs do we face when we give our money away? In the second part of the chapter I discuss the potential benefits of giving. There are many types of benefits and they vary with both the individual and the organization. Economists typically classify them into two groups. One group is public in nature because both the donor and other individuals benefit from it. For example, while a donor may care about the provision of the nonprofit’s output, this same output may simultaneously benefit other individuals. The second group is private in nature. Giving may make you feel better about yourself, it may make you feel like you have done your share and perhaps paid back the community, or it may give you prestige or an acknowledgment that you would not otherwise get. Since no one but the donor can enjoy these aspects of giving, we characterize them as private benefits.

Why does it matter whether the benefit from giving accrues solely to the donor or affects the well-being of other donors as well? The reason is, in part, that the characteristics of the benefit help us determine whether voluntary contributions are likely to result in the “right,” or optimal, level of contributions. If everyone views the benefit from giving as entirely private then each individual will contribute an amount that reflects her valuation of the nonprofit, and as a result the voluntary provision level will be optimal. If on the other hand the benefit is public, then the contribution by another donor provides the exact same benefit as one made by yourself, and since it is costly for you to contribute you have an incentive to free-ride off the contribution of others. In the presence of other donors an individual who is motivated by the public benefits will choose to contribute less than she would without these donors. When the benefit is public we predict that too little of the public good will be provided.

To determine whether benefits from giving are primarily public or private, economists have examined the following different predictions of what happens in the contribution of others is expected to increase as individual’s contribution when the benefit of giving is public, and it is expected to cause no change in giving when the benefit is private. Most empirical studies of survey or donation data find that on average the benefit appears to be private in nature. This suggests that the last dollar that we give to charity is not motivated by the more than one’s output. This is an extreme result, and one may question whether the nonprofit’s output truly can be irrelevant for our decision to give an additional dollar to charity. In the final section of the chapter I investigate the possibility that perhaps the economic interpretation of the empirical results is biased by the assumptions we impose on the model of giving. I relax the assumptions and examine if this alters the crucial prediction that donors who are concerned about the magnitude of output increase their personal donations when the donations of others increase. In particular I consider environments where donors take account of the effect that their donation will have on the contributions of others, as well as where donors not only maximize their well-being but are also restricted by social norms or rules. I show that in some circumstances these altered assumptions change the predictions of the model.

THE EFFECTS OF PRICE AND INCOME ON GIVING

It is natural to expect charitable giving to increase with income and decrease with the price of giving. But what exactly is meant by the price of giving? Typically the price of an object refers to what we have to pay to obtain a particular good. For charitable giving the price of giving refers to what it costs us to give the organization an additional dollar. Thus charitable contributions are deductible for those who itemize, the price of giving depends on the individual’s marginal tax rate. Suppose, for example, that an itemizing taxpayer faces a marginal tax rate of 28 percent. Then, by giving $1, the donor will pay $0.28 less in taxes for a net price of $0.72. Thus someone with a marginal tax rate of 15 percent is faced with a price of $0.85 per dollar given. Further reductions in tax liability can be attained if the donor decides to contribute an appreciated asset. In this case the donor can deduct the market value of the asset and does not have to pay taxes on the appreciated capital gain.

Data from a survey of 200 big donors are suggestive of the impact that taxes have on giving (Prince and File 1994). This study reviewed the tax returns of the largest donors and other tax returns. Aggregate data suggest little if any response to price changes. For example, despite the substantial changes in the marginal tax rates during the 1980s, the dollar donations remained fairly constant. However, one must be cautious when interpreting such aggregate statistics. We first have to account for other simultaneous changes in the economy and for the fact that not all contributions were affected by changes in the marginal tax rate. A possible way of incorporating both of these effects is to determine whether those who were prevented from giving a larger contribution received their contributions relative to those who did not face a higher price.

The results of this chapter are robust to the following different specifications of who are prevented from giving a larger contribution received their contributions relative to those who did not face a higher price.

Clotfelter (1990) and Auer, Cline, and Randolph (1992) examined this question and find that in the aftermath of the 1986 Tax Reform Act, giving for those faced with a lower marginal tax rate decreased relative to those who did not face a different marginal tax rate. Thus a more careful analysis reveals that the results of these earlier studies may have been driven by the tax code.

For the past three decades economists have tried to determine exactly how sensitive giving is to price and income. The measures of interest have generally been the income and price elasticities of demand, which is the percentage change in the amount given associated with a 1 percent change in income and price, respectively. Because the income elasticity measures the response of the amount of gifts to changes in income, we expect that the measure is positive. If, for example, the income elasticity of demand is 1.50 then a 1 percent increase in income increases giving by 1.5 percent. The price elasticity of demand measures responsiveness to price and is therefore expected to be less than zero. That is, an increase in price is likely to decrease donations. To examine this if it is a good idea for charitable contributions to be tax deductible, researchers have been particularly interested in determining whether the price elasticity, in absolute value, is larger or smaller than one. It has been argued that for deductions to be effective, the deductibility provision must increase charitable contributions by an amount that exceeds the government’s cost of the provision. The reason is that the government instead of allowing contributions to be tax deductible could transfer the funds spent on this provision directly to the charity. When donations are tax deductible, each dollar received by the charity is in part financed by the donor and in part by the government’s lost tax revenue.

To see that the threshold for the "treasury efficient" price elasticity equals one, in absolute value, consider the unit elastic case. If, in this case, the marginal tax rate increases in response to a 1 percent increase in the price of giving, then the individual’s contribution also increases by 1 percent. While the individual’s total cost of giving remains the same as prior to the tax increase, the government’s cost increases. In fact the government increase in charitable giving is financed exactly by the lost tax revenue associated with deducting contributions at a higher tax rate. In the unit elastic case the government’s revenue from these donations is exactly equal to the lost tax revenue paid by the donors.

If the price elasticity of demand is above one, in absolute value, then the nonprofit sector will receive contributions that exceed the donors’ last dollar’s worth, while the opposite holds when the elasticity is below one.

Knowing how sensitive charitable giving is to income and price not only enables us to determine how changes in the economy will affect charitable giving but also can help us design better tax policies for the future.

While researchers argue that giving responds to changes in income and price, others suggest that it responds to these factors. The first analysis of this question estimated the price and income elasticities using cross-sectional data. While the precise estimates varied from study to study, the general consensus was that giving was price elastic (that is, the elasticity is greater than one in absolute value) and income inelastic (that is, the elasticity is smaller than one). Most estimates on the price elasticity were in the range of 0.5 to 1.75, whereas the estimates on the income elasticity were in the range of 0.6 to 0.87. As representatives of these early studies measured elasticities of 0.79 for the income elasticity, and 1.27 for the price elasticity, with the latter clearly demonstrating that
personal dedications of donations do have the intended posi-
tive effect on charitable giving.\textsuperscript{1}

One of the drawbacks of the cross-sectional data is that only one year of data is difficult to identify separately to separate the income and price variations. Since the total tax rate increases with income, one cannot deter-
mine whether a positive correlation between giving and in-
come exists.\textsuperscript{2} the study is not able to determine if an increase in the tax rate causes people to give a higher income or when they face a lower price.\textsuperscript{3}

More re-
cent studies have used panel data to separate these effects. In panel data, the same individuals are observed over a number of years, hence tax rates change over the observed pe-
riod then the panel can provide independent observations of income and price variations. Initial studies of panel data suggest that the cross-sectional evidence may not have cor-
text-ually identified the price and income effects. For example, Rudolph's\textsuperscript{5} examines giving in a ten-year panel of tax-
return data and finds results that differ substantially from those of the previous cross-sectional studies. His study re-
veals that people smooth their consumption. In particular, an in-
come change causes people to change their consumption a little bit over many years, rather than immediately changing their consumption at all. Thus an individual's consumption does not respond much to price changes in income. In contrast, giving is quite sensitive to permanent changes in income. The opposite pattern holds for prices. Donors ap-
pear to time their giving to take advantage of temporary changes in the tax prices, whereas permanent changes in income in

price level have a small effect.\textsuperscript{4}

An important policy question raised by the substantial sensiti-
tivity to temporary price changes and limited sensitivity to

whether the current tax in-
centives merely affect the timing of giving rather than, as in-
tended, the level of giving. A large temporary price elasticity of giving makes it difficult to draw conclusions. If giving is a very sensitive to temporary changes in the tax code then it is crucial that funders are aware of such changes. For example, if tax provisions change in a way that reduces the deduc-
tional evidence that donors were anticipating an increase in the price of giving and chose to substitute current giving for

future giving. Organizations that fail to anticipate such changes are likely to make permanent changes, and they may inap-
propriate blame or praise their development staff for fail-
ures and successes beyond their control. A third and alternative approach to distinguish between temporary and perma-
nent changes.\textsuperscript{6} Opposite of Rudolph's finding, they estimate a high price elasticity of giving that is not significantly different from zero.

In the study of the effect of income and price using techniques from experimental econo-

mics. While the standard economic approach examines

response from surveys or data on actual donations, experi-

mental economists design the environment that they are inter-

ested in studying and invite volunteers to a controlled setting to observe how they respond to the provided ma-

neval incentives. The potential of providing an environment that it allows researchers a large degree of control over the ex-

amined environment.\textsuperscript{7}

Despit e this often abstract setting, this relatively new econo-
mics of gift has proven methodological advantage.

by forming a hypothesis that researchers had not previously thought to investigate with traditional data sets. The lesson is to be learned from this study is that experimental work can also one also on the research approach taken to examine giving. If behaviors in the controlled laboratory are consistent with those outside of the lab, then this is a simple and attractive way of study-
ing charitable giving and the rules that govern it.

Despite difficulties in analyzing actual giving data it is rea-

suring that a recent study has shown that the experimen-
tal results of Andreoni and Vesterlund do extend to actual charitable giving. Andreoni, Brown, and Rachlil\textsuperscript{4} exam-

ine the 1992 and 1994 surveys by the Independent Sector and show that one cannot reject the hypothesis that single men and

single women have the same patterns of annual giving. They show that they give for the same elastic is than that of females, and that the two demand curves for giv-

ing intersect. The results are found when comparing giving by male and female "deciders" in married house-

holds, where the decider is the spouse who is reported to be making the giving decisions. Another experiment in this area. Again, married male deciders are far more price elastic than married female decisions.

Another experimental study on the response to price is that of Eichall and Grossman (2003). They use a method sim-

ilar to that of Andreoni and Vesterlund to investigate how donors respond to variation in their initial income and price of

giving. However, they also take into account the possibility of giving as a contribution to an anonymous recipient, they ask the dictator to allocate an amount of money between himself and a chari-

ty that is independent of public. In another study, they present experimental participants with a series of dif-

ferent subsidies. The clever feature of this study is that they altered the environment where instead of a dona-

tor, the participant is presented with an equivalent offer of a matching contribution. Thus, they observe donations when, for example, the matching subsidy is 50 percent, and when the match is 100 percent. As the gifts are made, subsidies and matches

are smaller images of one another they should trigger the same

response. Interestingly, Eichall and Grossman find substantial dif-

ferences between the match and subsidy. Donors presented with a match contribute 1.2 to 2.2 times more than those pre-

sented with the equivalent subsidy.

Eichall and Grossman are now extending the study to field experiments. In contrast to the standard laboratory experi-

ments, an experiment in one that is conducted with indi-

viduals in a real-life environment. The experiment may intervene in a pre-existing economic institution to ob-

serve how the actual participants of such institution may re-

spond.\textsuperscript{9} In the new study they will examine the effect of matches and subsidies on actual contributions to Minnesota Public Radio and other nonprofit organizations. If the field studies confirm this initial finding then the consequence may be substantial. it not only does it suggest that the current

fundraising and corporate practices of providing matched contributions is the right one, but it also suggests that per-

haps we can generate even larger charitable contributions if we replace the personal dedication of donations with a gov-

ernment matching provision.

Meanwhile, there are good reasons to be cautious of these findings as we are only begin-

ning to understand how people respond to the price of giving. However, past studies make clear that donors do re-

spond to the price of giving and as a result charities are well

advised to anticipate future changes in these prices, as well as pos-
tential differences in price sensitivity among their con-

tributors.

PUBLIC VERSUS PRIVATE BENEFIT FROM CHARITABLE GIVING

Although taxes influence an individual's incentive to give, they do not reduce the price of giving to zero, and thus for anyone to contribute it must be that they get some type of benefit from doing so.\textsuperscript{10} In this section I describe some reasons why

many benefits donors may get from giving. It is important to keep in mind that I am extenuating motivations for donations to a broad and heterogeneous audience and not suggest that dona-
tions vary in their purpose, philosophies, and objectives.

While some organizations have a clientele far removed from the donor, there are other cases in which the donor is the cli-

ent. Therefore it should be no surprise that the motives for making donations to the different organizations vary as well.

In some cases one needs to make the actual contribution to derive benefits from it, and in others one can enjoy these ben-

efits even when the contribution is made by someone else.\textsuperscript{11}

In this section we characterize the benefit as private and public. In terms of bene-

fits, public benefits are typically thought to be distinctly different depending on the types of benefits that motivate them. I describe these differences and review the substantial empirical evidence that has tried to determine whether the regional benefit from giving in either public or private.

Public Benefit

The most obvious benefit from giving is the output produced by the nonprofit organization or the public good. The price for giving may simply be a wish to increase the organization's services or provision level, be it to increase the frequency or quality of art exhibits, a desire to increase the number of children fed or educated in developing countries, or simply wanting to increase the income of those less fortunate. The literature on charitable giving frequently refers to individuals who benefit from the nonprofit's output. Fundraising practices seem consistent with donors be-

efiting from the nonprofit's output. For example, many chari-


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In an effort to make progress in understanding the motivations behind charitable giving, researchers have identified several factors that influence people's decision to donate or not. In this section, we will explore the key factors that drive charitable giving and discuss how these motivations can be leveraged to increase the impact of charitable donations.

1. **Economic Motivations**: People give for a variety of economic reasons, including tax benefits, recognition, and the desire to increase their social status. The tax benefits of giving, for example, can be substantial, and many people use charitable giving as a way to reduce their tax liability.

2. **Social Motivations**: Giving can also be motivated by a desire to help others or to contribute to a cause that is important to the giver. This can include a desire to give back to the community or to support a particular cause or organization.

3. **Charitable Motivations**: Many people give because they feel a personal sense of responsibility to contribute to the greater good. This can include a desire to make a positive impact on the world or to support a particular religion or philosophy.

4. **Psychological Motivations**: Giving can also be motivated by a desire to feel good about oneself or to feel a sense of accomplishment. This can include a desire to feel good about oneself or to feel a sense of accomplishment.

5. **Legal Motivations**: Many people give to take advantage of the tax benefits associated with charitable giving. This can include a desire to reduce their tax liability or to take advantage of the tax benefits associated with charitable giving.

6. **Political Motivations**: Giving can also be motivated by a desire to influence political decisions or to support political candidates.

In conclusion, charitable giving is a complex behavior that is influenced by a variety of factors. By understanding these motivations, we can develop more effective strategies for increasing charitable giving and maximizing the impact of donations.

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**Additional Resources**

- **World Giving Indicators Report**
- **Global Giving Trends**
- **Charitable Giving in the United States**
- **International Giving Trends**

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For more information on charitable giving, please visit the following websites:

- **World Giving Institute**
- **Charity Navigator**
- **Giving Institute**

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**Citations**

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on crowding out, I conclude the section by discussing a se-
series of experiments that move beyond the crowding-out hypothesis and more directly test the motives for giving.

I begin by examining the literature that uses either sur-
yvey, giving, or both, to determine how changes in gov-
ernment grants to nonprofit affect private giving to the non-
profit sector. For example, using tax data, Abrams and Schultze (1978, 1984) show that government transfers to private contrib-
tors at the rate of about 28 percent; thus if the nonprofit sector were to receive an additional $100 in government grants, then individual contributions would decrease by $28. Using similar data, Charles (1985) estimates that crowding-out is only 5 percent. The degree of crowding-out found in both of these studies suggests that a con-
cern for the nonprofit’s output is not the primary reason for giving.

One of the difficulties in examining tax data is that only the average degree of crowding-out across nonprofits can be de-
termined. Alternatively, Kirby, Krasnow (1989) examines data on giving to National Public Radio. Using these data he is able to directly connect giving to the local NPR station to the grants that were given. Interestingly, the degree of crowding-
out found in these data does not differ substantially from that found in larger data sets. The estimated crowding-out is nearly 0.5. Kirby and McClelland (1995) re-
analyze the same data using more sophisticated methods and come to the same conclusion, that there is very limited crowding-out.

Surveying the literature on crowding-out estimates, Stein-
berg (1991) concludes that most studies have rejected the hypothesis of complete crowding-out and found the degree of crowding-out to range from 0.5 percent to 35 percent per unit of government spending.30 One reason why the evidence speaks so strongly in favor of a private benefit from giving may be that many of the experimental studies are conducted by charitable organizations, perhaps the private motive will be smaller if we examine nonprofits that have a clientele far removed from the donor, such as international relief organizations. If we try to determine how changes in the charity’s output, in this case, revenue, one might expect that the concern for the charity’s output is larger in this case. Recent evidence, however, sug-
gests that this is not the case. In a very careful economet-
ric study of the data, Prather and Prisbyer (2002) examine a 1996-97 panel of donations and government funding from the United States to 125 international relief and development organiza-
tions. Their results indicate that the private benefit that drives donors to increase their contribution is private. They find that private donations at most decrease by 19 percent for every $1 that is added into government funding; however, contributions that do not relate to the government funding have no effect on private giving. They conclude as others before them that the motive for giving an additional dollar is private, and that on the margin individuals are not concerned about the charity’s provision level.

One of the difficulties in drawing inferences from sur-
ey data is that data on actual donations do not show that whether the limited degree of crowding-out is driven by donors not being concerned for the provision of the nonprofits' out-
put, or by the model tax actually describing the giving en-
vironment. For example, the lack of a response may simply lack of information more than a private motive for giving. If donors are not informed of the government’s donation to the organization, can they respond to changes in the government’s grants?

One environment with more control over such factors is the experimental environment. In the experimental envi-
ronment, and hence the lab may present a cleaner environ-
ment in which to test the crowding-out hypothesis and to examine motives for giving. A second advantage is that one may test for a collective necessity or, of course, to determine to what extent the experimental re-

dsults extend to the real world.41 The experimental studies on crowding-out tend to find stron-
ger evidence of a public motive for giving than those using survey or tax data. Typically, two different games have been used to examine crowding-out in the lab. One is the dictator game, and the other is the public good game. In the latter, subjects are paired anonymously in groups of four, say, four individuals. Every individual in the group is given an allocation of money and asked to choose how much, if any, to contribute to a public good and how much she wants to spend on a private good. Purchases of the private good benefit only the individual, whereas contributions to the public good benefit everyone member of the group. For ex-
ample, each dollar in the public good may result in the indi-
vidual earning one dollar, while each dollar contributed to the public good may result in the group earning one dollar less. The benefit is therefore an earning of $0.25 to that member and every other member of the group. Obviously an individual who is concerned solely with maxi-
mizing her private payoff will not contribute anything to the public good. However, an individual may appreciate that although a contribution to the public good will cost her fifty cents, it will also increase the payoffs to each of the other three members of the group. Since five cents is that margin who are altruistic and concerned for the payoffs of others may decide that this payoff warrants a contribution.

Another possibility for an experimental study to test as-
ses motives for giving by looking at crowding-out behavior. This study relies on a randomized version of the above pub-
lic good game in which all individuals now commit to their own initial amount or would contribute some amount to the public good. He examines contributions in two differ-
ent public good games. In one game donors are free to con-
tribute any amount to the public good, and in the second they are forced to contribute a minimum of two units and can choose any additional contribution between zero and five. The results illustrate that where all contributions are faced with a tax that subsequently contribute to the public good. If all donors contribute to both treatments then complete crowding-out implies that there should be no difference in total contribution levels between the two environments. If, for example, the average contribu-
tion level is 3.5 in the first treatment, then we would expect to see average contributions of 1.5 to 1.5 in the second treatment. However, if participants also derive a pri-

e contributions for giving, in the form of a, say, a warm glow, then the fixed
donation is not a perfect substitute for the private donation, and we expect to see larger total contributions in the latter case. That is, we may see individual donations falling to, say, 2 instead of the absent total contrib-
utions in the second environment exceed those of the firstone-

horizontally by as much as one would have expected based

on the previous empirical studies. He finds an average crowding-out of 73.5 percent across all rounds of the game and finds crowding-out of 84 percent in the last period of the game.42 Relative to the previous crowding-out experiments, this suggests that crowding out is not necessarily something that matters where people can contribute more con-
cerned about the size of the public good. Bolton and Katok (1998) examine crowding-out by com-
paring donations in two different dictator games.43 In one game the dictator is giver $15 and the recipient is given $5, and in the other game the dictator is given $10 while the recip-

eptant has $5. By comparing contributions in the two games the authors determine whether donors take account of the amount of money given to the recipient. Complete crowd-

ing-out predicts that donors who gave more than $3 in the $15/5 treatment would decrease their contributions by $3, and donors who gave less than $3 are expected to make no transfer in the $15/5 treatment. By examining the average transfer in the two treatments Bolton and Katok (1998) find that 60 percent of the original transfers were crowding out when the original allocation to the recipients was increased by $2.45 They then too find larger evidence of crowding-out in the lab.

Eickel, Grossman, and Johnston (2005) recently examined Bolton and Katok’s study to real charities. Rather than hav-
ing individuals contribute anonymously participant in the experiment they ask subjects to transfer funds to a charity of their choice. They consider two different frames, in one subjects were simply informed of the initial allocation ($15/42 or $15/5), and in the other the subjects were told that their initial $20 entitlement $2 or $5 had already been taxed and given to the charity. Their results re-
vealed a similar pattern of results. When the participants observed essentially no crowding-out and in the tax frame they found complete crowding-out.

Finally, some experimental studies do not rely on the crowding-out hypothesis to determine the motives for giving. Pa-

trey and Prisbyer (1996, 1997) examine a series of public good experiments that vary the size of the public good in the same for all members of the group, while the payoff from the private good varies from person to person. By varying the relative benefits from the private and public good the authors demonstrate that crowding-out occurs primarily, however, in a region where the public good is only partially contrib-


tion cannot help explain the observed contribution patterns.

Instead, it appears that error and warm glow both play a significant role in determining behavior. However, the warm-glow effect is found to be magnified as well.

Using an alternative procedure Coore, Heat, and Lamy (2002) also examine charitable contributions in a series of situa-
sions where the return from the public and the private good varies.46 In contrast to Pauley and Prisbyer they find that contributions are increasing in the return to others and in the size of the public group. Both of these findings are consistent with an altruistic motivation in giving. By adding a variable that tracks the individual’s return from the public good constant suggests that a fixed cost more people are receiv-
ing the benefit from the public good. In estimating the mo-
tive for giving they find that behavior is consistent with a strong public motive, where there is no evidence to a pri-

eate motive for giving.

Although the experimental evidence is somewhat mixed, most studies find stronger evidence of public motives for do-
giving than that observed when using survey or actual dona-
tion data. How do we reconcile these opposing findings? The most obvious explanation focuses on the many differ-
ences between actual donations and those of the experiment. One explanation for the differences may be that the available information varies substantially between the two environments. Another is provided by Ribar and Wilhelm (2002), who clearly suggest that a reason for the contradic-
tory evidence may be that while there are only a few contri-

butors in an experimental study, there are many contribu-
tors in the empirical studies. They show that when donors derive both public and private benefits from giving, incom-
plete crowding-out is predicted only when there are a small number of donors. If, however, there are many donors, the prediction is that one motive will dominate. If the motive is to give the last dollar will be either private or public. This implies that we should observe in-
complete crowding-out unless when the population size is small. The conflicting evidence may suggest that while the benefit of contributing in small groups has both private and public characteristics, the benefit from large groups has only private characteristics.

In making comparisons between the experimental and nonexperimental environments it is important also to be aware that the relative benefits from the public and private good may vary between the two. For example, the standard empirical and theoretical approach assumes that the public benefit is the same for all individuals whereas sometimes the benefit does vary in that the public benefit, for example, is less if the donor and his associates benefit from giving. In contrast, the experimental literature occasionally argues that the public benefit also depends on the benefit that others derive from the public good.

The implication of the Ribar and Wilhelm result is sub-
stantial as for most charities there are many donors, and taken at face value this result suggests that these donors do not contribute on a completely self-interested basis, but, however, in part because they are confused, or because they derive either a public or private benefit from giving.47 In contrast to other experimental evidence Pauley and Prisbyer find that altruism cannot help explain the observed contribution patterns.

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ing the benefit from the public good. In estimating the mo-
tive for giving they find that behavior is consistent with a strong public motive, where there is no evidence to a pri-

So, is it really the case that donors do not care about the nonprofit's output? One possible explanation of the extreme predictions of the classical model may be that the results of only profit-friendly contributions and unrealistic nonprofit strategies. In the next section I briefly review some of the work that has refined the underlying assumptions of the classical model of giving.

RELAXING THE ASSUMPTIONS OF THE CLASSICAL MODEL

While one would expect there to be private benefits from giving, it is surprising that public benefits appear to have no influence on giving. How is it possible that the incentive to give does not depend on the quantity of the nonprofit's output? It is certainly not consistent with the surveys on donor motivations, which find that individuals contribute because they care for the nonprofit's mission, project, or program. Are donors simply wrong about what motivates them to give? In this section I relax assumptions of the classical model to see if we can maintain that contributions are due to a concern for the nonprofit's output while generating less extreme free-riding predictions.

I focus on cases that modify the standard prediction of negative correlation between individual contributions—that is, the prediction that an increase in one individual's contribution decreases that of another. First I consider the possibility that some donors care directly about the overall level of contributions and that this may cause individual contributions to be positively correlated. Second I relax the assumption that individuals take the donations of others as given. Finally, I consider some other dimensions on which contributions may depend. These cases individuals may very well account for the effect their donation has on others. I conclude the section by discussing a couple of fundraising mechanizations, such as matches and rollovers, that also help reduce the negative correlation between individual contributions.

Overall, the reviewed literature has yet to be subjected to the kind of rigorous empirical tests that field experiments allow. However, preliminary results suggest that there are cases where donors are concerned about the nonprofit's output. In the next section I briefly review some of these cases individuals may very well account for the effect their donation has on others. I conclude the section by discussing a couple of fundraising mechanisms, such as matches and rollovers, that also help reduce the negative correlation between individual contributions.

Social Norms and Roles

The economics literature generally assumes that individuals are free to choose as they please as long as it is within their financial means. This is also the assumption of the classical model of charitable giving; however, some have argued that it is less appropriate because giving decisions often are guided by social norms and rules. If that is the case then the visible giving model needs to account for the constraints imposed by the norms by which people abide. The literature has proposed a number of alternatives. One of these has often been referred to as the "Kandori rule" (see, e.g., Laffont 1975). This rule requires that those individuals who care about the services provided by a nonprofit will choose a contribution that equals the amount they would most likely contribute if all others were to contribute strictly the maximum amount of the group should contribute. The implications of the Kandori rule are just as extreme and unrealistic as those of the classical model. Instead of extreme free-riding we see everyone contributing a socially efficient amount, and instead of individual contributions decreasing with increases in those of others, we now predict that the individual's contribution level is independent of everyone else's donation. This implies that individuals do not account for the effect that their contribution may have on that of others. There are many situations, however, where this is not a reasonable assumption. For example, if people jointly contribute to the same charity more than once then they may consider the effect their current donation will have on the future donations of others. As a simple illustration consider the case where a group of neighbors all benefit from a nearby park. To maintain the park they each voluntarily contribute $40 for maintenance per month. If an individual fails to contribute for a particular month then it is quite possible that this will affect future maintenance contributions. Hence in choosing the preferred contribution now, the individual may take into account how her decision affects the future behavior of others.

This section examines a series of studies that point to environments where donors naturally are aware of the interdependencies between contributions. I start by discussing the effect of repeated interaction among donors. I then examine anonymous donations where a full benefit may accrue to others over time, and in the last section I look at situations where multiple types of contributions to the same group will have on that of others. In particular, I review a recent study on the effect of publicly announcing partial contributions to future donors. A public announcement may influence the amount given by subsequent donors, and it is likely that current donors take this effect into account prior to contributing. Finally, I consider observable announcements that may reduce, or reverse the negative correlation between individual contributions. I finish the section by showing that fundraising mechanisms, such as matches and rollovers, that are designed to increase the overall level of contributions are sustained, by others in the reference group will cause the individual's donation to increase by 2 percent to 3 percent. The work on norms typically does not consider what a certain norm or rule would mean in practice. For example, Holmstrom (1990) shows that when individuals care about social approval and this approval is a function of the extent to which the individual deviates from the average contribution among her peers, then approval or disapproval may be what triggers the individual to feel that the norm applies to her. The literature on norms is important in incorporating them into the classical model may weaken the predictions of the model. However, before adopting these rules it is important that we gain empirical evidence in their favor. When should we expect such norms to be in effect? When will they constrain behavior? In the next section we present experimental results that test for the effect of reciprocity and find that in some environments reciprocity appears to play a small role, if any. Accounting for the Contribution Behavior of Others

The classical model of charitable giving relies on the assumption that people make a one-time contribution and that in the next period they choose to contribute or discontinue giving. This implies that individuals do not account for the effect that their contribution may have on that of others. There are many situations, however, where this is not a reasonable assumption. For example, if people jointly contribute to the same charity more than once then they may consider the effect their current donation will have on the future donations of others. As a simple illustration consider the case where a group of neighbors all benefit from a nearby park. To maintain the park they each voluntarily contribute $40 for maintenance per month. If an individual fails to contribute for a particular month then it is quite possible that this will affect future maintenance contributions. Hence in choosing the preferred contribution now, the individual may take into account how her decision affects the future behavior of others.

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by little mechanism can succeed in providing the problem because gradual commitment of other donors and the reduction in the donor's per-period obligation both reduce the likelihood that the donor would provide a large benefit given that, and makes it worthwhile for individuals to continue to increase the voluntary contributions to the charity. When funds are raised over several years, the donor's potential benefits will be significant, and making it worthwhile for individuals to continue to increase their contributions to the charity. When funds are raised over several years, the donor's potential benefits will be significant, and making it worthwhile for individuals to continue to increase the voluntary contributions to the charity.

Public announcements of past contributions. Another way to consider how charitable contributions are affected by the fact that others have already contributed is to consider how much they are communicated. In particular, the budget decision of the charitable choice model affects that of others when donations are announced to potential future donors. The practice of announcing contributions is quite common. For instance, during floods driven potential donors may be informed of past contributions and in particular of major individual contributions. Campaigns are typically launched by the announcement of a large "leadership" contribution, and new donors and their pledged amounts are made public throughout the campaign. Similarly, churches collect contributions in open baskets, and recruiting fundraising campaigns inform donors of previous contributions made in the local community or at the latest charity event. Empirical evidence on announcements helps us understand why foundations may prefer this strategy. For example, Silverman et al. (1986) examine data from a national referendum in which three different funding schemes were chosen and their results show that announcing the names of individuals pledging money and the amount of money pledged resulted in greater contributions than when they were not announced.

The reason why foundations have primarily focused on explaining why announcements may increase contributions is that we can differentiate between direct and indirect incentives that the charitable choice model cannot explain the consequences. Comparing contributions without announcements to those that arise with announcements, Varian (1994) shows that private contributions are lower when contributions are announced. The reason is that the individual contributions decrease when others of similar contributions are made by others. The reason is that the initial donors will make a smaller individual contribution and thereby leave it up to the new donors to contribute to the charity. Thus the individual contributions will be fixed and subsequent contributors. This result, however, relies on the assumption that the donors can communicate that they are contributing. However, the assumption that contributions are effective is that the charitable choice model cannot explain the consequences. 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ments provide the leader with status, and that the followers subsequently give to get status as well. 18 While status does not appear to affect behavior in the normative and social situations tested, these results do suggest that actual donations are influenced by con-

For example, charities often launch a campaign in which there is a high-status donor who is asked to give a sum of money that is much greater than the amount that others are asked to give, suggesting that we may prefer to give to charities that have a high-status donor base. Perhaps the decisions of Blas, Cullum, and Rose to follow Brook's donor's lead in contrib-

Lester, the distribution of contributions is skewed in such a way that the richer donors are more likely to give larger amounts, and thus the overall average contribution is higher than it would be if the contributions were more evenly distributed. However, this does not mean that the donations themselves are not valuable, as even small contributions can have a significant impact on the people who receive them.
...
radio stations of the contributions made by others. They find that contributions increase with the size of the previously announced contri-
butions. 73. Considering that in 2005 there were more than 600,000 chari-
ties and another 30,000 plus made grants every year, it seems plausible that contributors do not have perfect information about the quality of the organizations. While contributors may be informed about the qual-
ity of some organizations, critics continually introduce "new prod-
ucts" and it may be difficult prior to the provision of a specific good to
evaluate how useful that good will be. 74. Charitable conduct and correctness may also provide signals of angoer's quality (see Rose-Adelman 1981; Foye 2001). 75. It is not an assumption of the model that only the first mover can purchase information. Rather, all donors are free to purchase infor-
mary, but the followers choose not to because they realize that the first contribution will reveal this information to them free of charge. The re-
ally results in a case where smaller donors do not have the op-
tion of purchasing the information. 76. See also (2000). 77. In sequential games it frequently has been shown that people tend to be inclined to those who have been kind to them and unkind to those
who have been unkind. See Peter and Glicker (2000) for references and an overview of the importance of reciprocity. 78. For example, it may be argued that since plays a role when Bill Blais, Dorothy and Lewis B. Cullum, and Sandra and Fred Ross all
esting points on experiments. 79. For a more to have the intended positive effect, donors must believe that the match is paid only when the requested donation is
made. If the donor comes to matching up to a certain point and this contribution is made independent of whether the challenge is reached, then the match is equivalent to a standard donation, and should be viewed as such. 80. For these reasons is held to be necessary that the prize be fixed and the probability of winning increases with the contribution. For ex-
ample, Morgan (2000) shows that it does not hold when the prize de-
pends on the number of tickets purchased, and Duncan (2002) shows that it does not hold if the probability is fixed such as with a door prize. 81. Duncan shows that Morgan's result depends on the assumption that the benefit of thengoer's output is independent of the consump-
tion of all other goods. 82.

Why Do People Give?

Golds: Fully Implementing the Core through Private COntribution

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133.


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