



Government or charity? Preferences for welfare provision by ethnicity



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ABSTRACT

There is debate about whether charity or government is better for alleviating poverty. While in many cases government agencies and private charity serve similar purposes, they can be perceived very differently by the public. This is particularly true for issues such as minority welfare where government spending has been historically ineffective. This paper investigates the role of recipient ethnicity in preferences for giving to private charity and government agencies. I present a real donation experiment where donors can donate to government organisations and private charities assisting a population in general, or assisting a particular ethnic group in that population. I find that giving depends not only on the organisation type but also the ethnicity of the beneficiary. Perceptions of organisational effectiveness are also found to affect giving. The findings of the experiment suggest that if the government is unable to improve outcomes it may need to consider outsourcing to private charity.

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1. Introduction

One view of government redistribution is that it is a mechanism for making gifts to the poor by those who are relatively better off (Tullock, 1971). If the sole aim of the donor is to improve the welfare of the recipient, it should not matter whether the transfer is from government or private charitable giving – assuming that the organisations are perceived as equally effective (Steinberg 1991; Ribar and Wilhelm, 2002; Eckel et al., 2005). However, the public's view of government and charitable organisations, though they often serve similar purposes, can be perceived as very different.

This paper examines individual preferences for giving to government agencies and private charity when the underlying cause of the organisation differs only by the intended beneficiary: a particular ethnic group or giving to the wider domestic population. The findings of the study show that subjects have a preference for donating to charity as compared with government, though this preference depends on the organisation's beneficiary, with the distinction between government and charity only significant when giving to a particular ethnic group as compared with giving to the general domestic population.

Wong and Ortmann (2013) construct a theoretical framework for giving where a donor's utility comprises not only the stand-alone benefit from giving, but also the price of giving. The price of giving reflects how much an organisation spends on producing charitable output. A higher price means a lower proportion of a donation is spent on charitable output, as such, a price-sensitive donor would prefer to give to a charity with a low price of giving.¹

When donors perceive government as less effective in providing services, as compared with charity, the price of giving in terms of charitable output is viewed as higher for government than for charity. If a donor's objective is to maximise her utility, the donor will seek to give to the organisation with a lower price of giving – assuming the stand-alone benefit of giving to a certain recipient type is constant regardless of whether the donation is made through charity or a government agency and that donors rely on their priors about different organisations, such that the cost of information acquisition is negligible.

Government policy around the world (including large expenditure) is often viewed as ineffective in improving conditions for many indigenous and minority groups. Social and economic outcomes remain significantly worse for many minority groups as

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¹ Chlaß, Gangadharan and Jones (2014) extend this analysis to find that, in some instances, donors may actually increase giving to compensate the recipient for any loss incurred through inefficiency by charitable organisations.

compared with their majority counterparts (Cooke et al., 2007; Department of Finance and Deregulation, 2010; Hursh, 2007; Williams and Johnson, 2010) and government programs and expenditure have been described as ineffective, appalling, incompetent, neglectful, stonewalling and off-putting to those who needed help the most.²

One reason for the perception of inefficiency may be due to the fact that only a small proportion of government expenditure on general welfare actually makes it to the poor. Studies have shown that around 70 per cent of funds budgeted for government assistance goes to bureaucracy and administrative expenses. By contrast, it is estimated that charities devote over two-thirds of donations to recipients (Tulloch, 1971; Edwards, 2007; Navigator, 2014). In Australia, the argument has also been made that a lot of what is classified as government spending to benefit Indigenous Australians, is actually spending on administration, or is broader mainstream government spending, rather than direct assistance (Gibson and Jopson, 2007; Kirk, 2007).³

But how does this affect people's support for redistribution by government and their support for private charities? This is an important question as governments justify substantial spending on existing and new programs with the aim of delivering significant improvements in minority outcomes – despite the fact that historical spending has made little improvement in the past.

2. The experiment

Differences in preferences for government versus charity may not only relate to the possible belief that one organisation is inferior to the other in terms of effectiveness, but also how and why a donation is made. Li et al. (2011) propose that differences in preferences for government and charity can include distaste for the coercive nature of taxes (as compared with voluntary private giving) and a desire of donors to control or target the donation. A further explanation is the donor's underlying motivations for giving (Jones, 2015; Gangadharan et al., 2016). If, in addition to the altruistic motivation of improving the welfare of the recipient, personal benefit is derived from the act of giving itself (Andreoni, 1990), a donor may receive more personal satisfaction from making the donation directly to the charity rather than via government transfers

where she cannot identify what portion of her personal taxes went to what cause.

Li et al. (2011) examine the belief that government organisations are inferior to charity, while controlling for other explanations, by conducting a real donation experiment where subjects choose to donate to specific government agencies and/or private organisations for specific purposes. They find that subjects are not averse to giving to government (donating 22 per cent of their budget) but have a preference for charity (27 per cent). I extend this experimental methodology using a 2 (government agency or private charity) by 2 (Indigenous Australian vs. general Australia population) design. The design controls for the aforementioned explanations for preferences for charity over government by allowing subjects to voluntarily donate to both government agencies and charitable institutions. This removes the coercive nature of taxes.

Donations are targeted towards either the indigenous minority group or broader population (whether the voluntary contribution is made through the government agency or charity) such that a donor can choose to allocate her contributions to a specific cause. Unlike in Li et al. (2011), subjects are not informed of the specific charity or government organisation they are choosing to donate to. This avoids confounds raised by reputation effects, including the amount of information subjects hold and their perceptions of particular charities and government agencies. It also allows for direct examination of the impact of the beneficiary on preferences for organisation type.

2.1. Experimental design

The experiment is a within-subject version of the dictator game in which a subject faces a series of budget allocation problems, dividing a fixed endowment between herself and a charity or charities (Eckel and Grossman, 1996). As in Li et al. (2011), subjects choose how much of a \$20 endowment to allocate to a government and/or a private organisation. The organisations vary only on whether they are a private charity or government agency and the type of recipient the organisation typically seeks to assist: either the minority indigenous population (Indigenous Australians) or the general domestic population (Australians in general).^{4,5}

I have chosen to examine giving to Indigenous Australians versus the wider Australian community as there is a significant gap in social and economic outcomes between Indigenous Australians and non-Indigenous Australians. Government policy is widely viewed as having been unsuccessful in improving Indigenous Australian outcomes in the past. Cooke et al. (2007) found that while the gap between indigenous and non-indigenous communities in North America and New Zealand closed between 1990 and 2000, the gap in Australia increased. A 2009 review of Australian government spending on Indigenous Australian issues found that the circumstances and prospects of many Indigenous Australians, relative

² In the 2010 Australian Government Strategic Review of Government Spending, outcomes from expenditure on Indigenous Australia were described as “disappointing at best and appalling at worst”. Williams and Johnson (2010) state that the welfare needs of racial and ethnic minorities in the United Kingdom have been addressed by ‘reluctance, neglect, incompetence and at times outright resistance on the part of governments’. In an oversight hearing on the Effectiveness of Federal spending on Native American programs and the President's FY 2012 Budget Request for the Bureau of Indian Affairs (BIA) and the Office of the Special Trustee for American Indians, the Honourable Paul A. Goser (a representative in Congress from the State of Arizona) stated that he had undertaken to meet with representatives from native tribes both in his district and around the Southwest and that the feedback “from this diverse group of folks is strikingly similar: The BIA is widely resented for inefficiency, stonewalling, and micromanaging tribal affairs.” (House National Resources S/C on Indian and Alaska Native Affairs, 2011) Smyllie and Scaife (2011) interviewed a focus group of private and corporate grant makers and practitioners and found that interviewees viewed government programs for indigenous issues as ineffective, with participants stating they were “fragmented, silo-like, risk averse and off-putting to those who needed help the most”.

³ An Australian Indigenous Expenditure Report by the Steering Committee for the Review of Government Service Provision estimated that in 2010–11, 5.6 per cent or \$25.4 billion of total direct government expenditure was direct Indigenous expenditure. However, of this, 78 per cent (\$20 billion) of expenditure was related to mainstream services rather than explicitly targeted to Indigenous Australians. Indigenous expenditure also included operation of law courts and legal services such as criminal prosecutions, registration of births deaths and marriages and even services in opposition of native title claims (Kirk, 2007; SCRGSP, 2012). The report did not separate how much of the remaining \$5.5 billion was related to direct provision as opposed to administration costs of services.

⁴ Organisations were chosen based on similarity in their activities as well as their ability to receive donations. Donations to private organisations were made to the Australian Salvation Army and the Wunan Foundation. The Australian Salvation Army provides social welfare services to the needy in Australia. The Wunan Foundation provides services to Aboriginal people in the remote East Kimberley. Donations to the government were made to the Department of Families, Housing, Community Services and Indigenous Affairs and allocated to either the Department's general or Indigenous business aspects.

⁵ Although Indigenous Australians are also Australians, Indigenous Australians make up less than 0.5 per cent of the population in Melbourne, where the experiments were conducted, and less than 3 per cent of the population Australia-wide. Rates of poverty for Indigenous Australians are higher, with 19.3 per cent of Aboriginal and Torres Strait Islanders living in poverty as compared to 12.4 per cent of all Australians (Australian Council of Social Security, 2014). It is possible however that subjects may view donating to Australians as helping both Australians and Indigenous Australians; as such the results in this paper provide conservative estimate or a lower bound on any differences in giving.

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