



# Repeated pro-social behavior in the presence of economic interventions



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## ABSTRACT

We investigate the immediate and subsequent effects of two prominent drivers of charitable giving: a charitable lottery and an income tax. Employing a modified two-round dictator game with the subject's charity of choice as recipient, we find increased immediate donations in the presence of both a charitable lottery and an income tax. We observe positive spillover effects for both treatments, after removing the incentives. Spillovers are particularly observable for participants who express a deontological mindset.

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## 1. Introduction

There are different ways to stimulate the provision of public goods. Prominent instruments involve additional incentives for voluntary contributions and mandatory transfers via taxation. In the context of charitable giving, the literature has confirmed different paths to immediately stimulate contributions, e.g. via a charitable lottery (e.g. Morgan and Sefton 2000) or an income tax (e.g. Eckel et al., 2005). However, in many situations people face contribution decisions repeatedly. Yet, little is known on the subsequent effects of these interventions.

The extensive psychological literature on dynamic moral behavior shows that performing or imagining moral actions may affect subsequent behavior.<sup>1</sup> Moral balancing theories claim that individuals fluctuate in moral behavior to maintain a certain moral self-image on average (e.g. Nisan and Horenczyk 1990, Nisan 1991, Merritt et al., 2010, Jordan et al., 2011). More precisely, this approach predicts that past good deeds favor a positive self-image

and increase the likelihood of doing less good in subsequent actions (moral licensing). At the same time, past bad deeds favor a negative self-image making people more inclined to do good subsequently (moral cleansing) (e.g. Sachdeva et al., 2009, Brañas-Garza et al., 2013a).<sup>2</sup> There is evidence for moral licensing in related (e.g. Monin and Miller 2001) as well as in unrelated domains (e.g. Khan and Dhar 2006, Mazar and Zhong 2010, Clot et al., 2014a, Jordan et al., 2011). Recently, this effect has also been shown in the economic literature. Subjects who performed better in a real effort donation task (Ploner and Regner 2013) and subjects who were only asked to imagine that they had performed a good deed (Clot et al., 2014b) were less generous in a subsequent dictator game. Moreover, economic studies have shown moral licensing patterns even by simply repeating dictator games (Sass et al., 2015; Brañas-Garza et al., 2013a; Schmitz 2013).

On the other side, there is also evidence on behavioral consistency, i.e. preferences to stick to past actions which can be explained by a desire to avoid cognitive dissonance (Festinger 1957; Taylor 1975; Cialdini et al., 1995). The phenomenon of consistent behavior is also related to self-perception theory (Bem 1972) predicting that people tend to determine their attitudes by observing own previous behavior. The foot-in-the-door technique

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<sup>1</sup> For a detailed overview on dynamics moral behavior in empirical analyses, see Merritt et al. (2010).

<sup>2</sup> For a review of moral licensing, see Blanken et al. (2015).

(Freedman and Fraser 1966) takes advantage of behavioral consistency and demonstrates that people are more inclined to help if they have been induced to help in the preceding situation. Furthermore, remembering previous sustainable behavior (Cornelissen et al., 2008) or signing pro-social petitions (Burger and Caldwell 2003) increase subsequent moral actions.

Thus, the dynamics of pro-social behavior are still ambiguous. Mullen and Monin (2016) provide a literature survey on this question. They summarize factors that either stimulate licensing (e.g. a focus on achievements, low identification with the cause) or consistency (e.g. a focus on commitment, connection of own behavior and values). Little is known, however, with respect to the subsequent effects of externally incentivized moral behavior. Attribution theory (Kelley 1973) suggests that external incentives to perform pro-social behavior will diminish its signaling value and hence reduce the potential for subsequent licensing effects. Using a hypothetical framework, Clot et al. (2013) confirm that receiving payment for a pro-social action reduces moral licensing. Similarly, Khan and Dhar (2006) ask subjects to imagine that they had performed community service and found reduced moral licensing when the fictive good deed had been performed as a penalty for a traffic violation. In a related study, Gneezy et al. (2012) argue that moral actions that come with real costs (as opposed to costless hypothetical actions) will have the power to signal values and hence lead to consistency, even if they are externally enforced. Their argument is supported by the logic of self-perception theory (Bem 1972) and a related economic model by Bénabou and Tirole (2006), both suggesting that people's attitudes are formed from the perception of their own previous behavior. Summarizing, external incentives seem to point towards consistency, but there is little evidence on this conjecture.

We study both the immediate and subsequent effects of two prominent drivers of charitable giving: a charitable lottery and an income tax. Using the controlled environment of a laboratory experiment with students as subject pool,<sup>3</sup> we create a setting of repeated donations. In particular, we employ a modified two-round dictator game with the subject's charity of choice as recipient and add additional stimuli in the first round.

In one treatment, we introduce a charitable lottery that links participants' contributions to the chance of winning a fixed lottery prize. The effectiveness of this additional incentive to give tends to be confirmed in the lab (Morgan and Sefton 2000; Lange et al., 2007; Orzen 2008; Corazzini et al., 2010). We are aware of one sole study that sheds light on the subsequent effects of a charitable lottery. Landry et al. (2006) report donations to increase when linking contributions to a common value prize in a door-to-door fundraising campaign. In a follow-up campaign, Landry et al. (2010) re-approach the participants of this earlier fundraising campaign and analyze whether the previous treatments still had behavioral effects. The authors find that people initially stimulated by a charitable lottery continue to give more while those attracted by a non-monetary incentive scheme did not.

In the second treatment, we impose an income tax of 25% on the participant's first round endowment. The tax is transferred to the charity of choice, together with the subjects' voluntary transfers. Introducing mandatory transfers via an income tax leads to increased contributions if there is incomplete crowding out, i.e. if subjects do not reduce voluntary contributions by the amount of the tax. Empirical (e.g. Steinberg 1991, Kingma 1989, Payne 1998, Ribar and Wilhelm 2002, Manzoor and Straub 2005, and Andreoni and Payne 2011) and experimental studies (e.g. Andreoni 1993, Bolton and Katok 1998, Chan et al., 2002 and Eckel et al., 2005)

confirm incomplete crowding out. The study most related to our experiment is Eckel et al. (2005), who use a dictator game with the subject's charity of choice as a recipient. The authors impose a mandatory transfer on the subject's endowment and vary both the size of the transfer and its frame. When framing the mandatory transfers as an income tax on subject's own endowment, the authors find almost complete crowding out. Yet little is known on the dynamic effects of a tax. In a related experiment, Gneezy et al. (2012) automatically transfer a part of the subject's endowment to a charity and find that, in a subsequent cheating task, subjects with this automatic deduction lie significantly less than those without the deduction.

Our experimental results suggest that both interventions affect charitable giving not only immediately but also subsequently. We observe increased total donations in the presence of both, the charitable lottery and the income tax. When interventions are removed, donors previously participating in the charitable lottery continue to spend higher amounts than those participating in the control treatment. Regarding the tax treatment, spillover effects are weaker but also point in the direction of consistency seeking. Our experimental design also permits to analyze to what extent these spillovers depend on the participants' ethical way of thinking shown in a subsequent questionnaire. We find that positive spillover effects are particularly strong for subjects with a deontological mindset.

## 2. Experimental design and procedures

### 2.1. Experimental design

We use a modified two-round dictator game, similar to the one employed by Eckel et al. (2005), to examine donation behavior within a recurring context. Subjects were endowed with €8 in each round and were asked to choose transfers to a recipient. The recipient was a charity, chosen by the participants from a list of six charities. In the baseline treatment, subjects chose transfers in the absence of additional interventions. In each round, subjects received information on the donation procedure, an envelope with €8 as their endowment, and a list of six charities.<sup>4</sup> Subjects picked their charity of choice and noted down the amount of their donations anonymously. Then, subjects put both the decision sheet and the corresponding coins into an envelope, which they sealed afterwards.

In the lottery treatment, we vary the incentives for giving in the first round of the game. Following Morgan and Sefton (2000), donations in the first round were linked to the chance of winning a fixed prize of €100. More precisely, subjects gained a lottery ticket for each €0.50 they donated to a charity. Like in natural settings, the number of participants in the lottery was unknown (e.g. Landry et al., 2006). Finally, one lottery ticket was randomly selected to determine the winner of €100. As each subject's probability of winning the common value prize was positively influenced by one's donation, we expected subjects to donate more in the first round of the lottery treatment than in the baseline treatment (see Morgan (2000) for a formal model).

In the tax treatment, we imposed an income tax of 25% on the subject's first round endowment, similar to Eckel et al. (2005). It was common knowledge that the tax of €2 was transferred to the subject's charity of choice, leaving €6 at one's free disposal. Due to the tax transfer, we expected crowding out of voluntary contributions. While pure altruists will reduce their voluntary contributions by the full amount of the tax (e.g. Warr 1982, 1983, Bergstrom et al., 1986), subjects gaining a 'warm glow' utility from giving

<sup>3</sup> Exadaktylos et al. (2013) provide evidence on students as appropriate subject pool to study social behavior in dictator, ultimatum and trust games.

<sup>4</sup> The decision sheet with the list of six charities are provided in the supplementary material.

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