



Sharing one's fortune? An experimental study on earned income and giving[☆]



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ABSTRACT

In this paper, we investigate the relationship between earnings and charitable giving, in an environment in which earnings depend on luck but not in a manner that makes its contribution obvious. We set up a real effort experiment, in which subjects enter data in four one-hour occasions and are paid a piece rate. From the second occasion onwards, we randomly assign half of the subjects to a treatment with higher piece rates, without the subjects being explicitly made aware of the random assignment into the two groups. At the end we ask subjects whether they want to donate a share of their earnings to a charity of their choice. We find that, despite large differences in earnings due to the different piece rates, subjects receiving the higher piece rate are actually less likely to give, and that givers in the two groups give the same share of their total earnings. Charities receive the same average donation from members of the two groups, indicating that charitable giving by subjects in this experiment does not increase with income. We discuss how these results can be explained by self-serving attribution bias.

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1. Introduction

The relationship between an individual's income and charitable giving is a topic of great concern for policy makers and charities alike. For policy makers it is interesting because it informs the design of tax policy vis-a-vis charitable contributions. For charities it is relevant because it informs them on how to best focus their fundraising efforts. Both intuition and economic theories of giving predicated, for instance, on the notion that people derive some joy from the act of giving (Andreoni, 1989; 1990), suggest that we should expect people with higher income to give more, in absolute terms, provided giving is a normal good. In fact, the evidence from the US is suggestive of a U-shaped relationship between household income and the percentage given to charity (e.g. Andreoni, 2006), and of a positive income elasticity of charitable giving (e.g. Auten, Sieg and Clotfelter, 2002), while the evidence from experimental studies is mixed (Andreoni and Vesterlund, 2001; Buckley

and Croson, 2006; Eckel, Grossman and Milano, 2007; Erkal, Gangadharan and Nikiforakis, 2011). There has also been a recognition that the donor's source of income may play an important role in the decision to give. In particular, people may feel more inclined to share with others if income is due to good luck rather than effort.¹ There is indeed a robust finding in the experimental literature showing that in dictator games people are less likely to share earned income compared to windfall income (Hoffman et al., 1994; Ruffle, 1998; Cherry, Frykblom and Shogren, 2002; Cherry and Shogren, 2008; Oxoby and Spraggon, 2008; Carlsson, He and Martinsson, 2012).² A few recent experimental studies (Erkal, Gangad-

¹ It has also been found that people are more likely to share when recipients have or are believed to have low income due to bad luck rather than because of lack of effort, and that this may explain the differences in redistributive policies between the US and Europe (Alesina and Angeletos, 2005; Benabou and Tirole, 2006; Fong, 2007).

² A possible explanation for this is that an individual's sense of entitlement over income is related to his contribution in generating it. This perspective is consistent with the accountability principle, a rule of justice according to which a person's perception of a fair allocation is sensitive only to factors that he can influence (Konow, 2000; Cappelen et al., 2007). Gill and Stone (2010) apply a similar principle by assuming that an agent's perceived entitlement in a tournament competition is sensitive to how hard she has worked relative to her rival.

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haran and Nikiforakis, 2011; Rey-Biel, Sheremeta and Uler, 2011), to be discussed in detail further on, go one step further by examining giving when income is determined partly by effort and partly by a random element. However, one aspect that has been largely neglected in this literature is that, in reality, while income is determined by different factors, including skills, effort, and luck, it is often not straightforward (with the exception of marginal events like lottery winnings) to clearly identify the role of luck. Moreover, in most instances good luck needs to be combined with some effort to bear fruits. For example, whether I get a big performance-related bonus at the end of the year depends probably on a combination of my effort and some exogenous factors (e.g. market performance, idiosyncratic shocks),³ but even in a booming economy I need to put some effort to be successful.

In this paper we explore whether people who earn a higher income are more likely to give, in an environment in which earnings depend on luck but not in a manner that makes its contribution obvious, nor are they independent of effort, as good luck must be complemented with effort to generate income. To do this we design a real effort experiment, in which participants perform a data entry task on four hour-long occasions that take place within the course of a week and their pay depends on performance. Participants are told that the piece rate they will receive may vary from session to session and that it does not depend on performance in previous sessions. In particular, in the first occasion all subjects receive the same piece rate. In the second occasion we randomly split participants into two groups and, in the remaining three occasions, participants in the first group (low compensation group) keep working under the same piece rate, whereas participants in the second group (high compensation group) work under different piece rates in each of the three occasions, which are always higher compared to that of participants in the first group (and to what they received in the first occasion). At the end of the experiment, we ask participants whether they want to donate a percentage of their earnings to a charity of their choice.⁴

It is worth highlighting here the role of perceived luck in our experimental design. Participants are not aware of the actual random draw that determines whether they are in the low or high compensation group. Because of this, they do not observe the counterfactual pay they would have experienced with a different draw and it is not obvious to them whether they are actually lucky or not. Participants in the high compensation group, for instance, experience an increase in the piece rate compared to the first session, so they might think that the environment is rather favorable, but they do not know that they could have ended up with a flat piece rate, as was the case with half of the participants. If they at all think about a counterfactual, they might think about one involving a piece rate even higher than what they actually experience. So, they cannot say for sure whether they were lucky or not. Similarly for participants in the low compensation group. Thus, much like in real life, participants in our experiment know whether their situation is improving or stable, but they do not know exactly the counterfactual, so it is not obvious whether in their current circumstances they have been lucky or not. We then investigate whether the propensity to give to a charity out of earned experimental income depends on the treatment, that is, on the fact that compensation was generous, controlling for how hard the participant has worked on the data entry task.

³ Bertrand and Mullainathan (2001) provide empirical evidence that for CEOs pay is as responsive to luck as it is to performance.

⁴ The closest real-world parallel to our setting is the so-called “payroll giving”, a scheme whereby employees sign up to donate a part of their salary to charity each month. For instance, in the UK 735,000 employees donated almost £118 million through payroll giving during the 2011/12 fiscal year (<http://www.payrollgivingcentre.com/facts20figures.htm>).

We find that, despite large differences in earnings due, almost entirely, to different piece rates – subjects in the high piece rate group earn on average three times more variable pay than those in the low piece rate group – the propensity to give is actually lower for those with higher earnings, albeit this difference is statistically only marginally significant. Moreover, conditionally on giving, the average proportion of earnings donated across the two groups is the same. As a result, charities receive the same average donation from members of the two groups indicating that charitable giving is not increasing with income.

Why is it the case then in our experiment that earning more because of luck – receiving a generous piece rate – does not translate into more generous charitable donations? After all, this is what one might have expected in light of previous experimental evidence suggesting that individuals give more when their endowment is windfall rather than earned. This outcome may be imputed to the notion of self-serving attribution bias, the human tendency to attribute good outcomes to own actions, rather than to external factors such as luck, that has been well-documented by psychologists (Miller and Ross, 1975), and has been invoked in economics to explain behavior in a variety of settings (Babcock and Loewenstein, 1997). In our experiment, a process of self-serving attribution – facilitated by the fact that in our design the role of luck in assigning subjects to groups is not explicit and subjects are unaware of the counterfactual – may lead subjects in the high piece rate group to downplay the role of luck for the higher earnings they receive, even if in reality the difference in earnings between the two groups is mostly due to exogenous factors. In turn, this distorted feeling of entitlement may furnish subjects in the high piece rate group the moral ground not to act more generously. This reasoning is related to the notion that people take advantage of “moral wiggle room” to act self-interestedly as shown in Dana, Weber and Kuang (2007). They found that, when there is uncertainty about the relationship between a dictator’s actions and outcomes, subjects choose more frequently the selfish action. In our setting, the “moral wiggle room” is provided by the lack of transparency over the role of luck in determining the donor’s earnings.

Our study is related to Erkal, Gangadharan and Nikiforakis (2011). They find that subjects who rank first in a real effort tournament (and thus receive higher earnings) are less likely to give to their group members than those ranked second. The explanation they provide for this is that there is selection on other-regarding preferences, namely, selfish subjects tend to exert more effort and thus have higher earnings than other-regarding subjects. They also find, similarly to us, that in a treatment where both effort and luck determine outcomes people with good luck are not more likely to give, and in a treatment where luck only determines ranking, people ranking first are as likely to give as people ranking second, despite earning a third more. The authors call for future work to consider whether their results hold when subjects give to an actual charity instead of each other and when earnings are determined using a piece rate scheme, two features that our experimental design exhibits. Another related study is Rey-Biel, Sheremeta and Uler (2011); in the first stage of their experiment subjects earn their income (partially due to effort and partially due to luck), and then play a two-person dictator game. In one treatment dictators know the determinants of the recipients’ income, while in the other treatment they only know the total amount. They run their experiment in Spain and in the US and find that Spanish subjects give more when they get luckier, while Americans do not condition their giving on their own luck and transfer a flat amount.

It is worth highlighting two features of the above two studies that differentiate them from our setting: first, the role of luck versus that of effort in determining own income is very transparent there, whereas in our design, as we highlighted above, subjects are unaware of the distribution of possible piece rates, so there is no

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