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journal homepage: [www.elsevier.com/locate/jebo](http://www.elsevier.com/locate/jebo)Paternalistic giving: Restricting recipient choice<sup>☆</sup>Lata Gangadharan<sup>a</sup>, Philip J. Grossman<sup>a,b,\*</sup>, Kristy Jones<sup>a</sup>, C. Matthew Leister<sup>a</sup><sup>a</sup> Department of Economics, Monash University, Wellington Road, Clayton, VIC 3800, Australia<sup>b</sup> Rasmuson Chair, University of Alaska, Anchorage, USA

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## ABSTRACT

We consider the relationship between paternalism and motives for giving and assess the role of donors' perceptions of the recipient. We theoretically incorporate the tradeoffs introduced when donors may choose how a donation is realized, cash or in kind (i.e. paternalistically) and design an experiment to examine how differently motivated donors realize their giving. While donors of all types prefer in-kind donations, the extent of paternalism depends on the donor's motivation for giving. Warm-glow givers are significantly less inclined to give paternalistically, supporting a form of warm glow that is independent of perceptions. Our findings pertain to fundraisers and policymakers.

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## 1. Introduction

A common fixture in many cities these days is a homeless person(s) camped out on the street with a handprinted note requesting passersby donate their spare change. Some passersby, concerned for the beggar's well-being, will leave some change; others will leave a food or drink; while others, having no regard for the beggar or believing there are more needy recipients, or more effective ways of helping, give nothing. The different responses to the beggar's request may imply different degrees of concern for the beggar or they may reflect different assessments of how to best provide the beggar the right assistance to ease his plight. Similarly, charities offer giving options. A relatively new charity is GiveDirectly. It permits donors to make unconditional cash transfers to people in Africa living in extreme poverty and allows recipients to prioritise their own needs.<sup>1</sup> DonorsChoose lets donors contribute to projects providing student-specific needs, such as notebooks

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<sup>1</sup> <https://www.givedirectly.org/>.

or ergonomic seats to in-need classrooms.<sup>2</sup> Government aid is sometimes provided as cash (Aid to Families with Dependent Children) and sometimes in kind (food stamps). A challenge faced by researchers and the philanthropic community is understanding why some donors give unrestricted gifts of cash while others give paternalistically (i.e. in-kind). This paper considers if how donors give, in cash or in kind, reflects the different motivations donors may have to give.

Implicit in a cash donation is the notion that the donor's only concern is the recipient's well-being and that the recipient is best qualified to assess this.<sup>3</sup> Paternalistic giving, by restricting the consumption set of the recipient, implies the giver perceives that the recipient is inclined to making bad choices, either for himself or for society; he lacks the necessary information to make "good" choices, is irrational, or has negative intentions for others.<sup>4</sup> In-kind giving suggests that the donor feels that she is more judicious than the recipient when choosing how her donation is to be used.<sup>5</sup>

Existing studies have not yet examined if donors with different motivations for giving behave differently in how they give. At one extreme, pure altruists are motivated solely by concern for the well-being of the recipient, not by whom or how it is provided. Depending on their perception of the recipients' abilities to make "good" choices, altruistic givers may strictly prefer to donate in one form over the other (i.e. in kind versus cash). At the other end of the spectrum, pure warm-glow givers do not care about the well-being of the recipient, only about how the act of giving makes them feel about themselves (Andreoni, 1989; Andreoni, 1990).<sup>6</sup> Warm-glow givers may therefore be indifferent between donating in kind or in cash. If instead warm glow is influenced by shared social agreement or norms about a common perception of the recipient's judgement, then these givers' inclination to give in kind versus cash may more closely resemble those of altruists.

We build on previously studied models to incorporate the tradeoffs introduced when donations to recipients are cast across two dimensions of commodities: cash donations and restricted donations. The gain or loss from donating cash relative to restricted donations is modeled via each donor's motivation, capturing their idiosyncratic perceptions of the relative merits of cash donations. As such, donor perception constitutes a key latent variable guiding the choice to donate and to restrict the form of donation (i.e. to give in kind). This enrichment is encompassing enough to include and address competing models of perception-dependence in different motivations for giving, such as altruism and warm glow. The theoretical framework exposes the inherent relationships between motives for giving and paternalism, and assesses the role of perception in these relationships.

We design an experiment in which participants are provided the option of controlling how donations are given to the recipients, in cash or in kind. We then leverage the theory to show how our paternalism data together with our donation data can be used to test the extent to which experienced warm glow is influenced by donors' perceptions. Using our theoretical framework, we show how the experimental design identifies between altruism and warm glow by using a very simple and direct approach.<sup>7</sup> Subjects make decisions in sequential donation tasks that allow us to observe and categorize, at the individual level, the subjects' warm-glow and/or altruism motivations for giving.<sup>8</sup>

In the first task in our experiment, participants are given the opportunity to donate in an environment where the donations are fully crowded out (Crumpler and Grossman, 2008). We refer to this as the Warm-glow task. This operationalizes the notion suggested by researchers (for example, Andreoni, 1989; Andreoni, 1990) that warm-glow giving provides benefits to the donor independent of, and without concern for, any benefit to the recipient. In the second task, participants are given another opportunity to donate to the same recipient, but this time with no crowding out and all donations going to the recipient. This is the Altruism task. The third task allows participants to control whether their donations are provided in cash or in kind and hence helps collect data on paternalism.

This paper makes the following contributions. We theoretically incorporate the tradeoffs introduced when donors control how their donations are realized. We show that donors' motives can be diversely related to paternalism. Strikingly, participants that reveal warm glow but not altruism are observed to be significantly less paternalistic than those that do reveal altruism. This is a unique finding that is supportive of perception-independent models of warm glow. The interaction between paternalism and motives for giving introduces a novel empirical implication to warm-glow giving, providing additional structure to the theory of warm glow. Our experimental design offers the researcher another tool for invoking motives for giving, and for studying the role of perceptions in driving variation in these motives. With our experimental data we identify motives for giving at the individual level. Our findings indicate that effective fundraising strategies need

<sup>2</sup> <https://www.donorschoose.org/>; directed giving to school programs is as opposed to money transfers to teachers, who are then left to use funds as they choose.

<sup>3</sup> It is also possible that the transaction costs of restricting the recipient's spending exceed the benefits to the donor of imposing the restrictions. In our study we control for transaction costs.

<sup>4</sup> The Australian government is currently trialling cashless welfare cards in selected rural Indigenous communities. The goal is to reduce the expenditures on alcohol and gambling by welfare recipients, thereby reducing domestic violence and directing more of the welfare payments to food and children. The trials have been enough of a success that other Indigenous communities are looking to adopt the program. (The Australian, November 1, 2016, p. 13)

<sup>5</sup> In-kind donations which substitute disposal of used items, such as used clothing donations to The Salvation Army or Saint Vincent de Paul, are outside of the purview of the discretionary paternalism studied in this paper.

<sup>6</sup> Warm-glow giving is therefore purely egotistical, whether that be a desire to win prestige or acclaim, to avoid the guilt associated with not giving, to be reciprocal, to satisfy some moral imperative, or to comply with social norms (Vesterlund, 2006).

<sup>7</sup> Empirical approaches that employ self-reported giving, or giving reported on tax returns cannot identify motives, as motivations such as warm glow and altruism cannot be independently observed in the field. Moreover, paternalism cannot be identified using donation data alone, without counterfactual contributions or choice data that carry implications on the form to which donations are realized.

<sup>8</sup> We provide evidence from additional experimental scenarios and theoretically demonstrate the validity of the experimental design in Appendix D.

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