



Diversity and donations: The effect of religious and ethnic diversity on charitable giving[☆]



James Andreoni^a, A. Abigail Payne^b, Justin Smith^{c,*}, David Karp^b

^a Department of Economics, University of California, San Diego, United States

^b Department of Economics, McMaster University, Canada

^c Department of Economics, Wilfrid Laurier University, Canada

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ABSTRACT

We explore the effects of local ethnic and religious diversity on private donations to charity. Results show that an increase in ethnic diversity decreases donations, and that this effect is driven by non-minorities and blacks. We find a similar relationship between religious diversity and donation that is driven by Catholics, though that evidence is weaker. We find no consistent connection between diversity and fraction of households that donate on average. Our results provide a parallel to the negative effects of diversity on publicly provided goods, and opens new challenges for fundraisers and policy makers.

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1. Introduction

Diversity is increasingly a fact in urban centers across North America and Europe, and is often lauded as a virtue in and of itself. Recent research suggests, however, alongside any potential benefits, diversity appears to dilute support for publicly funded goods and services. Ethnically diverse communities appear to spend less on schools (Alesina et al., 1999, 2000; Poterba, 1997; Goldin and Katz, 1999), less on roads and hospitals (Alesina et al., 1999, 2000), and to have lower Census form completion rates (Vigdor, 2004).

The fact that support for *publicly provided* goods falls as diversity rises raises the question of whether the same is true for the *private provision* of public goods, like local charitable services. On one hand, factors that drive down public spending when ethnic diversity increases – e.g. insularity or difficulty agreeing on how to spend public funds – may also drive down private contributions to charity, especially if other groups are seen to benefit from the contribution. Alternatively, in a more segmented society where individuals vote for less public spending because they feel less connected across groups, a greater connection within groups may lead them to substitute into local charities such as religious organizations or neighborhood food banks as a way target the benefits to their own group. This substitution would increase total contributions to charities.

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* Corresponding author.

E-mail address: jusmith@wlu.ca (J. Smith).

Knowing the impact diversity may have on the private provision of public goods and services is as important to policy makers as it is to know diversity's impact on publicly provided goods and services, especially when the two sectors are producing things that are substitutes for each other. In particular, private sector charity can either blunt the negative effects of diversity on the community's welfare, or exacerbate the problem. Despite the clear evidence that support for publically provided goods falls in more diverse populations, whether support for privately funded public goods like charities rises or falls is an open, and equally important, empirical question.

We examine the effect of ethnic and religious diversity on individuals' donations to private charities using aggregated data on charitable donations derived from Canadian tax records linked to Census data over 10-year time periods. Our key contribution is that we estimate a relationship between diversity and private donations to charity that is broader and more generalizable than prior research. Work in this area to date (e.g. [Fong and Luttmer, 2009, 2011](#); [Hungerman, 2008](#); [Dimitrova-Grajzl and Grajzl, 2016](#)) focuses specifically on the effect of race on donations to small subsets of the charitable sector in contexts where race is likely to play a key role. Our measure of donations, on the other hand, includes giving to any registered charity in the country, and our sample contains all urban areas across Canada. What we estimate is therefore more representative of the general effect of diversity on private giving. Furthermore, unlike most prior work, we separate the effect of diversity on giving along the intensive and extensive margins.

Our empirical model is based on [Vigdor \(2002, 2004\)](#), where our regressions of donations on the ethnic or religion Fragmentation Index (FI) at the community-level are derived by aggregating an individual-level model of donations as a function of a person's own ethnic or religious group share of the population. The advantage of this approach is that it relates the relationships we observe between FI and donations in the aggregate to underlying individual behavior. Typically the coefficient on FI is described as the effect of increasing the probability that any two randomly chosen individuals belong to different groups. Within the [Vigdor \(2002, 2004\)](#) framework, one can show that the coefficient on FI equals the negative of the effect of increasing an individual's own-group share on donations. An inverse relationship between fragmentation and donations therefore arises in this model because individuals increase donations as their own-group share in the population rises.

A concern for estimation is unobserved heterogeneity, arising potentially from sorting into neighborhoods based on factors correlated with both diversity and charitableness. We attempt to control for this by including a set of neighborhood fixed effects, and by controlling for key time-variant neighborhood characteristics. To control for sorting by other factors, we employ control variables intended to hold constant the important variables that might be related to donations and diversity, such as income, education, house values (as a measure of wealth), migration, labor market conditions, age distribution, and other demographics.

The average adult in our sample donates \$248 per year. We find that increasing the ethnic FI by 10 percentage points reduces the average donation per adult by roughly \$36 per year, a 15% reduction. Based on the [Vigdor \(2002, 2004\)](#) framework, this effect arises because individuals donate more when their own-group share rises. By contrast, we find no statistically significant relationship between changes in the ethnic FI and the fraction of households that make a donation. Ethnic diversity appears, therefore, to affect the intensive rather than extensive margin. Looking deeper into which groups drive the inverse relationship between diversity and amount donated, we find that non-minorities contribute roughly \$106 more per adult when their group share increases by 10 percentage points in the community, and blacks contribute \$591 more for the same increase in their group share. By contrast, East Asians contribute \$116 less per adult when their group share increases by 10 percentage points. Finally, the effects are strongest in high income and low education communities.

Turning to religious diversity, a 10-percentage point increase in the FI reduces contributions by about \$23 per adult per year, a 9% reduction, though this estimate is not statistically significant. Catholics increase their donations by \$66 per adult when their share in the population rises by 10 percentage points. We find no consistent evidence that the religious FI affects the fraction of households that donate. Because the religiosity results lack precision and are less robust than the ethnic diversity results, we interpret with caution.

In sum, our key results indicate that the deleterious effects of diversity on public sector provision of goods extends to privately provided public goods; that is, prior studies on the link between increased diversity and lower provision of publicly provided goods are actually understating the total effect. Increases in ethnic diversity lead to significant declines in charitable giving in the urban Canadian areas in our sample. Over the ten years of our study, ethnic diversity increased by six percentage points, suggesting that charitable donations are nine percent lower than they would be had ethnic diversity not grown over that time period.

2. Literature

Many studies on diversity focus on its relationship with the amount or distribution of public spending by governments or, more recently, on contributions or attitudes towards activities or goods that generate public benefits (see reviews by [Alesina and La Ferrara, 2005](#); [Stichnoth and Van der Straeten, 2009](#)). The main conclusion from the literature is that diversity reduces publicly provided goods, both across countries and across communities within a country (mainly the United States). Ethnically diverse communities are found to spend less on schools ([Alesina et al., 1999, 2000](#); [Poterba, 1997](#); [Goldin and Katz, 1999](#)), less on roads ([Alesina et al., 1999, 2000](#)), and less on social programs in general as a fraction of GDP ([Alesina et al., 2001](#)). One exception is that [Cutler et al. \(1993\)](#) find that changes in state-level demographic characteristics have a negative effect on public spending, but at the county level the effect is positive.

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