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Directed giving: Evidence from an inter-household transfer experiment☆

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ABSTRACT

We investigate the determinants of giving in a lab-in-the-field experiment with large stakes. Study participants in urban Mozambique play dictator games where their counterpart is the closest person to them outside their household. When given the option, dictators do a large fraction of giving in kind (in the form of goods) rather than cash. In addition, they share more in total when they have the option of giving in kind, compared to giving that can only be in cash. Qualitative post-experiment responses suggest that this effect is driven by a desire to control how recipients use gifted resources. Standard economic determinants such as the rate of return to giving and the size of the endowment also affect giving, but the effects of even large changes in these determinants are significantly smaller than the effect of the in-kind option. Our results support theories of giving where the utility of givers depends on the composition (not just the level) of gift-recipient expenditures, and givers thus seek control over transferred resources.

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1. Introduction

In both rich and poor countries, transfers of resources across individuals and across households are common and often large in magnitude. In developing countries, inter-household transfers play an important role in replacing public transfers when those public sources are not available (Cox and Jimenez, 1992; Cox et al., 2004; Jensen, 2004; Kazianga, 2006). Similarly, informal transfer and credit relationships between households also augment missing insurance markets in

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developing countries (Townsend, 1994; Udry, 1994; Jalan and Ravallion, 1999; Angelucci et al., 2010). In developed countries, inter-household transfers are also widespread (Altonji et al., 1992, 1997; Bernheim et al., 2004; Arrondel and Masson, 2006).

Becker's (1974) model of altruism is the seminal theory of inter-household transfers. This model was subject to an early test by Cox (1987), who found that inter-vivos transfers were more consistent with exchange-related motives than with pure altruism. A recent literature has used experiments to examine motivations behind giving. Studies have explored the existence and nature of altruistic motives for giving, such as Andreoni and Vesterlund (2001), Andreoni and Miller (2002), Binzel and Fehr (2013a,b), Camerer and Fehr (2004), and DellaVigna et al. (2012). Other work, such as Leider et al. (2009) and Ligon and Schechter (2012), has highlighted that transfers may reflect selfish or "exchange" motives – desires on the part of givers to reward recipients for past behavior or to influence future behavior – in addition to altruism.[1]

In this paper, we examine a cross-cutting issue: whether and how givers seek to influence or control the consumption patterns of gift recipients. Would an ability to wield control over recipient consumption out of gifted resources affect givers' expected utility from giving, and their giving decisions overall? While in-kind transfers by governments have been the subject of a great deal of study (see, Currie and Gahvari, 2008, for a review), whether and how individual givers value "directed" giving has received less attention. Understanding how individuals value directed giving has potentially important theoretical and practical implications. From a theoretical standpoint, evidence of a desire for control on the part of givers rules out certain models of the giving decision – for example, it is inconsistent with a simple model of pure altruism and perfect rationality on the part of givers and recipients.

Evidence on directed giving motives could also have important practical or policy implications. If such motives exist and play a quantitatively substantial role, real-world transfer behavior may be affected by regulatory or technological developments that facilitate givers' control over recipient consumption. For example, new technologies such as the Internet facilitate in-kind giving over distances (via online merchants), and telecommunications can improve long-distance monitoring of transfer recipients. In the legal realm, trusts and other legal instruments allow givers to place limits on how recipients can use inter-vivos transfers and bequests. In the charitable giving context, directed giving motives might explain the strategy of soliciting donations for specific, defined uses, rather than general ones.

The question we pose is also related to research on the motivations behind *in-kind* giving. Giving often takes the form of cash transfers, but a substantial share of giving is in-kind. Standard models of giving imply that givers, who may not be fully aware of recipient preferences, cannot do better at raising recipient utility than by giving cash (as opposed to making in-kind gifts), which allows recipients to make utility-maximizing consumption choices on their own.[2] The prevalence of in-kind giving is therefore a puzzle for very standard models.

The prevalence of in-kind giving is especially interesting because research on the effects of in-kind government transfers has mostly shown that they are inframarginal; they do not seem to change food consumption patterns relative to cash transfers (for example, see Moffitt (1989) on the Puerto Rican case, Hoynes and Schanzenbach (2009) on the US Stamp Food program, and Cunha (2014) on a similar Mexican program). Though, Cunha et al. (2011) point to a pecuniary benefit for consumers of goods provided by in-kind transfers, arising from the negative equilibrium effect on prices that these transfers have in local markets (via increased supply of goods transferred in-kind).

Elaborations of standard models can, however, explain in-kind giving in the absence price effects. Pollak (1988) models in-kind gifts, or tied transfers, within the family as direct consequences of paternalistic preferences, where parents derive utility from their children's consumption of only a subset of goods. In-kind gifts are just a way to promote the consumption of those preferred goods. Waldfogel (1993) hypothesizes that individuals may give in-kind gifts if they think they know the recipient's preferences better than recipients do themselves. His data reject this hypothesis, however: undergraduates report valuing in-kind gifts received at large discounts relative to market prices. Prendergast and Stole (2001) instead rationalize in-kind gifts in a signaling model. They hypothesize that in-kind gifts allow givers to send positive signals to recipients, by putting in the effort to select a gift and to show the recipient that the giver knows the recipient's preferences well.

A number of theories can generate directed giving, or giving in which givers seek control over the use of transferred resources. In the examples we discuss, givers' desire for control arises because giver utility depends on the composition (not just the level) of gift-recipient expenditures. For example, in a *paternalistic model*, givers may value the utility recipients gain from consumption of "virtue" goods, but not recipient utility from consumption of "vice" goods. This makes it possible for givers to raise their own utility from giving by making in-kind gifts. An alternative model is one where gift recipients may consume either "public" goods (goods which generate utility for givers as well as recipients) or "private" goods (which generate utility only for recipients).[3] In this *public goods model*, givers can raise their own utility by making in-kind gifts of public goods. In both the paternalistic and public goods models, giver utility rises with in-kind giving because givers

[1] Barr and Genicot (2008) and Attanasio et al. (2012) use experiments to examine the determinants of the composition and functioning of informal risk-sharing networks.

[2] An exception would occur when an altruistic gift-giver is faced with the "Samaritan's dilemma," i.e. when the recipient's optimal dynamic strategy is to over-spend in early periods in the expectation that the giver will increase the value of gifts at later periods if the recipient's income is low at that time. In this setting, in-kind gifts in early periods would be a way to rein in over-spending by the recipient, which would likely be welfare-enhancing. This argument is formalized by Bruce and Waldman (1991).

[3] Examples of public goods in this context include housing and other household durables, which may be enjoyed by givers on occasion, or investments in children in the recipient household who are related to the giver.

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