Economics Letters 171 (2018) 83–86

Contents lists available at ScienceDirect

Economics Letters

journal homepage: www.elsevier.com/locate/ecolet

Does charitable giving crowd out support for government spending?

Seth H. Werfel

Department of Political Science, Stanford University, 616 Serra Street, Stanford, CA 94305, United States

HIGHLIGHTS

- Charitable giving can reduce public support for government spending.
- This crowding-out effect varies by issue area and political ideology.
- Perceived impact associated with charitable giving attenuates this effect.

ARTICLE INFO

Article history:
Received 23 May 2018
Received in revised form 5 July 2018
Accepted 7 July 2018
Available online xxxx

JEL classification:
C9
H4
D10

Keywords:
Charitable giving
Crowding-out
Government spending
Public opinion
Survey experiments

ABSTRACT

Government spending has been shown to crowd out charitable giving. This article uses survey experiments to demonstrate that charitable giving can reciprocally crowd out support for government spending. Moreover, this crowding-out effect in public opinion varies by political ideology and by issue. In Study 1, survey respondents who were randomly assigned to read about charitable giving in a particular area were less likely to support additional taxation and government spending in that domain. This result was driven by liberals in the arts domain and moderates and conservatives in the human services domain. Study 2 leveraged data from the "Ice Bucket Challenge" to replicate this effect among very liberal respondents and show that crowding-out was attenuated when respondents perceived donations to have greater impact.

1. Introduction

A vast literature in public economics has demonstrated that government spending can crowd out private contributions in the same domain (Nyborg and Rege, 2003). The converse relationship – whether charitable giving also crowds out government spending – has similar welfare implications but has received considerably less attention, and with mixed results (Garrett and Rhine, 2010; Heutel, 2012). This article explores whether charitable giving might crowd out government spending indirectly through public opinion. Specifically, charitable giving might reduce voter demand for additional government spending in the same domain.

Two survey experiments on large, representative samples in the U.S. demonstrate this crowding-out effect in public opinion. In Study 1, survey respondents who were randomly assigned to read about charitable giving in a particular area were less likely to support additional taxation and government spending in that domain. This result was driven by liberals in the arts domain and moderates and conservatives in the human services domain. Study 2 leveraged data from the "Ice Bucket Challenge" to replicate this effect among very liberal respondents and show that crowding-out was attenuated when respondents perceived donations to have greater impact.

2. Study 1: Charitable giving and public opinion

The rate and direction associated with charitable giving could each lead to a change in public opinion about government spending. While both of these properties are included in the survey instrument, Study 1 was primarily designed to isolate the effect of a shift in direction. The reasoning behind this design choice is twofold. First, survey respondents are notoriously insensitive to differences in quantities, especially in the context of public goods (Baron and Greene, 1996) and when there is no proper baseline against which to compare them (Ansolabehere et al., 2013). Second, the direction of charitable giving is usually more salient to voters than specific quantities.

E-mail address: swerfel@stanford.edu.

https://doi.org/10.1016/j.econlet.2018.07.015
0165-1765/

2.1. Procedure

Respondents were randomly assigned to one of three experimental conditions upon entering the survey environment. In the Control condition ($n = 329$), respondents did not receive any experimental stimulus.[1] In the Arts condition ($n = 337$), respondents read the following statement: "According to the Giving Institute, Americans gave more than $350 billion to charity last year, setting an all-time record. A large percentage of these funds went to promoting visual and performance art in the United States". In the Human Services condition ($n = 334$), respondents read the exact same statement about the rate of giving, but instead their cue indicated that a large percentage of giving went to "reducing hunger and homelessness". Next, respondents indicated their level of support for a tax increase to finance more public spending in each of these two areas, separately, on a 7-point Likert scale (1 = Strongly oppose, 7 = Strongly support).

2.2. Results

Baseline levels of support for additional government spending among subjects in the Control condition varied substantially by political ideology. In the arts domain, policy support was considerably higher among liberal respondents (Very Liberal = 5.41, Liberal = 4.62, Moderate = 3.64, Conservative = 2.35, Very Conservative = 2.24). The same trend was observed in the human services domain, although absolute levels of policy support were slightly higher across the ideological spectrum (Very Liberal = 6.16, Liberal = 5.46, Moderate = 4.96, Conservative = 3.77, Very Conservative = 3.68).

The effect of a shift in the direction of charitable giving was identified by comparing the Arts condition to the Human Services condition, therefore holding constant the overall rate of giving. Crowding-out in each domain was evaluated by estimating the effect of a shift in charitable giving toward that domain on support for additional government spending in that same domain. Since baseline levels of support varied by ideology, heterogeneous treatment effects were estimated with covariate adjustment. The interaction term was marginally significant in the arts domain ($p = 0.065$) and significant in the human services domain ($p = 0.022$) at conventional levels (Supplementary Table 3).

Fig. 1 plots the average marginal effects of within-domain charitable giving along the ideological spectrum. In the arts domain, crowding-out in public opinion was significant only among respondents who identified as "Very Liberal" (-0.724, $p = 0.030$) or "Liberal" (-0.453, $p = 0.037$). In contrast, the crowding-out effect in the human services domain was significant only among respondents who identified as "Moderate" (-0.528, $p = 0.001$, "Conservative" (-0.856, $p = 0.000$), or "Very Conservative" (-1.18, $p = 0.001$). For all remaining sub-groups, average marginal effects were not statistically distinguishable from zero.

Further analysis explored whether an additive shift in the overall rate of giving significantly changed these estimates of crowding-out effect in public opinion. To address this, models of the same functional form were estimated by comparing each of the two treatment conditions to the Control condition (Supplementary Fig. 1). In the arts domain, the crowding-out effect was still significant only among respondents who identified as "Very Liberal" (-0.874, $p = 0.008$) or "Liberal" (-0.523, $p = 0.018$), and this interaction term was now highly significant ($p = 0.010$). In the human services domain, average marginal effects were still larger among moderate and conservative respondents, although the interaction term was not statistically significant ($p = 0.386$).

3. Study 2: The role of perceived impact

Study 2 explored whether the magnitude of the crowding-out effect depends on the perceived impact of charitable giving. Prior evidence suggests that crowding-out in public opinion may occur only when the perception of progress is perceived (Werfel, 2017). However, other research suggests that individuals are relatively insensitive to the effectiveness of charitable giving (Karlan and Wood, 2017; Yoruk, 2016), or that perceived effectiveness may even increase giving to government (Jones, 2017). Therefore, Study 2 was designed to directly manipulate and measure the perceived impact of charitable giving in a particular domain.

The experiment leveraged data from one of the largest and most successful fundraising campaigns in the U.S., colloquially known as the "Ice Bucket Challenge", in which ordinary citizens and celebrities alike publicly raised awareness about amyotrophic lateral sclerosis (ALS) and encouraged donations to find a cure for the disease. The campaign raised awareness among approximately 440 million people worldwide and thus, if anything, pre-treatment bias should attenuate the magnitude of informational treatment effects.

3.1. Procedure

Respondents were randomly assigned to one of three experimental conditions upon entering the survey environment. In the Control condition ($n = 323$), respondents read the following statement to establish a baseline for the scope of the problem: "ALS, also known as Lou Gehrig's Disease, affects thousands of Americans each year". In the Donations condition ($n = 335$), respondents read an additional statement: "Over the past few years, Americans have donated more than $100 million to the ALS Association to find a cure for the disease". In the Impact condition ($n = 342$), respondents read yet another statement: "These donations have already resulted in two new drugs that are currently going into clinical trials". Finally, respondents were asked to indicate whether they supported or opposed "the federal government raising taxes to increase spending on ALS research" on a 7-point Likert scale (1 = Strongly oppose, 7 = Strongly support).

3.2. Results

Baseline levels of support for government spending were considerably higher among liberal respondents (Very Liberal = 5.36, Liberal = 4.16, Moderate = 3.76, Conservative = 3.27, Very Conservative = 3.04). Compared to the Control condition, the effect of the Donations treatment alone was significantly moderated by ideology. However, the null hypothesis of a linear interaction could be rejected with a Wald test ($p = 0.001$), so nonlinear marginal effects were estimated using a binning strategy that divides the data into quartiles (Hainmueller et al., 2018). This analysis revealed that charitable giving significantly decreased support for government spending among very liberal respondents (-1.92, [-2.80, -1.04]), while the effects on other quartiles were null (Supplementary Fig. 2).

Comparing the Control condition to the Impact condition using the same method demonstrated that the crowding-out effect in public opinion was again significant only among very liberal respondents (Supplementary Fig. 3). However, this time the magnitude of the crowding-out effect was cut roughly in half on the 7-point Likert scale (-0.991, [-1.76, -0.225]). This suggests that an increase in the perceived impact of charitable giving attenuated

[1] Note that this Control condition does not provide clean identification since, relative to the treatment conditions, both the rate and direction of charitable giving co-vary. Given this multiple treatments problem, the Control condition is primarily used to estimate baseline levels of support for government spending rather than as a baseline for estimating treatment effects.