SCIENCE OF PHILANTHROPY INITIATIVE

EVIDENCE-BASED RESEARCH ON CHARITABLE GIVING

COVER PAGE

Project Title: ***Informing public policy using insights from behavioural economics: an application to charitable giving***

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Home Institutions(s): University of Florence (IT), University of Bristol (UK), University of Siena (IT)

Type of Application: ✓ Small grant ☐ Large grant

Is this a PhD student dissertation proposal? ☐ Yes ✓ No
If yes, do you want an expedited review? ☐ Yes ☐ No

Estimated Amount of Funding Requested: $10.000

Type of Data Collection: ✓ Lab ☐ Field ☐ Other: _____________

If funded lab experiment, will you need space? Yes _____ No __✓___

If funded field experiment, is a collaborating organization/population secured or do you need center assistance? Yes ______ No ___✓___

Key Research Questions addressed:

- Does ‘freedom to choose’ boost individuals’ motivation for giving?
- How is private giving affected by government provision of public goods?
- Does framing affect tax-free donations?

Background and motivation

This study seeks to make a contribution to that part of the literature that explores the reasons surrounding incomplete crowding out of charitable giving within the context of tax-financed contributions by the government.

We draw on the model of Eckel et al. (2005)[1], modifying their approach to strengthen to role of the 'choice mechanism' of the non-profit association as a possible reason for incomplete crowding out. On the grounds of a recent government initiative (i.e. the so called 'five per thousand')[2] introduced in Italy in 2006 (see Italian Budget Bill, Law 266/2005) and data obtained from the Italian Ministry of Finance, we speculate that the charity 'choice mechanism' can enter individuals' utility in a way that offsets the crowding out effect of tax-financed government giving. Indeed, looking at official data from the Ministry, the introduction of the 'five per thousands' mechanism generated a temporary decrease in charitable giving, which at a later stage retained the past trend. We believe that the incomplete crowding out described earlier can be due to the taxpayers' freedom of choosing the charity that most deserved their tax share[3].

To the extent that this might be crucial not only to understand the reasons behind the free-riding problem, but also to successful policy implementation[4], the present research seeks to contribute theoretically and empirically towards providing further evidence on: (i) how private giving is affected by government provision of public goods, and (ii) the impact of different solicitation methods on giving (i.e., framing effect). Furthermore, the empirical analysis will help to shed light on (iii) the impact of the above described 'choice mechanism' on donors' contributions.

Methodology

To test out hypothesis, it is intended to conduct a laboratory experiment. Similarly to other studies on charitable giving, subjects will play a single dictator game (between

[1] Eckel et al. (2005) point out that *fiscal illusion* that is the idea that donors/taxpayers do not know (as opposed to transparency) the source of funding for an activity that they support, seems to play a major role (see Eckel et al., 2005). It turns out that framing affects individuals' decisions over private donations to charities.

[2] Under the "five for thousand" mechanism, taxpayers can decide to allocate a small share of their tax due (indeed 5‰) to a charity or a no profit organization, choosing from a closed list. Therefore this scheme can be considered a tax financed giving, as the revenue service losses a share of the revenue and taxpayers do not have to pay any additional funds.

[3] For a recent survey on intrinsic motivations and crowding in /out see Bowles et al (2012).

[4] See List (2011) on the topic.

subjects design) with a charity of their choice as a recipient. The charity will be chosen from a list of charities. There will be three different treatments: one initial allocation and three different frames. The decision frames will vary in order to change the charity 'choice mechanism' that donors will face. Subjects will be recruited within the student population of the University of Florence, where the experiment will take place (i.e., at the Interuniversity Centre for Experimental Economics – LABSI – www.economiasperimentale.it). The experiment will be pre-tested on a small group of students to test the validity of the design. After making the necessary (if any) changes, data will be collected and entered into a spreadsheet for use within the econometric analysis. In terms of division of duties, the CO-PI will work on/contribute to all tasks including writing up reports and carrying out activities related to dissemination, but the PI will have overall responsibility for the direction and progression of the project.

Expected outcomes and beneficiaries

We seek to establish with laboratory experiments the importance of the 'freedom to choose' on individuals' motivation for giving. In line with the Templeton Mission, this will contribute to understanding the reasons surrounding charitable giving. Knowledge of the impact of the charity 'choice mechanism' will inform policy-making directed at promoting desired behaviour and potentially contribute to more targeted approach. Potential beneficiaries will be therefore Central Governments in devising policy and philanthropic organizations aimed at soliciting charitable giving. Both the PI and CO-PIs have particular interest in this area of research. The PI and the senior CO-PI have investigated trustworthiness determinants in previous researches and have familiarity with experimental economics. Similarly, the CO-PI has recently completed a research project (PhD thesis) aimed at analysing the impact of individuals' other regarding preferences (i.e., intrinsic motivation, social norms, altruism, and reciprocity) on voluntary recycling.

References

Bowles S., S. Polanía-Reyes, 2012. Economic Incentives and Social Preferences: Substitutes or Complements*?*, *Journal of Economic Literature* 2012, 50:2, 368–425

Eckel, C. C., Grossman, P. J. & R. M. Johnston, 2005. An experimental test of the crowding out hypothesis. *Journal of Public Economics*, 89, 1543-1560.

Italian Budget Bill No. 266, 23 December, 2005.

List J., 2011,The Market for Charitable Giving, *Journal of Economic Perspectives—Volume 25, Number 2—Spring 2011—Pages 157–180*