Understanding the Decision to Donate*

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Long Abstract

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Individual contributions constitute an important source of funding in support of charitable goods (CAF, 2014; Giving USA, 2014), but why do people give away their earnings in a seemingly unselfish manner? How can we reconcile unselfish giving with economists’ view of human nature as reflected in the hypothesis of the pursuit of self-interest? These questions have puzzled economists since the late 1960s (Hochman and Rogers, 1969; Kolm, 1969; Becker, 1974), but the bulk of the academic work attempting to answer the questions has flourished since the late 1980s, identifying and modelling a number of motivational channels giving rise to philanthropic behaviour (Andreoni, 2006; List, 2011; Andreoni and Payne, 2013). Aside from being research questions worth pursuing for their own sake, they are questions with an important policy dimension in that charitable goods are typically socially desirable goods the provision of which, in the absence of private markets or markets capable of securing socially optimal levels, falls within the purview of governments. If people are willing to contribute to charitable goods, private contributions and public resources become two separate but equally viable means of providing for such goods, and the question of what drives private charity inevitably takes on a policy flavour. In fact, the nature of philanthropic motives likely impacts how private charity interacts with public provision in supporting the common cause and thus conditions the appropriate configuration of the two strategies based on efficiency considerations (e.g., scientific research can be supported through government taxation and grants from institutions such as SSHRC or by private foundations funded through tax-deductible donations). Understanding the drivers of private philanthropy is thus a fundamental step in the design of effective policy tools to promote or restrict its level as need be (Kaplow, 1998).

Theoretically, individual charitable giving has been motivated by what contributions can accomplish, or public goods philanthropy model (Warr, 1982; Roberts, 1984; Bergstrom et al., 1986; Bernheim, 1986; Andreoni, 1988; Auten et al., 2002), by the pleasure of giving, or warm-glow philanthropy model (Andreoni, 1990; Ribar and Wilhelm, 2002), by the desire to personally make a difference, or impact philanthropy model (Duncan, 2004), or by the desire to be seen as socially responsible citizens, or socially motivated philanthropy model (Ferrara and Missios, 2016). The emphasis of the theoretical literature has been on the crowding out effects of taxation, that is, the magnitude of the decrease in the donation level resulting from a dollar increase in taxation. More recently, however, theoretical questions have included the role of trust and its implication for the crowding out effect of taxation in each of the above four models as well as the relevance and implication of accounting for ability to pay in social considerations (Ferrara and Missios, 2016). A key difference between the public goods model and the other three models is that the former
leads to complete crowding out, in addition to suffering from the free riding problem on account of which it is difficult to justify the observed level of individual charitable giving, while the other models predict less than crowding out. Hence, while the most natural framework for economists to analyze individual charitable giving, the public goods model has had limited appeal in empirical studies. Instead, the focus of much of the empirical literature on motives for pro-social behaviour has been on examining the more realistic predictions of the warm-glow model.

More generally, the empirical literature on individual charitable giving has looked at how economic variables influence or are correlated with giving, addressing questions such as how giving changes with income and how givers respond to tax incentives, rebates, and matching grants (Smith et al., 1995; Barret et al., 1997; Forbes and Zempelli, 1997; Andreoni and Scholz, 1998; Duquette, 1999; Auten et al., 2002; Eckel and Grossman, 2003; Karlan and List, 2007; Scharf and Smith, 2010; Bakija and Heim, 2011). A few studies have also attempted to estimate the crowding out effect of charitable policy (Kingma and McClelland, 1995; Banks and Tanner, 1997; Payne, 1998 and 2001; Andreoni and Payne, 2003 and 2011).

Although there is evidence that preferences do include a warm-glow motive (Andreoni, 1993 and 1995; Palfrey and Prisbrev, 1996 and 1997; Andreoni and Miller, 2002; Harbaugh et al., 2007; Crumpler and Grossman, 2008; Konow, 2010; Tonin and Vlassopoulos, 2010), the warm-glow concept is “only a convenient reduced-form representation for deeper and more complex considerations of givers” (Andreoni, 2006, p. 1264). The difficulty of relying on the warm-glow concept to encompass a wide range of moral, social, and cultural considerations in the charitable giving decision comes to light when the role of trust is considered as the trustworthiness of governments and/or charitable organizations does not matter to donors who derive pleasure from the act of giving (warm-glow) but does matter, for example, to donors who value social approval which depends on a trust-dependent measure of the benefit of contributing.

In spite of the large amount of research on charitable giving and philanthropy, especially at the charity level, there are questions about individual giving which remain unanswered. An area that has yet to be fully explored, at least empirically, relates to the multiplicity of motives at play in the decision of donating money, many of which lie outside of economists’ comfort zone as they undermine key assumptions regarding human nature and human behaviour that are at the heart of the economic way of thinking about decision making. Although economists have long recognized that the predictions of the standard economic models of individual decision-making, which are based on the assumptions of rational behavior, self-interest, and self-control, are not always supported by empirical evidence and that importing insights from psychology and sociology into economics is inevitable to capture more realistic notions of human nature and behaviour,
their empirical efforts in the area have not been able to fully reflect the motivational complexity of pro-social decision making. As noted in Schokkaert (2006), economists’ existing approaches have shied away from survey data, subjective information, and data collection techniques common in other social sciences and, as a result, have been unable to take into account the heterogeneity of preferences and motivations within the population and handle the multiplicity of motives underlying charitable giving.

According to Schokkaert (2006), there are four broad motivations for pro-social behaviour which encompass the classifications used in the literature, ranging from more selfish to more altruistic, namely: (i) self-interest, which includes material self-interest and social prestige, (ii) reciprocity, (iii) norms and principles, which include dutiful altruism and social pressure, and (iv) pure altruism and empathy.

In some instances, people give money and time in the hope for some personal gain, whether it be material or in the form of social prestige. Material self-interest is, for example, a key motivator for unemployed people who volunteer their services in order to maintain or enhance their employability (Unger, 1991; Piliavin and Charng, 1990). More generally, and with respect to the decision of giving money, concerns over poverty which translate into a willingness to contribute to reduce it may result from purely selfish considerations if poverty is perceived to be an important trigger of criminal activities (Brennan, 1973; Archibald and Donaldson, 1976).

In other instances, people’s gift giving and time volunteering may reflect a desire to increase social prestige in societies which value such activities. The extent to which such activities contribute to social prestige is likely dependent on how one’s gift compares to the gifts of others (Holländer, 1990), but charitable giving may also serve as a signal of one’s income level (Glazer and Konrad, 1996). However, for social prestige to ensue from a donation, the amount contributed and the identity of the donor must be common knowledge among those in the group within which the donor is hoping to increase his/her social prestige. The relevance of the social prestige motive is certainly underscored by charities’ reporting behaviour (Harbaugh, 1998a and 1998b).

While the concept of reciprocity also relates to the idea that a seemingly unselfish act results from the hope of concrete personal benefits, as the case with the concept of self-interest, the key difference between the two concepts is that the former implies that all those involved in a social interaction must gain – in a sense, one’s self-interest coincides with others’ self-interest, and the gain of others is then a necessary condition for the social interaction to take place. There are, however, other connotations of the concept used in the literature, the most significant of which stresses the idea that reciprocity results from a behavioural response, as opposed to the expectation of reciprocation, that is, from the tendency to respond friendly to kind actions and hostily to unkind ones (Sugden, 1984; Fehr and Gächter, 2000); in such a
case, reciprocity differs from self-interest in that it yields a greater response to others’ actions.

Pro-social behaviour may ensue from adherence to personal (internally-imposed) principles, that is, out of a sense of duty, or to externally-imposed social norms, that is, out of a desire to avoid social disapproval or to gain social approval. The key difference between dutiful altruism and social pressure is that the former does not require visibility of pro-social activities whereas the latter does.

Finally, pro-social behaviour may result from empathy which Batson (1998) describes as “an other-oriented emotional response congruent with the perceived welfare of another person.” This definition is consistent with economists’ modelling of utility interdependency and paternalistic altruism. While some would question whether acting out of empathy is truly altruism as, to the extent that an altruistic act brings enjoyment to the act-initiator, it becomes an act exhibiting egoism (Mueller, 1986), experimental research does suggest that altruistic acts with the objective of benefitting others are part of human nature (Piliavin and Charng, 1990).

In this paper, we intend to widen the scope of previous work on individual charitable giving and volunteering and improve upon our understanding of pro-social behaviour. We employ four sets of data collected by Statistics Canada in 2004, 2007, 2010, and 2013 through the Canada Survey of Giving, Volunteering and Participating (CSGVP), renamed as the General Social Survey – Giving, Volunteering and Participating (GSS GVP) for the 2013 collection but containing the same questions. In our endeavour to provide a more complete picture of what motivates people to donate time and money, we explore the four waves of survey data in novel ways.

First, we exploit the cross-sectional nature of the CSGVP/GSS DVP data by employing three different empirical techniques to estimate a two-equation model involving the decision of whether to contribute (participation decision) and the decision of how much to contribute (intensity decision) which is bounded by zero: (1) standard (Type I) Tobit model, which assumes that a single mechanism governs both the participation and the intensity decisions; (2) two-part or (truncated normal/lognormal) hurdle model developed by Cragg (1971), which allows for different mechanisms to drive the participation and intensity decisions but assumes that these two decisions are (conditionally) independent; (3) exponential Type II Tobit (ET2T) model, a Heckman-type approach (albeit applied in a framework where sample selection is not an issue), which allows for correlation between the participation and intensity decisions.

Second, always within a cross-sectional setup, we exploit the comprehensive nature of the survey data by adopting a holistic approach to the study of pro-social behaviour that encompasses both the decision of
donating time (or volunteering) and the decision of donating money. Theoretically, individuals can support a charitable good, from the consumption of which they derive utility, through either time donations or money donations or both. While donating time reduces the amount of leisure individuals can enjoy, donating money reduces the amount of money they can spend on private consumption. Individuals thus choose private consumption and leisure such that the marginal utility of private consumption relative to the marginal utility of leisure equals the ratio between how much donating one dollar contributes to the charitable good and how much volunteering one unit of time contributes to the charitable good; the total amount of donated money is then the residual income, while the total amount of volunteered time is the residual time. Even if the marginal utilities of private consumption and leisure are independent of the charitable good, we can expect any parameter or policy change affecting money donations to also affect time donations, and vice versa, unless the marginal utility of the charitable good is constant and the marginal physical product of time donations is independent of money donations, and vice versa. Empirically, we jointly estimate the two participation decisions via the bivariate probit procedure as well as the two intensity decisions via the CMP (conditional mixed process) procedure.

But, in addition to allowing us to gain new insights about the relevance of socio-demographic factors and of tax incentives on account of the tax policy variation across provinces, the comprehensive nature of the survey also enable us to address outstanding issues in the literature, namely: (1) the relative role of economic (e.g., charitable tax credits), psychological (e.g., habits), and sociological (e.g., social pressure) factors in making charitable giving decisions; (2) the interplay between and across different types of motivation (e.g., Are socially motivated philanthropists more or less likely to respond to charitable tax incentives?); (3) the interrelationship between motivations and causes (e.g., Are morally driven philanthropists more or less likely to donate to health-based organizations?); (4) the interrelationship between motivations and key socio-demographic characteristics (e.g., Are younger people more or less likely to donate to education-based organizations?).