



**Giving to Poverty Relief Charities:
The Role of Perceived Federal Transfers and Political Affiliation**

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Abstract:

We report a real-donation experiment (Eckel and Grossman 1996) investigating links between contributions to a poverty relief charity and perceptions of federal transfers to low income households. We also ask participants to self-identify political affiliation, religiosity, race, and gender. We find that those who believe a relatively large amount is transferred through social welfare programs donate less than those who believe less is transferred.

Keywords: Charitable contributions, Laboratory experiment, Information, Philanthropy

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Highlights

- Perceptions of inequality, rather than data, may drive redistributive policy.
- We measure perceptions of redistributive policy in a laboratory experiment.
- Subjects who believe a large amount is transferred to the poor donate less.
- Donations do not significantly differ by political affiliation.

1. Introduction

Poverty-relief programs, i.e. welfare, represent about 1% of the United States federal government's total budget. In a survey of Americans' perceptions, nearly two-thirds of the respondents grossly overestimated the percentage, responding 8% or higher (Kuklinski et al., 2000).¹ This misperception may drive policymakers to reduce instead of increase spending on welfare. Because both governments and private charities make efforts to reduce poverty, misperceptions of government welfare programs may have repercussions for donations to poverty-relief charities. In this paper, we explore if misperceptions regarding government welfare spending also affects giving to private, poverty-relief charities.

We elicit beliefs regarding the amount low income households receive in government transfers, perceived characteristics of the recipients of government transfers, and beliefs regarding the ideal distribution of income. We also ask participants to self-identify political affiliation, religiosity, race, and gender. While we do not observe differences in giving based purely on political affiliation, we find that those who believe the government transfers a relatively large amount to the poor give less to poverty-relief charities than those who believe the poor receive relatively little in government assistance.

The study builds on survey results reported by Norton and Ariely (2011). Participants were asked to identify the actual distribution of wealth and report their ideal distribution. Norton and Ariely document a large underestimation of wealth inequality. The actual share of wealth possessed by the top quintile is 84%, whereas the average estimate was 59%. In a separate task, participants were shown pairs of income distributions as pie charts, and were asked which

¹ Kuklinski et al. also find that a similar number overstate the average annual welfare payment. A similar misperception applies to spending on foreign aid. See http://www.worldpublicopinion.org/pipa/pdf/nov10/ForeignAid_Nov10_quaire.pdf and http://voices.washingtonpost.com/ezra-klein/2010/12/american_misperceptions_of_for.html.

distribution they prefer under Rawls' veil of ignorance. One pairing was based on actual distributions of income in the United States and Sweden. In the United States (Sweden), the top quintile possesses 84% (36%) of wealth and the poorest quintile possesses 0.1% (11%) of wealth. Ninety-two percent of respondents preferred Sweden's distribution to that of the U.S. All demographic groups, including self-identified liberals and conservatives, favored a more equal distribution of wealth than what is observed in the United States.

We examine the relationship between contributing to a poverty-relief charity and perceptions of income inequality. Survey data collected include basic demographics as well as information concerning the actual and ideal distribution of income from each participant.

2. Design and Procedures

Consent forms are read to and signed by participants and written instructions with random five-digit code numbers are distributed. One participant drew a five-digit number from an urn and that number selects the monitor who observes and assists in conducting the experiment for a flat fee of \$25.

The experiment has three parts. Part 1 of the experiment is the real-donation experiment (Eckel and Grossman 1996). Participants are endowed with \$20. Participants select one charity from a list of ten (see Appendix A for instructions and materials). All of the charities can be characterized as poverty-relief charities, and a summary of each charity's activities is provided. Participants may allocate some, none, or all of their \$20 to their selected charities. A questionnaire ensures all participants know how their choices will affect their own and their selected charity's earnings. After participants make their choices, they place their decision sheets in a box at the front of the room and return to their seats.

Instructions for part 2 of the experiment are then read. The part 2 instructions define “household” and explain “income quintiles.” Participants are also given information concerning the number of households in the U.S., the average size of each household, and the number of households in each income quintile.

We elicit perceptions of redistribution by asking participants to estimate the average market income and the average income after taxes are paid and transfers received, for the first and fifth income quintile. “Market income” is defined in the instructions following the definition given by the Congressional Budget Office (2012) for 2009, the most recent year data were available when the experiment began.² Norton and Ariely (2011) elicit the ideal distribution of total wealth, whereas we frame as total market income earned in a given year. While disparities in wealth are more meaningful for inequality, our questions are in terms of annual income which is likely more salient to the subject pool. Transferring a certain percentage of wealth is likely to be a nebulous concept, relative to the concrete transfer of a dollar amount of income. Participants are also asked to select average incomes for these two income quintiles which most closely match their ideal average income after accounting for taxes and transfers.

Participants are asked six multiple choice questions. The first four concern the actual average income for the first and fifth income quintiles, both before and after taxes and transfers. Correct responses each earn the participant an additional \$1. The remaining two questions elicit the participants’ ideal average income for the first and fifth quintile after taxes and transfers, and are not incentivized.

While earnings are tabulated, participants are given a survey to complete as part 3 of the experiment. The survey includes demographic questions on race, gender, church attendance, and

² Participants are told market income includes labor income, business income, and capital gains.

political affiliation. The survey also includes questions eliciting beliefs regarding recipients of welfare programs and questions unrelated to the experiment (risk preferences, for example).

Earnings envelopes with the five-digit code numbers are placed on a table near the front of the room, and participants collect their envelopes as they exit the room. Checks are written to each charity for the total donated and the monitor and experimenter walk the envelopes to the nearest mailbox and post them. Participants are invited to witness the mailing of checks.

Participants were students at Mississippi State University. There were 75 participants total in three sessions. Each session lasted approximately one hour.

3. Results

Donations to our poverty relief charities average \$7.34. Ten (13.3%) of the participants gave nothing while 7 (9.3%) gave the full \$20. Conditional on giving, the mean donation was \$8.47.

Figures 1a – 1c display the histograms of choices for the perceived average market income (MI), the perceived average after taxes and transfers household income (ATI), and perceived ideal distribution of after tax and transfer household income (II) for the first (poorest) quintile. The median responses were MI: \$9,700, ATT: \$15,700, and II: \$19,500. The actual MI is \$7,600 and the actual ATI is \$23,300. Participants were also asked the age of the typical recipient of poverty relief programs. The median response was 30 and no participant reported that the typical recipient is less than 17 years old.

(Figures 1a – 1c about here.)

We next examine our primary research question: Does giving vary by perceived transfers to the first income quintile? We define perceived transfer as the difference between the after and before tax and transfer market income, i.e., $ATI - MI$. Table 1 displays linear regression

results.³ Model 1 is a simple regression of the amount passed on perceived transfer (Transfer). In model 2 we control for political affiliation and basic demographics. Major is an indicator variable equal to 1 if self-reported political affiliation is either Democrat, Republican, or Libertarian parties.⁴ Male is equal to 1 for males; Non-white is equal to 1 if the participant identifies with a race other than white/Caucasian.⁵

(Table 1 about here.)

Donations to our poverty relief charities are inversely related to the perceived transfers made to the poorest quintile. Donations are approximately \$0.20 less for each \$1,000 of perceived transfers. For the mean perceived transfer of \$7,000, this represents approximately \$1.40 less giving. Those participants who expressed an affiliation with the major political parties and nonwhites were both less generous, each giving approximately \$3 less on average. Finally, we find no gender difference in giving.

4. Conclusion

We find an inverse relationship between perceived government transfers to the first income quintile and donations to poverty-relief charities in a real-donation experiment. The perception

³ Tobit models, reported in the appendix, yield qualitatively similar results, with the following notes. Significance levels are the similar if we allow for censoring at the upper bound for students who would have given more than \$20 if that action were feasible. Censoring at the lower bound is appropriate if some participants would have taken money from charity if that action were allowed. The extant evidence from real-donation experiments suggests that participants do not take from charity, see Luccasen and Grossman (2014) and Korenok, Millner, and Razzolini (2014), so censoring only at the upper bound appears most appropriate.

⁴ Preliminary regressions included separate variables for Democrats and Republican/Libertarian. We could not reject the hypothesis that the coefficients were equal. Results are available upon request.

⁵ We controlled for a number of other explanatory variables including: the difference between II and MI, the federal government's share of responsibility for providing for social welfare; government's (federal, state, and local) share of responsibility for providing for social welfare; if the participant self-reported as religious, the percentage of welfare recipients perceived to be nonwhite; and if the participant believed that people are on welfare because they refuse to work. The sign, magnitude, and significance of Transfer are robust to the inclusion of these variables and these variables are consistently insignificant. Results are available upon request.

of federal transfers has greater explanatory power for giving than political affiliation. We find that participants affiliated with the major political parties are less generous than independents.

Contrary to Brooks (2006), we do not observe significant differences in giving by religious participation.⁶ Neither do we observe gender differences in giving. However, significant differences in giving do exist among individuals. Twenty percent of participants gave \$0 - \$2 of their \$20 endowment, while 17% gave \$15 - \$20. While some of the difference in giving may be due to differences in the perceived extent of current welfare programs, given that poverty-relief programs are a public good and are likely underprovided, greater understanding of the motivations for giving is warranted.

⁶ Our results are similar to Wilhelm (2010), who reports no differences in giving across Christian denominations.

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Figure 1a: Perceived Average Market Income for the First (Poorest) Quintile.

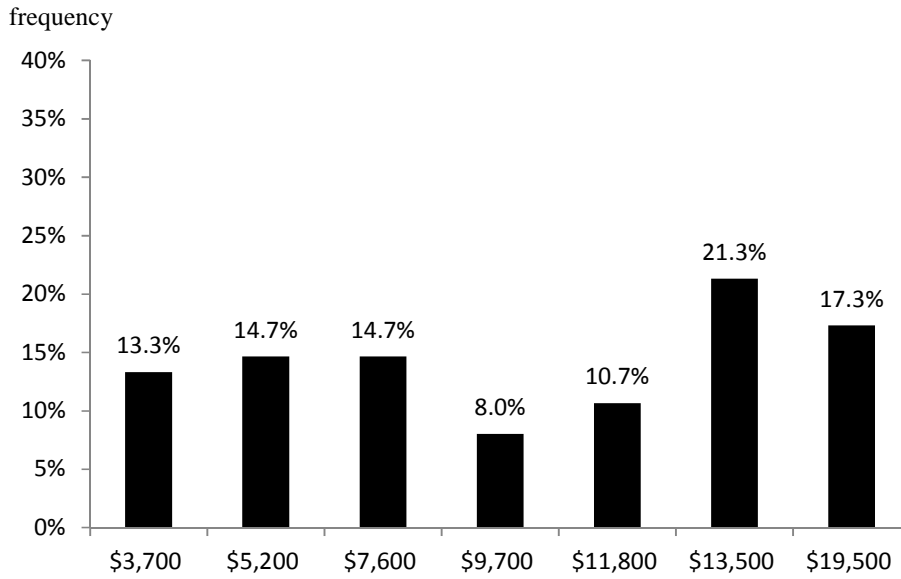


Figure 1b: Perceived Average Household Income After Taxes and Transfers for the First (Poorest) Quintile.

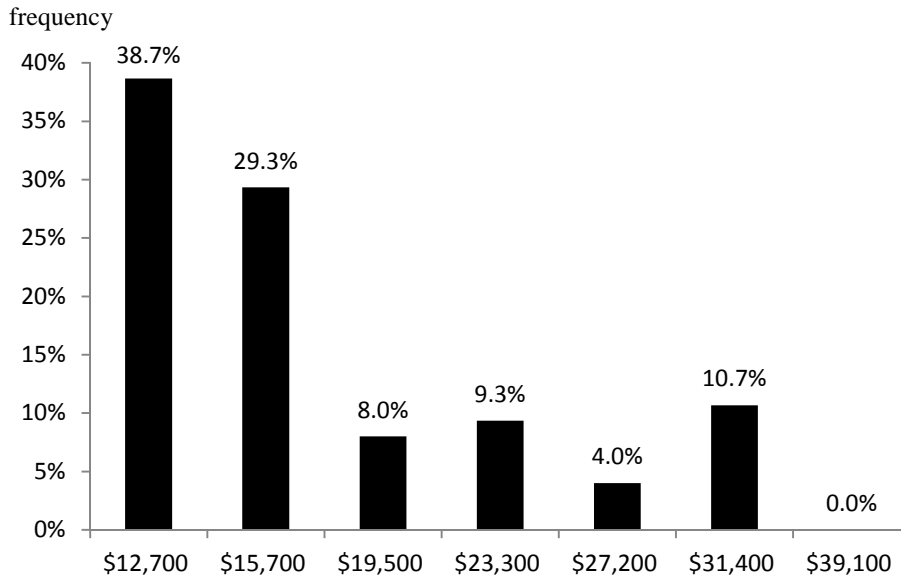


Figure 1c: Ideal distribution of After Tax and Transfer Household Income for First (Poorest) Quintile.

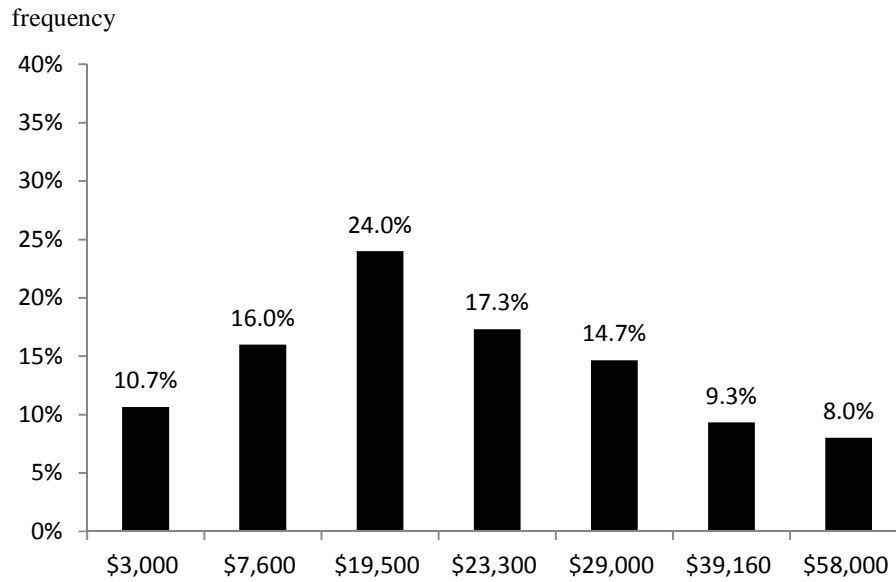


Table 1. Regression results

| Model: | 1 | 2 |
|-----------|-------------------|-------------------|
| Constant | 8.68 (1.05) | 12.77 (2.02) |
| Transfer | -0.19** (0.08) | -0.21** (0.09) |
| Major | | -3.20* (1.75) |
| Male | | -0.47 (1.30) |
| Non-white | | -3.06** (1.41) |
| <i>n</i> | 75 | 75 |

Notes: Standard errors, in parentheses, are heteroskedastic robust.

** significant 5% level; * 10% level

Appendices, not for publication but may be available online.

Appendix A: Instructions and materials.

Code Number _____

INSTRUCTIONS

Part 1

For this experiment each of you will be paired with a charity of your own choosing selected from the list of ten different charities on the **CHARITY SELECTION SHEET**.

You will indicate your charity of choice by placing an **X** in the box next to that charity on the **CHARITY SELECTION SHEET**.

YOU MUST SELECT ONE AND ONLY ONE CHARITY.

You have \$20.00 from the experimenter to be divided between yourself and your designated charity. You must decide how much of the **\$20.00** to keep for yourself and how much to pass to your selected charity. You may elect to keep it all for yourself and pass nothing to the charity, keep nothing for yourself and pass it all to the charity, or keep some for yourself and pass the remainder to the charity.

Indicate in the spaces at the bottom of the **CHARITY SELECTION SHEET** how much of the **\$20.00** received from the experimenter you elect to keep for yourself and how much you elect to pass to the charity. *NOTE: the amount you elect to keep for yourself, plus the amount you elect to pass to the charity must sum to \$20.00.*

Once you have made your decision please place your **CHARITY SELECTION SHEET** in the box at the front of the room and then retake your seat.

Once everyone has made their decisions, the experimenters will calculate earnings and contributions to the charities. Your earnings will be placed in an envelope marked with your five-digit code number. The experimenters will calculate the total donations to each charity. The experimenters will make out checks for these amounts. The monitor will place the checks in addressed and stamped envelopes. The monitor and an experimenter will go together to the nearest mailbox and drop the envelopes in the mailbox.

While the experimenters are making up your envelopes, you will receive two **SURVEY** forms. Please verify that the code number on your survey matches your code number, and complete the survey questions. When you have completed the first **SURVEY**, deposit it in the box at the front of the room. Once everyone has completed the first survey, we will distribute a second. Again, please verify that the code number on the survey matches your code number. When you have completed the second **SURVEY**, again deposit it in the box at the front of the room. You are then free to go.

You may pick up your envelope as you exit the room.

After signing a form verifying that the experiment was conducted according to the instructions, the monitor is free to leave. The experiment is then over.

Before making your allocation decision, please complete the following short quiz.

Of her \$20, Sarah passes \$4 to her designated charity.

1. How much will Sarah's designated charity receive in total? \$_____

2. How much will Sarah earn? \$_____

Part 1

Code Number _____

CHARITY SELECTION SHEET

For this study, each of you will be paired with a charity of your choice. Following is a list of ten possible charities. Please select the **ONE** charity you wish to be paired with by placing an X in the box next to your choice.

| | |
|--|--|
| | <p>Bridges Out of Poverty Starkville Bridges is a community organization committed to eradicating poverty in Oktibbeha County. Bridges provides a framework for everyone to understand its causes and work together for solutions.</p> |
| | <p>Center for Community Change CCC supports groups working on a variety of economic and social justice issues, including affordable housing, jobs, economic security, and health care. Each year, CCC works intensively with hundreds of community groups of every race and ethnicity in rural and urban areas across the U.S.</p> |
| | <p>Child Welfare League of America CWLA works to ensure safety, permanence, and well-being of children, youth, and their families by advancing public policy, defining and promoting practice excellence, and delivering superior membership services.</p> |
| | <p>Feeding America Feeding America’s mission is to feed America’s hungry through a nationwide network of member food banks and engage our country in the fight to end hunger. Feeding America distributes food and grocery products through a nationwide certified member network and advocates for public policies that benefit America’s hungry.</p> |
| | <p>Feed The Children One of America’s most effective charities providing food, clothing, medical care, education, and emergency relief to children in the United States since 1979. Feed The Children supplies backpacks filled with ready-to-eat meals, toothbrushes, school supplies and age appropriate books to homeless students enrolled in public schools.</p> |
| | <p>Goodwill Industries of Mississippi Goodwill works to enhance the dignity and quality of life of individuals and families by strengthening communities, eliminating barriers to opportunity, and helping people in need reach their full potential through learning and the power of work.</p> |
| | <p>Madison Countians Allied Against Poverty MadCAAP assists families living in poverty in Madison County MS, and focuses on education, housing and emergency assistance. MadCAAP serves over 3,000 families and operates a Clothing Closet, Food Pantry, Housing Repair, Helping Hands Garden and New Attitudes Classes.</p> |
| | <p>New Way of Life Homeless Shelter Provides short term relief for the homeless and low income persons. Usually there is a maximum stay of 3 months or less. Meals and other supportive services are often offered.</p> |
| | <p>Operation Hope Operation HOPE is "the private banker to the working poor, the underclass, and the struggling middle class." The mission of Operation Hope is making free enterprise and capitalism work for all. Financial literacy is the tool, financial dignity is the goal.</p> |
| | <p>United Way of North Central Mississippi One of the goals of the United Way is to help people achieve financial stability, and get working families — half the number of lower-income families who are financially unstable — on the road to economic independence.</p> |

Of your **\$20.00**, how much do you wish to keep for yourself, and how much do you wish to pass to your charity of choice?

If you do not want to pass any amount:

Keep for Self: \$ _____

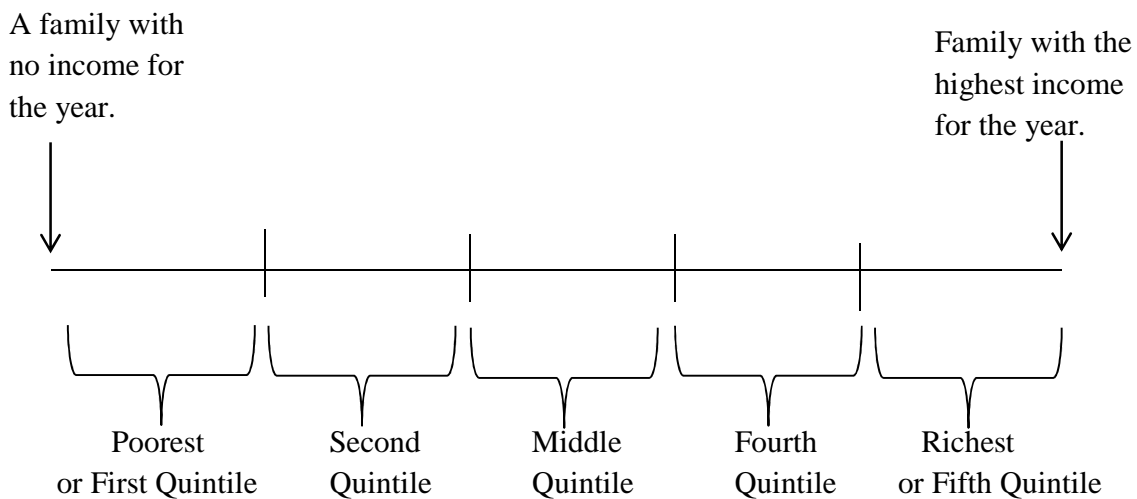
Pass to Charity: \$ _____

Total: \$ **20.00** _____

Place X here

In 2010, over 308 million people lived in the U.S. A “household” includes all of the people who occupy a housing unit, regardless of their relationship. In 2010, there were over 105 million households in the U.S., so that the average household has 2.58 people.

Imagine lining up each household in America in order from poorest to richest. We can then break up the line into 5 parts with an equal number of households in each group. These five groups are called “quintiles”.



Each quintile has 21 million households, or about 62 million people. A common measure of income inequality is the ratio of income of the fifth and first quintiles, so we will focus on just these two groups.

Government policies affect the distribution of income because households pay taxes and receive various forms of support or transfers from the government. Anyone who earns a “market income” pays taxes, where market income includes labor income, business income, and capital gains. Transfers households receive from the government include cash payments, such as from unemployment insurance, and the value of goods and services received, such as the value of health insurance received through Medicaid or the Children’s Health Insurance Program. Individuals in all income quintiles receive government transfers because some programs, such as Social Security and Medicare benefits, are not restricted to only low-income individuals.

What is the average market income for the First (Poorest) Quintile and the Fifth (Richest) Quintile? (Each quintile has 21 million households. Circle one letter for each quintile)

| 1. First (Poorest) Quintile | |
|-----------------------------|---------------|
| Option | Market Income |
| A | \$11,800 |
| B | \$7,600 |
| C | \$19,500 |
| D | \$9,700 |
| E | \$5,200 |
| F | \$13,500 |
| G | \$3,700 |

| 2. Fifth (Richest) Quintile | |
|-----------------------------|---------------|
| Option | Market Income |
| A | \$430,800 |
| B | \$218,800 |
| C | \$1,200,000 |
| D | \$96,500 |
| E | \$350,700 |
| F | \$195,100 |
| G | \$127,700 |

What is the average household income for the First (Poorest) Quintile and the Fifth (Richest) Quintile after taxes are paid and transfers received? (Circle one letter for each quintile)

| 3. First (Poorest) Quintile | |
|-----------------------------|------------------------------|
| Option | After Tax/Transfer Income |
| A | \$23,300 |
| B | \$31,400 |
| C | \$15,700 |
| D | \$27,200 |
| E | \$12,700 |
| F | \$19,500 |
| G | \$39,100 |

| 4. Fifth (Richest) Quintile | |
|-----------------------------|------------------------------|
| Option | After Tax/Transfer Income |
| A | \$385,800 |
| B | \$200,000 |
| C | \$118,200 |
| D | \$974,200 |
| E | \$107,000 |
| F | \$325,600 |
| G | \$171,600 |

After taxes are paid and transfers received, which of the following is closest to your ideal household income for the First (Poorest) Quintile and the Fifth (Richest) Quintile? (Circle one letter for each quintile)

| 5. First (Poorest) Quintile | |
|-----------------------------|------------------------------|
| Option | After Tax/Transfer Income |
| A | \$29,000 |
| B | \$3,000 |
| C | \$7,600 |
| D | \$23,300 |
| E | \$19,500 |
| F | \$58,000 |
| G | \$39,160 |

| 6. Fifth (Richest) Quintile | |
|-----------------------------|------------------------------|
| Option | After Tax/Transfer Income |
| A | \$127,700 |
| B | \$218,000 |
| C | \$195,100 |
| D | \$430,800 |
| E | \$1,200,000 |
| F | \$171,000 |
| G | \$96,500 |

Appendix B: Summary statistics.

Table A1: Subject Characteristics (n = 75)

| Variable | n | Mean donation | t-statistic (p value) two-tailed test |
|--|----|---------------|--|
| Gender | | | |
| Male | 38 | \$7.10 | 0.36 (> 0.10) |
| Female | 37 | \$7.59 | |
| Regularly Attend Religious Services | | | |
| Yes | 43 | \$7.62 | 0.46 (> 0.10) |
| No | 32 | \$6.97 | |
| Race | | | |
| Caucasian | 42 | \$8.42 | 1.77 (0.08) |
| Non-Caucasian | 33 | \$5.97 | |
| Grade Point Average | | | |
| < 2.99 | 35 | \$7.14 | 0.28 (> 0.10) |
| ≥ 3.0 | 40 | \$7.53 | |
| What share of responsibility should the Federal Government have for social welfare programs? | | | |
| ≤ 20% | 39 | \$7.90 | 0.84 (> 0.10) |
| > 20% | 36 | \$6.74 | |
| How would you best describe your political affiliation? | | | |
| Democrat | 23 | \$6.13 | D v R: 0.88 (> 0.10) D v O: 1.15 (> 0.10) R v O: 0.48 (> 0.10) |
| Republican/Libertarian | 32 | \$7.55 | |
| Other | 20 | \$8.40 | |
| What percentage of all welfare recipients are Nonwhite? | | | |
| ≤ 25% | 44 | \$7.36 | 0.01 (> 0.10) |
| > 25% | 31 | \$7.35 | |
| Which of the following do you believe best describes the typical welfare recipient? | | | |
| Able but unwilling | 25 | \$7.07 | 0.26 (> 0.10) |
| Other | 50 | \$7.48 | |

Appendix C. Tobit models.

Table A2: Tobit model estimates.

| Model: | 1 | 2 | 2 | 3 |
|--------------------------|-------------------|-----------------------|-------------------|--------------------|
| Censoring | Upper | Upper and Lower | Upper | Upper and Lower |
| Constant | 9.09 (1.21) | 8.63 (1.37) | 13.33 (2.27) | 13.67 (2.46) |
| Transfer | -0.21** (0.09) | -0.21** (0.10) | -0.23** (0.09) | -0.24** (0.11) |
| Major | | | -3.39* (1.90) | -4.12* (2.13) |
| Male | | | -0.37 (1.39) | -0.18 (1.63) |
| Non-white | | | -3.24** (1.53) | -3.99** (1.85) |
| Log pseudo likelihood | -230.72 | -216.62 | -227.31 | -212.78 |
| <i>n</i> | 75 | | | |

Notes: Standard errors, reported in parentheses, are heteroskedastic robust.

** significant at 5% level; * significant at the 10% level