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Measuring the Motives for Charitable Giving

Jonathan Meer and Harvey S. Rosen

Charitable giving plays an important role in the U.S. economy. In 2016, individuals gave $362 billion to charities, museums, universities, and myriad other institutions.1 A variety of issues pertaining to charitable behavior have been covered in the economics literature. Two of the more important ones have arisen in discussions of the motivations for giving. The first is reciprocity. People donate something in return? The second is affinity: what factors influence whether an individual develops a feeling of a community of interest with a charitable institution?

In a series of papers, we have examined these issues through the lens of alumni solicitation. The determinants of alumni donations are of independent interest because of their importance in university budgets — donations were about $51 billion in 2016 and covered roughly 10 percent of institutions’ expenses.2 Endowments, another source of revenue, are composed in part of previous donations. Unlike endowments, another source of revenue, the ability to signal their virtue to others.

Most of the research described here is based on extensive proprietary information we received from a private, selective research university, which we call Anon U. These data included information on alumni such as age, ethnicity, gender, SAT scores, field of study, post-graduate degrees, and family members who also attended Anon U. We also had data on the amount donated to the university after graduation. In addition, the development staff at Anon U provided us with detailed explanations of their solicitation practices.

Reciprocity

Economists have long recognized that people are not entirely selfish; altruism is an important part of human behavior. That said, some charitable behavior is less likely to be driven in part by self-interest. In particular, donors might expect something in return for their gift, such as prestige, tangible benefits like gifts or access to social events, and the ability to signal their virtue to others. The Anon U data allowed us to make a rough estimate of the extent to which donations were due to a particular kind of reciprocity, namely, the hope that donations will help their children gain acceptance to the university. Although Anon U makes no promise whatsoever that donations will increase the likelihood of acceptance, this view that they could is widespread.

To assess the impact of this belief on donor behavior, we examined the relationship between an alumnus’ or alumna’s giving and the age and application status of his or her children.3 We believe that donations increase the probability of their children getting admitted, then giving will increase as their children near application age, and vary systematically with whether they apply and are accepted. We call this pattern “the child-cycle of alumni giving.”

Figure 1 illustrates the child-cycle pattern generated by our Anon U data. The amount donated to the university is plotted as a function of the alumnus’ or alumna’s eldest child’s age, relative to alumni who have no children. Those with a child donate more even when the child is very young, possibly because alumni with children have more interest in education in general. At age 14, we divide the sample between those whose children eventually apply to Anon U and those who do not. Giving increases sharply for the parents of future applicants, while it remains unchanged for the parents of non-applicants. At age 18, we divide the sample of applicants into those who were accepted and those who were rejected. Giving by parents of rejected applicants drops dramatically — back to the level of childless alumni. All of this is consistent with the notion that an expectation of reciprocity is driving at least some donations. This finding is supported by Kristin Burcher, Caitrin Kearn age 14, we divide the sample between those whose children eventually apply to Anon U and those who do not. Giving increases sharply for the parents of future applicants, while it remains unchanged for the parents of non-applicants. At age 18, we divide the sample of applicants into those who were accepted and those who were rejected. Giving by parents of rejected applicants drops dramatically — back to the level of childless alumni. All of this is consistent with the notion that an expectation of reciprocity is driving at least some donations. This finding is supported by Kristin Burcher, Caitrin Kearns, and Patrick McEwan’s study of data on giving at a women’s college.4 They also find that giving follows the child-cycle pattern and that alumnae with female chil- dren, who hence were feasible candidates for admission, gave more than those whose chil- dren were male, other things being the same. To investigate further the role that donor behavior: what factors influence whether an individual develops a feeling of a community of interest with a charitable institution?

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Jonathan Meer is an associate professor of economics at Texas A&M University. He was an undergraduate at the University of Michigan and received his PhD from Harvard University. He has been a member of Princeton’s Department of Economics since 1979, serving as department chair from 1993 to 1996 and as codirector of the Center for Economic Policy Studies from 1993 to 2011. He was the inaugural master of Whittman College, Princeton’s sixth undergraduate residential college. Rosen has been involved in both the graduate and undergraduate teaching programs at Princeton. In recent years, he has taught courses in public finance, taxation, and introductory and intermediate microeconomics. From 1989 to 1991 he served in the U.S. Department of the Treasury as deputy assistant secretary for tax analysis. During a second stint in Washington, from 2003 to 2005, he served on the President’s Council of Economic Advisers, first as a member and then as chair, providing advice to the White House on tax reform, Social Security, health care, energy, the federal budget, and financial market regulation. Rosen’s main field of research is public finance, a topic on which he has published several dozen articles in scholarly journals and an undergraduate textbook. He was elected a fellow of the Econometric Society in 2006, and in 2007 received the National Tax Association’s Daniel M. Holland Medal, for distinguished lifetime con- tributions to the study and practice of public finance.

Harvey S. Rosen is the John L. Weinberg Professor of Economics and Business Policy at Princeton University. He was an undergraduate at the University of Michigan and received his PhD from Harvard University. He has been a member of Princeton’s Department of Economics since 1979, serving as department chair from 1993 to 1996 and as codirector of the Center for Economic Policy Studies from 1993 to 2011. He was the inaugural master of Whittman College, Princeton’s sixth undergraduate residential college.
time, though, the amount donated does increase with the size of the scholarship, suggesting that reciprocity plays a role.

Common experiences as roommates can create a spurious correlation between volunteered time and giving. However, freshman-year roommates are assigned in a manner that is random with respect to any characteristics that might plausibly affect later-life giving.

Social networks might be driven by common interests that lead to self-selection into that group. Thus, for example, when a person fundraises for a charity and his or her friends donate to that charity, it does not necessarily mean that their giving was driven by a desire to avoid social pressure. Moreover, however, freshman-year roommates are assigned in a manner that is random with respect to any characteristics that might plausibly affect later-life giving.

Interest in giving within a social network might be driven by common interests that lead to self-selection into that group. Thus, for example, when a person fundraises for a charity and his or her friends donate to that charity, it does not necessarily mean that their giving was driven by a desire to avoid social pressure. Moreover, however, freshman-year roommates are assigned in a manner that is random with respect to any characteristics that might plausibly affect later-life giving.

Reciprocal behavior can be driven by common interests that lead to self-selection into that group. Thus, for example, when a person fundraises for a charity and his or her friends donate to that charity, it does not necessarily mean that their giving was driven by a desire to avoid social pressure. Moreover, however, freshman-year roommates are assigned in a manner that is random with respect to any characteristics that might plausibly affect later-life giving.

Creating Affinity for the Long Term

Universities can form stronger bonds with individuals earlier in life, charities, a built-in advantage that allows 

Figure 2


in the solicitation — Texas A&M-branded luggage tags — while others were offered a gift conditional on their behavior, donation, or both. The former group was solicited with no gift offer. Responses were higher for those who were sent a gift on the front end than for those who were not, but not nearly enough to make up the cost. The promise of a gift had no impact on the size of donations. Few took the opportunity to decline the conditional offer when making donors do place value on these gifts. Our discussion so far has mentioned at least the importance of affinity for a charity as a motivator for giving. We next turn to how universities form that affinity.

The large role played by athletics at schools particularly visible football and basketball is certainly the pattern that emerges. Having a grandparent who attended Anon U certainly seems to believe that it is. They believe that former athletes at such institutions might be larger and more robust. Nevertheless, there is no reason to believe that former athletes at such institutions fail to develop an affinity for their own teams — our results on the importance of own-team championships could very well generalize. To the extent that this is true and universities care about turning their undergraduates into future donors, it would behoove them to nurture broad varsity athletic programs.

Downplaying our work on the child-cycles of giving, we also examined whether families form bonds with universities that lead to greater overall donations, a frequent justification for legacy preferences in admissions.

At schools with more visible football and basketball programs, the effects of success for those teams might be larger and more robust. Nevertheless, there is no reason to believe that former athletes at such institutions fail to develop an affinity for their own teams — our results on the importance of own-team championships could very well generalize. To the extent that this is true and universities care about turning their undergraduates into future donors, it would behoove them to nurture broad varsity athletic programs.

Controlling for the volatility of parent's giving helps reduce spurious correlation driven by family factors that could induce an individual to exhibit altruistic behavior earlier in life that persists into giving and volunteering in the United States, per- mits further exploration of the relationship between giving and volunteering at age 18 or younger and giving and volunteering as an adult.95 Controlling for the volatility of parent’s giving helps reduce spurious correlation driven by family factors that could induce an individual to exhibit altruistic behavior earlier in life that persists into giving and volunteering in the United States, permits further exploration of the relationship between giving and volunteering at age 18 or younger and giving and volunteering as an adult.95


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Bruce D. Meyer

Concerns about rising inequality inform important debates on some of our most significant issues, including income tax design, immigration, and globalization. The debate over inequality relies almost exclusively on income data that indicate that inequality has increased sharply in recent decades. Yet economists generally prefer using consumption rather than income to measure well-being.

For this reason, and because consumption is better reported than income for some segments of the population, I have reexamined inequality patterns using consumption data. In several papers, mostly with James Sullivan, I find that income data paint an incomplete and at times distorted view of how inequality in economic well-being has changed in the United States. Because public and private transfers, and in some cases the drawdown of prior savings, raise consumption relative to income for the lowest income groups, consumption patterns indicate a much more modest increase in inequality than the income data suggest.

Why Consumption?

Although income is the most commonly used measure of economic well-being of U.S. households, there are a number of reasons why measuring how much people spend on food, shelter, transportation, and other goods and services provides a more accurate picture of their circumstances. Income typically fluctuates more than economic well-being, because people can save when income is temporarily high and borrow when it is temporarily low. Income also fails to reflect the flow of services received if one already owns a house or a car, and has no expenditures but significant consumption. A retired couple in their own home living off the savings accumulated over a lifetime may be living quite comfortably even if they have no income.

Consumption measures will reflect the loss of housing services flows if homeownership falls, the loss in wealth if asset values fall, and the belt-tightening that a growing debt burden might require—all of which an income measure would miss. Furthermore, consumption is more likely than income to be affected by access to public insurance programs, and to capture the effects of changes in access to credit or the government safety net.

Consumption is better than income at reflecting deprivation. In a series of papers, Sullivan and I show that measures of material hardship or adverse family outcomes are more severe for those with low consumption than for those with low income.

Several researchers have documented the patterns in consumption inequality. The evidence from this literature is mixed. Some studies show little change in consumption inequality over the past few decades and others show a proportional rise equal to or exceeding that of income. These differences arise from the use of different data sources or definitions of consumption—for example, total consumption or nondurable consumption—and different methods of addressing measurement error.

Addressing Concerns About Data Quality

While consumption has a number of conceptual advantages relative to income as a measure of well-being, it is temporarily high and borrow when it is temporarily low. Income also fails to reflect the flow of services received if one already owns a house or a car, and has no expenditures but significant consumption. A retired couple in their own home living off the savings accumulated over a lifetime may be living quite comfortably even if they have no income.

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