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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 $282 billion to churches, 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 — do people donate because they expect something in return? The second is altruism: 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 donations to universities. The determinants of alumni donations are of independent interest because of their importance in university budgets — donations were about $41 billion in 2016 and covered roughly 10 percent of institutions’ expenses.2 Endowments, another source of revenue, are composed in part of previous donations, so it is not too surprising that universities in recent years and changes in tax incentives for donations embodied in the recent Tax Cuts and Jobs Act have brought questions about voluntary support of higher education to the fore. Further, universities have a unique structure and relationship with their alumni, a relationship that begins when individuals are students and which may extend decades beyond that time. Important, the relationships among alumni, solicitors, and the university itself are generally more clearly defined than for most charities. This makes higher education particularly useful for studying how an institution attempts to engender feelings of affinity among potential donors.

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. In 2010, the university itself 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 doubtless 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 charitable behavior, we examined the relationship between alumni’ or alumni’s giving and the age and application status of his or her children.3 If alumni 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 alumn­ a’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 Buchtcher, Caitlin Kearns, and Patrick McEwan’s study of data on giving at a women’s college. 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, we found that when we accounted for 3

Figure 1

Alumni Donations and Children’s Application Status


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Meer’s research interests include charitable giving, the economics of education, and the economics of low-skill labor markets. He lives in College Station with his wife and two children.

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 1974, 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 Whitman 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 contributions to the study and practice of public finance.
time, though, the amount donated does increase with the size of the scholarship, suggesting that reciprocity plays a role. Anon U, however, freshman-year roommates are assigned in a manner that is random with respect to any characteristics that could plausibly affect later-life giving.

Common experiences as roommates could create a spurious correlation between volunteering as a solicitor for the university by one roommate and giving by another. In that case, though, there would be a correlation between volunteering in any capacity for the university, including activities with no solicitation component, and giving by roommates. The processes that Anon U employs for organizing its volunteering and solicitation activities turn out to provide a useful framework for addressing this concern. Solicits that are generally well-received, through letters and emails, until June, when memories are fresh. But universities want alumni to continue to donate even if they no longer have a strong allegiance, and in greater amounts, later in life. In the Anon U data, there is a strong correlation between the frequency with which alumni gave in a year, and in greater amounts, later in life. This leads us to consider the importance of affinity for the university as a basis for giving. We next turn to how universities form that affinity.

Creating Affinity for the Long Term

Universities can form stronger bonds with individuals earlier in life, a built-in advantage that allows them to have a greater impact. In several papers we have investigated the factors that engender affinities between a university and its alumni. At Anon U, participation in the majority social culture as an undergrad, such as playing a varsity sport or belonging to social organizations such as student clubs and fraternities, are strongly correlated with future giving.

The large role played by athletics at universities, often justified on the grounds that it is a part of the extra-curricular engagement, led us to investigate this question in greater depth.13 While previous work has focused on whether big-time sports like football and basketball impact giving,12 we looked at the success of the team to which the alumni or alumna actually belonged. For men, having won a conference championship as an under-graduate tended to increase future giving, primarily to the athletic fund, as opposed to the general fund, while there was little effect for women. After graduation, when an alma mater is no longer in the picture, the effects of giving in the world of scholarship, on average be increased giving to both the general and athletic funds, while for alumnae, there was no impact. Since scholarship and athletic championships did little to increase giving, though we note that Anon U does not generally have a high profile in those sports. 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 be wise not to underestimate the potential to make up the cost. Responses handful of personal friend fundraises for a cause. A solicitor's or alumna's own general tendency to donate. The two considerations discussed above—having a former freshman-year roommate who is a solicitor, and athletic performance of an alumni's former varsity sports team—fit the bill. Examining the giving patterns induced by these external inducements to donate allows us to isolate the impact of donating behavior when young on giving when older.14 Estimates suggest that tailoring inducements to offer accounts for the majority of the donated amount when giving when older. However, after correcting for spurious correlation, we find that the frequency of donating when young is the most important determinant of the size of gifts made in later years. Anon U data, there is a strong correlation between the affinities developed early in life and habit formation, giving tends to drop off as alumni enter old age. Indeed, virtually all statistical analyses of charita-ble behavior suggest a negative relationship between old age and giving.15 We examine late-life giving to Anon U to investi-gate the mechanisms behind this empiri-cal regularity. To do so, we supplement our data with information extracted from obituaries published in the alumni magazine.16 We note that when an alumni or alumna passed away and, in many cases, the cause of death, we can separately determine the impact of age and of the approach of death. We replicate the negative relation-ship between age and donations found in the literature, but show that it is driven primarily by approaching mortality. We argue that our results are unlikely to reflect reduced resources at the end of life, but rather the diminished capacity or distractions of a final illness. Given the aging of the Baby Boom generation, inter vivos end-of-life donations and bequests will likely play a substantial role in the financing of charities over the next two decades.
Consumption and Income Inequality since the 1960s

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 a 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 of the University of Notre Dame, 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 saving, 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 the 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,