

Giving in to Social Pressure

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Abstract

Is fund-raising a welfare-improving device for the society? We examine this matter through a setup where donors feel social pressure from a direct ask if their contributions fall short of a social norm. They may, however, incur a cost to avoid the solicitor. Taking as a benchmark the voluntary contribution case, we show that fund-raising improves social welfare to the extent that it alleviates underprovision. However, if the social norm and avoidance costs are too high, donor welfare drops. We observe that contributions bunch around the norm and show that the fund-raiser optimally solicits individuals with intermediate income levels. In situations where the norm is not well established and the donor base is not highly heterogeneous, donations converge to a single amount. Multiplicity of equilibria arises due to gifts' complementarities.

Keywords: fund-raising, social pressure, charitable giving.

JEL Classification: H00, H30, H50

SUMMARY

Human beings are social animals. Some laboratory experiments support the view that people show social concerns at the very act of giving to charity. We present a theory of fund-raising and provision of the public good where individuals make contributions out of altruistic as well as social motives. In our setup, donors feel pressure during a *direct* ask by the solicitor when their contributions fall short of a socially acceptable level or norm. However, individuals may incur a cost to avoid a personal interaction with the solicitor and give through other impersonal means. Within this setting we contribute to a debate currently at the center of the research agenda in this literature (DellaVigna et al., 2014, Andreoni et al., 2011): Whether or not fund-raising is a welfare-improving device for the society. We examine this issue in the simplest and cleanest possible way, through the

identical individual case. We show that fund-raising improves social welfare to the extent that it alleviates underprovision. However, if the social norm is too high, it may actually decrease donors' welfare, even if the public good provision rises with respect to the standard model (pure altruism). In such cases we suggest that donors' cost of opting out should be lowered, for example through a do-not solicit registry policy. (Charities in the U.S. are exempt from those type of regulations that indeed apply to firms in the for-profit sector)

Relaxing the identical individuals assumption, we show that contributions concentrate around the social norm-from both, above and below- despite a lack of donors' guilt from upward deviations. Not surprisingly, more public good is provided relative to a purely voluntary contribution benchmark. The most generous contributors-those giving above the norm, or slightly below it- free-ride on those reluctantly giving not too little or nothing at all. As a consequence, the former group of individuals are better off with respect to the benchmark. Those donors providing low gifts are the ones bearing a high social pressure. Indeed, when the cost of avoiding the fund-raiser is arbitrarily small, they keep from meeting the solicitor. In contrast, the most generous individuals seek him. Thus, social pressure affects the behavior of no individual.

We examine the situation in which the cost of avoiding the solicitor is moderate and direct solicitations are slightly costly. In this setup, the characterization of optimal fund-raising is not trivial. Asking too little allows the fund-raiser to save on costs but it also leaves some contributions that are driven by social pressured unrealized. Soliciting too much, on the other hand, leads to the donors sorting out of facing the solicitor. We show that the solicitor requests donations from individuals with intermediate income levels. The more costly it is to avoid the fund-raiser, the more fund-raising is conducted. As a result, the level of the charitable good rises.

In some situations the norm is ambiguous and hence conjectured by donors. We assume that individuals feel pressure from not meeting the average donation. Under such expectations, the less heterogeneous the income distribution is, the more likely it is to obtain multiplicity of equilibria. Indeed, in massive fund-drives, where only the richest individuals contribute, it suffices a small gift suggestion on part of the fund-raiser to lead the economy to the best equilibrium in terms of public good provision.