Private provision of public goods and information diffusion in social groups

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Here are some facts about givers who filled out the 2007-2008 Citizenship Survey

- 16% give in place of worship
- 13% give in the workplace
- 18% sponsor friends and family
- 11% give to door to door collectors
- 10% give to beggars
- 7% give to pub collections

What do all of these facts have in common?

They all involve interactions other than giving!
How can we think of interactions?

Question: How does N affect G?
What do economists say?

- Economists get answers by using simplified conceptual frameworks that abstract from “non-essential” factors.
- Usual focus is on $G$.
- Main question of interest: How is individual giving behaviour shaped by incentives that are directly related to giving?
- Direct incentives are things like preferences, the price of giving, tax incentives.
- This is all really great but what about $N$?
What have economists had to say about $N$ in the past?

- In the past, non-giving interactions ($N$) have not been taken into account in analyses because economists thought of them as non-essential elements of the model (Becker, 1974, JPE).
- Stylized facts, evidence, and actions of practitioners suggest this is not the case – non-giving interactions (work, market, and social) are important.
- Recent research takes seriously the incentive effects of $N$ on $G$. 
Some ways that non-giving interactions affect \( G \)

- **Social information/social norms**: givers are influenced by how much others give and by how many are giving; incentive effect depends on the giver’s ‘type’ (Frey and Meier, 2004, AER)

- **Social pressure**: people give when they feel social pressure (giving goes up) but the pressure makes people unhappy and creates incentives for them to avoid solicitations (giving goes down) (DellaVigna, List and Malmendier, 2012, QJE)

- **Signalling**: people are greedy and make contributions out of concerns for reputation or status (Benabou and Tirole, 2006, AER)
Does the structure of non-giving interactions matter?

- This is a related but different question that goes beyond asking how $N$ affects $G$
- It asks:
  - How is $G$ influenced by the structure of $N$ in groups?
How can we think of the structure of non-giving interactions in groups?
Why might the structure of interactions matter?

- It could be that structure is *correlated* to the kinds of goods and services on offer and their reach and how people value them.
- This has been looked at in literature that studies the relationship between socioeconomic segregation and donations (e.g. Horstmann & Scharf, 2008, EJ).
Social structure might matter for giving even if interactions are uncorrelated with the nature/reach of what the charity does.

For example, Scharf (2012) asks:

How does the social structure affect individual incentives to share information?

Answer will have implications for understanding individual incentives to fundraise in group settings.
Basic model of behaviour

- Suppose I care about the charitable service/good provided and I have a social neighbour who also cares (e.g. FB friend)
- If I have information about the best way to give, I have an incentive to share that information with my neighbour
- But if sharing is costly and my neighbour has another neighbour who can share (e.g. FB friend of a friend), then I will be less likely to make the effort
- That is, I will free-ride on information sharing, and so will everyone else
How are these incentives affected by the size of social neighbourhoods?

- Look at case where everyone is affected by provision in the same way independently of neighbourhood size (pure public good)
- Allows me to isolate the effect of social neighbourhood size on information sharing incentives
- I can show (using a lot of math) that incentives to free ride on information sharing are greater when social neighbourhoods are larger
- Moreover, this incentive effect dominates the potential advantage of having more people who could potentially share information with each other
Larger social neighbourhoods result in lower information sharing and lower levels of provision
Does this mean that a more connected world will result in less giving?

- No
- Can argue that more connectivity means people can engage with others in a large number of smaller communities all based on shared interests
- So we get smaller social neighbourhoods rather than larger ones
- This is ultimately an empirical question
- Way forward requires observational identification of information sharing
- Very difficult, maybe use lab/field experiment
Implications

- Understanding the relationship between the structure of social interactions and giving is important, not least for charities who can use that understanding to best leverage on social interactions in their fundraising efforts.
- There is some work being done by mathematicians (Oxford) on giving networks.
- But what economists can specifically contribute is studying how the structure of social networks translates into behaviour: e.g., we cannot take it for granted that more connectivity would lead to more information flow, because it may also lead people to adjust their giving behaviour.