



Centre for Market and
Public Organisation

New directions for policy?

(potential lessons from “behavioural economics”)

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Two related questions

- Question 1
- What insights are there into how to change giving behaviour?

- Question 2
- What does the evidence say?

“Behavioural” Economics (compared to Traditional Economics)

- Non-standard preferences
 - Social preferences
 - Time-inconsistent preferences
- Non-standard decision-making
- (Non-standard beliefs)

(Della Vigna, 2009)

(1) Non-standard preferences

- Social preferences
- People care about what other people do and/or what other people think about them
- What about charitable giving?

Previous studies

- A number of studies have shown that giving people information about previous donations affects their giving, but the effect can be ambiguous
 - Telling people that a higher proportion had previously donated (64% versus 46%) had a positive effect on how many people gave (+2 ppts)
 - Telling people that “a previous donor” had donated a higher amount also increased the amount given (but only up to a limit)
 - Telling people about a low modal donation increased participation but reduced the average donation

Previous studies

- Compared with a suggested amount that comes from peers, a suggested amount from the charity reduced both how many people gave, and the amount they gave

(1) Non-standard preferences

- Time inconsistent preferences (hyperbolic discounting)
- Explains procrastination over activities with current costs and future benefits eg giving up smoking, dieting, saving for retirement
- What about charitable giving?

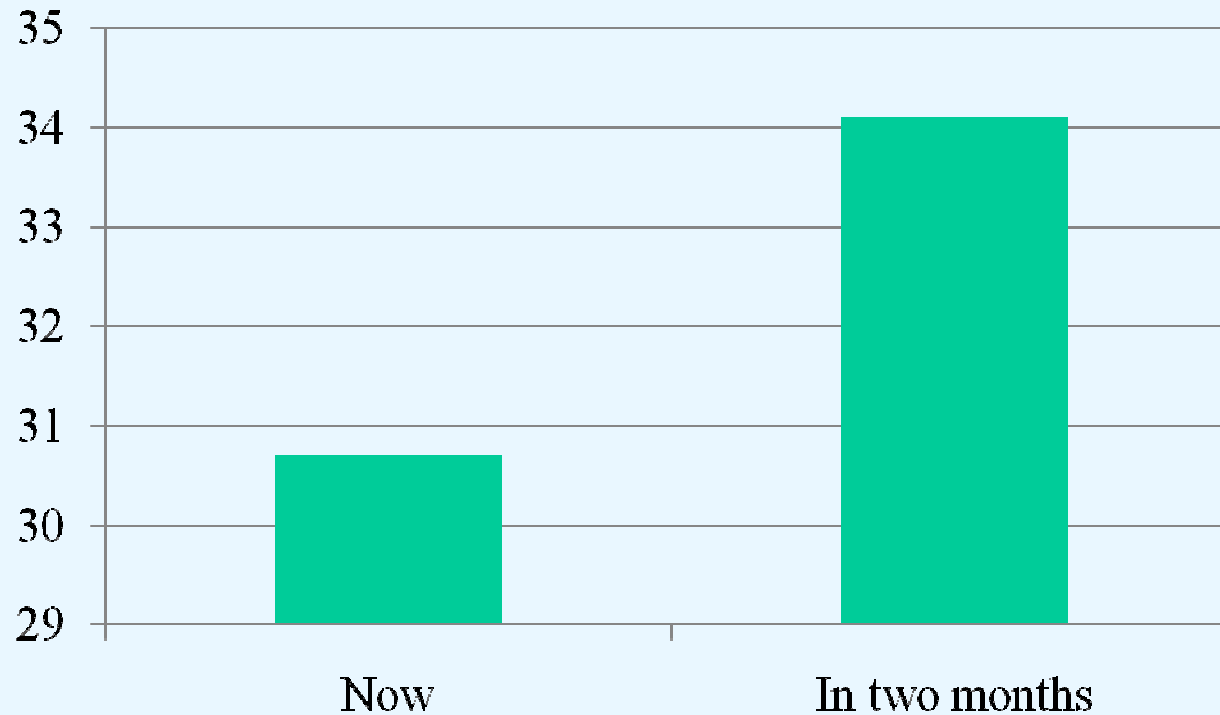
“Give more tomorrow”*

- As part of a routine fundraising campaign, regular givers were contacted via telephone and asked to increase their donation
- Donors were randomly given one of two options
- The increase starts now (Give More Now)
- The increase starts in two months’ time (Give More Tomorrow).
- Sample = 1,134 donors to Save the Children in Sweden

*Anna Breman (2009) *Give More Tomorrow: Two Field Experiments on Altruism and Intertemporal Choices*

“Give more tomorrow”*

Percentage increasing their donation

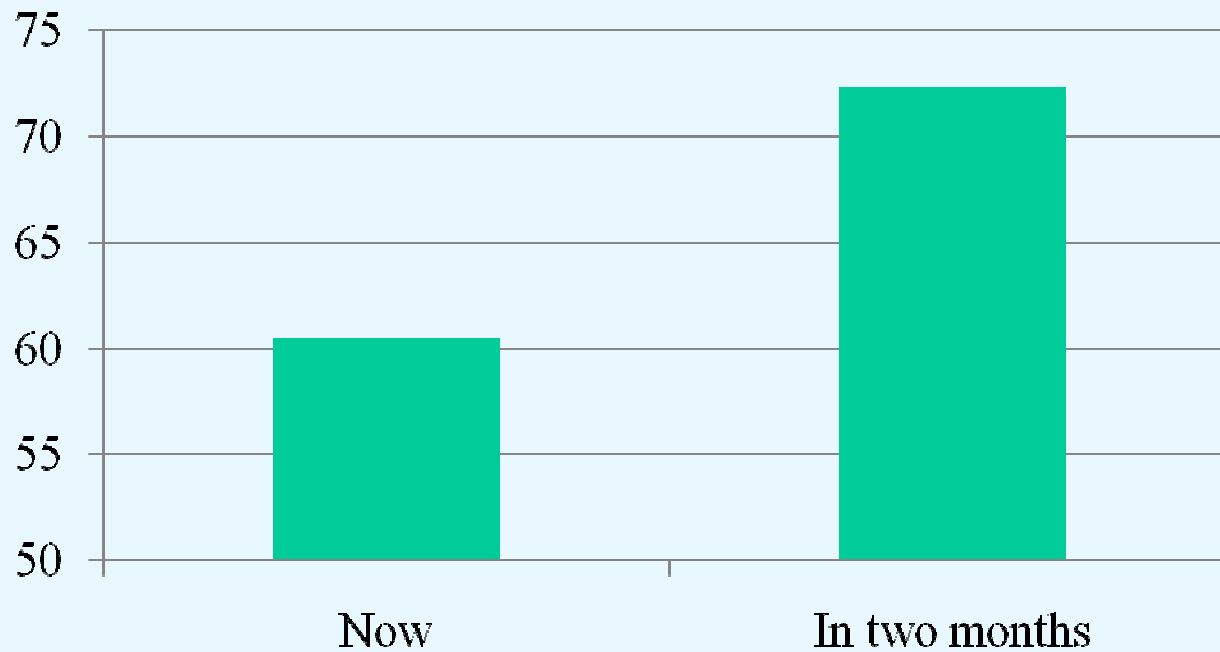


Delaying the start leads to more people increasing their donation

*Anna Breman (2009) *Give More Tomorrow: Two Field Experiments on Altruism and Intertemporal Choices*

“Give more tomorrow”*

**Mean (conditional) increase in donation
(Swedish Kroner)**



Delaying the start leads to larger increases

*Anna Breman (2009) *Give More Tomorrow: Two Field Experiments on Altruism and Intertemporal Choices*

(2) Non-standard decision-making

Traditional economics

- Individuals make decisions on the basis of all available information

Behavioural economics

- Gathering and processing all information may be costly.
- In practice, people may use a subset of information or use heuristics

(2) Non-standard decision-making

- What does this mean in practice?

Importance of social information

- People respond to what other people do because it provides information

Framing/ menu effects

- Decisions can be affected by the way choices are presented

“Rational” inattention

- People may choose to ignore new information when it becomes available to them (eg changes in tax rates)

Individuals may fail to act (although they intend to)

- Auto-enrolment can affect behaviour

Menu effects

Justgiving

1. Your donation

Enter an amount

£ + 3.95 with [Gift Aid](#)

I am a UK taxpayer - Please reclaim Gift Aid on my donation

This is my money


I'm donating on behalf of a group, company or someone else

I'm not getting a ticket, product or service in return for my donation

* By confirming that you are a UK taxpayer you confirm that you pay an amount of income and/or Capital Gains Tax equal to or greater than the amount JustGiving will reclaim on your donations in the tax year. [Read more](#)

I am **not** a UK taxpayer

Virgin Money Giving

 **My donation**

How much would you like to donate?

£100

£50

£20

£10

Other £

Proportion giving exactly £100, £50, £20, £10
(Sample of 60,000+ donors to London Marathon 2010)

JG = 67%

VMG = 75%

“Rational” inattention

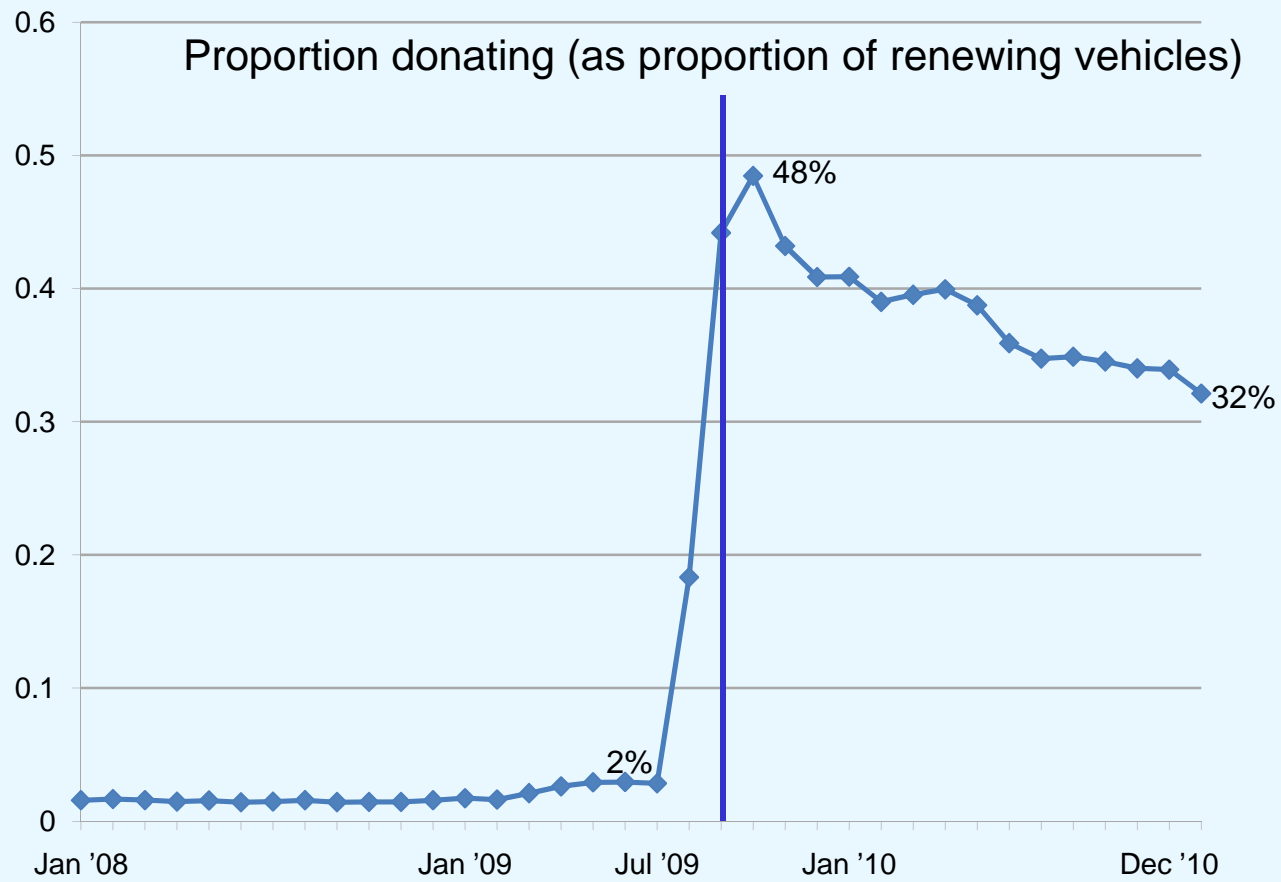
- People may choose to ignore new information when it becomes available to them (eg changes in tax rates)
- Gift Aid reform (Scharf and Smith, 2009, 2010)
- Most donors (75%) would not adjust their cash donation (i.e. their donation out of net-of-tax income) in response to a change in Gift Aid. But, the proportion adjusting varied significantly across different policy options and donation size
- Conclusion: Whether it is worth processing the tax change depends on how much you give, and on the size of the tax change
- Implication: Because donations out of net-of-tax income do not fully adjust, a “match-style” incentive is likely to be more effective than a “rebate-style” incentive at increasing charities’ incomes

Auto-enrolment

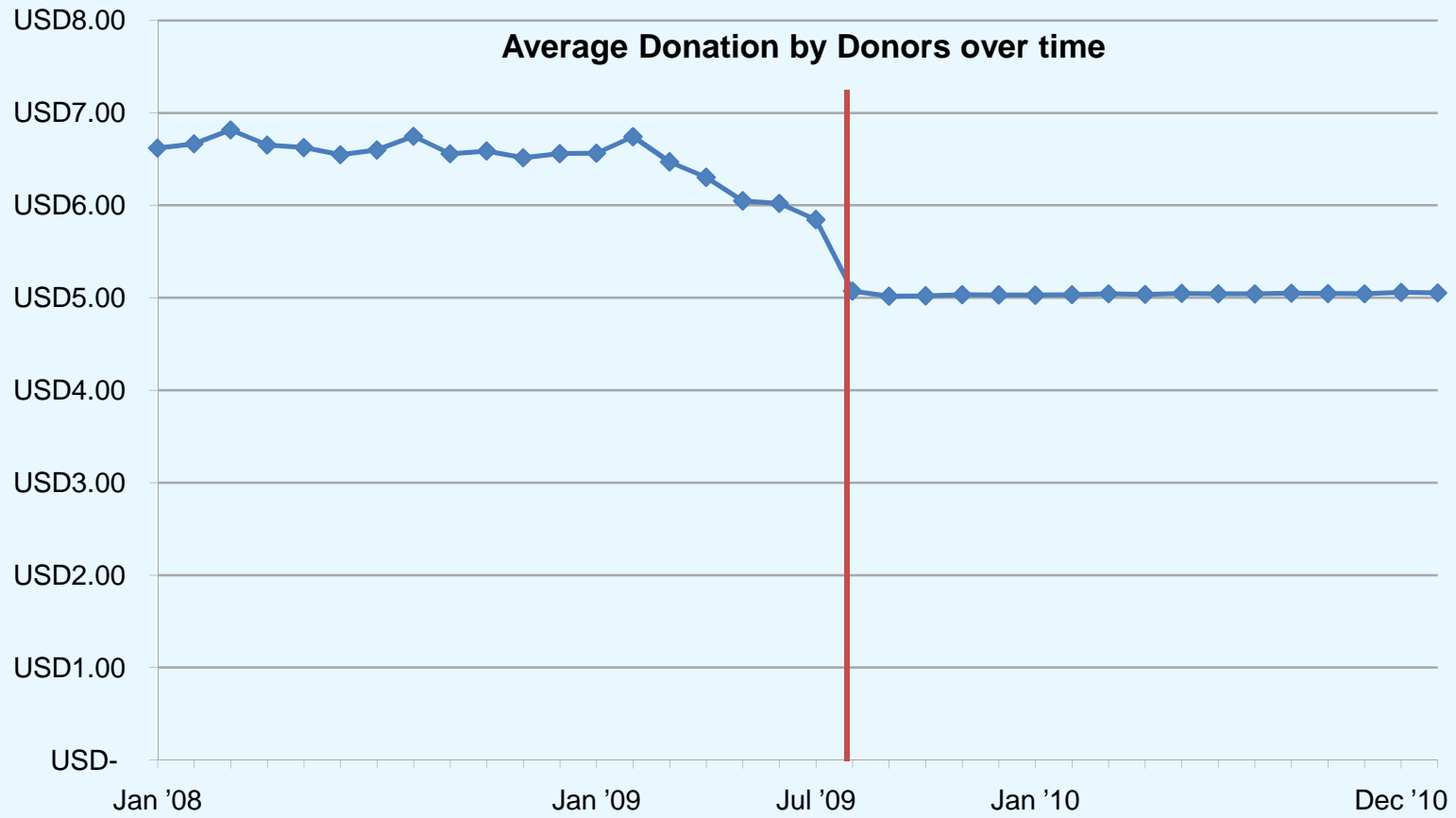
- Making “opted in” the default option (action required to opt out)
- Evidence on pension schemes has been very influential
- Shown to substantially increase take-up of pension schemes in individual firms (in the US) – from 25% to 90%+
- What about charitable giving?
- Currently working with CAF to design a test in relation to payroll giving

Washington state parks

- Introduced a \$5 donation to the State Parks as an 'opt out' option for people renewing their vehicle tax
- Replaced opt-in option (where people chose how much to give)
- Policy change was introduced in September 2009 as a result of funding cuts which threatened 40 of 120 state parks with closure (coming to an end in July 2011)



Auto-enrolment led to a huge increase in the proportion donating, but the effect is diminishing over time



The average donation size falls

Where do we go from here?

Potential levers?

- Social information
- Delayed start
- Menu design
- Auto-enrolment

The evidence?

- More is required on what works and why
- The detail of the design is important
- For policy purposes there is a need to demonstrate that any changes increase overall giving rather than re-shuffling existing giving

References

Overview of evidence on behavioural economics

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