charities could increase their revenues by increasing/decreasing the amount of time they give for potential donors to send in their donations.3

When it comes to charitable giving, there are some cases where delaying is not possible (e.g. a door-to-door collection). However, most donations can be delayed (e.g. requests sent out by mail or email) and hence the potential for inertia is very real. In this article, we discuss possible sources of inertia in charitable giving, describe some economic experiments we conduct to tease these out, and try to determine if inertia does exist.

If inertia does exist, we suspect the driving force behind it relates to transaction costs and the opportunity cost of time. If these were extremely low, or nil, there would be no reason for any delay in making a charitable donation.

When people are too busy, they sometimes put off making donations until they have more time. Having delayed their giving once, they often do so again and again. Such behaviour is an example of inertia – situations in which people have made a decision to do something, but because they do not have to be done immediately they keep putting it off. This can result in people never taking action even though they want to.

Did I catch you at a good time?

When donating money to charity, there are costs you incur over and above the amount you give. These are called transaction costs. The key transaction cost is the amount of time taken to donate. If it takes quite a bit of time to complete the donation, or if the value of your time is high, then these transaction costs will be high. Imagine, for example, that you could transfer money from your bank account to the charity’s by simply clicking your fingers. It would be so convenient to donate that you’d do it immediately after making the decision. These days many people make charitable donations online. This may be quicker than writing out a cheque and posting it, but it still takes time.

Associated with transaction costs are opportunity costs. The opportunity cost of taking the time to donate is the alternative way(s) that you could be spending your time. Suppose, for example, you received a request from a charity when you were not at all busy. The time it takes to donate does not detract from a lot of other activities you could be doing; thus you’re more likely to complete the transaction right away (economists would say “the opportunity cost of your time is low”).

If inertia does exist, we suspect the driving force behind it relates to transaction costs and the opportunity cost of time. If these were extremely low, or nil, there would be no reason for any delay in
charitable giving. It is when the donation procedure is time-consuming, or if a person is occupied with other tasks, that donating to charity likely starts slipping lower down the to-do lists of potential contributors.

ECONOMISTS CAN DO IT IN LABS

In economics, a laboratory experiment involves giving participants some real money and then observing what they do with that money in order to test economic theories or hypotheses. We conducted one of these types of experiments in the New Zealand Experimental Economics Laboratory at the University of Canterbury to test the hypothesis that transaction costs induce inertia.

A number of other researchers have, in the past, used an experiment called the “Dictator Game” to test hypotheses related to charitable giving. In the Dictator Game, participants are given a sum of real money (or do a task, such as answer a survey, to earn the money) and are then asked how much they would like to keep and how much they would like to give away (to another player, or, in studies like ours, to a charity).

We designed some variations on the standard Dictator Game to test the effect of transaction costs, the opportunity cost of time and inertia on charitable donations.

Our sample was made up of students at the University of Canterbury. Participants were paid $20 (a $10 note, a $5 note, two $2 coins and a $1 coin) and then invited to give some of that money to World Vision, a humanitarian organisation dedicated to working with children, families and communities to overcome extreme poverty and injustice (www.worldvision.org.nz). Participants were told that the researchers would double any donations made out of a research fund. In the laboratory where the experiments took place, participants were seated at cubicles with partitions. This meant that neither other participants nor the researchers could see how much money anyone chose to donate.

Our Baseline (B) treatment, which is the standard Dictator Game, mimics the everyday life scenario where there is no transaction cost and therefore no room for inertia. One might think of this as a street collection where it only takes a few seconds to put money in a bucket, and if you want to donate you have to do so right away. In this treatment, those wishing to make a donation put the money into an envelope and deposited it into a red box outside the laboratory. Those not wanting to donate anything put an empty envelope in the box. Average donations in this treatment were $2.48, with one third of participants choosing to donate something. Figure 1 shows the distribution of donations for the Baseline (and the next four treatments).

ENTER TRANSACTIONS COSTS...

We then modified this standard Dictator Game to include a transaction cost. The way we did this was by getting participants who wanted to make a donation to deposit their envelopes into a box that was a short walk away (rather than in a box right outside the lab). The amount of time taken to walk to the box (approximately 5 minutes when we timed it ourselves) is the transaction cost.

AND THE OPPORTUNITY COST OF TIME

We argued above that, in everyday life, people are more likely to suffer from inertia if they are busy when they receive the request. We wanted to be able to control for this in the lab. We did so by advertising that the experiment was going to take longer than it actually did (it was advertised to take an hour, but actually took about 40 minutes). Hence, participants should have had no previous plans for the 20 minutes or so after they left the research session. This means they should have had time on their hands to walk straight to the box and make a donation if they wanted to. Our next two treatments were run under this “low opportunity cost of time” scenario.

In our One Hour (IH) treatment, we gave participants one hour following the advertised completion time of the research session to make a donation. This treatment included the transaction cost, but little scope for inertia as donations had to be made promptly and they should have had the free time to submit their contribution. Average donations in this treatment were $1.43, quite a bit lower than in our Baseline. Much of the reduction in donations was due to fewer people making donations between $1 and $4. This difference in donations between the Baseline and One Hour treatments is statistically significant and suggests that transaction costs do reduce donations even when people are not that busy when the request is received.

Our One Day (1D) treatment was the same as the One Hour treatment, but participants were given an extra day to donate. This introduces the potential for inertia as donating can be delayed. Average donations were actually a little higher in 1D than in IH, but this difference was not statistically significant. Recall that participants had at least 20 minutes of free time immediately following the lab session to donate. This suggests that inertia isn’t a factor if the request is received when people have time on their hands.

For recent EcoNZ@Otago articles featuring studies involving World Vision, see “Giving to Africa Does it depend on why a country is poor?” in issue #27 and “Charitable giving: How recipient-country characteristics influence donors’ behaviour” in issue #31.

The term “treatment” here means a group of subjects all being given an identical task. In our design each participant took part in only one treatment.

Figure 1 - Distribution of donations in study 1

Figure 2 - Distribution of donations in study 2
WHAT ABOUT IF PEOPLE ARE BUSY WHEN THE REQUEST IS RECEIVED?

Recall that our conjecture is that inertia will more likely become a problem if people are busy when they receive a request. The next thing we had to do was introduce a treatment which ruled out people being able to donate when they had time on their hands. We did this in the Next Day (ND) treatment by not allowing donations to be made until the following day. Of course, some participants may have had some time on their hands the following day. The key point here is that we ruled out the option of donating as soon as the request was received when we knew for sure participants had about 20 minutes of free time available. The average donation was $1.20 in this treatment, which was statistically significantly lower than in the other treatments. There are two reasons why donations could have been lower in the ND treatment. The first is inertia: as participants had more time to donate, they put off incurring the transaction cost of donating until it was too late. The second is the fact that their effective transaction cost, which takes into account the time taken to walk to the box and how busy they are when they do so, could have been too high in this treatment for them to donate at all.

STUDY 2

In a second study conducted a few months later, we had some participants who had not taken part in any of the earlier experiments take part in the ND treatment. We also introduced a Next Day all Week (NDW) treatment. This was the same as ND, except participants in this treatment had a whole week (starting the next day) to donate.

Donations had been quite low in the ND treatment in our first study. In order to increase donations across the two treatments, which would make it easier to observe a statistically significant difference across treatments, we did a couple of things differently in this second study. The first was to pay participants $10 for showing up, then give them another $10 as a windfall gain (that is, they didn’t have to do anything to earn it). They were only asked to consider donating part or all of this extra $10 to World Vision. The second change was that we told them what World Vision would use the money for (to immunise children).

The distribution of donations for this second study is shown in Figure 2. It is clear that the changes we made to the experimental design did increase donations. If inertia kicks in when people are busy when they receive the request, we would expect donations to be lower in NDW than in ND. They were: the average donation in ND was $2.24 with 32% of participants donating, and in NDW the average donation was $2.00 with 26.4% of participants donating. However, the differences across the two treatments were not statistically significant. This could be because giving people more time to donate also means it is more likely they will have a time during that week they are not too busy. The main policy implication however, is that we failed to find statistically significant evidence that giving people more time to donate reduces donations.

WHAT THIS ALL MEANS FOR CHARITIES

Although we didn’t find evidence that giving people more time to donate affects donations, our results do have some important implications for charities: it is important to keep transaction costs low, and to ask people for donations when they are not busy. Street collections, where volunteers stand on street corners with donation buckets, are likely to meet these conditions. Another example is when charities partner with mobile phone companies and encourage people who want to make a donation of a certain amount (e.g. $5) to send a text message to a mobile number (with the money being automatically added to the donor’s phone bill and passed on to the charity). With these sorts of practices, charities can avoid losing potential contributions and pass greater benefits on to those in need.

QUESTIONS TO CONSIDER

1. Have you ever suffered from inertia, either with respect to giving money to charity, or some other activity?
2. If you are subject to inertia, what could you do to prevent this in the future?
3. Imagine you were one of the people who took part in our experiments. Do you think you would have been more likely to donate if you had been in the baseline treatment than one of the other treatments? For example, would having to take a five minute walk to make a donation have made it less likely you would donate?

FURTHER READING

There is quite a large literature using either laboratory experiments (i.e. using a methodology similar to that used in our research) or field experiments (where those invited to donate typically do not realise they are taking part in a research project) to analyse motivations for charitable giving. Some examples include List and Lucking-Reiley (2002), Breman (2011), DellaVigna, List and Malmendier (2012) and Fielding and Knowles (2013).

REFERENCES

A Breman (2011), Give more tomorrow: Two field experiments on altruism and intertemporal choice, Journal of Public Economics, 95(11), 1349-1357.

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