

No begging, no money?

Experimental Analysis of Procedural Preferences for Redistribution *

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This version: September 2019

Abstract

The experimental literature on pro-social behavior has been largely focused on settings where the decision of donors is sufficient for an interaction to occur. However, in many real-life applications recipients first have to ask donors for help to initiate the transaction. We suggest that recipients and donors might have different preferences over these redistribution procedures and test this proposition in a laboratory experiment. We let participants play a dictator game under two procedures: (1) a dictator first chooses a transfer, and the recipient then decides to accept or reject it; (2) recipient first decides to ask or not for a transfer, and if asked the dictator then chooses a transfer which can be accepted or rejected by the recipient. First, we find that a minority of recipients shy away from “begging”, but happily accept the transfer initiated by dictators. Second, while the majority of recipients prefer asking dictators to share, dictators share much less under this experimental procedure.

Keywords: Social preferences; Redistribution; Procedural Preferences; Fairness.

JEL Codes: C91, D01, D64.

1 Introduction

IRS estimates that in 2015 the amount of the unclaimed tax refunds by American households has reached one billion USD. This means that more than one million families have left their money on the table. Alone the participation in the Earned Income Tax Credit program, EITC, would bring a household additional 5,700 USD per year¹.

The first explanation of such incomplete take-up is suggested by the revealed preferences approach: for whatever reason, people simply do not want the redistribution of income. Second promising explanation is lack of awareness: should someone learn that he or she is eligible for social benefits, he or she

*The project was supported by a grant from the German Association of Experimental Economic Research

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¹ See, for example the CNN report here <http://money.cnn.com/2015/03/11/pf/taxes/unclaimed-refunds-irs/>

would immediately apply for the transfer. Indeed as Bhargava & Manoli (2015) show, only about half of the eligible households were aware of the opportunity to receive EITC benefits.

We suggest that individuals eligible for financial help do not only care about the outcomes of the redistribution or simply miss the relevant information but also differentiate between the procedures behind the welfare transfers. In particular, some people might experience disutility from being forced to actively apply for the transfer. Should they have been offered financial assistance without the need to initiate the transfer themselves, they might be less reluctant to accept the money. This implies that recipient's preferences over the redistribution procedure could be different from their preferences over the degree of redistribution per se.

On the other hand, the donors might not like being asked to share. Research has shown that dictators avoid environments which create social pressure to share (Lazear *et al.*, 2012) or punish recipients who request high transfers (Yamamori *et al.*, 2008). Many countries legally forbid begging in public places. We suggest that a dislike of certain elicitation procedures (i.e being explicitly asked for help) does not necessarily imply the unwillingness to share per se. Therefore, both recipients' and donors' preferences over redistribution procedures can be distinct from their preferences over the redistribution level.

We test this preposition in a dictator game, where the recipients are either asked to actively initiate the transaction or simply accept the monetary gift transferred by another person. We observe that both recipients and dictators differentiate between redistribution procedures. The mismatch in their preferences significantly affects redistribution outcomes. The rest of this paper is organized as follows. Section 2 provides an overview of related studies, Section 3 describes the experimental treatments, Section 4 presents the results, and Section 5 concludes.

2 Related literature

Experimental evidence of other-regarding preferences and altruism has been focused on the motivation behind people's giving. The conclusion from this theoretical and experimental studies is that people give since they do not like inequality (Fehr & Schmidt, 1999; Ockenfels & Bolton, 2000), they want to maintain a positive social image (Andreoni & Bernheim, 2009), they want to meet expectations of others in the spirit of guilt-aversion models (Battigalli & Dufwenberg, 2007), they enjoy the mere fact of giving ('warm-glow' models by Andreoni (1990)), they reciprocate kindness and trust of others (Cox *et al.*, 2007), or follow the social norms and cooperate conditionally on others' behavior (Fischbacher *et al.*, 2001). Although the behavior of givers has been extensively explored and various factors behind their decisions have been suggested, the behavior of *recipients* got much less attention. Apart from ultimatum-game settings where recipients can actively affect the allocation (Guth *et al.* (1982)), or modified dictator games where certain characteristics of the recipients are manipulated (social distance, group membership, income), the role of recipients in such interactions remains rather minimal (see the meta-analysis of dictator games in Engel (2011)). In many experimental settings, the recipients are either passive (dictator-like settings) or active (ultimatum-like settings) *second* movers. We believe that many real-life scenarios require recipients to actively ask for help. Although recipients do not determine the amount to be distributed, they often have to apply for the transfer. In this sense, they act as a *first* mover. This first step creates a different redistribution procedure which might be associated with psychological costs.

Indirect support for our intuition about disutility behind recipient's redistribution initiation is provided by dictator experiments with pre-play communication. In such experiments, recipients can communicate with dictators before the latter transfer them money. Greiner *et al.* (2005) allow for unrestricted one-way communication and observe that only minority of recipients (3 out of 16) conveyed any requests about the pie distribution to the dictators. Yamamori *et al.* (2008) restrict communication to requests over the pie shares and find that a significant minority of subjects, 5 out of 39 (12%) choose not send any requests. Langenbach (2014) elicit recipients willingness to pay for having the communication opportunity with the dictators. Langenbach find that recipients hardly pay anything to be able 'to talk' with the dictator. All the aforementioned studies suggest recipients' reluctance to beg the dictator for help.

Although pre-play communication provides important insights, the structure of the experiments does not allow to disentangle the motivation of the recipients. Since the dictators are asked to share by the design and know about the possibility of the recipients to communicate, recipients might be willing to use communication opportunity strategically, i.e. to affect dictator's willingness to share. In contrast to experiments with communication in dictator games, we allow recipients to initiate the transaction without the need to communicate anything to the dictator. Instead, we provide recipients with an opt-out option like in (Lazear *et al.*, 2012). This eliminates any strategic communication between recipients and dictators and erases the question of dictator's possible sensitivity to specific features of the communication protocol (words, numbers, or language style).

Moreover, we are interested to see if this reluctance to initiate the transaction is different from the willingness to accept the transfer. We thus compare the rate of transactions initiated by the recipient with the rate of rejections of transfers initiated by the dictators themselves. To do this, we let recipients reject the unknown transfer from the dictator. In contrast to impunity games like in Gueth & Huck (1997), the unwillingness to initiate the transfer or the decision to reject the transfer, does not affect the pie size., i.e. the transfer is not burnt and the dictator is not punished.

In a broader perspective, our paper falls into the domain of procedural preferences (Sen, 1995; Frey *et al.*, 2004; Frey & Stutzer, 2005). The key general preposition of procedural utility theory is that people derive costs and benefits not only from the outcomes but also from the processes or procedures that produce those outcomes. In this framework, we explore if recipients and donors differentiate between two specific procedures of receiving/providing monetary support: active application vs. passive (dis)approval from the recipient side.

3 Experimental Set-up

To address our research questions we employ three experimental treatments. Table 1 provides an overview.

In all the treatments, there are two main stages: income generation stage and the dictator game. Participants receive instructions for the income generation stage and are told that further instructions will be presented on their computer screen. The surprise condition is necessary not to distort the incentives in the real effort task.²

In income generation stage, participants are matched in pairs and earn their endowment through a slider task (Gill & Prowse, 2012). The task is to place as many sliders as possible exactly in the middle of

² The complete set of instructions is provided in Supplementary material.

the line within 4 minutes of time. Participants are told that their payment for the task depends on their relative performance. Performance is measured by participant’s score: a total number of correctly placed sliders. In a given pair, the participant with the higher score receives 10 EUR, and the participant with the lower score receives 5 EUR. In case of a tie, the winning participant is chosen randomly. Participants are informed about their payment for the task but do not learn their exact relative performance. In the analysis, we refer to participants with 10 EUR as Dictators and to participants with 5 EUR as Recipients (“Participant A” and “Participant B” in the instructions.)

The idea of a real effort task is two-fold. First, the task increases external validity since in real life income is earned and not granted for free. Second, earning endowments in a fair competition provides an entitlement and thus makes ’begging’ more psychologically loaded.

Table 1: Overview of the treatments in the experiment

	Recipient’s choice	Information for Dictators
T1: ACCEPT	Accept/Reject	Yes
T2: INITIATE	Initiate DG	No
T3: CHOICE	T1, T2, or random	No

The treatments vary in the dictator game.

In treatment ACCEPT, both participants receive the instructions of the dictator game. Dictators are asked to share any amount between 0 and 5 EUR with the recipient they are matched with. After dictators have made their choice, recipients (without knowing the amount of the transfer) choose to accept or reject the transfer. In case they choose ’reject’, the initial transaction is rendered invalid: the participants keep their earnings from the real-effort task.³

In treatment INITIATE, we add a pre-stage: recipients read about the content of the dictator game and are asked to decide if they want the game to take place. If they choose to opt-in (’ask’), the dictators they are matched are asked to share any amount between 0 and 5 EUR with the recipient. If they choose to opt-out (’not to ask’), no dictator game is played. The participants keep their earnings from the real-effort task. Dictators are informed about recipients’ choice.

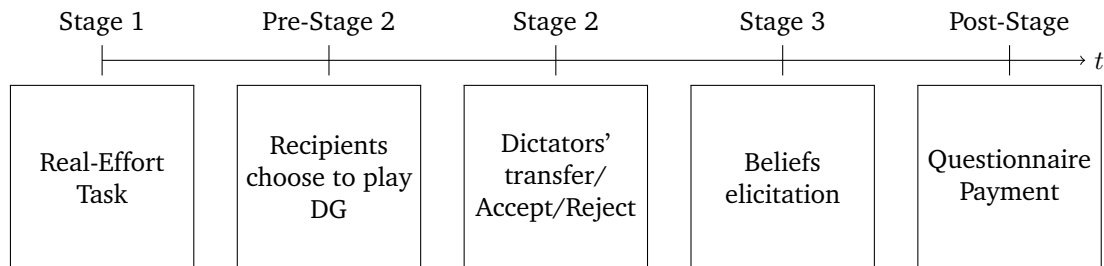
In treatment CHOICE, participants are presented with both experimental procedures: ACCEPT, called “Condition 1” in the instructions, and INITIATE, called “Condition 2” . Recipients are then allowed to choose a condition. They have a choice between “Condition 1”, “Condition 2”, or random allocation. Importantly, dictators are not informed about the recipient’s choice, i.e. they only know the condition which is applied to their pair, but they do not know whether it was a result of a random draw or direct choice of the recipient. The dictator game then proceeds according to the rules of the respective treatment.

The CHOICE treatment allows us to elicit recipients’ preferences over the procedures of the redistribution without forcing them to choose between the conditions, as they can always choose a random draw. Moreover, we do not inform the dictators about the recipient’s choice to limit the possibility of its strategic use. To make sure that the difference in rejection vs. game initiation rates is not driven by the differences in expectations about dictator’s transfer, we elicit unincentivized beliefs: after recipients have made their choice we ask them to guess the average amount sent by the dictators in their session.

³ This feature keeps our setting efficiency-neutral and distinguishes the treatment from impunity games, where the choice of the responder reduces his own pay-off (See Gueth & Huck (1997)).

The experiment ends with a small questionnaire measuring peoples propensity to experience guilt and shame (a subscale of GASP by Cohen *et al.* (2011)). The flow of the experiment is depicted in Figure 1.

Figure 1: The course of the experiment



4 Results

We ran 12 experimental sessions in the laboratory of a German University in September/October 2017. In total, 188 participants took part in the experiment: 74 in ACCEPT, 62 in INITIATE, and 52 in CHOICE treatment. We first compare the recipient's choices across the experimental treatments.

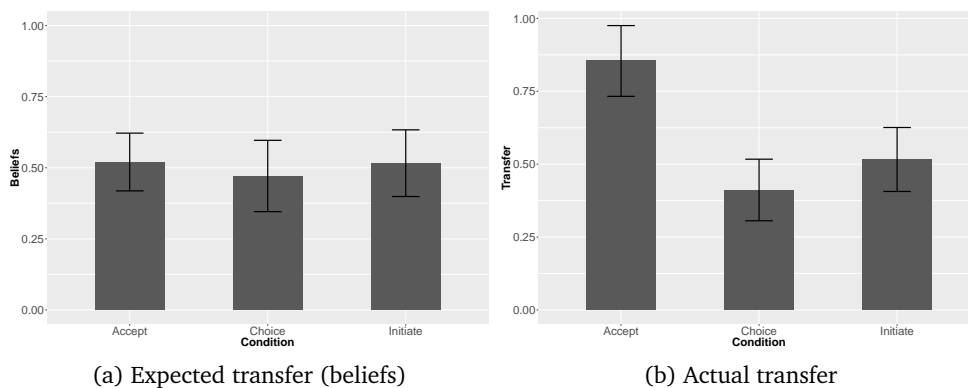
Recipients' choices

In treatment ACCEPT, all the recipients (37 out of 37) have chosen to accept the transfer. In treatment INITIATE, vast majority of the recipients (29 out of 31) have chosen to ask for a transfer, and only 6% (2 out of 31) have chosen not to initiate the DG. Interestingly, in explaining their choices, participants who did not want to initiate the transfer referred to “dishonorable behavior, begging”, i.e. explicitly told they experienced disutility from being forced to ask. Remember, however, that not asking in the treatment INITIATE precludes any possibility for the dictator to send money to the recipient. The situation was different in the treatment CHOICE where choosing a different procedure did not exclude the possibility of sharing. In this treatment, about 19% (5 out of 26) recipients have chosen the treatment ACCEPT, another 23% (6 out of 26) opted for a random allocation, and 53% (14 out of 26) have chosen INITIATE treatment. If one consider those who choose not to initiate the transfer in treatment ACCEPT, 2 out of 31, and those who choose ACCEPT in the CHOICE treatment, 5 out of 26, the total fraction of recipients preferring not to beg for help is around 12%, 7 out of 57. These finding support our expectations that some recipients shy away from initiating the transfer. Nonetheless, contrary to our intuition, the majority of recipients choose to interact with the dictator in the INITIATE condition, and therefore favoured “begging”. Importantly, all the recipients who has favoured ACCEPT or random allocation vs. INITIATE, accept the transfer from the dictator. Therefore, a preference against the redistribution procedure that requires initial “begging” from the recipient does not imply unwillingness to redistribute the outcomes per se. Similarly to the INITIATE treatment, recipients in the CHOICE treatment who decided in favour of the ACCEPT procedure, spoke about their dislike of 'begging' or putting pressure on their counterpart to share.

Transfers and beliefs

Recipients on average expected to get 1.04, 1.03, and 0.94 EUR from their dictators in ACCEPT, INITIATE, and CHOICE respectively; panel(a) of Figure 2. Therefore, the differences in recipients' choices is not driven by differences in expectations. Interestingly, however, dictators do not always meet the expectations of the recipients. The average transfers across treatments are 0.85, 0.52, and 0.41 EUR respectively; panel (b) of Figure 2. These findings indicate that the recipients are overly optimistic about the effect of “asking” on dictators' sharing. In INITIATE and in CHOICE, but not in ACCEPT, recipients' beliefs are significantly higher than the actual transfers received from the dictators (p.value is 0.04, 0.05, and 0.44 from a two-sided t-test, respectively).

Figure 2: Average expected and actual transfer by conditions, EUR



These findings resonate with the results from dictator games with communication, where many recipients request a lot but get punished for their 'greediness' by a lower transfer.

5 Conclusions and discussion

We have modified the procedure of the dictator game to let recipients initiate the transaction. This experimental condition resembles real-life scenarios where the recipients of financial help first have to apply for help or request it from somebody in contrast to being completely passive. We find that a significant minority of recipients avoid procedures that require active “asking”. At the same time, these recipients are ready to accept the transfer from the dictator. Given no differences in expectations of dictators' transfers across experimental conditions, the (un)willingness to ask is not driven by recipients hoping to increase their earnings. We propose two main explanations for recipients behavior: (1) recipients suffer disutility from being forced to ask, (2) recipients do not want to infringe dictators' liberty. Participants' answers at the end of the experiment suggest that disutility from the procedure itself drives their behavior. Future research, however, can better differentiate between recipients' motives. While some recipients shy away from “begging”, the others happily demand dictators' to share. Dictators, on the other hand, dislike beggars and reduce their transfers substantially. Solving a mismatch in procedural preferences of recipients and donors seems to be important for designers of social benefits programs or donation elicitation campaigns.

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