Preferences for International Redistribution*

Cagla Okten
Department of Economics
Bilkent University

Una Okonkwo Osili†
Department of Economics
Indiana University-Purdue University at Indianapolis

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Abstract

In this paper, we examine the preferences for international redistribution using unique data from Panel Study of Income Dynamics (PSID) and the Generalized Social Surveys (GSS). We find low rates of private giving to international aid organizations. In addition, most U.S. households suport reducing foreign aid rather than increasing assitance to other countries. We investigate two main explanations: (1) households may prefer low levels of both private and public giving to international aid organizations and support for global public goods (2) Perceptions of high levels of government giving crowd out private contributions towards global public goods and international aid.

1. Introduction

A central question is whether households in rich countries support increased funding for international aid. Currently, about 1.6 billion people– one fifth of the world's population live in absolute poverty. In the U.S., registered international organizations that focus on development assistance make up 2 percent of all charitable organizations, and this sector appears to be growing more rapidly than other nonprofit organization categories. Although there has been a growing call for more greater official development assistance to developing countries, a survey of OECD countries shows that official development assistance (ODA) to developing countries has been around 0.2 to 0.4 percent, some $100 billion short of amounts

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†Corresponding author. Address: Department of Economics, IUPUI, 425 University Boulevard, Indianapolis, IN 46202, U.S.A. Phone: (317) 278-7219, Fax: (317) 274-0097, Email: uosili@iupui.edu

pledged by global leaders. In the United States, official development assistance as a fraction of GDP remains among the lowest among industrialized nations in the world.

In this paper, we investigate preferences towards international redistribution. To our knowledge, this is the one of the first studies to investigate preferences for international redistribution. We develop a model of private transfers where households choose their private contributions towards international aid and support for official development assistance based on their preferences, endowments and perceptions of official development assistance. To date, much of the existing literature examines support for welfare and other forms of domestic redistribution. There is very little known about international redistribution. However, we draw on the well-established body of work on domestic preferences for redistribution. Within this literature, there are two key sources of preference formation towards income redistribution. Households support income redistribution because they are low-income households and can benefit from government redistribution, or they favor redistribution as a means to insure against income shocks.

We draw on new longitudinal household-level data on private contributions towards international aid from the 2001 and 2003 waves of the Panel Study of Income Dynamics (PSID). According to a representative survey of the US population, only four percent of all households surveyed have given to an international aid organization with an average contribution amount of 7.5 dollars in 2002. When we multiply the average donation amount with the number of households (100 million) in US, approximately $750 million was donated to international aid organizations. According to the same survey, 42 percent of households have contributed to a religious organization with an average contribution amount of 715 dollars. This amounts to about $71.5 billion of donations to religious organizations. This represents a striking contrast between the low levels of private giving to international aid organizations in the US.

We analyze the individual determinants of private contributions to international aid organizations using newly available data from PSID. Individual characteristics provide part of the explanation for giving behavior to international aid organizations. We examine the individual determinants of support for international aid and perceptions of the level of government transfers for international aid using data from Generalized Social Surveys (GSS). We also turn our attention to the role of government transfers in explaining the private giving behavior. According to models of charitable giving, government transfers may crowd out private contributions if government transfers and private contributions are substitutes in the production of goods that benefit international aid recipients. We then analyze whether in U.S. metropolitan areas and counties where the level of central government international aid transfers are perceived to be high have lower levels of private giving. The level of private giving may be inversely correlated with the perceived level of government transfers (international aid) giving for two reasons: (1) households may prefer low (high) levels of both private and public giving to international aid organizations and support for global public goods (2) Perceptions of high levels of government giving may crowd out private contributions towards global public goods and international aid.

To further investigate the factors that can explain preferences toward private giving to international aid and support for global public goods, we examine several additional explanations. One candidate explanation that we explore is the role of one's social environment in influencing attitudes towards households in developing countries. To capture this effect,

we include the fraction of a community that is foreign born. Between 1990 and 2005, the fraction of the foreign born in the U.S. population increased from 5 percent to close to 12 percent. Unlike past waves of immigration, recent immigrants are more likely to come from developing countries in Africa, Asia and Latin America. We examine the hypothesis that recent inflows of immigrants may influence attitudes and preferences towards international redistribution. Our approach is informed by a number of studies that document that exposure to the poor greatly impact support for domestic redistribution. Luttmer (2001) finds that support for welfare in the U.S. is characterized by a negative exposure effect in which individuals decrease their support for welfare as the welfare recipiency rate in their community rises, and racial group loyalty in that individuals increase their support for welfare spending as the share of local recipients from their own racial group rises.

2. Model

In this section, we model the household's decision to contribute to an international aid organization. The model has two main features: First, it allows both self-interested and inter-household preferences to affect the household's contribution decision. Second, it enables us to investigate the effects of government involvement on private contributions.

Consider a household i that makes a monetary transfer, d_i to a community organization. We assume that there are N households in the community, such that $i \in \{1, ..., N\}$. International aid organizations provide services that can be enjoyed by all households such as global public goods but mostly lower income individuals outside of the country.[1]

The utility to household i, U_i is given by

$$U_i = U_{i_S} + U_{i_A} \tag{2.1}$$

where U_{i_S} is the utility from self-interest and U_{i_A} is the utility from altruism towards others.

The utility of household i from self interest is given by

$$U_{i_S} = w_i(y_i) S^{\alpha_i} + c_i^{\beta} \tag{2.2}$$

where S denotes the global public good obtained from the international aid organization, w_i is the weight that household $i's$ places on the global public good, $w_i(y_i) < 1$, and it may be an increasing or decreasing function of income and c_i is private consumption. We assume that utility is concave in the public good, and in the consumption good such that $\alpha_i, \beta \in (0, 1)$.[2]

Household i may also care about the utility of others. Such interpersonal effects can manifest themselves as altruism, including the utility of others in the household's objective function. The utility of household i from altruism is given by

$$U_{i_A} = w_{ij}(X_i, X_j) U_{j_S} \tag{2.3}$$

where $w_{ij}(X_i, X_j) \geq 0$ denotes the weight that household i places on the utility (from self-interest) of representative household j and U_{j_S} is household $j's$ utility from self-interest. X_i

[1] Neighborhood security, neighborhood improvement are examples of such services. Community organizations may also provide excludable services such as health care and access to credit.

[2] In addition, we assume that income of the median voter is not too large so that at equilibrium, she will not be the sole contributor towards the public good.

and X_j are the characteristics of households i and j respectively. We will refer to household j as the foreign household and assume that $w_j = 1$. Note that this assumption implies that foreign household always values the global public good more than the local household

The consumption of the private good, c_i is equal to unearned income, y_i, less the opportunity cost of transfers to the community organization,

$$c_i = y_i - d_i - \tau(y_i, d_i) \tag{2.4}$$

$\tau(y_i, d_i)$ is the income tax, $\tau_{d_i}(y_i, d_i)$ is the marginal tax rate and $\tau_{d_i}(y_i, d_i) = -\tau_{y_i}(y_i, d_i)$

The timing is as follows: (1) Households make their monetary contributions to the international aid organization, and (2) The international aid organization produces global public good.

The services produced by the international aid organization depend on total amount of private contributions, government involvement, and costs of production. We model the production of services as follows:

$$S = f\left(\sum_{i=1}^{N} d_i, G\left(\overline{w}_i, \overline{w}_{ij}, \sum_{j=1}^{N} \tau(y_j, d_j)\right)\right) \tag{2.5}$$

where d_j denotes the money contributions of household j to the organization, G denotes the level of government involvement through monetary transfers. $\overline{w}_i$ and $\overline{w}_{ij}$ are the weights that median voter places on the global public good and the utility of the foreign household respectively. We assume that G is an increasing function of $\overline{w}_i$ and $\overline{w}_{ij}$. We assume that services are increasing in the level of household contributions and government transfers $(f_1 > 0, f_2 >, f_3 > 0)$. In addition, the production function is assumed to be concave in household transfers.

We now solve the model using backward induction. Household i chooses its level of contributions based on this assumption and solves the following problem:

$$\max_{d_i} U_i = w_i S^{\alpha_i} + (y_i - d_i - \tau(y_i, d_i))^{\beta} + w_{ij}(X_i, X_j) w_j S^{\alpha_j} \tag{2.6}$$

The household's first order condition with respect to d_i is given by

$$\left[\alpha_i w_i S^{\alpha_i - 1} + w_{ij}(X_i, X_j) w_j \alpha_j S^{\alpha_j - 1}\right](f_1 + f_2 G_\tau \tau_{d_i}) - (1 + \tau_{d_i})\beta(y_i - d_i - \tau(y_i, d_i))^{\beta - 1} = 0 \tag{2.7}$$

We assume that the average tax rate is atr, $\tau(y_i, d_i) = atr(y_i - d_i)$ marginal tax rate is mtr=$\tau_{y_i}(y_i, d_i) = -\tau_{d_i}(y_i, d_i)$. First order condition becomes

$$\left[\alpha_i w_i S^{\alpha_i - 1} + w_{ij}(X_i, X_j) w_j \alpha_j S^{\alpha_j - 1}\right](f_1 - f_2 G_\tau mtr) - (1 - mtr)\beta(y_i - d_i - \tau(y_i, d_i))^{\beta - 1} = 0$$

$$sign\frac{\partial d_i}{\partial y_i} = sign\begin{pmatrix} \left[\alpha_i(\alpha_i - 1) w_i S^{\alpha_i - 2} + w_{ij}(X_i, X_j) w_j \alpha_j(\alpha_j - 1) S^{\alpha_j - 1}\right](f_2 G_\tau \tau_{y_i})(f_1 + f_2 G_\tau \tau_{d_i}) \\ + \left[\alpha_i w_i S^{\alpha_i - 1} + w_{ij}(X_i, X_j) w_j \alpha_j S^{\alpha_j - 1}\right]\left(f_{12} - f_{22} G_\tau^2 \tau_{y_i} \tau_{d_i} - f_2 G_{\tau\tau} mtr^2 - f_2 G_\tau \tau_{y_i y_i}\right) \\ ... \end{pmatrix}$$

$$sign\frac{\partial d_i}{\partial G} = sign\begin{pmatrix} \left[\alpha_i(\alpha_i - 1) w_i S^{\alpha_i - 2} + w_{ij}(X_i, X_j) w_j \alpha_j(\alpha_j - 1) S^{\alpha_j - 1}\right] \bigotimes \\ f_2(f_1 - f_2 G_\tau mtr) + \left[\alpha_i w_i S^{\alpha_i - 1} + w_{ij}(X_i, X_j) w_j \alpha_j S^{\alpha_j - 1}\right](f_{12} - f_{22} mtr) \end{pmatrix}$$

******Assuming that $\frac{\partial G}{\partial y_i} = \frac{\partial G}{\partial d_i} = 0$, first order condition is

$$\left[\alpha_i w_i S^{\alpha_i - 1} + w_{ij}\left(X_i, X_j\right) w_j \alpha_j S^{\alpha_j - 1}\right] f_1 - (1 - mtr)\,\beta\left(y_i - d_i - \tau\left(y_i, d_i\right)\right)^{\beta - 1} = 0$$

Comparative statics are:

$$sign\frac{\partial d_i}{\partial y_i} = sign\left(\begin{array}{c} \alpha_i w_i'\left(y_i\right) S^{\alpha_i - 1} f_1 + \tau_{yy}\left(y_i, d_i\right)\beta\left(y_i - d_i - \tau\left(y_i, d_i\right)\right)^{\beta - 1} - \\ (1 - mtr)\,\beta\left(\beta - 1\right)(1 + mtr) \end{array}\right)$$

The third term in the above equation is positive. The second term is likely to be positive. The first term is positive if $w_i'\left(y_i\right) > 0$.

$$sign\frac{\partial d_i}{\partial G} = sign\left(\begin{array}{c} \left[\alpha_i\left(\alpha_i - 1\right) w_i S^{\alpha_i - 2} + w_{ij}\left(X_i, X_j\right) w_j \alpha_j\left(\alpha_j - 1\right) S^{\alpha_j - 1}\right] f_1 f_2 + \\ \left[\alpha_i w_i S^{\alpha_i - 1} + w_{ij}\left(X_i, X_j\right) w_j \alpha_j S^{\alpha_j - 1}\right] f_{12} \end{array}\right)$$

If household transfers and government transfers are substitutes then $\frac{\partial d_{iF}}{\partial G} < 0$. If on the other hand, they are complements, sign of $\frac{\partial d_{iF}}{\partial G}$ of is ambiguous.

3. Data

3.1. Data on Private Giving to International Organizations

In this study, we define charitable giving to international purposes as contributions to qualified nonprofit international aid organizations that are eligible for the charitable deduction according to the definitions provided by the Internal Revenue Service. We draw on a new module in the Panel Study of Income Dynamics PSID. The philanthropy module used in this paper is unique because it provides high-quality data on charitable giving, comparable to the U.S. Individual Taxpayer Return data (Wilhelm, 2002). Most existing data sources on U.S. charitable giving do not provide detailed information on charitable giving and high quality information on income and wealth is often unavailable.

The key dependent variable in our study is charitable giving to international aid organizations. The measure of giving to international aid organizations is constructed using the following question, which was posed to PSID survey respondents: "During the year 2000, did [you/you or anyone in your family] donate money, assets, or property with a combined value of more than $25 to a charitable organization that served the following purposes: international aid or world peace? We examine "giving" as dichotomous variable, which is equal to 1 if individual i gave a transfer to a charitable organization that focused on international aid or world peace in the survey year, and 0 otherwise. In the 2003 PSID data, we can also investigate the amount transferred, a continuous variable, which is defined as the log of the total monetary contribution to an international aid organization.

The data set provides a comprehensive picture of the individual and community environment for over 5400 households. In particular, the PSID has a rich set of income and wealth measures, which we exploit in order to fully capture the household's economic position. As permanent income tends to have a larger effect on charitable behavior than transitory

income sources (Auten, Holger-Sieg, and Clotfelter, 2002), we use a measure of the household's permanent income. The measure of permanent income is based on average family income from 1997, 1999, and 2001 waves of the PSID.

In the analysis, we also include several individual household characteristics, such as age of household head, age squared, marital status, gender, educational attainment, race and ethnic origin, family size, unemployment status, immigrant status, and household income. To account for regional variation in charitable giving, we classify households into six geographic regions based on their state of residence. Given the tax-deductibility of charitable contributions, higher marginal tax rates should lower the price of charitable giving. The price of formal charitable giving is calculated by 1 minus the marginal tax rate for itemizers and unity for non-itemizers. We calculate the marginal tax rate for itemizers using TAXSIM version 5 (Feenberg and Coutts, 1993). We also include individual attributes that may affect international redistribution including trusting attitudes towards others available in the 1968-1972 waves of the PSID and data on recent migration.

To obtain measures of the foreign born and other community characteristics, we rely on the 1990 and 2000 Census Data. The United States has witnessed significant changes in immigration over the past two decades. Between 1990 and 2000, the foreign-born population in the United States grew by 57% to 31 million people. Today, at least one in nine U.S. residents is foreign born. Because a growing share of immigrants come from countries in Africa, Asia and Latin America, immigration is also shaping U.S. demographic trends. According to the 2000 U.S. Census, approximately 30 percent of the U.S. population currently belongs to a racial or ethnic minority group. Using the 1990 and 2000 Integrated Public Use Microdata Sample (IPUMS) and 1990 and 2000 U.S. Census Summary File 3, we construct measures of population, income, and the fraction of the population that is foreign born.

Table 1 provides summary statistics. Table 1 provides summary statistics from the PSID and CPS. The fraction of households that contribute to international aid organizations is small. From our data, only 3 percent of households report donating to an international aid organization. In contrast, a large fraction of households donate to U.S. charitable organization (over 60 percent of our sample). In the 2003 data, conditional on giving, the average amount contributed was about $250. As a percentage of total giving, households contribute about 1 percent of the total charitable giving to international aid organizations. We should note that nearly 30 percent of households contributed money or materials to a charitable organization that served the needy. The PSID data also allows us to examine the allocation of charitable contributions across other categories of giving and in the results section we discuss some findings on the incidence and levels of giving for six categories of charitable institutions: religious institutions, organizations that served a combination of purposes (such as the United Way), organizations that serve the needy, health care or medical research organizations, educational, and other charitable institutions.

3.2. Data on Support for International Aid

An important question in our analysis is the extent to which households support international redistribution. Because official development assistance is an important component

of international redistribution, we also consider support for public international aid. To study this question, we rely on the General Social Surveys (GSS) which have been conducted by the National Opinion Research Center annually since 1972, and biennially beginning in 1994.[3] The main goal of the GSS data is to survey U.S. households on a range of topics including attitudes towards social mobility and government spending. Although the content of each GSS survey may vary slightly over time, nearly every survey has contained questions about the extent to which households support public international aid. The GSS contains a standard 'core' of demographic and economic variables including household income levels, educational attainment, race and ethnicity, immigrant status and other variables. We focus on the 2000-2004 waves of the GSS to allow us to comparability of results across surveys.

The key variable of interest is the extent to which households support government assistance to other countries. The specific question posed to GSS respondents is as follows: "We are faced with many problems in this country, none of which can be solved easily or inexpensively. I'm going to name some of these problems, and for each one I'd like you to tell me whether you think we're spending too much money on it, too little money, or about the right amount on assistance to other countries." In the 2000-2004 waves of the GSS, about 8 percent report that the U.S. government is spending too little on international aid. A large majority, over 60 percent report that the government is spending "too much" on foreign aid, while about 20 percent report that the U.S. is spending the "right amount" on international aid.

We have also obtained the confidential geographical files from the GSS which allow us to link household record to county-level information from the 2000 Integrated Public Use Microdata Sample (IPUMS) and the 2000 U.S. Census Summary File 3 County-level Data Census on percent foreign born, population and income within a given community.

3.3. Empirical Specification

To study the impact of community characteristics on the support for foreign aid and the incidence and amount contributed to international organizations, we estimate Probit and Tobit models.

3.3.1. Private Contributions to International Aid Organizations

This section presents an empirical model of a household residing in a given community k decision to contribute money, assets, or property to an organization that serves international aid purposes . Let j index households and k index communities. We specify

$$Y_{jk} = B_1 + B_2 X_{jk} + B_3 C_k + u_j + e_k \tag{3.1}$$

[3] The survey was not conducted in the following years: 1979, 1981, and 1992.

where Y_{jk} is, the "latent variable" in the analysis that measures the net expected utility to household j from contributing money to charitable organizations that help the needy in community k, X_{jk} represents a vector of observable and unobservable household characteristics including head's race, age, sex, marital status, years of schooling, household size, number of children in the household, log per capita permanent income, and the share of household's ethnic group in the community; C_k is a vector of community characteristics including the fraction of the foreign in the community, (log) population and (log) median income. e_{jk} is the error term with $E[e] = 0$, $Var[e] = 1$.

We do not observe the "latent" variable, Y_{jk} but only the choice made by the household, which takes the value 1 if household contributes money to the charitable organization that serves international aid purposes (i.e. Y_{jk} is positive), and 0 otherwise.

$$P_{jk} = 1 \; if \;\; Y_{jk} > 0, 0 \text{ otherwise}$$

We then estimate a probit specification where the dependent variable is P_{jk}. The specification includes a rich set of household and community characteristics as explanatory variables.

The dataset contains information on private giving to international aid organizations, but it is important to recognize that money transfers realized do not capture Y_{jk}. Economic theory suggests that the household makes a marginal benefit-marginal cost calculation when deciding on the level of transfers. Y_{jk}. represents the difference between marginal benefits and marginal costs. With this caveat in mind, we estimate a Tobit model with the total amount of money transferred to charitable organizations as the dependent variables.

3.3.2. Support for Public International Aid

We adopt a similar specification when we examine whether a given household supports increased government funding for international assistance.

Y_{jk} is, the "latent variable" in the analysis that measures the net expected utility to household j residing in community k from increased international assistance, X_{jk} represents a vector of observable and unobservable household characteristics including head's race, age, sex, marital status, years of schooling, household size, number of children in the household, log per capita permanent income, and the share of household's ethnic group in the community; C_k is a vector of community characteristics including the fraction of the foreign in the community, (log) population and (log) median income. j_k is the error term with $E[] = 0$, $Var[] = 1$.

We do not observe the "latent" variable, Y_{jk} but only the choice made by the household, which takes the value 1 if household supports international aid (i.e. Y_{jk} is positive), and 0 otherwise.

$$P_{jk} = 1 \; if \;\; Y_{jk} > 0, 0 \text{ otherwise}$$

We then estimate a probit specification where the dependent variable is P_{jk}. The specification includes a rich set of household and community characteristics as explanatory variables.

4. 5. Results

4.0.3. The Decision to Give to an International Aid Organization

Table 3 displays the baseline probit regression model using the data on private giving to international aid available in the PSID. We first examine only individual and household variables and their effect on private giving to international aid. The dependent variable is equal to one if a household contributes money to an international aid organization, and 0 otherwise. The estimates in the first column of Table 2A are marginal probit coefficients; in the second column we report heteroskedasticity corrected standard errors adjusted for county-level clustering of residuals.

From the results, a picture of the household-level determinants of contributions to international aid organizations emerges. Higher income households (measured by log permanent income) are more likely to contribute to charitable organizations.

Consistent with other studies on charitable giving, we find that there are significant life-cycle effects in private income redistribution. The incidence of private giving to international aid increases with age but eventually declines among older households. Male-headed households are about 0.4 percentage points less likely to give to international aid organizations compared to female-headed households. Educational attainment and household size are positively associated with giving to an international aid organization. An additional year of education increases the likelihood of private redistribution by about 2 percentage points. Interestingly, being nonwhite measured by a dummy variable that is equal to 1 if household head is nonwhite does not have a statistically significant impact on the probability of giving to an international aid organization. Using the PSID data set, we find that immigrant households and female-headed households are more likely to contribute to international aid organizations and to the provision of global public goods. Both the incidence and levels of transfers increase with age but eventually decline. Being college-educated is associated with a 4 percentage point increase in the likelihood of contributing to an international aid organizations.

4.0.4. Support for Public International Aid

While the PSID provides insights into the determinants of private support of international aid, we also use additional data on private attitudes towards public funding towards international redistribution. These results are presented in Table 3 (column 2). When we turn our attention to the GSS data set, we find some similarities between private contributions and preferences for public funding for international aid. Immigrant households, female-headed households and college graduates are more likely to support greater funding for international aid consistent with their attitudes towards private giving. However, we also note some differences. Non-white households are about 5 percentage points more likely to support increased funding for international assistance. Higher income households are less likely to support increased public funding for international aid. Because the GSS data has limited information on household income, we consider several additional controls that capture a household's permanent income. We note that the results on household variables are robust to the inclusion of controls for religious affiliation, location dummies and occupation dummies.

The coefficients on individual and household controls are very stable and robust to different specifications. Therefore, in the interest of space from now on we will not report them, although it should be noted that they are included in all the specifications. We now turn to examine the impact of community characteristics including the fraction of the foreign born on support for international aid.

4.1. The Impact of Community Characteristics on International Redistribution

In Table 4, we present include county population and median income (both measured in logs) together with the measures of foreign born population. Consistent with the theoretical predictions, the share of the foreign born has a positive and statistically significant effect on the probability of private giving to international aid organizations. We find the results on share of the foreign born to be sizeable, when compared to other significant determinants of contributions. The inclusion of county-level variables does not change signs and significance of individual controls (not shown).

Ethnic diversity index has been criticized in the literature because it has the same value for each individual living in the same community, and therefore may not accurately reflect the effects of interpersonal preferences—preferences that depend on the ethnic characteristics of others residing in a specific community. Interpersonal preferences will depend on the interplay between an individual's own ethnic identity and ethnicity of others. To deal with this concern, we include variable SHARE which is the share of households from a given individual's own ethnic group in total population as an alternate measure of ethnic diversity. This variable is household-specific and will allow us to test whether households are more likely to contribute when the share of their own ethnic group in total population increases.

We find SHARE to have a positive and significant effect on contributions suggesting that interpersonal preferences may constitute an important channel through which ethnic diversity affect private redistribution. We should note that nonwhite dummy variable is no longer significant in this regression when we include the share of one's ethnic community in the county's population. However, the signs and significance of all other individual and household controls remain the same (individual controls not shown in Table 2b). This result suggests that perhaps what is important is not the ethnicity of the individual per se but the relationship between the ethnicity of the individual and ethnic make-up of the community.

One could argue that ethnic diversity reflects other types of diversity such as income inequality within a community. The existing literature suggests that income or wealth inequality can affect incentives to contribute to the community organization (LaFerrara, 2001). To rule out this interpretation of the results, we control for income diversity at the community-level using the Gini coefficient index. The Gini coefficient index was constructed using 2000 Census data at the county level. We find that income inequality has a negative but insignificant association with the probability of giving to the needy. It is important to note that controlling for both income inequality and ethnic diversity measures does not change the results (not shown).

4.1.1. Do Other Community Characteristics Matter?

The results on household and community variables appear comparable to earlier results for probit. In particular, the ethnic diversity index has a negative and significant impact on the amount of contributions. The share of population from household's own ethnic group (SHARE) has a positive and significant effect on the amount of contributions. We find that income inequality is again negative, but not statistically significant.

In Table 4, we include county population and median income (both measured in logs) together with the fraction of the foreign born in the county. We find the results on fraction of the foreign born to be sizeable, when compared to other significant determinants of contributions. The inclusion of county-level variables does not change signs and significance of individual controls (not shown).

From the results on community characteristics, the share of the foreign born has a positive and significant effect on contributions to international aid organizations suggesting that interpersonal preferences may constitute an important channel through which community characteristics affect private redistribution. In contrast, the log population and median income in the county of residence do not have a significant impact on private contributions to international aid organizations.

One could argue that fraction of the foreign born reflects other types of diversity such as income inequality within a community. The existing literature suggests that income or wealth inequality can affect incentives to contribute to the community organization (LaFerrara, 2001). To rule out this interpretation of the results, we control for income diversity at the community-level using the Gini coefficient index. The Gini coefficient index was constructed using 2000 Census data at the county level. We find that income inequality has a negative but insignificant association with the probability of giving to international aid organizations. It is important to note that controlling for both income inequality and ethnic diversity measures does not change the results (not shown).

Determinants of Support for Public International Aid

In Table 4, we also present results from the GSS on the community-level determinants of support for international aid. The results on community variables appear comparable to earlier results for private giving to international aid organizations. In particular, the share of the foreign born has a positive and significant impact on the likelihood that a given individual supports increased public international aid. We find that both log median income and log population do not have a statistically significant impact on support for public international aid.

Government Transfers

We now turn to discuss results that include perceptions of government transfers obtained from the GSS. These results are important for two reasons. First, these theoretical framework presented earlier suggests that individuals may consider government transfers in their private redistribution decision. An extensive literature investigates the impact of government transfers on private transfer behavior. In general, empirical studies generally report small estimates of crowding out (Okten and Weisbrod; 2000; Ribar and Wilhelm; 2001). In recent work, Hungerman (2005) finds relatively large estimates of crowd out using data on religious giving. One advantage of his approach is that it is possible to link charitable activity to data on government transfers to specific organizations.

A second reason for including government transfers is that this allows us to further explore the importance of omitted variables. Specifically, if perceptions of government international assistance are correlated with unobservables at the community level, then including this variable will

To measure perceptions of government funding toward international assistance, we use county-level data on the fraction of respondents in the GSS that report that the U.S. is spending "too much" on international assistance. Table 5 column 1 presents this regression. Marginal probit coefficients are presented. We do not find any evidence for crowding out. In fact, the measure of perceptions of government transfers is negative and statistically insignificant.

The positive coefficient may seem puzzling at first. But we recognize that a higher government transfers may also reflect the severity of needs in a community. If we cannot fully control for the existence of such needs with the share of poor in population variable, then we might observe a positive association with government food stamp expenditure and private giving. Ethnic diversity remains negative and significant while share of poor in population is insignificant. WHAT ABOUT LEVELS?

Interpersonal Preferences

It is challenging to isolate the exact mechanisms through which the foreign born in the population affect household behavior. One mechanism that we will consider in more detail is through interpersonal preferences. Here we will take a similar approach to Luttmer (2001) who examines the effect of interpersonal preferences on support for welfare spending. More specifically, we construct two variables that capture the distribution of foreign born by region of origin.

[Insert Table 5]

Do the foreign born really matter?

Although the results on the foreign born provide important insights, there is a need for caution in the interpretation of these results. In general, isolating the impact of community-level outcomes on social and economic outcomes can be challenging. Since it is unlikely that individuals randomly chose their county of residence, estimates of the impact of the foreign born on giving to international causes may be biased. An important concern in the analysis is that the location decision could be shaped by the same unobserved factors that influence the decision to give. To illustrate this point, suppose an individual who is more generous is also more likely to reside in a community with a higher fraction of the foreign born. The omission of individual variables (taste for giving, generosity) from the analysis may lead us to find a spurious "foreign born effect". Another concern is that individuals residing within a given geographical area often share a common economic environment, and some of these factors are unobserved in the analysis. For example, there may be higher levels of government spending on public goods. In future work, plan to address some of these issues. For example, we can control for the role of time-invariant unmeasured community characteristics using MSA fixed-effects. We also examine changes in charitable giving over time to reduce concerns about the effect of unobserved diversity at the individual level.

Discussion: The Taste for International Redistribution vs Alternative explanations

The results suggest that as the fraction of the foreign born in a community rises households are more likely to give to international aid organizations and also support greater public international assistance.

Donating to international aid organizations which provide development assistance is essentially a private act of redistribution of income. Studies before us focused on the determinants of public acts of income redistribution. These studies noted that relatively homogeneous areas tend to have more income redistribution and other forms of public spending (Alesina et al., 1999; Easterly and Levine, 1997; Orr, 1976; Poterba, 1997). Luttmer (2001) noted that if individuals prefer to redistribute to their own racial, ethnic or religious group, they prefer less redistribution when members of their own group constitute a smaller share of beneficiaries.

There is less support for political trust arguments, which emphasise that the efficacy of political decision-making institutions promotes beliefs about trust in the state and views on government responsibilities.

6. CONCLUSIONS

Charitable organizations play a central role in redistributing income to the needy, giving to may be linked to social capital formation and co-operative behavior (Putnam, 1993; Knack and Keefer, 1997). Using new data on private income redistribution, we find that an increase in the share of the foreign born has a positive effect on private giving to international aid organizations. The main findings are suggestive of mechanisms through which foreign born can influence contributions. Specifically, we find that altruism towards one's ethnic group may affect giving to needy. We do not find any evidence for crowding out from government transfers.