

### WHY HIGHER REAL WAGES MAY REDUCE ALTRUISM FOR THE POOR

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### INTRODUCTION

This paper addresses two questions. First, when is redistribution most likely to be a public good? and second, what is the likely effect of increased real wages on people's desire to help the poor?

Articles on redistribution usually assume that the non-poor feel uncomfortable because of the low living standards of the poor [Hochman and Rodgers, 1969; Orr, 1976; Brown and Oates, 1987]. Batson [1987], Batson and Coke [1981], and Eisenberg [1988] find that this utility interdependence depends on knowing that there is a problem as well as the cause of the problem. This point was also made by Adam Smith when he said:

Even our sympathy with the grief or joy of another, before we are informed of the cause of either, is always extremely imperfect. General lamentations, which express nothing but the anguish of the sufferer, create rather a curiosity to enquire into his situation, along with some disposition to sympathize with him, rather than any actual sympathy that is very sensible. The first question that we ask is, What has befallen you? 'Till this be answered, tho' we are uneasy both from the vague idea of his misfortune, and still more from torturing ourselves with conjectures about what it may be, yet our fellow feeling is not very considerable. [(1759), 1971, 8]

If redistribution is a public good, the non-poor must know who is poor and why they are poor. Otherwise, the "fellow feeling is not very considerable." In other words, the non-poor need to have information on the existence and the cause of the plight of the poor for redistribution to be a public good. If the non-poor don't know that a person is poor there is no fellow feeling and redistribution is not a public good. In fact, if the non-poor are not aware of the plight of the poor, not only is there no altruism, but they cannot free-ride on other people's contributions.

One reason why people need to know the cause of the plight of the poor is because people often feel that it is not just or right to help those who bring their problems on themselves [Batson, 1998; Sniderman and Carmines, 1997]. People are much more likely to help innocent victims. This means that redistribution is likely to be a public

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good when it is clear that the poor are innocent victims of their circumstances. An example may be the outpouring of private and government help for the families of the victims who died in the World Trade Center tragedy. On the other hand, this also means that when it is clear that the poor brought their problems on themselves, then redistribution may even be a public bad. An exception may be "tough love" programs that help the non-innocent poor change their behavior.

Ideology also affects how the non-poor view the problems of the poor. Liberals, who feel that government redistribution shows whether people have compassion and a willingness to help those who have less, may also be inclined to view the poor as innocent victims of their circumstances [Sniderman, Brody, and Tetlock, 1991; Sniderman and Carmines, 1997]. On the other hand, conservatives, who feel that government redistribution reduces individual liberty, undermines private property rights, and often harms the poor, may be inclined to feel that the poor bring their problems on themselves because of their behavior [Sniderman, Brody, and Tetlock, 1991; Sniderman and Carmines, 1997].

Redistribution as a public good may also depend on how the poor perceive the intentions of the donors. If the poor perceive aid as a means to control or demean them, the poor may feel resentful and hostile towards the non-poor [Tesser, Gatewood, and Driver, 1968]. Donors who feel resented and receive hostility are less likely to view redistribution as a public good. For simplicity, this article assumes that the poor do not view redistribution as a means to control or demean them.

The second question addressed in this article is how do higher real wages affect the non-poor's altruism for the poor? It takes time to learn about the situation of the poor. A non-poor person may learn about the poor by volunteering to help the poor, through the news media, or through friends and acquaintances. Because of the substitution effect of higher real wages, it is more costly for the non-poor to volunteer, spend time with friends and acquaintances, or watch the news or read the newspaper.<sup>1</sup>

On the other hand, the income effect of higher real wages might induce the nonpoor to take more leisure time. With more leisure time, the non-poor may spend more time volunteering, spend more time with friends and acquaintances, or watch the news or read newspapers more. This article develops a model that explicitly includes the value of time and different levels of awareness of poverty.

### A MODEL THAT EXPLICITLY INCLUDES THE VALUE OF TIME AND DIFFERENT LEVELS OF AWARENESS OF POVERTY

Assume that to be aware of the needs of the poor, the non-poor must spend time learning about specific manifestations of poverty. The non-poor maximize the utility function  $U(x,y(t_y))$  where x is all other goods,  $y(t_y)$  is redistributed income, and  $t_y$  is the amount of time spent learning about the needs of the poor.

As discussed above, utility interdependence depends on knowing about the problems faced by the poor. Gaining the information necessary to perceive the needs of another person takes time. When the non-poor spend time (t<sub>v</sub>) learning about the problems of the poor,  $y(t_y)$  increases. In other words,  $\partial y(t_y)/\partial t_y > 0$  and redistribution is assumed to be a public good. Also, the poor are assumed to be homogeneous and x and  $y(t_y)$  are assumed to be normal goods.

The non-poor are constrained by the amount of available time:

$$(1) T = t_w + t_y$$

where T is the available time and  $t_{\scriptscriptstyle W}$  is the amount of time the non-poor work. Since T is constant, equation 1 implies that if  $t_{\scriptscriptstyle W}$  increases (decreases) then  $t_{\scriptscriptstyle y}$  must decrease (increase).<sup>2</sup>

The non-poor are constrained by the budget constraint:

$$(2) Wt_w = x + p_y y(t_y)$$

where W is the real wage rate and  $p_y$  is the price of redistributing \$1 to the poor. When transfers are made through government redistribution then  $p_y$  equals the tax price of redistributing \$1 to the poor.<sup>3</sup>

Even though this article assumes that the manifestations of poverty are reduced through redistributing income to the poor, the manifestations of poverty may also be reduced through implicit taxes on the poor. For example, if the non-poor are distressed by the housing of the poor, the non-poor can outlaw lower-quality housing through building codes or other means. This way the poor will spend a larger percentage of their incomes on housing and the non-poor don't have to pay for it ( $p_y = 0$ ). Also, non-poor homeowners have an incentive to outlaw lower-quality housing to increase the values of their own homes.

The Advisory Commission on Regulatory Barriers to Affordable Housing [1991] estimated that in the most severely impacted areas of the country, it is common for housing regulations to increase housing prices by 20 to 35 percent. A negative side effect of the higher housing prices is that some of the poor cannot afford the better housing and become homeless [Bohanon, 1991].

For each of the non-poor, the optimal allocation of consumption is:<sup>4</sup>

$$MU_{y}/MU_{x} = W/MPT_{y} + p_{y}$$

where  $MU_x$  is the marginal utility of consuming x,  $MU_y$  is the marginal utility of redistributing to the poor, and  $MPT_y \equiv \partial y/\partial t_y$ . The right-hand side of equation (3) is the full price of y. It includes both the time cost of understanding the needs of the poor  $(W/MPT_y)$  and the cost of redistributing \$1  $(p_y)$  to the poor.

 $MPT_y$  is the marginal product of time spent understanding the problems that the poor are encountering. In other words,  $MPT_y$  is how effectively the non-poor are in empathizing with the poor.  $MPT_y > 0$ . When  $MPT_y$  is a larger (smaller) number, the non-poor are more (less) effective in learning about and understanding the needs of the poor. Articles that assume perfect information implicitly assume that  $MPT_p$  is infinite. Also, the marginal cost of redistributing \$1 to the poor is lower (higher) when  $MPT_y$  is higher (lower). When  $MPT_y = \infty$ , the non-poor are able to effortlessly learn

about and understand the needs of the poor. In this case,  $p_{_y}$  is the full cost of redistribution.

Most previous articles, such as Hochman and Rodgers [1969] and Orr [1976], implicitly assumed that  $MPT_y = \infty$  for the poor of the nation and ignore the poor of the rest of the world. However, if all of the non-poor of the world have perfect information about the poor of the world then worldwide redistribution would be a public good. This is similar to Atkinson who expressed concern about the poverty in Third World countries when he said:

Poverty today is most obvious—and has the most pressing claim on our attention—on a world scale...The relief of famine, and the redistribution of income to alleviate poverty on a world scale, should have priority, but the problem of poverty in advanced countries, defined in their terms, may legitimately come next on the list of concerns...The income transfers which rich countries have so far made are of minuscule size when viewed against the magnitude of the problem of world poverty, and there can be little doubt that redistribution on a world scale is of the highest priority. [1987, 929, 933]

However, Horowitz and Bohanon [1996] showed that not only would worldwide redistribution be very costly but there is little political support for it. Gordon Tullock [1981] also showed that there is little political support for worldwide redistribution.

Notice that when  $MPT_y$  approaches zero, the full cost of y approaches infinity. In other words, in this case, utilities are not interdependent and y is not a public good.

However, it is also true that utilities may be interdependent and *y* is still not a public good. This is the case when an individual derives utility only from redistributing his own income to the poor but does not derive utility when another person gives to the poor, as with Andreoni's [1990] warm glow.

# BEING AWARE OF THE PROBLEMS OF THE POOR DEPENDS ON THE INTENSITY OF THE MESSAGES ABOUT THE POOR AND HOW AWARE THE NON-POOR ARE

This article assumes that to understand the problems that the poor are encountering, the non-poor must receive information about these problems, either through personal experience, from other people, or through the media. Even if a person gets the messages directly from others, however, the other people may have gotten their information from the media.

The media only has limited time to focus on any given story. Moeller [1999, 29-30] reports that TV news covers a story an average of about 80 seconds and the newspaper devotes an average 700-900 words. And even though newspapers can cover stories more in depth, people who read newspapers are not any better informed than people who get their news from TV and radio [Mondak, 1995; Brians and Walterburg, 1996]. It doesn't seem to matter what medium people get their information from, just

as long as they get the information. However, print may be important because it is often the only media to cover many local problems.

Zaller [1992] pointed out that the likelihood that people are informed depends on (1) the intensity of the messages they receive about poverty and (2) people's level of awareness. Awareness is how much the non-poor pay attention to the problems of the poor and how much they understand what they have encountered. In other words,  $MPT_y$  depends on the intensity of the message and the non-poor's level of awareness. If the non-poor are to understand the problems faced by the poor, there must be messages about the problems and the non-poor must be aware of the messages. If there is no message,  $MPT_y = 0$  and the non-poor will not be aware of the problems faced by the poor. On the other hand, if the non-poor don't pay any attention and are completely unaware of the problems faced by the poor,  $MPT_y = 0$  and again the non-poor will not be aware of the problems faced by the poor. There must be messages about the poor and the non-poor must be aware of the messages. Otherwise, redistribution is not a public good.

 $MPT_{y}$  will be larger the greater the intensity of the message and the greater the awareness of the non-poor. The intensity of a message depends on (1) the clarity of the message and (2) repetition of the message.

The more clear a message is, the more intense the message. In research to see how people responded to emergency situations, Darley and Latané [1968] staged fake epileptic seizures. If only one person saw it, the person helped 85 percent of the time. If five bystanders saw it, people helped 31 percent of the time. However, Clark and Word [1974] found that a maintenance man who was in contact with "dangerous" electrical wires was helped about 90 percent of the time even if other people were present.<sup>5</sup> One reason for the different results is that when witnesses are not sure if someone needs help, witnesses may look to other witnesses to see whether the situation is an emergency and what the appropriate way of responding. If no one else seems to be acting as if there is an emergency, then maybe it really isn't an emergency. However, if the situation is obviously an emergency, witnesses are much more likely to be convinced that the situation is in fact an emergency and aid may be very likely regardless of how other people act.

Knowing that people are more interested in messages that are clear, news organizations may not even broadcast messages until the message is very clear. For example, Moeller [1999, 13] mentions that aid agencies working in Third World countries usually can't get news coverage about starvation until after there are many bodies of people who have starved to death. Stories of people who are about to starve to death in Third World countries usually aren't considered newsworthy. One reason for this disparity is that it may be easier to identify a problem after people are dead rather than when they are about to die.

Normally, the more a message is repeated, the more intense the message. A single message is more likely to be missed and have no effect. On the other hand, messages that are frequently repeated over a period of time, such as media concerns about homelessness, may significantly increase the non-poor's understanding of the poor.

Of course, it is also possible for news messages to be fabricated or exaggerated. For example *Washington Post* reporter Janet Cooke won the Pulitzer Prize in 1981

for a story about a 7-8 year-old inner-city heroin addict. The story was later shown to be false [Harwood, 1998].

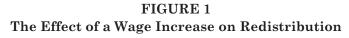
The non-poor's level of awareness depends on (1) the types of messages the non-poor pay attention to, 2) the non-poor's physical distance from the poor, and 3) the non-poor's psychological distance from the poor. Obviously, the non-poor will be most aware of the messages they pay attention to. Newhagen [1998] found that people are attracted to TV news images that make them angry and fearful such as the mistreatment of famine victims by the police or stories of rape and murder. On the other hand, people tend to "turn away" from images that are disgusting. For example, viewers tend to turn away from close-up images of the fly-covered face of an emaciated child. Newhagen also found that images that elicit anger and fear are remembered better than images that elicit disgust. This means that the non-poor will tend to watch and remember news stories that make them angry and fearful such as crime and police misconduct and will tend to avoid and not remember as well news stories that they find disgusting which might include the deprivations of poverty.

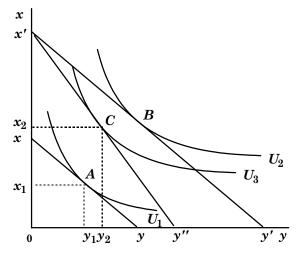
The non-poor are likely to be more aware of the poor the closer the physical distance. The non-poor are likely to be more aware of the problems of the local poor because, as Moeller [1999] pointed out, proximity to the audience is one of the criteria that the media uses to decide what stories to cover and that most people pay more attention to what is happening locally than what is happening internationally. The non-poor are also more likely to be aware of the problems faced by the poor they associate with such as friends, neighbors, people at work, and families that their children go to school with.

The non-poor are more likely to be aware of the poor the closer the social distance. Breit and Horowitz [1995] point out that communicating and interacting with people from other racial, religious, and ethnic communities may be more costly than interacting with people from your own racial, religious, and ethnic community. Thus, members of different ethnic, religious, or racial groups may have very little interaction even when they live in close physical proximity. And even when they do interact misunderstandings may abound. However, Breit and Horowitz [1995] also show that social distance is reduced when people better understand and communicate with people from other cultures. Likewise, social distance is reduced when people become more integrated into the dominant culture.

People interacting with people who are like themselves may lead to Salmon's [1987, 111-112] philanthropic particularism. Philanthropic particularism is the tendency for nonprofit organizations and their donors to focus on particular population subgroups. In other words, people who belong to a particular ethnic or religious group are likely to help other members of their particular ethnic or religious group.

However, people helping others who are like themselves may also be caused by collectivism. Batson [1998] defines collectivism as a motivation to help a group as a whole rather than any individual. Dawes, van de Kragt, and Orbell [1988] suggested that the collectivist motivation is a product of group identity. Emotions associated with collectivism include loyalty, group pride, team spirit, ethnocentrism, patriotism, and nationalism. Unfortunately, collectivism may permit or even encourage doing harm to those who are not part of the group [Batson, 1998].





## WHAT EFFECT DO HIGHER REAL WAGES HAVE ON PEOPLE'S DESIRE TO HELP THE POOR?

In equation (3), W is the value of the median voter's time. When W is a larger (smaller) number, the time cost and the full price of y are also larger (smaller). With the time included in the full-price of y, the net effect of a wage increase is to shift the budget constraint from xy to x'y'' in Figure 1.<sup>7</sup> This is because when W increases, (1) the individual's income increases, shifting the budget constraint out from xy to x'y' and (2) the full price of y increases rotating the budget constraint back from x'y' to x'y''.

Assuming both x and y are normal goods, when the budget constraint shifts from xy to x'y' the consumption of both x and y increases. When the full price increases, rotating the budget constraint from x'y' to x'y'', y will decrease. In other words, if the income effect is greater than the full price effect, y will increase. On the other hand, if the full price effect is greater than the income effect, y will decrease. In Figure 1, the net effect of the increase in income and the increase in the full price is that y increases from  $y_y$  to  $y_y$ .

An increase from  $y_1$  to  $y_2$  implies that when income increases, the percentage of household income redistributed to help the poor declines. Evidence for this is shown in Table 1. Hodgkinson and Weitzman [1992] found, of those households who contribute, higher-income households contribute a smaller percentage of their income to charities.<sup>8</sup>

Table 1 also shows that a smaller percentage of lower-income households contributed to charities than higher-income households (columns 2 and 5).<sup>9</sup> However, looking at all households who contributed, lower-income households contributed a larger percentage of household income to charities than higher-income households (columns

TABLE 1
Demographic Characteristics of Givers: 1991 and 1989
(Average Contributions of Contributing Households as a
Percentage of Income)

	1991			1989		
Income (1)	Percent of all respondents (2)	Average contri- bution (3)	Percent of HH income (4)	Percent of all respondents (5)	Average contri- bution (6)	Percent of HH income (7)
Under \$10,000	45.6	\$239	3.6	49.0	\$379	5.5
\$10,000-\$19,999	64.0	507	3.4	65.1	485	3.2
\$20,000-\$29,999	73.1	617	2.5	76.9	728	2.9
\$30,000-\$39,999	77.2	640	1.8	81.9	894	2.6
\$40,000-\$49,999	82.7	1,038	2.3	84.5	831	1.8
\$50,000-\$74,999	85.1	1,230	2.0	85.5	1,096	1.8
\$75,000-\$99,999	87.9	1,666	1.9	92.1	2,793	3.2
\$100,000+	91.1	2,450	2.5	86.8	2,893	2.9

The data in this table is from Table 1.19 (Page 57) in Hodgkinson and Weitzman [1992]. Results do not include respondents who answered "not sure" or who did not respond to this question. Numbers may not add up because of rounding.

4 and 7). On the other hand, columns 3 and 6 in Table 1 show that for households that contribute, higher-income households contribute more money than low income households. For example, looking only at families who contributed, a family earning \$60,000 is likely to give about 2 percent of their income (a donation of \$1,200). While a family earning \$17,000 is likely to give about 3 percent of their income (\$510).

Looking at lifetime income, higher-income households are more likely to be in their prime working age years and have children while lower-income households are more likely to be either elderly or younger. One reason that higher-income households are more likely to give than lower-income households is that people may ask prime working age families to give more often than younger households or even elderly households. For example, prime working-age families are more likely to be asked to donate to schools, Boy and Girl Scouts, and United Way than other households. On the other hand, lower-income households who donate may contribute more relative to the middle-income and top-income households because of the greater prevalence of the retired and the transitorily poor, whose incomes misrepresent their wealth.

Menchik and Weisbrod [1987] and Andreoni, Gale, and Scholz [1995] also found that higher wages reduce volunteer labor supply. Volunteers' awareness of the poor may decrease when they volunteer less. If the volunteers are less aware, they may also donate less. For example, Hodgkinson and Weitzman [1992, 61] note that volunteers donate 2.6 percent of household income versus non-volunteers who donate 1.4 percent of household income. Volunteers' average household donation is \$1,155 versus \$477 for non-volunteers. However, people who are more likely to donate may also volunteer more.

Also, when volunteers spend time assisting with fund-raising drives and informing others about poverty, they can increase the demand for redistribution. However, since higher real wages may reduce volunteer labor supply, the volunteers may spend less time informing other non-poor people about poverty and the demand for redistribution may decrease.

Nord [1998] found that the non-poor often move to get better jobs and to areas with fewer poor people. The poor are concentrated in the centers of large cities and in certain rural areas. Nord found that the working poor are as likely to move as the non-poor. However, the mobility of the poor and the non-poor tends to maintain and even increase the concentration of poverty in certain areas. In rural counties this is because (1) many non-poor moved out of these counties and (2) more of the poor moved into these counties than moved out. Both of these effects caused the poverty rate to increase in these rural counties. In counties in the central cities, even though out-migration was much larger than in-migration, poverty rates were pushed up by the much larger out-migration of the non-poor. Nord found that the proportion of low-wage jobs and low-cost housing had little effect on the non-poor. The non-poor moved to get better jobs, because of location relative to the center city, and because of natural amenities.

Mobility may cause wages to increase and the non-poor may be less aware of the poor because they are more distant from them. The greater distance between the poor and the non-poor may reduce  $MPT_y$ . This means that mobility on average increases the full cost of redistribution.

At the end of the 1800s poverty conditions were much worse than they are today. According to Popple and Reid [1999, 10], in the slum districts of many large cities indoor plumbing, hot water, and good ventilation were rare. Diseases spread easily and child mortality was the highest in U.S. history. The manifestations of poverty were much easier to see than today. Over the past century, economic growth and improvements in public health have greatly reduced the manifestations of poverty. Reduced manifestations of poverty decreases  $MPT_y$  and increases the full cost of redistributing income. If economic growth increases the wages of the non-poor and reduces  $MPT_y$ , the median voter may vote for fewer transfers or a reduction in the growth of transfers.

On the other hand, Reid and Lowe mention that the profession of social work "…especially since World War II, has supported nearly every major expansion of welfare state provision and has resisted late-century efforts at downsizing, privatizing, and reform" [1999, 5]. Welfare workers have an incentive to lobby for more redistribution. This means that government expenditures on welfare may increase even as altruism decreases.

As countries develop, people are more likely to live in cities. Milgram [1970] argued that people who live in cities are less likely to help others because city dwellers are bombarded with much more information. According to Milgram [1970], city dwellers manage the information overload by (1) ignoring low priority information, (2) spending less time dealing with the information they do have, and 3) reducing the intensity of the information by reducing their interaction with some people. One effect of these three strategies is that attention to the needs of others is diminished. Batson [1998]

reviews evidence that finds that dealing with more information causes people to be less helpful.

### SUMMARY AND CONCLUSION

To feel altruism for the poor, the non-poor must know that the poor exist and the causes of their problems. Because gaining this information takes time, the full cost of helping the poor includes both money and time involved in empathizing with the poor. This means that when real wages increase, not only do people's incomes increase, but because of the time involved, the cost of redistributing income also increases. Consequently, wage increases can result in increased, decreased, or unchanged charitable contributions. However, Hodgkinson and Weitzman [1992] found that, of those households who contribute, higher-income households contribute a smaller percentage of their income to charities.

The non-poor are most likely to be aware of poverty (1) the more obvious it is that the poor need help, (2) when stories about poverty are repeated often, (3) when the poor live nearby, and 4) when the poor are of a similar ethnic, religious, or racial group. Newhagen [1998] also found that the non-poor are attracted to stories that induce anger and fear but they turn away from images that are disgusting.

Over the last century, the higher real incomes of the poor have greatly reduced the manifestations of poverty. When poverty is less obvious, the non poor are not as likely to be aware of poverty and redistribution is not as likely to be a public good. In fact, the reduced manifestations of poverty may be the most significant factor reducing the altruism of the non poor.

#### **NOTES**

The author thanks anonymous referees, Cecil Bohanon, Ilan Eframian, and Gary Santoni for helpful comments.

- However, the non-poor may spend more time and be more aware of the problems of people they work with.
- 2. For simplicity the non-poor are assumed to either work or learn about the condition of the poor rather than take leisure time. However, time learning about the poor could also be time talking to friends and neighbors about the poverty of others.
- 3. Browning and Johnson [1984] and Colburn and Horowitz [1998] show how the tax price should include the welfare costs of taxation.
- 4. The non-poor maximize utility subject to a "full income" constraint. The "full income" constraint,  $WT = x + Wt_y + p_y y(t_y)$ , is derived by combining equations (1) and (2). Thus the Lagrangian becomes:  $\mathcal{L} = U(x, y(t_y)) + \lambda(WT x Wt_y p_y y(t_y))$ . The first-order conditions are:  $MU_x = \lambda$  and  $MU_y(\partial y/\partial t_y) = \lambda(W + y(\partial y/\partial t_y))$  where  $MU_x$  is the marginal utility of consuming x and  $MU_y$  is the marginal utility of redistributing to the poor.
- 5. The wires only appeared to be dangerous.
- 6. Hochman and Rodgers [1977] discuss the effect of location on political support for government redistribution
- 7. The equation for the budget line is  $x = Wt_W (W/MPT_v + p_v)y(t_v)$ .
- 8. Hodgkinson and Weitzman [1992] broadly defined charities to include such things as public television and radio stations, museums, schools and universities, wildlife sanctuaries, humane societies,

- hospitals, churches, and such groups as the American Heart Association, United Way, YMCA, YWCA, Red Cross, Rotary, Lions, Boys and Girl Scouts, and Little League.
- 9. The numbers in Table 1 only include donations to established charities. The numbers don't include informally helping relatives, friends, or the homeless. In 1991, 23.4 percent of households reported informally helping relatives, friends, neighbors, or the homeless. If the poor are more likely to help others informally while the rich are more likely to help through established charities such as the United Way, then these numbers may understate the contributions of the poor.
- 10. They also mention that social workers have become less central to the issue of poverty and have often not been effective pushing for increased funding.

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