

# **Percentage Philanthropy – An Experimental Research**

## ***Abstract***

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In Central and Eastern Europe, the presence of the civil sector has significantly increased since the early 90's. But the tradition of philanthropy has worn out through the decades of socialism. Therefore governments of the post-communist countries has tried to maintain the level of public goods while reducing their financial support. To help the fundraising of the nonprofit sector they worked out tax allowances for the affected organisations and for supporters as well. One of these instruments is the percentage system, where taxpayers could dispose over 1 or 2 percent of their personal income. This method was first introduced in Spain and Italy (Wyganski 2003.) to support churches, but extended in Central and Eastern Europe to a wide range of nonprofits.

The phenomenon that people are voluntarily contribute toward the provision of a public good is contradictory to the idea of economic rationality. It was also proven in public good games, where only a few free-rider – rationally behaving people – were noticed among the contributors (Ledyard 1994). It is also examined how social effects e.g. gender (Andreoni and Vesterlund 2001) influence the behaviour of people or how governmental subsidies could increase the private supply of public goods (Andreoni and Bergstrom 1996).

The author of this paper executed an experimental research project to explore how could the percentage system inspire altruistic behaviour of individuals and is there any spreading effect of this kind of governmental contribution. The research is based on experimental researches where the supply of public good is observed with and without the possibility of the special form of contributions – the percentage system. The details and parameters of the system are different in affected countries but the principle is the same: give the opportunity to people to decide which public good they prefer.

Through the inquiry groups will be examined through 10 rounds under two different situation to determine the Nash equilibrium with and without the presence of the percentage system. The government role is to multiply and reallocate contributions after being informed about individuals' decisions.

The paper will report the findings of our experimental research – compare the results with some empirical data. As a conclusion it brings out some parameters of the percentage system which affect the altruistic attitude of people, and shows weather a percentage system has a crowding out effect or as governments suppose inspire voluntary contributions to public good.

## References

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