

How are the victims of the free rider problem, namely nonprofit agencies

[Sociology](#)



Paul McCartney affirms that the best things in life are free in his song Money (That's What I Want), whereas Milton Friedman might argue that there is no such thing as a free lunch. Regardless of who you side with, it is undeniable that our society provides us with a plethora of free goods, some of which include: public broadcasting, education, and health and human services.

The predicament that stems from the availability of free goods in the marketplace is known as the free rider problem: an avid listener of NPR's "All Things Considered" doesn't see why she should be obligated to pay for public broadcasting when she has the ability to advantage of other people's efforts of funding this public good. Resultantly, a significant reason consumers choose to free ride is simply by observing the behavior of others that advocate the notion of: "Why should I be the one to pay when others are able to enjoy the same benefits without incurring any costs.

With this as a prevailing attitude in the marketplace, how are the victims of the free rider problem, namely nonprofit agencies, able to thrive when their economic survival critically depends on individual donations? Nonprofit agencies rely heavily on private donations. However, given the sluggish economy, a significant decrease in household savings, and an increase in personal debt, the challenge of finding potential benefactors is greater than ever. (Yavas, Ugur, Riecken, Glen and Babakus, Emin) Despite these pessimistic circumstances, nonprofits continue to prosper.

There are many different fundraising methods charities practice. Shaking a collection tin at someone and presenting a bid to a funding agency may seem like polar opposites - but what they have in common is that in both

cases they must first convince a potential donor that they would like to make a contribution to their particular project or cause. In order to compete in the marketplace, it is imperative for nonprofits to know why and what motivates consumers to donate to charity - these include: actual material return, religiosity, and pressure/exposure.

Does pure altruism really exist or do we act merely for personal gain? E. S Phelps (1975) defines the three motives surrounding an altruistic deed: as being "a quid pro quo for some implicit or conjectured quid"; as an unreciprocated transfer in which the giving provides its own gratification, and simply as a result of a general regard for human rights, social norms, etc. Accordingly, an individual often times will act in a charitable manner if she is convinced that such behavior will contribute to the creation of a public good that offers her some kind of tangible or intangible benefit. (Staub, 1974)

One example of altruism where the donor expects a direct benefit is that of donations to fund medical research. The American Heart Association distributes a publication that emphasizes the incidence of cardiovascular disease where 64 million Americans are stricken with heart problems and females are more likely to develop cardiovascular diseases. Although a benefactor who donates specifically to the American Heart Association may express her utmost concern and sympathy regarding the victims of cardiovascular diseases, however, when making a donation towards this cause, her primary concern may be a selfish one.

This act may be aimed at speeding up the rate at which a cure to heart disease is found, so that should she, sometime in the future, also be

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diagnosed with a cardiovascular disease, then a cure may be available for her use sooner than it otherwise would be. For this reason, her donation is intended primarily to provide a personal benefit, although others are able to benefit at the same time from this act since it is a public good and therefore cannot be prevented from being offered as a treatment. Altruism is an inherent element in American culture and stems from our puritanical roots.

Religion has been and still is a significant influence in regards to individual behavior and our behavior towards other human beings. One fundamental value preached by all faiths is that of charity. For example, Christians command their patrons to take interest in the welfare of others and to "love thy neighbor as thyself" (Matthew 22: 39). Wiebe (1981) discovered that there exists a difference between individuals who attend Church every Sunday out of obligation and individuals where religion is a focal point in their life - those with an intrinsic faith in God donate more.

Regardless, the widespread willingness of religious patrons to act benevolently means that the church is amongst the most successful recipients of donations, with followers donating a steady share of their income, assets, and time towards causes and activities that promote the "work and the word of God", which include education, health and wellbeing, and missionary efforts. However, as aforementioned, doubts exist as to whether people who donate due to religiosity are motivated exclusively by the love and compassion of mankind, or if other factors play a role in their generosity.

This is because religious teachings, especially those of Christianity, imply that if followers are charitable and donate alms, then they will be rewarded by having moral redemption for their earthly sins as well as immense riches in the afterlife. (Ecclesiasticus 3. 30) If it can be proven that such powerful incentives of eternal salvation or damnation are major factors in motivating people to be altruistic, then it is obvious that they are once again acting in order to increase their self-interest since they expect some reward for their goodness.

Although moral convictions and religiosity are significant factors which motivate individuals to donate to nonprofit organizations, the effects of social pressure and self-exposure also influence individuals to give to charity. When are people put in a demanding or stressful situations, will they be more inclined to donate? Pressure indeed plays a significant role regarding if one will or will not donate.

This pressure is put on mainly through personal exposure -- the amount that an individual contributes may depend on how observable the situation is. (Iannaccone, 1992) Of course, most people deny that they donating as a result of pressure. When agents are put under these pressure situations they will donate significantly more as opposed to no pressure situations. What goes through the mind of one who is sitting in church when the collection plate is passed to them approached by someone or called by someone trying to solicit a donation? Does the person feel pressured or uncomfortable, thus causing her to donate? The pressure and individual exposure in giving plays an important role in this case.

For instance, if you attend a large church with a sizeable congregation, there is virtually no pressure to give -- people who attend big churches are less likely to be noticed if they do or do not donate. (Iannaccone, 1994)

Conversely, at a smaller church, virtually everyone is able to see everyone else donating to the plate, which creates pressure to donate and avoid the embarrassment of not donating. The reason that people do not give at a big church is because they are less likely to be noticed therefore induces that free rider behavior.

They can still enjoy the moral satisfaction of easing their conscience by going to church but not having to pay the costs. However, churches are utilizing more methods to escape the free rider problem and collect more donations such as strategically placing congregation members around offering boxes and collection plates to warmly thank those individuals who do contribute their part to the church. Since church patrons are now noticed and exposed, they are less inclined to free ride due to the embarrassment of not donating. (Long, 1994)

Ultimately, privately financed public goods play a crucial role in our society and economy. Many important services are provided by charitably supported nonprofit organizations. Organizations such as the Red Cross, the Salvation Army and the United Way rely heavily upon voluntary contributions. As we have already established, the private provision of public goods potentially suffers from the free rider problem. However, the decision to give or not to give is influenced by many factors, primarily, altruistic tendencies, religiosity, and pressure.

The understanding of the motivations behind the voluntary provision of public goods is the reason nonprofit agencies are able to avoid the collective action problem. While free riding inevitable -- nonprofits seek to reduce this externality by centering the provision of public goods around social influences, where these social influences will penetrate the human conscience in an effort to decrease the level of free riding. Nonprofit organizations must continue to explore the question of what factors motivate people to donate money and then apply this information in attempts to capture the hearts, minds, and the conscious of consumers.