Do Fixed-Prize Lotteries Crowd Out Public Good Contributions Driven by Social Preferences?

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Abstract

Fundraising for public goods by private contributions is often undermined by free-riding. One prominent mechanism suggested to alleviate problem of free-riding is a fixed-prize lottery with winning probabilities proportional to individual contributions (Morgan, 2000; Morgan and Sefton, 2000). Yet, as extensively documented by economic experiments, subjects often contribute even in the absence of incentives of this kind, suggesting that their contributions are driven social preferences. This raises a question of how the lottery incentive interacts with social preferences. We present an experiment in which we de-couple the contribution effect of own prize seeking from the potential crowding out effect due to the perception that the others contribute because of their prize seeking, rather than to benefit the group. Even though the lottery increases contributions relative to the voluntary contribution case, we find that it also crowds out voluntary contributions that are likely driven by social preferences.

Keywords: public good game, crowding out, social preferences, lottery

JEL Classification: C91, D91, D03

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