Do People Invest in Local Public Goods with Long-Term Benefits?

Experimental Evidence from a Shanty Town in Peru

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Ultimate recipients of aid often do not receive a straight gift of money. Instead, money is often turned into public services. Lately, however, other types of local public goods have been initiated, wherein NGO donor agencies put efforts in mobilizing and empowering village communities to solve their own problems. We follow Swidler and Watkins (2009) in labelling these public goods with a participatory component as NGO services with commitment to sustainability. Voluntary contributions to public goods can be revealed with help of public good games. For public goods which cannot be provided in part, the threshold public good game can identify voluntary contributions to public goods. In this game, a public good of predetermined size is provided only if the sum of contributions equals or exceeds a certain threshold ((Rondeau et al., 1999).

Although the (threshold) public good game integrates revealed preferences in the investment decision, it only includes monetary gains for participants, which does not fit well with the type of local public goods that ultimate aid recipients normally receive. It is, therefore, unclear whether field referents can overcome confusion in this game. Moreover, benefits from NGO services with commitment to sustainability usually only occur in the long run. Excluding incentives related to time preferences could result in an overestimate of investment levels in public goods with long-term benefits.

Public good games in which the contents of the local public good were added to the description of the game have been used to see whether people with free-riding opportunities actually contribute to NGO services with commitment to sustainability. Confusion and exclusion of incentives related to time preferences could, however, result in a bias in the contribution rates. This could be one of the reasons that NGOs are sceptical about the beneficiaries’ willingness to invest in their services with commitment to sustainability.

Our paper discusses voluntary contributions to health education in a shanty town in Peru, using a new experimental setup to identify voluntary contributions to local public goods.

Our experiment enables individuals to contribute to a health education meeting and is related to the threshold public good game. First, participants in the experiment were given 20 soles. Thereafter, participants were given the choice whether and how much of their 20 soles they would invest in the health education meeting. The health education meeting would only continue if the cumulative investment level exceeded a certain threshold value. We combine our experimental methodology with a survey to explain our research findings with attitudes and personal characteristics. Moreover, we organised a complementary experiment to identify donations to a nutrition program.

Health education fits better with the type of public goods aid recipients normally receive than monetary benefits in public good games. Moreover, our experimental setup contains both revealed preferences and incentives related to time preferences, to identify voluntary contributions to local public goods. With our experimental setup we were able to answer the research question “Do people invest in local public goods with long-term benefits? Moreover, by collecting complementary survey data and data about donations to a nutrition program, we were able to find out about the extent to which time-preferences and short-term benefits of
NGO services with commitment to sustainability contribute to investment to NGO services with commitment to sustainability.

To identify the extent to which time-preferences and short-term benefits of NGO services with commitment to sustainability contribute to investment in health education, we had to operationalise time preferences and short-term benefits of health education. Time-preferences were inferred by asking participants hypothetical questions about choices over time. Health benefits usually only occur in the long run. For this reason, we hypothesized that contribution rates would decline with time-preferences.

Besides decisional value, non-decisional value of knowledge is also included in local public goods with commitment to sustainability, such as health education. This non-decisional value includes a decrease in concern and an entertainment value, the joy of learning (Borghi and Jan, 2008). These aspects are not included in traditional nutrition programs. Revealed preferences for short-term benefits of health education were operationalised by estimating the difference between investment in health education and donations to the nutrition program.

Attitudes towards health education were inferred by asking people for their opinion about general community and health education meetings. We hypothesized that people with more positive attitudes towards health education meetings would contribute more to health education than to the nutrition program, to account for the non-decisional value of health education.

Generally, individuals contributed a substantial amount of money, despite the long-term nature of the health benefits of health education. This result provides food for thought for aid policy. Aid distributors did not expect high voluntary contributions to public good provision. High discount rates only seem to have had a detrimental effect on investment in a poorer subsample. Results from the complementary experiment, to identify donations to a nutrition program, suggest that positive beliefs about short-term benefits of health education have played an important role in the investment decision. Individuals with positive attitudes towards short-term benefits invested significantly more to health education than to the nutrition program.

References

