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ARE TAXES AND DONATIONS TWO SIDES OF THE SAME COIN?
AN ECONOMIC-PSYCHOLOGICAL INVESTIGATION ON THE
FINANCIAL PROVISION FOR THE COMMON GOOD

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Abstract

Background: One of the biggest challenges to governments and institutions is to find arrangements that overcome the free-riding problem inherent in the financial provision for the common good, especially in the wake of the global financial crisis. In the economic literature, taxes and monetary donations have been regarded as two complementary ways of financially providing for the common good. Psychological literature, instead, failed to study systematically charitable giving and taxation in conjunction. Moreover, the concept of the 'common good' itself and its financial provision has not been investigated from a psychological perspective.

Aims: The present work aims to be a first exploration to fill the existing gap in the economic psychology literature and understand how to promote the financial provision for the common good. Also, it aims to shed some light on differences and commonalities between paying taxes and making charitable donations.

Methods: A mixed-method approach, combining qualitative and quantitative research tools, has been adopted. First, in order to gain a better understanding of meanings and representations associated with the financial provision for the common good through paying taxes and making donations, 15 in-depth interviews have been conducted using the Interpretative Phenomenological Analysis (IPA) approach. Next, an experimental study was conducted to test the effects of different frames on the intention to pay taxes and make charitable donations. A 2 (context of contribution: paying taxes vs. making donations) × 3 (framing condition: control, gain frame, and hedonic frame) mixed-factorial design was performed on 435 Italian participants. Following, a new metric aimed at assessing different motives for providing for the common good (CGP, Common Good Provision questionnaire) was developed and validated. Finally, a structural equation model was run in AMOS to test causal relationships between CGP motives and willingness to donate/evade money.

Results: The qualitative study showed that the acknowledgment of taxes and donations as two alternative and complementary ways to provide for the common good seems to stand merely on a formal and cognitive level, whilst at an affective level they appear to be very distant. When paying taxes, people are concerned mostly about the effects, and expect a material return (i.e., public services); when making a monetary donation, people are concerned mostly about the motivations, and expect an emotional return (i.e., personal fulfilment). These findings were also supported by the experimental study. It was found that a gain frame (i.e., material return) is only effective in increasing intended tax compliance, whereas a hedonic frame (i.e. emotional return) is only effective in increasing donation intention. Such frames are especially relevant when extrinsic motivation prevails (e.g., enforced tax compliance). Moreover, the distance at affective level between taxes and donations seems to mostly arise with the acquisition of real tax experience, as suggested by the difference that was found between students and taxpayers. Despite such differences, paying taxes and making donations are similar in that they share some common antecedents, which are the motives to provide for the common good. Both an exploratory factor analysis and a confirmatory factor analysis allowed the identification of two clearly interpretable factors, corresponding to two different motives for providing for the common good (CGP): ‘Accessibility’ (i.e., making the common good accessible to anyone and fulfilling people’s basic needs) and ‘Personal Gain’ (i.e., getting a return and personal advantage in exchange for one’s contribution). When ‘Accessibility’ motive prevails, people are more willing to pay taxes and make donations, whereas when ‘Personal Gain’ motive prevails, people are more likely to commit tax evasion and less willing to make monetary donations.

Conclusions: In conclusion, it is shown that taxes and donations are only partially two sides of the same coin. Some insights are offered to scholars, practitioners, and policy-makers to support the development of policies, interventions, and nudges aimed at promoting the financial provision for the common good.

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Introduction

The Sanremo Music Festival, held every year in the Ligurian seaside town of Sanremo, Italy, represents the most popular song contest in the country. Over the years, it has been followed by millions of viewers, becoming one of the most important ‘love-it-or-hate-it’ media events in Italy and a source of debate and controversy. One of the main sources of debate for its 67th edition in 2017 was whether Carlo Conti should have donated his €650,000 fee for hosting the contest to the populations in the centre of Italy that were recently struck by an earthquake.

On the opening night, Italian comedian Maurizio Crozza did not miss the chance to make an ironic statement about this issue. “Carlo, aren’t you proud that this year the first Sanremo controversy was about you?” said Crozza. “They said your fee is shameful, and RAI¹ should have given it to earthquake victims [...]. You also had to reveal to newspapers that you *do* make charitable donations, but you wanted to keep that to yourself.” After joking for a while, he added in a more serious tone, “Also, I would like to remind everyone that there are many ways to make charitable donations in this country. For example, there is a benevolent institution called IRPEF.² Unfortunately, many Italians do not know it, they’ve never heard of it! But I can assure you that if everyone gives what’s due to it, then it will be the [institution that] takes care of earthquake victims, gives resources to Civil Protection, and makes hospitals and schools work. Italian people, do you want to make a true donation [to] charity? Then, call your fiscal accountant!” He then facetiously apologized to the host for losing his audience as a consequence of reminding Italians to pay their taxes.

Of course, the comedian knew that taxes would not be considered a fun or light-hearted topic by Italian people. But what about comparing them with charitable giving? Was that simply a joke, or is there some truth behind it? To what extent are paying taxes and making donations two

¹ Italy's national public broadcasting company.

² Italian income tax.

sides of the same coin? Despite their intrinsic difference of being mandatory on the one hand (taxes) and voluntary on the other (donations), on a formal level they both involve decision making regarding the management of money that is not for personal use but – either by choice or under obligation – is given to third parties to handle. To this extent, they can both be seen as an expression of financial provision for the common good.

Given the existing literature gap on this topic, the present work aims to explore the issue of financial provision for the common good through paying taxes and making monetary donations. Studying taxation and donation together could help to shed some light on commonalities and differences behind the two processes, with the final aim of understanding how to promote both forms of cooperative and prosocial behaviour (and also why – despite the fact that they serve similar purposes – comparing them can be seen as a source of humor, as in the above-mentioned example). To achieve this aim, a mixed-method approach will be adopted.

The present work is structured as follows. First, a theoretical background to support the empirical studies will be presented. Literature on tax behaviour, charitable giving, and the common good will be reviewed, including both psychological and economic perspectives (Chapter 1). Next, an exploratory qualitative study aimed at investigating meanings and representations that are attached to the common good and its financial provision (i.e., by paying taxes and making monetary donations) will be presented (Chapter 2). Then, based on the results of the qualitative study, Chapter 3 will illustrate an experimental study aimed at testing whether different information framings can increase the intention to pay taxes and make charitable donations. Finally, the development and validation of a metric aimed at assessing different motives for providing for the common good will be presented, and a structural equation model will be tested (Chapter 4). The concluding section will summarize the main results and show how they could support the development of policies and interventions aimed at promoting financial provision for the common good. Limitations and future research streams will also be discussed.