Vote with their donations: An explanation about crowding-in of government provision of public goods

Ryo Ishida[1]

Abstract

This paper considers a mechanism where providers of public goods reflect donors' preferences for public goods. When asking individuals and private companies to contribute for a certain public good, it is widely known that the total contributions result in under-provision. Among the many countermeasures for this problem, some fundraisers adopt a measure to reflect large donors' preferences for the characteristics of public goods. In such a case, private contribution is enhanced because there is additional incentive to donate. We formalized such a measure theoretically and proved that this measure surely enhances private contributions. Moreover, we find that government direct subsidy may not only crowd-out but also even crowd-in private contribution under this framework. If fundraisers reflect the major donors' preference, the influence of one's donation is leveraged by government direct provision. This element enhances private contributions. If this effect dominates the innate crowding-out effect, government direct subsidy may enhance private contribution. This mechanism is a novel explanation for both crowding-out and crowding-in under an identical framework.

Keywords: private provision, public goods, crowding out, crowding in, voting
JEL classification: H23, H41, H44

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[1] Visiting Scholar, Policy Research Institute, Ministry of Finance Japan
3-1-1, Kasumigaseki, Chiyoda-Ku, Tokyo, 100-8940, JAPAN