

# Preferences for International Redistribution\*

Cagla Okten  
Department of Economics  
Bilkent University

Una Okonkwo Osili<sup>†</sup>  
Department of Economics  
Indiana University-Purdue University at Indianapolis

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## Abstract

In this paper, we examine the preferences for international redistribution using unique data from Panel Study of Income Dynamics (PSID) and the Generalized Social Surveys (GSS). We find low rates of private giving to international aid organizations. In addition, most U.S. households support reducing foreign aid rather than increasing assistance to other countries. We investigate two main explanations: (1) households may prefer low levels of both private and public giving to international aid organizations and support for global public goods (2) Perceptions of high levels of government giving crowd out private contributions towards global public goods and international aid.

## 1. Introduction

A central question is whether households in rich countries support increased funding for international aid. Currently, about 1.6 billion people— one fifth of the world’s population live in absolute poverty. A survey of OECD countries shows that official development assistance (ODA) to developing countries has been remained around 0.2 to 0.4 percent of GDP, nearly \$100 billion short of amount pledged by global leaders. The global financial crisis raises anew questions about the commitment in developed countries to increasing aid to poor countries.<sup>1</sup> In the United States, official development assistance as a fraction of GDP remains low when compared to industrialized nations. However, U.S. private

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<sup>†</sup>Corresponding author. Address: Department of Economics, IUPUI, 425 University Boulevard, Indianapolis, IN 46202, U.S.A. Phone: (317) 278-7219, Fax: (317) 274-0097, Email: uosili@iupui.edu

<sup>1</sup>There is also a long standing debate on the effectiveness of foreign aid (see Easterly (2003) for a review).

philanthropy flows of \$36.9 are estimated to exceed official aid assistance of \$21.8 billion (Index of Global Philanthropy and Remittances, 2009).

In this paper, we investigate preferences toward international redistribution. To our knowledge, this paper is one of the first to investigate households' private transfers and their willingness to support international aid. We develop a model of private transfers where households choose their private contributions towards international aid and support for official development assistance based on their preferences, endowments and official development assistance from government sources. Although there is a growing interest in the demand for redistribution, much of the existing literature focuses on support for domestic welfare programs (see Fong et. al, for a review). Within this literature, there are several reasons why households support income redistribution. Households may support domestic redistribution because they are low-income households and can directly benefit from government redistribution, or they favor redistribution as a means to insure against income shocks. Benabou and Ok (2001) provide a model in which poor individuals may not support domestic redistribution because they consider the potential loss from redistributive policies should they become rich in the future. Interhousehold preferences may also influence the extent to which households support redistribution (Luttmer, 2001). However, very little is known about the extent to which households support international redistribution. Unlike domestic welfare programs, households in rich countries are less likely to benefit directly from their support for international aid (Wilhelm and Ribar, 2002).<sup>2</sup>

To illuminate the motives for international redistribution, we draw on data on private contributions to international aid organizations using newly available data from the philanthropy supplement to the Panel Study of Income Dynamics (PSID). It is estimated that Americans gave \$307.65 billion to charity in 2008 (Giving USA, 2009). To put the size of the donations in perspective, U.S. households gave to charity last year an amount roughly equal to the national incomes of Norway or Indonesia. However, private giving to international causes is only 4.3 percent of overall charitable giving. According to the PSID, only four percent of all households surveyed have given to an international aid organization. From Figure 1, private giving to international causes does appear to be rising and reached 13.2 billion dollars in 2007.

To illuminate the factors that can explain preferences toward private giving to international aid and support for public international aid, we examine the role of individual and community level determinants. One candidate explanation that we explore is the role of one's social environment in influencing attitudes towards households in developing countries. To capture this effect, we include the fraction of a community that is foreign born. Between 1990 and 2005, the fraction of the foreign born in the U.S. population increased from 5 percent to close to 12 percent. Unlike past waves of immigration, recent immigrants are more likely to come from developing countries in Africa, Asia and Latin America. We examine the hypothesis that recent inflows of immigrants may influence attitudes and preferences towards international redistribution. Our approach is informed by a number of studies that document that exposure to the poor greatly impact support for domestic redistribution. Luttmer (2001) finds that support for welfare in the U.S. is characterized by racial group loyalty in that individuals increase their support for welfare spending as the

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<sup>2</sup>Micklewright and Schnepf (2007) analyze giving to overseas development using microdata from the U.K. Atkinson et (2007) examine trends in charitable giving to overseas causes in the past century.

share of welfare recipients from their own racial group in a given community increases.

We investigate the individual determinants of private contributions to international aid organizations using newly available data from the new philanthropy supplement to the PSID. Because official development assistance is an important component of international redistribution, we also study whether individuals support increased funding for international aid from government sources. We also examine the individual determinants of support for international aid using data from Generalized Social Surveys (GSS). Individual characteristics provide part of the explanation for giving behavior to international aid organizations. We find that households with higher levels of educational attainment are more likely to give to international causes, and to support official development assistance. Interestingly, although higher income households (measured by log permanent income) are more likely to contribute to international aid organizations, they are less likely to support increased official development assistance (ODA).

In general, isolating the impact of the social environment and community-level factors on household behavior can be challenging. Since it is unlikely that individuals randomly chose their county of residence, estimates of the impact of foreign born on preferences toward international redistribution may be biased. An important concern in the analysis is that the location decision could be shaped by the same unobserved factors that influence the decision to give to an international aid organization. In the empirical analysis, we can control for the role of time-invariant unmeasured community characteristics using county fixed-effects. We find that the share of the foreign born has a statistically significant impact on private giving to in and support for official development assistance (ODA).

The rest of the paper is organized as follows. Section II presents the conceptual framework. In Section III and IV, we discuss the data and empirical specification. Section V and Section VI present an overview of results and conclusions.

## 2. Model

In this section, we model the household’s decision to contribute to an international aid organization. The model has two main features and focuses on households residing in developed countries: First, it allows both self-interested and inter-household preferences to affect the household’s contribution decision. Second, it enables us to investigate the effects of government involvement on private contributions.

Consider a household  $i$  residing in a developed country that makes a monetary transfer,  $d_i$  to an international aid organization. We assume that there are  $N$  households in a given community, such that  $i \in \{1, \dots, N\}$ . International aid organizations provide services that can be enjoyed by all households such as global public goods, but mostly serve lower income individuals in developing countries.<sup>3</sup>

The utility to household  $i$ ,  $U_i$  is given by

$$U_i = U_{i_S} + U_{i_A} \tag{2.1}$$

where  $U_{i_S}$  is the utility from self-interest and  $U_{i_A}$  is the utility from altruism towards others.

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<sup>3</sup>International aid organizations include charitable institutions such as UNICEF and other international children’s funds, as well as organizations that provide international disaster relief such as OXFAM, or human rights organizations.

The utility of household  $i$  from self interest is given by

$$U_{iS} = w_i(y_i)S^{\alpha_i} + c_i^\beta \quad (2.2)$$

where  $S$  denotes the global public good, such as reducing global poverty obtained from the international aid organization,  $w_i$  is the weight that household  $i$ 's places on the global public good, such as reducing global poverty  $w_i(y_i) < 1$ , and it may be an increasing or decreasing function of income and  $c_i$  is private consumption. We assume that utility is concave in the public good, and in the consumption good such that  $\alpha_i, \beta \in (0, 1)$ .<sup>4</sup>

Household  $i$  may also care about the utility of others. Such interpersonal effects can manifest themselves as altruism, including the utility of others in the household's objective function. The utility of household  $i$  from altruism is given by

$$U_{iA} = w_{ij}(X_i, X_j)U_{jS} \quad (2.3)$$

where  $w_{ij}(X_i, X_j) \geq 0$  denotes the weight that household  $i$  places on the utility (from self-interest) of representative household  $j$  and  $U_{jS}$  is household  $j$ 's utility from self-interest.  $X_i$  and  $X_j$  are the characteristics of households  $i$  and  $j$  respectively. We will refer to household  $j$  as the foreign household and assume that  $w_j = 1$ . Note that this assumption implies that households in developing countries always value the global public good more than households in developed countries.

The consumption of the private good,  $c_i$  is equal to unearned income,  $y_i$ , less the opportunity cost of transfers to the community organization,

$$c_i = y_i - d_i - \tau(y_i, d_i) \quad (2.4)$$

$\tau(y_i, d_i)$  is the income tax,  $\tau_{d_i}(y_i, d_i)$  is the marginal tax rate and  $\tau_{d_i}(y_i, d_i) = -\tau_{y_i}(y_i, d_i)$

The timing is as follows: (1) Households in developed countries make their monetary contributions to the international aid organization, and (2) The international aid organization produces global public good.

The services produced by the international aid organization depend on total amount of private contributions, government involvement, and costs of production. We model the production of services as follows:

$$S = f \left( \sum_{i=1}^N d_i, G \left( \bar{w}_i, \bar{w}_{ij}, \sum_{j=1}^N \tau(y_j, d_j) \right) \right) \quad (2.5)$$

where  $d_j$  denotes the money contributions of household  $j$  to the organization,  $G$  denotes the level of government involvement through monetary transfers.  $\bar{w}_i$  and  $\bar{w}_{ij}$  are the weights that median voter places on the global public good and the utility of the foreign household respectively. We assume that  $G$  is an increasing function of  $\bar{w}_i$  and  $\bar{w}_{ij}$ . We assume that services are increasing in the level of household contributions and government transfers ( $f_1 > 0, f_2 >, f_3 > 0$ ). In addition, the production function is assumed to be concave in household transfers.

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<sup>4</sup>In addition, we assume that income of the median voter is not too large so that at equilibrium, she will not be the sole contributor towards the public good.

We now solve the model using backward induction. Household  $i$  chooses its level of contributions based on this assumption and solves the following problem:

$$\max_{d_i} U_i = w_i S^{\alpha_i} + (y_i - d_i - \tau(y_i, d_i))^\beta + w_{ij}(X_i, X_j) w_j S^{\alpha_j} \quad (2.6)$$

The household's first order condition with respect to  $d_i$  is given by

$$[\alpha_i w_i S^{\alpha_i-1} + w_{ij}(X_i, X_j) w_j \alpha_j S^{\alpha_j-1}] (f_1 + f_2 G_\tau \tau_{d_i}) - (1 + \tau_{d_i}) \beta (y_i - d_i - \tau(y_i, d_i))^{\beta-1} = 0 \quad (2.7)$$

We assume that the average tax rate is  $\text{atr}$ ,  $\tau(y_i, d_i) = \text{atr}(y_i - d_i)$  marginal tax rate is  $\text{mtr} = \tau_{y_i}(y_i, d_i) = -\tau_{d_i}(y_i, d_i)$ . First order condition becomes

$$[\alpha_i w_i S^{\alpha_i-1} + w_{ij}(X_i, X_j) w_j \alpha_j S^{\alpha_j-1}] (f_1 - f_2 G_\tau \text{mtr}) - (1 - \text{mtr}) \beta (y_i - d_i - \tau(y_i, d_i))^{\beta-1} = 0$$

$$\text{sign} \frac{\partial d_i}{\partial y_i} = \text{sign} \left( \begin{array}{c} [\alpha_i (\alpha_i - 1) w_i S^{\alpha_i-2} + w_{ij}(X_i, X_j) w_j \alpha_j (\alpha_j - 1) S^{\alpha_j-1}] (f_2 G_\tau \tau_{y_i}) (f_1 + f_2 G_\tau \tau_{d_i}) \\ + [\alpha_i w_i S^{\alpha_i-1} + w_{ij}(X_i, X_j) w_j \alpha_j S^{\alpha_j-1}] (f_{12} - f_{22} G_\tau^2 \tau_{y_i} \tau_{d_i} - f_2 G_\tau \tau_{\tau} \text{mtr}^2 - f_2 G_\tau \tau_{y_i y_i}) \\ \dots \end{array} \right)$$

$$\text{sign} \frac{\partial d_i}{\partial G} = \text{sign} \left( \begin{array}{c} [\alpha_i (\alpha_i - 1) w_i S^{\alpha_i-2} + w_{ij}(X_i, X_j) w_j \alpha_j (\alpha_j - 1) S^{\alpha_j-1}] \otimes \\ f_2 (f_1 - f_2 G_\tau \text{mtr}) + [\alpha_i w_i S^{\alpha_i-1} + w_{ij}(X_i, X_j) w_j \alpha_j S^{\alpha_j-1}] (f_{12} - f_{22} \text{mtr}) \end{array} \right)$$

Assuming that  $\frac{\partial G}{\partial y_i} = \frac{\partial G}{\partial d_i} = 0$ , first order condition is

$$[\alpha_i w_i S^{\alpha_i-1} + w_{ij}(X_i, X_j) w_j \alpha_j S^{\alpha_j-1}] f_1 - (1 - \text{mtr}) \beta (y_i - d_i - \tau(y_i, d_i))^{\beta-1} = 0$$

Comparative statics are:

$$\text{sign} \frac{\partial d_i}{\partial y_i} = \text{sign} \left( \begin{array}{c} \alpha_i w'_i(y_i) S^{\alpha_i-1} f_1 + \tau_{yy}(y_i, d_i) \beta (y_i - d_i - \tau(y_i, d_i))^{\beta-1} - \\ (1 - \text{mtr}) \beta (\beta - 1) (1 + \text{mtr}) \end{array} \right)$$

The third term in the above equation is positive. The second term is likely to be positive. The first term is positive if  $w'_i(y_i) > 0$ .

$$\text{sign} \frac{\partial d_i}{\partial G} = \text{sign} \left( \begin{array}{c} [\alpha_i (\alpha_i - 1) w_i S^{\alpha_i-2} + w_{ij}(X_i, X_j) w_j \alpha_j (\alpha_j - 1) S^{\alpha_j-1}] f_1 f_2 + \\ [\alpha_i w_i S^{\alpha_i-1} + w_{ij}(X_i, X_j) w_j \alpha_j S^{\alpha_j-1}] f_{12} \end{array} \right)$$

If household transfers and government transfers are substitutes ( $f_{12} < 0$ ) then  $((\blacksquare d_i)/(\blacksquare G)) < 0$ . If on the other hand, household transfers and government transfers are complements ( $f_{12} > 0$ ), sign of  $((\blacksquare d_i)/(\blacksquare G))$  of is ambiguous.

### 3. Data

#### 3.1. Data on Private Giving to International Organizations

In this study, we define charitable giving to international purposes as contributions to qualified nonprofit international aid organizations that are eligible for the charitable deduction

according to the definitions provided by the Internal Revenue Service. The data is based on a new philanthropy module available in the Panel Study of Income Dynamics PSID. The philanthropy module used in this paper is unique because it provides high-quality data on private giving, comparable to the U.S. Individual Taxpayer Return data (Wilhelm, 2002). Most existing data sources on U.S. charitable giving do not provide both high quality information on income and wealth and accurate information on charitable behavior.

The key dependent variable in our study is charitable giving to international aid organizations. The measure of giving to international aid organizations is constructed using the following question, which was posed to PSID survey respondents: “During the year 2000, did [you/you or anyone in your family] donate money, assets, or property with a combined value of more than \$25 to a charitable organization that served the following purposes: international aid or world peace? We examine “giving” as dichotomous variable, which is equal to 1 if individual  $i$  gave a transfer to a charitable organization that focused on international aid or world peace in the survey year, and 0 otherwise.

The data set provides a comprehensive picture of the individual and community environment for a large number of households. In particular, the PSID has a rich set of income and wealth measures, which we exploit in order to fully capture the household’s economic position. As permanent income tends to have a larger effect on charitable behavior than transitory income sources (Auten, Holger-Sieg, and Clotfelter, 2002), we use a measure of the household’s permanent income. The measure of permanent income is based on average family income from 1997, 1999, and 2001 waves of the PSID.

In the analysis, we also include several individual household characteristics, such as age of household head, age squared, marital status, gender, educational attainment, race and ethnic origin, family size, unemployment status, immigrant status, and household income. To account for regional variation in charitable giving, we classify households into six geographic regions based on their state of residence. Given the tax-deductibility of charitable contributions, higher marginal tax rates should lower the price of charitable giving. The price of formal charitable giving is calculated by 1 minus the marginal tax rate for itemizers and unity for non-itemizers. We calculate the marginal tax rate for itemizers using TAXSIM version 5 (Feenberg and Coutts, 1993). We also include individual attributes that may affect international redistribution including trusting attitudes towards others available in the 1968-1972 waves of the PSID and data on residential mobility.

To obtain measures of the foreign born and other community characteristics, we rely on the 1990 and 2000 Census Data. We then link U.S. 2000 census data at the county and Metropolitan Statistical Area (MSA) levels to the PSID household-level data using geographic identifiers available from the PSID.<sup>5</sup> The United States has witnessed significant changes in immigration over the past two decades. Between 1990 and 2000, the foreign-born population in the United States grew by 57% to 31 million people. Today, at least one in nine U.S. residents is foreign born. Because a growing share of immigrants come from countries in Africa, Asia and Latin America, immigration is also shaping U.S. demographic trends. According to the 2000 U.S. Census, approximately 30 percent of the U.S. population

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<sup>5</sup>Some of the data used in this study are based on the sensitive PSID-Geocode Match files, obtained under special contractual arrangements from the Panel Study of Income Dynamics meant to protect the anonymity of the respondents. These data are not available from the authors. For more information, please contact the PSID directly at psidhelp@isr.umich.edu.

currently belongs to a racial or ethnic minority group. Using the 1990 and 2000 Integrated Public Use Microdata Sample (IPUMS) and 1990 and 2000 U.S. Census Summary File 3, we construct measures of population, income, and the fraction of the population that is foreign born.

Table 1 provides summary statistics from the PSID. The fraction of households that contribute to international aid organizations is relatively small. In 2000, only 3 percent of households report donating to an international aid organization. In general, a large fraction of households donate to U.S. charitable organization (over 60 percent of our sample).<sup>6</sup> We should note that nearly 30 percent of households contributed money or materials to a domestic organization that served the needy.<sup>7</sup> One measurement concern may be that individuals give to international causes through other channels—for example through religious organizations. Some recent evidence from the 2008 Index of Global Philanthropy suggests that U.S. religious organizations play an important role in private giving to developing countries.<sup>8</sup> We explore this issue in more detail in the empirical analysis.

### 3.2. Data on Support for International Aid

An important question in our analysis is the extent to which households support international redistribution. Because official development assistance is an important component of international redistribution, we also study whether households support increased international aid. Interestingly, the General Social Surveys (GSS) which have been conducted by the National Opinion Research Center (NORC) annually since 1972, and biennially beginning in 1994 has surveyed U.S. households on their attitudes towards international aid.<sup>9</sup> The main goal of this component of the GSS data is to survey U.S. households on a range of topics that concern government spending. Although the content of each GSS survey may vary slightly over time, nearly every survey year has contained questions about the extent to which households support public international aid.

The key variable of interest is the extent to which individuals support government assistance to other countries. The specific question posed to GSS respondents is as follows: "We are faced with many problems in this country, none of which can be solved easily or inexpensively. I'm going to name some of these problems, and for each one I'd like you to

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<sup>6</sup>In the 2003 PSID data, conditional on giving, the average amount contributed to international causes was about \$250. As a percentage of total giving, households contribute about 1 percent of the total charitable giving to international aid organizations. The amount given to international aid organizations is not available in 2001.

<sup>7</sup>The PSID data also allows us to examine the allocation of charitable contributions across other categories of giving and in the results section we discuss some findings on the incidence and levels of giving for six categories of charitable institutions: religious institutions, organizations that served a combination of purposes (such as the United Way), organizations that serve the needy, health care or medical research organizations, educational, and other charitable institutions.

<sup>8</sup>Based on a survey of congregations, the Center for the Study of Religion and Society at Notre Dame and the Center of Global Prosperity at the Hudson Institute estimate U.S. religious giving to developing countries at \$8.8 billion in 2006.

<sup>9</sup>The survey was not conducted in the following years: 1979, 1981, and 1992.

tell me whether you think we're spending too much money on it, too little money, or about the right amount on assistance to other countries."

Figure 2 shows public support for U.S. official development assistance since 1972. It is striking to note that most households report that aid is too high. In particular, over 60 percent of U.S. households report that the government is spending "too much" on foreign aid, while about 20 percent report that the U.S. is spending the "right amount" on international aid. The fraction that report that aid is too low has remained below 10 percent. In the 2000-2004 waves of the GSS, only 8 percent of the sample reported that the U.S. government is spending "too little" on international aid. We focus on the 2000-2004 waves of the GSS to allow for comparability of results with the PSID philanthropy supplement.

We have also obtained the confidential geographical files from the GSS which allow us to link a household's record to county-level information from the 2000 Integrated Public Use Microdata Sample (IPUMS) and the 2000 U.S. Census Summary File 3 County-level Data Census on percent foreign born, population, and median income within a given community as well as other community level variables.

### 3.3. Empirical Specification

#### 3.3.1. Private Contributions to International Aid Organizations

This section presents an empirical model of a household  $i$  residing in a given community  $k$  decision to contribute money, assets, or property to an organization that serves international aid purposes. Let  $i$  index households and  $k$  index communities. We specify the following empirical model for private contributions:

$$Y_{ik} = B_1 + B_2X_{ik} + B_3C_k + e_{ik} \quad (3.1)$$

where  $Y_{ik}$  is, the "latent variable" in the analysis that measures the net expected utility to household  $j$  residing in community  $k$  from contributing to an international aid organization,  $X_{ik}$  represents a vector of observable and unobservable household characteristics including head's race, age, sex, marital status, years of schooling, household size, number of children in the household, log per capita permanent income;  $C_k$  is a vector of community characteristics including the fraction of the foreign born in community  $k$ , (log) population and (log) median income.  $e_{ik}$  is the error term with  $E[e] = 0$ ,  $Var[e] = 1$ .

We do not observe the "latent" variable,  $Y_{ik}$  but only the choice made by the household, which takes the value 1 if household contributes money to the charitable organization that serves international aid purposes (i.e.  $Y_{ik}$  is positive), and 0 otherwise.

$$P_{ik} = 1 \text{ if } Y_{jk} > 0, 0 \text{ otherwise}$$

We then estimate a probit specification where the dependent variable is  $P_{ik}$ . The specification includes a rich set of household and community characteristics as explanatory variables.

The dataset contains information on private giving to international aid organizations, but it is important to recognize that monetary transfers realized do not capture  $Y_{ik}$ . Economic theory suggests that the household makes a marginal benefit-marginal cost calculation when deciding on the level of transfers.  $Y_{ik}$  represents the difference between marginal benefits and marginal costs.

### 3.3.2. Support for Public International Aid

We adopt a similar specification when we examine whether a given household supports increased government funding for international assistance. The only difference from equation 3.1 is that  $D_{ik}$  is, the "latent variable" in the analysis that measures the net expected utility to household  $i$  residing in community  $k$  from increased official development assistance. Household and community specific variables and the assumptions on the error term are defined similar to equation 3.1. We then estimate a probit model since we can not observe the latent variable, but only the choice made by the household, which takes the value 1 if household supports international aid, and 0 otherwise.

## 4. Results

### 4.0.3. The Decision to Give to an International Aid Organization

Table 3 presents the baseline probit regression model using the data on private giving to international aid available in the PSID. We first examine individual and household variables, and their effect on private giving to international aid. The dependent variable is equal to one if a household contributes money to an international aid organization, and 0 otherwise. The first set of estimates are marginal effects; we also report coefficients from a probit specification as well as heteroskedasticity corrected standard errors adjusted for county-level clustering of residuals.

From the results, a picture of the household-level determinants of contributions to international aid organizations emerges. Higher income households (measured by log permanent income) are more likely to contribute to international aid organizations.

Consistent with other studies on charitable giving, we find that educational attainment is positively associated with giving to an international aid organization. College graduates are nearly 3 percentage points more likely to give to international aid organizations compared to household heads who have an incomplete high school education. Household heads with advanced degrees have the highest likelihood of contributing to an international aid organization. Heads with advanced degrees are nearly 5 percentage points more likely to give to an international aid organization compared to household heads who did not complete high school. We also find that foreign-born households are 3 percentage points more likely to contribute to international aid organizations. In contrast, being non-white decreases the probability of giving to international aid organizations by only 0.9 percentage points; this effect is only marginally significant. Interestingly, age and gender of head, employment status, marital status, religious denomination (Catholic=1), household size and price of giving do not have a statistically significant impact on the probability of giving to an international aid organization.

#### 4.0.4. Support for Public International Aid

In this section, the key dependent variable is support for increased official development assistance. Although the results from the PSID provide important insights into the determinants of private support of international aid organizations, support for official development assistance may differ. To complement the analysis, we also use additional data from the GSS on private attitudes towards public funding toward international redistribution. These results are presented in Table 4. When we turn our attention to the GSS data set, we find some similarities between private contributions and preferences for public funding for international aid. Individuals with advanced degrees are also 5 percentage points more likely to support public funding for international aid. In particular, foreign born individuals are more likely to support greater public funding for international aid consistent with their attitudes towards private giving. There are some noteworthy differences. Non-whites are about 5 percentage points more likely to support increased public funding for international assistance, while being non-white had a small, but negative impact on giving to an international aid organization.

An interesting result is that higher income households are less likely to support increased public funding for international aid, while we found that income had a significant positive impact on private giving to international aid organization. One potential explanation for these findings is that high-income households may be less likely to support higher levels of official development assistance, if the dominant perception is that the tax burden associated with higher ODA will fall largely on the rich. In contrast, lower income households may support higher ODA for the same reason. A high income household may choose to give privately to international aid organizations, but oppose higher ODA, particularly if international nonprofits are perceived as more effective in meeting the needs of poor households in developing countries compared to government aid (Micklewright and Schnepf, 2007). Because the GSS data has limited information on household income, we have also included several additional controls that capture a household's permanent income including location dummies and occupation dummies. We should also note we control for self-reported political affiliation. Compared to Democrats, Republicans are less likely to support increasing ODA. Even with these additional controls, we find less support for increasing official development assistance (ODA) among high income households.

#### 4.1. The Impact of Community Characteristics on International Redistribution

In Table 5, we examine the community-level determinants of support for international redistribution. In these regressions, error terms are clustered at the community level.<sup>10</sup> Interpersonal preferences may constitute an important channel through which community characteristics affect private redistribution to international causes. Consistent with the theoretical predictions, the share of the foreign born in a county has a positive and statistically significant effect on the probability of private giving to international aid organizations. In Table 5, we include county population and median income (both measured in logs) together with the measures of foreign born population. The community population and income measures

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<sup>10</sup>In the empirical analysis, community refers to the five-digit Federal Information Processing Standard (FIPS) code which uniquely identifies counties and county equivalents in the United States.

are not statistically significant in our empirical model of private giving to international aid organizations.

The inclusion of county-level variables does not change signs and significance of individual controls. The coefficients on individual and household controls are very stable and robust to different specifications. Therefore, in the interest of space from now on we will not report them, although it should be noted that they are included in all the specifications. We now turn to further examine the robustness of community characteristics including the fraction of the foreign born on support for international aid.

#### **4.1.1. Is Private Giving to International Aid underreported?: Evidence from other charitable activities**

An important concern in this study is the need for the accurate measurement of giving to international causes. The percentage of households that report contributions to international causes is strikingly low –only about 3 percent of households. One possibility is that private contributions to international aid are under reported. This is likely to be a relevant concern if a sizeable share of households underreport their private donations. Consider a household that supports international causes not through international aid organizations, but rather by donating to a religious organization and/or combination purpose organizations or an organization that serves the needy. Religious congregations are likely to be important as they account for nearly 25 percent of all U.S. non-profits. However, estimates suggest that more than 70 percent of religious contributions are spent on "club goods", or services that provide direct benefits to their membership (Biddle, 1992). Unfortunately, the role of churches and other religious congregations in U.S. international giving, through relief and humanitarian assistance as well as overseas missions is not well understood.<sup>11</sup> We should also note that volunteering for international purposes which is likely to be better measured is also very low. Less than 0.1 percent of individuals report volunteering for an international purpose (Current Population Survey, 2003).

To explore these measurement concerns further, we study giving to religious institutions as well as giving to combination organizations, and organizations that serve the needy. In Table 6, column 1, the dependent variable is 1 if household has contributed to a religious organization, and 0 otherwise. Columns 2 and 3 examine whether a household has contributed to a combination purpose organization (such as a local United Way) or an organization that serves the needy. Interestingly, neither the percentage of foreign born and nor immigrant status are positive and significant in these regressions. Interestingly, the size of a community (measured by log population) has a positive impact on giving to combination organizations and organizations that serve the needy (but does not have an impact on giving to an international aid organization). Median community income is positively associated with giving to the needy in a given community, but does not have a significant impact on private giving to international causes. Finally, we also examine giving to international aid organizations for individuals that did not give to religion. For this group of individuals

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<sup>11</sup>There is some evidence that religious congregations are increasing their focus on international programs for disaster relief, health care, agriculture, and education rather than religious activities abroad (USAID, 2002).

who contribute only to secular causes, we find that an increase in the foreign born remains associated with a higher probability of contributing to an international cause. These results increase our confidence in the results on the community determinants of private contributions to international aid organizations. Because the results on giving to religion or combination purpose organizations appear quite distinct from the results on giving to international aid, it does not appear that our findings are driven by measurement error in the extent to which individuals support international causes.

#### 4.1.2. Endogeneity of Location Choice

One interpretation of the findings on private giving to international aid organizations is the "exposure effect" in which individuals tend to develop a preference for international giving as they gain more exposure to the foreign born. Although the results on the foreign born have been shown to be of importance when compared to other community-level variables, there is a need for caution in the interpretation of these results. In Table 7, we further explore the robustness of the results. As noted earlier, isolating the impact of community-level outcomes on social and economic outcomes can be complex. Since individuals generally choose their county of residence in a non-random manner, estimates of the impact of the foreign born on giving to international causes may be biased. An important concern in the analysis is that the location decision could be shaped by the same unobserved factors that influence the decision to give to international aid organizations. To illustrate this point, suppose an individual who is more generous chooses to reside in a community with a higher fraction of the foreign born. The omission of individual variables (taste for giving, generosity) from the analysis may lead us to find a spurious "foreign born effect."

In order to assess the endogeneity of location choice, we attempt to estimate whether patterns of private giving to international aid organizations are different for long time residents compared to recent movers to a given community. One could argue that a person who has recently moved to a location may have preferences for its international heterogeneity/homogeneity. Furthermore, it is also likely that a recent mover would have a lower "exposure effect" and may be less affected by the presence of the foreign born within the community when compared to a long time resident.

Indeed, we do not find any effects of the percentage of foreign born on the giving behavior of recent movers (those who have moved to the community in the last five years) in Column 1. However, the fraction of the foreign born in the population does have a positive and significant effect on the international giving for non-movers. Two candidate explanations for these findings are consistent with these findings. First, households that have recently moved to a community in the past five years to a given community may lack sufficient exposure to the foreign born. Second, it is also possible that individuals who have not moved may differ from non-movers along unobserved dimensions. These findings reinforce the need to deal with unobserved heterogeneity at the individual and community level.

In column 3, we take additional steps to deal with unobserved heterogeneity induced by unobserved individual attributes such as trusting attitudes towards others that may affect both location choice and international giving. In order to control for omitted variable bias, we control for the level of trust one has in others. This variable is constructed using family level data from PSID for years 1968-1972. The question which was posed to PSID

respondents asks whether the household head trusts most other people, some or very few. A lower number if this trust index indicates a higher level of trust in others. Column 3 includes the trust variable as an additional variable. We use the average of these years. While the trust variable is negative, it is not statistically significant. We should note that the percentage of foreign born remains positive and significant at the ten percent level, when we control for trust at the individual level.

#### **4.1.3. Do Additional Community Characteristics Matter?**

Beyond the exposure effect, the foreign born may impact private giving through other channels. In particular, an increased share in the foreign born population may also increase ethnic diversity and/or income inequality within a community. The existing literature suggests that income or wealth inequality can affect incentives to contribute to public goods or may increase the transaction costs of community-level action (LaFerrara, 2001) and these may have implications for charitable donations. Okten and Osili (2004) find that ethnic diversity has a negative and significant effect on the probability and the amount of contributions made to community level organizations. To measure income inequality, we construct the Gini coefficient index using 2000 Census data at the county level. From Table 8A, we note that the fraction of the foreign born within a community tends to be highly correlated with income inequality and ethnic diversity. In fact, the correlation coefficient between the percentage of foreign born and ethnic diversity (Gini coefficient) is 0.61 (0.42) and significant at one percent. To measure the role of other county-level variables, we control for income inequality at the community-level using the Gini coefficient index. Although income inequality is positively associated with international giving, neither the Gini coefficient nor the fraction of the foreign born in a community is significant when we include both variables in the regressions. In order to explore the effect of ethnic diversity, we also control for this variable. Interestingly, ethnic diversity has a positive effect on private contributions to international aid but this effect is not statistically significant.

#### **4.1.4. Community Perceptions of Public International Aid**

According to models of charitable giving, government transfers may crowd out private contributions if government transfers and private contributions are substitutes in the production of goods that benefit international aid recipients. In this section we investigate the hypothesis that low levels of private support for international aid organizations can be explained by perceptions that a high fraction of government funding is allocated to international aid. To capture perceptions of government funding toward international assistance, we use county-level data on the fraction of respondents in the GSS that report that the U.S. is spending “too much” on international assistance.

We do not find any evidence for crowding out. In fact, the measure of perceptions of government transfers is positive and statistically insignificant. The fraction of foreign born in a community remains positive and significant even after we have controlled for perceptions of public international aid.

From the GSS data we also construct a county level trust variable. Since questions on trusting attitudes towards others were included in the 2001-2004 GSS surveys. When

we include this community level trust variable, we find that individuals that live in communities that have higher levels of trust in others are more likely to give to international aid organizations. The percentage of foreign born remains positive and significant in this regression.

We also included other community level measures constructed from the GSS data such as the fraction of a community that report frequent newspaper readership, political affiliations within a community, and support for domestic welfare in a given community. While these variables are not found to be significant, the share of the foreign born has a positive and significant effect on private contributions to international aid organizations. These results are available upon request.<sup>12</sup>

#### 4.1.5. Decomposing the Impact of the Foreign Born

The results above provide suggestive evidence that the percentage of foreign born influence private donations through the exposure of natives to the foreign born. However, the foreign born are not a homogeneous group –and the composition of this population varies across the country. The foreign-born population in the US also tends to be geographically concentrated with about one-fourth of the foreign-born, residing in California, and New York and Florida. We exploit the variation in the foreign born population. In Table 9, we decompose the foreign born by region of origin. Using 2000 census data, we calculate the share of the foreign born from North America, Europe, Asia, Africa, Latin America and Oceania for each county in the sample. The results in Table 9 allow us to further explore the mechanisms for this results and the robustness of the findings. We find that the percentage of foreign born from Asia and Africa has a positive and significant effect on the probability of giving while the foreign born from other regions does not have a significant effect. In communities with a higher Asian born population, individuals are more likely to contribute to international aid organizations. A higher fraction of African born population has a positive effect on contributions to international aid organizations, but this effect is not statistically significant. Interestingly, the presence of a European or Latin American born population does not appear to influence giving to international aid organizations.

An advantage of the specification above is that it allows us to deal with omitted community level heterogeneity. In particular, individuals residing within a given geographical area often share a common economic environment, and some of these factors are unobserved in the analysis. More concretely, there may be a greater supply of international aid organizations, and/or educational institutions in some communities compared to others. We can control for the role of time-invariant unmeasured community characteristics using county level fixed-effects. In regression 2, we include an interaction term of race with the percentage of foreign born in Asia. This specification allows us to include community-level fixed effects and also allows us to further explore the mechanisms through which the foreign born influence private contributions. Interestingly, in this fixed effect specification, the interaction term is positive and significant implying that whites are more likely to contribute to international aid organizations in communities with higher percentage foreign born in Asia. These results are particularly convincing because here we have eliminated the role

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<sup>12</sup>We should note that the sample size falls considerably when all community level GSS control variables are included because not all the PSID counties are covered in the GSS.

of unobservables that may be common to all households residing in a given county such as the supply of international aid organizations or the presence of educational institutions in a community. By allowing us to deal with unobserved community heterogeneity, these results also provide insights into how the foreign born influences support for international redistribution.

## 5. CONCLUSIONS

There has been a growing interest in interest in international redistribution. Nearly all rich nations fail to meet the targets that have been set by policy makers. Despite a great deal of interest in international aid, however, very little is known about preferences for international redistribution. An important question is whether households in rich countries support greater international redistribution and what factors determine whether households give private transfers to international aid organizations.

To illuminate the factors that can explain preferences toward private giving to international aid and support for public international aid, we examine several potential explanations. One candidate explanation that we explore is the role of one's social environment in influencing attitudes towards households in developing countries. To capture this effect, we include the fraction of a community that is foreign born. Between 1990 and 2005, the fraction of the foreign born in the U.S. population increased from 5 percent to close to 12 percent. We examine the hypothesis that recent inflows of immigrants may influence attitudes and preferences towards international redistribution.

Using new data on private income redistribution, we find that an increase in the share of the foreign born has a positive effect on private giving to international aid organizations. The main findings are suggestive of mechanisms through which foreign born can influence contributions. Unlike past waves of immigration, recent immigrants are more likely to come from developing countries in Africa, Asia and Latin America. We examine the hypothesis that recent inflows of immigrants may influence attitudes and preferences towards international redistribution. We find strong evidence that exposure to the foreign born increases support for international redistribution. Our results are robust to the inclusion of county-level fixed effects.

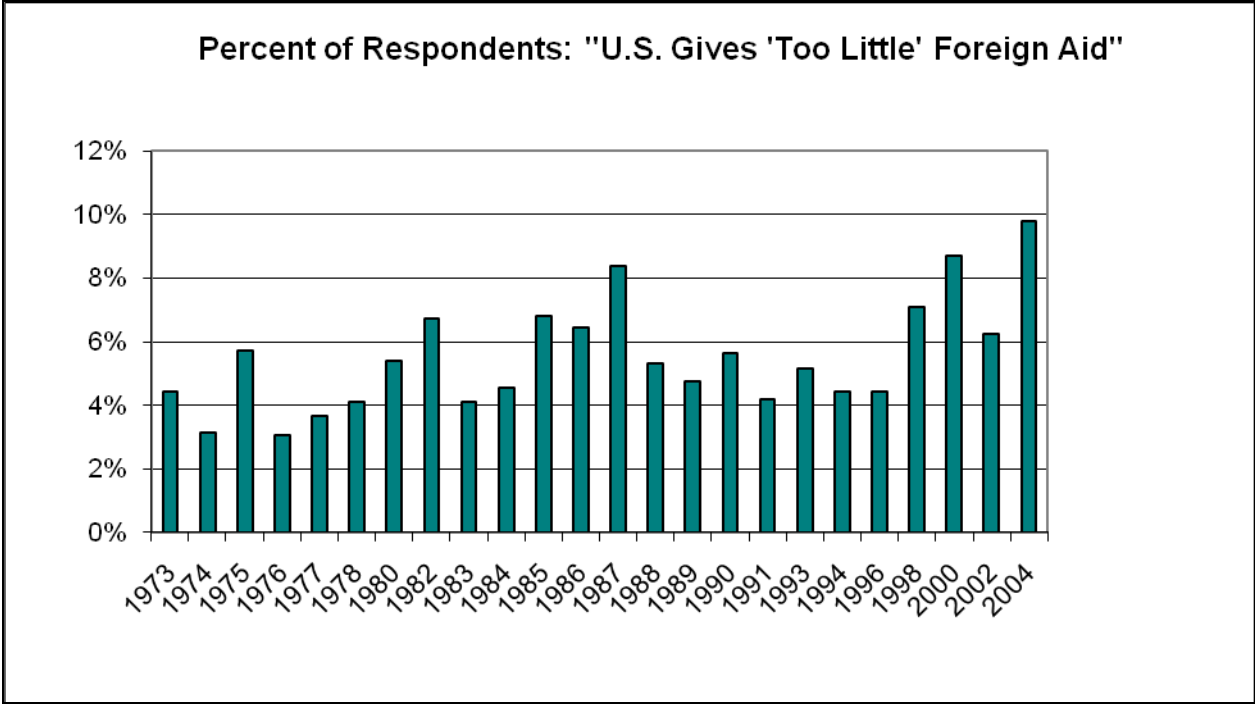
According to models of charitable giving, government transfers may crowd out private contributions if government transfers and private contributions are substitutes in the production of goods that benefit international aid recipients. We also investigate whether in U.S. metropolitan areas and counties where the level of central government international aid transfers are perceived to be high have lower levels of private international giving. We do not find a significant relationship between private giving to international aid organizations and perceived level of government transfers. These results do not provide evidence that perceptions of high levels of public international assistance crowd out private contributions to international aid organizations.

Figure 1: Private Giving to International Causes



Source: Giving USA, 2008

Figure 2: Private Support For International Aid from GSS [1970-2004]



Source: General Social Surveys 1970-2004; N=27,344

**Table 1: Summary Statistics: Household Variables**

Panel Study of Income Dynamics (PSID) 2001

Table 2				
Variable	Mean	Std. Dev.	Min	Max
Give to International Aid ?	0.024		0	1
Age	46.018	16.598	17	99
Age Squared	2393.12	1737.143	289	9801
Foreign Born	0.086		0	1
Log Permanent Income	10.716	0.777	5.590	13.867
Unemployed	0.032	0.176	0	1
Log Price	-0.210	0.138	-.504	0
Male	0.764		0	1
Non-White	0.180		0	1
Marital	0.180		0	1
Catholic	0.250		0	1
Family Size	2.647	1.440	1	13
High School Graduate	0.346		0	1
Some College	0.243		0	1
College Graduate	0.143		0	1
Advanced Degree	0.105		0	1
No. of Observations	5278			

**Table 2: Summary Statistics: Community Variables (county-level)**  
 Census 2000

Table 2				
Variable	Mean	Std. Dev.	Min	Max
Percent Foreign Born (Diaspora population)	0.051	.0618	.0007	0.509
Median Income (in S)	40790.06	10483.96	18051	91210
Population	214684.6	482110.9	2884	9519338
Ethnic Diversity	28.155	17.934	2.08	73.63
Income Inequality	43.3211	3.887673	33.29	63.75

**Table 3: Summary Statistics General Social Surveys (GSS) 2000-2004**

Variable	Mean	Std. Dev.	Min	Max
U.S. gives too little international aid	0.054	0.227	0	1
U.S. gives just the right amount	0.278	0.448	0	1
Age	45.284	17.470	18	89
Age-Squared	2355.817	1752.978	324	7921
Foreign Born	0.077	0.267	0	1
Log Median Income	10.615	0.176	10.018	10.979
Unemployed	0.030	0.171	0	1
Low-Income	0.222	0.416	0	1
Mid-Income	0.334	0.472	0	1
Male	0.438	0.496	0	1
Non-White	0.172	0.378	0	1
Marital	0.556	0.497	0	1
Family Size	2.729	1.539	1	16
Independent	0.345	0.475	0	1
Republican	0.261	0.439	0	1
Democrat	0.380	0.485	0	1
High School Incomplete	0.239	0.462	0	1
High School Graduate	0.517	0.500	0	1
Some College	0.048	0.214	0	1
College Graduate	0.135	0.341	0	1
Advanced Degree	0.061	0.240	0	1
Catholic	0.246	0.431	0	1
No. of Observations	3602			

**Table 4: Private Giving to International Organizations: The Role of Individual and Household Factors**

Dependent Variable	Marginal Effects	Coefficient
Age	0.0007	0.0188
		[0.015]
Age Squared(X 100)	0.00205	-0.005
		[0.0001]
Foreign Born	0.0396	0.604***
		[0.183]
Log Permanent Income	0.0078	0.2067***
		[0.0789]
Unemployed	0.007	0.166
		[0.260]
Log Price	-0.0208	-0.551
		[0.393]
Male	-0.004	-0.106
		[0.151]
Non-White	-0.009	-0.288*
		[0.164]
Marital	-0.0017	-0.044
		[0.149]
Catholic	-0.0002	-0.0055
		[0.094]
Family Size	-0.0001	-0.0026
		[0.0383]
High School Graduate	0.00855	0.210
		[0.181]
Some College	0.0133	0.2966
		[0.187]
College Graduate	0.032	0.550**
		[0.1895]
Advanced Degree	0.0516	0.7246***
		[0.191]
Constant		-5.425***
		[0.831]
No. of Observations		5278
Pseudo R-Squared		0.104

\* Significant at 0.1 level. \*\* Significant at 0.05 level. \*\*\* Significant at 0.01 level. The dependent variable is an indicator variable that measures whether a household gave to an international aid organization in the past year and results are based on a probit model. Robust standard errors are shown in parentheses and are estimated by clustering at the state level.

**Table 5: Support for International Aid: Evidence from the GSS**

Dependent Variable	Marginal Effects	Too Little International Aid
Age	-0.002	-0.018
		[0.011]
Age Squared	0	0
		[0.000]
Foreign Born	0.050	0.321***
		[0.091]
Independent	-0.005	-0.039
		[0.073]
Republican	-0.043	-0.360***
		[0.090]
Low Income	0.044	0.284**
		[0.113]
Mid-Income	0.028	0.193**
		[0.083]
Family Size	0.006	0.048*
		[0.026]
HS Graduate	-0.024	-0.179*
		[0.097]
Some College	-0.036	-0.341**
		[0.161]
College Graduate	0.005	0.036
		[0.118]
Advanced Degree	0.049	0.312**
		[0.133]
Married	-0.002	-0.012
		[0.076]
Unemployed	0.033	0.214
		[0.157]
Non-White	0.049	0.323***
		[0.077]
Male	0.009	0.068
		[0.065]
Constant		-1.000***
		[0.314]
No. of Observations		3602
Pseudo R-Squared		0.0722

\* Significant at 0.1 level. \*\* Significant at 0.05 level. \*\*\* Significant at 0.01 level. Robust standard errors are shown in parentheses and are estimated by clustering at the state level. The dependent variable is an indicator variable that measures whether an individual reports that the U.S. provides “too little” Official Development Assistance (ODA). The baseline specification is a probit model.

**Table 6: Private Giving to International Organizations: The Role of Community Factors**

	Marginal Effects	Coefficients
% Diaspora Population (Percent foreign born in community)	0.0427	1.152*
		[0.650]
Log Population	-0.0013	-0.0347
		[0.0386]
Log Median Income	0.004	0.113
		[0.2064]
No. of Observations		5243
Pseudo R-Squared		0.108

\* Significant at 0.1 level. \*\* Significant at 0.05 level. \*\*\* Significant at 0.01 level. Robust standard errors are shown in parentheses and are estimated by clustering at the state level. The baseline specification is a probit model and the dependent variable measures whether a household gave to an international aid organization in the past year. The community variables used in the analysis are from the 2000 Census and merged to the PSID using confidential geocode information.

**Table 7: Is Private Giving Underreported?: Evidence from Charitable Giving to Other Organizations**

Dependent Variable:	Giving to Combination Organizations		Giving to Religious Organizations		Giving to Organizations that Serve the Needy	
	Marginal Effects	Coefficient	Marginal Effects	Coefficient	Marginal Effects	Coefficient
% Diaspora Population (Percent foreign born in community)	-0.342	-1.008***	-0.138	-0.348	-0.019	-0.061
		[0.3777]		[0.362]		[0.298]
Log Population	0.015	0.044**	-0.005	-0.012	0.014	0.045**
		[0.020]		[0.022]		[0.018]
Log Median Income	-0.006	-0.019	-0.042	-0.107	0.088	0.276***
		[0.102]		[0.106]		[0.098]
No. of Observations		5327		5242		5236
Pseudo R-Squared		0.123		0.112		0.111

\* Significant at 0.1 level. \*\* Significant at 0.05 level. \*\*\* Significant at 0.01 level. Robust standard errors are shown in parentheses and are estimated by clustering at the state level. The baseline specification is a probit model and the dependent variable measures whether a household gave to a given charitable organization in the past year. The community variables used in the analysis are from the 2000 Census and merged to the PSID using confidential geocode information.

**Table 8A: Private Giving to International Aid Organizations: The Role of Individual Heterogeneity**

Table 8						
	Movers Only		Non-movers only		Include trust	
Dependent Variable:	Marginal Effects	Coefficient	Marginal Effects	Nonmovers	Marginal Effects	
% Diaspora Population (Percent foreign born in community)	-0.003	-0.128	0.083	1.772**	0.037	1.129*
		[0.948]		[0.785]		[0.665]
Log Population	-0.0006	-0.026	-0.002	-0.032	-0.0002	-0.007
		[0.065]		[0.051]		[0.042]
Log Median Income	-0.0001	-0.003	0.0075	0.160	0.001	0.036
		[0.299]		[0.272]		[0.211]
Observations		2496		2603		4789
Pseudo R-Squared		0.129		0.117		0.121

\* Significant at 0.1 level. \*\* Significant at 0.05 level. \*\*\* Significant at 0.01 level. Robust standard errors are shown in parentheses and are estimated by clustering at the state level. The baseline specification is a probit model and the dependent variable measures whether a household gave to an international aid organization in the past year. The community variables used in the analysis are from the 2000 Census and merged to the PSID using confidential geocode information.

**Table 8B: Private Giving to International Aid Organizations: The Role of Community Heterogeneity**

	% Diaspora	Diversity	Gini
% Diaspora	1.0000		
Diversity	0.6151	1.0000	
Gini	0.4172	0.5470	1.0000
Number of Observations	7363	7363	7363

% Diaspora Population (Percent foreign born in community)

<b>Table 8C: Private Giving to International Aid Organizations: The Role of Community Heterogeneity</b>								
Dependent Variable	Marginal Effects	Coefficient	Marginal Effects	Coefficient	Marginal Effects	Coefficient	Marginal Effects	Coefficient
% Foreign Born (Diaspora)	0.056	1.661***	0.039	1.051			0.033	0.889
		[0.563]		[0.751]				[0.657]
Share Poor	0.072	2.162						
		[1.640]						
Diversity			0	0.001				
				[0.004]				
Gini					0.001	.022*	0.001	0.016
						[.012]		[0.012]
Log Population	-0.001	-0.036	-0.001	-0.04	-0.001	-0.015	-0.002	-0.045
		[0.039]		[0.041]		[0.034]		[0.039]
Log Median Income	0.012	0.347	0.005	0.127	0.007	0.19	0.006	0.171
		[0.338]		[0.216]		[0.217]		[0.209]
No. of Observations		4966		5243		5243		5243
Pseudo R-Squared		0.126		0.108		0.107		0.109

Robust standard errors are shown in parentheses and are estimated by clustering at the state level. The baseline specification is a probit model and the dependent variable measures whether a household gave to an international aid organization in the past year. The community variables used in the analysis are from the 2000 Census and merged to the PSID using confidential geocode information.

**Table 9: Diasporas by Region**

	(1)		(2)		(3)		
	Probit		OLS		Fixed Effects Specification		
	Marginal Effects	Coefficient		Marginal Effects	Coefficient	Marginal Effects	Coefficient
White	0.009	0.304			-0.009		-0.017**
		[0.195]			[0.008]		[0.010]
White*Foreign Born Asia					0.712***		0.910***
					[0.270]		[0.180]
Foreign Born North America	0.073	4.204			0.181		
		[11.264]			[0.669]		
Foreign Born Europe	-0.028	-0.797			-0.055		
		[3.283]			[0.2413]		
Foreign Born Asia	0.151	4.251**			0.0253		
		[1.781]			[0.1408]		
Foreign Born Africa	0.390	10.980			0.287		
		[9.351]			[0.924]		
Foreign Born Other	-0.664	-18.751			-2.588		
		[35.156]			[2.701]		
Foreign Born Latin America	-0.008	-0.230			0.033		
		[0.861]			[0.039]		
Log population	-0.001	-0.040			-0.004		
		[0.039]			[0.002]		
Log Median Income	-0.007	-0.210			-0.017		
		[0.240]			[0.014]		
No. of Observations		5243			5243		5243

Robust standard errors are shown in parentheses and are estimated by clustering at the state level. The baseline specification is a probit model and the dependent variable measures whether a household gave to an international aid organization in the past year. The community variables used in the analysis are from the 2000 Census and merged to the PSID using confidential geocode information. Column 1 is the baseline probit model. Column 2 is the OLS regression model with interaction terms for white interacted with foreign born (Asia) Column 3 presents the fixed effects specification.