Giving to the homeless

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Abstract:

The purpose of this paper is to answer the question ‘Why do people give money to beggars when they gain no tangible good or service for their money?’ Begging is a pattern of behaviour that has existed within society since society began. It could be argued that someone is being paid yet providing no good or service; they are surviving on the goodwill of a stranger. This, in economic terms, is illogical. This paper sets out to argue through analysing two models that a street philanthropist does receive a service of sorts.

Introduction:

Since arriving in Edinburgh I have seen a far larger number of homeless in the city centre than in my home city. In order to support themselves, they beg. The fact that a high number of beggars are sustained in an area implies there are a lot of benefactors passing through that area. This essay will analyse why people give money when they gain nothing tangible in return, while also suffering a minor opportunity cost.

The beggar:

[Figure removed due to copyright restrictions. Please see:

http://www.transtutors.com/Uploadfile/CMS_Images/19662_Indifference%20Map.JPG]

Figure 1 (transtutor, 2014. (adapted)) shows a beggar's indifference map with 2 budget constraints. Let Y equal neccesary goods, things such as food or clothing, while X is luxuries, tobbaco for example. A beggar has to make a choice between consumption bundles consisting of these two goods, and is constrained by a limited, small budget. Someone gives the beggar their loose change and the budget constraint shifts outwards. The beggar is now on a more preferred indifference curve and can now consume a bundle that gives them a larger amount of utility.

The generous individual's pennies do not buy more goods for the beggar than they would have done for themselves, but rather grant each an equal amount of spending power. But the goods one purchases with that small amount of money should be more valuable to the beggar. This is the individual's logic; the money has done more good for the beggar than it would have done for them. They have done a good deed. This good deed will be analysed in greater depth in the following section.

I have assumed that the beneficiary is in need. It is possible that they are not. “Rather than seeing begging as a product of chronic poverty or physical handicap, some people take begging as a profession – a means of earning livelihood” (Ogunkan, D and Fawole, O. 2009). There is an element of skill to begging, and if it is a profession then this would indicate that a consumer is paying for a service of some sort.

The benefactor:

It seems to always be assumed that people are self-interested. “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest.” (Smith, A. 2009). Adam Smith sets out that self-interest is what motivates individuals to contribute and function in society. Following this logic, no-one would ever perform any kind of charitable act. People still do. So, as a consequence of this, some form of benefit to oneself must be derived through charity.

This gain could be for a number of reasons, including improving social standing, feeling good about yourself, or just doing the right thing. In the case of giving to the homeless on the street it is rarely done to achieve the first as it is not observed by your immediate social group, so there is no gain in this regard. It is also not necessarily the right thing to do as you are encouraging a potentially negative pattern of behaviour in the beggar. Therefore the most likely reason someone gives their spare change away is to feel good, or in the case of the more cynical to buy off their guilt - either way, there is an increase in utility through charity.

[Figure removed due to copyright restrictions. Please see:

http://www.daviddfriedman.com/Academic/Price_Theory/PThy_Chapter_21/PThy_Chap_21.html]

I will attempt to illustrate this through Figure 2 (Friedman, D No Date). I will treat Figure 2 as showing the indifference map of a person in central Edinburgh; person A. This person is concerned with their own consumption, C_A, and the consumption, $C_{B,}$ of a beggar, B. C_A and C_B are going to be treated as goods for A.

Friedman assumes that both C_A and C_B are normal goods. With a normal good as someone's income rises, they buy more of both. This is not a totally accurate assumption in this case as the vast majority of people, irrelevant of their total wealth, have a similar amount of change in their pocket. In addition, the wealthiest are not necessarily more generous. But I will hold it true because it is not an inferior or superior good either.

Person A has an income I_A and B an income I_B. If person A walks by and gives nothing to person B, each will just spend their own income, putting them at point X. Person A can give a small part of their income, their loose change, to B. This would reduce their consumption slightly while increasing B's to a much greater extent (Figure 2 is not to scale). Person A makes the assumption that this proportionally larger increase in wealth grants person B a larger gain in total utility than they would have gained themselves by spending it. Person A then gains utility from assuming B has gained this larger increase.

Y is the optimal point as it is where the budget constraint, L, just meets the indifference curve. It is the giver's most preferred affordable bundle. This is the best combination of increase in wealth for the beneficiary and least opportunity cost for the altruist. A problem is that the indifference curve is person A's, the giver; they are making an assumption about the beggar's utility function. Person A really has no idea how much pleasure their spare change is going to give the recipient; they are simply assuming.

If Person A chooses not to give anything to Person B they stay at point X. This is to the left of the indifference curve, so it is in the less preferred set. So, despite being financially better off, they are worse off in terms of happiness. In turn Person A can give too much of their wealth to the beggar, and move to a less preferred bundle. This all furthers the argument of person A being self-interested, as they are acting only to maximise their utility.

Limitations:

There are several limitations to the argument. Money does not equal utility. For example, the beggar could be dealing with some form of major addiction; some change helps but it doesn't purchase the good. Utility comes from consuming the good, not the money itself. He or she is no better off in terms of utility. They are just slightly closer to purchasing the good they need. They are not going to 'waste' the money on food when that puts them further from their desired item. Hence they gain no utility.

Another limitation in the benefactor's model is that I have treated consumption as a normal good. Consumption isn't a good; it is a process. Consumption spans all kinds of goods. As a result of this, consumption could do anything in relation to income.

Conclusion:

"A beggar chooses to depend chiefly upon the benevolence of his fellow citizens" (Smith, A. 2009).

I would argue that the beggar is performing a service. For a very small investment somebody can purchase and consume a ‘good deed’. They gain a greater degree of utility from giving the money away than they would have done from spending it and then consuming the purchased good themselves. As a by product of this the beggar gains a small sum of money, this person may need the money, they may not and they might or might not experience an increase in utility through the subsequent consumption of a good purchased with that money but they are better off for it irrelevant of utility.

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