

## AT A GLANCE

# Fear of stigmatization prevents individuals from claiming benefits

By Jana Friedrichsen and Renke Schmacker

- Fear of stigmatization is a possible driver of low benefit take-up rates
- The stigma hypothesis is tested by means of a controlled laboratory experiment which isolates the stigma effect
- Transfers are taken up much less frequently if the process is public
- The stigma effect has two components: ability stigma and free-rider stigma
- To increase the benefit take-up rate, application and payment processes should be as discreet as possible

**In a laboratory experiment, the take-up rate of a transfer payment varies greatly depending on whether the transfer is applied for publicly or in secret**



## FROM THE AUTHORS

*“Our experiment shows that for individuals entitled to benefits, the things others are able to find out about them during the application and payment process plays a major role. Individuals fear being judged by others, for instance regarding their abilities. This fear can prevent them from claiming transfers.”*

— Jana Friedrichsen, author —

## MEDIA



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# Fear of stigmatization prevents individuals from claiming benefits

By Jana Friedrichsen and Renke Schmacker

## ABSTRACT

The desire to avoid the shame of being dependent on government aid is often cited as a cause of low welfare take-up rates. In contrast to other obstacles, such as transaction costs or a lack of information, little empirical research has been conducted on how stigma affects social benefits take-up. In this Weekly Report, a controlled laboratory experiment is presented whose results support the following hypothesis: potential recipients fear being perceived as low-skilled (ability stigma) or willing to live off others (free-rider stigma). Hence, they choose to forego a beneficial transfer if it must be claimed publicly. The results indicate that increasing the discreetness of the application and payout processes would help dismantle the stigma and thus increase the welfare take-up rate.

In most cases, individuals do not automatically receive welfare benefits; rather, one must apply for them. Although an application allows officials to evaluate applicants' needs, it also means that not all of those in need of benefits actually receive them, as many do not apply. In Germany, a large percentage of eligible recipients do not apply for benefits. As an example, the non-take-up rate for Hartz IV (unemployment benefits) is estimated at 43 to 56 percent,<sup>1</sup> and for basic income for the elderly, around 60 percent.<sup>2</sup> If welfare benefits are not claimed, sociopolitical goals, such as poverty reduction and redistribution, become more difficult to achieve.

Fear of stigmatization is often cited as a driver of low benefit take-up rates. Potential recipients forego social benefits to avoid sending a negative signal about their abilities, work motivation, or economic independence. The resulting stigmatization is avoided to preserve positive self-worth and out of fear of negative judgment and inferior treatment from others.

The topic is gaining traction in political discourse. The SPD, for example, would like to introduce a "respect pension" (basic pension), which would increase the basic pension without a means test for pensioners who contributed to the pension insurance for over 35 years. This is intended to help individuals who worked for a long period avoid the stigma of applying for the guaranteed minimum pension, and thereby increase take-up. At the same time, however, this measure may increase the stigma of receiving the guaranteed minimum pension for all of those who have not contributed for at least 35 years.

So far, there has been little empirical evidence that stigma affects the take-up decision. While transaction costs and a lack of information have been proven empirically as drivers of low take-up (Box 1) multiple times, examining the effect of stigma on the take-up decision is difficult. The reason for

<sup>1</sup> Kerstin Bruckmeier and Jürgen Wiemers, "Benefit Take-Up and Labor Supply Incentives of Interdependent Means-Tested Benefit Programs for Low-Income Households," *Comparative Economic Studies* 60, no. 4 (2017): 583–604; Michelle Harnisch, "Non-Take-Up of Means-Tested Social Benefits in Germany," *DIW Discussion Paper*, no. 1793 (2019) (available online; accessed June 6, 2019).

<sup>2</sup> Irene Becker, "Finanzielle Mindestsicherung und Bedürftigkeit im Alter," *Zeitschrift für Sozialreform* 58, no. 2 (2012): 123–148 (in German).

## Box 1

**Further causes of low transfer take-up rates**

Further drivers of low take-up rates include a lack of information (potential recipients do not know they are entitled to benefits or how to apply) and transaction costs (the time and work to submit the application exceed the expected benefit size). An article from 2006 summarizes the research that compares take-up of benefits with different characteristics,<sup>1</sup> concluding that both a lack of information and transaction costs contribute significantly to non-take-up. Since then, research on this topic has increasingly turned to randomized controlled trials (RCTs).

In an experiment using the Earned Income Tax Credit (EITC) scheme in the US, different versions of an official notification were sent.<sup>2</sup> Each individual only received one variant of the letter. The letter was simplified in terms of language and content and explicitly mentioned the maximum amount of benefits to be expected; these changes had the largest effect on take-up. The fact that apparently insignificant changes in the application materials lead to strong effects indicates that "hassle costs" play an important role in non-take-up. If the application material seems too complicated at first glance, many people do not want to deal with it at all, even if

it means leaving money on the table. In addition, the study shows that individuals' aversion to dealing with confusing materials particularly discourages those most in need, who would be entitled to the highest benefits, from applying.

How a lack of information affects take-up was investigated in a field experiment with potential food stamp beneficiaries.<sup>3</sup> In an experiment, one part of the sample received a letter informing them they are very likely to be entitled to food stamps. Another group of participants also received a phone number to call for help applying. A control group received no intervention. The take-up rate over the next nine months was significantly higher in the first two groups, with 11 and 18 percent, respectively, than in the control group (six percent). However, those who had claimed benefits using the additional information received lower benefits on average than those in the control group. This type of information treatment therefore does not seem to be likely to increase the take-up of those most in need.

<sup>1</sup> Janet Currie, "The take-up of social benefits," in *Poverty, the Distribution of Income, and Public Policy*, eds. Alan Auerbach, David Card, and John Quigley (New York: 2006).

<sup>2</sup> Saurabh Bhargava and Dayanand Manoli, "Psychological Frictions and the Incomplete Take-Up of Social Benefits: Evidence from an IRS Field Experiment," *American Economic Review* 105, no. 11 (2015): 3489–3529.

<sup>3</sup> Amy Finkelstein and Matthew J. Notowidigdo, "Take up and Targeting: Experimental Evidence from SNAP," *Quarterly Journal of Economics* (forthcoming).

this is that stigmatizing factors and other factors, such as transaction costs, often vary simultaneously when comparing transfers. For example, if an individual can apply online for a social transfer and does not need to meet a caseworker in person, this reduces both the effort required to receive the transfer and the stigma surrounding it. Therefore, differing transfer take-up rates cannot be clearly attributed to a stigma effect; an increase in take-up could also be attributable to lower transaction costs. However, surveys indicate that stigma does indeed hinder transfer take-up<sup>3</sup> and contributes to the fact that potential recipients are not claiming transfers to the extent that they are entitled to.<sup>4</sup>

Due to the difficulty of identifying the effect of fear of stigmatization using observational data, we conducted a laboratory experiment (Box 2) in which we reproduce the take-up decision in a stylized environment.<sup>5</sup>

**Laboratory experiment isolates the stigma effect**

We designed a laboratory experiment to identify the effect of exogenous variation in stigmatization on take-up. This way, we can test whether or not those entitled to benefits are influenced by welfare stigma when making their take-up decision. The experiment also provides information on what causes the perceived stigma and allows conclusions to be drawn as to in which situations stronger or less strong stigma effects are to be expected.

**General setup: rank-based payoffs with transfers**

The participants in this experiment were matched in groups of three and were not informed who is in their group. They performed the following actions anonymously on a computer: First, the participants took a general knowledge quiz, and the three members in each group were ranked first, second, or third depending on their quiz performance. The individual payout amounts depended directly on the individual's ranking (Table, Column 1). Before the participants were informed of their rank, they were required to imagine that they were ranked third. In this hypothetical situation, the participants decided if they would claim a transfer or not. In the end, however, only the person ranked third received the transfer if he or she had decided to claim it. If a transfer was

<sup>3</sup> Ben Baumberg, "The Stigma of Claiming Benefits: A Quantitative Study," *Journal of Social Policy* 45, no. 2 (2016): 181–199.

<sup>4</sup> Eurofound, *Access to Social Benefits: Reducing Non-take-up* (Luxembourg: Publications Office of the European Union, 2015).

<sup>5</sup> The complete study this paper is based on was published as Jana Friedrichsen, Tobias König, and Renke Schmacker, "Social Image Concerns and Welfare Take-up," *Journal of Public Economics* 168 (2018): 174–192.

## Box 2

**Experimental Economics**

The use of experimental economics to investigate individual decision-making behavior dates back to the 1930s. Since the late 1980s, this research field has experienced rapid growth that has not yet leveled off. The core idea behind conducting an experiment instead of relying on observational data is the possibility of randomly assigning the participants to different experimental conditions. This randomization allows insights into the causal effects that certain conditions, which the researchers can vary deliberately, have on the decisions or behavior of the participants. Such causal conclusions are often difficult to reach in the harder-to-control environment outside the laboratory.

A wide variety of research questions from all areas of economics can be investigated using economic experiments. Economic experiments are typically conducted in laboratories with participants seated at a computer in separate cubicles and able to make anonymous decisions. If divided into groups, this generally happens anonymously: participants do not know whom they are playing against nor how much money anyone is earning.

Field experiments of various types have become more common, with most of them set up so that participants are not aware that they are part of an experiment. Alternatively, an experiment can take the form of a “lab-in-the-field,” meaning that the experiment is conducted in the participants’ natural environment. Online experiments, for which participants use their own computers or smartphones, fall into the latter category.

Many other academic disciplines use experiments to analyze human behavior. This is most notable in psychology, which has a long history of this kind of experimentation. However, economic experiments have a number of features that are different.

First, deception is prohibited in economic experiments—that is, participants are always fully and correctly informed about the con-

sequences, monetary or otherwise, of their choices. For example, participants would never be told that they are matched with another player when in fact they are not.

Second, economic experiments are nearly always incentivized in the sense that participants’ payments vary in relation to what they (and, potentially, others that they are matched with) do in the lab. In psychology, it is common that participants are rewarded with a flat payment (or a course credit) for showing up, but in economics, subjects’ decisions are incentivized to ensure that they take the tasks seriously.

A somewhat newer line of research in experimental economics investigates what happens when student populations, typically used in these studies, are replaced by other, more representative, samples. The results depend on the exact game being played, but in general, results that have been found to be robust among student populations are also robust among other groups.

There are also several studies that investigate the extent to which laboratory behavior can predict behavior beyond the laboratory. Again, the results differ somewhat depending on the exact topic, but often there is a strong correlation between—for example—competitiveness, altruism, and cooperativeness in the laboratory and similar behaviors outside the lab. These results confirm that learning about human behavior through experiments can actually teach us things relevant to the wider setting beyond the lab.<sup>1</sup>

<sup>1</sup> Alvin Roth and John Kagel, *Handbook of Experimental Economics* (Princeton University Press, 1993); Alvin Roth and John Kagel, *Handbook of Experimental Economics, Volume 2* (Princeton University Press, 2016).

taken up, the individual payout of the receiver increased at the expense of the other group members (Table, Column 2).

### Individuals expect to be ascribed negative characteristics (stigmatization)

The experiment is based on the idea that people feel stigmatized when others in their social environment ascribe unobservable, negative characteristics to them due to their observable behavior. In the context of the experiment, transfer take-up is stigmatized by the fact that it is only possible for the individual ranked third to claim a transfer. Transfer take-up is thus associated with a lower quiz score and the inference of being less educated (ability stigma). In addition, the transfer redistributes the payoffs. Those who claim the transfer increase their own income at the expense of the other group members. Thus, the willingness to improve one’s own

financial situation at the expense of others can also be associated with transfer take-up (free-rider stigma).

### Manipulation of observability

For stigmatization to occur, others must be able to observe the potentially stigmatizing behavior. We control for this aspect in the laboratory experiment by making the transfer take-up either public or private. In the private treatment, claiming a transfer only requires indicating the take-up decision on a computer program in case of being ranked third. In the public treatment, in contrast, claiming a transfer requires the participant to walk through the lab and pick up a slip of paper at the experimenter’s desk.

All participants therefore make two decisions. They decide whether they want to claim the transfer if it is paid out

Table

**Design of a lab experiment aimed at identifying the welfare stigma effect**

Payment to participants depending on their ranking in a quiz and their decision on whether to claim a payment

	No transfer claimed	Transfer claimed
1 <sup>st</sup> in the quiz	16 euros	14 euros
2 <sup>nd</sup> in the quiz	11 euros	10 euros
3 <sup>rd</sup> in the quiz	6 euros	9 euros

Remark: Individual payoffs depend solely on the group ranking. The higher the rank, the higher the payout. The individual ranked third can claim a transfer that reduces their own payout at the expense of the other two group members.

Source: Authors' own experiment.

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privately and if it is claimed publicly. After all participants have made both decisions, they are informed of their rank. Each group will then decide whether the transfer can be claimed privately or publicly before the decision of the individual ranked third for this situation is implemented.

In the experiment, the stigma effect can be measured by comparing the rate of transfer take-up in the private and public treatments.

**Experimental results**

**Welfare stigma reduces take-up**

Almost 90 percent of the 165 participants claimed the transfer if it was possible to do so privately. However, this share was only 60 percent if the transfer was public. Fear of stigmatization thus explains the statistically significant 30 percentage point decrease in take-up (Figure 1).

The result shows that fear of stigmatization and the drive to avoid it, even in an abstract laboratory experiment, can significantly influence the transfer take-up rate. The participants who claimed the transfer privately but not publicly want to avoid others ascribing them a lower level of education (ability stigma). Moreover, they do not want to be viewed as “free-riders” who are improving their own financial state at the expense of others (free-rider stigma). Further experimental conditions allow these two mechanisms to be investigated separately.

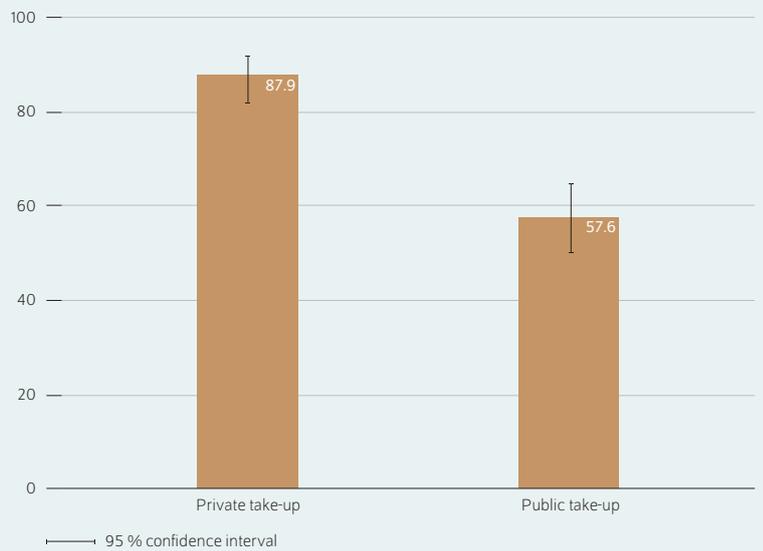
**Analysis of the stigma effect**

In the first variation of the experiment, ranks are determined randomly and are unrelated to the quiz performance. In this case, almost 90 percent of the 159 participants claimed the transfer privately. The share was under 70 percent when they had to claim the transfer publicly. Thus, stigma still causes a decrease in take-up in the experiment, even if the take-up

Figure 1

**Take-up rate of a transfer payment in an experiment on the welfare stigma effect**

In percent of the sample, depending on the experiment design (transfer take-up public or private)



Remark: Transfer take-up rate for the private and public treatments, n=165. The participants, divided into groups of three, were ranked according to their score on a general knowledge quiz. Only the participant ranked third received the transfer at the end. The difference is significant (n=165, p<0.01).

Source: Authors' own experiment.

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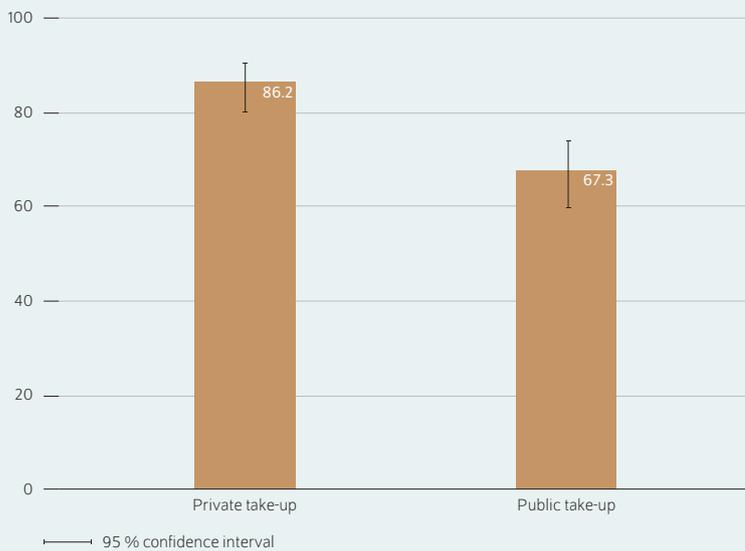
cannot be linked to the performance of the participants in the quiz. The decrease of around 20 percentage points is statistically significant (Figure 2). This indicates that the participants did not want to be perceived as improving their situation at the expense of others, although the rules of the experiment explicitly allow it. However, the effect of stigmatization on take-up is significantly lower here than in the experiment with rankings based on quiz performance. Both experimental conditions indicate that ability stigma and free-rider stigma play a role in the experiment.

To better understand what causes the stigma effect, we conducted a further variation of the experiment in which transfer take-up did not influence the income of the other group members. This eliminates the free-rider stigma of bettering one’s situation at the expense of others, although take-up does still indicate a poor quiz performance. Due to this ability stigma, there is a significantly lower take-up rate of 77 percent in the public treatment compared to a rate of 94 percent in the private treatment. This effect completely disappears if rankings are assigned randomly, i.e., if the take-up is neither accompanied by ability stigma nor by free-rider stigma. In this case, the take-up rate was 92 percent for the private treatment and 90 percent for the public treatment. The difference is not statistically significant. This indicates that the stigma effect in the experiment consists entirely of these two components.

Figure 2

### Take-up rate of a transfer payment in an experiment on the welfare stigma effect, with random ranking

In percent of the sample, depending on the experiment design (transfer take-up public or private)



Remark: Transfer take-up rate for the private and public treatments, n=159. The participants were randomly ranked within groups of three and only those ranked third received the transfer at the end. The difference is significant (n=159, p<0.01).

Source: Authors' own experiment.

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### Conclusion: discreet processes and data exchange can increase the welfare take-up rate

The experiment shows that individuals are less likely to claim a publicly visible social transfer than a private one. This difference is greater if the eligibility is based on poor quiz performance than if it is random. If the transfer is not public, almost all participants claim it, regardless of whether or not their eligibility was determined randomly or by a low quiz score.

The results thus suggest that stigma is particularly relevant when transfer take-up is visible to others. This means that making the process of applying for and receiving transfers more discreet may have a greater impact on take-up than campaigns to raise awareness of welfare eligibility. Therefore, in order to increase take-up, applicants could be offered the possibility to apply for social benefits online or in citizens' offices where non-stigmatized issues are also dealt with.

An automatic exchange of data between different offices could also be a good solution. For example, in terms of the basic pension, if the social security office and pension insurance had tax information from the revenue office, they could calculate the necessary pension increase for most pensioners. If the deduction of assets was dropped as in Austria, it could be paid out without further application. This would reduce the problem of stigmatization as well as lack of information and transaction costs.

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