Making More, Giving Less

You probably read that Microsoft founder Bill Gates and Berkshire Hathaway founder Warren Buffett have pledged to give at least half their wealth to charity, and have convinced 38 other billionaires to do the same. From that, you might conclude that the wealthier people are, the more generously they contribute to philanthropic causes.

As it turns out, the situation is exactly the opposite. A recent New York Times article quotes several studies, including one by Independent Sector, a nonprofit organization focused on charitable giving, which show that householders earning less than $25,000 a year gave away, on average, 4.2% of their incomes. Those earning more than $75,000 gave away an average of 2.7%. What makes this especially perplexing is the fact that higher income persons can itemize their deductions and receive a tax break, reducing the cost of their donations. Thus the personal sacrifice of giving is even larger, proportionately, for the unwealthy than for people who earn in the upper 10% of American families.

Another study cited by the article, conducted by the Center on Philanthropy at Indiana University, suggests that people of modest means may have more empathy than those who live more secure financial lives. It found that only a small percentage of charitable giving by wealthier donors was going to the needs of the poor: most of it was directed to cultural institutions and their alma maters--giving which enhanced their own status with their peers.

An article in The Economist reports on an effort to get to the bottom of this interesting disparity. It describes a research project by two professors at the University of California at Berkeley, reported in the Journal of Personality and Social Psychology. The professors asked a group of participants to place themselves on a drawing of a ladder with ten rungs on it, each representing different levels of income, education and occupational status. Then they were taken to a room and given ten "credits," which they were told would represent real money at the end of the experiment. They were asked how many they would keep for themselves and how many they would give to an invisible partner on the other side of a partition.

On average, the participants gave away 4.1 credits, without any expectation of return. But those who rated themselves at the bottom of the ladder gave away 44% more than those who placed themselves at the top. In follow-up interviews, the study participants were asked how much of their total income should be given to charity. Those who placed themselves on the higher rungs said that 2.1% of their incomes was the right number. Those at the bottom felt that 5.6% was the appropriate slice. Whether the higher status was inherited or earned seemed to make no difference in the results; the researchers hypothesized, as did the Indiana University researchers, that poorer people who experience scarcity first-hand tend to feel more compassion for others, and this increases their overall levels of generosity and helpfulness.

NY Times article: <http://www.nytimes.com/2010/08/22/magazine/22FOB-wwln-t.html>

Economist article: <http://www.economist.com/node/16690659>