

What Makes People Give?

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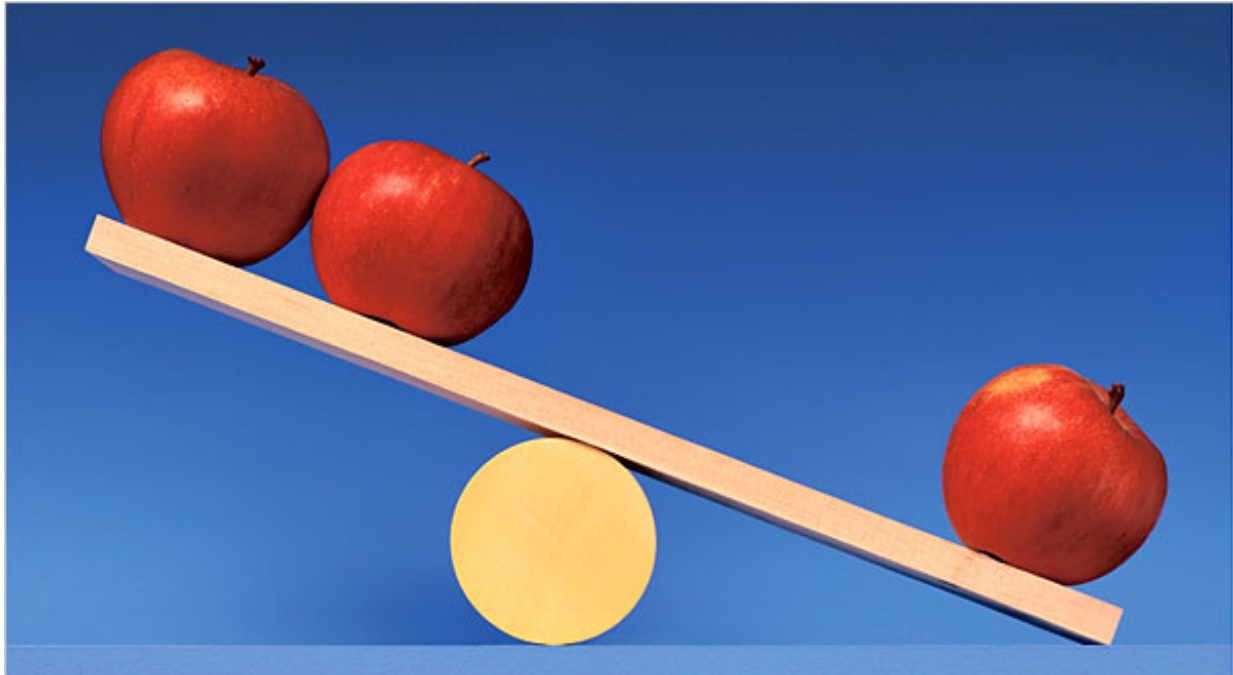


Illustration by RBG6. Photograph by Kalle dos Santos

Not long after the 2004 presidential election, John List and Dean Karlan formed an unusual partnership, with the idea of teaching a little-known liberal group how to raise more money. Karlan, an economics professor at Yale who spent much of his time studying global poverty, was himself a liberal and disheartened by President Bush’s re-election. He had given money to this particular group in the past.

List, however, was a political iconoclast who, if anything, tilted to the right. He taught economics at the University of Chicago, which can fairly be described as the center of conservative economic philosophy, and he had recently finished a stint as the environmental expert on President Bush’s Council of Economic Advisers. When he and I were talking on the phone last month, he referred to Karlan, who is a friend of his, as “a left-wing nut” and then let out a laugh.

But List’s interest — and, in truth, Karlan’s main interest — wasn’t to help the liberal group get more money. It was to try to find an answer to a gnawing question: What makes people give their money away?

List and Karlan considered the usual answers (to make the world a better place, to see your name printed in the back of an annual report and the like) too pat, too simple — and sometimes just wrong. Over the years, whenever one of them asked fund-raisers why they did

what they did, the responses were vague and unimpressive. There didn't seem to be much empirical evidence to support the strategies employed by most fund-raisers. So the two economists wondered whether charities were wasting a lot of effort.

The two met a couple of years earlier and talked occasionally about matching gifts, which are a staple of fund-raising. Karlan told List about a \$15 million "challenge gift" that an investment banker made to the University of Chicago back in the 1990s, with the stipulation that it would receive the money only if it persuaded other donors to give as well. People around campus, where Karlan was a student at the time, assumed that such a gift would work — that it would cause other donors to give more than they originally planned — but he wasn't so sure. And it turned out that this was just the sort of problem that List had a reputation for solving.

Thirty-nine years old, with a boyish face, graying hair and the twang of an upper Midwesterner, List went to college at the University of Wisconsin-Stevens Point, helped by a golf scholarship, while driving trucks during the summer to make money. He became an economist, he told me, because he noticed that the economics professors at Stevens Point spent a lot of time playing golf. "I came from a poor family, and I was thinking about being a stockbroker," List told me when I met him recently. "When I saw those economists golfing, I thought, I want to do what they do." But a funny thing happened when he began taking economics classes: he liked them. After Stevens Point, he attended graduate school at the University of Wyoming and then began crisscrossing the country for a series of faculty jobs. By 2004, he had become known as a dedicated researcher — a workaholic, even — and was emerging as the star of a growing little corner of the field, the economics of philanthropy.

A few days after Bush won re-election, Karlan got an idea. He e-mailed a fund-raiser at the liberal group — which he and List have agreed to keep anonymous, as is common in academic research — and explained that he wasn't just a donor. "In my 'real' life," Karlan began, "I am an economist who runs field experiments to learn what works and what does not in the world of social programs." He then proposed a field experiment, involving matching gifts, in which the group would learn how well they really work. "Have you ever done something like this?" Karlan asked. The group hadn't, and it quickly agreed to work with him and List.

For a long time, philanthropy was mostly ignored by social scientists. It's not an especially large part of the economy, and most charities operate on a shoestring, without the resources to finance research projects. But this is starting to change. Americans gave \$295 billion to charity in 2006, equal to 2.2 percent of the country's gross domestic product, up from about 1.8 percent from the mid-'70s to the mid-'90s, according to the Center on Philanthropy at Indiana University. Most philanthropy still comes in the form of small gifts, but there is also a growing group of donors, like Bill and Melinda Gates, who are interested in bringing some of the quantitative rigor of big business to philanthropy.

Academics, for their part, have come to realize that charities provide an excellent laboratory for studying human behavior, in part because so many of them are desperate for the kind of free-of-charge consulting Karlan was offering. When charities are designing their donor

appeals, they often go by nothing more than a few rules of thumb, some of which may be profoundly insightful and others a good deal less so. “I think some fund-raisers have developed terrific intuitions, passed on through the fraternity of fund-raisers,” says Paul Brest, president of the William and Flora Hewlett Foundation in Menlo Park, Calif., which often works with charities. “But a lot of the intuitions don’t work. Look at how much junk mail you get.” Matching gifts were another good example. People figured that they worked, because — well, how could they not? They seem so sensible.

Late in 2004, List and Karlan started working on different solicitation letters for the liberal group. The letters were similar except for the part that mentioned (or didn’t mention) a match. In one letter, sent to the control group, there was no match. Another letter said that a donor had agreed to match any gift, dollar for dollar. In a third, the match was increased to two to one, and in a fourth it was three to one.

Among fund-raisers, dollar-for-dollar matches are the norm, but larger ones are common, too. Public radio and the N.A.A.C.P. have both used two-to-one matches. Part of the \$15 million gift to the University of Chicago that piqued Karlan’s interest in the 1990s was set aside for a four-to-one match. “Never underestimate the power of a challenge gift” is what one standard textbook, “Conducting a Successful Fundraising Program,” advises, adding that “a richer challenge greatly increases attractiveness.” The economics are simple enough. A matching gift effectively reduces the cost of making a donation. Without a match, you would have to spend \$400 to make your favorite charity \$400 richer. With a three-to-one match in place, it would cost you only \$100 to add \$400 to the charity’s coffers.

In addition to common sense, some of the earliest economic research on philanthropy supported the idea that matching gifts should make a big difference. In the 1970s, economists began studying the tax deduction for charitable giving, and they found that it clearly affected how much people gave. When tax rates were higher — and deductions were thus more valuable — people gave more. It seemed to follow that they would be equally rational about a match. When Karlan and List got their results, however, they realized that the conventional wisdom about matches was only partly right. The *existence* of a matching gift did very much matter. In their experiment, 2.2 percent of people who received the match offer made a donation, compared with only 1.8 percent of the control group. That may not seem like a big difference, but it is — more than a 20 percent gap between the two response rates, which is certainly large enough to justify making the effort to solicit a hefty matching gift.

But the *size* of the match in the experiment didn’t have any effect on giving. Donors who received the offer of a one-to-one match gave just as often, and just as much, as those responding to the three-to-one offer. That was surprising, because a larger match is effectively a deeper discount on a person’s gift. Yet in this case, the deeper discount didn’t make an impact. It was as if Starbucks had cut the price of a latte to \$2 and sales didn’t increase.

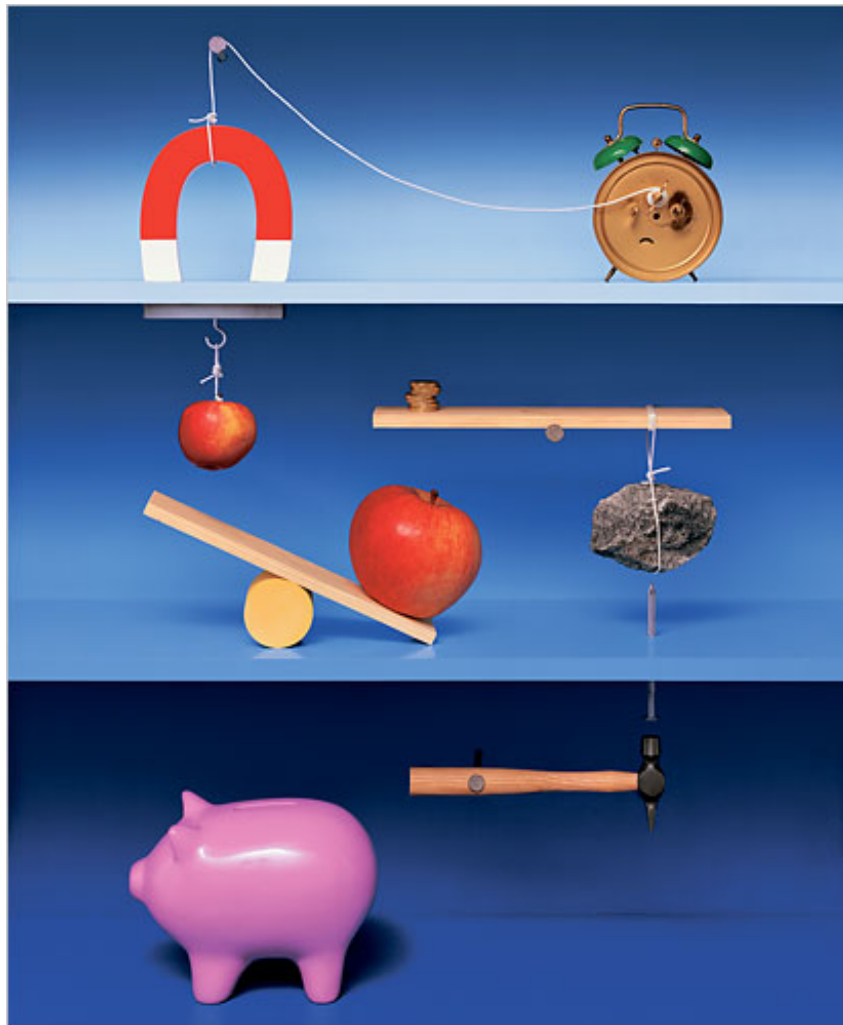


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In early January, I met List for lunch in the warehouse district of New Orleans during a conference of academic economists. We spent the first part of the meal talking about sports, and I asked him whether he thought there might be a parallel between professional sports teams and charities. As Michael Lewis (a contributing writer for this magazine) explained in his 2003 best seller, "Moneyball," baseball executives spent years clinging to beliefs that were simply false. Only recently, thanks to the emergence of young executives who insisted on looking at data, had some of the myths been exposed. The research on charitable giving is still in its early stages, but is it possible, I wondered, that fund-raising would also prove to be riddled with inefficiencies? Absolutely, List replied. "I think most fund-raisers are doing this wrong."

The results of the matching-gift experiment provided List and Karlan with precisely the sort of subtlety that they hoped to uncover. It also spoke to that fundamental question about philanthropy: Why do people give? Is it really to make the world a better place, to give back to the community as a token of gratitude? Or is giving instead about something less grand, like seeing your name on a building, responding to peer pressure or simply feeling good about yourself? To put it bluntly, is charitable giving a high-minded form of consumption?

In the late 1980s, an economist named James Andreoni argued that the internal motives for giving were indeed more important than many people had acknowledged. He came up with a name for his idea – the “warm glow” theory – and it stuck. In the warm-glow view of philanthropy, people aren’t giving money merely to save the whales; they’re also giving money to feel the glow that comes with being the kind of person who’s helping to save the whales.

This is less depressing than it may sound. For one thing, the charities are still getting the money, no matter what the donors’ motives are, and many of them are putting it to good use. For another, the warm-glow theory means that philanthropy can be more than a zero-sum game. If giving were strictly rational, the announcement of a big donation might lead other people to give less to the cause; they might figure it no longer needs their money as much. Thanks to the warm glow, though, Warren Buffett’s \$31 billion gift to the Gates Foundation won’t cause other people to think that they no longer need to help fight dysentery. If anything, Buffett’s gift might make them more likely to make a donation. They can then have the sense that they’re joining forces with someone else – with Warren Buffett, no less – and becoming part of a larger cause.

Andreoni’s argument was a merely theoretical one, but the experiment by List and Karlan suggested that it was correct. Donors did not, in fact, seem to do a rational analysis of how they could best help promote liberalism. And there was one more layer to their results that made the findings even more striking. In blue states – defined as those that voted for John Kerry – even the existence of a matching gift had only a minor effect. It lifted the response rate by about 5 percent. In red states, though, a matching gift increased donations by about 60 percent. For isolated liberals living in states that had just voted for Bush’s re-election, the glow that came from joining up with another liberal seemed to be much stronger. “Giving is not about a calculation of what you are buying,” Karlan said. “It is about participating in a fight.” It is about you as much as it about the effect of your gift. As much as fund-raisers say that they understand these mixed motivations, charities often continue to behave as if donors were automatons. Thus the existence of big matching gifts.

Along similar lines, Jonathan Gruber, an economist at the Massachusetts Institute of Technology, has conducted a mischievous experiment on the relationship between religious giving and religious observance. His inspiration was a comment his father made after he was elected treasurer of his synagogue in New Jersey. “Good,” Gruber’s father told him, with some amount of irony, “now I don’t have to go.” Somebody thinking purely about the temple might have decided that the treasurer should attend services even more often than an ordinary congregant. After all, he would need to set an example as a community leader. But someone who wanted to attain a certain commitment level – who wanted do enough to feel the warm glow of being involved in the life of the temple – would consider regular attendance and synagogue duties to be substitutes for each other.

To see how typical his father was, Gruber dug into surveys that ask people about how they spend their money and their time. Sure enough, his dad was typical. When the tax code changed in the early 1990s and made the deduction for charitable giving more valuable, the average churchgoer gave more money – and attended services less often. Gruber called his

research paper “Pay or Pray.”

List likes to use another phrase to describe the larger phenomenon: impure altruism. It fits nicely with the recent explosion of academic research on the anomalies and irrationalities of life. The field is known as behavioral economics. It has shown, for example, that many people buy monthly memberships to health clubs even when paying individually for each visit would be much cheaper. Apparently, people imagine that the membership will inspire them to work out far more often than it really does. Behavioral economists don't question that people generally want to do what's best for themselves — and probably what's best for their favorite cause, as well. But the world is a complicated place, full of psychological nuances that trip them up.

Growing up in Sun Prairie, Wisc., List collected baseball cards. In high school, he somehow persuaded his girlfriend, Jennifer Einerson, to come along with him on weekends to visit sports-card shows around the Midwest. They both went to college at Stevens Point and continued going to the card shows, driving to Illinois or Minnesota or Iowa. List found that he could make a profit buying and selling cards, which gave him some extra income on top of the money he earned as a short-haul truck driver. (List's father is a truck driver, and his mother is a retired secretary.) More to the point, the card shows offered List his first glimpse into the inner workings of a market economy, with all of its rationalities and irrationalities.

After graduate school at Wyoming, List took a job at the University of Central Florida, in Orlando. By this time, he and Jennifer were married (they now have five children), and they moved to Orlando. In each of his first four years at Central Florida, he won the award for best undergraduate economics teacher. He also coached the water-skiing team for two years — leading it to an eighth-place finish at the 1999 national championships — until the university president shut it down, temporarily, in order to spend more money on the football team.

Even setting aside his time as a coach, athlete and truck driver, List's background is highly unusual for an economist at the pinnacle of the field. In the Chicago economics department — currently home to four Nobel winners — most faculty members attended one of just a handful of top-notch graduate economics programs. List has broken the mold, and his background helps explain why he has been so open to getting his hands dirty in the real world.

Within the economics profession, the most exciting part of List's work isn't the road map it offers for charities. List happens to do his research on philanthropy, but what he's really doing is helping promote methods in social science that are well established in medical science — real-world experiments relying on randomized trials. “He's a real phenom,” says Charles Clotfelter, a Duke University economist who did much of the early research on tax deductions. “He's very creative. And this is a completely innovative area of economics.”

For years, empirical economic research tended to come in one of two forms. Either economists gathered existing data and tried to tease out cause and effect with the help of statistical analysis, or they ran controlled laboratory experiments, which allow researchers to ask almost any question they want to ask. But lab experiments have an obvious drawback.

They aren't especially realistic. If you put a college sophomore in a room, gave her \$20 to spend and presented her with a series of pitches from hypothetical charities, she might behave very differently than when sitting on her sofa sorting through letters from actual organizations. "I'd rather have a lab experiment than no evidence," Gruber says. "But it's an artificial environment." Field experiments offer a way to bridge the gap. When designed well, they allow researchers to pick the questions they want to ask, while increasing the odds that the answers will be genuine. Some economists say List can sometimes be too dismissive of lab experiments, but they also maintain that he's right to push the discipline out into the field.

At Central Florida, List found himself in charge of raising money for a new research center in environmental economics, and he decided to turn the task into an experiment. Working with David Reiley of the University of Arizona — another pioneer of field experiments (who's now on leave to work for Yahoo) — List set out to see whether donors cared about so-called seed money. Fund-raisers generally like to have raised a large portion of their ultimate goal, sometimes as much as 50 percent, before officially announcing a new campaign. This makes the goal, as well as the cause, seem legitimate.

To see whether the strategy made sense, List and Reiley wrote letters to potential donors saying that the university wanted to buy computers for a new environmental-research center. They varied the amount of money that supposedly had already been raised. In some letters, they put the amount in hand at \$2,000, out of the \$3,000 they needed for a given computer; in others, they said they had raised only \$300 and still needed \$2,700. The results were overwhelming. The more upfront money Central Florida claimed to have on hand, the more additional money it raised. When paired with the matching-gift research, the study suggests that seed money is a better investment for charities than generous matches.



What got List noticed by Chicago, however, was an experiment with sports cards. Using data from card shows, he showed that traders became more rational — less emotionally tied to the cards they owned — as they accumulated more experience. The study fit right into the neoclassical ethos of the Chicago economics department, which holds that people are rational and that markets work. In the paper, he included a direct critique of a renowned study in behavioral economics that suggested people often hold on to an item they own (a house, for example) in the vain hope that its value will rise.

But List doesn't align himself with the rationalists or the behaviorists; he says he simply follows his evidence to the logical conclusion. Tellingly, while he worked for the Bush administration, he found himself frustrated by its inflexibility, specifically its unwillingness to use market incentives to reduce carbon emissions. This year, his favorite candidate is Barack Obama. "A lot of people ask me, 'What are you?' " List told me. "I'm just a field experimentalist. I gather data."

One theme to emerge from List's research, and that of his fellow economists, is that the conventional wisdom about giving tends to be mostly right and yet is still flawed in important ways. The study on matching gifts bore that out. Matches matter, but not for the obvious reasons and not in the obvious ways. Rachel Croson, an economist at the University of Texas at Dallas, found a similar pattern when she examined pledge drives by public radio stations.

As any listener knows, these stations inundate potential givers with suggested donation levels during these drives. They may explicitly suggest a \$50 gift, for example, or they may list a series of items — a mug, a CD, a T-shirt — that serve as thank-you gifts for specific donation levels. Each of these price points serves as a suggestion. When Croson asked how these price points were determined, "it was really amazing to me to see how little science there was behind fund-raising," she says.

So she and her co-author, Jen Shang, conducted an experiment in which listeners who called to make a pledge were casually told that another caller had made a gift. But the amount of the gift varied — in some cases, \$75 (which was the median gift size for that station), in others, \$300. Not surprisingly, perhaps, the callers who heard about the \$75 gift didn't seem to be affected by it. They gave the same amount, on average, as callers usually gave. But the people who heard about the \$300 gift gave more — about 12 percent more on average — having apparently been inspired, or shamed, into being more generous.

Croson and Shang then tried a variation on the experiment at a different station, using \$600 and \$1,000 gifts instead. And here came the rub: the callers who heard about a \$1,000 gift actually gave less than those who were told about a \$600 gift. To most callers, a \$1,000 donation sounded too large to be relevant. They thought to themselves, as Croson explained, "That couldn't possibly be me." There was a sweet spot for a radio station, but a steep penalty for overshooting it.

The economics of fund-raising are filled with such contextual nuances. In a door-to-door fund-raising drive, List found that men gave more money when the person asking for the gift was an attractive woman. (You knew this was coming: women weren't affected by beauty, whether the solicitor was male or female.) Yet this ploy had no lasting value to the charity. When the besotted men were asked for a follow-up gift on the phone or by mail, they gave no more than people who were greeted by an average-looking fund-raiser. Offering a lottery, on the other hand, worked in both the short term and the long term. People gave more money when they were told their donation made them eligible for a prize, and they gave more the next time they were asked too.

To those of us outside academia, the notion that men often try to impress attractive women may not count as an intellectual breakthrough, but for fund-raisers desperate for guidance, the research on charitable giving is a gift in itself. And it often does contain real insight. Last year, Princeton University held a conference at which List, Croson, Andreoni and others who study charitable giving got together with fund-raisers from Africare, the National MS Society and elsewhere. I spoke with three people who listened to the academics present their work, and all said they found it invigorating. "We all have different strategies and takes on how to

reach out to potential donors,” said Nicole Eley of Africare, which sends development and relief aid to Africa. “Many of them work, some don’t — it’s a trial-and-error process.” It’s easy to imagine that the academic research may eventually serve as the building blocks for a unified theory of how to raise money.

For those of us who aren’t putting together fund-raising appeals, the real importance of these studies is the glimpse they offer into the human mind, and the clues about how to make the world work a little bit better. As it happens, Richard Thaler, one of the behavioral economists List criticized in his sports-card paper, and Cass Sunstein, a widely published law professor, are coming out with a book next month called “Nudge.” It’s a manifesto for using the recent behavioral research to help people, as well as government agencies, companies and charities, make better decisions.

One of their ideas directly echoes the experiment for the liberal group that List and Karlan did in 2004. Thaler and Sunstein point out that people who save money through a 401(k) often set aside exactly the amount of money that triggers a matching contribution from their employer, no matter how big or small the match. When an employer matches the first 6 percent of salary dollar for dollar, many people will save 6 percent. But they often save just as much when the match is only 50 cents on the dollar. It follows, then, that if a company wanted to nudge its employees to save a little more, it could lift the ceiling for the match while reducing the amount of the match. For instance, it could match up to 10 percent of an employee’s salary, at 30 cents on the dollar. Because the Treasury Department and Congress are involved in setting 401(k) rules — and because the country would be better off if people saved more — there is a good argument that the government should encourage companies to make just such a change.

When you think about these findings for long enough, you start to realize they may have another implication as well, one that circles right back to philanthropy. Each year, the federal government subsidizes charitable donations to the tune of about \$50 billion a year. That is the value of tax deductions that the government gives out in exchange for donations. It’s a huge amount of money, more than enough to pay for, say, universal preschool for all 3- and 4-year-olds.

There are several reasons to question whether a subsidy of this size is such a good idea. Deductions of any kind complicate the tax code. This particular deduction disproportionately benefits the affluent, who have done quite well on their own in recent years. It also adds to the government’s long-term budget deficit. In an ideal world, the government would figure out a way to recoup some of this money without causing charitable giving to plummet. Philanthropies would be able to continue doing most of the good work they’re now doing without being quite such a drain on the federal budget.

Think back now to the central findings of List’s and Karlan’s research. People aren’t always clearheaded about money; sometimes the existence of a financial incentive can matter as much as its size. So what if it were possible to design a tax policy for charitable giving that wasn’t quite as generous as the current one but still led people to give nearly as much as

they're giving now? It wouldn't be easy. As the original research on charitable giving suggested, people are often quite rational about their taxes — more rational, evidently, than they are about matching gifts. But it might not be impossible, and the potential benefits would be enormous. It's the kind of problem that cries out for a clever field experiment by someone like John List.