Giving Without Sacrifice?

The relationship between income, happiness, and giving.

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Once we are made aware of the extent and severity of global poverty, it is difficult to avoid the conclusion that we ought to do something to help. Unfortunately, the gap between what we ought to do and what we actually put into action is famously wide. We have trouble doing what we ought even when we are the ones who stand to benefit: we know that we should get more exercise or save more for the future, and yet we fall short of even these commitments. In cases of like the above, it is the lure of immediate gratification that diverts us from doing what we should. When it comes to donating money or time to the benefit of others, the perceived importance of self-interest can similarly exceed its bounds. If we are rightly convinced that we ought to help those in need, we can nonetheless be inspired to hold back by the worry that this will require us to make a substantive sacrifice, even if we recognise this sacrifice as being scarcely comparable to the benefit that we could achieve for others.

Ethical reasoning may be relatively ineffectual against this worry and its demotivational force. We prefer, therefore, to confront it in a more head-on fashion. In the following, we present empirical evidence to show that joining Giving What We Can will most likely requires no substantive sacrifice on your part, and may even be better, from a purely self-interested perspective, than spending your income in the common fashion. This, we hope, will help to close the gap between your actions and your knowledge of what should be done.

It is undeniable that giving away 10% of your income will reduce the amount of *money* that you have available to spend on yourself. However, money surely has no intrinsic value: it is something we accumulate not for its own sake, but for what we can get with it. Any sensible self-interested worry that fuels our reluctance to donate 10% of our income to the good of others must therefore be a worry that we will not be as *happy* as we might have been had we kept such money for ourselves. It is the merit of this worry that is at issue in the following.

Of course, different people have different relationships with money, and draw their happiness from different sources. We cannot tailor our approach to suit the peculiarities of every possible situation, and what is provided in the following is therefore limited in this respect. In order to determine exactly how your wellbeing depends upon a certain level of income, some personal judgment is called for.

You should, however, be aware of your own fallibility. Psychologists have studied our accuracy in predicting the effect of various outcomes on happiness: these predictions are called *affective forecasts*. They have found that we are not as good at this as we might expect.

We emphare generally good at predicting whether an outcome will be pleasant or unpleasant: we know full well that going on holiday is a good time and that going to the dentist is not. The problem lies elsewhere: in our estimates of quantity, rather than quality. Our affective forecasts are prey to an *impact bias*: we overestimate the duration and intensity of the pleasant or unpleasant feelings associated with outcomes[1]. People routinely misjudge the negative impact of certain medical conditions on quality of life (QOL). One study found that patients without colostomies estimated the QOL of patients with colostomies to be 0.8 (on a scale from 0 to 1), whereas patients with colostomies rated their own life at 0.92[2]; another found the general public estimating the QOL of those on chronic dialysis to be 0.39, whereas it was reported as 0.56 by actual dialysis patients[3]. The impact bias is not restricted to medical contexts: lovers overestimate the negative impact of the dissolution of their relationship; academics overestimate the negative impact of being denied tenure; and voters overestimate the negative impact of having their candidate lose the election[4]. The impact bias also colours peoples perceptions of the relationship between income and happiness. Kahneman et al.[5] asked a sample of working women in the United States to estimate the proportion of time typically spent in a bad mood by someone with low income (less than $20,000): they found the predicted prevalence of bad mood to be "grossly exaggerated" (1909). Aknin, Norton, & Dunn[6] found that a representative sample of Americans "vastly underestimated the happiness of people earning lower levels of household income (US$55,000 and below)." (524). Keep in mind, then, that giving away 10% of your income will probably not reduce your happiness by nearly as much as you think (assuming you think it will do this at all).

Two sources of the impact bias have been identified[7]: a focusing illusion and a failure to take psychological adaptation into account. If someone non-disabled is asked to consider what life would be like with a disability, their mind is immediately drawn to those aspects of life that would be negatively impacted by this condition. The particular salience of these considerations gives them a disproportionate place in the picture that they form of a life with disability: they forget to take due account of the many other things that contribute to personal wellbeing, but which are not affected by disability. This is the focusing illusion: we see the outcome that we are thinking about as mattering more to our happiness simply because we are focusing on it at the time. The second source of the impact bias is a failure to take psychological adaptation into account. People typically adjust to both bad and good things. This much is common sense. Nonetheless, we fail

[1] [Wilson & Gilbert 2005]
[2] [Boyd et al. 1990]
[3] [Sackett & Torrance 1978]
[4] [Gilbert et al. 1998]
[5] [Kahneman et al. 2006]
[6] [Aknin et al. 2009]
[7] [Wilson & Gilbert 2005]

to take such psychological mechanisms into account in our affective forecasts[8]. Although we do not in fact adjust to absolutely everything (see, e.g., [Weinstein 1982] on traffic noise), there is much evidence that we adapt readily to our level of income. Rainwater[9] found that in the United States over the period 1950 - 1986 perceptions of the minimum income required simply to get by rose in step with increases in real income. In a study of Swiss households, Stutzer[10] found that a 10% higher household income was associated with a 4.5% increase in the figure cited in response to the question, "What household income per month would you consider an absolute minimum in order to make ends meet and without running into debt even if you reduce your needs to a minimum?"

You can thus improve your accuracy in estimating the hedonic impact of a 10% reduction in personal income by keeping in mind the many sources of happiness that would be unaffected by this reduction, as well as your ability to adjust your desires and aspirations to match your financial circumstances. However, we also hope to have impressed upon you the worth of looking further into what empirical studies can tell us about happiness and its relation to income and spending. Given that we have established that giving 10% will not be as bad as you first predicted, how bad (if at all) is it likely to be? We now proceed to this matter.

If you are sufficiently idealistic, you might believe that income has no significant impact upon wellbeing once certain basic needs are met: money does not buy happiness once one has adequate food, shelter, etc. You might therefore be perfectly happy to give large amounts of money to others who are in need.

There is evidence that might be thought to lend support to this idealistic contention. If one plots the percentage of persons within a country reporting themselves as being quite happy or very happy against national income per person, one finds a curve that is very steep at low levels of income, but which gradually flattens as one reaches developed, Western nations[11]. There are also longitudinal studies of developed nations that suggest no correlation whatsoever between happiness and rising real income. Easterlin[12] found that there has been no upward trend in happiness in the United States since the 1950s, despite a doubling of real GDP per capita over this period; he found a similar non-trend in happiness in Japan between 1958 and 1987, despite a five-fold increase in real income per capita in this period. From this you might be drawn to conclude that once a certain standard of living is reached, greater income does not yield significant gains in terms of personal wellbeing.

There is evidence that casts significant doubt upon this view, however. Cross-sectional studies consistently show that at any given time, within any given nation, income is positively correlated with happiness (see [Diener & Biswas-Diener 2002, 122-127] for overview and discussion). Thus, the World Value Survey II found the percentage of respondents in the UK reporting above neutral life-satisfaction to be 19% higher for high income groups compared to low income groups; in France the difference was 29%,

[8] [Gilbert et al. 1998]
[9] [Rainwater 1990]
[10] [Stutzer 2003]
[11] [Wilkinson & Pickett 2010, 9]
[12] [Easterlin 1995]

in the Netherlands it was 6%, and the global average was 17%[13].

Taken together, these findings are highly surprising. How can we explain the cross-sectional correlation between income and happiness in a manner consistent with the failure of happiness to increase in Japan and the United States despite massive economic growth? The most natural answer is this: when it comes to income, it matters far more how much you have compared to others than how much you have considered in absolute terms. Thus, if you are richer than others, you will be happier, but if everyone gets richer whilst keeping their relative positions constant, no one grows significantly happier. Easterlins findings have been contested (e.g., by [Haggery & Veenhoven 2003]), but the natural answer is widely recognised as stating an important truth of happiness economics. The relation between income and happiness depends much less upon how well off we are in non-comparative terms, and far more upon how well off we are as compared to some relevant standard. More specifically, it depends upon the income of those around us and the income that we expect to enjoy[14,15].

The suggestion that your satisfaction with your own economic situation should depend upon how well others are doing is hardly counterintuitive: we are all familiar with the phenomenon of keeping up with the Joneses. You might nonetheless be surprised by just how much more relative income matters compared to absolute income. Ball & Chernova[16] found that for the median individual, "the effect of a marginal change in relative income on happiness is several times larger than the effect of a marginal change in absolute income" (519), such that the median individual should be indifferent between a tripling of absolute income and a rise from the 50th to the 70th percentile (keeping absolute income constant).

The place of personal income aspirations in mediating the relationship between income and happiness must also be taken into account. Consider another paradoxical finding reported by Easterlin[17]: despite cross-sectional studies showing those with greater income to be happier than those with less at any given time, studies of life-cycle patterns show that although income generally improves substantially up to retirement, after which it decreases, there is no corresponding upward trend in personal happiness correlated with this rise, nor a downward trend associated with retirement. To explain this finding, it seems that we must the capacity of income aspirations to march in step with the changes in economic situation typically experienced over the course of a persons life.

We can see, then, that money can buy happiness under certain conditions. What, if anything, can we conclude from this regarding the probable effects of giving away 10% of our income? We might choose to think of this as equivalent to simply exchanging our level of happiness for that attributed by a cross-sectional survey to someone within our country whose income is 10% lower than our own. Since we know that income is positively correlated with happiness in cross-sectional surveys, we should then expect that the effect of donating our income will be to decrease happiness.

[13] [World Value Survey Group 1994]
[14] [Easterlin 2001]
[15] [Layard 2006, 41-54]
[16] [Ball & Chernova 2008]
[17] [Easterlin 2001]

However, we must be careful in inferring causation from correlation. The existence of a positive correlation between happiness and income might be partly due, for example, to the influence of happiness on income: people of a cheerful disposition might end up wealthier than others. In fact, an effect of this kind exists[18]. Similarly, the correlation between income and happiness might be partly due to any number of third variables that cause both higher income and higher happiness. And, in fact, the correlation between income and happiness is weakened if one controls for variables such as education and unemployment[19].

On top of this, it might be argued that the available data inflates the size of the correlation between income and happiness. In surveys of this correlation, wellbeing is almost always measured by asking subjects to provide global reports of life-satisfaction: for example, they may be asked, "All things considered, how satisfied are you with your life as a whole these days?" However, there exists another technique for measuring happiness, *experiential sampling*, where subjects are asked to report their instantaneous feelings of happiness or unhappiness at several points over an extended period of time. It has been argued that experiential sampling provides a superior method of measuring happiness, because it overcomes the biases and imperfections associated with the cognitive capacities required to provide an accurate estimate of the happiness associated with ones life as a whole[20,21]. The choice of method is of importance, because the correlation between income and happiness is weakened by the replacement of such experiential measures for global self-report measures[22,23]. If experiential sampling provides a more objective measure of wellbeing, then money buys less happiness than most studies indicate.

Since giving away 10% of ones income involves only the loss of money and no sacrifice of ones educational achievement or sunny disposition, giving away 10% of ones income will not produce as great a drop in happiness as would exchanging ones level of wellbeing for that of a typical person earning 10% less, as people who earn different amounts of money typically differ in other ways which are relevant to happiness. On top of this, it must be emphasized that the data shows the correlation between income and happiness to be small, and significantly smaller than people estimate[24]. Based on Helliwell[25], Layard[26] calculates that "[a] fall in income by one *third* (holding national income constant) causes a fall in happiness of 2 points on the scale of happiness (from 10 to 100)." (65, my emphasis) The modest size of the correlation ensures that the effects of income on happiness are dwarfed by other non-pecuniary factors. On one analysis of their data, Ball & Chernova[27] calculate that for the median single individual, the happiness boost produced by marriage is matched only by a 767% increase in absolute income, or by an

[18] [Diener & Biswas-Diener 2002, 134-135]
[19] [Easterlin 2001, 468]; see [Diener & Biswas-Diener 2002, 128] for general discussion
[20] [Kahneman 1999]
[21] [Stone et al. 1999]
[22] [Kahneman et al. 2006]
[23] [Diener et al. 2010]
[24] [Aknin et al. 2009]
[25] [Helliwell 2003]
[26] [Layard 2006]
[27] [Ball & Chernova 2008]

increase in relative income from the 50th to the 88th percentile; the boost associated with moving from a health rating of 3 to 4 (when health is scored from 1 to 5) is matched only by a 6,531% increase in absolute income, or by a move from the 50th to the 100th percentile in relative income.

Supposing, then, that we adopt the approach suggested above and think of donating 10% of our income as equivalent to simply exchanging our level of happiness for that attributed by a cross-sectional survey to someone within our country whose income is 10% lower than our own (keeping all other variables constant), we may conclude that this should produce a very small reduction in personal happiness.

However, the methodology relied upon here is open to challenge. We might ask why we should think of giving away 10% of our income as equivalent to earning 10% less? After all, that assumption is literally false: we will not have a lower income, but one that is spent differently. You might have been tempted to go along with the assumption because you thought it plausible that giving money to someone you will never meet or otherwise interact with is as good from the perspective of your self-interest as simply throwing that money away. A little reflection shows this to be quite unlikely.

Many people have thought that genuine altruism does not exist: every apparent act of charity or mercy, they claim, is secretly or subconsciously driven by ruthless self-interest. Upon closer examination, this view appears thoroughly mistaken[28]. However, for it to have been endorsed by so many intelligent persons, it stands to reason that benefitting others must reliably benefit us: if altruistic acts typically involved a clear loss for the altruist, no one would think it particularly plausible to suppose that these acts were secretly driven by the desire for personal gain. Some of the ways in which helping others helps us are known to common sense. If I scratch your back, you might scratch mine. Helping someone might also raise our esteem in the eyes of third-parties, making them more likely to cooperate with us at some future time. Less tangibly, benefitting others might produce a warm glow: we might feel good about doing good, or simply about the fact that others are now better off. The existence of such a warm glow-effect has been demonstrated using functional magnetic resonance imaging (fMRI): reward centres in the brain were activated when money was transferred to a local food bank from the accounts of participants in an experiment designed by Harbaugh, Mayr, & Burghart[29], and even in cases where the transfers were mandatory and tax-like. Finally, helping others who are in need might serve to ease our distress at their situation.

Given this, it seems implausible to equate giving money to charity with never having had that money in the first place: whereas money that we have never had might not bring us any benefit, money that we give to aid the worst off might well bring some good back to us. To determine the probable effects of donating our income we should examine empirical studies that address the correlation between different kinds of spending and happiness, rather than the correlation between income and happiness.

Unfortunately, relatively little research has explored this issue, though it has gained increasing attention of late (see Dunn, Gilbert, & Wilson in press for an overview).

[28] [Blackburn 1998, 122-160]
[29] [Harbaugh et al. 2007]

Certain important results have already been established: for example, spending money on experiences, such as holiday trips, typically yields greater happiness than spending money on material goods[30]. There is also evidence to indicate that benefitting others might benefits us more than spending money on ourselves.

Imagine the following scenario. You are a participant in a psychological experiment: you are given an envelope containing a small sum of money, which you are asked to spend within 24 hours. The experimenter can assign you to one of conditions: she can require that you spend the money on yourself (paying a bill or buying yourself a treat) or she can require that you spend the money on others (buying a present for someone or donating the money to charity). Which condition do you suppose would bring the greatest happiness: spending the windfall on yourself or in an altruistic fashion?

If you are like the typical participant in an experiment of this kind, conducted by Dunn, Aknin, & Norton[31], you believe that spending on yourself brings greater happiness. If you are of this opinion, your affective forecast is mistaken: the experimenters found that subjects in the prosocial spending condition reported greater happiness after spending their windfall than did those in the personal spending condition. This was not an isolated result. Dunn et al. also conducted a longitudinal study of 16 employees at a Boston-based company who received a profit-sharing bonus, finding that those who devoted more of their bonus to prosocial spending experienced greater happiness as a result of spending their windfall; a cross-sectional study of a representative sample of Americans also found greater prosocial spending correlated with significantly greater happiness, while personal spending turned out to be unrelated to happiness.

Aknin et al.[32] examined survey-data from 136 countries gathered by the Gallup Organization, to see whether ratings of subjective wellbeing were positively correlated with donating to charity. Controlling for household income, it was found, in 122 of the 136 countries, that there is a positive correlation between subjective wellbeing and answering Yes to the question Have you donated money to charity in the last month? On average, it was found, "donating to charity has a similar relationship to S[ubjective]W[well]B[eing] as a doubling of household income." (8)

Of course, we must be cautious in extrapolating from these results to the conclusion that donating 10% of our income to charity will be better for us than would be keeping this money for ourselves. The Gallup data did not assess the amount given to charity, and is correlational. The sums involved in the experiment described above are small. The experiment also involved windfall gains, such that subjects were not using money that they had already planned to spend on themselves. Moreover, insofar as the effects of donating 10% of our income might be expected to resemble those achieved for the prosocial spenders in the experiment described above, it is important that this 10% be taken from spending that would otherwise have gone on ourselves: the experiment does not support the view that giving money to charity is better than not giving, if the money donated would instead have been spent on presents for friends or family. Nonetheless,

[30] [Missing]
[31] [Dunn et al. 2008]
[32] [Aknin et al. 2010]

these results lend credence to the idea that giving money to charity can be a source of life-satisfaction that outweighs whatever minor frustrations we might experience from having less money to spend for our own purposes. Anecdotally, this idea is borne out by the testimony of members of Giving What We Can. Far from feeling like a sacrifice, joining Giving What We Can tends to be a very positive experience, as you become part of a global community of like-minded individuals and gain deep satisfaction from the knowledge that you are helping others and making a positive impact on the world.

It must be conceded that we have not been able to arrive at any secure verdict regarding the expected effects of donating 10% of our income to charity. Nonetheless, we have uncovered good evidence to support the view that this will involve no great sacrifice on our behalf, and certainly less sacrifice than we initially expected. If the money we donate is as good from the perspective of our self-interest as money that is straightforwardly foregone, we should expect only a minor decrease in our wellbeing. However, we have also seen evidence that choosing to spend our income on charitable giving can bring benefits to us, that these benefits might be greater than we anticipate, and greater than those which could be achieved by spending money on ourselves.

Giving without sacrifice seems genuinely possible. Ultimately, of course, the important thing is to help others. Given the extraordinary benefits that we can achieve for individuals living in poverty, it is something we should be doing even if did mean a real sacrifice. But it is important to know that it does not, for we can then put to rest whatever self-interested doubts might be holding us back.

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