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Why Giving Now Multiplies the Value of a Donor's Dollar

By William MacAskill

In 1790, Benjamin Franklin left £1,000 apiece (approximately $80,000 in today’s money) to Boston, his birthplace, and Philadelphia, his adopted home. However, he included a caveat: The money was to gain interest for 200 years before being paid out.

The result of this eccentric requirement?

By 1990, when the money was finally available for use, the Philadelphia trust, which was invested by the city’s investment agency, had multiplied to $2 million and the Boston trust, managed for many years by the trustees of the Franklin Institute, had grown to $5 million. The amount of money in the pot was more than 30 times what he had put in.

Franklin’s example puts in sharp perspective a key question for donors: If you want to have the biggest impact, should you make your donations now or hold back and invest so you can donate more at a later date?
The answer is not simple, and there are strong arguments on both sides of the debate.

Among those who want to give more later is Darius Wilson, a Canadian software engineer who has decided that giving later makes more sense.

He considers himself an effective altruist, and he represents the growing movement of people who like to donate their time and money in ways that do the most good in the world. His plan is to earn a lot of money so he can eventually donate it to effective charities.

Rather than donating to charities immediately, he puts his contributions into a fund that will grow as the interest earnings compound.

His ultimate plan is to create an endowment that will pay out the equivalent of $1 million a year in today's money, for all time.

"What would you rather do?" he asks. "Give only until you retire, or invest for 10 to 15 years and have the same level of annual giving perpetuate eternally?"

If this idea of saving to give later seems strange, it should be remembered that investment is often considered a wiser choice than spending immediately. It’s not just prudent businesses that invest in their future. We encourage capable high-school graduates to go to college and delay entering the work force for four years. We recommend that rather than earning now, they invest in themselves to improve their chances of getting better jobs and higher earnings once they've got their diplomas.

In the context of effective altruism, there are two other important arguments for waiting before making donations.

First, the science of making a difference is still in its infancy. The more research we do, the more we can expect to find out about the best causes, the best charities, and the best ways to solve pressing problems. So 20 years from now, what we know to be the best opportunities for doing good might be much better than the best opportunities we know of right now.

A second, and related, argument is that new technological, cultural, and political developments might give us options in the future that aren’t even possible now, allowing us to do good far more effectively. For example, new vaccines and treatments have to be...
invented before they can be distributed. And as climate change worsens, the political fallout might make it easier to lead campaigns to sway policymakers.

The result of these two points is that even if investing didn’t increase the size of the pot, we could potentially use the same (or equivalent) amount of money to do much more good 10, 20, or 50 years down the line.

But let’s back up a minute. Investing to give later may sound like it has all the advantages, but in fact there are some good reasons to favor giving now.

Most obviously, someone who decides to save and give later might not actually follow through with it. The commitment to making substantial donations might be much stronger when a person is young and idealistic than when he or she is older and has more family commitments.

There’s a simple solution to this problem: putting the money into a donor-advised fund. That makes it possible to get a charitable tax deduction while retaining control over how the money is invested and distributed. Because the money can be paid out only to registered charities, there is no temptation to renege on the commitment.

Another reason to give now is that much like getting a return on money by investing it, giving to an effective charity in a poor country makes that country slightly wealthier.

Because economies grow in a compounding fashion, so does the impact of a donation, which spreads throughout the country, and maybe even further. Similarly, donations made to support effective research can help lay the groundwork for future research, multiplying the impact over time. If donations were delayed until later, poor countries or areas of promising research would miss out on the benefits in the meantime.

Perhaps the best reason to give now is this: The most-promising opportunities to benefit other people may decrease considerably over time. The world, in general, is getting richer and the number of people living in extreme poverty is going down, from 1.94 billion in 1981 to 1.22 billion in 2010 (even as the total population increased by more than 2 billion).

This is great news, but it means that the amount of good that can be done with a given sum of money is going down. The people left in poverty are the ones who are harder — and so more expensive — to reach, so the cost of doing good is going up.
If the debate stood there between giving now and giving later, I’d call it a stalemate. However, there’s one final consideration that I think points strongly in favor of giving now: the idea of "meta-altruism."

Suppose someone decides to donate 10 percent of his or her income to effective charities. That’s great in and of itself, but it can also set an excellent example.

Let’s say that by doing so, that person also convinces two other people to donate 10 percent. In that case, the resulting impact would be three times as great. If each of them convinced two others, the total impact would be seven times that of the single donation. This is essentially a positive-feedback loop, in which spending on effective causes leads more people to do the same, and they in turn encourage more people, and so on.

But persuading others personally can be difficult. An alternative, and potentially more successful, way to increase the returns on a donation is to give part of the money to organizations that promote effective altruism; organizations devoted to helping people around the world think about how to give their money wisely.

The results so far have been extremely positive. My organization, Giving What We Can, has spent about $500,000 in total. With that, the organization has helped channel $8 million to effective charities and persuaded people to pledge an additional $430 million over the course of their lifetimes.

Similarly, since GiveWell was founded, it has received $3 million and used that money to raise $34 million for its top-recommended charities. That means about $10 is being raised for every $1 spent, not taking into account all the donations the organization will probably influence in the future.

Seeing the power of what people can do to influence one another has persuaded me that the smartest donors give now and don’t wait. We all give to make the world a better place in the long term. But if we expect to see a real change in the effectiveness of donations — making sure money goes to the groups and people that need help the most — we need to give more and we need to give it now.

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