When Donors Feel Generous:
Economic Research on Prosocial Behavior


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Economists have studied selfish behavior extensively, but until now, not much economic research has been done on prosocial behavior. To some extent, that has handicapped nonprofits, which rely heavily on volunteers, donations, and the thoughtful impulses of individuals, businesses, and governments. For them, the more that is understood about prosocial behavior—why people are generous or kind, what inspires them to give more, what sorts of people give to what sorts of organizations—the better.

Recent research into the prosocial psyche highlights three basic precepts: people give at the level of their peers; people want their giving to have an impact; and people give to groups with which they identify.

Understanding the conditions under which people behave prosocially is important—not only for fund-raisers but also for policymakers.

The Role of Self-Interest

Self-interested behavior is not always undesirable. Indeed, it often benefits society. One of the most important insights in economics is that the pursuit of self-interest by both consumers and producers is consistent with broader social goals and even necessary to them.

Adam Smith famously stated the precept in his 1776 book *The Wealth of Nations*: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard of their own interest. We address ourselves not to their humanity, but to their self-love, and never talk to them of our necessities, but of their advantage." The idea is that individuals need not consciously act to optimize social welfare, because the invisible hand of the market will guide them to do good.

Adam Smith was also aware, however, that the pursuit of self-interest does not always maximize the wealth of nations. Too often, it falls short. If many people behave selfishly and take a free ride on the efforts of more civic-minded citizens, the public good is not served.

Some free-riders leave to others the job of protecting the environment, for example, or organizing a community event. Some refuse to donate blood but count on others providing blood if they need it for themselves. And there are many who refrain from enforcing a social norm like picking up litter because they think littering laws are for others to enforce.

All these individual calculations result in suboptimal outcomes: too little environmental protection, difficulty finding somebody to organize community events, too few blood donors, and too few people enforcing social norms. If everybody behaved like that, there would be insufficient donations of time and money to provide a socially optimal amount of public goods.

The Common Good

For society as a whole, it is therefore important that more individuals be prosocial and fewer be purely money maximizers. Fortunately, humans are among the most cooperative species, and people help each other even if not related by blood. In 2001, for example, Independent Sector reported that around 45 percent of American adults volunteered, and 98 percent of all private households donated on average $1,620 to charitable organizations.[1] Nonprofits of all sizes depend on prosocial behavior to accomplish their mission.

There are numerous other examples of prosocial behavior: some senior citizens vote themselves higher taxes in order to help schools from which their children have long ago graduated; and fewer people abuse welfare or bankruptcy programs than a selfish model would predict (in fact, some who are eligible for welfare programs don't even apply).

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What the Research Shows

Research on this topic points to three important factors influencing people's pro-social behavior:

Peers. People want to know if other people are being generous. In the area of charitable giving, for example, people look very closely at the behavior of their reference group. If others give money, they do, too. If others give a lot, they give a lot. When the envelope comes around for a colleague's gift, who does not look at what the others have given and use that to decide what amount would be appropriate?

This feature of human behavior has implications for all who want to inspire their target audiences to be cooperative and prosocial—and to keep them from underestimating how willing their peers are to promote the public good. Government agencies, for instance, should hasten to remove small signs of crime like smashed windows so that people don't overestimate the amount of criminal activity in the area, which can actually lead to more crime.

People are more likely to behave prosocially if others do, and the same holds for antisocial behavior. When the group behavior is antisocial, it is very difficult to reverse. Consider the rampant tax evasion in some parts of the world. How do you change the culture when individuals in a country can reasonably ask why they should pay taxes if nobody else does? This may explain the persistence of big differences in prosocial behavior among regions, nations, and neighborhoods.

Impact. People want to get a bang for the buck. When they buy a car or a television, it matters to them if they are getting good value. Similarly, people care about how expensive prosocial behavior is. For example, if they can deduct charitable giving from their taxes, they feel that giving is less expensive. If the individual's tax rate is 30 percent, one donated dollar will translate to only 70 cents with the deduction. Of course, if people have a lower tax burden—say, 10 percent of income—giving one dollar will be more expensive.

One way to counteract that is by matching people's donations instead of giving a tax rebate. If every 70 cents in donation is matched by someone else's 30 cents, people tend to give more. Many corporations match their employees' charitable giving, and nonprofits often find one donor to match others' gifts. Governments, too, might think of using some kind of matching to inspire prosocial behavior.

Group identification. People are favorably inclined toward members of the groups they identify with—their nation, their race, their university, their favorite baseball or soccer team, or their profession. Some of these identities are more important to them than others, but all influence their prosocial behavior. People are more likely to cooperate and help somebody from their group. Even when people are randomly assigned to a group, such as a social class or a dormitory, they automatically become more prosocial toward members of the group. Although that fosters desirable behaviors within the group, it may present challenges when the goal is to interest people in helping outsiders from a different dormitory, race, social class, or nationality.

In sum, research shows that people behave prosocially in the absence of any clear monetary gain, even in total anonymity. The reasons are manifold, but the bottom line is that it makes them feel good.

A study done with German data showed very explicitly that helping others through volunteering makes people happy.[2] Not only did volunteers report higher life satisfaction than nonvolunteers but volunteering causally increased people's life satisfaction.

So the same Adam Smith who praised the advantages of selfishness was probably right when he stated in his 1759 book *The Theory of Moral Sentiments* that "concern for our own happiness recommends to us the virtue of prudence: concern for that of other people." He was probably right in both books. Often people who are focused on making their own fortune are simultaneously doing the socially desirable thing, but in many situations they also need to be encouraged to behave more selflessly for the greater good.

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Endnotes

1 See *Giving and Volunteering in the United States* (Washington, D.C.: Independent Sector, November 2001), http://www.independentsector.org/PDFs/GV01keyfind.pdf.

2 Stephan Meier and Alois Stutzer, "Is Volunteering Rewarding in Itself?" *Economica* (conditionally accepted for 2006). See also Stephan Meier, *The Economics of Non-selfish Behaviour: Decisions to Contribute Money to Public Goods* (Cheltenham, United Kingdom: Edward Elgar Publishing Ltd., 2006).