

# Donating vs. Investing

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An important question for those of us who intend to do good by donating to the most effective causes is whether we should donate now, or whether we should first invest our money with the intention of donating more (the invested money plus the returns accrued in the meantime) later. We have thought quite bit about the issue of donating vs. investing, and our Director of Research Robert Wiblin will start producing a comprehensive document on this issue over the next few months. Here, we give an overview some central considerations that need to be taken into account when addressing the question at issue.



## 1 In favour of investing now

### 1.1 Returns on your investment

The most obvious reason for delaying donations is that you can expect the invested amount of money to grow (exponentially) over time.

For example, assuming an average rate of return of 5%, you could turn every dollar you donate today into 10 dollars you could donate in 50 years time, which would mean (assuming the same donation opportunities are still around in the foreseeable future) that you could have more than 10 times as much impact with the money you save today.

## **1.2 Getting better at identifying the best interventions**

A further consideration in favour of delaying ones donations is the prospect of an improvement in ones ability to identify the best donation opportunities.

In this context, we must bear in mind that cost-effectiveness research is in its infancy. GiveWell and Giving What We Can, the main cost-effectiveness evaluators out there, were created as recently as 2006 and 2009 respectively, and Giving What We Can has only started hiring paid staff in the summer of 2012. Accordingly, it is only reasonable to expect that GiveWell and Giving What We Can will get better at identifying the best interventions.

In fact, we already know of charities that may conceivably turn out to be more effective than AMF but need further investigation, such as the advocacy charity RESULTS.

## **1.3 New donation opportunities in the future**

Waiting with our donations may be a good idea not only because we dont know what the most cost-effective interventions are of those presently available, but also because the best donation opportunities may still be waiting to be created.

To take a concrete example, according to DCP2, promoting hand washing with soap was one of the best interventions they investigated. But at the moment it is not clear that there is a particular charity that implements this sort of intervention in a way that makes it an effective donation opportunity. However, such a charity could conceivably be established in the future and would be an excellent option for your donations.

## **1.4 Incentive effects**

Holding back a large sum of temporarily invested money that you can use for altruistic purposes when you wish to also allows you to create incentives for desirable action on behalf of potential recipients of these funds.

To some extent, meta-charities like GiveWell are already in a similar position. For instance, GiveWells ability to direct a considerable quantity of donations by changing its recommendations puts it in a strong position to demand evidence about their cost-effectiveness from charities. This in turn leaves all of us in a better position when we come to decide where to donate. Similar effects could be achieved through the creation of a large “effective altruism fund” by those who decide to invest for now (with the aim of donating later).

Such a fund could also incentivise the creation of new organisations (e.g., to use the example above, a new charity dedicated to hand washing) and thereby open up a promising donation opportunity that would otherwise not have existed at all.

### **1.5 The potential benefits of being able to make “lumpy” donations**

Whilst it is plausible that typically, the benefits each dollar given to a charity generates diminishes marginally (given that the charity, if rational, spends the first dollars it receives from you on what it considers most important, and later dollars on measures it considers a bit less important), there are conceivable scenarios in which you can do considerably more good once your donation reaches a certain critical magnitude.

For instance, you could imagine a case in which an organisation considers extending its operations to a new region where the intervention they implement would be exceedingly effective, but in which this very promising project could only get off the ground if they received a certain critical sum of donations

In that case, it may be that if you had invested rather than donated your money over several years prior to this, or if you were even part of a group of smart donors who invested their money in the previous years, you could choose to provide this critical amount of donations, whereas had you donated rather than invested in previous years, you could only make a much smaller, subcritical and thereby much less effective donation.

### **1.6 Predictably higher taxable income in the future**

There is further reason to delay ones donations in the special case in which one can foresee that one will fall in a higher tax-bracket in the future and thereby predictably receive greater tax deductions on ones delayed donations. Students are typically faced with this situation.

## **2 In favour of instead donating now**

### **2.1 Compounding benefits**

Interestingly, just as the returns on your investment would compound over time, donating to a charity now may also yield compounding benefits.

In the case of donations to global poverty charities, the benefits that accrue to those immediately helped by a particular intervention (e.g. those freed from intestinal worms by ones donation to a deworming charity) also compound at a social rate of return. The idea here is that the direct benefits of the intervention (e.g. improvement of an individuals health) lead to societal knock-on benefits that compound over time (e.g. increased productivity and likelihood to reproduce, which may themselves have beneficial economic and non-economic spill-over effects on the rest of society).

A further compounding effect of donations in general is that your donations (if made in the right way) may attract further donations by other donors. For example, in GiveWells post on the Giving Now vs. Giving Later problem, they stress that more donations made through GiveWells website support the organisations success, allowing it to move more money to highly effective charities in the future.

## 2.2 The best donation opportunities disappear

A further consideration in favour of giving now is that the best opportunities to do good through our donations might cease to exist in the future.

On the positive side of things, the best opportunities in a given area might firstly cease to exist because the main problems in that area have been solved. For instance, it is plausible that in fifty years time, global poverty will be much less of a problem than it is today, and that consequently, there will be far fewer excellent projects to fund.

Secondly, even during the time in which global poverty is still roughly as big a problem as it is today, it may (hopefully!) happen that other donors become more rational in their giving, or simply give more, and thereby reap much of the “low-hanging fruit”. In fact, we can already observe this latter effect happening today. For example VillageReach, GiveWells former top-rated charity, received over \$2 Million as a result of GiveWells recommendation and it now looks as though it no longer has room for more funding.

In response to this second point, one might worry why, if a given donation opportunity is going to disappear in the future because it will be taken care of by other rational donors, it is a good opportunity now. For in such a case, it might seem that you merely move the benefits of the donation (which would accrue independently of who made it) forward in time. (Of course, this may still have significant benefits due to compounding effects, although we would then be considering a different argument.)

Whilst this worry can be justified in particular cases, it will typically be rendered moot by the fact that when the best opportunities get “filled up” by other donors later on, different individuals will be helped from the ones we could help were we to donate to the intervention in question now. These latter individuals would then go unhelped if we didn't donate now. As a result, by donating before a donation opportunity gets “filled up” by other smart donors, we are not just moving the benefits of those donations forward, but are actually generating additional benefits for additional (“earlier”) people.

On the more pessimistic side of things, it is worth bearing in mind that if you choose to invest for now, you may also be detained from giving to effective causes later on e.g. because their investments are eliminated (perhaps as the result of collapse of the financial system). However, these risks should of course already be incorporated when evaluating the prospective return of your investment

## 2.3 Following through with your plan to donate

In contrast to investing now, which (at least on the default way of understanding this proposal) leaves open the possibility that you won't donate your money later on despite sincerely intending to do so now (e.g. because you change your mind later on), donating now obviously allows you to ensure that you follow through with your altruistic plans to donate a significant proportion of your income at least up to the point at which a potential change of mind occurs. Donating now can be seen as a precommitment strategy like pledging.

However, an attractive variant of the approach of investing for now with the aim of giving later that must be mentioned in this context is investing your money in a

donor-advised fund (DAF).

Money that is paid into a DAF is tax-deductible, and donors can decide how the fund should invest and to which organisations the fund later distributes the money they have paid in. As investment in a DAF is irrevocable (in the sense that once the money is paid in, it can only be paid out to organisations that are officially recognised as charities and not to the donors themselves), it is an effective way (as effective as donating immediately) of “tying yourself to the mast” of using your money for altruistic purposes.

Unfortunately, it may happen that some of the most effective organisations in the future will not enjoy charity status (or at least not during the initial stages when donations to them are arguably particularly effective), and that as a result, you would have to forgo the possibility of donating to such causes were you to invest in a DAF.

This problem could be sidestepped by investing, for example, in a fund other than a DAF, and legally binding yourself to donating the money in that fund either to a charity or to an organisation that is approved by an external body that can grant proposals for donations to non-charities. We are currently investigating the best ways of implementing this idea.

## **2.4 Signalling benefits**

Clearly, the more people work together on solving poverty, the better we will be able to do in this area. As a result, when deciding whether to donate or invest with the intention of donating later, you may want to take into account the effect this decision has on your ability to convince others to join the fight against global poverty.

Donating rather than investing with the intention of giving later is arguably advantageous in this regard.

Firstly, investing money with the intention of donating it later may provoke the suspicion that you are really just keeping open the back-door of using the money for non-altruistic purposes later on in case you change your mind.

Secondly, if you were to invest without somehow binding yourself to donate the invested money later (e.g. by investing in a DAF), you would not count as fulfilling the Pledge to Give, and hence would hence forgo the benefits of being a “pledger”.

Although adopting a DAF-scheme, given the irrevocable nature of an investment in a DAF, would arguably overcome these problems, people may still find the idea of stockpiling money in order to do good very counterintuitive.

On the other hand, being able to explain the rationale behind giving to a DAF is a good opportunity to signal that you have very thoroughly considered how to have the most impact with ones donations.

## **2.5 Does the reasoning in favour of investing lead to paradox?**

Finally, it might appear that (provided certain background conditions, e.g. that the best giving opportunities are sufficiently unlikely to disappear during that year, the risk of not following through with your plan to donate sufficiently low etc., hold for the indefinite future) the reasoning behind investing rather than donating implies that you

should defer donations indefinitely. But this conclusion would be absurd, because no good would be done if you never actually donated your money, and hence the reasoning in favour of investing would have to be rejected.

Here it is firstly important to stress that the relevant conditions clearly won't, assuming they hold at all, continue to hold even just for the foreseeable future. For example, the time window during which there are highly effective charities in the field of global poverty will lapse at the latest when global poverty is eliminated.

Secondly, whilst in cases like the highly idealised scenario in which donation opportunities never disappear, the risk of not following through with your plan to donate etc. raise some tricky technical issues, philosophers have studied these in some depth and appear to have come up with responses that can be used to successfully defend the reasoning behind investing now against this objection.<sup>1</sup>

### 3 The best of both worlds?

There is a particular way of donating now that is worth discussing in more detail in the context of the donating vs. investing issue, as it combines the benefits of giving now with many of the benefits associated with investing one's money with the intention of donating later, namely that of donating to a meta-charity. (By meta-charity, I mean an organisation like GiveWell or the Disease Control Priorities Project (DCPP) that can redirect and/or generate future streams of donations by recommending causes to other donors and/or by building a community of people concerned with effective giving.)

A distinctive attractive feature of the idea of donating to a meta-charity stems from the fact that it is in some sense analogous to investing in a DAF. The idea behind investing in a DAF is (as explained above) that the money you pay into the DAF (on which you get a tax deduction) accumulates returns, and you can later decide to channel it into whatever you consider the best charity at that time.

Similarly, your donations to a meta-charity (on which you get a tax deduction, provided the meta-charity enjoys official charity-status), insofar as they help to make the meta-charity more successful, accumulate returns in the form of an increase in the future stream of donations which the meta-charity can channel into whatever it considers the best cause.

To the extent to which the donations the meta-charity in question can redirect lie in the future, giving to a meta-charity now would, much like investing in a DAF, seem to allow one to reap these informational benefits associated with donating later, i.e. the benefits due to the fact that we can expect to have better information concerning

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<sup>1</sup>In essence, the crucial thing to realise in this context is that there can be cases in which there is no such thing as a best option, and this is the feature that makes cases like this paradoxical. In this case, whilst the later you give, the better (because the later you give, the more returns your investment will have accrued when you come to donate), it is not the case that the best option is to defer your donations indefinitely. The rational strategy to adopt in such cases, it appears, is to choose an arbitrary stopping point that lies a finite number of years into the future at which you stop investing and donate. However, as mentioned above, such paradoxical scenarios won't obtain in practice. For those interested in this sort of technical issue, see Arntzenius et al. (2004).

interventions cost-effectiveness in the future.

However, it is worth stressing that giving to a meta-charity allows one to reap these informational benefits to the extent to which i) the meta-charity is capable of assessing future information about the cost-effectiveness of different causes and ii) it is free to redirect donation streams in the light of such information.

Moreover, analogously to the case of donating to an ordinary first-order charity, there may be reasons to delay your donations to a meta-charity on the grounds that you have reason to expect that we will learn of much better meta-charities in the future that either already exist or are yet to be created. In addition, even if there isn't a better (actual or potential) meta-organisation out there that we have so far overlooked, it appears very plausible that the next years will bring with them a great amount of valuable information about the relative merits of the different models different meta-organisations (e.g. GiveWell and Giving What We Can) implement.

It is worth noting, however, that growing a particular meta-charity now may be a very good way of generating additional resources of the new best meta-charity that is yet to be created/identified. For it may be that a promising meta-charity can direct a fraction of the donation streams it can affect to other meta-charities in the future, should the evidence mount that these are particularly cost-effective. If this fraction is sufficiently large, and your donation to the meta-charity now has a sufficiently significant effect on its future donation streams, giving to this meta-charity now may still be a better option than investing, even if you think that it is very likely that we will be able to identify better meta-charities in the future.

## 4 Conclusions

As we see strong arguments on both sides, the donating vs. investing issue is one we are planning to investigate in greater depth.

We think that the case that can be made (based, among others, on the considerations outlined above) for donating to meta-charities is sufficiently strong on the face of it that we have begun to work on assessing the cost-effectiveness of meta-charities and have a detailed analysis of DCP3 as a cause to give to.