

Are we capable of being altruistic?

Second Prize – 2nd Year Undergraduate Category

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Altruism is a social preference defined by unconditional kindness. That is, people benefiting their peers regardless of their own problems, material concerns, and in certain cases incomplete information of the recipient of such charity. Contrary to this uplifting ideal, it has been argued that people abide by more limited and self motivated rules, either in not donating at all, or in the donating for 'selfish' payoffs. It is paramount to consider firstly whether people act charitably in the first place, regardless of underlying motive. Following on from this, we also need to consider whether this apparently charitable nature translates into altruism or whether there is some other motivation.

The impact of charitable behaviour alone in modern society is a convincing sign for its prevalence alone, with the massive economic impacts of charity noticeable even without statistical analysis. Numerous acts of goodwill transpire both on a minor scale (e.g. donating to the homeless) and nationwide, such as mass events "Comic Relief" and "Red Nose Day" (the latter of which earned over £74 million in 2011), not to mention government aid also.

Andreoni (2001) in particular comments on the impact that charity has on the American economy. He notes that philanthropic action consisted of around 2% of GDP consistently in the

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period 1970-2000, and individuals managed to donate a staggering \$134.8 billion in 1998. The well publicised actions of individuals such as Bill Gates – having given \$28 billion of his wealth away in 2007 - and events such as the aforementioned reiterate what seems like a consistently strong sense of goodwill. For the UK, the Charities Aid Foundation show that UK adult contributions are consistently just under 60%, which is a considerable proportion of the population:

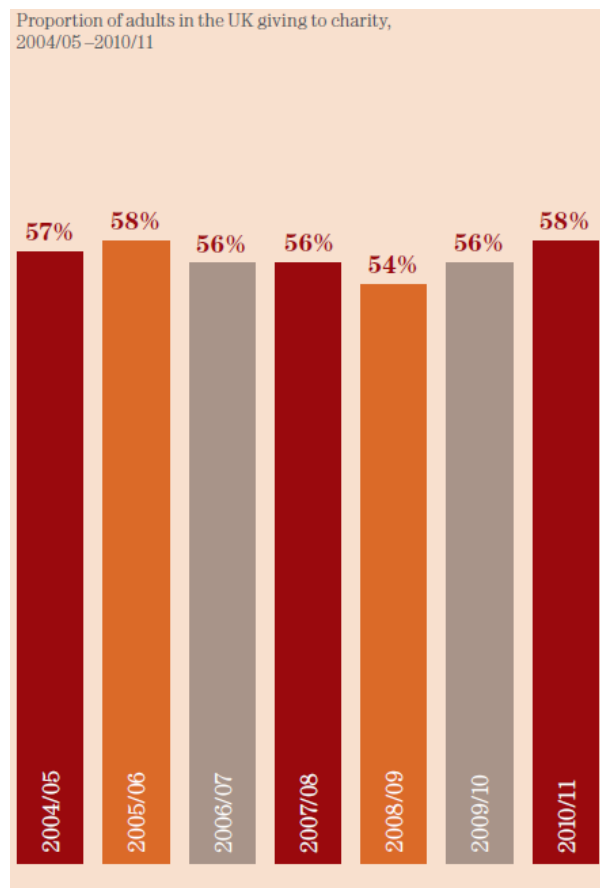


Fig 1. Proportion of UK adults providing charitable contributions. Compared from 2004/5 to 2010/11.

Source: CAF UK giving 2011 report (2011) pp. 5

These observations clearly indicate that for a certain amount of the public there is worth seen in donating, and furthermore consumption preferences are not simply denoted by personal wealth. It also brings to attention the surprising lack of charitable behaviour within conventional

economic theory. Certainly, standard economics would endorse full self-regard, which the above statistics dispute. Partly, this can be attributed to the lack of a two-way physical exchange between individuals, leading to unclear material costs and payoffs to both parties, as Boulding (1962) elaborates. Due to this, there is limited tangible evidence to soundly analyse altruism without considering the social preference in terms of utility.

This ambiguity means altruism can take many contestable forms, although all with the same ultimate objective. Formally, I shall classify altruism in 3 main ways:

- (i) Paternalistic altruism, measuring physically quantifiable wealth (e.g. income, physical wellbeing), therefore being a welfare judgement made under universal standards of taste and preference ordering.
- (ii) Non-paternalistic altruism, which considers welfare subject to the beneficiaries' preference ordering i.e. their utility function of physically quantifiable wealth, is measured. This measurement is therefore more representative of the 'mental' or subjective wealth of a person.
- (iii) 'Warm glow' altruism – a fixed amount of satisfaction is derived from the input of doing a good deed. Proportional wealth is not of significance compared to the deed itself.

The following utility functions sum up these forms of altruistic tendency contrasted to the traditional *rational* act of increasing one's own wealth, in a two people economy (person A and B) for simplicity.

$$(i) U_A = u_1(X_A) + \alpha \times u_2(X_B)$$

$$(ii) U_A = u_1(X_A) + \alpha \times u_2(U_B)$$

U_i represents person i 's overall utility, X_i their wealth, and $u_n(\dots)$ utility functions. α is a positive weighing of altruistic tendency. The higher α is, the more altruistic individual A is in this case.

$$(iii) U_A = u_1(X_A) + \Pi$$

Where Π represents a fixed “warm glow” as a reward if altruistic behaviour occurs.

These functions show more clearly a trade off between the utility derived from benefiting oneself, or benefiting another. This trade-off is much the same as any normal 'consumer's problem'. A person with a fixed income has the ability to give away earnings in good faith to potentially increase his own utility. In a sense, charity has become a good. There is no reason to deny this, although the question still remains what the nature of the utility derived from charity is, which I shall later address.

These functions can further be analysed in a very simple two person economy through the Edgeworth box as exhibited by Boulding (1962) and Collard (1975). Persons A and B consume two necessities, food and clothes. Self motivated individuals have a utility function strictly convex to the origin with respect to the goods they consume. However altruism creates a satiation point in consumption which is determined by the relative wealth of the other person. Monotonicity (more is better) doesn't apply, as a rich person A will feel bad for their counterparts' lack of wealth as he increases his own. The indifference curves form contour-like concentric circles as a result, as an altruist would be indifferent between high wealth for themselves and high wealth for another and all variations in between:

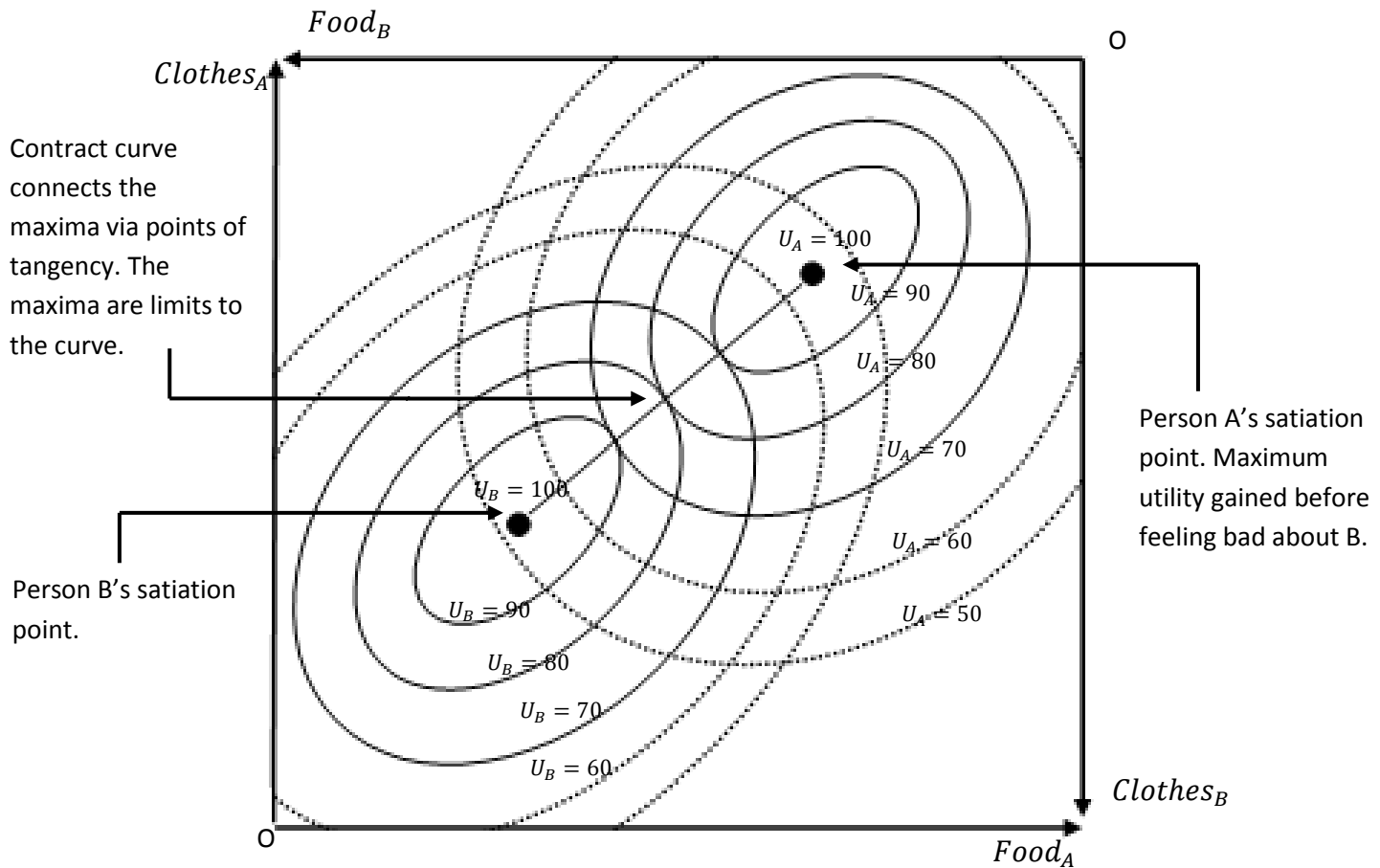


Fig 2. Edgeworth box comparing two altruists' consumption preferences of food and clothes.

The above diagram is also a clear visualisation for the trade off we may face in real life between high personal wealth and assisting others. As with the initial utility functions, this seems more in tune with real life decisions than pure self regard. We often find situations in which moral judgements stop of us from being fully selfish i.e. a satiation point.

An issue with the above however is the uncertainty and possible sub-optimality of resource allocation. Collard (1975) details "The Shrinking Theorem". That is, the outer limits of the contract curve in the above Edgeworth box (the function of all Pareto optimal and therefore mutually fair allocations) move closer as the altruism coefficients of person's A and B, α and β respectively, converge on 1. At $\alpha=\beta=1$ the contract curve becomes a point, the coinciding of

identical utility functions. Here, altruistic distribution is both fair and certain. Despite this, real life allocation is anything but certain, let alone fair. This would appear to imply that by the above theory, altruistic coefficients are in fact quite low, at best.

An additionally concerning matter is that utility is not an empirical proof of altruism. Complete knowledge of preference orderings and cardinal utilities is unknown, and so it is hard to predict charitable behaviour in terms of utility functions. Utility and thus altruistic tendencies also vary interpersonally and over time. People may be kind, but not necessarily all the time, or perhaps never. Even for paternalistic utility, it is still difficult to measure the extent to which “warm glow” is experienced by a donor. There will always be a matter of opinion, and it also makes the functions prone to overfitting, giving the fluctuation and lack of precision.

There is also the issue of infinite recursion if non-paternalistic utilities are interdependent. If one person is happy, this may make another person happy; this in turn will make the original person happier and so on until both people have infinite utility in theory. The only real life solution to this is that altruism has diminishing returns based on happiness - the happier a person is, the less you care about them - which an unconditionally charitable person shouldn't possess. This would imply an element of spite, which I shall shortly examine. Given the above, there is no evidence to say whether altruism is part of the consumer's choice, or an inconsistent bias added into utility theory arbitrarily.

Besides this, there is still some theoretical ground above for explaining the observational evidence of charitable deeds. There are however other contestable preferences to keep in mind that may negate unconditional kindness and place this kindness elsewhere. These predominantly include self-motivation, reciprocity, competitive preference, as well as the upholding of social norms.

As I stated, economics assumes self-regard. While behavioural economics convincingly denies this assumption, there are still cases of selfishness that need to be considered. Primarily there is the problem of free-riding, which leads to James Buchanan's "Samaritan's dilemma" (De Wispelaere, 2004). This states that when somebody attempts to aid another person, the person being aided has no incentive to help themselves since they know they are going to be helped out anyway. This could be seen in any cooperation problem involving moral hazard, from inactive community members, to international aid. The governments of countries being supported financially have little incentive to develop efficiently knowing that altruistic nations wish to bail them out. Hence the political corruption in countries such as the DRC, Sudan etc. In a similar way, a welfare trap develops if money provided by the 'benevolent' government is better suited than minimum wage employment.

Reciprocal behaviour is also important to take note of. Reciprocity entails that unkindness is reacted to unkindly and kind behaviour kindly. Therefore 'altruistic' actions will in theory lead to more friendly actions, but only because the original person was kind. This is *conditional* goodwill.

Falk (2007) investigated reciprocity through a study into donations to a charity by 10,000 individuals, where the charity gave a third of people small gifts, and another third large gifts. Altruistic groups would all donate in large numbers to increase their utility regardless of gifts. However, as shown below each group responds differently to the study. The kinder the charity is in the gifts they send out, the more people reciprocate by donating back.

TABLE I
DONATION PATTERNS IN ALL TREATMENT CONDITIONS

	No Gift	Small Gift	Large Gift
Number of solicitation letters	3,262	3,237	3,347
Number of donations	397	465	691
Relative frequency of donations	0.12	0.14	0.21

Fig 3: Evidence of reciprocal behaviour (Falk, 2007)

This fact would appear to be critical of the notion of *unconditional* kindness, instead implying that charitable acts are conditional. Obviously we would not expect appearances to make a difference under altruism. People appear to instead be influenced by petty characteristics. It also implies we will reciprocate kind behaviour, which could then be misinterpreted as altruism itself. The example of charity events such as those mentioned earlier could in a sense be successful due to the factor of their entertainment. People 'pay' for the entertainment in a similar way to any other good being rewarded, as we feel bad for not rewarding television produced in part for our enjoyment.

What causes this behaviour though? Another study into the behaviour of restaurant consumers by Tidd and Lochard (1978) showed that smiling waitresses tend to get better tips than those who are less friendly, implying a possible psychological aspect to kind activity. Besides this though, such behaviour could be enforced by social norms. People may only be kind for fear of social exclusion, which boils down to self-regard for their own acceptance. If I help a friend at my own expense, it may be so that I am not judged, and additionally my friend will also positively reciprocate towards me in the future when I may need a favour. If not donating to a cause is seen as socially unacceptable, I would be obliged to donate. The same could be said for government aid, if they do not help out other countries, this may damage their status on the

international platform. Likewise, strong aid ties will encourage reciprocity in trade agreements. A neighbourhood watch scheme could involve social ties between friendly locals, but beyond this, some of the involved parties may care only for their own safety with a safer neighbourhood being a positive externality. No kind act can reasonably be seen as purely altruistic if there are social rewards and punishments to take into account. That is an inevitability of being integrated within social surroundings.

And to add to the complexity, people are also by nature competitive. That is, there is distaste for those relatively better off. While small donations to the impoverished will not alter your position significantly in terms of wealth, it can be said that a competitive character will not donate to those in need richer than him in most cases; which contravenes the unconditional nature of altruism again. Interestingly, Andreoni (1990) calculates evidence of a diminishing relationship between one's own income and altruistic tendency - α (with the anomaly of the incredibly rich). This does little justice for the above utility functions which would suggest altruism increases with the budget constraint, as per an optimisation problem. Instead, it implies that people become more self-regarding with income, and perhaps more competitive. If they want to maintain their relative status more and more, they will disregard the gap between themselves and those worse off more in order to achieve this.

It would appear very possible that these different combinations of preferences write off much of the evidence for charity we have seen up to this point. However convincing utility functions may be, there seems to be a strong likelihood that 'altruists' are in fact affected by their society and the people they are trying to help, and that they will rationally be processing future payoffs for themselves for such activity. In particular, social norms and the encouragement to

reciprocate are very convincing alternative notions that may cause people to account for the welfare of others.

Finally, taking these preferences to an even deeper level, there is the contestable theory of “psychological egoism” to deal with. Batson and Shaw (1991) openly set up the argument here, stating this idea proposes that the ultimate goal of such ‘selfless’ behaviour is in fact the self satisfaction or reward of being charitable, with the charity in itself being an intermediate step to achieve this. This idea can manifest in different ways.

Firstly there can be some explicit material or social payoff for altruistic behaviour. Material gains such as a prize or reward for donating, or the aforementioned reciprocal behaviour initiated in the person benefited, could easily shift the incentives of an individual if such prizes were expected. Acceptance among society– the aforementioned social norms – is an example of a non-physical, but still essentially highly motivational gain. The fact that good behaviour could be exploited to stimulate a good outcome doesn’t just prove the existence of a reciprocal society, but also that people are aware of its implications.

One step further, the benefits of altruism may be purely egoistic and not even material in gains. It may be that someone in distress directly causes you discomfort, and therefore while your actions help this someone in need, the primary motive is to remove your own personal discomfort. This could explain the success of advertising campaigns such as those which display causes to end poverty, cancer etc. despite not providing an entertainment value like charity pledges.

Additionally, helping someone boosts one's own self-regard and allows them to feel good for being kind. This can particularly be seen in the “warm glow” equation which does not even consider the other person's wealth or utility, but just the personal payoff that an ‘altruist’ receives. It also again shows altruism as a market transaction, making helpful actions a good which provides utility - however this utility is entirely your own satisfaction. Altruism of the above varieties can be formally labelled as “impure” in contrast to altruism that is pure in intention.

In investigating this “impure” altruism Andreoni (1990) found significant empirical evidence for a lack of indifference between donating yourself and a government donating towards a privately funded public good. This firstly implies that government funding and subsidies do not entirely crowd out individual investments in charity – as is often the case in real life, given the prominence of many individual philanthropists. More importantly this finding entails that people care not just about welfare regardless of who stimulates it, but also that they personally set off this mechanism for egoistic purposes. People indulge in donating.

The difficulty as a whole with criticising this theory is that the expected utility functions remain the same whether you are an advocate of altruism or of psychological egoism. The difference is instead in the interpretation of these functions. Altruist advocates would say that people genuinely care for welfare besides their own, as exhibited in the equation, while psychological egoists would argue that the utility of others is simply included in the equation as it has some psychological or material effect on the individual as part of an intermediary psychological effect. However given the prevalence of other preferences on top of this, it is highly convincing to consider that motivations are impure, one way or another.

What can be concluded from the above is that charitable behaviour is something a large amount of us are capable of. This much cannot be denied given the overwhelming statistical evidence presented at the beginning of this essay. The main question is whether such behaviour is purely altruistic, or has impure biases towards other social preferences - and on top of this is a psychologically selfish stepping stone towards self satisfaction. Given the lack of solid evidence for incorporating altruism into utility functions, and the prevalence of other social biases, it would appear impossible to consider altruism in a pure sense a capable human preference. Even without social pressures, the concept of psychological egoism fully negates any chance of selfless intentions.

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