

The Charity of the Extremely Wealthy

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Analyzing data from the Giving Pledge (a public pledge to give away at least half of one's fortune during one's lifetime, launched by Bill Gates and Warren Buffett in 2010) and the Forbes billionaires' list, I find that self-made billionaires are substantially more likely to give away large amounts of money, than do billionaires who inherited their money. Policy makers in many emerging markets with 'new' billionaires thus better quickly modernize their charity laws.

In 2010, two billionaires Bill Gates and Warren Buffett launched the Giving Pledge, a public pledge to give away at least half of one's fortune during one's lifetime (<http://givingpledge.org/>), which by now has been signed by 114 people. 114 are not much, you might think, and you might want to add your own name to the list. But, unfortunately, not everybody is invited to make this pledge. Gates and Buffet focus only on the extremely wealthy people: 85 of the signatories of the pledge are among the 1426 billionaires identified by Forbes in 2013, and most of the others were on Forbes' billionaire list in earlier years. Of these 1426, 135 billionaires come from Central and Eastern Europe or the Former Soviet Union (see table I)

Worldwide, about 6% of billionaires (85/1426) have made this pledge. Among the signatories is one Russian billionaire, Vladimir Putanin, and one Ukrainian billionaire, Victor Pinchuk, which makes Ukraine score above average, with one out of ten, or 10% of Ukrainian billionaires signing.

Table 1. Number of 2013 Forbes Billionaires from the Former Soviet Union

	# 2013 Forbes Billionaires	# of Selfmade	Giving Pledge	Name of Signatory
Russia	110	110	1	Vladimir Potanin
Ukraine	10	10	1	Victor Pinchuk
Kazakhstan	5	4	0	
Czech Republic	4	4	0	
Poland	4	4	0	
Romania	1	1	0	
Georgia	1	1	0	

In my most recent working paper, Claire Monteiro of Georgetown University and myself investigate whether it is possible to explain why these 6 % have signed, and the other 94% have not (yet) signed the Pledge. Or to put it in a more interesting way, why Putanin and Pinchuk signed but the other CEE/FSU oligarchs have not.

We investigate this question by analyzing whether generous billionaires have specific characteristics in common, characteristics that not so generous billionaires do not have.

Doing this is possible because Forbes publishes not only a ranking of billionaires, it also provides background information about each billionaire like the billionaire's education, age, how many children (s)he has and so on.

My analysis shows that three factors have a significant effect on the chance that a billionaire will be generous. First, a billionaire who is self-made is about three to four times more likely to sign than a billionaire who inherited his/her billion(s). This finding that how one earned one's money affect how one spends this money is consistent with University of Chicago professor Richard Thaler's 'mental accounting' theory and with earlier research showing that the propensity to consume is bigger if income received is framed as a bonus rather than if it is framed as a rebate, and the research showing that windfall gains (money won in a lottery) is more readily consumed than non-windfall gains (money for which one had to work). Note that all but one billionaire from the CEE/FSU are categorized by Forbes as self-made.

Second, billionaires with more money are more likely to sign the Giving Pledge and promise to give away half their fortune – for example, compared to an average billionaire who has about 4 billion dollar in estimated net worth (like Victor Pinchuk), a billionaire with an estimated net worth of about 15 billion dollars (like Vladimir Potanin) is roughly 50% more likely to promise to give away half of her/his fortune. Third, billionaires whose fortune comes from the technology/telecommunications industry are about twice as likely to announce that they will give away at least half of their fortune, compared to billionaires from other sectors.

The influence of other factors is small and less precisely estimated: older billionaires tend to be more likely to sign (possibly because being closer to the end of one's life makes one think more about what one wants to leave behind), as do those who have more children (maybe

because having more children makes it more likely that the inheritance will lead to fights among family members) or those having a Ph.D. Moreover, billionaires from the food and retail industry tend to be less likely to sign than those from the metallurgy industry.

Taken together my model predicts for Ukraine that Victor Pinchuk is the Ukrainian billionaire who is most likely to sign (4% probability), being 10 times more likely to sign than Yuriy Kosiuk (the Ukrainian billionaire who is least likely to sign with 0.4% probability). The difference in estimated net worth (3.8 billion versus 1.6 billion), age (52 versus 44), the number of children (4 versus 1) and education (Ph.D versus bachelor), and the sector in which they are active (metals and mining versus food and retail) explain this difference in probability. Victor Pinchuk is also about 30% more likely to sign than Rinat Akhmetov – while the latter has a higher estimated net worth (15.4 billion versus 3.8 billion), the effect of education (bachelor versus Ph.D), age (46 versus 52) and children (2 versus 4) play in favor of Victor Pinchuk, outweighing the wealth effect.

While it is definitely fun to do these kinds of computations, my research also has serious implications. The fact that inherited billionaires are much less charitable than the self-made billionaires means that academics should not assume that 'all money is equal' as they typically do – how you acquire money affects what you will do with it. It also implies that the countries from CEE/FSU with lots of 'new' wealth should modernize their charity laws quickly – once the self-made billionaires pass their wealth on to their children, it will become much more difficult to turn this massive wealth into charity.

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References

Tom Coupe and Claire Monteiro, [The Charity of the Extremely Wealthy](#), Kyiv School of Economics, Discussion Papers 51.

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