

RESEARCH BRIEFS

Is it Really the Thought that Counts? The Deadweight Loss of Gift-Giving¹

Charlyn Janna H. Francisco, Beatrice Regina S. Lagdameo, Rosanina A. Sayoc

De La Salle University, Philippines

chachafrancisco@yahoo.com, beatrice.lagdameo@gmail.com,

nina_sayoc@yahoo.com

John Paolo R. Rivera

Asian Institute of Management, Philippines

johnpaolo_rivera@yahoo.com

A microeconomic viewpoint on gift giving allows an analysis between the gift giver and the receiver. That is, we associate gift-giving first and foremost as a monetary concept, wherein a rational individual will weigh costs undertaken such as gift price, time spent, efforts of search, among others. So, we take into consideration personal utility levels and budget constraints. Although essentially gift-giving brings about some sense of happiness, it is argued to decrease welfare (Waldfogel, 1993; Kaplan & Ruffle, 2008). In his pioneered study, Waldfogel (1993) stated that gift giving is prone to mismatched consumer preferences since a person, other than the consumer, does the gift selection. That is, the receiver may have been better off if he or she made the consumption choice given the same amount spent by the giver. Further, the mismatch is heightened by the lack of perfect information wherein the receiver's preferences may have not been communicated to the giver.

Given the association of gift giving to inefficiency and welfare losses, the activity continues to be rampant (Kaplan & Ruffle,

2008). Additionally, Ellingsen and Johannesson (2011) stated the inefficiency of non-monetary gifts. However, Carmichael and MacLeod (1997) simply illustrated that a hopeful courting suitor would never give money regardless of its efficiency as a gift. It is quite possible that gift giving as a market transaction cannot be separated from its non-market aspects. That is, we attach gift giving to an emotion or a certain sentiment. So, we ask: Is it really the thought that counts? Both psychologists and behavioral economists alike have probed on the concept of gift giving.

In relation, we bridge the knowledge by making use of a theoretical model of asymmetric information. In the light of gift giving, a successful gift would mean that the giver know what is exactly in the mind of the intended recipient. Contrary to symmetric information, participants do not have the same information, which causes conceptual problems to arise (Mas-Colell & Whinston, 1995). As a result, consumers do not share the same signal function since they are private and unbeknownst to

the other party. We use this to illustrate the informational discrepancy between the gift giver to receiver. Likewise, there exists a concept of being either worse or better off after the giving or the receiving of a gift.

Using our literature review and theoretical model, we wish to find an explanation of the following questions that will congruently serve as the objectives of the study.

1. Does gift-giving lead to inefficiency?
2. What is the best gift to give? To receive?
3. Finally, is it the thought that counts?

THE ACT OF GIFT-GIVING

Why do We Give Gifts?

Exchanging gifts is an essential part of special occasions—it is highly of social nature. According to Britt (n.d.), giving a gift is a universal way of showing interest, appreciation, and gratitude. We would like to quote Landsburg (2012) on his arguments on gift giving and it goes like this:

I am not sure why people give each other store-bought gifts instead of cash, which is never the wrong size or color. Some say that we give gifts because it shows that we took the time to shop. But we could accomplish cash value of our shopping time, showing that we took the time to earn the money. (p. 24)

Additionally, David Friedman (n.d.), as cited by Landsburg (2012) continued:

we give gifts for exactly the opposite reason—because we want to announce that we did not take much time to shop. If I really care for you, I probably know enough about your tastes to have an easy time finding the right gift. If I care less about you, finding the right gift becomes a major chore. Because you know that my shopping time is limited, the fact that I

was able to find something appropriate reveals that I care. (p. 24)

At the same time, the act of gift giving strengthens relationships with other people, feels good internally, and provides extrinsic benefits as well. In general, we give gifts to cherish the value of the occasion and to treasure the value of the gesture.

Ruffle (1999), enumerated the five motives of gift-giving to be duty, self-interest, fear, love, and pity. Other than economic upliftment, social ties are formed when gifts are exchanged. Aside from being a social interaction, there are emotional and psychological forces involved in explaining the reason for the exchange of gifts. More common than not, we give gifts as a sign of generosity, to form cooperation, to express our emotions, or to signal courtship. In some cases, gift giving appears to have ulterior motives. Ellingsen and Johannesson (2011) posited that to explain generosity, other people offer gifts, as they would like to appear generous to other people. Moreover, they explained that acts of volunteering or giving non-monetary gifts are ways to elicit signals to be recognized, in hopes of gaining social esteem. Further, Carmichael and MacLeod (1997) focused on how giving gifts communicate and imply cooperation among parties wherein they found that when the cost of the gift from the giver exceeds the value to the receiver, trust and cooperation are formed.

Who Gives and to Whom?

There is an emotional lift when searching for a particular gift—this act of determining what gift should be given accompanied by the lifestyle of the person is dependent on the relationship one has with the other. Gift giving is an easy way to show how we would want to connect with another. Moreover, it expresses one's feelings, appreciation, and acknowledgement. For instance, according to Byrd (n.d.) as cited in Britt (2011), if it is simply the gift giving of

a friend to another friend, it remains thoughtful while for a romantic relationship, one would go for something sentimental. Upon giving that gift to someone, one would feel a sense of happiness or satisfaction when seeing the expression of that person upon opening the gift. However, gifts may bring a negative reaction because the gift may not be what the person is expecting (Britt, 2011). A gift giver would usually take into account the receiver's utility. Utility is an economic term referred to as the total satisfaction from consuming a good or service. In this case, upon receiving a gift, the satisfaction of the receiver is dependent on his or her utility that also drives one's expectations.

Other than the profile of the gift giver and receiver, the relationship between them matters in the giving process. Since there are limitations as to what one can give based on discretionary income, there are also some social rules that dictate or constrain what one can give to someone based on their relationship status, such as those in romantic relationships. On another note, a receiver may expect a certain gift from the giver on the basis of their close connection. Dunn, Huntsinger, Lun, and Sinclair (2008) discussed the gift of similarity and the social psychology involved in gift giving. They found that women have a greater tendency to react positively to a bad gift given by their romantic partner. However, women who received gifts from male acquaintances were unaffected by the quality of the gift given. In a similar manner, giving and receiving gifts affect and is affected by the relationship of the parties involved. Zhang and Epley (2012) stated that thoughtful gifts suggest increased relational bonds while Schneiderman (2011) added that gift giving affirms relationships.

How much do we give?

There is no limit to what we can give if money were no object but this is what makes the gift-giving task tedious; we need to find the

best possible gift that matches our monetary constraints. Take for instance the holiday budget. Christmas has always been the favorite holiday of most since they know that if they have been good throughout the year, Santa will reward them with gifts.

The Royal Bank of Canada [RBC] conducted a survey in 2011 on holiday spending among Canadians and discovered that the average spending on Christmas presents is CAD 640.00. With a big amount for the holiday, some might even tend to overspend and not have enough money for other consumption goods. As reported by RBC (2011), there were at most one-third of holiday shoppers who went way over budget and spent CAD 429.00 more, while Atlantic Canadians overspent by CAD 521.00, which caused them to cut back on their day-to-day expenses, entertainment, and usage of credit card.

“It's the Thought That Counts”

After asking the basic questions of who, what, where, and how long in relation to the act of giving, we turn to the critical quotation in the study. People, more specifically the gift receivers, often question why someone would give them a gift they would dislike, rather than appreciate the contemplation that went into it. *It's the thought that counts*—one would usually hear such phrase whether one is in search for a gift or one receives such. It has the tendency to serve as the best excuse when a person receives a lousy gift. Furthermore, according to Zhang and Epley (2012), gift giving pertains to two aspects, objective in terms of the value of the gift and symbolic in terms of the exchange. To argue this phrase is to emphasize the importance of the latter aspect to the former one.

There is a tendency to associate gift giving to material things. However, according to Schneiderman (2011), there is huge difference between gift giving and consumption. Likewise, it follows that the practice of exchanging gifts is

a social characteristic, as opposed to consuming gifts. So, there is a different sense of utility and satisfaction that is involved such that there is certainly a great amount of thought involved in gift giving in accordance with the effort executed into the gesture. Likewise, Johnson (2011) explained that the whole point of gift giving is to express one's affection for another, basically to let them know that one is happy they are part of one's life. Moreover, Johnson (2011) suggested to not give such meaningless presents and to put an effort to show care and affection. So, when considering the price tag of the gift, the more expensive it is does not necessarily translate to it being thoughtful.

On the other hand, an experiential experiment conducted by Zhang and Epley (2012) argued that sometimes the thought does not really count. The gift giver's thoughts will increase the receiver's appreciation only when the thoughts are put into mental awareness. As such, considering the thoughts of another would require motivation and deliberation. If such considerations were not taken, then receivers would misinterpret the thought put into the gift. Additionally, the presence of the giver's thoughtfulness is highly dependent on the type of gift given, such as personalized gifts that will increase the evaluation of the receiver on the additional thought of the giver. Contrary to common notion, a thoughtful gift is more associated with the giver's feeling of closeness to the receiver, rather than the receiver appreciating the gift.

THE EASTERLIN PARADOX OF GIFT-GIVING

The principle behind gift giving is to show affection to another, and give joy and happiness through a simple token. Given this, we see that the driver of gift giving is happiness that will be imparted on another individual. As such, we inspect the field of Happiness to

gain a deeper understanding of the drivers of happiness, and how a lack thereof contributes to deadweight loss. We will be exploring the ideas of happiness economics, particularly the Easterlin Paradox, and its auxiliary arguments of (1) hedonic adaptation, (2) status anxiety, and (3) loss of control. In addition, we aim to reaffirm the classification of gift-giving as a relational good. We will also consider the contribution of information asymmetry to the creation of deadweight loss in gift giving.

The Easterlin Paradox was first used to measure happiness across countries. Graham (2005) cited that, on average, wealthier countries are happier than poor countries. This, however, is seen as an inconclusive finding, as there are arguments posted that question this claim. These claims are elaborated on in the Easterlin Paradox of Richard Easterlin. According to Easterlin (2003), happiness, utility, well-being, satisfaction, and welfare can be used interchangeably. Meanwhile, according to Andrews and Robinson (2013), happiness and satisfaction can be narrow concepts because it neglects the cognitive and affective components of the attitude respectively. Moreover, Easterlin (2003) considered the intersection of the concepts of happiness in the perspectives of psychology and economics. In the context of psychology, happiness is seen to be determined by a genetic set point of happiness, wherein one's level of happiness is seen to rise and fall above or below the set point because of situations that happen in one's life. Furthermore, one's level of happiness is seen to always return back to that set point. On the other hand, in the context of economics, income and life circumstances are seen to have a lasting effect on one's happiness, as individuals are seen to be non-satiated. Oswald (1999) cited that happy individuals are those with high income, as part of a list of ranked happiness attributes. Considering these two perspectives, we see that the concept of subjective well-being comes into play, with happiness being dependent

on one's circumstances and how happy one feels relative to another person of the same circumstance, either pecuniary or non-pecuniary in nature. Stevensons and Wolfers (2008) defined subjective well-being as "a function of both the individual's personality, and his or her reaction to life events" (p. 5). Intrinsically, subjective well-being refers to one's holistic welfare derived from increases and decreases in income, as well as life circumstances. Furthermore, Graham (2005) stated that individuals are seen to adapt more to pecuniary circumstances, while life circumstances have lasting effects on happiness. Hence, with respect to the deadweight loss associated with gift giving, the Easterlin Paradox would be able to provide perspective on the possible causes of deadweight loss, and what gift would maximize subjective well-being.

Hedonic Adaptation

Lyubomirsky (2011) defined hedonic adaptation as the psychological process by which one becomes accustomed to positive and negative experiences over time. Hedonic adaptation is grounded on the psychological explanation of the Easterlin Paradox mentioned above. Wilson and Gilbert (2003, as cited in Lyubomirsky, 2011) proposed that individuals expose themselves to various circumstances that consequently lead to their adaptation to that circumstance. Given this, it was seen that individuals would expose themselves to positive experiences, rather than negative experiences, which ultimately allow individuals to adapt faster to positive experiences, thus deriving diminishing marginal happiness from positive experiences. Ortony, Clore and Collins (1988, as cited in Lyubomirsky, 2011) strengthened this claim by suggesting that the experiences that illicit the most happiness are those that have an element of novelty or surprise. These experiences slow down the adaptation process. In addition, the findings of Stevensons and

Wolfers (2008) reaffirmed the correlation of happiness to a sense of adaptation.

Considering income, according to Easterlin (2003, as cited in Becchetti, Bedoya, & Trovato, 2011), achieving a certain level of income has no permanent impact on happiness, as occasional increases in income induces adaptation to such.

Status Anxiety

The idea of status anxiety refers to the sense of insecurity that one experiences in comparison to others who are seen to be relatively better off. Oswald (1999) identified that "human beings look over their shoulders all the time" (p. 2). Moreover, Largoza (2012) suggested that as one becomes wealthier, one has a higher tendency to compare his or her self to other people, which consequently diminishes marginal happiness. Layard (2005) reaffirmed this by stating that people compare their income to a certain norm, which is continuously increasing. With this, it would be a valid assumption that the more status conscious you are, the more it takes to increase happiness. In addition, Layard (2003) pointed out that happiness matters because people make it matter. Likewise, Layard (2003) recognized that, in the field of psychology, happiness matters because individuals unconsciously evaluated situations, and are attracted to favorable situations. This strengthens the claim that individuals compare themselves to other people who are relatively better off than themselves.

In the context of gift giving, the receiver is not happy unless he or she receives what he or she wants. Therefore, status anxiety becomes the root cause of "unhappiness" when receiving a gift. Accordingly, gifts become more and more expensive, increasing the burden on the giver, and decreasing marginal happiness of the receiver. Going back to our assumption that cash is the optimal gift, status contributes to the idea that people know what they want. Since people know

what they want, they become harder to please, thus increasing deadweight loss.

Loss of Control

Loss of control refers to the tendency of one to exhaust monetary resources to increase happiness. Oswald (1999) pointed out that wealth does not increase happiness as it was expected to. This indicated that it takes progressively more to make one a little happier. As such, we can classify income as either of two kinds of goods, namely (1) positional good or (2) relational good. Hirschleifer (1978, as cited in Becchetti et al., 2011) classified income as a positional good, which has a positive and absolute effect on happiness as it is seen to counterbalance negative circumstances. On the other hand, according to Gui and Sugden (2005, as cited in Becchetti et al., 2011), relational goods are co-produced and co-consumed by the parties involved. Gift giving can be classified as a relational good because it entails being engaged in by two or more individuals, the giver and the receiver.

In totality, we see from the literature that the Easterlin Paradox proposes three possible reasons for the existence of deadweight loss in gift giving. First, due to hedonic adaptation, receiving of gifts repeatedly drives the receiver to adapt to such, which eventually will no longer contribute additional happiness to the receiver, creating a situation that is not Pareto optimal for the giver and the receiver. Second, status anxiety suggests that income, or spending capacity of another causes an individual to unconsciously compare his or her self to that person who is relatively “better-off”. Loss of control suggests that it takes progressively more to make someone happier. In the context of gift giving, being able to buy or receive more increases happiness, but at a diminishing rate.

DISCUSSION

There is a common misconception that the more expensive the gift is, the more that the receiver would appreciate the gift. This explains why some shoppers tend to spend more since they believe that the higher the value of the object or gift, the greater the level of happiness. Gift givers behave as such since they believe that spending more money, effort, and time for the receiver would be considered thoughtful and considerate. However, the receivers think differently, and the thought for the gift does not usually equate to its price tag.

So, why do people really go through a rigorous process in looking for a gift? According to the literature, gift giving alerts the social concepts of interest, appreciation, and concern. Also, it is associated with an emotional upliftment that occurs in selecting the right gift for an intended person. Through searching for that gift, it guarantees the giver how well he or she knows the receiver. In addition, the value of the gift is heavily dependent on the relationship of the gift giver and the receiver, which increases that certain boost of confidence.

Through the search for the ideal or perfect gift, one feels the stress of it. There really is no perfect gift, and if one thinks there is, then advertisers and marketers have done their job well. These people take advantage of various seasons and convince consumers that a certain product is what one needs or is perfect for whomever one intends it for. For the most part, a gift being unaffordable or beyond budget is out of the question due to the various sales and discounts made available. However, at the end of this rigorous process, what one has is a gift, the end product from the giver to bestow to the receiver. The process, time, and money was just a waste, given that it really was not the perfect gift. Even if it seems that the process of gift giving has been laid out by society, how can we really guarantee happiness for both the

gift giver and the receiver? Congruently, what is the perfect gift?

For purposes of this study, the terms, utility, happiness, satisfaction, and subjective well-being can be used interchangeably. Pareto optimality denotes utility maximization or the elimination of deadweight loss. Based on the Easterlin Paradox and its accompanying explanations, gift giving can be considered to be heavily dependent on subjective well-being and willingness to pay. As seen from the literature, it can be assumed that gift receivers know what they want, and that anything short of that may yield happiness levels that are below what are expected. For the purposes of this study, Pareto optimality can be defined as being “happy” with the gifts that are given or received. A valid point of consideration in the study of gift giving is its dependence on one’s perception of subjective well-being, and willingness to pay. Seeing as subjective well-being pushes one to develop certain levels of expectation, these expectations cause distortions in achieving levels of satisfaction, in this case “happiness” derived from receiving or giving a gift. Considering the willingness to spend of the giver, we see that giving a gift has monetary equivalence to the giver and the receiver. Looking at a gift in terms of its monetary value drives the receiver to quantify what he or she must receive to attain a specific level of happiness from that gift.

CONCLUSION

Gift giving has two important sides to it: the objective and material value of the gift itself and the symbolic meaning of the gift giver offering a gift to the receiver. It is Pareto optimal only when three conditions are met. First, gift giving must be a “special” occasion that will increase happiness from the genetic set point. Thus, gift giving should be done on an irregular basis to avoid adaptation to the act of receiving a gift.

By eliminating the probability of adaptation to receiving a gift through the minimization of expectations of such activity, it is more likely that receiving a gift would bring about higher levels of happiness, thus, minimizing deadweight loss. Second, given that people subconsciously compare themselves to others, receiving a gift that is not within the spectrum of what the receiver considers as being relatively better off puts him in a position of lower levels of happiness. This, in turn, pushes the gift receiver to base his or her happiness or satisfaction on what he or she considered relatively better off. Lastly, basing our argument on the loss of control explanation of the Easterlin Paradox, given that people are willing to exhaust monetary resources to increase happiness, we can run the assumption that people know what they want in order to increase their happiness.

Gift giving is founded on the socially accepted notion that “it’s the thought that counts.” However, from studies considered, it was found that Pareto optimality lies in the gift itself. The subjective value of the gift to the receiver determines the level of happiness or satisfaction that is yielded from such interaction. By shifting focus on the objective value of the gift, then we are able to maximize efficiency. Considering the psychological and economic perspectives of the Easterlin Paradox, we see that gift giving deals primarily with attaining a perceived level of happiness that the receiver deems sufficient. Thus, the Pareto optimal gift is cash, as this enables the receiver to satisfy specific wants, given that he is already willing to exhaust monetary resources to attain it. On the other hand, this is also a Pareto optimal gift on the end of the giver as this eliminates the pressure on the giver to find “the right gift”. In this case, we can conclude that the Pareto optimal gift is cash, as this enables both the giver and the receiver to achieve their expected levels of happiness.

As a socially instilled concept, cash is considered to be less meaningful and a thoughtless

gift. However, we argue economically and psychologically as Zhang and Epley (2012) concluded that “if you want to give a gift someone will appreciate, then you should focus on getting a good gift and ignore whether it is a thoughtful gift or not” (p. 679). So, it is safe to say that getting cash is never being worse off. Even if the giver’s thoughtfulness could increase the receiver’s appreciation of gift, it will never replace the discretionary power of cash entails. Moreover, it will not subject an additional worry or wastefulness for the giver and increase the chances of the receiver disliking it. Cash is the Pareto optimal gift as it satisfies the happiness of both the giver and the receiver. Cash as a gift considers the receiver’s perceived subjective well-being, as well as the monetary equivalence of a gift. Hence, it is not the thought that counts. It is the gift that counts, and that best gift is cash.

ENDNOTE

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