

The Economic Waste of Christmas Giving? Bah, Humbug!

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Paul Solman spoke with University of Minnesota's Joel Waldfogel and Avner Ben-Ner about the economics of Christmas gift-giving on Dec. 23's broadcast.

Those Christmas gifts you're madly wrapping right now — are they all an **economic waste**? What if your aunt hates the \$40 sweater and would have preferred cash so she could buy something *she* actually values at \$40? We examined the “**deadweight loss of Christmas**” in our Making Sense segment above and on the Business Desk with the University of Minnesota economist who coined the theory, **Joel Waldfogel**.

But don't scavenge for the gift receipt just yet. Many economists don't agree with Waldfogel's brand of scroogenomics, according to a recent **University of Chicago Initiative on Global Markets survey**. Even more interesting, the survey asked these prominent economists to explain *why* they agreed or disagreed (and to what degree). Dismal scientists, it turns out, are so sentimental about the non-monetary value of gift-giving that The Atlantic turned their responses into **Christmas cards**.

Giving gifts may indeed be economically inefficient, but that's not what bestowing presents is all about, says Waldfogel's University of Minnesota colleague **Avner Ben-Ner**. With a decidedly less Grinchy perspective, he argues that gift-giving is just another form of social interaction that we learn by doing. With practice, we'll get more efficient. So after you've read Ben-Ner, go ahead and keep wrapping. If you don't give a winning gift this year, there's always next year.

Paul Solman: So what's wrong with the “Deadweight Loss of Christmas” thesis?

Avner Ben-Ner: There is nothing wrong, as such, with the notion of giving gifts. A lot of gifts are, of course, useful; many are useless. ... But the concept of condemning gift-giving as deadweight because I give you

something that costs me \$10, [when] it may be worth only \$8 to you, I think that misses the point of what gift-giving is about.

Paul Solman: What is gift-giving about?

Avner Ben-Ner: Gift-giving is a complex ritual that we've had since time immemorial, and it came about probably as a social economic lubricant to help us humans learn about reciprocity, practice reciprocity, learn about how to evaluate the needs of others and how to trust others. So if I just walk into a store and pick something up that's within my budget and purchase it for you and give it to you as a gift for your birthday or for Christmas or some other occasion, does this fulfill any role? Well, if I do it thoughtfully... So gift-giving is a sort of ritual that fills in the social holes that are created by what economists call "asymmetric information."

FROM JOEL WALDFOGEL:

The Economics of Wasteful Spending: The Deadweight Loss of Christmas

Paul Solman: Asymmetric — non-symmetrical — information. What do you mean?

Avner Ben-Ner: It's a concept that dominates much of modern economics. It's probably most associated with Nobel Prize winner George Akerlof, who many years ago published a paper on the market for lemons. What happens if we have a transaction, and say, I'm the seller, you're the buyer. I know something about the product that I'm selling you that you don't know, so that puts us in an asymmetric, dissimilar situation that favors me and, of course, puts you at a disadvantage...

Paul Solman: Asymmetric — somebody knows more than somebody else.

Avner Ben-Ner: Exactly. ... When you buy a bottle of water, it may have high-quality water or just tap water. If you get a kiss, it may be a clean kiss or it might have the flu virus. If you buy effort that you cannot observe, you may get a high level of effort or low level of effort. So our life, economic, social, emotional and romantic, is filled with asymmetric information.

So what do you do about it? You have a lot of institutions that try to regulate this asymmetric information. You have, of course, government regulation. They check the tap water; they check endless things. We have warranties. If I buy something that I find out is not what it was supposed to be, I can return it.

...We need to trust the person with whom we are in an interaction; we need to trust the many, many, economic and business situations. So Akerlof and [his wife] Janet Yellen, the likely future chair of the Federal Reserve Bank, they came up with the concept of gift exchange as a lubricant in business interactions in organizational situations. They wrote several very influential papers about this topic. They gave birth to the concept of efficiency wagers. It's a simple concept. So they left their baby, who's now a full-grown academic economist, with a babysitter — asymmetric information par excellence. And that's the time when they didn't have even video cameras. They thought maybe they would pay the babysitter more than the market bears, and the babysitter would, in return, give the gift of higher effort, meaning taking better care of the child.

Now this concept has been experimented with and developed by behavioral economists to show that indeed, there is a gift exchange even when we don't verify, cannot verify each other. Employers pay above market rate when they need to extract more effort than they can enforce with all sorts of standard means.

So what does that have to do with gift-giving? Well, gift-giving is a reciprocal act that requires trust, but trust is not a simple thing. ... We learn when to trust, whom to trust and who is trustworthy. So I give a gift to somebody. On the next occasion, next Christmas, next birthday, next Hanukkah, whatever the event is, they will reciprocate or not. I learned to assess this exchange, its social accounting. We teach children from an early age about social accounting, how to evaluate others.

Paul Solman: Joel Waldfogel was talking about the ickiness of monetary exchanges. Why is money icky?

Avner Ben-Ner: So, of course, money is not icky, we need money; money is a method of exchange instead of bartering and having all sorts of inefficiencies. But imagine a situation [where] a man arrives for a date at a restaurant, with a woman. They sit down, and he pulls out a \$10 bill and gives it to her and says, here's to show my warm sentiments toward you. She looks at him in amazement and says, a \$10 bill, why do I need a \$10 bill from you? He says, I wanted to bring you a rose, but I'm an economist and I heard about the "deadweight of Christmas," and I thought that you'll have more flexibility with \$10 — including buying a rose for yourself. So money's not icky, but it does not [carry] the same kind of warmth, care and thoughtfulness about the other [as does] a truly chosen gift that is addressed to a particular person.

Paul Solman: So for somebody whom I don't know that well, I'm bound to make a mistake. So isn't there a "deadweight loss of Christmas" there?

Avner Ben-Ner: So gift-giving is not a one-time act. It's a training ground for understanding how to appreciate, how to evaluate others' preferences. ... So suppose you met this first cousin for the first time; you brought him a present, and you look at his reaction. You talk to him and you see whether he likes this kind of gift or not and next time, you'll be able to include and rectify your action, your gift-giving.

Paul Solman: So it's a social training ground?

Avner Ben-Ner: Gift-giving is a ritual that is social training for a lot of social-accounting kind of activities. ... Not only do we not know what others like and dislike, we don't know our own likes and dislikes. I don't know how about you, but my closets, my basement, my attic, are full of things that I bought with good money, thoughtfully, I thought, and I discovered that I don't like this.

Paul Solman: So you're suggesting that there's a considerable deadweight loss potential every time we go shopping, even for ourselves?

Avner Ben-Ner: There is a deadweight loss in everything we do that we don't do with perfection. We learn and we improve, most of the time, but there is deadweight loss in every process that involves learning.

Paul Solman: But isn't there a fundamental inefficiency — an excess — to all the spending we do that is greater than the people themselves would have spent on what we buy for them?

Avner Ben-Ner: Yeah, there is an excess in gift-giving like there is an excess in shopping more generally when we are following trends, social pressures, and we're buying more than we need for ourselves and for others. But with gift-giving, sometimes we give a gift that costs \$10, but the recipient may value it at \$12 because maybe the thing itself is worth \$8 to them, but they get \$4 of warm sentiments [out of it.] ... Being thought of carefully, lovingly, is worth, to us, a lot.

Besides inspiring **debate among economists**, the deadweight theory seems to have permeated Dilbert as well.



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