ISSN 1755-5361

University of Essex

Department of Economics

Discussion Paper Series

No. 749 March 2014

The Economics of the Gift

David Reinstein

The Economics of the Gift

David Reinstein

March 2014

Abstract

This essay broadly considers gifts, giving, and gift economies, modern and pre-modern, from a mainstream (and behavioural) economics perspective. I present a selective survey of the literature focusing on six key points:

1. Commercial transactions sustained by reputation are not easily distinguishable from gift exchange economies;

2. Gift-giving allows the giver to accumulate goods that cannot be purchased commercially;

3. When the giver retains some use, experience, or control over the gift, she shares in the consumption of it;

4. Considering behavioural issues such as regret aversion, gift-giving may offer overlooked efficiencies that may balance out the deadweight losses from 'inadequate gifts';

5. Aggregate (anonymous) giving can be an important signal of overall group identity and character;

6. Historical modes of 'giving under pressure' offer insights for modern public policy and philanthropy.

DAVID REINSTEIN

The Economics of the Gift

This essay broadly considers gifts, giving, and gift economies, modern and pre-modern, from a mainstream (and behavioral) economics perspective. I present a selective survey of the literature focusing on six key points:
1. Commercial transactions sustained by reputation are not easily distinguishable from gift exchange economies;
2. Gift-giving allows the giver to accumulate goods that cannot be purchased commercially;
3. When the giver retains some use, experience, or control over the gift, she shares in the consumption of it;
4. Considering behavioural issues such as regret aversion, gift-giving may offer overlooked *efficiencies* that may balance out the deadweight losses from 'inadequate gifts';
5. Aggregate (anonymous) giving can be an important signal of overall *group* identity and character;
6. Historical modes of 'giving under pressure' offer insights for modern public policy and philanthropy.

Van de Ven presents a wide-ranging survey of several economic approaches to gift-giving in modern economies.[1] He focuses on two main empirical features. The first is 'inadequacy': gifts often given in some form that are not optimal for the receiver, given the expense incurred. From the standard economic perspective, the recipient should always prefer a cash gift, as this allows her maximal freedom of choice, hence she can optimize her 'utility'. Yet cash gifts are often taboo. The second feature is 'non-reciprocity': gifts are often given without the expectation of a gift or reward in return. He classifies six several competing classes of models of gift-giving, considering how well they can explain these two features.[2]

Beginning with a key example, the first model he mentions is 'altruism', *à la* Becker, where "my state of happiness is dependent on that of the other".[3] Although it can explain non-reciprocal giving,[4] this model struggles with

[1] Van de Ven 2000.
[2] These are: 1. "Altruism – making other people happy", 2. "Egoism I – exchange", 3. "Egoism II – warm glow, social approval", 4. "Strategical – signaling, building trust", 5. "Fairness – norms, reducing inequity" and 6. "Survival – selection" (Van de Ven 2000, p. 4).
[3] Becker 1974.
[4] Although Van de Ven doesn't mention it, this model struggles to explain *reciprocal* giving, i.e., why two individuals would give each other gifts – only the 'net gift' should

'inadequate' giving; the altruist, seeking to maximize the utility of another, would presumably give her a cash gift. Note that an extreme interpretation of Andreoni's "warm glow" model,[5] where the donor gains utility over the amount she sacrifices without caring where it goes, would neither imply nor rule out inadequate giving. While the warm glow model offers some convenient theoretical results, it is essentially a black box, raising more questions than it answers.

In the following sections I incorporate three more of Van de Ven's classifications: altruism, a gift economy with symbolic utility, reputation, social approval, and signaling; I leave out the models of fairness and the evolutionary models ('survival') for space concerns.

1. Personal exchanges, market exchanges, and gift economies

Exchange is useful when two parties have different relative costs in producing one or another good, and/or they have different preferences over goods. If I value my last apple at two oranges, and you value your last orange at two apples, then if I give you an apple in exchange for your orange we are both better off. But, for a given amount of goods produced, the chain of exchanges that achieves efficiency may be long and complicated. Classical economists have labored to specify precise formal models and conditions under which free exchange can achieve this Pareto efficiency, in the sense that no one can be made better off without making someone else worse off. Even where these conditions hold, the efficient outcome may not be one that we would consider equitable.

In modern systems these exchanges occur through a *numeraire* good – money. With large and functioning markets and a generally accepted currency, each person can buy and sell without having to find a precise *coincidence of wants*. If I have apples and want oranges, I do not have to look around and find someone has oranges and wants apples (i.e., barter); we can both go to the general marketplace to buy and sell. With the *idealized* efficient marketplace, we can do no better by making individual trades – just go to the market and you will get (or receive) the best price.

However, this takes a lot for granted. Who is providing and monitoring the validity of this generally accepted currency? Who is setting up the marketplace and determining the prices at which the markets clear? Who is guaranteeing that the oranges I buy will be of the type and quality promised? Who ensures that my apples are not stolen as I bring them to the market, and that I am accurately informed as the prevailing price and paid for my apples? The canonical general equilibrium model involves a market in which no one has market power but all

matter for this model.

[5] Andreoni 1990.

are 'price takers' and, crucially, the true quality of every item is common knowledge. There are no individual interactions but only a 'Walrasian auctionneer' who finds the price at which demand equals supply in all markets.[6] No one believes this is how even the largest, most standard, and most efficient markets *actually* work. The argument is that with greater numbers of buyers and sellers the outcomes will converge to those predicted by this model.

Economic history has often been characterized, most prominently by Adam Smith, as a progression from self-sufficiency (within the family or close group) to barter to centralized, institutionalized, and globalized markets, with complicated chains of contracts and ownership rights enforced by central governments and international institutions.[7]

In institutionalized markets, with greater distance between buyer and seller, there is less opportunity to develop a relationship that may permit trust. In the game theoretical sense, with a single interaction both parties will act in their own best interests. If we cannot immediately observe fruit quality, I will give you a rotten apple, and you give me a rotten orange. The idealized markets cannot easily deal with this problem of *asymmetric information* and there will be inefficiency – mutually beneficial trades will not take place.[8]

However in indefinitely repeated games, 'cooperation' can be (but need not be) sustained in equilibrium.[9] If we are patient enough, each party may sacrifice her immediate interest in favor of a continued relationship. I will give you the good apple and you will give me the good orange because we have the mutual 'common knowledge' understanding that if either of us gives rotten fruit, in any future interaction we will never give fresh fruit again. Note that this refers to a specific relationship between two individuals, and not a general system of laws or customs.

In models where some agents have reciprocal or other-regarding preferences, substantiated in much experimental work, there is an even stronger incentive to 'play nice'. Here, even if we both know that our interaction is coming to an end, we also know that some people want to reward good behavior and punish bad behavior, even if it does not directly increase their own wealth. Thus, even if we are selfish, we may give the good fruit just in case our partner turns out to be one of these reciprocators. And we also will want to convince the other fellow that

[6] For an intermediate textbook explanation of Walrasian equilibrium, see, e.g., Nicholson – Snyder 2011[11], pp. 457-497. The original theory was formulated by Walras 1926[4]. The term 'Walrasian auctioneer' may have originated with Leijonhufvud 1967.

[7] Smith 1776. Although this progression seems logical, there is some argument over the historical accuracy of this. As discussed throughout this volume there is debate over the extent to which gift exchanges, with or without an explicit *quid pro quo*, served as a bridge, consisted an economy in itself, or coexisted with other forms of exchange

[8] Akerlof 1970.

[9] Fudenberg – Maskin 1986.

we ourselves will reciprocate.[10]

This repeated relationship, where I give you a quality product in exchange for your quality product (or monetary payment), is in one sense very much like a gift exchange. In fact, in these models such cooperation need not result from an explicit *quid pro quo*, nor a reckoning after each period, as long as we are patient and we have a mutual understanding that good behavior will be reciprocated down the road. We do not need a formal agreement that I will give you an apple every Monday, and you will give me an orange every Friday; this can take the form of one gift following another, *ad infinitum*.[11]

To sum up, a repeated 'commercial' exchange sustained by reputation and reciprocation concerns may not be terribly distinct from a repeated 'gift exchange'. Here I refer to a 'gift economy' mainly driven by self-interest, essentially constituting an alternate form of exchange (but as noted above, perhaps strengthened by other-regarding preferences). One might alternately imagine a gift economy, or gift-giving relationship, where altruism plays the dominant role; for example, within an immediate family. Other cases may be intermediate, as within a small tribe or between friendship groups.[12]

Van de Ven's second category (which he calls "egoism I") begins with a gifts economy as in Kranton.[13] He extends this (especially in Van de Klundert and Van de Ven) to consider the benefits of gift exchange in a social context[14] – my discussion below largely falls into this category. Even where a gift exchange appears to provide less 'substantive utility' than a comparable market exchange, the seeming inadequacy may disappear when we also add in 'symbolic utility'. While a strict exchange-based approach does not allow for non-reciprocal giving, the symbolic benefits to the giver (and other benefits discussed below) may justify this.

[10] An initial gift can serve as a signal that one is averse to cheating, as in Camerer – Weigelt 1988; we return to this later. Gift giving in the Roman world (as shown in this book by K. Verboven) may have served this role in the absence of formal enforcement institutions.

[11] Kranton 1996 offers a formal model of this sort of gift economy. Arrow 1973 among others, has argued that this sense of 'social responsibility' is vital to economic efficiency. Recent work, e.g., Guiso – Sapienza – Zingales 2006, argues that a common knowledge of trust and trustworthiness, perhaps 'social capital', is important to modern economic development. Akerlof 1982 argues that labor contracts and 'efficiency wages' can be seen in terms of a gift exchange.

[12] A gift giving relationship might evolve into an explicitly recognized *quid pro quo*, which might evolve into an institutional market; this relationship is considered in a Roman context by Verboven in this volume.

[13] Kranton 1996.

[14] Van de Klundert – Van de Ven 1999.

2. Reputation and other rewards

The standard economic model considers a single maximization decision for each individual. Individuals do not separately maximize in distinct spheres, such as health, goods consumption, and reputation, but always consider the trade-offs both within and between these categories.[15] However, we typically model diminishing returns to consumption of each good, and some goods are seen as 'necessities' – as the consumption of a necessity, say water, approaches zero, the individual would be willing to give up nearly anything else to get a small glass of water.

For the 'markets are efficient' predictions to come to bear, we require that every good (more broadly 'everything we care about') can be privately owned, priced, and traded, and one person's consumption comes at the expense of another's. But some things are difficult or impossible to buy or sell directly. Other goods are taboo to trade.[16] In particular, one cannot go to a store to purchase a good reputation.

In ancient and modern times prestige and reputation are seen as valuable in themselves (in addition to their instrumental value in influencing others and getting better treatment in a variety of spheres, including commercial transactions). In a sense we can directly 'eat our reputation'. Gifts and donations may be an indirect way of buying reputation. In signaling models, if some get more direct pleasure from giving then others, these 'good types' can separate themselves from the selfish types through their giving. A pair of individuals engaged in a repeat of high-stakes gift exchange can also signal to one another, and to outsiders, their mutual trust and trustworthiness. Everyone can see that either party could 'quit while she is ahead', yet they do not, demonstrating their trustworthiness. Their trustworthiness may be driven by regard for one another specifically or as fellow humans, regard for principle, religious or moral values, and their patience and confidence in the long-term relationship. Some combination of these admirable traits – each of which suggests future trustworthiness – is being publicly signaled. This is exemplified by Bertelli's paper in the present volume: through gift exchange two men can sustain and increase the public perception of their esteem (τιμή).

The more well-regulated and rule-based the transactions are, the less they allow people to demonstrate their trustworthiness. In a formal market each transaction is carefully monitored by a government regulation or a private authority. Where there is no scope to cheat there is no scope to prove one's honesty. Gift exchanges as well as less regulated transactions may offer such

[15] Although in a particular instance we may limit ourselves to a narrow choice set and use simple heuristics.
[16] Roth 2007 calls these "repugnant transactions". This is relevant to the transfer of relics (see Carlà's contribution in this volume), and the teaching of philosophy (see Blank's article).

benefits.[17]

This discussion relates to Van de Ven's third category: "social approval". His depiction has the flavor of a zero-sum game, here social status is only gained at the expense of another. However, this is one of numerous models where giving conveys status or reputation (see, e.g., Harbaugh in the philanthropy context).[18] In his game-theoretic equilibrium the less-wealthy player can be driven out of this 'giving game' leading to non-reciprocal giving; inadequate gifts can also be explained under given assumptions.[19]

3. Gifts and shared consumption

Fireworks are often considered a 'public good', being largely non-excludable (people who do not purchase them see them anyways) and non-rival (my seeing the fireworks does not reduce your ability to see them). However, every year millions of people purchase and light fireworks on holidays such as New Years, Independence Day, and Guy Fawkes Night; abundant public displays are followed by families setting off their own small rockets. Presumably there is a particular enjoyment from 'ownership' – specifying exactly where and when they are set off, and knowing that you are the cause of the flash and bang. Dur and Glazer model the relevance of this 'desire for impact' in the work environment,[20] citing a range of psychologists and social scientists; McCleland in particular.[21]

Gift-giving may have a similar nature. Even though the receiver may be wearing the sweater, the giver has chosen its color and brand, may enjoy seeing it worn, and may enjoy the sense of impact. The giver may also specify the way it is to be used, retaining some control, i.e., 'ownership'.[22] In this way the consumption or the use value may be shared through a gift exchange, bringing costs and benefits not offered by a market exchange.

4. The Deadweight Loss/Gain of Christmas and Bounded Rationality

Some economists are puzzled by the ubiquity of gift-giving. Waldfogel has

[17] Bowles 1998 makes a related point. Van de Klundert – Van de Ven 1999 model an equilibrium where some goods are exchanged via a gift economy and others through a market economy; however, the distinction may not always be so clear.
[18] Harbaugh 1998b.
[19] The story: making my gift less beneficial to you makes you less well-off, giving you a higher utility of own-consumption, making it relatively more expensive to give, improving my position in the giving game.
[20] Dur – Glazer 2008.
[21] McCleland 1988.
[22] The *peculium* offers in interesting example; see Fleckner in the present volume.

prominently noted and tried to estimate the "deadweight loss of Christmas", extrapolating from a survey on a select group of students.[23] The essential argument is that, at best, the giver will choose the object that the receiver would have chosen with the money, and more likely, if the giver does not perfectly understand the preferences of the recipient, the gift will be mismatched. In the terminology of Van de Ven,[24] the gift will be "inadequate", offering less pleasure to the recipient then she could have obtained herself with the same expenditure.

Others have questioned Walfogel's empirical findings,[25] instead finding a *gain* in value over the cost of the gifts. The standard explanation for this is that gifts gain a sentimental or symbolic value. Other gains may accrue to the *giver*, such as the shared consumption benefits and signaling benefits considered above, or the ability to signal one's understanding of the *receiver*'s tastes and needs.[26]

A further benefit to the receiver arises in the context of bounded rationality, in particular considering 'regret aversion'.[27] Choosing to consume a *luxurious* good may lead both to feelings of guilt and regret. Indeed, for many people simply the act of handing over money is painful. It forces the consumer to consider what she is sacrificing (her 'opportunity cost') in making this choice. And she may have built-in feelings of guilt in spending (this may be a mechanism to counter myopia and even a survival mechanism).[28]

If she is given a cash gift, this may go immediately into the 'general account'. And then if and when it is spent on a luxurious good, the joy of enjoying this good (e.g., drinking the $100 bottle of champagne) may be mitigated by the accompanying guilt in spending, and perhaps regret afterwards. On the other hand, if a person is given a fine wine as a gift, there is little choice but to consume it (at some point) – selling it would be both gauche and a considerable effort (and probably involve a financial loss relative to the retail price). Hence the recipient can enjoy the wine without the accompanying feeling of guilt, nor regret – she did not choose to purchase the wine herself. Similarly, if she gets a gift certificate to Victoria's Secret, she can purchase fripperies without worrying about whether this was the 'best' use of her money.

This argument is undermined if the individual can direct the gifts she will receive (she could have asked for simple socks and underwear and not lingerie) or she experiences equivalent regret over the giver's decision ("he wasted his hard-earned money"). But directed gift-giving is often discouraged and many

[23] Waldfogel 1993.
[24] Van de Ven 2000.
[25] Solnick – Hemenway 1996; List – Shogren 1998.
[26] Ed Glaeser made this final point in a New York Times Op-Ed., *In Defense of Holiday Gift-Giving* (29 Dec. 2009). This is echoed in the discussion of the "exchange of culturally appropriate and valued ... greeting gifts" in Bronze Age Cyprus: see Steel 2013, p. 7.
[27] Samuelson – Zeckhauser 1988.
[28] Suvorov – Van de Ven 2008.

individuals express a preference for being surprised – further distancing themselves from the decision. It seems likely that, concerning regret, the recipient is at least somewhat distanced from the giver, so she feels less difficulty receiving the lingerie than purchasing it herself. She can persuade herself that the giver "enjoyed the act of giving". In fact, the institutionalized giving itself distances givers and recipients from the decision – "it's Christmas, I had to give something" is a convenient justification for extravagance. This argument also helps explain the popularity of credit cards that give 'hotel points' or frequent flyer miles, instead of just cash back. It is a 'sneaky' way to fool myself into putting something aside that I can only spend luxuriously, and it feels less like I am making a conscious decision to put money aside for frivolities. Note that the limited nature of holidays and birthdays, and the distancing aspect of gift-giving allows alleviation of the potential excesses of guilt and goal-setting without a complete abandonment of these rules and feelings which may be, on the whole, beneficial for survival and long term welfare.

I illustrate this point with a very basic model and example. Consider a 'psychological' utility function U(x,y) with two arguments (two goods), that is constructed from another 'material' utility function v(x,y).

$$U(x,y) = v(x,y) - \beta v(x',y')$$

where:

$$(x',y') \equiv argmax_{\tilde{x},\tilde{y}}\, v(\tilde{x} \neq x, \tilde{y} \neq y)\ s.t.\ \text{standard constraints}$$

Essentially, the psychological utility U(x,y) represents the material utility from the choice made (x,y), subtracting a fraction of the utility of the next-best choice. This represents the utility of someone who feels a personal loss when considering what she sacrificed when making her choice.

> *Example*: $x \in \{0,1\}$, $y \in \{0,1\}$, $v(1,0) = 2$, $v(0,1) = 1$, with income $I = 1$ and no other constraints, unit prices, budget constraint: $x + y \leq 1$.

Optimization of U(x,y) here leads to consumption $(x^*, y^*) = (1,0)$, second choice $(x', y') = (0,1)$ and resulting utility $U(1,0) = v(x,y) - \beta\, v(x',y') = 2 - \beta$ In comparison, with the additional constraint y=0 (or constraint x=1) we get the same consumption but utility $U(1,0) = v(1,y) - \beta v(0,0) = 2$. This example illustrates that the 'gift certificate' that constrains choice may increase utility.

5. Public (or anonymous) giving to signal values and support

Van de Ven's fourth approach, "gifts as signaling device", following, e.g., Camerer,[29] involves a gift as a preamble to a later interaction requiring mutual investments. This assumes individuals have different 'types', and 'honest types' prefer to cooperate when others do, while 'cheaters' always prefer not to cooperate. Here the gift serves as a way for the honest to make themselves better off by separating themselves from the cheaters. For this 'separation' to work we require that an honest player gains more from convincing others she is honest than a cheater would gain from convincing them of this. This approach permits reciprocal or non-reciprocal giving: either in an individual interaction (when the honest type wastes her signal on a cheater) or regularly (if one group is seen as trustworthy enough *ex ante* so as not to need to signal). It can also explain inadequacy: mutual exchange of valuable gifts may not be a truly costly signal.

The above approach fails to explain anonymous giving. Hugh-Jones and Reinstein consider the benefit of taking a costly action, here called a "ritual," that is observed only in its aggregate:

> "Suppose … that conditional cooperators gain more from inducing others' future cooperation. Then, performing the ritual may send a signal that 'there is one additional cooperator in the group', and only conditional cooperators may perform the ritual, justifying this belief".[30]

Making an anonymous gift to charity, doing a random act of kindness, or taking care of a public resource may let other conditional cooperators know that they are not alone.[31] This may improve future cooperation, particularly where it cannot be easily enforced. In particular, we envision:

> "…difficult or propitious periods, in which the present benefits of selfishness may outweigh the future costs of a breakdown of cooperation. … poor harvests, …bankruptcy, …a prolonged strike, and … frontline combat".[32]

The authors argue that earlier *anonymous* contributions are more informative than public ones. While selfish types may feel compelled to give when giving is public – to preserve their reputation and avoid being excluded, when giving is *anonymous* only the intrinsically motivated, conditional cooperators (or altruists) will give. Thus, when giving is anonymous, the aggregate rate of giving will be a more accurate signal that may allow better future coordination. However, this holds under the specified conditions where greater knowledge of others' types

[29] Camerer 1988.
[30] Hugh-Jones – Reinstein 2010.
[31] Religious gifts to the gods in Ancient Greece, often of substantial value, publicly recorded, and typically presented without a name or text, may have served this function – see I. Berti in this volume. Also see M. Gori's article on Late Bronze Age bronze hoards and M. Satlow's contribution on tithing in Roman Palestine, although the latter seems to have conferred a variety of potential benefits.
[32] Hugh-Jones – Reinstein 2013.

(preferences) *helps* on average; in alternative cases *ignorance* is preferable.

6. Gifts of public goods and taxation

In the standard model, individuals contribute to a *Pure Public Good*, which has two defining characteristics. (1) It is *non-rival* – everyone derives a benefit from the aggregate provision and one person's use does not reduce another's benefit; (2) It is *non-excludable*: no one can be shut out from using it. If the welfare of the poor is a general concern, services (or direct transfers) for the needy may also fall into this category. However, many goods provided by government, such as health care and education, arguably do not. This definition is strict; even the strongest examples – such as a radio broadcast or public defense – may not exactly meet these definitions. But even *impure* public goods, with some *congestion* and or some ability to exclude, are thought to be underprovided by the market in general.

This is often labeled the 'free-rider' problem: if the contributor does not derive the full benefit of her contribution, the aggregate contribution will fall short of the efficient provision. Depending on relative preferences and the slope of the benefit functions, contributions, even from the selfish, may be non-zero. For example, I may put a streetlight in front of my house because my *private* benefit exceeds the cost, even if I ignore the benefit for the rest of the town. However, this will be, in general, suboptimal.[33] If all members of society could be compelled to give somewhat more, all would be better off. But, at equilibrium – where the good is underprovided – no individual will have an incentive to unilaterally contribute any more.

Enforced taxation is seen as a response to the aforementioned free-riding problem. If individual benefits of each type of public good can be measured (this is itself a difficult *mechanism design information aggregation* problem), these can be sponsored by the government and paid for through general tax revenue. Thus, in theory, *allocative* efficiency – the right mix of private and public goods – can be achieved. However, the information aggregation problem remains, as do difficult issues of public choice. The political environment might not be trusted to make the right decisions, and the policymakers to implement these efficiently. Furthermore, in order to redistribute to the poor, taxes (or benefits) basically must depend on individual choices; e.g., my income tax bill depends on my income which in turn depends in part on my hours worked. Thus the tax system may cause *distortions.* I might farm for only 30 hours per week if there is a 25% tax, even though I would be willing to farm for an additional ten hours if I were

[33] In addition, there may be *coordination* problems: I might be better off buying one streetlamp if my neighbor does not, but I may prefer to wait to see if she will buy it first. Here the equilibrium predicts one of us will buy the streetlamp, but the coordination may not be easily resolved.

allowed to keep all of the additional produce.

Where does this leave charitable giving and philanthropy? Is it something the government should encourage? Such gifts have been interpreted as driven by the desire to attain private benefits from supplementing a public good.[34] However, this interpretation is problematic, particularly in explaining large individual voluntary contributions to causes with diffuse benefits.[35] Essentially, in contrast to a reasonable interpretation of the public goods model, some individuals give far too much, give to too wide a selection of charities,[36] and donations seem to be not substantially 'crowded out' by other contributions. Furthermore, there is strong experimental and observational evidence that giving is driven by other motivations. These include reputation-seeking,[37] reciprocity,[38] personal social pressure,[39] and empathy.[40] There is also some evidence made that people donate to improve their self-image ('self-signaling')[41] and apply self-serving justifycations to avoid donating.[42]

Should we exert strong pressure and offer incentives to encourage charitable giving, or should we rely on the modern welfare state? If public aid 'crowds out' or substitutes for private giving, or if strongly encouraging private giving leads to a smaller government, this is an important concern, motivating several further questions. Is private provision more or less efficient then government provision? Which leads to greater individual satisfaction, on the part of the donors or taxpayers? (There is some debate, however, over whether this 'warm glow' should be included in policy considerations).[43] Which has a less distorting effect on other decisions, particularly the labor-leisure choice?

Recent work considers the incentive effects of 'taxation' or enforced contributions – on real effort and on additional contributions – in laboratory settings and small-scale field settings.[44] The USA's Negative Income Tax experiments found strong income and substitution effects of taxation.[45] However, none of these offered a direct comparison of examined the response of effort to knowing you would be asked,[46] nor compared this effect to that of enforced contri-

[34] Becker 1974.
[35] Sugden 1982; Andreoni 1990; Duncan 2004; Atkinson 2009.
[36] Reinstein 2011.
[37] Harbaugh 1998a.
[38] Falk 2007.
[39] DellaVigna – List – Malmendier 2012.
[40] Andreoni – Rao 2010.
[41] Gneezy – Gneezy – Riener – Nelson 2012.
[42] Fong – Oberholzer-Gee 2011.
[43] Andreoni 2006.
[44] McKenzie 2008; Kossmeier – Ariely – Bracha 2009; Hall 2010; Blumkin – Ruffle – Ganun 2012; He 2012; Tonin – Vlassopoulos 2012.
[45] Robins 1985.
[46] Tonin – Vlassopoulos 2012 field experiment does examine the response to a variety of

butions.

David Cameron's "Big Society" speech[47] mentions both "the harm that means-tested benefits do to work incentives" and the desire to "create a new social norm around volunteering or charitable giving". An implicit assumption here is that encouraging charitable giving will not also impact incentives and the labor/leisure tradeoff. Such an effect would arise naturally from the models and evidence of recent authors,[48] where being the target of fundraising may reduce my welfare, although it induces me to donate. Other experiments have elicited a positive price that subjects are willing to pay avoid making a decision in a dictator game.[49] This disincentive is likely to play a greater role in a society that relies less on a tax-funded welfare state and relies more on aggressive fundraising, family, community, and religious pressure to induce giving and sharing. In pre-Welfare State societies, there were often strong expectations and obligations on patrons, landowners, and the heads of large family groups. Informal insurance arrangements in present-day low-income agrarian economies may also affect incentives.[50]

There is a longstanding debate over the incentives, efficiency, and virtues of relying on taxation versus encouraging voluntary contributions to fund public services and poor relief.[51] Another argument concerns the merits of personalized and connected giving versus institutionalized giving (e.g., giving locally to individuals and small charities versus giving to UNICEF). Historically, there has been a third category, sometimes called 'liturgy'. Wealthy and prominent citizens in the Greek world were essentially required to provide public goods, but they were able to claim these as their gifts, and claim some ownership and control over them.

Here I consider three dimensions of the personal benefit of giving, and how different institutions can satisfy this better or worse. The first aspect is the voluntary nature, the idea that I can choose whether or not to make the donation; this may motivate giving in various models, including 'self signaling'. A second aspect is the public recognition. A third aspect is the personal connectedness to the gift; this includes whether one can claim it as their own gift, whether one can

private incentives, automatic contributions, and commitments to contribute at a certain rate. However (i) they do not consider the anticipation of being asked ex-post, (ii) They use between-subject variation, vulnerable to demand and contrast effects, (iii) they do not directly compare a tax and donation regime that raises the same amount and (iv) their field experiment does not offer methodological guidance for future lab work.

47 http://www.conservatives.com/News/Speeches/2009/11/David_Cameron_The_Big_Society.aspx; last access 13 Aug. 2013.

48 Della Vigna – List – Malmendier 2009; von Kotzebue – Wigger 2008; Tonin – Vlassopoulos 2010.

49 Broberg – Ellingsen –Johannesson 2007.

50 Coate – Ravallion 1993.

51 Vickrey 1962; Hall 2010.

make decisions over its character and use, and whether one sees its direct impact on others in incremental sense. In the table below I note how these aspects are differently bundled in various modern and ancient institutions.

	Patronage	Liturgy	“Local” or individual donation	“UNICEF”	Taxation
Voluntary choice	Yes/Maybe	No	Yes	Yes	No
Public recognition	Yes	Yes	Maybe	Little	No
Personal connection	Yes	Yes	Yes	No	No

The voluntary choice aspect is clearly removed through taxation, but it may also arguably be removed through great social pressure. If one is compelled to give, they may no longer derive some of the self-satisfaction of having chosen to give. The voluntary aspect is also removed in the Greek institution of ‘liturgy’.[52] There is neurological evidence that the hedonic benefits of giving stem, in part, from the *voluntary* nature of the contribution.[53]

Private and personal giving – evolving away from euergetism (see Colpaert in the present volume, who claims this is removed from the modern economy), and away from patronage, has largely been institutionalized in modern times. The church played some role in doing this, when private giving was channeled through the power of bishops. ‘Giving’ through taxation is clearly institutionnalized. Larger organizations like UNICEF have also depersonalized giving, removing the connection between giving, empathy, and a feeling of ownership. The liturgy institution may have preserved this while taking away the voluntary aspect. There is evidence that visible impact, a personal connection,[54] and the ability to make choices are important drivers of giving,[55] and that these are

[52] See here L. Cecchet.

[53] Harbaugh – Mayr – Burghart 2007.

[54] Jenni – Loewenstein 1997.

[55] Anecdotally, we can observe the success of organizations like “DonorsChoose.org”, which allows specifically targeted gifts to US school classrooms, and claims to have raised over $175 million http://www.donorschoose.org/about/impact.html (accessed 13 Apr. 2013). Kiva.org offers the opportunity to choose to lend to a small entrepreneur, underwent some controversy when it was discovered that the loans had already been arranged in advance and the lender's choice did not affect this. There was a similar controversy in the late 1990s when “several child sponsorship organizations amended their disclosures after a series of articles in The Chicago Tribune revealed that while they were soliciting money to sponsor a specific needy child, that child was not necessarily receiving the money directly”. *The New York Times*, November 9, 2009, “Confusion on Where Money Lent via Kiva Goes”, by Stephanie Strom.

crucial to the emotional benefits of giving.[56]

Public recognition is absent from most tax regimes, and to an extent absent from large charitable gifts, and lessened through institutions that encourage anonymous giving. Here liturgy is interesting, as it may preserve the public recognition and personal connection aspects, while removing the voluntary aspect, alleviating free-riding problems.

Bibliography

Akerlof, George A.: *The Market for 'Lemons': Quality Uncertainty and the Market Mechanism*, in: *The Quarterly Journal of Economics* 84 (1970), pp. 488-500.

Akerlof, George A.: *Labor Contracts as Partial Gift Exchange*, in: *The Quarterly Journal of Economics* 97 (1982), pp. 543-569.

Aknin, Lara B. – Elizabeth W. Dunn – Ashley V. Whillans – Adam M. Grant – Michael I. Norton: *Making a Difference Matters: Impact Unlocks the Emotional Benefits of Prosocial Spending*, in: *Journal of Economic Behavior & Organization* 88 (2013), pp. 90-95.

Andreoni, James: *Impure Altruism and Donations to Public Goods: A Theory of Warm-Glow Giving*, in: *The Economic Journal* 100 (1990), pp. 464-477.

Andreoni, James: *Philanthropy. Handbook of Giving, Reciprocity and Altruism*, Amsterdam 2006.

Andreoni, James – Justin M. Rao: *The Power of Asking: How Communication Affects Selfishness, Empathy, and Altruism*, in: *Journal of Public Economics* 95 (2010), pp. 513-520.

Arrow, Kenneth J.: *Social Responsibility and Economic Efficiency*, in: *Public Policy* 21 (1973), pp. 303-317.

Atkinson, Anthony B.: *Giving Overseas and Public Policy*, in: *Journal of Public Economics* 93 (2009), pp. 647-653.

Becker, Gary S.: *A Theory of Social Interactions*, in: *The Journal of Political Economy* 82 (1974), pp. 1063-1093.

Blumkin, Tomer – Bradley J. Ruffle – Yosef Ganun: *Are Income and Consumption Taxes Ever Really Equivalent? Evidence from a Real-Effort Experiment with Real Goods*, in: *European Economic Review* 56 (2012), pp. 1200-1219.

Bowles, Samuel: *Endogenous Preferences: The Cultural Consequences of Markets and Other Economic Institutions*, in: *Journal of Economic Literature* 36 (1998), pp. 75-111.

Broberg, Tomas – Tore Ellingsen – Magnus Johannesson: Is generosity involuntary?, in: *Economics Letters* 94 (2007), pp. 32-37.

Camerer, Colin: *Gifts as Economic Signals and Social Symbols*, in: *American Journal of Sociology* 94 (1988), *Supplement: Organizations and Institutions: Sociological and Economic Approaches to the Analysis of Social Structure*, pp. S180-S214.

Camerer, Colin – Keith Weigelt: *Experimental Tests of a Sequential Equilibrium Reputation Model*, in: *Econometrica* 56 (1988), pp. 1-36.

Coate, Stephen – Martin Ravallion: *Reciprocity without Commitment: Characterization*

[56] Aknin – Dunn – Whillans – Grant – Norton 2013.

and Performance of Informal Insurance Arrangements, in: *Journal of Development Economics* 40 (1993), pp. 1-24.

DellaVigna, Stefano – John A. List – Ulrike Malmendier: Testing for Altruism and Social Pressure in Charitable Giving, *NBER Working Paper 15629* (2009) [http://www.nber.org/papers/w15629; last access 19 Aug. 2013].

DellaVigna, Stefano – John A. List – Ulrike Malmendier: *Testing for Altruism and Social Pressure in Charitable Giving*, in: *The Quarterly Journal of Economics* 127 (2012), pp. 1-56.

Duncan, Brian: *A Theory of Impact Philanthropy*, in: *Journal of Public Economics* 88 (2004), pp. 2159-2180.

Dur, Robert A. J. – Amihai Glazer: *The Desire for Impact*, in: *Journal of Economic Psychology* 29 (2008), pp. 285-300.

Falk, Armin: *Gift Exchange in the Field*, in: *Econometrica* 75 (2007), pp. 1501-1511.

Fong, Christina – Felix Oberholzer-Gee: *Truth in Giving: Experimental Evidence on the Welfare Effects of Informed Giving to the Poor*, in: *Journal of Public Economics* 95 (2011), pp. 436-444.

Fudenberg, Drew – Eric Maskin: *The Folk Theorem in Repeated Games with Discounting or with Incomplete Information*, in: *Econometrica* 54 (1986), pp. 533-554.

Gneezy, Ayelet – Uri Gneezy – Gerhard Riener – Leif D. Nelson: *Pay-What-You-Want, Identity, and Self-Signaling in Markets*, in: *Proceedings of the National Academy of Sciences of the United States of America* 109 (2012), pp. 7236-7240.

Guiso, Luigi – Paola Sapienza – Luigi Zingales: *Does Culture Affect Economic Outcomes?*, in: *The Journal of Economic Perspectives* 20 (2006), pp. 23-48.

Hall, Daniel T.: *The Efficiency-Equality Tradeoff in Public Sector Charity Provision*, in: *Research in Experimental Economics* 13 (2010), pp. 77-111.

Harbaugh, William T.: *The Prestige Motive for Making Charitable Transfers*, in: *American Economic Review* 88 (1998a), pp. 277-282.

Harbaugh, William T.: *What do Donations Buy? A Model of Philanthropy Based on Prestige and Warm Glow*, in: *Journal of Public Economics* 67 (1998b), pp. 269-84.

Harbaugh, William T. – Ulrich Mayr – Daniel R. Burghart: *Neural Responses to Taxation and Voluntary Giving Reveal Motives for Charitable Donations*, in: *Science* 316 (2007), pp. 1622-1625.

He, Tai-Sen: *Tax or Transfer? The Framing Effect of Redistribution Policy: Experimental Evidence*, *Job Market Paper* (2012) [http://www.econ.brown.edu/students/Tai-Sen_he/jmp.pdf; last access 19 Aug. 2013].

Hugh-Jones, David – David A. Reinstein: *The Benefit of Anonymity in Public Goods Games*, *Working Paper. University of Essex, Department of Economics, Discussion Papers 689* (2010) [http://davidreinstein.files.wordpress.com/2011/05/secret_santa_experiment_ may.pdf; last access 19 Aug. 2013].

Hugh-Jones, David – David A. Reinstein: *Targeted Exclusion Can Reduce Cooperation in Public Goods Games*, *Mimeo* (2013) [http://www.webmeets.com/files/papers/res/2013/13/Anonymity%20in%20PG%20Games%20Hugh-Jones%20and%20Reinstein%20%20Feb%202013%20update.pdf; last access 19 Aug. 2013].

Jenni, Karen – George Loewenstein: *Explaining the Identifiable Victim Effect*, in: *Journal of Risk and Uncertainty* 14 (1997), pp. 235-257.

Kossmeier, Stephan – Dan Ariely – Anat Bracha: *Doing Good or Doing Well? Image*

Motivation and Monetary Incentives in Behaving Prosocially, in: *American Economic Review* 99 (2009), pp. 544-555.

Kranton, Rachel E.: *Reciprocal Exchange: A Self-Sustaining System*, in: *American Economic Review* 86 (1996), pp. 830-851.

Leijonhufvud, Axel: *Keynes and the Keynesians: A suggested interpretation*, in: *American Economic Review* 57 (1967), pp. 401-410.

List, John A. – Jason F. Shogren: *The Deadweight Loss of Christmas: Comment*, in: *American Economic Review* 88 (1998), pp. 1350-1355.

McClelland, David C.: *Human motivations*, Cambridge 1988.

McKenzie, *Tom: Tax or Beg? Mandatory Payments to Charity and their Effects on Donor Behavior*, *NCVO/VSSN Researching the Voluntary Sector 2009* (2008) [http://www.ncvo-vol.org.uk/sites/default/files/UploadedFiles/Research_Events/McKenzie.pdf, last access 19 Aug. 2013].

Nicholson, Walter – Christopher M, Snyder: *Microeconomic Theory: Basic Principles and Extensions*, Stamford 2011[11].

Reinstein, David A.: *Does One Charitable Contribution Come at the Expense of Another?*, in: *The BE Journal of Economic Analysis and Policy* 11 (2011), pp. 1-54.

Robins, Philip K.: *A Comparison of the Labor Supply Findings from the Four Negative Income Tax Experiments*, in: *Journal of Human Resources* 20 (1985), pp. 567-582.

Roth, Alvin E.: *Repugnance as a Constraint on Markets*, in: *Journal of Economic Perspectives* 21 (2007), pp. 37-58.

Samuelson, William – Richard Zeckhauser: *Status Quo Bias in Decision Making*, in: *Journal of risk and uncertainty* 1 (1988), pp. 7-59.

Smith, Adam: *An Inquiry into the Nature and Causes of the Wealth of Nations*, London 1776.

Solnick, Sara J. – David Hemenway: *The Deadweight Loss of Christmas: Comment*, in: *American Economic Review* 86 (1996), pp. 1299-1305.

Steel, Louise: *Materiality and Consumption in the Bronze Age Mediterranean*, New York – London 2013.

Sugden, Robert: *On the Economics of Philanthropy*, in: *Economic Journal* 92 (1982), pp. 341-350.

Suvorov, Anton – Jeroen Van de Ven: *Goal Setting as a Self-Regulation Mechanism, Working Paper* (2008) [http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1286029, last access 19 Aug. 2013].

Tonin, Mirco – Michael Vlassopoulos: *An Experimental Investigation of Intrinsic Motivations for Giving*, *Discussion Papers in Economics and Econometrics 1008* (2010) [http://eprints.soton.ac.uk/154439/, last access 19 Aug. 2013].

Tonin, Mirco – Michael Vlassopoulos: *Social Incentives Matter: Evidence from an Online Real Effort Experiment*, *IZA Discussion Paper 6716* (2012) [http://ftp.iza.org/dp6716.pdf, last access 19 Aug. 2013].

Van de Klundert, Theo – Jeroen van de Ven: *On the Viability of Gift Exchange in a Market Environment*, *Tilburg University – Center for Economic Research Discussion Paper 1999-113* (1999) [http://ideas.repec.org/p/dgr/kubcen/1999113.html, last access 15 Aug. 2013].

Van de Ven, Jeroen: *The Economics of the Gift*, *Working Paper* (2000) [http://papers.ssrn.com/sol3/papers.cfm?abstract_id=244683, last access 19 Aug. 2013].

Vickrey, William: *One Economist's View of Philanthropy*, in: *Philanthropy and Public*

Policy, ed. by Frank G. Dickinson, New York 1962, pp. 31-56.

Von Kotzebue, Alexander – Berthold U. Wigger: *Charitable Giving and Fundraising: When Beneficiaries Bother Benefactors, Working Paper* (2008) [http://www.uni-graz.at/socialpolitik/papers/von%20Kotzebue.pdf].

Waldfogel, Joel: *The Deadweight Loss of Christmas*, in: *American Economic Review* 83 (1993), pp. 1328-1336.

Walras, Léon: *Eléments d'economie politique pure ou théorie de la richesse sociale*, Paris 1926^4; Engl. Transl. *Elements of Pure Economics or the Theory of Social Wealth*, London 1954.