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THE GIFTING PUZZLE

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1 Introduction

In both ordinary language and in economics, “gifting” refers to diverse acts, such as the exchange of in-kind gifts (such as “Christmas gifts”), monetary transfers to philanthropic organizations, organ donations, bequests, giving alms to beggars, and so on, apart from volunteering activities, care-giving acts such as child-rearing, and exchanging favors between friends or spouses. While these activities are often grouped within the same term, it is worth questioning whether they have anything in common (Zimmerman 1990, pp. 477–507; Martin 1994; Daly 2012; Elder-Vass 2020). In this chapter, I use gifting to imply a unilateral transfer of a certain amount of money to a non-profit cause. Signing a check to the Red Cross, alumni making donations to their alma maters, contributing to public radio, religious tithes, patronage of the arts, taking the “Giving (what you can) pledge,” and so on are all instances of gifting. For simplicity, I consider “gifting” a three-pronged act, involving a “gift-giver,” a “gift-receiver” or a giftee, and the amount of money transferred between these two parties.

From a behavioral perspective, gifting is often considered incompatible with the conventional model of economic agents acting to maximize their “utility,” which refers to qualities that make a particular action subjectively profitable or preferable to these agents. Thus, the gifting puzzle stems from the fact that gifting is inherently unprofitable, which is exemplified through its three widely recognized features. The first is the transfer of a certain amount of money from a gift-giver to a receiver,¹ which precludes the former from any form of self-expenditure. A gift necessarily involves a loss in consumption. The second feature of gifting is that it constitutes of a unilateral transfer of money, unlike bilateral transfers that are central to economic exchanges. Therefore, a gift-giver’s loss in consumption is not compensated by any goods or services received in return. The third feature is that gifting involves a voluntary transfer, unlike taxation, which involves a compulsory transfer of money. The gifting puzzle asks why rational consumers, who are competent in conducting a cost-benefit analysis, would consider undertaking such an unproductive activity instead of avoiding their losses. Neglected for a long time,² the gifting puzzle has recently inspired a variety of solutions, which are discussed in this chapter.

The existing literature proposes three solutions to the gifting puzzle. One is to concede that the act of gifting is unproductive and yet that it does not refute the model of utility maximization. Carl Menger uses this strategy while defending the relevance of the “dogma of

ever constant self-interest” as “the expression of the most original and most general forces and impulses of human nature” (1985, p. 86). Menger admits that “[g]oodwill toward others” leads people to “not protect their economic interest at all in some cases, and in some cases incompletely” (1985, p. 71), and that real agents do not always guide “their economic activity exclusively by consideration of their individual interests” (1985, p. 83). If acts of gifting are such cases, they should be treated as not falling within the scope of the dogma of constant self-interest, rather than as exceptions to the latter behavioral rule.

However, it is not obvious that the acts of gifting are not a relevant subject matter for the economic realm. No less than exchanges, gifting is arguably a significant concept of economics, traditionally defined as the science of allocation of scarce resources (Robbins 1935). If so, acts of gifting do not exemplify the limitations of the attempt to apply maximizing utility theory to the most varied aspects of human behavior. Rather, what acts of gifting reveal is that the latter theory may fail at heart.

A second way to attempt to solve the gifting puzzle will examine the hidden motivation of gift-givers, which has been the focus of several studies. Consider, for example, Julie’s donation of 100 CHF to the Red Cross. While it is possible that her donation is motivated by an expectation of making a difference to the health condition of the medically poor, she could also be motivated by her desire to be seen by others as a concerned benefactor (West 2004), to conform to peer pressure (Shang and Croson 2009), to attract the members of the opposite sex (Landry *et al.* 2005), “to gratify an inner audience” (Elster 2006), or to “buy” salvation. If self-interested motivations can “mimic” altruistic ones (Elster 2006) so that altruistic actions bear no trace of their motivations, it is vain, one may conclude, to investigate whether acts of gifting conform with the theory of utility maximization.

Against this strategy, one may reply that the gifting puzzle is not the epistemological problem of discerning what truly, despite confounding appearance, motivates real donors. The puzzle is rather to figure whether someone can consistently maximize his utility by gifting – not to reckon whether one can ever be certain about whether that is the case. The gifting puzzle is the theoretical puzzle of trying to reconcile an apparently unprofitable course of action within the constraints of a theory that assumes that economic agents tend to prioritize the most profitable course of action.

A third way to attempt to provide a solution to the gifting puzzle is to argue that the puzzle itself rests on a misconception of the concept of gifting. Those who employ this strategy argue that once gifting acts are recognized for what they truly are, they turn out to be the productive activity that a rational economic agent may prefer to perform after a cost-benefit analysis (Sections 2–4). Still another way of dealing with the gifting puzzle is to argue that the puzzle itself rests on a narrow definition of “utility” and that expanding its definition would clarify that the act of gifting does enable utility maximization (Sections 5–8). The following sections present an in-depth analysis of these last two strategies.

2 Gifting need not be costly

The gifting puzzle rests on the assumption that gifting is unattractive because it is inherently costly. Conventional economic theories also perpetuate the idea that gifting cannot occur without incurring some cost. For example, the charity law assumes that individuals respond to the “price”³ of gifting; therefore, a favorable tax treatment incentivizes gifting by making it less costly. The claim that gifting is costly also appears in ethical debates on the moral obligation of charity. For example, Peter Singer assumes that gifting must involve a certain amount of “sacrifice”, which, according to him, one is individually morally obligated to bear if doing so enables

an increase of the total wellbeing (1972). Effective altruists, who insist on making donations to cost-effective charities that provide the highest benefits or goods per unit of currency received, also assume that gifting is costly (MacAskill 2015). Furthermore, the so-called “demandingness objection” to the utilitarian approach also relies on the same assumption while also presupposing that the cost of gifting borne by the well-off is more important than that borne by the poor (in terms of death rates, disease, poverty, etc.; McElwee 2017). Another common claim is that one’s duty to donate is limited by the cost one has already incurred (Kamm 1992, p. 356). The costliness of gifting is assumed even by those who argue that gifting is not as demanding (or costly) as one may intuitively presume (MacAskill, Mogensen, and Ord 2018). In sum, the diverse viewpoints on the nature and extent of our duty to donate hinge on an uncontested assumption that such a duty cannot be fulfilled without incurring some cost.⁴

Nevertheless, one may object that gifting need not be inherently costly and, therefore, the unproductive choice that a rational consumer should disprefer. The claim that gifting entails a consumption loss relies on the assumption that the utility derived from spending $n+1$ unit of one’s money is always greater than that derived from gifting the same.⁵ However, the decreasing marginal value of money implies that not all donors are equally burdened by the cost of gifting. In particular, ultra-rich donors are most likely to be spared of the costs of gifting. Excessive wealth helps these donors satisfy most of their desires; therefore, between two competing uses of an additional unit of their wealth, spending money on themselves may not necessarily lead to greater utility than gifting it to others. This implies that gifting by the wealthy does not destroy utility, as supposed by the gifting puzzle. Therefore, one solution to the gifting puzzle is to determine cases where gifting is nearly costless, thus making it a rational choice.

In practice, whether the unequally distributed cost of gifting determine the rates of tax breaks warrants greater examination. In many countries, the variable costs of each donor’s per-unit donation amount is not a relevant consideration in determining the country’s tax incentive rates. Lambelet *et al.* (2019) explain that in Switzerland, since the tax deduction offered to donors lowers their taxable income by the donation amount, “the financial benefit (of a tax deduction) proportionally increases according to the income and the tax-bracket of the person” (p. 35). For instance, a donation of 5,000 CHF will incur a cost of 4,867.01 CHF to someone with a federal taxable income of 50,000 CHF, and 4,450 CHF to someone with a federal taxable income of 150,000 CHF (Lambelet *et al.* 2019, p. 35). Therefore, given the decreasing marginal utility of money, this country follows the system of lowering the burden of the cost of gifting, the greater the benefit of tax deductions. Scholars have debated the rationale behind such a tax policy and object to its “plutocratic bias” (Reich 2018, p. 120; Lambelet *et al.* 2019). If tax breaks are meant to make gifting cheaper, they are also designed to favor those who are already less affected by its financial costs. There is here a trade-off between the *efficiency* of a system that intends to increase the distribution of public goods by encouraging wealthy individuals to increase their donation amounts in absolute terms and the *fairness* of a system that ascribes them greater power.

The previous solution to the gifting puzzle involves rejecting the assumption that gifting is costly due to the negligible cost incurred by ultra-rich donors. This solution is unsuitable because it unduly restricts rational gifting to billionaires. It entails that other profiles of donors, those whose desires are chronically left unsatisfied by their more modest income but who nonetheless choose to gift, fail to act rationally. However, the claim that only the ultra-rich can rationally choose to gift is to posit a very demanding condition. Therefore, before conceding it, we must examine the possibility that gifting could also be the rational choice for those less fortunate donors who have to bear its costs.

3 Gifting is an act of consumption

The gifting puzzle relies on the assumption that utility accrues to an agent through the consumption of physical goods such as foodstuff, medicine, cars, and houses. However, as Ariely and Norton (2009) argue, consumption may also include consumption of “concepts,” through activities such as reading information or blogs, listening to gossip, and hearing stories. Additionally, “conceptual consumption is implicated in even the most basic consumption acts, such as eating or drinking, and is therefore paramount” (Ariely and Norton 2009, p. 477). They state that the experience of eating a chocolate chip cookie, for example, is not just a case of physical consumption but also a case of conceptual consumption in view of the number of thoughts elicited by the act of consumption. They further explain:

In this example, notice that regardless of the questions the consumer asks – the concepts brought to mind – the physical consumption object (the cookie) remains exactly the same; conceptual consumption, on the other hand, will be markedly different depending on whether consumers are thinking about a goal to lose weight as compared to a desire to promote fair labor practices.

(Ariely and Norton 2009, p. 477)

Thus, however loosely defined, the notion of conceptual consumption encapsulates certain “psychological aspects of consumption.”

According to Ariely and Norton, gifting is a case “where physical consumption is sacrificed for the sake of conceptual consumption.” They argue:

From our perspective, charitable donations offer an interesting case of foregoing positive physical consumption, since any donation to another person necessarily precludes givers from using that money to pursue their own happiness . . . they do so to engage in conceptual consumption, to consume a view of themselves as altruistic individuals, leading to the benefit of increased well-being.

(Ariely and Norton 2009, p. 487)

If a conceptual consumption of a moral satisfaction can compensate for the loss from a physical consumption, the option of gifting would then become profitable to a rational consumer.

Nevertheless, the aforementioned solution to the gifting puzzle does not withstand scrutiny. This is because the boundaries of what is “consumable” have some restraints, which can rule out a good self-image or moral satisfaction as a genuine act of consumption. In his discussion of conceptual disappointment, Albert Hirschman notes that

[o]riginally we consumed turnips and candles whereas we owned and used gowns and carriages; but with time (and the progress of macroeconomics), consumption came to refer to all the goods and services people produced or purchase for their own goods.

(2002, p. 30)

A “consumable” item was first a “non-durable good,” that is, a good that “deteriorates in the performance of its function” (Hirschman 2002, p. 29). Later, the category of “consumables” was extended to also include durable goods (e.g., cars and houses). However, even with a less restricted definition, not anything can be counted as a consumable item. Consumables are things that are “transferable,” that have the capacity to a life of their own, and that can be owned

and piled up. But if a consumable is that sort of physical “thing,” it cannot be the intangible, psychological experiences that sometimes accompany an act of physical consumption, including the gift-giver’s enjoyment of a good opinion of oneself. In sum, I argue that the term “conceptual consumption” misconstrues the concept of consumption and its introduction represents a failed attempt to subsume acts of gifting under the latter category.

4 Gifting as another form of economic exchange

According to Kenneth Boulding, what makes gifting a puzzle for economists is that it fails to display the *quid pro quo* involved in most economic exchanges (Boulding 1962). Boulding argues:

Exchange is a reciprocal transfer. Philanthropy, apparently, represents a unilateral transfer. In an exchange, something is transferred from party A to party B and something else from B to A. The ratio of these two quantities is, of course, the ratio of exchange and if one of the exchangeables is money, then this ratio is a price. The price system is a basic one for the economist and he tends to regard society as being organized by it. This is true even in national income economics for money income always represents quantity of commodity multiplied by its price. In a single transfer or gift, however, there is no price, for nothing is given in exchange. The economist, hence, feels rather at sea. When he finds himself in an area of social life which is apparently priceless, he hardly knows what to do.

(1962, p. 57)

Some scholars have objected to Boulding’s definition of gifting as a unilateral transfer of money in light of the various “private benefits” that gift-givers often receive from their beneficiaries in return. Lisa Vesterlund lists several types of counter-gifts (or “benefits,” “*quid pro quo* contributions”) such as of

recognition, welcoming or thank-you gifts, membership benefits like free tickets to events, updates on shows and exhibits . . . large contributors may have buildings named after them, receive exclusive dinner invites, be invited to have lunch with powerful politicians, and so on.

(2004, p. 573)

In light of these reciprocal gestures, Vesterlund concludes that “the choice to give is not conceptually different from any act of purchasing a good” (2004, p. 573). From this point of view, gifting is a sub-case of economic exchanges and can be potentially profitable as the latter.

Nevertheless, one may insist on not conflating gifting with exchanging. Consider the case of donors who choose to contribute to gain membership into a club or a certain social circle. Vesterlund argues that in this case, the donation is equivalent to the payment of a “membership fee” to be part of the community surrounding the charity (2004 p. 173), because it involves the bilateral, mutually related kind of transfers that pertain to economic exchanges. However, a donation that is followed by a good in return (in the form of a club membership) need not constitute as a “payment” for that good. Additionally, these counter-gifts are not mandatory or certain (Elder-Vass 2020). Even when they occur, they do not by themselves indicate that they have been bought.

The difficulty in sorting out gifting from an exchange arises from the fact that both acts can be performed simultaneously. Consider, for example, tipping. Diego Gambetta implicitly endorses that tipping is an instance of an economic exchange by defining it as “the discretionary payments we make to certain occupations over and above the price of service” (2014). Thus, according to Gambetta’s definition, tipping is an overpayment for the price asked and is still a part of the consumer’s purchase of the server’s services.⁶ Alternatively, tipping may be approached as an instance of gifting. The amount of money tipped is not price-tagged and therefore is not part of the amount of money that the consumer is committed to transfer.

Why one should consider the transfer of a good from A to B followed by a transfer of another good (or service) from B to A as two separate gifts rather than a single instance of a trade remains a relevant question. A successive transfer from a gift-giver to a receiver and vice versa is not a sufficient justification for subscribing to such a reductionist view. Moreover, unlike a trade, an expectation of receiving something in return is not a precondition for gifting. Here, while the non-satisfaction of these expectations can cause a disappointment, all a gift-giver can do is express it and maybe remind the recipient of the prevalent norms of social reciprocity. In contrast, traders have the right to coerce their recipients to fulfill their obligations by rightfully demanding them to transfer the good (or payment) in exchange for their payment (or good) while reserving the right to claim their share of the transfer.

Proponents of the reductive view typically respond that counter-gifting is no less obligatory than paying for a good that one intends to purchase. Following Marcel Mauss, they argue that norms of reciprocity make counter-gifting compulsory. Elder-Vass (2020) objects to this view and argues that, unlike in trade, the norms of reciprocity that govern counter-gifting are not truly “compulsory.”

If I give you a birthday present, it is entirely possible that you will later give one to me, and the fact that I gave you one may influence you to reciprocate, but the original gift does not create a binding requirement to do so. By the time my birthday comes around, we may have drifted apart, or you may be too poor to buy me a gift, or too ill to buy me a gift, or just too mean to buy me a gift, and there is no sanction that compels you to do so.

(2020, p. 681)

Elder-Weiss claims that gifting, unlike economic exchange, does not require “a compulsory transfer in return” (2020, p. 681). However, a failure to reciprocate a gift may at times trigger indirect sanctions that are so harsh that counter-gifting may become a requirement. What distinguishes gifting from exchanging, I submit, is that only the latter involves an offer, that is, a conditional promise (Massin and Tieffenbach 2017). In the conceptual analysis we proposed of an economic exchange, we argue that when a seller price-tags an item, what she actually does is make a promise to whomever is willing to consider her offer that, if he transfers to her the price-tagged amount of money, she will transfer the good to him. To accept this offer, we further suggested, is something that is done by simply satisfying the condition of the promise through a voluntary transfer of the requested amount. Transferring the money simultaneously activates the seller’s obligation to deliver the good while giving the buyer a rightful claim on that good. In sum, the seller’s obligation to transfer the good is grounded on a conditional promise to deliver it to anyone who satisfies the condition of transferring the requested amount of money. Doing so entitles the buyer to receive the good purchased. In contrast, a gift-giver and

a giftee do not share a similar obligatory and reciprocal relationship; a gift-giver is not obligated to provide a gift nor entitled to receive a reciprocal counter-gift from a giftee.

The question of whether a thank-you gesture for a donation disqualifies it from being tax-deductible is worth asking because the eligibility of receiving a tax incentive on a charitable transfer is conditional upon satisfying the legal definition of charity (Harding 2013). There is a “not for profit” requirement (Lideikyte Huber 2018), which could potentially exclude donors from receiving certain types of goods and services as *quid pro quo*. Some legislation stipulates that the “fair market value” of the counter-gifts ought to be “insubstantial” and should not exceed 2% of the donation. However, this condition may not strictly guarantee the “non-profit” dimension of the donation. As marginalist economists have discovered, an inverse preference for each other’s good is sufficient to characterize the related exchange as subjectively profitable to both parties. For someone dying of thirst in the desert, paying 1,000 USD to a Bad Samaritan for a glass of water is beneficial, despite being overpriced. The glass of water is not a counter-gift for a payment of 1,000 USD, even if its real market value is “insubstantial.” Moreover, the fair market value of counter-gifts is not always readily available. Suppose a donor donates their private collection of avant-garde art to a prestigious art institution, which in turn rewards them with favorable publicity by inscribing their name on the entrance of the institutional building. In this case, what is the “fair market price” of the favorable publicity in response to the price of the art collection donated to the institution?

Determining whether counter-gifting always turns gifting into an economic exchange (thus casting doubt on its tax deductibility) requires an examination of the constitutive elements of such an exchange. Consider two scenarios of a donor enjoying a private concert for a donation made to an opera foundation. The first case involves an *ex ante* promise of the private concert, conditional upon the transfer of the donation amount. Here, the concert is a service that the foundation sells to its benefactors in the misleading form of a counter-gift. In contrast, in the second case, the concert is provided *ex post*. As described by Reinhard Zimmerman:

A benefit may have been transferred as a remuneration for a certain service rendered by the other party or as a reward for an act of rescue, or the donor may have wished to induce the donee to act in a certain way or to produce a certain result. In this latter instance, the donor will often impose a charge on the gift (*donatio sub modo*), with the result that the transaction includes a strong element of exchange.

(1990, pp. 477–478)

According to Zimmerman, these ambiguous cases require an examination of the transfer of gratuitous benefits. He also argues that the charity law requires an acute understanding of the definition of a donation and its differences with other forms of transactions, such as economic transactions. Hopefully, some of the observations made in this section have contributed to highlighting the conceptual boundaries between these two notions.

5 Utility as mere representation of preferences

Thus far, I have assumed that a utility maximizer evaluates the personal costs and benefits of various courses of actions and chooses the least costly (or the more beneficial) of these. The implicit assumption has been that the more “utility” an individual derives from a certain course of action, the better off she is. John Broom disagrees with those economists who tacitly endorse such a definition of the notion of “utility” (1991). As he argues, such an erroneous definition may have stemmed from an ambiguity in the word “utility” itself. According to Broom,

the “official meaning” of utility is “the value of a function that represents preferences,” which refers to any aspects of an option that make it preferable (for whatever subjective reasons) to another option. However, due to a shift in meaning, utility has instead come to refer to the “good,” “pleasure,” “benefit,” “happiness,” “satisfaction,” “well-being,” and “welfare” produced by certain actions for those who perform them.⁷ One argument Broom offers for the official (or value-neutral) definition of utility is that it accommodates the “preferences that are partly altruistic: directed toward the good of others” (1991, p. 5). An altruistic preference for gifting does not necessarily bring any benefits, even if acting on such preference does bring oneself a certain amount of utility. Therefore, the official meaning provides a solution to the gifting puzzle by freeing the gift-givers from the need to identify the aspects of gifting that could make it beneficial or costly for them. This conception of utility is advantageous because it is accommodative of widely different donor profiles, from the self-interested donor (who finds it onerous to donate more than 100 CHF to the Red Cross annually) to the generous one (who enjoys spending 50% of their annual income in humanitarian aid). Supposing both have the same annual income and can both derive utility from gifting, their donation amounts will be widely different based on the threshold at which they stop deriving more utility from donating their next 10 CHF.

However, endorsing the official meaning of utility has three unappealing implications. As previously discussed (Guth and Kliemt 2007; Engelen 2017), one implication is that it deprives the notion of utility of any substantial explanatory power. On the official meaning, the option of gifting is not preferred because it has a high utility. Rather it is because the option of gifting is preferred (for whatever subjective reasons) that it has a high utility. There is a reverse of the natural order of the explanation, which appears to be the most significant objection against endorsing the official meaning.

Second, the official meaning precludes gift-givers (or any agent) from making a wrong decision, because an individual’s preference for A over B does not mean that A is the better option than B. Once the preferences are understood as not tracking the betterness of an option, they cannot be disputed, and the grounds for assessing whether they rationally motivate gifting (or any action) is lost. However, if the donors (or for that matter, any economic agents) are immune from error, maximizing utility theory can no longer be used to assess the rationality of human actions. Interestingly, the immunity is a point in favor of utility theory when it is applied to the preferences that motivate the buying and selling of goods and services. In the latter case, merely having a preference for the other trader’s good suffices to make it rational to choose to buy it. As Austrian economists have shown, the productivity of exchanges merely depends on the exchangers’ inverse valuations of each other’s goods (Massin and Tieffenbach 2017). Apart from the risk of a long-term bankruptcy from having inconsistent preferences, the exchangers’ preferences cannot be wrong. In contrast, absent a good (or a service) from either the giftee or from any third party that could make their act of gifting expectedly profitable, gift-givers do not enjoy the same immunity.

The third implication is that the official meaning of utility is at odds with the practice of determining particular taxation rates (Barry and Lawford-Smith 2019). Consider the example of a price-sensitive individual who is deeply affected by the cost of gifting 100 CHF annually versus someone who derives a moral satisfaction from gifting 50% of their income during the same period. Barry and Lawford-Smith note that using the proportional (and subjective) impact of the cost of gifting on the donors to grant the miser a greater tax deduction seems unfair. Although the official meaning of utility, as endorsed by Broom and others, would solve the gifting puzzle, making it a rational choice, it has no practical value in determining the rates of tax incentives.

6 Utility derived from being seen as gifting

An alternative way of addressing the gifting puzzle is to analyze yet another over-restricting assumption about how utility accrues to gift-givers. The assumption is that utility can only be derived from performing an action, such as eating cake or playing tennis, or more leisurely activities, such as sleeping or watching movies. Note that an agent receiving utility need not be the one to perform the utility-creating action. Instead, utility may be derived from someone else's actions – for example, from being massaged, consoled, entertained, or told the truth. Philipp Pettit refers to such categories of goods as “action-dependent goods,” that is, “goods I get by grace of what I or others do” (1993, p. 331). However, besides action-dependent goods, as Pettit stresses there are “goods I get by grace of what I or others think,” which he names “attitude-dependent goods” (1993, p. 331). These are the goods that one enjoys by virtue of others' favorable attitude toward oneself and result from others' positive opinions. Pettit also stresses that attitude-dependent goods are not as easily tractable as action-dependent goods; this is because giving or receiving positive attitudes from others cannot be determined at will.

However, attitude-dependent goods are quite useful in determining donors' hidden motivation. Several scholars have empirically tested and established the impact of prospective attitude-dependent goods (such as a favorable reputation) over donor's actions. The effects of being watched (Brook *et al.* 2006), eye contact with a solicitor (Bull and Gibson-Robinson 1981), being questioned (Andreoni, Rao, and Trachtman 2017), and, correlatively, the statistical paucity (1%) of anonymous donations all point to the motivating power of attitude-dependent goods. However, since the desire to be admired is often condemned, a donation driven by such a desire could be self-defeating. Nevertheless, once it is recognized that gifting could lead to positive recognition from others, it can become a profitable activity, making it the valid content of an economic preference. A utility maximizer will choose to gift if the value ascribed to gaining others' favorable opinions offsets the costs of gifting.

However, focusing on the motivating role of attitude-dependent goods cannot solve the gifting puzzle, because such goods are only contingently related to acts of gifting. Surely, it is often the case that when someone deliberates as to whether she should or should not gift her money,

- 1 she believes that others will find the gesture admirable,
- 2 she is seen as someone admirable if she gifts her money,
- 3 others who see her as admirable will express a positive opinion about her if she gifts her money,
- 4 she enjoys being seen and publicly described as someone who is admirable,
- 5 those who see her are sufficiently influential share their good opinion of the donor to elicit further commitments to gifting,
- 6 and, in view of 1–5, she assesses gifting to be the best possible option.

However, aspects 1–5 are contingent claims that may apply only to some cases of gifting and not all. Several factors could disrupt the donors' expectations of eliciting public admiration. For example, the act of gifting may not be sufficiently visible in the public eye; those who see gift-givers as admirable may not openly express their view; or those who were expected to see gift-givers as admirable may instead express contempt toward them. The contingency of a favorable public image challenges the assumption that the expected productivity of gifting in terms of a good image is inherently profitable.

7 Utility derives from other's wellbeing ("pure altruism")

The gifting puzzle itself can be criticized as hinging on a restricted view of the conditions that determine a gift-giver's utility. In particular, it assumes "self-centred welfare," as defined by Amartya Sen as "a person's utility depends on his or her own consumption, which rules out sympathy or antipathy toward others" (2007, p. 18). Additionally, he notes that a utility maximizer can simultaneously be sensitive to others' welfare (also see Arrow 1972, p. 348), which happens when sympathy for others' welfare attunes one's welfare toward others. Thus, Sen's concept of an "other-centered welfare" could help to solve the gifting puzzle. If a gift-giver's welfare is tuned to others' welfare, the opportunity of relieving others' suffering also helps to relieve one's own suffering, which provides the donor with indirect benefits. The following testimony by Thomas Hobbes on how pity and compassion motivate a gift-giver to give alms to a beggar can be considered an example of an other-centered welfare:

One time, I remember, going into the Strand. A poor and infirm old man craved his alms. He beholding him with eyes of pity and compassion, put his hands in his pocket, and gave him 6d. Would you have done this if it had not been Christ's command? Yes, because I was in pain to consider the miserable condition of the old man, and now my alms, giving him some relief, does also ease me.

(John Aubrey, Brief Lives 2015, pp. 158–159)

The capacity to find relief in others' relief makes gifting a rational choice if, by one's own calculation, the relief thus compensates one's consumption loss. Once other-centered welfare is granted, gifting can become the kind of productive activity that a competent cost and benefit agent will rightly engage in.

However, some economists argue that donors cannot be rationally motivated to find relief in others' relief. This is because if everyone had a "purely" altruistic disposition, the outcome of everyone's gifting becomes a "public good," or a good that is both non-excludable (each can find relief in through another donor's gift-giving) and non-rival (one individual's relief is not derived at the cost of another person's relief). This situation displays the characteristics of the prisoner's dilemma situation, where free-riding on others' contributions becomes the rational course of action.

It is worth emphasizing that this objection to the hypothesis of other-centered welfare (a.k.a. "pure altruism") introduces two additional assumptions. One assumption is that gifting is a strategic choice that donors make by considering other's actions. The second assumption is that an individual act of gifting is insufficient to make a significant difference with regard to the desired outcomes. Under these assumptions, gifting could either entail an enjoyment of benefits without incurring any costs or may render the cost of giving futile if the total amount of donations is insufficient to bring about the desired benefits. However, none of these assumptions inform the gifting puzzle, as this puzzle does not consider the act of gifting an interactive choice. Gifting is presumed to be both an individual act and an act that is instrumentally powerful by itself. Following effective altruists, I assume that, unlike a single vote in a country's presidential election, a single act of gifting can make a significant difference to meet a desired outcome (MacAskill 2015). Therefore, an other-centered welfare cannot be challenged as a solution to the gifting puzzle for giving rise to a collective action problem.

A more relevant objection to other-centered welfare ("pure altruism") as a solution to the gifting puzzle is that it construes an individual's act of gifting as a means of relieving his or her

own pity or compassion. Means are fungible, such that an individual would prefer to address his or her pity or compassion through the cheapest means possible. Consider again Hobbes' act of charity and suppose, as a variant of Jon Elster's guilt-erasing pill argument (1998, p. 303), that an individual can relieve the painful pity he has for the beggar by swallowing a "pity-erasing pill" at no cost. The pill is free and functions to make an individual insensitive to the misery of the beggar, and therefore it is a rational means to avoid the personal cost of gifting. However, someone who is sensitive to others' suffering will only swallow the pill if he or she considers their pity a pointless cost. While taking the pill or ignoring the beggar's condition remains a worthwhile option, a rational individual would consider pity an affective disposition of one's moral worth and will find the inability to act on such a disposition morally unattractive. The trade-off between the benefit of finding relief in others' relief on the one hand and losing consumption power on the other is complicated by the prospect of canceling such moral disposition upon taking the pill.

In short, other-centered welfare cannot solve the gifting puzzle, because it wrongly presupposes that an individual moved by a sympathy toward the needy will weigh the impact of pity on his or her choice similar to weighing the loss of consumption.

8 Utility derives from gifting itself ("impure altruism")

In economic theory, preferences are often outcome-oriented. Option A will be preferred over option B if it brings about better outcomes than option B. Per standard definitions, an individual's preferences depend on the output of her or his action. Purchasing, say, a bottle of wine, is an inherently costly means to reach the ultimate utility-supply state of drinking the wine. So far, the same means-end relationship has been taken to apply to acts of gifting: transferring one's money, it was assumed, entered the negative side of the calculation. Gifting, thus construed, is doomed to remain a non-profitable activity, because any external private benefits gleaned from the act are contingently related to its performance.

Could economic preferences be construed to bear on the action itself, regardless of outcomes? In a series of influential articles, Andreoni (1989, 1990, 2006) departed from the utility maximization model to propose that the act of gifting, apart from its consequences, directly enters an individual's utility function⁸ and can elicit utility by itself through a feeling of a "warm glow" or inner satisfaction. However, this only happens when the warm glow derived from gifting offsets its costs. Unlike prestige or any other extrinsic incentives, the desire to experience this feeling makes gifting intrinsically rewarding, as it only depends on the gift-giver's disposition to derive a certain hedonic experience from the performance of the act of gifting itself.

The warm glow that donors derive from gifting often appears in the debate surrounding tax deductions for philanthropic donations and is used to challenge the view that donations are conceptually different from personal consumption. Proponents of the opposite viewpoint claim that donating one's money is not equivalent to personal consumption, which justifies discounting donations from taxable income. Andrews (1972) argues that donations are not acts of consumption because they are not a "preclusive" use of one's money (pp. 362–363). Robert Reich objects that "whatever a person decides to do with [his or her] resources – spend it on luxury goods or give it to charity – is, by definition, tautologically, consumption" (2011, p. 180). However, Reich's argument that a transfer of money from A to B can be categorized as A's consumption only if the transfer results in a purchase of a good or a service sold by B can be objected to on the grounds that a gift-giver and giftee's relationship is different from a buyer-seller relationship, as discussed in Section 4.

Nevertheless, Reich argues that the satisfaction received from gifting leads toward refuting the distinction between gifting and consumption. Even if, as Reich first concedes, the warm glow is “non-preclusive” since “purchasing joy through a charitable contribution does not diminish the ability of others to do the same,” Reich also claims that experiencing the warm glow amounts to “consuming the benefit of altruism” (2011, p. 180). As far as “a warm glow is undeniably private rather than public,” experiencing it makes donations genuine acts of consumption.

However, the distinction between the pleasure of consumption and the warm glow from gifting is significant enough to challenge this claim. As has been stressed before, warm-glow givers are not moved by how the donations help others but by what their donations reveal about themselves. In contrast, pleasure consumption accrues on consumers upon eating the meal, driving the new car, or wearing the newly bought clothes and not just by transferring the money required for purchasing these goods. Therefore, the pleasure of consumption is the pleasure of actually making use of goods. These are two conceptually distinct pleasures.

What the pleasure of gifting precisely amounts to requires further analysis, especially on whether it can be described as a feeling, an emotional state, or a mood. As James Andreoni admits, “the warm-glow hypothesis provides a direction for research rather than an answer to the puzzle of why people give – the concept of warm-glow is a placeholder for more specific models of individual and social motivations” (Andreoni, Rao, and Trachtman 2017).

Bodner and Prelec (2002) propose viewing the warm glow as “acts of self-signaling” defined as “acts done partly for gathering information about oneself.” A case in point is a proud donor who sees gifting as proof of his or her capacity to suppress a selfish desire to spend money on oneself. The warm glow would then constitute the egocentric satisfaction from the proof of one’s moral worth demonstrated through one’s act of gifting.

While the warm glow provides a promising solution for the gifting puzzle, it is worth stressing that this hypothesis comes with a substantive revision of the traditional model of utility maximization. Because it hinges on consumption loss, utility (the warm glow) and disutility (consumption loss) are no longer independent features of the same course of action. This is because the private benefit of gifting does not come despite the costs but because of these costs, which is an important departure from the theory of utility maximization. Instead of treating them as unrelated features of the same act, a donation’s utility is considered to rely on its disutility. One may even ask whether gifting becomes more profitable by being costlier.

Some scholars question whether the warm glow can be treated as a rational aim of gifting. One skeptical answer is that, as in any case of pleasure-seeking, gifting for the sake of experiencing the warm glow is doomed to fail. The reason gifting for the sake of the warm glow is self-defeating, skeptics argue, is that the enterprise turns into the aim of giving what can only come as its by-product (Feinberg 2007; Elster 2011). However, whether it is vain to aim at getting a warm glow from one’s philanthropic contribution requires a better understanding of this phenomenon (Tieffenbach 2019).

9 Conclusion

Economic models explain self-serving human behavior through utility maximization, where individuals maximize their utility by choosing the most productive course of actions after a cost-benefit analysis. While this model is valuable for explaining individuals’ purchase decisions for specific goods or services, it has been found to be ill suited to explain why they would voluntarily gift some of their financial resources. This chapter critically reviewed various solutions to the

gifting puzzle by examining whether conventional economics models can accommodate gifting acts. Some of these solutions that seek to either exclude or integrate gifting within the scope of economics or seek to blur the conceptual boundaries between gifting and trading have been proved mostly conservative. In contrast, more fruitful ways of addressing this conundrum consist of broadening the notion of economic preferences to make it theoretically possible to maximize one's utility by gifting. I have also discussed the relevance of some of these strategies to the practice and justification of the tax deductibility of philanthropic donations. These fiscal advantages are granted on certain conditions such as the transfer of financial resources and should be made for a non-profit activity of general interest with non-preclusive uses (Lideikyte Huber 2018, p. 20). This, in turn, relies on the theoretical and practical differences between donations and other economic activities such as paying for, consuming, exchanging, or bartering goods or services. Therefore, while there are many reasons for inciting gifting, there are also plenty of reasons for policing the related voluntary and unilateral transfer of resources, both of which require an accurate and consensual understanding of what gifting fundamentally is. Despite the difficulties of drawing accurate conceptual boundaries between these notions, I have also highlighted the drawbacks of lumping these notions together.

Among the various solutions for the gifting puzzle, the hypothesis of the warm glow could be the most promising, provided that its concept is thoroughly clarified. However, this hypothesis has a negative strategic implication for the gifting puzzle. That is, if the warm glow is treated as the pleasure derived from the conscious choice of foregoing one's consumption power, then it implies that utility and disutility of gifting are the two sides of the same coin.

Notes

- 1 The assumption that a "giftable" item is "transferable" is both widespread and uncontested. It imposes two constraints on a gift, namely that it can be owned exclusively and retained over a long period. I have recently argued that these two conditions fail to accommodate gratuitous work as bona fide instance of gifts (Tieffenbach, 2020, "The Metaphysics of Gifting," unpublished manuscript).
- 2 Mirowski (2001). According to Robert Garnett, the neglect of philanthropy is due to an increasing faith in market exchanges as the most important mechanism of wealth redistribution in contrast to charity and other forms of philanthropic giving, which are seen as "outmoded, inefficient, and ad hoc" (Garnett 2010, p. 112).
- 3 Lisa Vesterlund rightly stresses that the term "price," when applied to donations, does not have the same meaning as the price of a commodity on sale. As she explains, "[t]ypically the price of an object refers to what we must pay to obtain a particular good. For charitable giving, the price of giving refers to what it costs us to give the organization an additional dollar" (2004, p. 569). However, if the "price of gifting" is just the consumption loss incurred by the donors, the term misguidedly assimilates donations to other forms of payment. See Section 4 of the present chapter for an extended discussion of this topic.
- 4 Apart from the loss in consumption, the cost of gifting also comprises an opportunity cost of spending scarce time or effort. This chapter does not examine the opportunity cost of gifting while discussing the gifting puzzle.
- 5 The full sentence is "an individual will always derive more utility from spending $n+1$ unit of her money on a good, which possesses the quality that is needed for satisfying an unsatisfied desire of him than from gifting it."
- 6 Tipping can be correctly described as a form of payment only when it is institutionalized into a service charge, making it a part of the price paid for a service.
- 7 Likewise, Daniel Hausman and Michael S. McPherson stress the same misconception of the notion of utility and write that "utility does not refer to usefulness or pleasure. A utility function is only a way of representing a preference ranking – that is, a ranking of alternatives with respect to everything relevant to choose. . . . Maximizing utility is just doing what one most prefers to do" (Hausman and McPherson 2006, p. 48).

- 8 Kenneth Arrow comes close to that hypothesis when, discussing altruistic motivations of blood donations, he conceives of cases where “the welfare of each individual depends not only on the utilities of himself and others but also on his contributions to the utilities of others” (1972, p. 348).

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