



# It's not just the thought that counts: An experimental study on the hidden cost of giving

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## ABSTRACT

Receiving a gift can create an impulse to reciprocate, even when doing so may be inefficient and potentially harmful to a third party. This paper provides a theoretical framework for a pure gift effect on reciprocity impulses and experimental evidence that such an effect exists: that is, a gift receiver will favor an actual gift giver over an intended gift giver, even if the intended gift giver incurred the same costs and signaled the same intention to give. This result contrasts with the predictions of existing theories on social preferences. We also show that the pure gift effect is present even when it leads to a less efficient outcome, or when the gift is given without the expectation of future returns. Our findings suggest that when reciprocating a gift becomes socially inefficient, it may be more advantageous to guard against gift receiving or to keep donations “secret” than to try to control the intent to give.

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## 1. Introduction

Gift giving is an important social phenomenon and is ubiquitous in human society. The act of giving triggers a receiver's obligation to reciprocate (Mauss, 1954; Cialdini, 2001). The receiver often feels compelled to return the favor, even when there is no monetary benefit to doing so. Thus, gift giving can be socially optimal, as it initiates social ties and facilitates cooperative relationships (Akerlof, 1982; Carmichael and Macleod, 1997; Falk, 2007). Nonetheless, there is also a dark side to gift giving: a receiver's reciprocal behavior may harm a third party's interest and even lead to inefficient social outcomes (Cialdini, 2001). For example, gift giving and reciprocity have been identified as playing an important role in sustaining vote-buying and vote-selling that could potentially undermine the desired effects of the democratic electoral process (Finan and Schechter, 2012). In this paper, we investigate the underlying mechanism responsible for a receiver's reciprocal behavior when there is negative externality.

Previous studies of two-person exchange environments absent externalities have identified intentions as one key to understanding reciprocal behavior (Rabin, 1993; Dufwenberg and Kirchsteiger, 2004;

Al-Ubaydli and Lee, 2009). This literature argues that people are strongly disposed to infer the intentions behind others' actions, and to respond favorably to kindness and negatively to unkindness. People react to the same outcome differently if they infer different intentions motivating others' actions. The importance of intentions in two-person reciprocal relationships raises the question of to what extent the intention behind the gift predicts the receiver's reciprocal behavior toward the giver, even though such reciprocity harms a third party and reduces social welfare. Does the receiver favor the gift giver at the cost of third parties only because the gift giver has signaled a good intention, while other third parties have not? If a receiver demonstrates favoritism only because she<sup>1</sup> wants to reciprocate the gift giver's good intention, then a policy that forbids the recipient from receiving the gift will not help to mitigate favoritism. The reason is that the gift giver has already signaled good intentions by attempting to give. Our study aims at understanding the role of intentions in a gift exchange relationship with externalities.

We draw attention to the difference between receiving gifts and receiving intentions. The literature in philosophy on moral luck has noted a difference between a person who “tried hard to help but failed” and one who actually succeeded in helping, even if her success was the

<sup>1</sup> For simplicity, we use “she” to refer to the receiver and “he” to refer to the gift giver and the third party, rather than using he/she.

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result of random luck (Nagel, 1979; Williams, 1981; Scanlon, 2008; Nelkin, 2013). This situation is directly relevant to controlling reciprocal behavior with negative externalities. For instance, in the case of vote-buying, electoral candidates offer cash or goods in exchange for the vote. The theory of moral luck suggests we will observe less vote-selling if voters are required to abstain from receiving gifts. However, the theory of intention may predict no change as long as a candidate has already conveyed the intention of giving. For instance, when multiple candidates compete for the vote from the same group of citizens (primarily those who have no particular affiliations with any candidate), moral luck theory predicts that voters would favor the candidate from whom they actually received the gift. And this is true even when voters know that other candidates would also be just as willing to offer the same (but not-received) bribe.<sup>2</sup> In naturally occurring environments, it is of course difficult to know the difference between receiving gifts and receiving intentions. The reason is that it is nearly impossible to know precisely what voters know about the intentions of all the candidates when examining their reciprocal behavior and to identify the underlying mechanism for such reciprocity. Laboratory experiments can control this information and help us better understand the mechanisms underlying an individual's reciprocal behavior. They can also provide a theoretical foundation for designing policies to curb socially undesirable reciprocal behavior.

We develop and test the hypothesis that a receiver will favor the gift giver from whom she receives a gift over a third party who paid the identical cost to signal the intention of giving. In other words, we hypothesize that people feel in debt to the gift they receive. We call this a *pure gift effect*. To test this hypothesis, we design an experiment based on previous experiments used to study bribery and corruption.<sup>3</sup> In these experiments, a bribery relationship between the briber and the bribee is modeled using a gift exchange game with negative externality. The bribee's reciprocal behavior is socially undesirable because it harms third parties (Abbink et al., 2002; Malmendier and Schmidt, 2012). However, in these experiments, the third party often cannot send any signal to the gift recipient. Thus, it is unclear whether the "corrupt" behavior observed in the experiment is due to the intention difference between the third party and the gift giver. A key feature of our experiment is that it minimizes the possibility that people will be treated differently by the gift receiver due to differences in their intentions to give (or to bribe). One goal of our study is to shed light on the role of intention in the "corrupt behavior" observed in the previous experiments.

In our experiment, participants play the role of either a Divider or a Receiver. The experiment consists of two stages. In the first stage, Dividers can decide whether to divide a fixed small amount of money with a Receiver equally or keep all the money and leave nothing to the Receiver. Dividers make this decision *prior to* being matched with a particular Receiver. After all Dividers make their decisions, their decision is randomly assigned to a Receiver and each Receiver receives the amount given by the randomly assigned Divider. In the second stage, each Receiver must decide how to allocate resources between two Dividers: the one whose decision affects her payoff in the first stage and the other whose decision does not affect her payoff in the first stage. The Receiver earns an extra fixed amount of money for completing the allocation decisions in the second stage. Using a strategy method,

<sup>2</sup> We can think of bribery in this case as a competitive market where candidates compete to successfully bribe a voter. Candidates are willing to pay a voter an amount up to the value of the return to the bribe. Like any market, the success of winning a voter's vote is often determined not only by the candidate's own intentions but also by factors outside of his/her control. For example, a candidate may have a limited budget such that she is able to bribe only a proportion of voters.

<sup>3</sup> One may question to what extent the behavior observed in such experiments extends to the bribery and corruption in the naturally occurring environment. This is a common concern related to the external validity of laboratory experiment research. Several recent papers have provided evidences supporting the external validity of the findings from lab experiments (Dai et al., 2016; Herbst and Mas, 2015; Kroll and Rustagi, 2016).

we focus on the Receiver's allocation decisions when her randomly assigned (paired) Divider and the other Divider have indicated the same generosity toward her (in the experiment we call the former Divider P and the latter Divider N). Our design ensures that, in this case, the two Dividers have signaled the same intentions and have the same amount of earnings before the Receiver's allocation decisions.

Our main research question is whether a Receiver, in the second stage, will show favoritism toward her Divider P (i.e., the actual gift giver) at the cost of Divider N (i.e., the third party) who would be just as generous. In addition, we design various conditions to address the following two questions. First, does such favoritism, if any, vary with the cost of social efficiency? To address this question, a Receiver is asked to make allocation decisions under several conditions where every dollar allocated to the gift giver costs the third party different amounts.

Second, does the favoritism toward the gift giver vary depending on whether the Receiver believes a gift giver expects a future return when he decides to give? Answering this question sheds light on whether the favoritism toward gift givers would occur even in altruistic gift giving situations, such as donation, where gifts are given without any intention to "bribe." To address this question, we compare two treatments: the *Expected reciprocity opportunity* treatment (henceforth, *Expected*) and the *Unexpected reciprocity opportunity* treatment (henceforth, *Unexpected*). The *Expected* treatment differs from the *Unexpected* treatment in that participants in the latter are not told about the details of the second stage when participating in the first stage (although they do know that the experiment consists of two stages).

We find strong evidence of the pure gift effect. When a Receiver receives a gift from a divider, she allocates more to this divider than to the third party who would have been just as generous to her but did not have the opportunity. Such favoritism toward the gift giver persists in both treatments, even when it is less legitimate because it entails efficiency costs, i.e., the gain to the gift giver is less than the cost to the third party.

Our study provides important behavioral insights on previous experimental studies on corruption. Our results suggest that intention alone cannot explain the "corrupt" behavior observed in the previous experiments. Moreover, favoritism occurs even when the gift giver does not expect any future return (i.e. no intention to bribe). In practice, intentions are often viewed as an important determinant of socially harmful behavior, such as corruption.<sup>4</sup> However, our findings suggest that intent to bribe may not be required to trigger "corrupt behavior" that leads to the less socially efficient outcome. Given the difficulty in confirming the intent behind giving, the pure gift effect provides behavioral evidence for the rationale of controlling gifts per se when designing institutions to curb corruption.<sup>5</sup> Moreover, our results suggest that the ideal of a "secret donation" or a "secret ballot" (Ayres and Bulow, 1998)<sup>6</sup> should be applied not only to those who give or vote with the expectation of special access and influence, but also to those who do not have such expectations.

<sup>4</sup> For example, several pharmaceutical companies, such as GSK and Novartis, define bribery and corruption as "giving, offering or receiving an undue reward with the intention of influencing the behavior of someone in government or business to obtain a commercial advantage." (see <http://www.gsk.com/content/dam/gsk/globals/documents/pdf/AntiCorruption-Booklet.pdf>). The US legal system also requires proof of intent as a necessary element of the crime of bribery to determine the discharge of official duties regardless of whether the official has accepted the bribe (<http://bribery.uslegal.com/elements-of-offense/intent/>).

<sup>5</sup> Indeed, the UK bribery Act differs from US FCPA (Foreign Corrupt Practices Act) in that the Bribery Act makes no requirement for a "corrupt" or "improper" intent in relation to the bribery of a foreign public official, although the requirement remains for the general bribery offense (<http://www.nortonrosefulbright.com/knowledge/publications/52195/differences-between-the-uk-bribery-act-and-the-us-foreign-corrupt-practices-act>).

<sup>6</sup> Also see (<http://www.law.yale.edu/news/2021.htm>) for an interesting article by Ackerman and Ayres. They argue that it will be more difficult for parties to sell access or influence if we keep political donations secret, because in that case politicians are not able to determine who has given how much.

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