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Introduction

Every December brings the same nightmarish vision. It begins at a deserted mall stacked with a million dollars' worth of products. Customers form a perimeter a thousand feet outside the mall. Then, out of nowhere, a red tornado strikes—just the mall and not the crowd—and lifts the clothing and appliances and books and DVDs into the air. As quickly as the cyclone landed, it rises back up to the sky. Then the products rain gently down on the crowd.

“Hey, I got a toaster,” says someone in the crowd.

“Look, I got a red sweater, not my size or color,” says another.

“Wow, I got a singing fish.”

And these are the lucky ones.

Miraculously, no one is hurt, everyone gets something, and neither the building nor any of the products are damaged. But after the thrill of free stuff wears off, people realize that they do not have what they want.

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I go around with a clipboard asking people in the crowd how much they would willingly have paid for what they got. A few got things they wanted, or now realize they want after reading the packaging. But most are unenthusiastic about their windfalls. They would not have been willing to pay anything close to the purchase price, if anything at all. When I tally the responses, people are willing to pay an average of twenty-five cents on the dollar of retail price.

I'd like to say you can rest easy because these events never happened. But they did, and they do every year in much of the world. The red tornado is Santa Claus. And despite the warm feelings he evokes in children, his tornado of giving does a perennially poor job of matching stuff with people. In so doing, he destroys a lot of value, just as he turned our million dollars' worth of products into a mere \$250 thousand worth of satisfaction for the shoppers encircling the mall.

Every holiday season in the living rooms of families in rich countries we experience something similar to the red tornado, only without the actual funnel cloud. For months before the big day, mothers and fathers—mothers, mostly—run around trying to find the right gifts for their loved ones, young and old. Some gift recipients are easy to second-guess. It takes little imagination to predict that a four-year-old will like a doll or a toy

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truck. As kids get older, it gets tougher to find a surprise gift that they'll appreciate, but older kids often take out the guesswork with specific requests for this year's fashionably conformist clothes. And then there are the adults for whom we are obliged to get something. We know that Uncle Jim and his wife and kids will be there, so we have to get him something. But what sort of music does your nephew like this year? Does his tongue piercing provide a clue? And grandma's coming. You have no idea what she wants, but—believe me—she has even less of a clue about what you and your kids over seven want.

When the day arrives, families—and extended families—gather around a tree or a hearth or a menorah to exchange holiday gifts. Kids squeal in delight as they open their dolls and trucks. With young children especially, the gifts matter less than the ritual of ripping off wrapping paper and bows. Teenagers feign surprise—for grandma's benefit—and register actual approval for the gifts they specifically requested. They roll their eyes at the music and movies you buy them. Because you've raised them well, they manage a smile for grandma's gifts. What kid doesn't need a candle? But the fabricated smiles aren't limited to the teens. The adults all arrange their faces into expressions of pleasure as they unwrap items they would never buy for themselves. "A cribbage

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board? You shouldn't have," we tell our mothers-in-law. Indeed.

Christmas provides the occasion for a large amount of spending in predominantly Christian developed countries. In the United States, for example, retail sales during the month of December tower visibly over the volume in adjacent months. In some categories—with familiar Yuletide wares—December sales account for a huge share of the year's sales, over a fifth at jewelry stores, about a sixth at department and discount stores, and about a seventh at clothing, electronics, sporting goods, hobby, and book stores.

What's distinctive about all of this spending is that, except for the prearranged gifts for teenagers, the choices are not made by the ultimate consumers. For the rest of the year, the people who will ultimately use the stuff choose what they buy. As a result, buyers normally choose things they correctly expect to enjoy using. But not at Christmas. As a result, the massive holiday spending has the potential to do a terrible job matching products with users. Throughout the year, we shop meticulously for ourselves, looking at scores of items before choosing those that warrant spending our own money. The process at Christmas, by contrast, has givers shooting in the dark about what you like, recalling the way the imaginary red tornado distributes gifts. To make mat-

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ters worse, we do much of this spending with credit, going into hock using money we don't yet have to buy things that recipients don't really want.

If you discovered a government program that was hemorrhaging money—say, spending \$100 billion of taxpayer money per year to generate a benefit of only \$85 billion—you would be outraged. You might even email your elected representatives to demand an end to the wasteful program.

Despite our good intentions, in the private sector we also generate billions less in satisfaction than we could with what we spend. In this book I will show you the size of annual Christmas spending—and the amount that's waste—in the United States and around the world. I'll also show you how present-day Christmas compares to the Christmas of our grandparents, and how we've shifted from saving up for Christmas to maxing out our credit cards to finance the gift storm. I'll make the case that in many circumstances it would be better to not buy presents for the holidays. Finally, I'll point to some solutions that can stop the waste and make holiday giving a force for good.

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