Chapter One

Why Worry About Incentives?

Express traffic lanes are set aside during rush hour for cars with more than two passengers. A will stipulates that a daughter will inherit only if she agrees to be a stay-at-home mom. West Virginia pays married couples on welfare an extra $100 per month, funded by a federal program to promote marriage. The government authorizes tax deductions for charitable contributions. Companies pay schools to install soda machines or televisions in their lunchrooms. Schools pay students when they get good grades. A prominent economist suggests that the government tax calories in order to reduce obesity. Legislators in South Carolina discuss a proposal to reduce prison sentences for prisoners who donate organs. A soup kitchen feeds the homeless only if they attend a church service first. Cities across America offer large tax breaks to entice businesses to relocate. A donor funds college courses on condition that Ayn Rand’s Atlas Shrugged is on the reading list. A state legislator suggests paying poor women $1,000 to have their tubes tied while others debate making welfare conditional on the use of the Norplant contraceptive device. All of these are real examples, and the list could be multiplied endlessly.

Increasingly in the modern world, incentives are becoming the tool we reach for when we wish to bring about change. In government, in education, in health care, in private life, and between and within institutions of all sorts, incentives are offered to steer people’s choices in certain directions and to bring about desired policy outcomes. So what?, you might well ask. Where is the ethical issue here?
From a certain point of view, there is none. Incentives could be viewed as a form of trade. A person is offered something of value to him or her in exchange for doing something valued by the person making the offer. If the offer is accepted, both parties are better off according to their own lights. If that were not the case, and the benefit being offered were not sufficient, the offer would be rejected. This looks like a trade, and a trade is inherently ethical. It is a voluntary transaction that will occur only if both of the parties involved believe that they benefit from it. Thus, trading is free and rational and, for that reason, it can be considered an ethical relation between persons.

Nonetheless, all incentives and disincentives are not alike. We do recognize bribery and blackmail as wrong even though both can be described in neutral terms as situations in which a simple trade takes place: how much is it worth to a customs official to let his duty slide and ignore a smuggling operation? How much is it worth to one person to know that another will not reveal his criminal past?

But are these cases really the same as our trading your two apples for my three oranges? How can we justify distinguishing between legitimate incentives and disincentives on the one hand, and bribery and blackmail on the other? Viewing incentives as simple trades will not get us very far in answering that question.

Moreover, the question is broader than that: there are incentives and disincentives that we might judge illegitimate that nonetheless cannot be classified as bribery or blackmail. The use of incentives in public policy often leaves people with vaguely defined ethical qualms. I expect that some of the examples in the opening paragraph elicited some discomfort in you. What do those “gut reactions” tell us? Should some
incentives elicit ethical concerns? How do we make sound ethical judgments in the gray areas?

We often meet these issues in everyday life. Some cases are clear. Most people do not object to rush hour express traffic lanes for multi-passenger cars, for example; most people do condemn actions like bribing a judge. But many cases are not so easily agreed upon. In North Carolina, at one time, a licensed driver of high school age could lose that license temporarily if he were failing a course. On hearing of this regulation, my young daughter said “That’s a good idea.” My teenage son said, “That’s blackmail!”

Examples in the realm of politics are equally controversial. Environmental policies allow companies to buy and sell pollution credits – but does treating pollution as a commodity distort the moral claim that supports its regulation in the first place? The federal government routinely shapes state policies through the use of federal grants in areas it certainly could not constitutionally regulate by federal law – but is this an illegitimate encroachment of power or not? State and local governments offer benefits to businesses to relocate in their area – is this a use of public resources for the public good or an unfair advantage for new businesses? None of these are examples of bribery or blackmail, but all of these examples involve the use of incentives in ways that some people find unprincipled and others find perfectly justifiable.

What is the ground of the moral sensibility that so often finds the use of incentives offensive? Some people object, for example, to offering incentives to encourage participation in medical research. In their view, participants ought to be willing volunteers committed to furthering the research enterprise. Otherwise, they are being objectified; used like lab rats for other people’s purposes.1 On the other end of the
spectrum of moral sensibilities are those who don’t even condemn blackmail. A 
blackmailer who asks for something in exchange for refraining from revealing an 
extramarital affair is only threatening to tell the truth, after all. What is wrong with 
threatening to do something which it is perfectly acceptable to do?

The question of the ethics of incentives goes to the heart of a longstanding 
confrontation between two sorts of moral attitudes. The first might be called “the 
moralistic attitude,” according to which the quality of character of the members of society 
ought to be a central public concern. Since societies can only function at their best if 
their members, and especially their leaders, are capable of virtues like self-restraint, 
personal sacrifice and public responsibility, matters of motivation and character 
formation are critical for politics. The contrasting view I will call “the economic 
attitude” or the “Mandevillian attitude.” The name refers to Bernard Mandeville, a Dutch 
author, who famously argued in The Fable of the Bees (1714) that private vices often 
yield public benefits. In this view, our proper concern should be the aggregate outcomes 
of individual choices and not their motivation or moral quality. The skillful politician is 
the one who so manages society that even the self-indulgence and vanity of its members 
produces public goods. The “Mandevillians” scorn the “moralists” as soft-headed and 
irrational, willing to sacrifice all sorts of beneficial developments on the altar of an 
illusory project of moral perfection. The “moralists,” in turn, condemn the 
“Mandevillians” as reductionist cynics who destroy, by denying, the higher human 
possibilities.

It is an argument that goes back a long way and still takes many forms. One can 
find it today whenever the ethics of incentives arises as an issue. For example, in the
debate over whether to offer payment as an incentive for people to give blood, some worry that altruistic motives will disappear once payment becomes accepted practice (which will lead to blood shortages as well). Others question whether a system that relies on altruism can efficiently ensure a sufficient supply of blood.2

Controversies like these have been around for a very long time, and there is every reason to believe that they will continue in one form or another. There are two recent versions of “Mandevillian” thinking worthy of note. For the last ten years or so, “conditional cash transfer programs” have been popular in Latin America and the Caribbean and have recently been tried in the United States as well. These are programs where poor mothers are given cash payments on condition that they get their children vaccinated, or send them to school regularly, or some similar requirement.* The term is new, but the general idea is not. Similarly, there has been much discussion recently of “libertarian paternalism.” This approach seeks to change people’s behavior by structuring choice situations in certain ways. For example, one can ensure that people will save more for retirement if they are automatically enrolled in a 401k plan and have to make the effort to “opt out” than if they have to make the effort to “opt in.”3 These approaches seek to increase responsible behavior without dealing directly with responsibility as an aspect of character. This “Mandevillian attitude” obviously favors the use of incentives of all kinds, while the “moralists” condemn them. But neither position gives grounds for making ethical distinctions amongst incentives themselves.

I hope to do exactly that by adopting an alternative approach to the question of the ethics of incentives: by looking at incentives as a form of power. The use of incentives is

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* Can you imagine a similar program offering tax breaks to middle class mothers who keep their teenage children drug-free?
one possible answer to the question: How can one person get another person to do what he wants him to do? When considering forms of power, the classic alternatives are force and persuasion: people can make you do what they want you to do, or they can convince you to want to do what they want you to do. But bargaining – including incentives – is a third form of power. People can give you something that you want in exchange for your compliance with what they want. Suppose I want you to do ‘x,’ and you are reluctant to do it. If I cannot persuade you to do it and I do not have the capability to coerce you to do it, I may still be able to induce you to do ‘x’ by offering you an incentive.

Coercion, persuasion and bargaining are different forms of power. Each is sometimes legitimate and sometimes not. Examining the standards for the legitimacy of all kinds of power will help clarify the criteria for distinguishing legitimate from illegitimate uses of incentives.

Considering incentives as an exercise of power raises ethical issues that are not brought to light by the typical approach. When incentives are considered exclusively as a type of trade, the crucial ethical question is, “Is this transaction voluntary?” The approach suggested here goes further. It raises many additional ethical questions in considering the use, and abuse, of incentives. It explains why some incentives are generally recognized as problematic despite their formal similarity to other kinds of trades. It takes seriously the ethical impulse behind the discomfort that many people experience in reaction to incentive programs, such as some of those in the list that introduces this chapter. And, most importantly, it allows us to establish standards for making crucial ethical distinctions. Different kinds of incentives are not alike in the
ethical considerations they raise; if we consider incentives exclusively within an economic framework -- as simple trades – these important differences are obscured.

Thinking about incentives in relation to power, along with coercion and persuasion, also brings to light important concerns about democratic politics. We are accustomed to thinking about incentives as an alternative to coercion: economic sanctions, rather than military attack, for example; or pollution credit markets, rather than regulation (sometimes called “command and control”). And incentives certainly seem to have the moral high ground over coercion as an alternative. But coercion is not the only alternative.

Incentives might just as readily be considered in contrast to persuasion. Persuasion, after all, is also a means of exerting power. Incentives attempt to circumvent the need for persuasion by giving people extrinsic reasons to make the choices that the person or institution offering the incentive wishes them to make. When incentives are employed, there is no need to convince people that collective goals are good or to motivate them to pursue those goals by appeals to rational argument, personal conviction or intrinsic motivations. Experts and powerful elites can thus direct institutions and shape people’s choices without the sort of public discussion and consent that ideally characterizes democratic processes of decision-making. To take an example close to home: at many colleges and universities, collective bodies of faculty members have a primary role in designing the curriculum. At the same time, individual faculty members often receive incentives from private donors to develop specific kinds of courses. At what point does this practice of private incentives pre-empt or undercut collective faculty deliberation over educational goals and practices? At what point does
the faculty as a collective body lose control over the curriculum? In this case, incentives seem problematic indeed. When the alternative to an incentive is persuasion rather than coercion, the ethical superiority of the use of incentives is not obvious at all.

Yet, there is always pressure towards the use of incentives in politics and government. You will have noticed that I draw examples from all arenas of social interaction, private and public. But the approach taken here is particularly important for politics. Politics – especially in democracies -- is at least as much a matter of noncoercive forms of power as it is a matter of coercion. Politicians cannot govern without popular support or the cooperation of coalition partners and allies of all sorts; and that cooperation cannot be compelled. Government must operate with carrots as well as with sticks. The only options besides coercion are bargaining and persuasion. Persuasion is often limited in its effectiveness. This is why some form of bargaining often will be the only effective method available – usually incentives. It is particularly important, then, to understand and articulate the complex ethical issues involved in their use as a tool of government: to recognize that incentives are not necessarily preferable to all forms of coercion; that incentives sometimes substitute for persuasive processes, which is a real cost in a democracy; and that the fact that incentives are voluntary transactions does not settle the ethical questions raised by their use.

It is impossible to address those ethical questions without first making them visible. The danger is that, once incentives are introduced in certain areas and people become habituated to their use, the important questions simply no longer arise. Consider plea bargaining. There was a time when the courts condemned plea bargaining. Today, nearly 95% of felony convictions involve a guilty plea. Plea bargaining can appear to be
acceptable because it is a voluntary agreement where both parties seem to be satisfied with the terms of the agreement. But, if the criminal justice system is meant to mete out punishment that is deserved, plea bargaining ensures that that goal will never be met. Either innocent people plead guilty falsely, or guilty parties receive punishment which is less than they purportedly deserve. The important point here is that, today, these are not major issues for general public discussion. Over time, we have moved from consensus around the idea that plea bargaining is illegitimate to tacit acceptance of the practice. I hope that this book will make its readers worry about things they did not worry about before.

Once worried, we need to reach some kind of judgment. This book assesses incentives, along with the various forms of coercion and persuasion, in order to articulate standards for making those judgments. This is the task of chapter four, and that is where the theoretical heart of the argument can be found. Before embarking on that task, I present, in chapter two, an historical account of the use of the term, “incentives,” and of the introduction of incentives in scientific management and behavioral psychology. This history, surprising in many respects, lends considerable support to my approach. “Incentives” came into the language in the early part of the 20th century in America. During this period, the language of social control and of social engineering was quite prevalent, and incentives were understood to be one tool in the social engineers’ toolbox – an instrument of power. Not coincidentally, incentives were also extremely controversial at this time; criticized from several quarters as dehumanizing, manipulative, heartless and exploitative. When incentives are viewed as instruments of power, the controversial ethical aspects of their use come readily to the fore.
This history is followed, in chapter three, by a discussion of the meaning of “incentives.” The term has become so ubiquitous that it has almost lost all boundaries and definition. I try here to distinguish incentives both from other forms of motivation and from other forms of trade or exchange, reward or compensation. The discussion allows me to isolate a few core characteristics of the kind of incentives that need to concern us.

Having laid this groundwork, I turn, in chapter four, to suggest three basic standards for distinguishing ethical from unethical uses of incentives. These are legitimacy of purpose, voluntariness, and effect on the character of the parties involved. These standards, in turn, rest on the notion that ethical uses of any kind of power must treat human beings as free and rational agents.

Chapter five takes up the problem of making practical judgments: how to apply abstract standards in practice. In addition to evaluating any incentive against the three basic standards, we need to look at its context and alternatives. We will find that there is no “rule of thumb” that can be applied without consideration of the circumstances. One cannot know whether or not it is good to put a cast on someone’s leg without knowing first whether or not the leg is broken. Examples from medicine, business, education, government, and so forth show what sorts of questions need to be asked in particular cases. Among these are, “Which of the standards is most important in this case?,” “Does the incentive work better than the alternatives?,” “Is it fair?,” “Does the incentive mask accountability,” and “Is this a case of undue influence?”

Taking all of these questions into consideration, in chapter six, I explore in more detail four very different domains where incentives have been controversial: plea
bargaining; recruiting medical research subjects; the loan policies of the International
Monetary Fund (IMF); and motivating children to learn. Each of these cases illuminates
a web of concerns surrounding the ethics of incentives, and illustrates how legitimate and
illegitimate incentives can be differentiated.

The discussion of plea bargaining explores the contrast between viewing plea
bargaining as a contract between two individuals, and viewing it as an exercise of state
power. The latter perspective focuses attention on whether this practice serves the proper
purposes of the criminal justice system: establishing guilt or innocence and appropriately
punishing the guilty. I argue that, when the state offers leniency in exchange for a guilty
plea, it subverts these purposes and acts illegitimately.

The next case is the use of incentives to recruit subjects for medical research. The
ethics of this practice has been heavily debated, with critics primarily concerned that
large incentives offered to vulnerable populations are coercive, violating the requirement
of voluntary consent. I argue that the exclusive focus on voluntariness has limited the
discussion. Even though, in my view, these incentives are not coercive, there are other
ethical issues that come into play. I conclude that, with some important exceptions, the
use of incentives to recruit research subjects is, perhaps surprisingly, benign.

IMF loan conditionality is another area where voluntariness is only one among a
number of complex ethical issues. Everyone involved in this debate seems to agree that,
in order to avoid undue influence, IMF loan conditions must be limited to requirements
directly related to the purposes of the fund. But this turns out to be a very difficult line to
draw. How far can the IMF go in stipulating national policies and institutional structures
– even if these might ensure that the borrowing country will have a strong enough
economy to repay its loans and avoid future debt? How effective are IMF loan conditions in practice? Is it fair for the poor to bear the burden of restoring economic health? And what responsibility does the IMF have when its programs fail?

Finally, I consider the use of incentives to motivate children to learn, particularly recent “pay for grades” programs. Here, we can see that incentives have inherent limitations. In educational settings, they can work for some purposes (e.g. performing routine tasks), but not for others (e.g., problem solving). And their effects tend to be short-lived. Moreover, where children are self-motivated, incentives predictably “backfire,” turning play into work and decreasing a child’s interest. In evaluating the use of incentives with children, we need to attend to considerations of character as well. How do different types of motivators affect not only learning, but also, for example, self-motivation and the sense of mastery? The discussion of this case allows me to distinguish when incentives in education are likely to be useful and when they are likely to be counterproductive.

Examination of these various cases reveals the multiplicity of questions that must be asked before coming to a judgment. And so chapter seven returns to the contrast between treating incentives simply as a form of trade and treating incentives as a form of power. The problem with the “trade” approach is that it tends to focus on voluntariness as the only important ethical issue to consider. To increase a person’s choices always seems to be a good thing, but it does not settle every ethical question. Here I try to show that there are some offers that should not be made, even if a person is perfectly free to reject them.
To take an extreme example, in William Styron’s novel, *Sophie’s Choice*, a Nazi concentration-camp officer offers a woman the opportunity to save the life of one of her two children. If she refuses to choose one, both will die. But the same act of choosing life for one child is also the choice of death for the other. Had the officer actually wished to save the life of a child, he could have made the choice between the two children himself. His decision would have been authoritative, but it would have been far preferable to giving the choice to the mother. In this case, what seems to be a gift of choice is a perfect expression of cruelty.

In less extreme cases, offers can be paternalistic, manipulative, seductive, exploitative or irresponsible in a wide variety of ways. Hence, I try to take the discussion in this chapter “beyond voluntariness” to consider additional ethical standards.

I also consider the contrast between two ways of thinking about what voluntariness itself is: having a choice or acting autonomously. Incentives always present people with choices, but they can be an affront to their autonomy at the same time. This observation explains why incentives predictably “backfire” in certain situations.

Finally, in chapter eight, I raise the broader question of the relation between incentives and democratic politics. This question arises first in the historical investigation of chapter two. During the Progressive era, incentives were considered a tool of social engineering, and social engineering was hotly contested. Is social engineering democratic or anti-democratic? The use of incentives as a tool of government policy appears to increase our choices and protect a space of freedom. We can always refuse the offer. This seems to be better than government regulations that
foreclose options and establish penalties for transgressions. But, to the extent that incentives are one of the ways in which experts seek to manipulate behavior and to the extent that incentive systems substitute for persuasion and foreclose deliberation and debate, a democratic people ought to be deeply suspicious of them. At the very least, the question of the ethics of incentives leads directly to the question of the role of experts in a democracy and finally, further still, to the question of what kind of citizens we aspire to be.

My first aim in this book is to make visible the problematic ethical issues involved in the use of incentives. It is impossible to do that without uncovering a host of other issues as well. My second aim is to find ways to distinguish legitimate from illegitimate incentives. That also proves to be a complicated matter. We encounter incentives frequently in daily life and are called upon to make judgments about them. We often make those judgments with relative ease. But if you scratch the surface of the matter, you will soon find yourself thinking about psychology and ethics, democracy and expertise, power and freedom.


6 There is controversy over plea bargaining among scholars and lawyers, but it has not been a prominent public issue. The controversy is discussed in chapter six.
Chapter Four: Ethical and Not So Ethical Incentives

How can one person get another person to do what she wants him to do? The classic alternatives are force and persuasion: I can make you do what I want you to do or I can convince you to want to do what I want you to do. But I can also give you something that you want in exchange for your compliance with what I want. This is bargaining (of which incentives are a type), and it is one more form of power, along with coercion and persuasion. Each form of power is sometimes legitimate and sometimes not. Examining the standards for the legitimacy of all kinds of power will help to clarify the criteria for distinguishing legitimate from illegitimate uses of incentives.

Coercion, Persuasion and Bargaining

Generally speaking, the ethical superiority of persuasion to coercion is taken for granted. Moreover, this judgment of the relation between them has important political implications - it grounds claims for free and democratic government. Aristotle famously argues that the human capacity for logos, which can be translated as “speech” or as “reason,” is the condition for a self-governing political community. The very first paper in the Federalist Papers poses the alternatives this way: “whether societies of men are really capable or not of establishing good government from reflection and choice, or whether they are forever destined to depend . . . on accident and force (my emphasis).” The superiority of persuasion to force is commonly tied in Western thought to the view that rationality is the distinctive human characteristic. Beasts, lacking reason, are not amenable to persuasion, and can be subjected rightly to “brute force” – note the term.
Supposing that persuasion is ethically superior to coercion, how might incentives appear in relation to these other forms of power? The continuum might look something like this:

**Figure 1**

Coercion (force) ------- Bargaining (exchange) ------- Persuasion (speech)

← less desirable-----------------------------------more desirable→

We could proceed in this way, as if coercion lies at one end of the ethical spectrum and persuasion lies at the other, moving from least desirable to most desirable as we move from left to right. Now, we could ask ourselves, “Are incentives more like persuasion or more like coercion?” Or we might consider whether incentives are legitimate when the alternative to their use is force (e.g. the argument for economic sanctions in international relations), but illegitimate whenever persuasion is a viable option.

But, as is so often the case, upon reflection, the situation becomes considerably more complicated – and Figure 1 does not capture the complexities. There are varieties of coercion as well as varieties of persuasion, and they are not all equally legitimate. The use of force includes the legitimate police powers of the state as well as tyranny; it includes a fair fight as well as overpowering the defenseless. Persuasion too is not a simple category. It includes rational deliberation, but also begging, flattery, and fraud. It includes courtship as well as seduction, propaganda as well as the give-and-take of community meetings.³

Moreover, not every form of persuasion is ethically superior to every form of coercion or to every form of bargaining, for that matter. Incentives, for example, are
usually clear and explicit attempts to influence someone’s behavior, which might well be considered ethically superior to deceptive and hypocritical attempts at persuasion which mask their true intent.⁴

In the preface, we considered the opening scene of Sophocles’ *Philoctetes*, where Neoptolemus, who would gladly fight to get what he wants, is reluctant to employ a deceitful scheme to achieve his ends. For him, deceit is a dishonorable way to overpower an opponent. Cicero concurs with this judgment, arguing that there are two ways of doing injustice; force and fraud. Both are beastly, but in his view, fraud is worse.⁵ Perhaps we ought to question the claim that persuasion is categorically superior to coercion as an ethical mode of exercising power.

Moreover, the categories – coercion, bargaining, and persuasion - can be defined in different ways, and in almost every case, the definitions have powerful ethical and political implications. Consider, for example, how Machiavelli revised Cicero’s view. According to Machiavelli, there are two ways of fighting; force and law. Force, the way of beasts, is divided into the way of the lion, using strength, and the way of the fox, using cunning. According to this analysis, deception *is* a kind of force.⁶ Thomas Hobbes restricts the meaning of coercion so much that almost nothing counts as coercive, while Michel Foucault expands its meaning so greatly that almost everything appears to be coercive. For Hobbes, an absolute monarch is no more coercive than a republican sovereign, and so is at least equally legitimate. For Foucault, the bureaucratic “discipline” of modernity replaces the physical violence of the middle ages, but serves the same purposes of control and coercion, and so is at least equally illegitimate.⁷ Thus, neither of these approaches is helpful for sustaining meaningful ethical distinctions.
between legitimate and illegitimate exercises of power – but, for these authors, that is the point.

There is a similar variety of definitions when it comes to persuasion. Adam Smith, for example, characterizes bargaining as a form of persuasion and, as such, identifies it as a distinctively human capacity. Dogs can beg at the table, but they cannot bargain one bone for another. In Smith’s account, the relatively high ethical status of persuasion thus becomes attached to bargaining as well. Some contemporary economists and political scientists, on the other hand, argue to the contrary that there is no persuasion; what looks like persuasion is actually information exchange. Thus, the possibility of any ethical critique of bargaining from the point of view of the superior claims of persuasion disappears, and bargaining can claim superiority to the only other alternative, coercion. In short, the way in which the categories are defined shapes the ethical questions that arise and how they are addressed.

Both because of the complex variety of phenomena within each of the categories of power and because the definitions of the categories themselves are so consequential, the simple continuum of Figure 1 is misleading. The problem of definition is also humbling. No single set of definitions recommends itself above the others. How to proceed?

We are looking for a way of thinking about power that will be helpful in addressing the question at hand: how to distinguish between legitimate and illegitimate uses of incentives. On what basis can such a judgment be made? As a form of power, incentives ought to be judged according to the same criteria as other forms of power. To discover those criteria requires maintaining the distinctions among categories of power,
rather than collapsing them -- as well as employing definitions that do not already entail ethical judgments. With these considerations in mind, then, I offer the definitions that follow.

Power, in general, I take to be the capacity to achieve one’s purposes – including, more specifically the capacity to affect the actions of others in order to achieve one’s purposes. ¹¹ There are many sources of power; wealth, status, the authority that comes with office, and so on. But whatever its sources, power is exercised principally in three ways. “Coercion” means “the use or threat of force to influence people’s behavior;” “bargaining” means “the use of an exchange or the promise of an exchange of gains or losses to influence people’s behavior;” and “persuasion” means “the use of speech or other symbols to influence people’s judgment or behavior, apart from coercion or bargaining.”¹²

Each of these can be manifested in stronger or weaker forms. Power comes with varying degrees of pressure: it ranges from control, where one can get others to act “against their will;” to strong influence, where others are pressured, enticed or convinced to act “against their better judgment;” to mild influence, where others are led to choose one particular alternative among a set of alternatives otherwise indifferent to them.¹³ It is common to see a simple continuum here, with “control” at one pole and “influence” at the other, and then to identify this continuum of degrees of power with the continuum from “coercion” to “persuasion” pictured in Figure 1.¹⁴ The result is that “coercion” becomes identified with the greatest degree of power, and the term comes to mean “control,” perhaps because people assume that usually, one can only get people to act “against their will” by threatening the use of force.¹⁵
But, to make this identification is a mistake for several reasons. First, it implies that persuasion is always weaker than coercion. But that is not always the case. For example, a threat of force that is not credible is a weak degree of power; while an attempt to persuade me that relies heavily on my guilt feelings can produce a good deal of pressure to comply. Second, thinking in terms of the two overlapping continuums implies also that bargaining, located between coercion and persuasion, lies somewhere between control and influence as well. Yet bargaining does not fall at a single middle point between the two. For example, in the form of ideal market transactions, bargaining resembles rational persuasion in the minimal degree of pressure either party exerts on the other. In the form of blackmail, bargaining can exert a great deal of pressure indeed. Thus, the *degrees* of power must be distinguished from the *forms* of power if we want to account for the complexity of power – and thereby, incentives.

*Standards of Legitimacy*

We have noted that persuasion is usually considered ethically superior to force. But we have also noted that each category contains subcategories that could be ranked hierarchically from most to least legitimate (see Figure 2). Coercion includes law, a fair fight, tyranny, conquest, and the threat of these. Persuasion includes rational deliberation, begging, flattery, and fraud. Incentives belong in the third category, bargaining, which includes many kinds of trades: market transactions, bribery, blackmail and so forth. These lists are meant to be suggestive, not exhaustive, and the order of the lists in the columns is not meant to be precise. But within each category, generally
speaking, we would tend to judge the subcategories listed first more favorably than those listed later. Why? What are the implicit standards employed in making these judgments?


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\begin{array}{|c|c|c|}
\hline
\text{Coercion} - \text{Force} & \text{Bargaining} - \text{Exchange} & \text{Persuasion} - \text{Speech} \\
\hline
\text{Just Law} - \text{Authority} & \text{Trade} & \text{Rational Deliberation} \\
\text{Fair Fight} & \text{Exploitation} & \text{Flattery} \\
\text{Bullying} & \text{Undue Influence} & \text{Begging} \\
\text{Conquest} & \text{Bribery} & \text{Seduction} \\
\text{Tyranny} & \text{Blackmail} & \text{Fraud} \\
\text{Etc.} & \text{Etc.} & \text{Intimidation} \\
\text{Etc.} & \text{Etc.} & \text{Etc.} \\
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I will argue that any one of these exercises of power can be judged according to three primary criteria:

first, by whether it serves a legitimate purpose;

second, by whether it allows a voluntary response; and

third, by its effect on the character of the parties involved.

For example, bribery invites a person to violate his duty; its purpose is illegitimate and it undermines character as well. One of the reasons that tyranny is illegitimate is that it violates the principle of consent or voluntariness. Another reason is that it turns political power from its proper purposes. Concerns with character are raised by some
forms of bargaining - e.g., incentive systems which encourage people to ask only “what’s in it for me?” - and by some forms of persuasion – e.g., demagogic political rhetoric which motivates people by appealing to their worst passions.

These criteria explain why a fair fight might be considered morally superior to fraud or deception. In a case of fraud, the dupe is really not in a position to choose freely, since informed consent is not possible, and the second criterion is violated. In a fair fight (understood as one in which both parties have an equal chance to emerge victorious) the combatants are fully informed, able to influence the outcome by their own actions, and voluntarily join in combat. To take an example from the realm of love: all three criteria are evidently at work in the distinction between courtship and seduction, two quite different forms of persuasion. Courtship is a relationship of mutuality aimed at establishing a loving commitment. Its purpose is legitimate; its aspect is consensual; and it can bring out the best in people. A seduction aims at the selfish gratification of one person with no regard for the well-being of the other; it is often conducted under false pretenses and exploits the weakness of one party so that the mutuality of freely given consent is put in question;¹⁸ and it proceeds by encouraging moral weakness.

While the first two criteria seem fairly obvious - i.e., the legitimacy of the aim and the voluntariness of the action - the concern with character requires some explanation.¹⁹ On one level, character means nothing more than the tendency or predisposition to behave in certain ways; a person’s characteristic way of doing things. But when we say that a person has character, we typically mean that he or she has a strong or a good character; i.e., that this person is unlikely to be swayed from behaving according to his or her characteristic dispositions and that those dispositions are good. Power is relevant to
character. The various ways in which power is exercised in a given social setting, and the sorts of things that are used to influence people’s decisions, have an impact both on people’s characteristic dispositions and on what good character is understood to be.

The matter of character goes beyond consideration of individuals to include concerns with institutional culture as well. Institutional culture could be seen as character “writ large.” What are the ways “we” characteristically behave in this organization? Are we encouraged to feel, and expected to feel, loyalty to the organization and to “go the extra mile” for the group when necessary? Is there a team spirit or an expectation that everyone should look out for himself or herself? The way that power in exercised within an institution will have a great deal to do with how questions such as these are answered.

People can be led and governed in a variety of ways that make a difference for good character. Power relationships can have an impact on the character of all of the individuals involved in any particular interaction; both those who are engaged in making an offer, persuading, or threatening force and those who are responding to offers, arguments, or threats. For example, to offer a bribe is corrupt – but to accept it is also corrupting to the extent that it weakens the disposition to put duty above interest. Some people respond to flattery more readily than others. Flattering them certainly encourages their vanity. And those who habitually get their way through flattery are affected by it as well. Flatterers are hypocritical. Children who are bullied by adults often become bullies themselves. The ways in which bargaining, persuasion and coercion are employed can have profound effects on character.

Not only what we do, but why we do it, has a bearing on moral character. A person who sometimes does the wrong thing for the right reason is more trustworthy than
a person who sometimes does the right thing for the wrong reason. It makes an ethical
difference, both for individual character and for social norms, whether people are
motivated by fear of punishment, desire for gain, generosity, or rectitude, and so forth.\textsuperscript{20}

Coercion, bargaining and persuasion are all tied to different motivations. And so, effect
on character must be one of the criteria for assessing the forms of power.

These three considerations, then – whether the purpose of a power transaction is
legitimate; whether the choice made by the subject is voluntary; and the way the
transaction impacts character -- ground the lists pictured in Figure 2. Moreover, it is
easy to see that for each form of power there is an ideal type where all of the criteria are
met. If there is also a rough equality among the parties to a power transaction, you might
argue that the ideal case becomes a relationship of cooperation: nobody is in a position to
impose his or her will; all parties retain their autonomy. For example, we could describe
the ideal case of coercion to be the exercise of law where the laws derive their authority
from the voluntary consent of the people and are limited to legitimate purposes, like
security and prosperity. The rule of law is a form of social cooperation meant to preclude
the imposition of arbitrary, private will. Similarly, the ideal form of bargaining is one
among equal parties acting both autonomously and cooperatively: something as simple
as my selling you my old car.

Finally, consider persuasion in the form of rational deliberation. If there is a
convincing logic to support the choice of a course of action, part of that logic will be a
justification of its purpose. To act on the basis of your own conviction is to be guided by
reason, to be self-governing, and hence to act voluntarily - the choice is unconstrained,
not only by external forces, but also by internal influences of passion and desire. Many
might also say that self-government in this sense is also a sign of good character. Self-government is virtue to the extent that it involves subjecting the passions to the government of the higher faculties of reason. The person who is self-governing in this respect is, thus, also a person of good moral character; tending to act reasonably and unlikely to be moved from his or her rational convictions.

Thus the ideal form of persuasion, like the ideal forms of coercion and bargaining, respects human freedom and rationality. In effect, the three criteria I have suggested amount to the claim that any act of power ought to be judged by whether or not it respects the character of human beings as free and rational.

I began by asking “what are the implicit standards employed” when making judgments about power. But of course, we cannot simply rely on common sense intuitions to supply a foundation for ethical argument. Intuitions need to be subjected to examination and their premises exposed. In this case, the examination revealed the premise that human beings ought to respected as free and rational; that is to say, they ought to be treated in a way that respects their dignity. This premise is the basis for our shared intuitions about the legitimacy and illegitimacy of power in its various modes. Indeed, this premise could be seen as the minimal grounding for ethical inquiry itself. It would make little sense to undertake a project to establish criteria for ethical judgment if one did not presuppose that people are capable of making judgments and guiding their conduct by them. Thus, when I assert that people ought to be treated with dignity, which is to say, respected as free and rational, what I mean by that is that they ought to be treated as independent agents capable of moral responsibility.²¹
But what do we mean by “freedom” and “rationality”? Obviously, these concepts are susceptible to widely varying interpretations: there is enormous disagreement as to what counts as “freedom” and what counts as “rationality.” For Thomas Hobbes, for example, even the agreement to submit to a conquering army counts as legitimate consent and an act of freedom.\textsuperscript{22} For Immanuel Kant, on the other hand, free action can only proceed on a pure rational principle. For this reason, the response to an incentive can lead to morally commendable actions, but those actions will not have the “authentic moral worth” of actions done exclusively from duty.\textsuperscript{23} The opposition between Kant and Hobbes echoes that between the “moralists” and the “Mandevillians” mentioned earlier. In short, we might secure agreement on the specific criteria for legitimacy - legitimacy of purpose, voluntariness, and character - and we might even secure agreement on their deeper ground, namely that legitimate incentives must respect human freedom and rationality, but, without greater specification of the key concepts, we will not have provided workable standards.

In contemporary economic theory, rationality and freedom are minimally construed. Rationality does not refer to the capacity to regulate the passions or to judge amongst human purposes. It only requires adjusting beliefs to the available evidence and acting consistently with your preferences given the constraints and opportunities in your situation. Reasoning is understood to be a form of calculating for the sake of maximizing utility.\textsuperscript{24} Freedom is also minimally defined. The requirements of freedom are met by voluntariness: i. e., having alternatives and the capacity to choose among them.

But freedom construed minimally as voluntariness is problematic, particularly if (as Hobbes would have it) a choice “counts” as voluntary even when it is made under
threat of coercion. Isaiah Berlin made the point with respect to the insufficiency of voluntariness thus understood when he wrote:

If in a totalitarian state I betray my friend under threat of torture . . . I can reasonably say that I did not act freely. Nevertheless, I did, of course, make a choice . . . the mere existence of alternatives is not, therefore, enough to make my action free (although it may be voluntary) in the normal sense of the word.

To judge this sort of torture as an unethical abuse of power requires a conception of freedom that means something more than merely making a choice.

The minimalist conception of rationality employed in contemporary economic theory also makes it difficult to judge the ethics of incentives. According to that theory, all choices are made essentially for the same reason: to maximize utility. People act rationally when they choose the course of action that gives them the most of what they prefer. An incentive adds a benefit to the balance of costs and benefits that determines your choice. To calculate that balance and to act accordingly is to act rationally. Contrast this with the notion of reason implied in an attempt to rationally persuade someone to make a certain choice. Such persuasion implies that you can understand and assess the options “on the merits.” Depending on the circumstances, some arguments will count as good reasons for choosing “a” instead of choosing “b” and others won’t.

To illustrate: where incentives are employed instead of persuasion, it can be an insult to be offered an incentive – and in three different ways. First, it might imply that you are crass; that is, that there is no good reason for you to do the thing you are being asked to do, but that your compliance can be bought. Second, it might imply that you are
stupid and would not be able to appreciate the good reasons for doing what you are being asked to do so that an appeal to your selfish interests must take the place of argument. Lastly, it might imply that you are not well-intentioned and must be induced to do the right thing by extrinsic benefits, since you would not respond positively to the good reasons to do it.27

For example, teachers might well be insulted when they are offered a bonus to adopt a certain method of teaching reading in the classroom. As professionals, they might expect to be treated with respect for their expertise and for their ability to compare the intrinsic qualities of the competing reading programs and to decide accordingly – rational decision in quite a different sense than utility calculation. They might also be insulted by being offered a bonus if the scores of their minority students improve relative to those of their white students. Incentive systems in this case carry the implication that the problem of the minority achievement gap is a problem of neglect on the part of the teachers. If they cannot be motivated to serve minority students for the right reasons, perhaps they can be motivated by the promise of a reward.28

But if we stick with the minimalist understanding of rationality, it makes no difference whether teachers are persuaded or “incentivized” to adopt a certain course of action. In either case, they act “rationally” by making the choice that conforms most closely to their preferences. “Good reasons” cannot be distinguished from any other kind of reasons, and the matter of professional respect goes unrecognized. Consequently, the use of incentives in cases like these appears to be perfectly legitimate, and the feeling of insult that accompanies the incentive is simply inexplicable. That feeling of insult only
makes sense when a broader understanding of rationality is in play, one that includes consideration of a course of action “on the merits.”

When freedom and rationality are defined more expansively, incentives will be subjected to stricter scrutiny. We might move, for example, from mere voluntariness and calculation as governing conceptions towards autonomy -- where human freedom would be understood to include the capacity to set one’s own ends or purposes according to a rational standard. Making this move increases the likelihood that incentives will be judged illegitimate when they are paternalistic, manipulative, or exploitative. These “gray areas” between total control and benign influence can all be considered assaults on autonomy. Paternalism can be described as treating another person as if he is incapable of recognizing for himself what his purposes ought to be or of rationally pursuing them; manipulation, as a broad category of actions that deceive a person into believing that they are acting autonomously when they are actually being used for someone else’s purposes; and exploitation, as taking advantage of another’s weakness to secure his compliance in subordinating his own ends to yours. (Note that seduction might be considered a particular kind of exploitation where the weaker party is also deceived as to the true purposes of the stronger.)

Incentives, as a form of power, are sometimes deployed in all of these ways. To distinguish their proper use from abusive uses requires applying the standard that human beings ought to be treated as free and rational. Where freedom and rationality are understood in a robust sense, as the components of autonomous moral agency, paternalism, manipulation and exploitation are more likely to be considered illegitimate.
Where, then, does this leave us? On the most abstract level, any particular instance of the use of an incentive or disincentive can be understood as an exercise of power. Power is legitimate only to the extent that the parties involved are treated with human dignity, which is to say, treated as beings capable of moral agency on account of their rationality and capacity for freedom. People should not be governed as if they were beasts, through the exercise of brute force.

Somewhat more concretely, this means that acts of power can be judged by whether they serve a rationally defensible purpose, whether they allow for a voluntary response or are based on freely given consent, and whether they accord with the requirements of moral character. These are the conceptual materials we can use to distinguish between legitimate and illegitimate incentives, just as we would distinguish between the use and abuse of other forms of power. We are not condemned to choose between the posture of the “moralists,” who find all incentives reprehensible, and that of the “Mandevillians,” who embrace them.

What remains to be considered is whether the standards for legitimacy identified here are helpful in sorting through the ambiguities and competing claims involved when incentives are proposed as solutions to practical policy problems. Are the concepts employed -- legitimacy of purpose, voluntariness, and character -- adequate to encompass the ethics of actual power relationships? Since we do not live in an ideal world, how do we judge among imperfect alternatives?

Indeed, the application of standards turns out to be a complex affair. As with all prudential judgments, context matters greatly. There is no “rule of thumb” that allows for
a mechanical application of the standards. Nonetheless, they can provide significant
guidance for judgment, as we will see.


3 Psychologists tend to stress that rational argument often plays a rather small role in
persuasion, while philosophers are more likely to treat persuasion largely as a rational

4 I am indebted to Barry Schwartz for this observation.

5 Cicero, De Officiis, (On Duties), I, 13, 41


10 Some international relations theorists argue that states use coercion as part of a bargaining process. Thomas Schelling developed a highly influential analysis of "coercive diplomacy," which blurs the distinction between coercion and bargaining. See Arms and Influence, (New Haven, CT: Yale University Press, 1966). See also James D. Fearon on the "bargaining model of war" in “Rationalist Explana...
to Carl von Clausewitz's famous dictum that "war is a continuation of politics with an admixture of other means." For this interpretation of Clausewitz, see R. Harrison Wagner, *War and the State: The Theory of International Politics* (Ann Arbor, MI: University of Michigan Press, 2007) chap. 4.

11 Hobbes, 150.

12 These definitions were collaboratively developed in Duke University’s “Persuasion Group”, an informal seminar of political science faculty. I am grateful to my colleagues for their help throughout my work on this project. Compare de Crespigny, 1968.


15 The fact that “coercion” is used in two senses complicates matters. Defining coercion as the use or threat of force is helpful in some contexts, particularly when thinking about state power, international relations, and so forth. When the problem is to distinguish clearly between voluntary consent and coerced compliance, coercion is closer to the second meaning here - control. See chapter five, pp.,…

16 And here I mean laws enforceable by sanctions. Every law is not coercive; consider laws allowing for tax deductions or customary international law.

17 Interestingly, the three basic categories in this chart parallel those used in an encyclopedia discussion of “Social Control: Organizational Aspects” to distinguish types
of organizational control: “Control may be predominantly coercive, utilitarian or normative.” Each type characterizes different sorts of institutions; e.g., prisons, factories and religious organizations respectively. Amitai Etzioni, *International Encyclopedia of the Social Sciences*, p.397.

18 While rational persuasion is consonant with liberty, “some modes of non-rational persuasion are incompatible with the autonomy of a man. . .;” de Crespigny, p.205.

19 The first two criteria correspond to John Locke’s concern with the end and origin of legitimate power. In considering the legitimacy of political, paternal or despotic power, Locke’s analysis proceeds in this way. See Locke (1963) especially *Second Treatise*, chapter VII. See also Ruth W. Grant, *John Locke’s Liberalism* (Chicago: University of Chicago Press, 1987). I am well aware that the criteria I elaborate here for evaluating the uses of power and influence are liberal ones – see the discussion of their grounding in concerns with respect for individual freedom and rationality on pp. xxx.


20 Incentives may induce people to do the right thing for the wrong reason, thus undermining altruism, responsibility or other important values. This is the critique of paying blood “donors” offered by Richard Titmuss, *The Gift Relationship* (New York: The New York Press, 1997). See also chapter six, pp.xxx.


25 This is a disputed point, and many rational choice theorists do not agree with Hobbes’ position.


27 For a fascinating study of the greater willingness of people to accept public goods than to accept money in compensation for public bads see Mansfield, et. al. (2000). Monetary compensation is often perceived as a bribe, and people do not feel that it is respectable to accept it.

28 Of course, teacher neglect may be contributing to the problem, and incentives may motivate teachers to increase their efforts either for the sake of the benefit or because the incentive signals the importance of addressing the problem. The fact that incentives can be insulting is not sufficient to rule out their use.

29 There is a large literature concerned with the meaning of exploitation, particularly in economic and legal contexts. See e.g., Reeve (1987); Roemer (1986); and Wertheimer (1996). On paternalism see Joel Feinberg (1986) and Donald Van De Veer, *Paternalistic*

Chapter Six: Getting Down to Cases

Generally speaking, I have argued that incentives have not been controversial enough. But there are some areas where the question of the ethics of incentives has been controversial indeed. I take up four such controversies in this chapter in order to illustrate the sort of analysis that is required to distinguish legitimate from illegitimate incentives: plea bargaining, payment to recruit human subjects for medical research, conditions attached to loans by the International Monetary Fund, and incentives used to motivate children to learn.

These cases have some features in common, but I have deliberately chosen them from very different domains. Different areas of life have their own distinctive norms, which define the relationships of the actors and impact ethical judgments about behavior. For example, it is completely inappropriate to offer to pay for your dinner when you have been invited as a guest to a friend’s home. It is equally inappropriate not to offer to pay for your dinner in a restaurant. The very same behavior takes on different meanings depending on the context.¹

For this reason, it is useful to take up the question of the ethical use of incentives in very different contexts. Sensitivity to context increases the complexity of the issues, but never in exactly the same ways in every case. Despite this diversity, the controversies in each case revolve around the same central questions identified in the last chapter on evaluating incentives.
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**IMF Loan Conditions**

In 1944, as part of the Bretton Woods Agreements, the International Monetary Fund (IMF) was founded to promote international financial stability by serving as an international lender that could help nations temporarily facing balance-of-payments problems and in need of credit. Countries which join the IMF (and today, the vast majority of countries are members), hold a specified amount of currency on reserve at the Fund, and these funds provide a pool of resources for IMF lending. IMF loan “conditionality” is the practice of requiring governments to adopt certain policies and practices as a condition of receiving a loan. The government’s desire for the funds becomes the incentive to fulfill its conditions. The “strings” attached to IMF loans make these agreements an interesting case for the investigation of the ethics of incentives.

Over time, the loan conditions have multiplied as the purposes of the IMF have changed and expanded. Through the Latin American debt crisis of the 1980’s, the transitions in Eastern Europe toward market economies, and the East Asian financial crisis of the late 1990’s, the IMF has moved far from the limited goal of solving temporary liquidity problems and toward the far broader goal of fostering sustained economic growth. The reasoning has been that repeated crises can be prevented and loans can be repaid only if nations fix their underlying economic problems. And that will happen, in turn, only if nations make significant political changes to increase accountability, reduce corruption and ensure the rule of law. Consequently, loan conditions now include, not only what are called “structural adjustments” (such as reducing budget deficits, raising taxes, raising interest rates, privatization and trade liberalization) but also what are called “good governance” conditions as well.
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The conditions, or “strings,” that the IMF attaches to its loans have been highly controversial. Similar controversies arise in discussions of foreign aid and World Bank programs, that also require economic and political adjustments. The major points of contention involve questions of voluntariness, undue influence, and particularly effectiveness – do these incentive programs do more harm than good?

Attaching conditions to loans or grants is widespread across many domains and is often not controversial in the least. Foundations giving grants to non-profit organizations attach conditions to make sure that their money is used for its intended purpose, for example. Federal and state governments within the United States attach conditions to grants that support all kinds of organizations and activities. Why are such conditions sometimes ethically problematic and sometimes not?

Issues of voluntariness and purpose, efficacy and fairness, accountability and undue influence are all affected by the fact that both the IMF and the nation-state are complex entities. IMF loan conditionality is not like incentives between two individuals. The multinational IMF has responsibilities to its member states as well as to loan recipients. And all of the members are not equally powerful. The United States, for example, has been criticized for political manipulation of the Fund; a form of undue influence. Debtor nations are also composed of multiple actors. An agreement between the IMF and a nation’s finance ministers may require implementation by a reluctant parliament, for example. And of course, the government is distinct from the people and a nation’s elite is distinct from its lower classes. Those who consent to an IMF loan agreement are often not the same people as those who most feel the effects of its conditions.
Moreover, we are considering ethical issues in the domain of international relations, and it is not clear that the same rules that apply to relations between individuals or to relations within nations apply here. Is respect for national sovereignty a fundamental principle analogous to respect for the dignity and autonomy of each individual? Or does respect for sovereignty need to give way at times, particularly when a sovereign government systematically violates the principle of respect for individual autonomy within its borders? Do nations and international organizations have an obligation to use their power for good or should they refrain from interfering? Or is the international arena one where “the strong do what they will, and the weak suffer what they must,” as Thucydides’ Athenian ambassadors proclaim.6

For all of these reasons, what might look like a straightforward and ethically benign contract is really a rather complicated matter. IMF agreements seem unproblematic: an IMF loan agreement is reached through a consensual process only after a member nation requests a loan from the Fund; negotiations take place to settle terms and conditions; and the specifics are set out in a “Letter of Intent.” What has made these agreements so controversial?

Not surprisingly, one question that arises is whether these agreements can be considered voluntary given that they are often made under duress. Nations approach the IMF as a “lender of last resort” when private capital is no longer forthcoming and their economies are in crisis. Of course, they are free to walk away from IMF negotiations, as President Nyerere of Tanzania did in the early 1980’s.7 But their extreme need and lack of alternatives create a situation where the IMF can exploit their weakness. The argument is one that we have seen before, both in discussing plea bargaining and in
discussing human subjects research. Can we be satisfied that parties act voluntarily when there are large inequalities of power and resources between them and one party is in a desperate situation?

Critics view loan conditions as *imposed* by the IMF on debtor nations. In their view, the fact that loan agreements set up sanctions for noncompliance implies that nations are not accepting those conditions voluntarily. They ask why it is necessary to make the loans *conditional* on enacting the specified economic reforms if the government actually wants to undertake those reforms anyway. After all, the IMF could simply advise governments on policies that would help restore their economic health.

There is an answer to the critics’ question that requires recognizing the many actors involved in this situation. Conditionality serves a number of purposes, most of which are only indirectly related to compliance. For example, a government may wish to enact austerity measures that they know will be unpopular. In this case, conditionality allows the government to use the IMF as a scapegoat, shifting the blame for the policies onto the Fund. The government officials who have entered into the agreement with the IMF can use the agreement as leverage in securing support from other politicians who will go along with controversial policies rather than jeopardize the loan. In addition, the conditional loan agreement gives a credible signal to private financial institutions that the debtor country is on the way to economic health. For all of these reasons, a nation may accept conditions voluntarily.

Moreover, some argue that IMF loan conditions are indeed imposed and that the IMF is well within its rights to impose them. Without conditionality, debtor nations will be tempted to irresponsibly avoid necessary, but painful, reforms, knowing that the IMF
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will always be there to bail them out as a “lender of last resort.” Conditionality provides the incentive for a government to change the behavior that created the problem in the first place, which will allow it eventually to repay the loan.

Let us suppose that the criterion of voluntariness is met in the sense that the government freely consents to accept loan conditions. We still need to be concerned with the distinction between the consent of the government and the consent of the people. And here, the question of voluntariness begins to blend with the question of undue influence. Who should be making decisions about a nation’s economic policies? The critics charge the IMF with interfering with democratic political processes (where the debtor nations are democracies) and with acting where they have no authority to act – a classic charge of undue influence. “The legitimate political institutions of the country should determine the nation’s economic structure and the nature of its institutions. A nation’s desperate need for short-term financial help does not give the IMF the moral right to substitute its technical judgments for the outcomes of the nation’s political process.”

Can democracy or popular participation be reconciled with economic policies dictated by outsiders? The question is sharply posed by situations like that in Brazil in 2003. President Lula had been elected on a platform of reducing poverty, and the IMF was requiring large budget surpluses, likely to exacerbate poverty, as part of its loan condition package. The question is sometimes asked in terms of sovereignty more generally as well. In an article published in the New York Times concerning the financial difficulties of Greece, Portugal, Spain, Ireland and Italy on February 5, 2010, the reporter wrote “... a bailout, if it comes, will raise the question of terms. How much political
sovereignty will the bailed-out countries be forced to surrender?"¹³ (my emphasis). Some see the IMF interfering with sovereignty when its loan conditions specify policies that are usually determined by domestic political processes. Others argue that, on the contrary, it is a legitimate act of sovereignty for a government to enter a binding international agreement.

The IMF is particularly vulnerable to charges of undue influence – acting beyond the bounds of its legitimate authority and thereby interfering with democracy and sovereignty – on account of the “mission creep” described earlier. As its mission has expanded from helping with short-term liquidity problems to encouraging growth, the conditions attached to its loans have become increasingly intrusive, both in the form of micromanagement and because they reach to central features of a nation’s economy.¹⁴ Reformers on both the left and the right have called for narrowing the scope of IMF action, both by restricting its purposes and by limiting the use of loan conditionality to certain kinds of cases.¹⁵

The IMF itself has responded with periodic reviews of conditionality principles and practices. The IMF recognizes that there are limits, in principle, to the use of its power. In recent official statements, it asserts that it employs conditionality only as a means to “safeguard the use of IMF resources.” IMF policies address only economic, not political, aspects of a country’s policies and practices. The IMF “should not be influenced by the nature of a political regime of a country, nor should it interfere with domestic or foreign politics of any member.” The IMF has also stressed “ownership” and “streamlining conditionality” as guiding principles.¹⁶ “Ownership” exists when a country is committed to the policies required as conditions of its loan and adopts them as its own
goals. In other words, the more ownership there is, the less imposition there is.

“Streamlining conditionality” involves using conditions “parsimoniously,” reducing their number, and limiting their scope to measures “critical for achieving the program’s macroeconomic objectives.”

The striking thing is that both the IMF and its critics seem to recognize that only certain sorts of “strings” are legitimate. The power that the IMF has on account of its resources ought not to be used to extend its influence beyond the legitimate sphere of its authority, even if the debtor nation freely accepts the conditions. The problem is to define the legitimate purposes of IMF loan programs. How should the boundary of the IMF’s proper sphere of influence be drawn?

The Fund tries to draw a line between economic and political conditions and it tries to limit its conditions to those critically necessary to achieve its economic purposes. Yet neither of these is a plausible limit-setting strategy. First, economic policy is political, certainly as soon as it affects matters of resource distribution. Tax and budget policy are never apolitical. Moreover, critics argue that the free market ideology that has governed IMF policy is itself a subject of major political debate and not a set of settled scientific truths that can be universally applied.

Second, a limited purpose seems difficult to maintain in the face of a chain of logic whereby, in order to attain the limited goal of preventing future financial crises and ensuring loan repayment, major restructuring of the economy seems necessary. A large sphere of action is legitimated as instrumental to a nominally restricted purpose. Sustained growth becomes justified as the necessary prerequisite of ensuring financial stability. Once that step is taken, almost any social policy could be defended as
“necessary;” education for girls, for example. The IMF is even considering environmental safety conditions attached to its loans, despite its rhetoric about limiting conditions to “necessary” and “critical” measures.19

But, I suspect that the controversy over undue influence is as heated as it is, not primarily because the IMF has overstepped the bounds of its authority, but because the effects of its policies are highly controversial. If IMF loan conditionality programs clearly worked to produce sustained growth and alleviate poverty, there would be less concern, rightly or wrongly, with the issue of interference. The question of effectiveness is at the heart of this debate. Critics argue that it is unethical to increase the suffering of the world’s poor and that the austerity measures demanded by IMF loan programs do exactly that. Moreover, it is unfair for the poor to bear the lion’s share of the burden of restoring economic health when they bear no responsibility for the problem. Even their governments may bear less responsibility than at first appears. For example, the Latin American debt crisis was triggered by a change in interest rates in the United States, undertaken for domestic reasons.20 Finally, the IMF itself is not accountable, either to debtor governments or to their people, when it gives bad advice or requires counterproductive measures that produce economic hardships with their attendant political instability.21 IMF incentives are meant to benefit debtor nations, but who is to be the judge of whether or not they actually do?

These questions -- do IMF loan conditions work and are they fair? -- cannot be answered without empirical knowledge of what the effects of IMF programs actually are. And it turns out that this is not an easy thing to discover, since it is not possible to know directly what the economic situation of a country would have been had it not received a
conditional loan. Comparing countries that receive loans to countries that do not is also problematic because these two groups may differ systematically in other respects as well. Despite these difficulties, there is a consensus in the research literature that IMF programs tend to increase inequality within the country receiving the loan. Conclusions are tentative with respect to the impact of these programs on economic growth, but, in general, the results are unimpressive. Twenty years of studies show little or no impact on growth, while the most recent studies show negative impacts on growth.22

These conclusions support the critics. But, the controversy over IMF programs continues, in part because there is a disagreement over whether countries actually comply with loan conditions (discussed below) and in part because the entire argument is embedded in a larger debate over laissez-faire economic policies. Defenders of the IMF see the increased inequality as a short-term consequence of policies necessary to establish long-term growth which will benefit everyone. In their view, if growth has been disappointing, it is because laissez-faire policies have not been pursued aggressively enough.23

Finally, the controversy is embedded in yet another debate, a debate over global justice.24 What do the powerful and rich owe to the powerless and poor internationally? How should powerful nations and international institutions use their power? We have already seen the argument that the IMF should not use loan conditionality to interfere with the sovereignty of debtor nations. But the argument is also made that the powerful have a responsibility to use their power to improve the situation of the weak or, at least, to withdraw support from dictators. Lending money to tyrants lends support as well and implicates the lender in political evils. Making loans or foreign aid conditional on
improvements in a nation’s human rights record, for example, might be considered a
more responsible approach. From this point of view, the political neutrality of the IMF is
quite problematic. It seems that, whereas, it is sometimes unethical to attach “strings” to
loans or foreign aid, it is sometimes unethical not to do so.25

By now it should be clear how complicated it is to reach a judgment about the
ethics of incentives in this domain, both because of the number of issues involved and
because the interactions take place between complex agents. But there is one more
difficulty to consider. Participants in the general, public debate often seem to assume
that the IMF is a very powerful institution and that, by attaching “strings,” it can virtually
dictate the behavior of loan recipients. But, there is reason to doubt that recipient
countries can be controlled like puppets or that incentives are as effective as is often
assumed.

Loan conditions are difficult to enforce, especially when the number of conditions
multiplies, and sometimes the IMF is reluctant to enforce them for political reasons.
Nations favored by the U. S. are less likely to face punishment for noncompliance, for
example.26 The IMF clearly believes that compliance rates have been low; this is one
reason for pursuing a policy of increased “ownership” and for experimenting with ex ante
conditionality, which requires certain actions before the loan is received. If compliance
rates are indeed low, the argument of IMF defenders is strengthened. In this case, poor
economic results cannot be attributed to the policies promoted by loan conditions.27
Instead, greater compliance with those very conditions might solve the problem.

It is very difficult to measure compliance with loan conditions, and not a great
deal is known about it. We do know that some conditions receive much greater
compliance rates than others, varying between around 70% and around 30%.  We also know that the record of compliance with conditions attached to foreign aid and to loans from international financial institutions generally is not impressive.  I do not find this surprising.  Who would really expect a dictatorial regime to alter its approach to human rights, for example, in exchange for development aid?  I would not expect a democratic regime to make significant, long-term changes in response to short-term financial offers either, for that matter.

The IMF loan conditions controversy reveals a kind of exaggerated faith in the power of incentives to bring about change.  The assumption is that, if someone wants the benefit you have to offer, they will do what you require of them in order to receive that benefit.  But this is too simple.  The party receiving the benefit with “strings attached” is probably not infinitely malleable; some required changes may be simply out of reach, particularly within a limited time-frame.  And the relationship between the more powerful party and the less powerful one is still a relationship of interdependence.  In some situations, the party holding the “strings” may have more to lose by enforcing conditions than by letting noncompliance go unpunished.  The “powerful” party is not powerful in every respect, and neither is the “powerless” one entirely powerless.  Reaching for incentive programs as a tool for solving complex problems often involves a failure to appreciate the limits of power.

Belief in the power of “strings” resembles the mentality of the “Planners,” a term coined by William Easterly.  Primary characteristics of the Planners’ mentality include: they apply global blueprints; they think they already know the answers, although sitting at the “top,” they have little knowledge of the “bottom;” they think that problems are
technical and amenable to engineering solutions; and they believe outsiders know enough
to impose those solutions. In Easterly’s view, IMF loan conditionality is a perfect
example of the failure of the Planners’ approach.30 In the terms employed in this book, it
is a failure of incentives employed as a tool of social engineering.

Everyone involved in this controversy, on the left and the right, seems to think
that IMF loan conditionality programs have failed in one way or another. Everyone also
seems to agree that loan conditions are only ethically legitimate if certain procedural
criteria are met: conditions must be voluntarily accepted and directly tied to the limited
purposes of the fund. Conditionality is illegitimate where the IMF can be said to exploit
the weakness of a member nation when, in times of financial crisis, it imposes policies
and practices as loan conditions that properly ought to be determined by domestic
political processes or that extend beyond what is necessary to repay the loan. Loan
agreements must be voluntary and bounded by the proper sphere of IMF authority.

Moreover, even if these “procedural” conditions are met, we cannot judge loan
conditionality to be ethically legitimate if the results of fulfilling the conditions harm
people unfairly while providing little or no long-term benefit. The “substantive” effects
of the loan conditions are part of the ethical judgment of their use. Both “procedural”
and “substantive” questions must be asked in considering the ethics of loan
conditionality, and asked by those with the “upper hand” – in this case, the IMF and its
wealthiest member states. The question of the ethics of incentives in this domain, as
always, is a question of the use and abuse of power.

**Motivating Children to Learn**
In Dallas, Chicago, Washington, D.C. and other urban areas, “pay for grades” programs are suddenly popular. * The programs vary in the age of students involved (from third grade to high school), in the behaviors rewarded (attendance, high test scores, high grades, basic classroom decorum), and in the pay-offs (one program allows students to earn up to $1500). The hope is that these programs, generally targeting poor, minority students, will help to solve the seemingly intractable problem of the minority “achievement gap.” While it is very, very common to use incentives of various kinds to motivate children to do all kinds of things, paying cold, hard cash for good grades is particularly controversial.

In evaluating the ethics of “pay for grades” policies, the first obvious question is, “Do these programs work as compared to alternative approaches?” And, of course, some of the controversy swirls around the question of what it means for a program to “work” – are higher grades or better annual test scores sufficient to declare victory, or are we aiming for students who will continue to be motivated to learn in the future? So, the first question leads directly to the second, “How do these programs affect character?”

Of all of the incentive programs examined in this book, incentives used to motivate children to learn are most centrally involved with the character question. Schools, after all, are concerned not only with the cognitive development of children, but also with their personal and social development; these are central to their purpose.† And

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* New York’s program (privately funded) also included payments to parents for responsible behavior such as taking children to the dentist and holding down a job. The city cancelled the program after three years because the results were unimpressive.

† Debates over how to strike the balance between these purposes can be heated. “High stakes testing” was implemented in part by those who believed that cognitive development had been getting short shrift.
the concern with character involves not only encouraging children to do the right things, but also to do them for the right reasons.

The striking thing is that today’s incentive programs are touted as radically innovative approaches where “the jury is out” on whether or not incentives work to motivate academic achievement. In fact, there is nothing new about these sorts of programs – and the debate over their effectiveness is a very old debate. Moreover, with over fifty years of research in psychology and contemporary work in economics, there seems to be a clear consensus about two conclusions. First, under certain circumstances, incentives “backfire,” producing the opposite of their intended effects. Second, monetary incentives “crowd out” less mercenary motives, which has a negative effect on character as well as on outcomes. Thus, incentives work sometimes to accomplish certain kinds of goals, and they fail at other times. The important thing, as we will see shortly, is that the research is clear about which conditions produce which results.

Disputes over motivation stand behind the controversies over incentives in education. How are incentives -- a form of extrinsic motivation -- related to intrinsic forms of motivation, such as the satisfaction of curiosity or the sense of competence or mastery? This question has been around for a very long time. Before it arose around paying cash for grades, it was disputed about the grades themselves. It is worth noting that paying for grades is offering an incentive for an incentive. Grades are an incentive to learn - an extrinsic reward for academic achievement – and “grade-grubbing” students have always been distinguished from those who learn primarily for learning’s sake. Critics of grades have always been proponents of intrinsic motivation.
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The psychologists’ categories, “extrinsic” and “intrinsic” motivation, can be confusing here. A person is intrinsically motivated when he or she engages in an activity “for its own sake” and extrinsically motivated when engaging in an activity for the sake of something unconnected to the activity itself. Intrinsic motivators are entirely internal – curiosity is probably the best example – and people with high levels of intrinsic motivation are what we call self-motivated. “Extrinsic motivators” are external, such as praise, rewards and what I have called incentives “strictly speaking”.33 But, all “extrinsic motivators” are not alike. Praise and rewards do not operate in the same way as incentives. Incentives are tangible benefits unrelated to the activity itself. For example, giving a student candy for reading a book is an incentive. Telling the child that you are proud of him for reading the book or allowing him a special opportunity to tell the class about the book are not incentives. These latter approaches reinforce the value of the activity and may enhance intrinsic motivation by increasing the child’s desire to undertake the activity “for its own sake.” Incentives, because their value is unrelated to the value of the learning, can have the opposite effect. I am concerned here only with evaluating the use of incentives strictly speaking in motivating children to learn, and “pay for grades” programs clearly qualify as incentives in this sense.

Behavioral psychologists, as we saw in chapter two, focus exclusively on extrinsic motivators, discounting intrinsic motivation altogether. Everything is learned by the organism as it responds to its environment. People, like other organisms, are passive and malleable. Because all motivation is extrinsic, anyone who can control environmental stimuli can control the organism. This was the theoretical perspective that first led to “token economies,” first with chimpanzees in the 1930’s and then with mental
patients, prisoners and schoolchildren. Patients in mental hospitals, for example, could earn tokens for compliant behavior that they could then trade in for personal items in the hospital store. Token economies are very similar to “pay for grade” schemes, and the controversies they provoked are almost indistinguishable from the controversies today.\textsuperscript{34}

Contemporary defenders of incentives in schools argue that they work when all else fails. They consider their opponents to be idealists who are caught up in a fantasy of pure motivation.\textsuperscript{35} Drawing on the behaviorist view that there is no intrinsic motivation, they see no appreciable difference between working for money, for grades, for praise, or for the glory that comes with winning a competition. In other words, extrinsic motivators of one form or another are the only tool we have to motivate children to learn. Young children, particularly, respond well to short-term motivators. Even if some people do put effort into learning without constant reinforcement, such behavior requires a level of maturity that most children simply do not have.

Critics dispute the contention that incentives work reliably and add the claim that their impact on character and values are primarily negative. In a wide variety of situations, recent research in economics has shown that incentives can backfire.\textsuperscript{36} British women offered cash to donate blood are almost 50% \textit{less} likely to give blood than women who are asked and offered nothing.\textsuperscript{37} Swiss citizens are significantly \textit{less} likely to accept siting a nuclear waste facility in their area if monetary compensation is offered as an inducement.\textsuperscript{38} Indian research subjects offered large bonuses to complete simple tasks performed \textit{less} well than subjects given smaller bonuses.\textsuperscript{39} American shoppers, urged to buy a particular kind of bread, were \textit{less} willing to buy that kind when given a small additional cash incentive.\textsuperscript{40}
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There is a vast literature in psychology showing similar results with the effects of incentives on learning. If children are interested in a task, solving puzzles for example, and you tell them that they will be rewarded for completing some puzzles, they perform less well and lose interest sooner than children who are not rewarded or expecting a reward. The incentive, or extrinsic motivation, diminishes the intrinsic motivation. It turns play into work, decreasing both enthusiasm for the task and the level of performance. In this way, incentives can be counterproductive with respect to learning.41

What we know from decades of research in this area is that incentives can work to increase performance with intrinsically boring, routine tasks and to increase behavioral compliance. But these gains are only temporary: when the incentive is removed, the subject reverts to the original performance level or behavior. Incentives are positively counterproductive when the learning task requires creativity or problem-solving skills. Extrinsic motivators of all kinds work best when the classroom environment is supportive and when they are used to impart information (e.g. as a sign that you did a good job), which can contribute to a sense of competence. When they are perceived as a controlling mechanism, they decrease intrinsic motivation – and intrinsic motivation is strongly associated with higher achievement overall.42

Moreover, incentives undermine altruism, reciprocity and other non-self-interested motives in a manner similar to the way in which they undermine intrinsic motivation. Think of the blood donors and the nuclear waste site experiment mentioned above. The evidence suggests that, when ethical motives and self-interested motives are both present, they do not act independently or reinforce each other. Instead, introducing self-interested incentives has negative effects, “crowding out” ethical motives while
failing in themselves to produce the desired behavior. 43 This implies, for example, that using incentives to encourage student participation in a community service program would be counterproductive, whereas a community service requirement might succeed, delivering the message that giving to others is a responsibility everyone is expected to fulfill.

In addition to “crowding out,” incentives can have a “spillover effect.” If you pay your child to mow the lawn, he or she is less likely to willingly do the dishes for free. Relying on incentives in one area can affect attitudes and behavior in other areas.44 By introducing payment in a family setting, you introduce the norms of the commercial domain, or the market, into a realm previously governed by different, more cooperative norms of family or community responsibility.

One way to think of the issue is to ask yourself whether a school should be more like a factory or more like a family in its governing norms. A school is designed to serve the needs of its students, and the students’ learning ought to benefit them directly. In a factory, on the other hand, workers produce for the benefit of the company, receive no direct benefit from their work, and are therefore compensated for their efforts. Introducing monetary incentives into the school setting can corrode the institutional culture over the long run and impact areas not directly related to the incentive program itself.4

Monetary incentives are based on the premise that people are motivated by self-interest. The problem is that operating on the basis of that premise becomes a self-fulfilling prophecy. (One study shows that taking an economics class that teaches that people are self-interested increases students’ selfish behavior).45 In an educational

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4 This also applies to the use of incentives to motivate teachers.
setting, if monetary incentives are employed, students learn that the only question it is important to ask is, “What’s in this for me?” And, not surprisingly, this leads to an increase in cheating as well.

This is a general result of the use of incentives. Where people are paid to give blood, more of them will lie about their health status. Where teachers’ incentives are tied to students’ test performance, more teachers will change their students’ answers on the exam sheets. Where students work in an environment that values only extrinsic rewards for learning, cheating goes up.

Alasdair MacIntyre illustrates the point with the example of a seven-year old child enticed to play chess by the promise of candy if he plays and more candy if he wins. So long as the child is motivated by the candy, he has every reason to cheat and no reason not to cheat. But, when the child comes to be motivated by the desire to master the game and to excel at it, if he cheats to win, he will be defeating only himself. The candy is a good external to the practice of playing chess. The mastery of certain skills is a good internal to that practice.

Contemporary studies of the effectiveness of new “pay for grades” incentive programs tend to track the findings of decades of research in psychology: incentives have negative results in some circumstances and positive results in others. Most studies show little or no impact on achievement or learning, but some show that incentives have positive effects on attendance. In some of the studies, payments increase performance. But the researchers remark that the gains result, not from the money itself, but from the fact that the incentives confirm the students’ perception of themselves as high achievers. Few studies look at long-term results. None attempt to test changes in
attitudes as well as changes in test scores or grades; the question of character is simply not addressed. And, none attempt to correct for cheating to be sure that observed improvements are real. For these reasons, the studies are unlikely to settle this controversy once and for all.53

When I said that this is a very old debate, I had in mind John Locke’s letters on education first published in 1693.54 They contain very clear statements of the basic arguments behind the critique of incentives to motivate learning. First, there is such a thing as intrinsic motivation, and education should take advantage of that by allowing children to learn through play. Locke recommends alphabet dice for spelling games. Moreover, children, like everyone else, resent constraint. Being told that you must do something will diminish your desire to do it. Second, education aims at cultivating virtue (character), and virtue requires the ability to resist desires and follow where reason leads instead. This is why rewards and punishments (incentives), especially corporal punishment, are so counterproductive with children. They teach them only to consider a kind of calculus of pains and pleasures; to ask themselves whether the pleasure of the transgression is worth the expected punishment or whether the effort of the task is worth the pleasure of the expected reward.

Incentives cannot teach self-discipline. This is a crucial point: incentives are worse than useless if character is your primary concern. Locke recommends praise and blame, esteem and disgrace instead. These are not subject to calculation in the same way as reward and punishment. The child does not ask herself “How can I get the most of what I want with the least effort?” Instead, the child seeks to earn the respect and
approval of her parents. In this way, she comes to internalize their standards and develop self-discipline and a sense of responsibility. Lastly, respect for the child is a critical component of successful educational practice.

In education as in any other sphere, incentives are a tool with inherent limitations. Precisely because they are extrinsic motivators, they are a short-term fix. Once they are removed, their effectiveness ends. Incentives treat symptoms and not causes; they are a superficial fix. Since they do not address causes, they will be needed indefinitely if nothing else is done. And incentives raise issues of fairness: are payments for grades fair to the child who makes a huge effort, but cannot raise her grade? And since we know that extrinsic rewards can be counterproductive for those who are already motivated, is a “pay for grades” program fair to them?

Despite all of the force of the critics’ arguments, I do believe that it is sometimes legitimate to use incentives to motivate learning. But, they need to be employed in ways that reflect what we already know. For example, we know that they will work better for learning spelling, multiplication tables, and other routine tasks than for reading comprehension or problem-solving.

Yes, incentives undermine intrinsic motivation - but in some circumstances, students may have little intrinsic motivation to begin with. In such circumstances, a child might try something, on account of the temptation of an incentive, that he or she has been afraid to try or uninterested in trying. Having discovered that success is possible, the child may no longer need the incentive. The incentive would work like a “jump start” for a dead battery.

§ Adults, according to Locke, need to develop some independence from the concern for reputation and the approval of others. But children are appropriately governed by the standards of the adults around them.
But then the car needs to keep running on its own. We need to think about how to transition from incentives to self-motivation or to sustained habits. We know that incentives only work in the short term. Therefore, incentive programs ought to be designed with the goal in mind of making the incentive obsolete, including specific steps to meet that goal. The problem, of course, is that incentive programs create the conditions for their own perpetuation by encouraging students to work only when rewarded. This is the paradoxical situation they can create.

The legitimacy of incentives to motivate learning also depends a great deal on the type of incentive employed. Contrast cash payment with a quite different extrinsic motivator. My children had a kindergarten teacher who made a “bookworm” for each child that “grew” by one link each time the child completed reading a book. I am sure that the children were motivated by the pleasure of watching their bookworm “grow” as well as by the pleasure of reading a book. But the bookworm had no meaning other than as a sign of their accomplishment and of the value of their learning.

The legitimacy of incentives depends upon their meaning and context. One author distinguishes “if-then” motivators from “now-that” motivators. The first are conditional and set up expectations before the task is attempted; if you do something for me, then will I do something for you. The latter acknowledge a job well done after the task is completed: now that you have done something well, I will acknowledge and reward your achievement. Recall that incentives differ from rewards, and communicate different things. It is the second, rewards, that are much more likely to be effective with students. A comparable situation arises in employment. When

** People always have mixed motivations. The question whether people are only motivated extrinsically or should only be motivated intrinsically is a red herring.
employers “incentivize” each task, using incentives excessively, they send a message also. They communicate that they distrust their employees. In these cases, the incentives are not likely to increase productivity.58

What does a “pay for grades” program communicate? It implies that the activity is not worth doing for its own sake. It communicates materialistic values – only money and the things that money can buy count in life. †† And it may communicate low expectations of the students, saying to them: you cannot be expected to act responsibly without payoffs. For this reason, some critics of these programs view them as condescending.

If you attend to the meaning of the incentive, the difference becomes apparent between cash payments and a college scholarship, for example, even though some researchers put both kinds of programs into the same category. 59  The college scholarship is a little bit like the bookworm. It is a sign of achievement that reinforces the idea that education is what is truly valuable. College scholarships are monetary incentives, but they are far preferable to cash payments for just this reason. The benefit the student receives is not so much the money as it is further education.

Finally, context matters. “Pay for grades” programs are a sign of the failure of an educational system. Providing incentives for incentives is a kind of last ditch effort. Are these incentive programs a good thing? Is putting a cast on your leg a good thing? Only if it is broken - otherwise, the cast would be damaging, weakening the leg.

Thus, although incentives would never be my educational tool of choice, and cash payments would be among the least preferred type of incentive, even cash payments

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†† A note of caution on this point: it is easy for people who are comfortably well-off to worry about encouraging materialism. People who are truly in need have good reason to concern themselves with material things.
might be the recommended treatment in some circumstances. Payments for attendance, for example, may actually work to get students to school; a good attendance record is within everyone’s reach; and you can’t teach students who aren’t there.

Context matters in a different sense as well. All kinds of extrinsic motivators, incentives included, work best when they are administered in an atmosphere of support and respect. And contrariwise, incentives which are experienced as controlling or insulting “backfire.” In explaining the surprising fact that incentives often undermine performance, all of the researchers, both economists and psychologists, emphasize this aspect of incentives. They speak of the importance of an individual’s sense of autonomy or self-determination. People react negatively when they feel that their freedom of action is threatened. And contrariwise, the more an individual is treated as a responsible agent and the less he or she is made to feel like a puppet, the more effective the incentive will be.

This is why the frequency of the use of incentives in schooling is also an important consideration. They are most likely to be used effectively if used sparingly. If they are the dominant mode of relating to children, they create a counterproductive controlling environment. This observation leads one step further. Since incentives are a form of power that necessarily has an element of control, we would do well to focus our attention on alternative means of inspiring effort and motivating learning.

The controversy over incentives to motivate learning can be characterized as a contest between “Mandevillians” and “Moralists.” In this case, the Mandevillians are the behaviorists who are enthusiastic about all kinds of incentives in education because they focus on academic outcomes with little regard for character development. The Moralists,
the harshest critics of incentives, focus on character and seem to imagine the possibility of pure motivation for learning. But these extremes miss the central point. Character development and learning cannot be separated. They are the twin purposes of education. And when it comes to learning, character and outcomes are inextricably linked. The way students are motivated has a direct effect on their effort and performance. Why we do things impacts how well we do them.

Incentive programs ought to come with a “caution” label. They have been shown repeatedly to undermine motivation and performance and to corrode character as well. We have seen them backfire. Moreover, there are inherent limits to their usefulness over the long term. Nonetheless, all incentives are not alike and circumstances differ. It would be foolish to condemn their use altogether. Incentives can be used to enhance performance on routine tasks and to increase behavioral compliance in the short run. They should be used sparingly in an otherwise non-controlling environment, and with careful attention to meaning and context. Incentives ought to be thoughtfully employed, in full awareness of what we already know about what they can and cannot do.61


2 The first big change came in the early 1970’s when the system of gold reserves was abandoned and IMF loans were no longer needed for the purpose of maintaining fixed


6 Thucydides, History of the Peloponnesian War, Book V, par. 89.


8 The same argument is made with respect to conditions attached to foreign aid. See Olav Stokke, ed. Aid and Political Conditionality (London: Frank Cass and Co Ltd., 1995) p.9.

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10 This is a typical “moral hazard” problem.

11 Feldstein, “Refocusing the IMF,” p.27.


13 Though the article was not referring to an IMF bailout, the issue remains the same.

Floyd Norris, “Fraying at the Edges,” p. 8 of the Business section.

14 Feldstein, “Refocusing the IMF,” offers a powerful critique of IMF conditionality in South Korea along these lines.


17 In line with these principles, the IMF has introduced two programs that significantly relax conditionality, though they do not eliminate it. "Modernized conditionality" uses pre-set qualification criteria rather than performance reviews to assess loan eligibility.
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19 Easterly, White Man’s Burden, p.206.


21 Easterly, White Man’s Burden, on political instability see pp.191-94, on accountability see pp. 206-207


23 For example, see Willett; David Dollar and Jacob Svensson, "What Explains the Success or Failure of Structural Adjustment Programmes?" The Economic Journal, 2000, vol. 110, no. 466, pp. 894-917; Michel Camdessus, "The International Monetary Fund in
a Globalized World Economy: The Tasks Ahead,” in *At the Global Crossroads: The
Sylvia Ostry Foundation Lectures* (Montreal: Institute for Research on Public Policy,
2003). For a more general argument extolling “laissez-faire” policies and the benefits of
globalization, see David Dollar and Aart Kraay, "Spreading the Wealth," *Foreign Affairs*,
2002, vol. 81, no. 1, pp. 120-133.

University Press, 2009); Paul Collier, *The Bottom Billion: Why the Poorest Countries are
Failing and What Can be Done About It* (Oxford: Oxford University Press, 2007); Martha
Nussbaum, *Frontiers of Justice: Disability, Nationality, Species Membership* (Cambridge,
MA: Harvard University Press, 2006), esp. chaps. 4-5; Thomas Pogge, *World Poverty
(Cambridge, MA: Harvard University Press, 1999) esp. pp. 105-113; Joseph E. Stiglitz,
*Globalization and its Discontents* (New York: W. W. Norton and Co., 2002). For general
discussions of the debate see Best and Helen V. Milner, “Review: Globalization,
Development, and International Institutions: Normative and Positive Perspectives,”

47, no.4 (Fall 2000) 37-42, pp. 41-42; Snoy, p. 637.


30 He contrasts Planners with Searchers, who have opposite characteristics in every respect. White Man’s Burden, pp. 5-7 and chapter six.

31 Roland Fryer quoted by Julian Liam in a Washington Post editorial, “. . .But Wrong on Paying Students,” Sunday, August 31, 2008. Prof. Fryer, a Harvard economist, is a major force behind these programs.


33 See chapter 3, pp. xxx.


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Motivation and Performance (San Diego: Academic Press, 2000). There is a series of exchanges over the research findings that began with a meta-analysis by Judith Cameron and W. David Pierce showing that rewards do not significantly decrease intrinsic motivation. Their work was challenged by Edward Deci, Richard Koestner and Richard Ryan. The exchange begins in vol 64, 1994, and continues in vol. 66, 1996, and vol. 71, 2001, of the Review of Educational Research. I believe that Deci, Koestner and Ryan get the better of the argument.


44 Frey, chapter five; Titmuss, pp. 198-99


46 Titmuss, pp. 75-77, this is also a concern with paying medical research subjects.

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Roland Fryer's work is the most ambitious attempt to date to determine the effects of financial incentives programs on student performance, and it too shows mixed results (although TIME magazine reported that the research showed that the incentives worked, Amanda Riipley, "Should Kids be Bribed to do Well in School?" vol. 175, no. 15, April 19, 2010. See "Financial Incentives and Student Achievement: Evidence from Randomized Trials," NBER working paper, April 8, 2010, http://www.edlabs.harvard.edu/pdf/studentincentives.pdf. Fryer conducted four sets of experiments in different cities. Only one of the programs yielded statistically significant, positive effects on test scores and grades. Moreover, Fryer's experiments do not offer longitudinal data, which is crucial for assessing the impact of incentives on students' motivation.


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Chapter three, pp.xxx


60 This is an important element of all of the critiques cited here: Bowles, Brehm, Deci and Ryan, Frey and Pink. Alfie Kohn, one of the strongest critics of incentives, writes, “...pop behaviorism is by its very nature dehumanizing.” Punished by Rewards: the trouble with gold stars, incentive plans, A’s, praise and other bribes (New York: Houghton Mifflin, 1993) p. 25.

61 The same can be said for incentives in the workplace. Several authors draw implications for employer-employee relations from the same psychological research that informs the debate over incentives in education. See especially Bowles, Pink, Kohn, chap. 7.