

# Economic incentives and pro-social preferences

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# Introduction

- Main findings:
  1. People may consistently deviate from the **self-regarding** (own-material-payoff maximizing) prediction that is found in traditional economic models
  2. **Self-regarding** individuals may be considered as a small group in society
  3. **Social (other-regarding)** preferences exist and explain economic behavior
- motives such as altruism, reciprocity, intrinsic pleasure in helping others, and other ethical commitments that induce people to behave pro-socially

# Gneezy and Rustichini JLE 2000

- In some of the Haifa day care centers

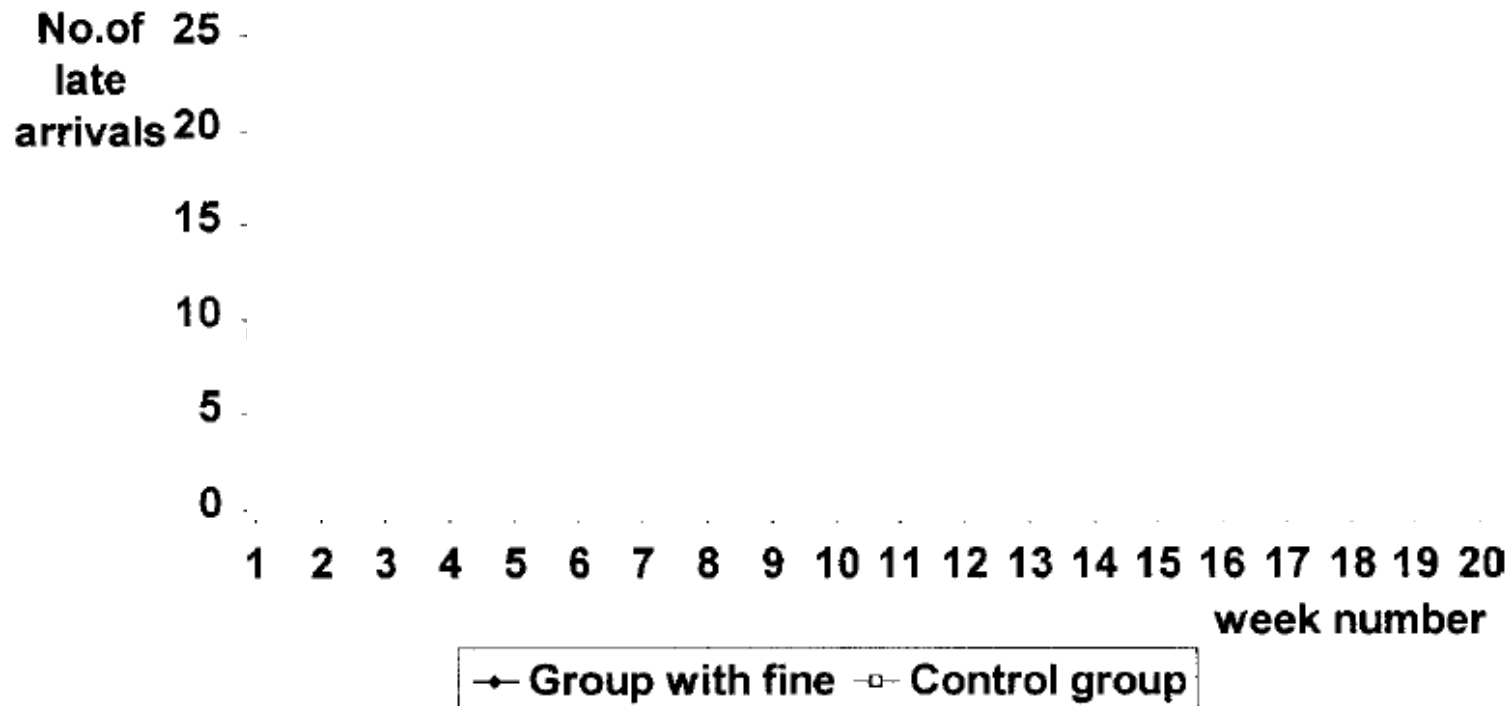


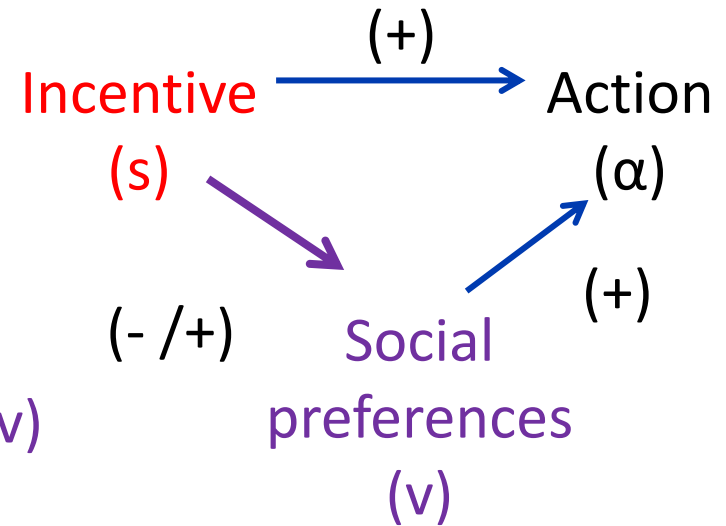
FIGURE I  
Average Number of Late-Arriving Parents Each Week, by Group Type

# Motivation

- Policies and **economic incentives** to enhance pro-social behavior sometimes are counterproductive or less effective than would be predicted for entirely **self-regarding** individuals
- Policies based on **self-regarding** incentives assume
  1. Individuals' preferences are **not** affected by the policy
  2. There is no **interaction** effect between **economic incentives** and **social preferences**
    - so called **separability** assumption
- **Economic incentives** might compromise **social preferences** and fail in their purpose

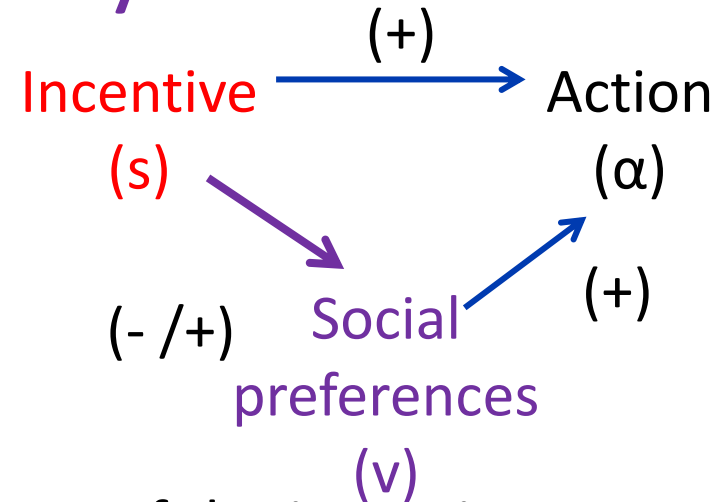
# Separability assumption

- To understand the effect of an **economic incentive (s)** to contribute ( $\alpha$ ) to some public good given the citizen's **social preferences (v)**
- **social preferences (v)** may be affected by the incentive or by what others do
- **Separability** holds when neither of these effects on **social preferences** exist



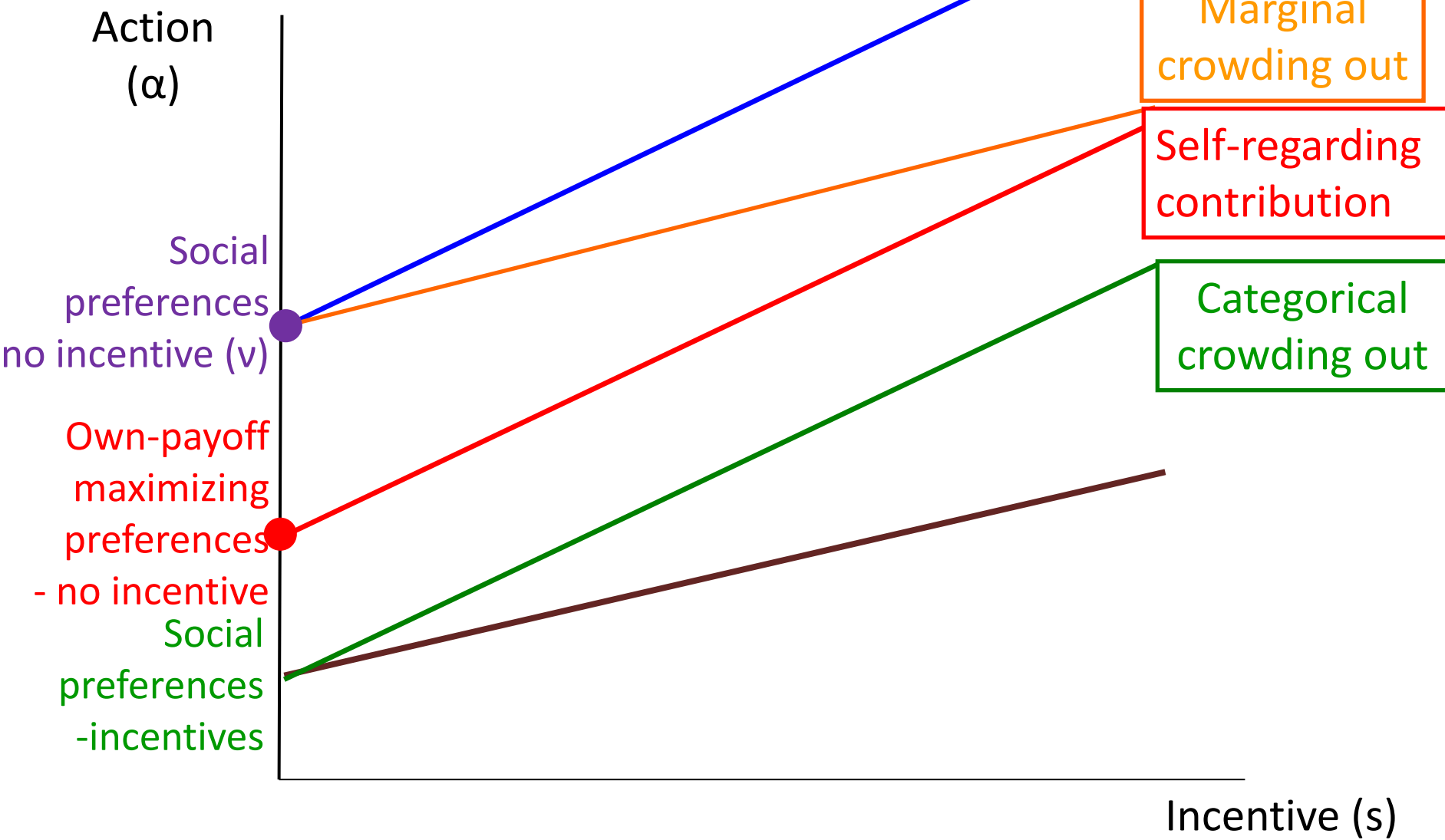
# Considering non separability

- **self-regarding** and **social** preferences are **not separable**: they may be either complements or substitutes



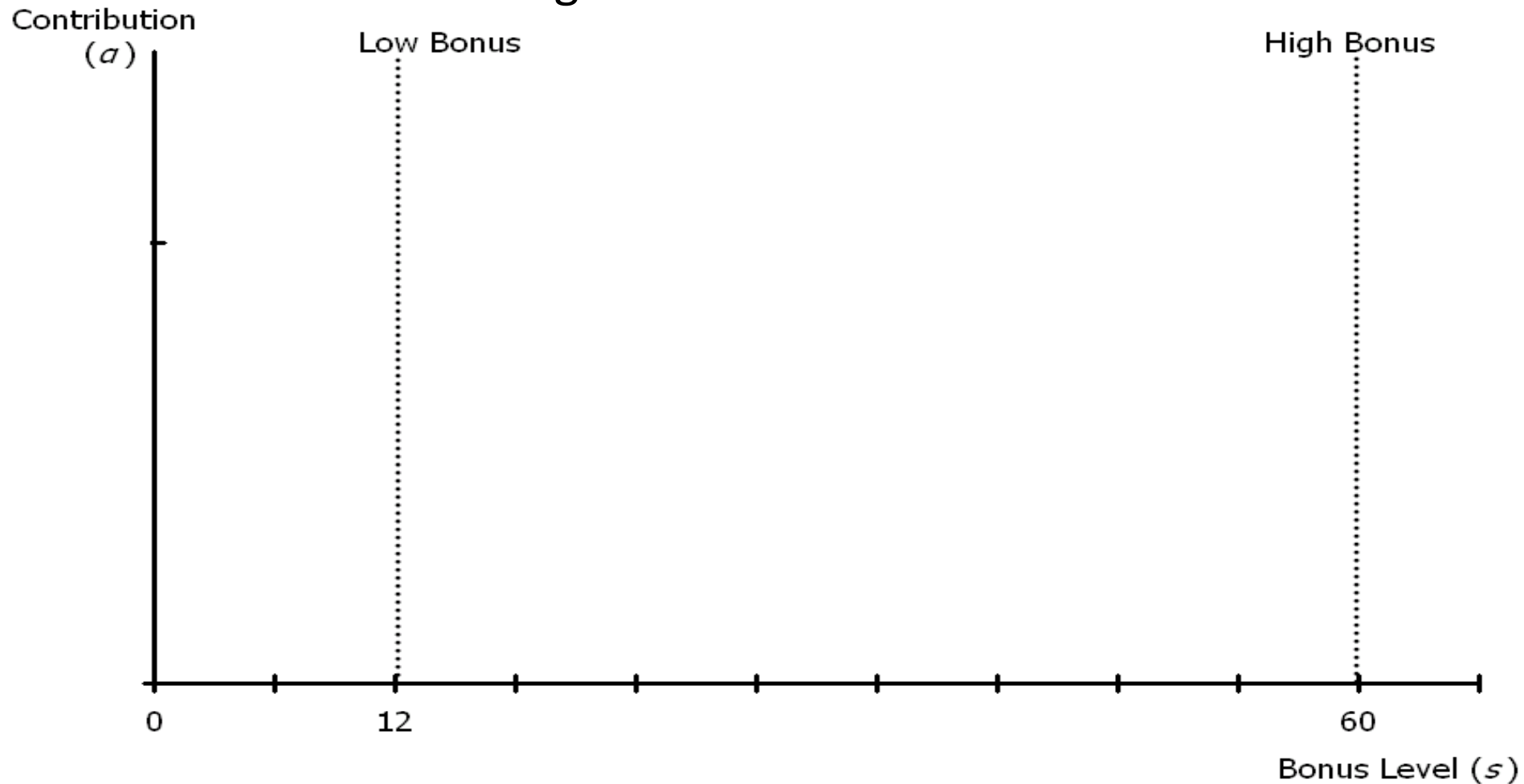
- Crowding out
  - the (attenuated and positive) effects of the incentive are lower than what should have occurred under **separability**
  - by counter productive incentives (e.g. Haifa case)
- to measure the extent of these crowding effects
  - **Categorical** crowding  
the **presence** of the incentive
  - **Marginal** crowding  
the **size** of the incentive

# Categorical and Marginal Crowding out of social preferences



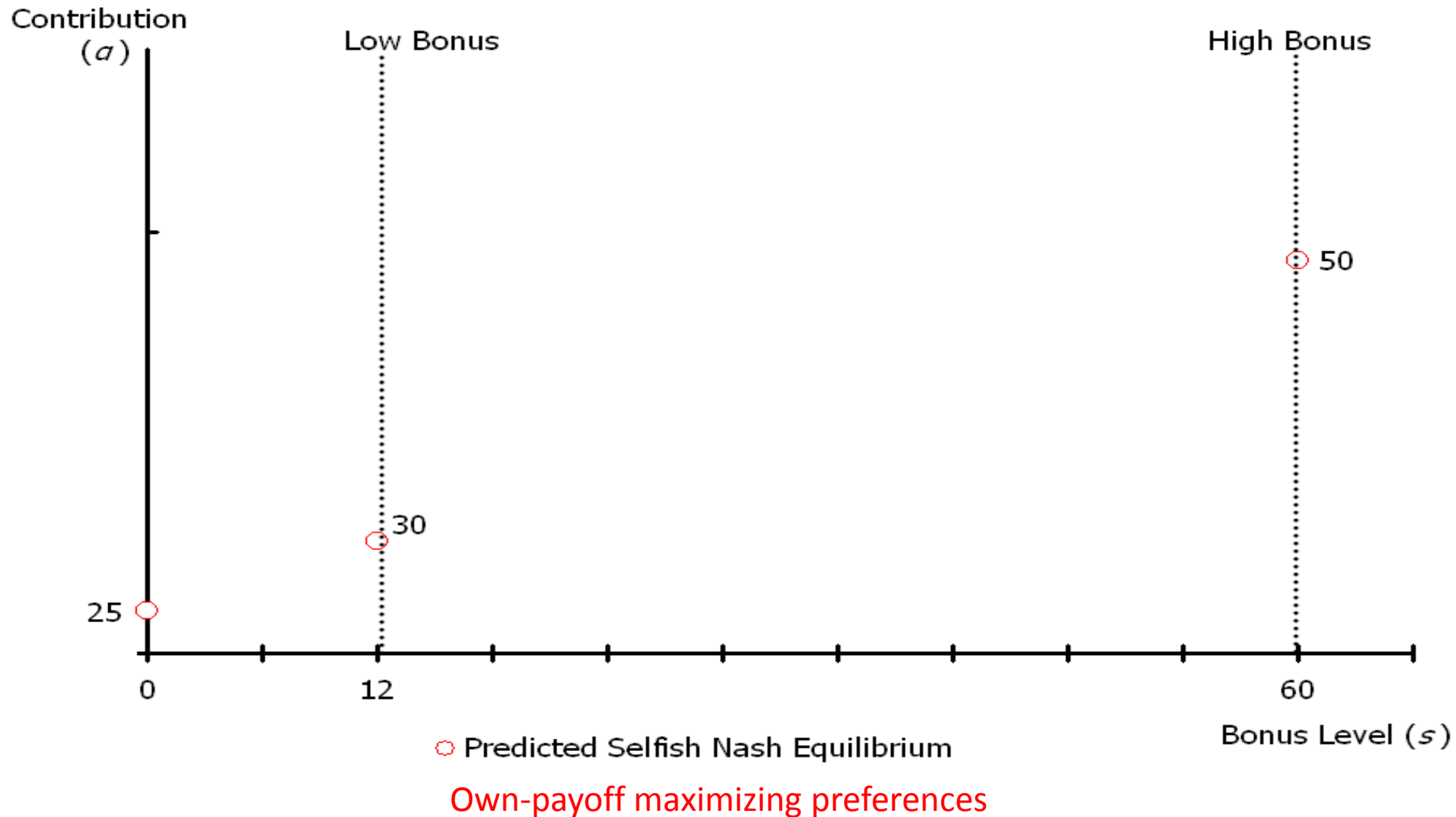
# The Irlenbusch and Ruchala 2008 design

- Public Goods Game ( $n=4$ , 30 rounds, partner)
- A reward for the highest contributor in the team

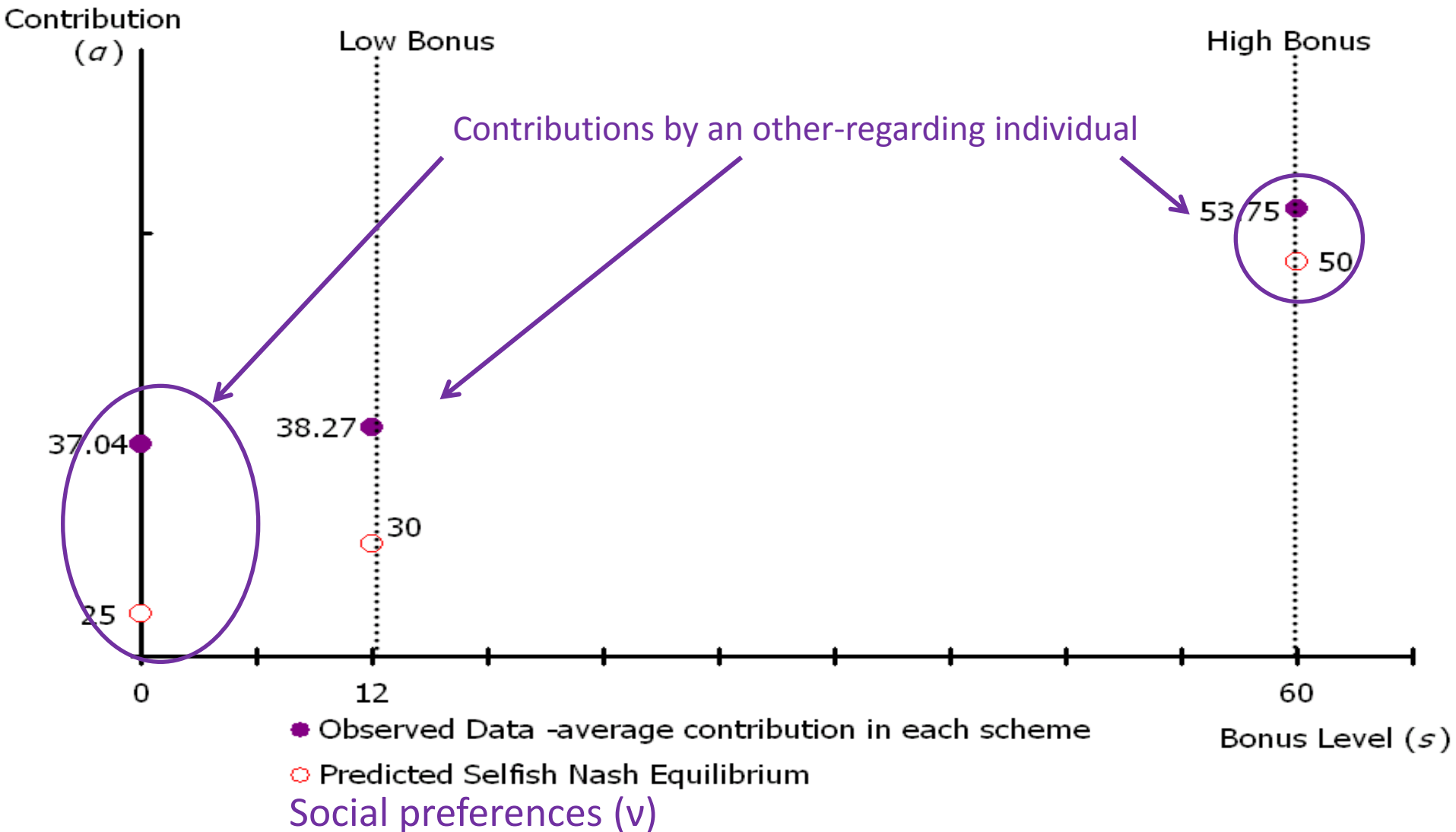




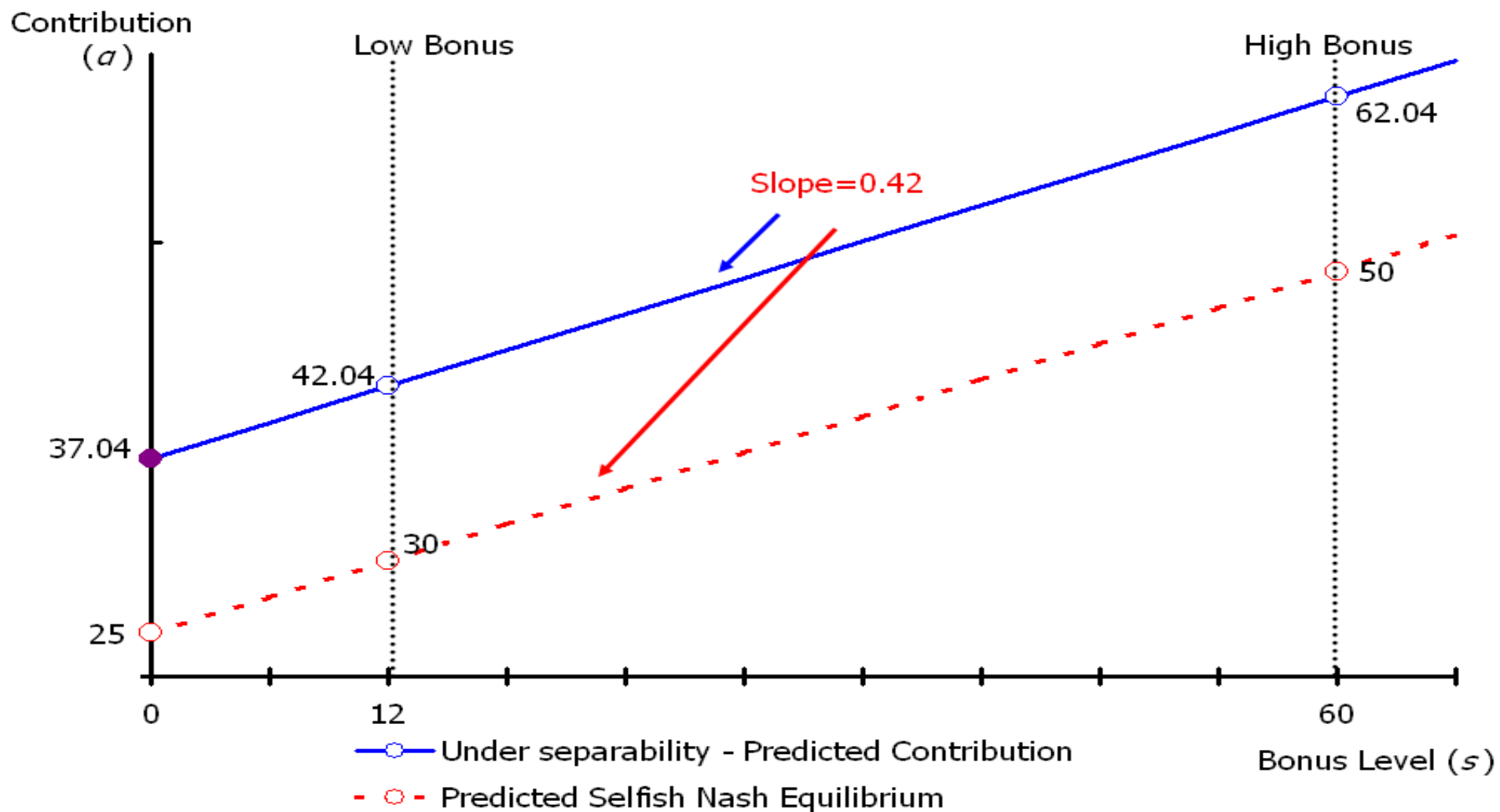
# Contributions by a self-regarding individual



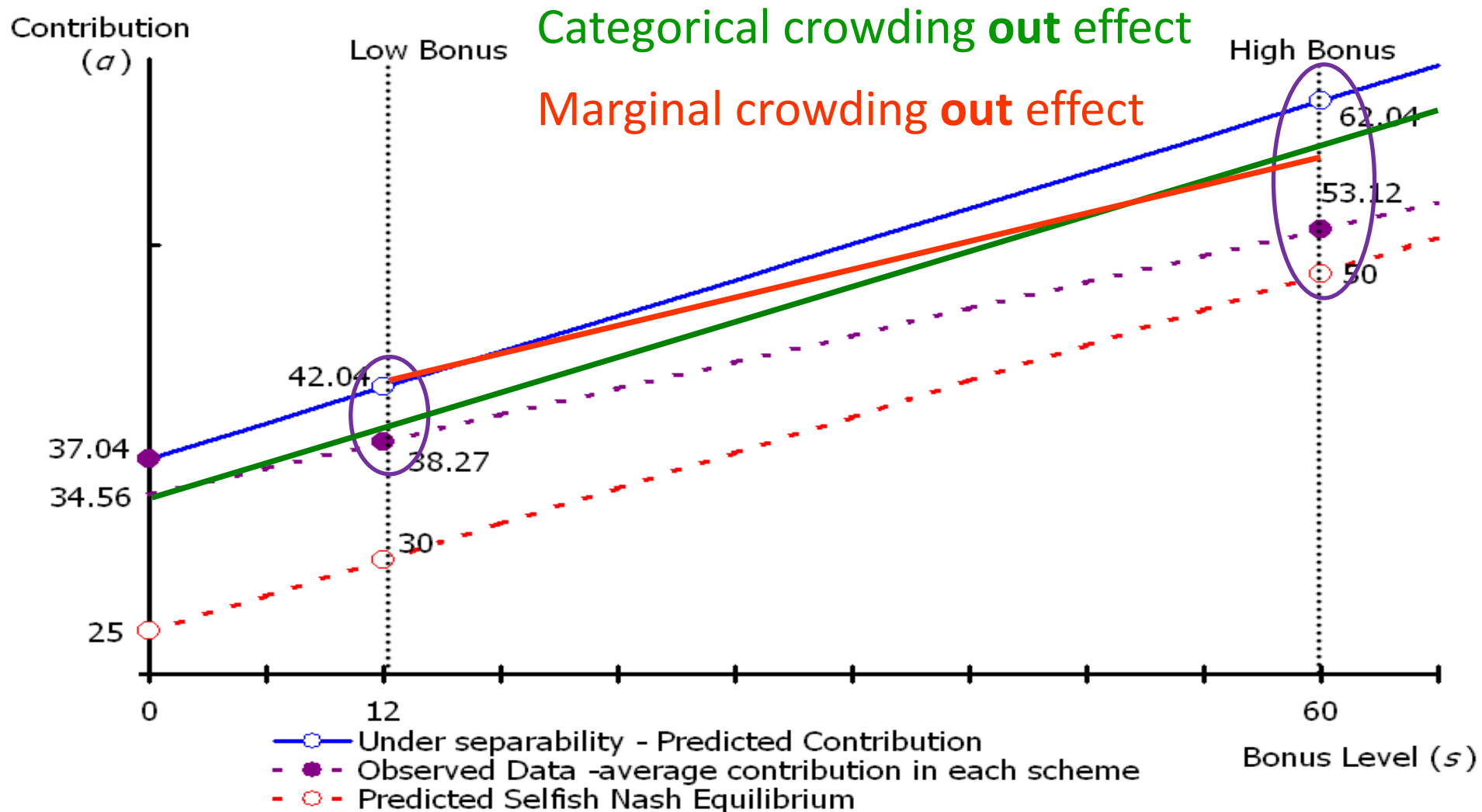
# Observed data - Social preferences



# Assuming separability with social preferences



# Separability with social preferences vs Non separability



# Economic incentives may

## 1. provide information about

- **Who** designs and imposes the incentive
  - His intentions, beliefs concerning the target
- The nature of the task

## 2. suggest appropriate behavior

- Frame situations that favors pursuit of self-regarding
  - Power of names
  - Buyers and sellers competition and survival environments

## 3. compromise intrinsic motives and self-determination

- 'over-justify' the activity or diminish the signaling value of actions
  - where people derive pleasure from an action *per se*
- reduce individual's sense of autonomy
  - Donations, imposed bound

# Other features on non separability

**Economic incentives** and **social preferences** may be complements

- Peers-based incentives
- When the effects of a weak incentive are confounded with the effects of a non economic incentive
  - small tax on plastic grocery bags in Ireland preceded by a substantial publicity campaign Rosenthal 2008

**Economic incentives'** effect may persist

- the structure of the preferences is compromised
  - the process of preference updating
  - environment

# Heading to the next step

- Incentives entail to our acquisitive and constitutive interests
- Incentives per se are not the cause of crowding out
  - Their meaning as conveyed by the relationships among the actors
  - The information incentives provide
  - The pre-existing normative frameworks of the actors
- Then,

What would the sophisticated planner do?

Sung-Ha will give you the answer

Thanks for your attention