economics as if people
and the planet mattered

Money and giving:

Do financial incentives deter or encourage co-operative behaviour?

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nef (the new economics foundation) is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G8 summit meetings. It has taken a lead in helping establish new coalitions and organisations such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and economic well-being.

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Attempts to use incentives – especially money – to encourage people to do something they care about often backfire. Such incentives can erode people's intrinsic motivation or reinforce a culture where people act in their own self-interest.

If we allow this culture to go unchallenged, attempts to increase giving will be swimming against the tide. Instead, we need to build institutional structures and shift social norms to be more focused on the common good.

Received wisdom tells us that self-interest, and by extension money, is and should be driving force of the economy. But there is plenty of evidence – from research in psychology, behavioural economics and anthropology – that proves we all care about a lot more than cash. Altruism, for a variety of reasons, gives us a warm glow.

However, money does wield a huge influence over our behaviour. It can make us value things or devalue them according to the circumstances or setting. Motivation is complex; it is difficult to predict how people will respond to financial incentives.

This report uses learning from behavioural economics to understand when, where and how money drives co-operative behaviour and, equally, why it sometimes doesn't. It also explores money as a social creation and looks at different types of money that communities have created (often known as 'community currencies'). Do people respond to these new forms of money in the same ways as they respond to national currencies?

Funded by the Innovation in Giving Fund, it looks at one part of how a "step change in giving" might be brought about in the UK. We focus on the relationship between giving and the economy – specifically whether people can be financially incentivised to behave cooperatively.

We define giving broadly. We are interested less in giving to charity and more in the behaviour patterns and social norms that shape the way we treat other people. We also include gifts of time and other non-cash resources.

The money dilemma

Most of us agree that some things are too precious to buy, sell or trade on markets. Attempts to financially motivate people into volunteering for something they already care about often backfire.

Of course, different people are motivated by different things, and in different ways. But the line between altruism and self-interest is not as clear-cut as traditional economics would have us believe. In many cultures round the world, trade and giving are indistinguishable. In fact, even the most basic economic model of self-interested behaviour can lead people to behave co-operatively.

This report proposes a framework with five, interlinked problems that arise when using money to reward giving or altruistic behaviour. These apply to a range of policy areas, from commissioning public services and deciding whether to use methods such as 'payment by results', through to giving incentives to employers for adopting a living wage policy.

- **Crowding out**
  If people are already motivated to carry out a task then rewards could 'crowd out' this motivation. This example most often cited is when paying people to donate blood reduced the quantity and quality of blood donated. Rewards may also be perceived as controlling.

- **Sending the wrong signal**
  Financial rewards make people see tasks differently. If payment is small, people may think the task is not worth the bother, even if they would have been willing to do it for free before money was mentioned. Rewards might also suggest that the task is hard going and no fun.

- **Changing enjoyment**
  Studies have shown that rewards not only signal whether a task is fun or not, but actually change the experience of doing the task. People who are paid to do something will often enjoy it less.

- **Changing behaviour**
  In fact, the very thought of money can make people less willing to help others, give to charity, or even ask for help themselves. Even when no financial incentive is offered, if people are reminded about money before doing a task, this will ruin their experience of doing it. So, repeatedly mentioning targets and bonuses in work environments, for example, may make people work more selfishly. This has implications for the public sector as well as private and social enterprise.

- **Shifting focus or shifting effort**
  Incentives often shift effort away from other tasks that might be equally important, but less easily measured. In some cases people can become so preoccupied with the reward, they lose sight of the task at hand.

The framework above highlights the problems financial incentives can cause, but of course this is not the whole story. Where motivation to do something doesn't exist, money can bring it into being. For example, paying someone to do a training course may mean they value it less than if they pay for it themselves, or contribute something in return. There are also many examples where incentives have been used in a public policy setting and worked well.

A balance needs to be made between rewarding people for what they do, and respecting their ability to use judgement and human compassion.

So is it possible to change how money works? We examine this question by looking at complementary currencies. Most of these are designed with social goals in mind, so they do not affect motivation in the same way and send out different social signals.

To sum up, policy makers who are considering using financial motivation to promote pro-social behaviour, should proceed with caution. There will always be people who are more likely to give than others, but everyone will alter their behaviour according to social situations, peer pressure and setting. In some situations offering a financial reward can increase effort on the outcome you are incentivising at the expense of other, equally valuable work. There may also be other forms of money that are more suited to the task.

1. Introduction

This report provides a review of recent work on behavioural economics and the economics of how to achieve a 'step change in giving'.[1] We focus on the idea of giving in a broad sense – as more than making sporadic donations to charity – and examine the behaviour patterns and social norms that shape the way we treat other people.

While we consider some 'big questions' – like how we shift the whole economy to one that is more co-operative where profit is less important – this report also contains practical guidance.

We hope it will be useful for people who have to think about encouraging people to give more, including:

- policy makers or commissioners aiming to build incentives into contracts to get the best service for their users, or encourage more non-profit or local organisations to bid for contracts;
- managers or team leaders who want to get the best out of the people they work with;
- anyone who needs to get someone else to do something! So, parents who want to get their kids to tidy their room or help with the washing up may also learn some tips on what to do and what not to do!

There are many examples of incentives being used badly, or perverse incentives within public sector contracts, or bonuses gone mad. Often these are due to a reliance on overly simplisitic models of human behaviour.[2] To really understand how and why people respond to any incentive, we need to know a bit about what motivates people more generally. We explore these ideas in Section 2.

The main section of the report explores the potential and pitfalls of using money as an incentive. We spend some time setting out both the theory and evidence from recent lab and field experiments, mainly from behavioural economics. This builds on Section 2 because it considers why money may interact in a bad way with people's intrinsic motivations to do good.

Finally, in Section 4 we look at how some of these microfoundations interact with bigger structural issues in the economy. Are the problems we have identified with money inevitable? Or can we change something about the money in the world? This includes a very brief review of community currencies to see if people respond differently to them.

2. Why do people give?

In this section we look in more detail at *why* people give. Many neoclassical models of behaviour typify human behaviour as being motivated by self-interest and as being rational. From this perspective it is hard to understand why people give or behave co-operatively. Here we look at why self-interest has dominated our ideas of how economics works, and examine whether people really are selfish and rational.

Self-interest: Driving force for the economy?

It is a common perception that economic models of individual behaviour assume that people are selfish. This isn't strictly true. Economics assumes people are *rational*, not selfish. The core assumption of rationality is that people have a clear idea of what will make them happy and behave consistently.[3] Economists refer to happiness or well-being as "utility". You can be rational and give all your money away as long as this makes you happy. In fact, as we go on to see, it often does.

Nonetheless, it is so unusual to see economic models that go beyond defining motivation as self-interest, that understandably self-interest is perceived as a core assumption of economists. Indeed, although many economists are working on altruistic behaviour, their work hasn't made it into introductory textbooks on economics.[4] It is quite possible to complete an undergraduate degree in economics without reading a word about it.

If this simple story is true, that people are self-interested and derive happiness mainly from income, then financial incentives, even small ones, will generally work well. But, as we will show in Section 3, financial incentives often don't work. We need to expand on this basic model.

Going beyond self-interest

The idea that we are motivated primarily by money is clearly too simple. People often care about more than money. They care about their family, their friends, and public services, such as healthcare, being available for all. One way that economists have taken these into account is by making it clearer in their models that people care about lots of things, including the welfare of others.[5]

The most widely used definition of altruism in economics is developed by James Andreoni. He breaks it down into two 'types' of altruism. The first type is 'pure' or totally selfless: you do something because you care that something good happens.[6] So, you donate money to a homeless charity because you want there to be hostels for homeless people. The second type he calls 'impure': you do something partly because it makes you feel good doing it. For example, you might volunteer in a soup kitchen because you get a warm glow from being involved in providing the service.

Taking both of these types of altruism into account, it is easy to explain why some people give to charity, take time off work to look after their kids, or volunteer. They have altruistic preferences. Evidence from psychology has confirmed that giving does make people happy. (See Box 1.)

The research in Box 1 found that everyone felt better after giving money away. A number of authors have built on this idea to show how people with altruistic preferences often respond in unpredictable ways to incentives.

Box 1. Spending money on others makes people happy

In one study students were given an envelope containing either a low ($5) or high ($20) amount of money and were asked to spend it by 5 pm that day. Some were told to spend the money on themselves; others were told to spend the money on someone else or make a charitable donation. Those who were told to spend the money on someone else reported greater happiness at the end of the day than those who spent it on themselves.[7] The authors have repeated similar studies around the world finding a similar effect, even in places where people have very low incomes.

Studying motivations has shown that the way people respond to incentives is difficult to predict. This is one of the reasons why the use of incentives can go wrong. In the model in Box 2, an individual who really cares about what other people think may increase or decrease their giving if something small changes in how the task is presented, for example, if it takes place in a public place. This is a component of reputational concerns. Someone else may not. It is the interactions between different motivations, and the confounding role of money, that we explore in more depth in the next chapter.

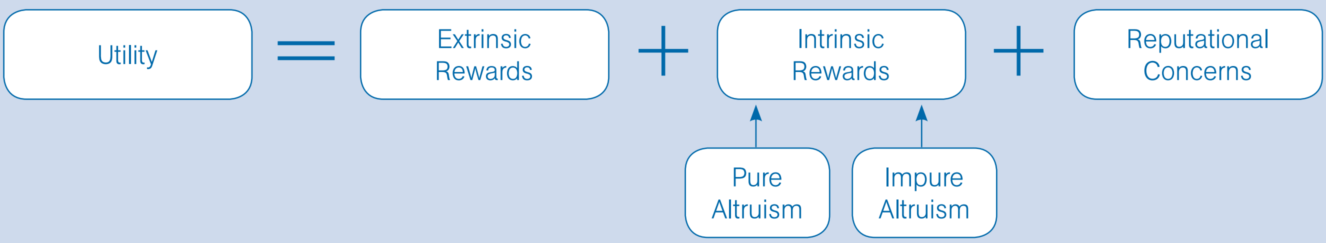
It is worth just reiterating how important this idea of reputation and status is. Most people care, a lot, what other people think. This also has an evolutionary perspective if we are trying to attract a partner. However, it is not obvious or fixed, what will confer status. Whilst traditionally money has served this function – and the stereotype is that women will be attracted to men with lots of money and shiney sports cars – perhaps this could change. So, for example, very rich people who take the 'giving pledge'[8] to give at least half of their wealth away are notable not just because of the large amounts of money at stake but because of their potential to change social norms.

So far the ideas we have explored are very much within a standard economics framework: people make decisions and trade-off's about how much time to spend giving and how much to spend on other things. They can also care about their reputation and what other people think of them. In the rest of this section we explore ideas that either sit on the border of economics and psychology, or are normally considered outside the field of economics.

Beyond the self?

We have introduced the idea that people care about other people, and this leads them to give money or time. The question is, if people do exhibit such 'caring preferences',[9] where does the utility of one person start and the other end? Indeed, many of our behavioural traits only make sense in the context of other people around us – of society.

Box 2. Intrinsic vs extrinsic



Benabou and Tirole[10] present a model of behaviour that is guided by three elements: intrinsic motivations; extrinsic motivations (the reward); and what they call "reputational concerns", which refers to how people want to be seen to be doing the right thing.

The important thing to note here is there are interactions between these elements. So for example, if people don't just care about the outcomes of doing the right thing but want to be seen doing the right thing (reputational concerns)[11] then an increase in a financial reward may reduce utility overall.

In a recent work Frijters and Foster start to incorporate ideas of love and social networks into an economic theory. They go one step further than the approach set out above and suggest love means not only caring about what happens to other people, but *incorporating* others into your own sense of self.[12] As humans we are able to empathise with people – if we witness someone suffering pain this can trigger an emotional response in the brain. We can literally feel others' pain.

Mervin and Frijters find empirical evidence for this. In a large Australian survey that followed individuals for 10 years, married people were affected by the life events of their partners about 10% as strongly as if one of those events befell themselves.[13]

Factors – such as inequality, social position and roles, geographical and cultural separation – may all influence our ability to show care and compassion towards other people. Research on how ethnic and religious diversity impacts on people's charitable donations has found that as neighbourhoods become more diverse charitable giving *falls*.[14]

Inequality is also likely to matter. While richer households are more likely to give than poorer households they give much less as a share of their total income.[15] Perhaps a more important question is also how inequality enables other core features of the economy which rely on trust to function. Some have argued that tax compliance relies on the capacity of a society to develop a feeling that tax compliance is '"the right thing to do'," which by necessity requires some bond between the taxers and the taxed.'[16]

Before we even think about giving to charity, there is also a question around the conditions under which the basic goods and services we consume are produced. Distance and abstraction between what we consume and who produces these things allow conditions to exist that we would not tolerate in our own country. This may seem to be far from the idea of giving, but a precondition to a caring society surely must be one which has eliminated suffering and exploitation no matter how far down their supply chains these occur.

Contributions from behavioural economics: 'predictable irrationality'[17]

So far we have looked at why people may behave altruistically within a standard economic framework of perfect rationality. One of the main contributions of behavioural economics has been to show that in practice people often do **not** make rational decisions. People's plans are often blown off course by a variety of factors, such as how options are presented, habits they have developed, the mood they are in and what they see other people doing.

One key area of behavioural economics is looking at how people respond differently to decisions depending on how options are presented. For example, people's willingness to donate to charitable causes often depends on how the cause is presented. People often feel overwhelmed into inaction by the way issues are presented. Research has shown that people are willing to give more to a charity that presents the case of one individual than one which exposes the plight of millions. It seems people are willing to take responsibility for helping one person, but get swamped when faced with a global problem.[18]

One particular trap people often fall into is 'present bias'. People place a higher value on 'now' than the future (see box 3). Of course, at some point, the future becomes the now. If someone asked you to go to a meeting about something you aren't particularly interested in, would you agree to go? What about if they asked you to go next month? In a practical research project, funded as part of this research, we explored this idea in relation to giving (see Box 4).

Box 3. Give more tomorrow?

As part of a routine fundraising campaign, donors to Save the Children were asked to increase their donation. Some were asked to increase their donation immediately; others were asked to increase their donation in two months time (the 'Give More Tomorrow' group). Those in the 'tomorrow' group were more likely to give and gave larger amounts.[19]

Box 4. Making a pledge

As part of a practical research project that was delivered alongside this project we asked staff at a local authority in advance if they would like to sign up to a scheme where they could take some salary in Brixton Pounds (a community currency). They could either spend this money or give it away to charity. Some people were asked to make a light 'pledge' to take part and others were asked to make a more formal 'commitment' *before* the project officially started.

There were statistically significant differences both in how many people said they would sign up in the two groups and their behaviour at the sign up stage. Asking people to make a strong commitment put some people off at the initial stage, however, those that did go on to sign up took on average double those in the pledge (and control) groups.

The size of the difference was large and statistically significant. Using a linear regression model to control for some basic characteristics found those in the commitment group took on average £17.80 more than those in the control group (statistically significant at 5% level). Those in the pledge group took only £2.70 more than those in the control (not statistically significant).

This finding is applicable to a large number of situations linked to charitable giving and beyond. Asking people to make a light pledge that is relatively easy for people to go back on has no lasting impact. Asking people to make a stronger commitment and reminding of them of the commitment they made seems to work well. There are a range of possible explanations for this. The design builds on the idea in 'give more tomorrow' where people are more likely to say yes to something in the future. This is combined with the idea that people don't like to go back on their word once they have said they will do something.

Other learning from behavioural economics is that people's actions can often be guided by habits, peer pressure or social norms. In terms of giving – this has lots of potential positive applications. For example people use other people's behaviour as a guide to how much to give to charity. Researchers looking at patterns of donations on the charity fundraising site, JustGiving, found that there are clear 'peer effects' that influence how much people give. For example, a large donation on the site tends to lead to an increase in the amounts donated by those following it.[20] The fact that people are influenced by others and act in line with social norms has the potential to build patterns in society where people do things for the common good. This also applies to institutions.

Of course, there is a downside. Just as people can be influenced to do the right thing, they can also be very easily influenced to do the wrong thing. Milgram's infamous experiment demonstrated this very clearly.[21] He asked students to monitor another's learning and inflict electric shocks when they made an error. Encouraged by the experimenter, over half of participants continued to increase the level of electric shock to the point they were clearly causing serious injury (and could hear the subject screaming in pain). The scenario's most people face at work are less extreme than the one Milgram simulated, but the results are still relevant. People may find it difficult to display kindness or generosity if they are in a work culture where people typically don't give or they are given instructions to cheat.

Beyond rationality

So far, we have looked at ways that people may depart from making rational decisions because of how the decision was presented or social norms or pressure. While we have seen examples of people exhibiting 'irrational' behaviour it is still conceivable that people have some stable underlying rational preferences about how they live their life and the priorities that guide their behaviour – even if they don't always act on them.

Another set of theories, challenging some of the core ideas in economics, propose that people *don't* have fixed or stable preferences. Akerlof and Kranton have explored this recently with the theory of 'identity economics' (see Box 5) A model such as this has quite different implications for increasing giving. Rather than offering explicit incentives, you can change the self-identity of people to make giving something they intrinsically want to do.

Box 5. Identity economics

George Akerlof and Rachel Kranton have developed a theoretical model of behaviour which incorporates the idea of identity. They define identity as being made up of the characteristics of the person and also the characteristics that they aspire to. What this boils down to is that identity is fluid – individuals choose it. One can change his or her identity by choosing to belong to a particular group.

They have applied this analysis to many areas. For example, when it comes to gender in the workplace, many jobs have traditionally been seen as 'man's work'. Women could only get these jobs by essentially acting like men. The alternative, and the policy adopted by many organisations, is to tackle gender-job associations. Similarly, many children from black backgrounds at school have only been able to succeed in the education system by 'acting white'. This means there is a policy 'choice'. You can try and change people's aspirations or identity, or change the environment in which they interact.

This also applies to organisations. Rather than trying to motivate workers with extrinsic incentives or wages, organisations can change the identity of workers and align this with their goals. They give the extreme example of what happens when new recruits join the military. Recruits are put through a range of tasks and rituals. This breaks down their previous identity and changes the way they respond to situations, so that their behaviour is in line with being a soldier – even if their previous identity would have reacted with horror to such situations. A less extreme process may occur with non-profit organisations. The organisation's mission and a sense of duty and attachment, can be an important supplement to monetary compensation.[27]

Back to self-interest

We have explored some definitions of altruism as well as looked at how people act in ways that care for other people. These seem very different from ECON 101, where people are seen as being self-interested, but in practice it may be hard to distinguish between self-interested and altruistic motivation. If people do things for other people because they want status, to feel good, or because strong social norms guide their behaviour, is this really altruistic?

In fact, even the most basic economic model of self-interested behaviour can lead people to behave co-operatively. Richard Dawkins popularised this concept with the idea that "nice guys often finish first", and that often doing the right thing by other people can lead to better things for yourself over the longer term. (See Appendix 1 on the Prisoner's dilemma).[22]

Anthropologists often see the line between self-interest and altruism less clearly. In the introduction to Mauss's famous book *The gift,* he argued that gifts are never "free". Gifts often appear to be "voluntary, disinterested and spontaneous but are in fact obligatory and self-interested".[23] Understanding this mix of motivations is important in encouraging more giving.[24]

Another anthropologist, David Graeber, has written extensively on trade relationships around the world. In many places trade and gift giving look very similar. Gift giving is often indistinguishable from economic exchange. In fact, it is the way communities do exchange.[25]

We pick up some of these ideas again in Section 4. The point is that a world where more people are giving and behaving in line with the common good, would still be a world with trade and enterprise. It just means doing business in a different way.

Summary

In this section we have explored ideas around what motivates people to give – are people naturally altruistic or selfish? In fact, there is not necessarily a dichotomy between these two ideas. As Mauss said, "Generosity and self-interest are linked in giving."[26]

For policy makers trying to influence people to give more we think there are two key things to think about:

- people have a range of different motivations – some of which interact in complex ways. A small change to an incentive can lead to a large change in people's behaviour;
- people's motivations themselves may be malleable which may also be affected by the social situation in which they find themselves.

This may seem obvious. We know people are complicated. The challenge is that many policies or incentives to motivate people have ignored some drivers of behaviour and instigated an incentive structure that badly misfires. We look at why this happens in more detail in the next section.

Box 6. Putting into practice

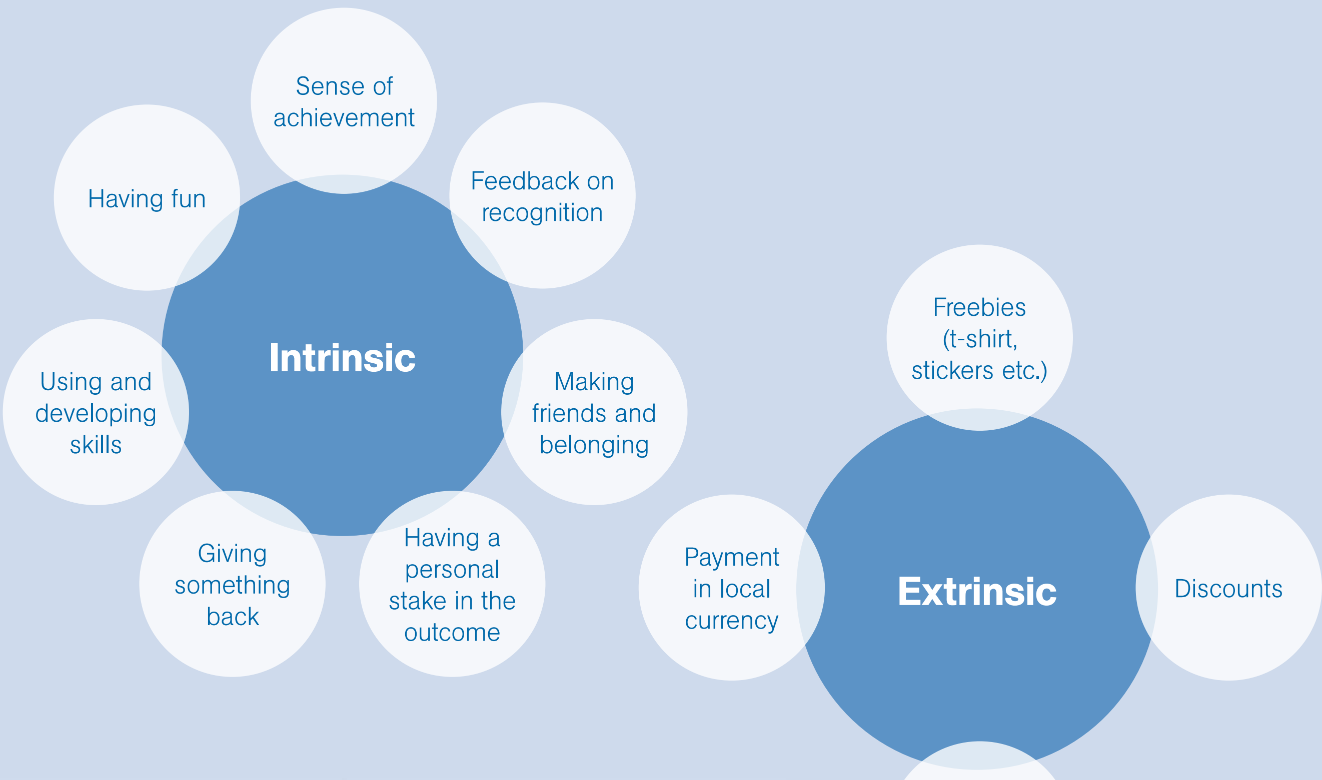
The ideas introduced so far may appear fairly abstract. In this box we look at how they have been put into practice by Lambeth Council.

Lambeth Council have been looking at the potential reasons that residents might want to get involved with co-delivering council services and mapped out whether these are intrinsic or extrinsic motivators.

They used this framework to look at how they could get more people to participate in their 'Made in Lambeth' events series – increasing participation in the events from 50 to 300 residents.

Lambeth Council are currently a partner in the Community Currencies in Action Project (CCIA)[28] and are looking at how to use complementary currencies within their framework to get people more involved in the co-design and delivery of services.

Note that in their framework they use a local currency as an extrinsic motivator. In Section 4 we go on to discuss if this always needs to be the case.



Lambeth

ccia community currencies in action

3. Why does money matter?

In this section we focus on using incentives to encourage people to give to charity, give time or behave pro-socially. The idea that money is a bad motivator for some tasks is well know about, nonetheless, financial incentives are being applied to many aspects of public service delivery. In this section we develop a framework to explore whether a financial incentive is likely to encourage or discourage prosocial behaviour.

Problems with money

Crowd out: Does money crowd out intrinsic motivations?

In the previous section we introduced the idea of intrinsic motivations and how this has developed within economics. Another set of theories on this come from psychology and the idea of Cognitive Evaluation Theory (CET). This asserts that intrinsic motivation is made up of psychological needs for 'autonomy' and 'competence'.[29]

This means the effect of adding any sort of reward to a task isn't always the same. People may see rewards as controlling and threatening their autonomy, which in turn can reduce intrinsic motivation. Alternatively people may see a reward as recognising their competence and increasing their motivation. Extremely prestigious awards, such as winning Wimbledon or being awarded a Nobel prize come with very large rewards – but these rewards do not seem to crowd out people's motivations.

There are some similarities in these theories to those presented in the previous chapter. The explanation is slightly different, but the implication for policy is the same: it is difficult to predict how people will respond to an incentive. It depends on several other factors. Evidence on how introducing incentives can work in practice is presented in Box 7.

One of the important ideas here is that people often want to think of themselves as a good person, who does contribute to the common good. They want to identify themselves as an altruist. Getting paid to do something good can harm this self identity.[30]

Box 7. Blood donations

There is a cluster of empirical evidence on the effectiveness of incentives on blood donations. Unfortunately there is no conclusive picture as to whether they work or not. Richard Titmuss provided compelling empirical evidence in the 1970s, very much in keeping with the arguments around intrinsic motivations expressed above. He found that not only did more people give blood voluntarily than in areas where there were financial incentives but that the voluntary blood was of higher quality.[31] This went against contemporary economic thinking.

However, since that time, many studies have found that paying people to give blood, particularly in developing countries, does increase donations. For example Lajya et al found that in Argentina using intrinsic or social rewards to encourage blood donations had no impact. The only incentive that worked was financial reward, the larger the better.[32] The authors' explanation for this is that in developed countries, like the UK, giving blood is associated with being pro-social. This is very different in some developing countries where blood collection is run by profit making companies, and in some cases blood is often sold (illegally). So giving blood may carry a negative stigma. This means there are no underlying intrinsic motivations for the financial incentive to crowd out.

Policy implication

If a task is something that people are motivated to do already, then rewards need to be used with caution. Rewards could crowd out intrinsic motivation. On the flip side, if the task is not something people are motivated to do, rewards can help inspire and maintain motivation. For example, in the UK, where giving blood is seen as a good thing to do (and people like to be seen doing it!) financial incentives do not work well. Evidence from other countries where attitudes to giving blood are different have found donations increase when financial incentives are used.

Send out a signal about the task

A slightly different idea is that the use of a reward changes people's perception of the task. People often have a high level of willingness to help other people. If someone asks for your help (e.g. to help them lift a table or with a task at work) people often have a strong inclination to help without thinking. However, if payment is offered for these activities people often calculate whether their time is worth it. This can lead to people declining to do something for a small amount of money that they would have been willing to do for free.[33]

Heyman and Ariely tested these ideas out by asking people if they would (hypothetically) help someone move a sofa. They offered people either nothing, a small payment, a large payment or chocolates. They found people who were offered nothing were very willing to help, as were those who were offered a high payment, or any amount of chocolate (as long as they didn't know how much it cost). As predicted by the theory, low amounts of money work *less* well than *no* money.[34]

What was really interesting in this study was how people responded to chocolate. A small amount of chocolate didn't reduce people's motivation to help unless the participants were told how much it cost. When people were told the price of the chocolate they viewed it like money and reduced their motivation to help. This would be like a friend bringing a bottle of wine when you invite them for dinner and then telling you exactly how much it cost.

There are some parallels to the literature on intrinsic motivation but it is slightly different. Here people have a different set of preferences and behaviour depending on how they interpret a situation. Exactly the same reward can induce different behaviour depending on how it is framed.

Policy implication

If you are going to reward a task with money this will be likely to change the way people relate to this task. They may decide doing the task is not worth their time or effort even if they would have been willing to do it for free. If you can only offer a small amount of payment it may be better to offer nothing at all or to offer something that people cannot easily translate into monetary terms.

Box 8. Gneezy – pay enough or not at all

Gneezy *et al* conducted two experiments looking at the effect of monetary incentives. The first experiment was an IQ test in the lab. The second was a field experiment bolted onto a national donation day in Israel where students collect money for charity. In both cases they offered a high and low amount of money based on performance (e.g. per question they got right in the IQ test). They found that whenever money was offered, a larger amount was better. However, it wasn't true that money is always better. Those participants who were offered a small pay-off gave a worse performance than those who were offered no compensation at all.

They explain these results as being about people's perception of the contract. The environment was perceived in different ways depending on whether money was offered or not, leading to different responses. In a monetary environment a very small payment could be considered insulting – and could change the participant's perception of what the contract was about. What is also interesting is that both of these tasks have quite a high level of intrinsic motivation and it is almost surprising that the 'high' treatment for IQ actually had such a positive impact on how well partiicipants did. This incentive worked remarkably well.[35]

Box 9. Would you pay or get paid to do something?

Areily et al have done a few experiments to look at how people's decisions about whether to buy something or do something can be manipulated by the context. In one experiment one group were asked if they would pay to attend a poetry reading by their lecturer (Dan Ariely) and another group asked if they would attend, if someone paid them to be there. Both groups were then invited for free – and the group who had initially been asked if they would pay were much more likely to attend.[36]

Change enjoyment of a task

As we have seen, economic theory often assumes people have fixed preferences about things they enjoy or don't enjoy. Having to work is assumed to be a bad thing. Leisure is a good thing. The challenge is that some people seem to enjoy doing things for free that other people consider a drudge. How does the introduction of money work in these sorts of situations?

We have already looked at the role that incentives can play in shaping people's decisions on whether or not to do something.[37] When a task is rewarded with a financial incentive people might read this as a signal that a task isn't much fun.[38] This means that bonuses can actually put people off doing something.

Taking this idea one step further, a bonus or reward not only signals whether a task is fun or not, but can change people's experience of the task. Ariely et al use an example from Mark Twain's novel, *Tom Sawyer*, where the protagonist has been told to whitewash his aunt's fence. When his friends show up, Tom goes about the task with gusto, presenting the chore as an opportunity. His friends end up not only paying for the priviledge of taking their turn with the paintbrush, they really enjoy doing it.[39]

Other research has found a similar effect by just asking people to think about how much their time is worth before doing a task.[40] When people were asked to consider their hourly wage they enjoyed activities such as listening to music less. It may seem like the examples given here are trivial, but there are many applications in the real world. There are tasks which people either do for free or for negligible sums (such as fostering) or for no reward at all (adoption). It also applies to the dilemma many people face with organising training that they want people to attend. They find that people are more likely to attend if the training charges a fee.

Policy implication

If you want people to do a project, which could range from encouraging local residents to attend a consultation meeting to encouraging staff to attend training, rewarding with incentives might send off signals that the task is not going to be desirable or enjoyable. However, there are cases where charging a nominal fee may increase the perceived value of attendance.

Change Behaviour – people act differently when money is involved

Other research has looked at the way people's behaviour can change when they are in an environment where money is salient (see box 10). This found that just thinking about money can lead people to behave differently.

Box 10. People primed with money behave differently

A series of experiments conducted by Vohs and colleagues looked at the effects of priming people with the concept of money. They found that participants primed with money were less helpful and more distant with others, compared to those who had not been reminded of money.

As well as being less willing to offer help to others, these who had been primed with money were less willing to ask for help – even when the task they were given could not be solved. They spent longer trying to do tasks on their own and, when given the choice, opted to work on their own rather than with a group. They even found that being primed with money decreased the amount that they gave to charity.[41]

This research is a small area in economics. However, it does square with what we intuitively know about how paying people can change their approach to a task. As the old quote goes: "It is difficult to get a man to understand something, when his salary depends upon his not understanding it." When people are paid to do something or make a decision, they will often reach conclusions that are very different to the ones they would have come to if they were affected by the decision.

A related phenomenon is that the more people are paid to something, the more they seem to think money is important. This idea is encapsulated by the quote below from Daniel Vasella, CEO of Novartis who said, "The strange part is, the more I made, the more I got preoccupied with money. When suddenly I didn't have to think about money as much, I found myself starting to think increasingly about it. Money corrupts the mind."[42]

Devoe et al found a similar effect in survey data and from lab experiments. When people were given money which they were told was tied to their performance on a task, they were more likely to describe money as being more important to them.[43]

Policy Implication

When people have money at the forefront of their mind, they behave differently. So, people who work in environments where targets and bonuses are prevalent will respond to these incentives in the way they behave. This isn't to suggest that people who work in these places are 'bad people' but simply that people are influenced by the culture around them. While this obviously applies to bonus-culture industries such as banking it may also apply to areas of the public sector where payment by results are being used, such as the work programme.

Shift effort or shift focus

There are other challenges that come from rewarding people for doing a particular activity. These don't apply to rewards that are solely financial, but are often compounded by the use of money. For many jobs overall performance can be difficult to measure and quantify.[44] Some parts of a role can be easily measured than others. If some outcomes are incentivised and others are not, then people may shift their effort to tasks that are easier to measure or, worse, manipulate the performance metrics.[45]

There are many examples of money causing people not only to shift their focus towards a particular task, but to *lose* their focus entirely. This idea of 'choking under pressure'[46] can occur through a range of mechanisms. This is interesting research but less likely to apply to situations where we are trying to encourage pro-social behaviour in the public or voluntary sectors.

Policy Implication

Using an incentive or target can appear to increase effort on this outcome, this may come at the expense of other outcomes that are harder to measure or not part of the performance framework. This challenge may apply to any target, such as those used in many areas of public sector management, but be amplified when a financial reward is contingent on achieving the outcome.

When does money seem to work well?

Although so far we have focused on situations where money doesn't seem to work well to get people to do the right thing, the situation is by no means clear cut. There are a range of situations where money does seem to work well as a motivator. We outline some of these below.

Habit formation

There is a counter argument to the theory presented above about money crowding out intrinsic motivations. If people can be paid to do an activity and get into the habit of doing it, they may continue to do it after the incentive has been withdrawn. In Box 11, we explore a field experiment that encouraged people to exercise by paying them. Research has found a

Box 11. Paying to go to the gym

In two field experiments Charness and Gneezy tried using financial incentives to get people to go to the gym. Given there are already many non-financial benefits from going to the gym – better health, feeling better, and reduced stress – they were interested in whether there was scope to use incentives in this area and whether the incentive crowded out future gym attendance.

In their study one group was paid a high financial incentive ($100) for visiting the gym eight times over the course of a month. The other group was paid $25 to visit the gym just once. There was also a control group who were given no financial incentive to go to the gym.

What is nice about their study is that their outcome measure was whether people went to the gym in the months after the intervention. They found that gym attendance by those in the high incentive group was more than twice that of the no-incentive and low-incentive group.

This suggests it may be possible to encourage good habits by offering a monetary reward. With this particular activity, it may have been that getting into the habit of going and feeling better because of it made these intrinsic motivators stronger than the effects of monetary payment.[47]

similar effect holds with kicking a bad habit such as smoking.[48] There may be similarities with pro-social behaviour that feels good. In this case the monetary reward doesn't reduce the intrinsic motivation but gives it a chance to kick in.

Giving money away

Another way that money can be used without seeming to crowd out motivation is when the money is given away to a charitable cause. A few recent experiments[49] (see box 12) have looked at this and found that money used in this way does not have the 'crowd out' problem we identified above. These 'social incentives' work well even when offered in small amounts, but don't get any more effective as the amount increases. A recent study has also looked at the effect of giving people 'pro-social' bonuses where team members would get a reward that they could spend on another member of their team. This led to better performance in pharmaceutical sales teams in Belgium and Dodge Ball teams in Canada.[50]

When there is no underlying motivation to do a task

Many of the situations that we have looked at so far have been for tasks that people are motivated to do. Of course, if people do not have any intrinsic motivation to do a task then a reward will not necessarily do any harm.

This is an issue that we must really take seriously when thinking about the design of public services. People do have biases. While public services often are motivated by a desire to help, they may be more likely to want to help people that are similar to them in some way. The example in the Box 13 uses a case study from India to highlight this very clearly. How does this apply in the UK?

When the reward builds on intrinsic motivation

Many of the challenges with money that relate to crowding out intrinsic motivation also often have a flip side: incentives can work if there is no intrinsic motivation to crowd out!

Box 12. Working for a pro-social bonus

Tonin and Vlasspoulous (2012) recruited participants to complete a fairly boring online task where they were paid by how many books they entered onto a computer database. In some instances people were given a monetary incentive and in others some money was given to charity. A range of different amounts per book (e.g. between 2.5p and 15p) were offered as well as some lump-sum amounts. They found that overall, people were motivated to put in more effort when they were paid themselves, but when they were offered the social incentives (money going to charity) the amount didn't matter – small amounts worked equally well as large amounts.[51]

Box 13. Can incentive pay overcome social distance?

A research study looked at the effect of incentive pay on a project in South India where local people were hired to spread information about a government welfare programme. Those in the flat pay group got paid the same regardless of performance. Those in the incentive pay group got paid a bonus for every household in the village who knew about the scheme. Compared to a flat pay scheme, the incentive pay was more effective.

This result was primarily driven by encouraging the workers to visit households with whom they had larger social distance. Social distance was measured by a combination of caste, education, ration card status and home ownership. The incentive pay did not change effort with respect to households that were socially proximate. So, both groups of workers, those who were paid an incentive and those who were paid a flat rate, were highly motivated to visit people who were closer to their social group. The incentive worked to get people to go beyond this.[52]

Summary

We can draw some key lessons for policy makers from this analysis. In summary, when considering using an incentive to try and get someone to do something, there are some important factors to take into account about how people might respond. We summarise these below:

- crowd out: Is the task you want to encourage people to do something that people already have a strong motivation to do? Is there a risk the reward structure will crowd out these motivations?
- send the wrong signal? Will people interpret the reward as being too small and not worth their time, will they think the task is undesirable because you are trying to pay people to do it?
- change behaviour: Will the reward contribute to a work environment where money or targets are important beyond the outcomes you are trying to achieve?
- Reduce enjoyment: Is there a risk that people will change both people's perception of the task and how valuable it is, and even enjoy doing it less?
- shift effort or focus: Are there are other important things you want people to do which are not being incentivised – will people stop doing these things?

This doesn't mean never use incentives, but think carefully about the questions above. Also consider ways to build people's intrinsic motivation in the task.

4. More than Money

We have looked at some of the issues of using money to reward activities. But does money always have to work like this? In this section we briefly look at ways that might change the way money works. What are these and how will they work? We also come back to some other features of the economy that are likely to transform how much people give.

What about different types of money?
Are the problems with money inherent in the concept? Or can we change the way money works? There are many examples of people creating their own types of money to facilitate exchange, especially in periods of economic uncertainty – such as the Barter Markets in Argentina (mercados del trueque) during the recession of the 1990s, and the Swiss WIR founded in the wake of the great depression. In the UK (and worldwide) there has been a renewed interest in the use of complementary currencies to achieve social and environmental goals.

We do not examine different types of complementary currency in detail in this report. For a more detailed typology, see David Boyle *More than money*.[53] We are, however, interested in how they might be used to facilitate giving. We also focus in this section

Box 14. In what ways can complementary currencies facilitate giving?

Valuing things the market cannot: As we have already seen there are a range of services that haven't historically been seen as 'economic' and are usually done by women. These activities – such as childcare, housework, and cooking – are often not rewarded in the market economy. This means those who do them cannot trade or exchange their services with others. Some types of currencies (timebanks, LETS, Mutual Credit) work by having the resources and skills of members as the 'backing' of the currency. This means they can value and reward these activities in a way that national currencies do not.

Money based on mutual exchange: Complementary currencies can allow trade to happen because people agree to accept each other's goods. This essentially means trade can happen without money created by banks first. This fosters and encourages reciprocal exchange. It also changes the nature of trade because it creates a network of traders. This can be made up of individuals (e.g. timebanks) or businesses("barter networks" or "trade exchanges:). This doesn't mean there is no debt, but the debt is shared between all of the traders in the network. So, the debt can always be settled or cleared within the network. This is very different to owing debt to private banks.

Accountability that money usually doesn't have: Some complementary currencies can be reserved for a particular purpose. For example, currencies such as the Bristol and Brixton Pound are designed to try and facilitate local trade and production. You cannot bank these currencies offshore, they can't be traded internationally or usurped into distant supply chains.

Demurrage: Many successful complementary currencies use a feature called 'demurrage', which means they devalue if they are not spent. It makes no sense to hoard a currency that falls in value over time so the currency has one sole purpose – to facilitate trade and exchange (or depending how you look at it, gifts).

Linking up buyers and sellers: New currencies can offer low-cost ways for people to connect (and give to each other) or trade and in effect act as match or market makers. Of course, there are also platforms without currencies that can do this without money (e.g. freecycle) or using national currencies (Airbnb).

Different psychological response: As we have seen, people seem to respond in a particular way to financial incentives. It is not clear that people will have the same responses to incentives expressed in a different kind of currency.

on community currencies or using different types of exchange rather than monetary policy which is considered in several other nef reports.[54] These currencies retain some features of traditional exchange, but many facilitate giving in a way national currencies do not. We explore some of these in Box 14.

These are some of the ways that, in theory, changing the way money works can increase giving. In practice, of course, things may be different. Anyone thinking about setting up their own currency will face many challenges – not least the transaction costs and social costs of doing something so different.

Applying the framework to complementary currencies

Do people respond differently to complementary currencies? To answer this, | we review some of the challenges with using money that we set out in Section 3 and see if there is any evidence that complementary currencies are any different.

Crowd out

Money is seen primarily as an extrinsic motivator that conflicts with intrinsic motivators to do the right thing. There is a question about what type of motivator complementary currencies actually are (and of course they may not all be the same).

As many currencies are strongly promoted and marketed as having a social purpose, it is possible that a reward in such currencies will encourage pro-social behaviour rather than crowding it out. One of the core challenges identified in the previous section is that financial incentives can interfere with the self-identity of a person and their own image as being altruistic.[55] If a complementary currency is designed to include such altruistic ideas then it may have a quite different effect. Provisional findings from a survey of Lambeth Council staff found that most people who used the Brixton Pound felt they were helping the community and doing something good by spending Brixton Pounds.

Studies have found that vouchers do not crowd out intrinsic motivation in the same way sterling does. Lacetera and Macis[56] look at the use of incentives on blood donations in an Italian town. They found that cash payments did reduce donations but the same amount in the form of vouchers did not.

Send a signal about a task

The second core aspect of using financial incentives was the potential for them to change people's perception of a task. It is in this respect that we expect complementary currencies to be the most different to sterling. Again, this is likely to vary with the design of the currency. While there is very little evidence on how people perceive complementary currencies, there is evidence on how people respond to time. When people are asked to give time they are much more likely to do things for charity than if they are first asked to give money. (See Box 15).

These findings may be directly applicable to time currencies, which means people may be more likely to give if the reward is denominated in time rather

Box 15. The time ask effect.

Liu and Aaker did some research which looked at how people responded to being asked to donate money and compared these responses to those where people were asked to give time. In all the (lab) experiments, people were asked the same things – to make a donation of money and to get involved in a volunteering project. However, the order of the questions was changed.

Liu and Aaker found that if people were first asked to donate time by volunteering, they were more likely to go on to donate money. If they were asked to donate money first, they were less likely both to volunteer or donate money.

They suggest that thinking about money (relative to time) is likely to make people focus on themselves with 'value-maximising' goals. In contrast they suggest that considering time first activates goals of emotional well-being, which leads to a greater willingness to make a donation.[57]

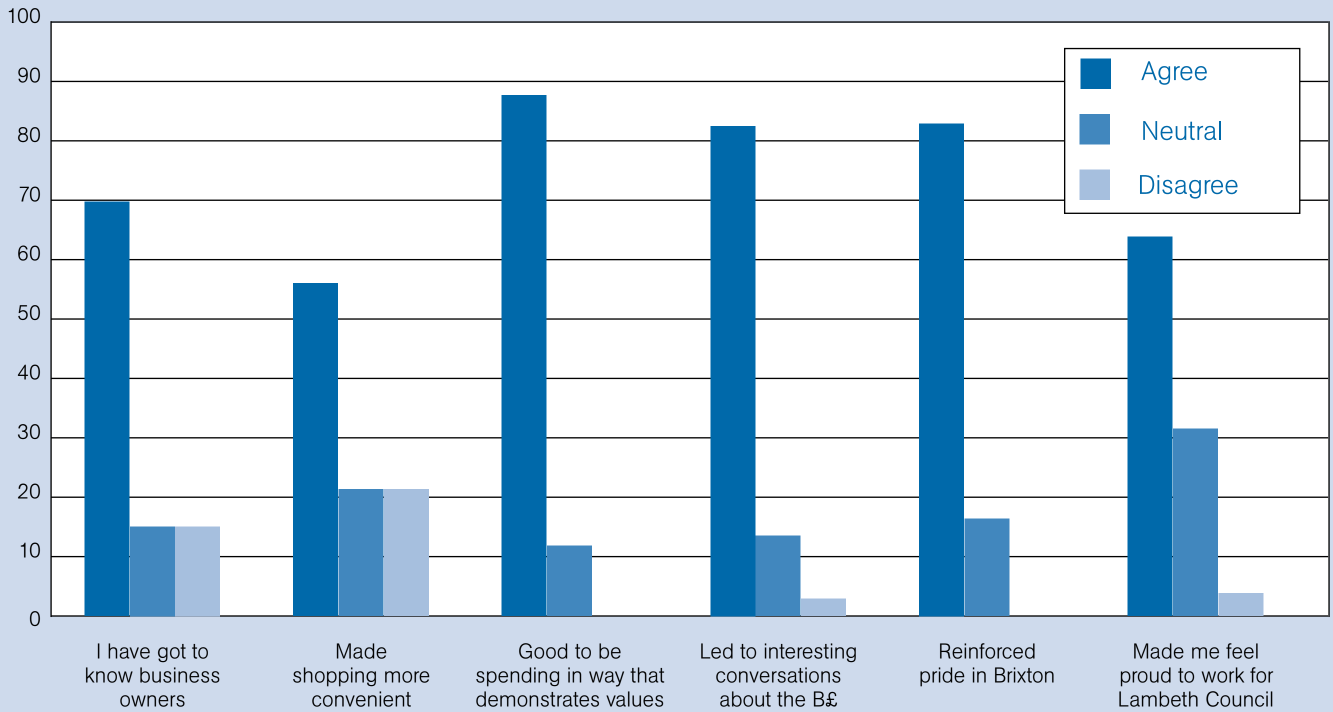
than money. In addition, given time currencies are not convertible to sterling, people may consider the situations where they are used to be 'social markets' (see the Ariely example above). If this is true, complementary currencies will not crowd out motivation in the same way sterling can.

Change behaviour

Another aspect of money is that when people are primed with money they behave in a different way – less likely to co-operate with others or give to charity.

Again, the effect that community currencies have on behaviour is likely to be different in this regard. Strong social signals can be embedded in design. For example, the image shows a Bristol five-pound note, featuring an image from a community event, St Paul's Carnival, and authorised by "the people of Bristol". This may act as a prompt or reminder for people to act for the common good.

Figure 1. *Outcomes people reported from spending the Brixton Pound*



There not much research on how people respond to complementary currencies, but there is evidence on how small differences to the presentation of national currencies change behaviour.

For example, Yang et al have conducted several experiments involving ‘clean’ and ‘dirty’ money. In this case dirty money was literally money that they had stained compared to new, crisp banknotes. They found vendors at a street market, when primed with ‘dirty’ money, were more likely to cheat customers of small amounts of fruit and vegetables. In a lab experiment students primed with ‘dirty’ money were less altruistic in a trust game, less likely to care about fairness in the ultimatum game, and gave less in the dictator game.[58]

It is likely that spending local currencies will have big effects on how people relate to others in their local area. Evidence from the Brixton Pound[59] found that members of staff who used the currency regularly got to know local business owners. Common feedback was that they were able to get on quicker first name terms with local business owners because when you spend Brixton Pounds by text message their name comes up in the text message.

Over 80% of users said it had reinforced their pride in Brixton and a slightly lower proportion said it had made them feel proud to work for Lambeth Council. Over 50% of users said they had changed their lunch habits by going out to eat lunch in Brixton more often.

Summary

This section began to apply our framework to community currencies. Very few academic studies exist which look at the effects of community currencies but studies on vouchers show that people spend these differently to cash. We see that there are lots of reasons why people may respond to currencies that have strong social and environmental triggers embedded within them in a different way to national currencies and this is an exciting area for potential new research.

5. Conclusion

We started this report by looking at self-interest. We presented a picture of human behaviour that goes beyond regarding people as ‘good’ and ‘bad’. People have a range of different motivations which interact in unpredictable ways. Moreover, while there are undoubtably people who are more likely to give than others, people change.

People will behave differently depending on the social situation or social clues they pick up from those around them or their work setting. Beyond our immediate setting, what we value as a society, what we measure by success and the social distance between us, all matter.

We built on this picture of human motivation to look at the challenges of using incentives – particularly financial incentives – to encourage people to give. The picture that emerges is not black and white. There are many situations where money can crowd out intrinsic motivation, but we also found examples of money enhancing or creating motivation.

It is also not just whether or not money is used as a motivator but the way in which it is used and how much people are prompted to think about it. People may change their behavior on a task if they are reminded of their hourly wage or even if they have to think about money before doing something. Moreover, all money will not be the same, and people will respond in different ways to social or community currencies.

To policy makers, considering using money to motivate giving or pro-social behaviour, the big lesson is to proceed with caution. In some situations offering a financial reward can increase effort on the outcome you are incentivising at the expense of other, equally valuable work. A balance needs to be made between rewarding people for what they do, and respecting their ability to use judgement and human compassion.

This report raises some big questions: Why is it that people respond to money the way they do? Can we create different monies and different ways of trading that have different effects? Could we organise firms and institutions so that people do not have to choose between doing something good and making money?

Appendix 1: The Prisoner's Dilemma

The dilemma of 'doing good' is often expressed through the prisoner's dilemma. This describes a particular scenario or game where people have to make a decision, the outcome of which depends on the interaction of two people.

The set up is as follows: you and a friend have been arrested. The police have evidence that you did a minor crime (say, trespassing) but they suspect you did something much worse (let's imagine they think you robbed a bank). If both people stay silent you will both be convicted with a minor crime and the police are stuck because they want to find at least one bank robber. So, the police offer you a deal to confess when you will be offered a lower sentence and your partner in crime will take the rap.

The dilemma is:

- from a purely self-interested perspective it makes sense to confess, and in this case effectively cheat on the other person in the game.[60] It is always in a person's self-interest to cheat.
- however, looking at it from a group perspective (or social welfare perspective) the best outcome is obtained when both people do not confess (they 'co-operate'). Pursuing collective interest results in a better outcome for all.

While the scenario of the prison may sound unrealistic, decisions of this form crop up all over the place. From paying taxes, relationships, doing the washing up in a shared house, and looking after common resources such as fishing rights. You can benefit by 'cheating' but if everybody does this everybody is worse of.

Thankfully, in practice, people often do co-operate. There are a large number of interpretations as to why this is so. Some of these don't diverge from the idea that people are self-interested and if the game is played repeatedly, you can do better by reciprocating co-operative behaviour.[61] There are also many other qualities of human behaviour that mean in real life we are able to change the pay-offs of the game and we often do.

One of the most influential writers on this subject is Elinor Ostrom, the only woman to win the Nobel Prize in Economic Sciences. She challenged conventional wisdom by showing how local property and commons can be managed by local communities.[62]

Endnotes

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2 For examples of some of the perverse effects of using targets in practice, see the work of John Sedden and Vanguard Consulting.

3 Note that this is different to the way that the wellbeing team at **nef** (the new economics foundation) and many psychologists relate to ideas about happiness or subjective well-being. Generally these refer to a person's cognitive evaluation of their own well-being. Some economists refer to well-being in a similar way, but it is generally thought that well-being cannot be easily measured and is given an ordinal rather than a cardinal value.

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9 The term 'caring externalities' is often used to describe a social cost that is not taken into account in prices. It is often used in healthcare to describe people caring about living in a society where other people are not denied access to healthcare – another type of market failure.

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