

STRINGS

UNTANGLING  
THE ETHICS OF  
INCENTIVES

ATTACHED



RUTH W. GRANT

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Untangling the Ethics of Incentives

**Ruth W. Grant**

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To Steve

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## Preface

THE IDEA FOR THIS PROJECT was born during an undergraduate seminar in ancient Greek political philosophy. The students were exploring the circumstances under which coercion, or force, might be ethically superior to persuasion. That possibility ran counter to their usual assumptions. How often had they been told as youngsters to “use your words” instead of hitting or pushing or grabbing? The assigned reading for that day was the opening scene of Sophocles’ *Philoctetes*. Philoctetes is in possession of Achilles’ bow, which the Greeks must have in order to defeat the Trojans. Odysseus, always the clever one, is attempting to persuade the noble young son of Achilles, Neoptolemus, to help him retrieve the bow by means of a deceitful scheme. Neoptolemus resists the use of such shameful tactics, saying,

I have a natural antipathy to get my ends by tricks and strategems . . . Philoctetes I will gladly fight and capture, bring him with us, but not by treachery.<sup>1</sup>

For Neoptolemus, force is more honorable than fraud as a means of attaining one’s goals.

And then someone asked, “What about incentives? Wouldn’t that be an alternative way of getting Philoctetes to relinquish the bow?” Here was an interesting possibility; and even more interesting, it was a possibility that was not included in the play. Why not? Did the Greeks not understand that “everyone has his price”? Or, on the contrary, did they understand the limits to that saying better than we do? It is unlikely that an incentive would have worked with Philoctetes. Bargaining is not

always an effective mode of influence. Resentment, pride, and a sense of honor all would prevent a successful negotiation in this case. One would expect that Philoctetes would not yield at any price. Indeed, acting honorably might be understood precisely as holding fast to those things that must be defended at any cost. Bargaining, like coercion and persuasion, involves ethical considerations too, it seems.

For whatever reason, the play does not include offering incentives as one possible approach to the problem of retrieving Achilles' bow. Instead, the possibilities are presented in terms of the dichotomy between speech and deed, persuasion and force. To be sure, persuasion includes explaining to Philoctetes the relative advantages and disadvantages of the choice he faces later in the play. If he relinquishes the bow and goes to Troy, certain things will follow as a matter of course: for example, he will have access to medical care for his wounded foot. But this is the natural consequence of a certain decision, not an incentive added as an inducement to make that decision.

I walked out of class thinking about incentives in a different way than I had before. Incentives now appeared as one kind of power separate from coercion and persuasion, and I found myself wondering how to judge the ethics of employing one kind rather than another. When is the use of force legitimate? What sorts of persuasion are illegitimate? How can legitimate uses of incentives be distinguished from illegitimate ones—bribery or blackmail, for example?

It is this last question that became the central question of this book. And the framework for my investigation has remained unchanged since that first day. By this I mean that incentives are construed as an exercise of power throughout the book. They are one of the means employed to get people to do what they otherwise would not. And incentives, like all kinds of power, are subject to abuse. This understanding brings the ethical issues involved with the use of incentives to the fore much more effectively than the alternative approach, according to which

incentives are understood in the same terms as any other form of trade.

Many ideas may occur to a writer, but few grab you enough to stick with them through the process of writing a book. When they do, it is generally because they engage not only ongoing intellectual interests but also ongoing personal ambivalences and intersecting concerns. One day, while working on this book, a childhood memory came back to me. I was shopping with my mother in Marshall Field's department store in Chicago. The saleslady was very attentive, and we took some clothes into the dressing room to try on. As we did so, the saleslady said, "Remember, my name is Betty." In my naïveté, I thought that all of this was very nice. My mother's reaction was not so positive, and she explained to me that the salesladies worked on commission, a situation that pitted them against their fellow workers and encouraged them to flatter us. Betty would only receive her commission on the sale if we remembered to seek her out so that she could be the one to ring up the sale at the cash register. I recognize now in my mother's remarks a distant echo of the labor union attitudes toward incentives that first developed when incentives were introduced in the early twentieth century as part of a move toward "scientific management" in American industry. That story is briefly sketched in chapter 2.

In my case, the intellectual issue of ethics and incentives, once it had surfaced in the *Philoctetes* class, reverberated with my own experience: with my own sense of manipulation in certain situations where incentives were deployed; with my observation of the tensions between individual incentives and the cooperative spirit within institutions; and with my longstanding concerns about the use of incentives in education and child rearing. I found, for example, that people became more reluctant to "pitch in" in the workplace for the common benefit once it became the usual practice to offer some kind of bonus for any "extra" duty. I wondered what kind of lesson my child was learning from the teacher who gave extra credit on spelling tests to children who

did not ask to use the bathroom. On account of a variety of experiences like these, the issue had been on my mind in one form or another for quite awhile, and this project took hold.

As I worked on this book, the very large philosophical questions of the possibility of ethical reasoning and the grounds of ethical judgment increasingly nagged in my ear. The book is meant to persuade the reader that there are certain ethical standards by which the use of incentives ought to be judged. Where do those standards come from? Do they apply across cultures? What “counts” as a good argument in matters of ethical judgment? What does it mean to have good judgment and how does one acquire it? Is knowledge possible in this area, or must ethical judgments necessarily be made in the absence of certainty and without conclusive demonstration?

These questions receive no direct answers here. Although, in principle, they are prior to and foundational for the sort of argument I present, I did not begin by answering them. Instead, I began with my own “gut reactions” and then subjected them to examination. As I worked through this process, the grounds of my opinions became clearer and some of them were altered; my understanding of incentives was sharpened; and I changed my mind about the ethics of their application in many areas. I hope that the reader will have a similar experience. Having begun with a suspicious attitude concerning the use of incentives, I found myself actually more hospitable to their use than many people in certain sorts of cases, for example, in the use of incentives to attract research subjects for medical research. Here is one area where my intuitive response was more favorable than the prevailing attitudes in the medical community, and the challenge for me was to appreciate the force of their critique.

As enlightening as this journey has been, I am well aware that this sort of analysis does not ground ethical principles down to bedrock. I do not offer a complete philosophical defense of the ethical perspective I develop in this book. Some crucial premises of the judgments that I defend are presupposed. I try to limit such presuppositions to those that are necessary for grounding

ethical inquiry itself. The basic premise here is that people ought to be treated as independent agents capable of moral responsibility—capable of making moral judgments and guiding their conduct by them. Without this premise, a project such as this one, which aims to establish criteria for ethical judgment, would make little sense.

Ethical inquiry is about making distinctions of the sort that cannot be made by observation of behavior alone. For example, two different people might observe the same classroom, and one might see a fine example of education at work, while the other might condemn the proceedings as indoctrination. How *do* we distinguish between education and indoctrination? Are these just a positive and a negative term for the same thing? Can we distinguish between the government and the mafia? After all, each provides protection at a price. The same sort of question could be asked about socialization and cultural oppression; courtship and seduction; and so on.

I think that these kinds of distinctions can be made, that it is important to make them, and that the differences that ground our ethical judgments can be articulated and defended. In this book, I aim to make ethical distinctions among the various ways in which one form of power is employed.

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## 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 inmates 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 the 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 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.<sup>1</sup> 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 that 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, 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 latter 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 produce 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.<sup>2</sup>

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 the 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.”<sup>3</sup> 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 among 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 one possible answer to the following 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 you imagine a similar program offering tax breaks to middle-class mothers who keep their teenage children drug-free?



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