
REVIEWS

Crowding Out Virtue

Bruno S. Frey, Not Just for the Money: An Economic Theory of Personal Motivation, Edward Elgar, Cheltenham, 1997

Reviewed by Gerald F. Gaus

IN this wonderful little book, Bruno S. Frey, an economist at the University of Zurich, provides a convincing — indeed, to my mind a conclusive — case against a fundamental tenet of the model of *homo economicus*, namely, that ‘higher monetary reward (price) induces more of an activity’ (p. 119). A higher price, he effectively shows, can, and relatively often does, reduce supply. The core of Frey’s case is the ‘crowding-out effect’: rewards may crowd out other motivations to supply the good.

The analysis builds on the distinction between ‘extrinsic’ and ‘intrinsic’ motivations. An extrinsic motivation is any sort of ‘external incentive’, such as a reward or a punishment. Monetary gain is, then, the really crucial external incentive, but government regulations, supervision in hierarchical organisations and fear of punishment all qualify as external. Intrinsic motivations fall into two chief groups: the motivation to perform an activity simply because one is interested in it or enjoys it; and the motivation to perform an action because one believes it is the morally right thing to do, or because it advances some moral value to which one is committed. Frey’s main claim is that monetary motivations may ‘crowd out’ these internal motivations. Offering a monetary reward may undermine intrinsic motivations, resulting in less of the good being supplied.

Frey can be understood as denying that motivations are always ‘additive’. According to what we (not Frey) might call the additivity assumption, if I have motive to perform an act, adding a second motive can only increase my tendency to perform the act. If we see motives as psychological pushes or impulses to perform the act, the additivity assumption seems correct: being pushed by a second motive in addition to the first makes my disposition to perform the act even stronger. Much of *Not Just for the Money* consists of reviewing a large number of empirical studies showing that additivity often does not hold when one of the motivations is extrinsic and the other intrinsic. For example, in his own study of attitudes toward accepting a nuclear waste facility in Switzerland, Frey found that, in a community that was being considered for location of a the facility, before compensation was offered 50.8 per cent of the respondents agreed to it. Frey attributes this response to ‘civic duty’: those accepting the facility were likely to have faith in the fairness of the selection process. When compensation payments were offered, the percentage of respondents ready to accept the facility dropped to 24.6 per cent. Even more interesting,

increases in the amount of compensation offered had virtually no effect on whether residents were prepared to accept the nuclear waste.

It seems that one who accepts the location of the waste facility on the grounds that it is the fair result and secures the common good, and so is required by civic duty, does not also understand it as something he gains from and which advances his self-interest. Moreover, some citizens began to suspect that they were being paid (bribed) to overlook safety and other concerns. Consequently, rather than adding to the civic motivation the offer of monetary reward undermined it. Once the proposal was understood as a monetary transaction many citizens felt it was not worth accepting it at any of the prices offered. Consequently, by raising the price (from zero) to be paid for accepting the facility, the supply of acceptors was substantially reduced.

Not only does this replacement effect limit the usefulness of monetary rewards, offering monetary rewards for one 'good' can, because of a 'spill-over' effect, restrict the supply of a whole range of associated goods. For instance, if citizens in an affected community see the location of nuclear waste as an opportunity to make money, they may well come to view other policies — such as road and airport location — in a similar light. What once was freely given may well be withheld, even when offered a high price. Frey acknowledges that although at some price the positive relation between price and supply will eventually be restored, a surprisingly high price may be required before the supply returns to the level reached when the good was supplied 'freely' for internal motivations.

Perhaps the only significant shortcoming of Frey's book is the rather quick and not altogether satisfying explanation of the psychological bases of the crowding-out and spill-over phenomena. As he sees it, monetary incentives may lead to crowding out internal incentives, for three reasons. First, the monetary incentives reduce feelings of self-determination: 'the locus of control has shifted from the inside to the outside. ... The persons concerned no longer feel themselves to be responsible'. Second, such intervention leads to a loss of self-esteem, as the person feels that his competence and commitment are questioned. Third, when external incentives are supplied, the 'person acting on the basis of his or her intrinsic motivation is deprived of the chance to exhibit this intrinsic motivation to other persons' (pp. 16-17). Without disputing these points, it seems to me very plausible indeed that the crowding-out and spill-over effects have their roots in our cognitive outlook, in particular the way we conceive of our actions and goals. To conceive of an act as an instance of duty, or an expression of friendship, precludes also understanding it as an unwarranted cost for which one can, and should, be compensated. It cannot be both a burden that one has a duty to bear and something that can be refused unless one is adequately paid. And because seeing it as the latter precludes seeing it as the former, offering monetary rewards can lead people to see it, and similar things, as (only) the latter, and so their motivation to supply them will go down until fairly high levels of payment are offered.

One of Frey's great merits is that he is careful not to push the analysis too far. He does not question that in a market, based on relations among essentially self-

interested strangers, the price effect works as classical economics predicts. And he is also careful to acknowledge that some sorts of external motivations can indeed be added to internal ones. Insofar as rewards are seen as recognition of the importance of, say, civic duty rather than an attempt to 'buy' one's civic performance, rewards may well function to support, rather than undermine, moral and other intrinsic motivations. Although, then, Frey sometimes indicates that crowding out concerns the way that external motivations undermine intrinsic ones, it is really about the way a subset of external motivations — monetary incentives and authoritative regulations — often do.

In several enlightening chapters Frey explores the implications of the crowding-out effect for public policy issues: for example, constitutionalism, environmental policy, NIMBY problems, compensation for work and blood donation. Especially interesting for Australians is his position on institutional design, and his criticism of Geoffrey Brennan's Humean view that political institutions should be designed for knaves. Given crowding-out effects, treating citizens like knaves — providing them with the sorts of incentives knaves will respond to — is, in a wide range of political and constitutional areas, apt to drive out civic-minded motivations, ensuring that citizens will act like knaves. Again, the problem is the lack of additivity: constitutions that recognise only self-interested incentives do not add to the civic-minded motivations but supplant them.

Economists have long resisted efforts by psychologists to render *homo economicus* more realistic. The economist's (and perhaps even more, the public choice theorist's) claim is familiar: while, of course, *homo economicus* is not an accurate psychological profile of most individuals, it is an immensely useful simplification that has yielded impressive results. It does not tell the whole story, but it is an immensely important part of it. Efforts to make it more accurate, it has generally been claimed, will simply complicate the model, rendering it less, not more, useful. One of the great merits of Frey's book is his demonstration of how, especially (but not only) in public policy contexts, employing the too simple model has often (though by no means always) led to perverse results: payment has often decreased the supply of already-scarce behaviour. Because we cannot suppose that self-interest supplies motivations that simply can be added to existing intrinsic motivations, the application of *homo economicus*, enlightening in most markets contexts, may be a perverse guide to public policy.

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