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‘The Moral Economy: Why Good Incentives are No Substitute for Good Citizens’, by Samuel Bowles

Review by Robert Armstrong

Decency, piety, patriotism, love: we’re all in favour of them, goodness knows. But when you have a business, an economy, or a nation to build, self-interest — and self-interest alone — is the cement that will keep it upright. Greed is an emotion you can count on.

If there is a single dogma that has dominated mainstream economic and political thought since the 18th century, this is it. Samuel Bowles, an economist at the Santa Fe Institute, thinks this dogma is false. In his tightly argued and illuminating book, *The Moral Economy: Why Good Incentives are No Substitute for Good Citizens*, Bowles makes the case that appeals made to our self-interest can undercut instinctive moral impulses; and that when these impulses are weakened, crucial institutions work sub-optimally, if at all. This is the case even for markets, institutions which the dogma holds up as exemplars of the unique organising power of greed.

Here is a good example. Fifteen years ago, the Boston Fire Department ended its policy of unlimited sick days, hoping to curb the flu outbreaks that seemed to happen on Mondays and Fridays. Fire fighters taking more than 15 sick days would have their pay docked. The following year, the number of sick days taken more than doubled. And sick days around the year-end holidays increased by an order of magnitude. Oops.

How can the addition of an explicit financial incentive push behaviour in the wrong direction? The Boston case is hardly isolated. In addition to anecdotal evidence, Bowles offers up examples from game theory. In experiments, players of “prisoner dilemma”-type games, with real money at stake, often freely engage in behaviour that benefits the other players while reducing their own rewards. When the experimenters add incentives for selflessness, the selfless behaviour often declines.

Examining the case of those fire fighters provides an intuitive sense of what is happening in these cases. The change in sick-day policy replaced a relationship that respected the honour of the firefighters with one that put a price on their obedience. Instead of treating showing up to work over the holidays as a duty, it became something they could buy their way out of. Many decided the price was worth paying.

Bowles calls this "crowding out of social preferences". The existence of this phenomenon — and after reading the book readers are unlikely to doubt its reality or its importance — turns on its head the idea that markets are simply the products of the interplay of selfish impulses. The causality goes the other way as well. Markets produce selfish impulses, too, which can in turn deprive selfless motives of their essential place in the psychological ecosystem.

Managers will finish Bowles's book wishing for more examples of how this crowding out threatens business productivity. But everyone who has ever worked on a team knows that group success depends on team members assisting one another, even in the absence of individual reward. Offering the wrong kind of material incentive for this — a bit of extra pay for mentoring, say — can undercut this mutual support by making it just another (underpaid) kind of work, or another box to be ticked.

Bowles calls on a long tradition of scepticism about the power of self-interest that reaches back as far as Aristotle and, passing through Rousseau, takes its contemporary form with thinkers such as Kenneth Arrow and Albert Hirschman.

The central insight is that no market structure or contract is so well-designed that it can eliminate all opportunities for bad actors to take unfair advantage of the credulous. There will always be opportunities to cheat. So without a background of good will and trust, the mutual benefits of trade and co-operation will never be realised. Each party will be, quite rationally, too suspicious of the other to make the first move.

Prices crowd out goodwill because they are not just incentives. They convey messages too. In the simplest cases, they can signal that the domain of the incentive is not the proper home for moral concerns.

Here, Bowles offers the telling example of his own children who, when offered pay for doing household chores as a supplement to their allowances, stopped doing chores altogether. Their moral obligation to help around the house had been supplanted. More significantly — and here Bowles touches upon some of the most fundamental issues in moral psychology — they can deduce the selfish or distrustful impulses of the designer of the incentive (whether a policymaker or market maker), or reveal that the incentive is an attempt to deny the autonomy of its target. Instead of motivating citizens or workers, the wrong incentives alienate them.

Individuals are not just maximisers. They will reject incentives that treat them as commodities. "When people engage in trade, produce goods and services, save and invest, vote and advocate policies," Bowles writes, "they are attempting not only to get things but also to be someone, both in their own eyes and in the eyes of others."

Magnanimous motivations and behaviour flow from individuals' sense of themselves as free, worthy of trust, capable of bestowing it, and not to be treated as a sucker or a chump. No one wants to be a mere cog in the system of rewards and punishments, responding mechanically to market prices.

In passages like this, Bowles sounds like a moral thinker whose name does not appear anywhere in his book: Immanuel Kant. The idea that social interactions must be constrained by respect for the autonomous self-regard of others has much in common with the Kantian imperative that others must never be treated simply as a means to an end. Of course, the differences are large. Bowles is making a descriptive psychological point whereas Kant's argument was about the very nature of freedom and reason. Still, it is interesting how many thinkers keen to emphasise that people are more than selfish end up echoing the sage of Konigsberg.

The book is, happily, much easier to read (and much shorter) than Kant's *The Critique of Pure Reason*. And it demands very little in the way of technical knowledge of economics or game theory. It is not, however, light reading; the arguments and examples, succinct as they are, require careful attention.

It is worth the effort. We all invoke the cliché that "not everything has a price," as an offhand rejection of economic analysis and an appeal to more humane considerations. Bowles shows why we should instead treat the slogan as a basic premise of sound economic thought.

The Moral Economy: Why Good Incentives are No Substitute for Good Citizens, by Samuel Bowles, *Yale University Press, RRP£16.99/ RRP$27.50, 288 pages*

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