Incentives for Public Service Workers and the Implications of Crowding Out Theory

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Using incentives to boost worker performance is an idea with increasing currency in some parts of the public service sector. But while the success of such incentive structures has been empirically supported within the private sector, their record in the public sector is mixed and inconclusive. This paper considers the concept of ‘Public Service Motivation’, which implies a degree of intrinsic worker motivation towards public goals, as one reason why sharp incentives, including pay-for-performance, may fail to produce their intended results in the public sector. In order to investigate how extrinsic incentives may interact with Public Service Motivation, this paper considers the concept of ‘motivational crowding out’, which shows how intrinsic motivation can be diminished through external rewards. These findings suggest a number of sometimes controversial implications for practise as well as for theory.

Possessing all the appeal of a simple economic truism, the idea that “people respond to incentives” is standard fare among the opening pages of textbooks assigned to students of public policy. “When policymakers fail to consider how their policies affect incentives”, warns one popular text “they often end up with results they did not intend”. But what exactly are these things called incentives, which policymakers must mind so carefully? This particular textbook defines an incentive as “something that induces a person to act” (Mankiw, Kneebone, McKenzie and Rowe 2008, 7). Following this characteristically broad definition, the principle that “people respond to incentives” tells us nothing more controversial than that people act in response to that which induces people to act.

But behind this bland tautology hide a number of biases that are reflected in—and further shaped by—popular discourse on incentives. Of particular importance is extrinsic incentive...
bias, which refers to the widespread tendency, especially within neoclassical economics, to overestimate the role of external incentives (such as monetary payments) in human motivation. The textbook mentioned above—Gregory Mankiw et al.’s ubiquitous *Principles of Macroeconomics*—is representative: While first defining incentives as broadly as possible, subsequent examples serve to paint incentives more narrowly as external rewards or punishments. A higher price for apples, Mankiw et al. explain, is like a punishment when I go to purchase apples, incentivizing me to choose pears instead; a gas tax incents me to drive a more fuel-efficient vehicle or to take public transit based on changes in relative price. While these examples provide clarity, they also represent an omission: Nowhere in the description is there discussion of intrinsic motivation, emanating not from external rewards or punishments, but by an interest, enjoyment in or commitment to a task or process itself.

Broadly defined, an ‘incentive’ can be based on both extrinsic or intrinsic motivation: For example, a professional could be incented (extrinsically) to fulfil a given task through a targeted salary bonus; or incented (intrinsically) by new information that demonstrates the efficacy of that task at fulfilling clients’ needs. Yet extrinsic incentive bias means that the former type of incentive—the external reward, the monetary price—is what students and policy makers are taught to recognize, and manipulate, as a genuine motivator and a genuine incentive.

Extrinsic incentive bias is especially problematic in the presence of what we might term the additive incentive bias—the assumption that introducing a new incentive will leave other incentives intact—and will simply graft onto the existing motivations and incentives facing an actor. Assuming incentives to be additive, a bias towards extrinsic incentives on the part of, say, economists and policy makers, seems somewhat harmless. But as *crowding out theory* has demonstrated, incentives are not always additive, and intrinsic motivation can be in fact be diminished by (or “crowded out” by) the introduction of external rewards or punishments.

Despite being intuitively uncontroversial, the claim that internal motivation exists, and that it can be diminished or crowded out by rewards and punishments, has received insufficient attention in mainstream policy and economic literature. To explain this lack of attention, I review incentives through the lens of agency theory in the private sector, before showing that this theory has been misapplied to some degree in the public sector. From this foundation, I move on to the central concern of this paper, which is to investigate whether intrinsic motivation on the part of public sector workers can be diminished by extrinsic incentives. To approach this question, I first consider the evidence of intrinsic motivation among public sector workers, through a review of the literature on the concept of Public Service Motivation. Next, I review the theory and evidence of motivational crowding out, in order to explore the potential consequences of not recognizing or understanding intrinsic motivation among workers. Finally, I explore the implications, for practice and theory, of the evidence...
on intrinsic motivation and crowding out. As I will show, some of these implications are surprisingly far-reaching, as well as controversial.

**Using incentives to increase production: Private sector roots**

Most discussions of workplace incentive systems begin with a nod to the “scientific management principles” of Taylorism in the early 1900s, where piece rates were introduced to increase factory worker efficiency (Heinrich and Marschke 2010, 183). The core model now used to theorize about incentive problems is principal-agent theory, and Taylorian factories provide a simple illustration of this model: The factory owner (the principal) and the factory workers (agents) are assumed to have different goals—the owner to maximize profits, the workers to maximize their wages for a minimum of effort. Principal-agent theory is a way of conceptualizing such situations of “goal incongruity” between two or more persons (Dees 1993, in Heath 2009, 500). Because it is difficult or impossible for the factory owner to observe the effort of all his workers, we say there are ‘information asymmetries’ between principal and agent. The dilemma for the factory owner is how, in the face of these goal incongruities and information asymmetries, to induce agent effort so as to maximize his own profit. The clearest answer to this dilemma, supplied by principal-agent models, is that the owner’s profits will be maximized when workers’ primary reward (in this case, wages) is tied as closely as possible to their performance in achieving the principal’s goal. If workers are paid an hourly wage, this theory tells us they have an incentive to shirk, whereas payment by piece rate gives workers an incentive to maximize output. Empirical studies provide support for this theory. For example, Lazear’s (1999) analysis of the Safelite windshield manufacturer chronicled a 44% rise in productivity when the firm replaced hourly wages with piece rates (discussed in Burgess and Ratto 2003, 291).

Such powerful results have encouraged the application of similar incentive schemes to workplaces far beyond the factory. Yet several factors frustrate the further application of these models: Non-standardized output, environmental influences and interdependencies, multiple principals, team-based output and multiple bottom lines all make measurement of worker output, and the construction of output-based incentives, difficult to implement (Heinrich and Marschke 2010, 184). As production becomes more complex and knowledge-intensive, the use of so-called “sharp”, targeted external incentives like piece rates becomes costly and challenging, and principals usually must rely on other ways of aligning worker motivations with their own goals.

**Incentives in the public sector**

Public sector workplaces often exemplify the difficulties in using sharp incentives. Burgess and Ratto outline how public sector agents tend to work for multiple principals, in a team environment, towards outputs and complex outcomes that are difficult to measure and
monitor (2003, 288-290). For these reasons, optimal incentive structures in the public sector usually differ from the factory model described above. However, as I will argue throughout this paper, the neat logic and documented success of such extrinsic rewards and sharp incentives possess what is sometimes an irresistible pull for public managers, especially in an era where the emulation of private sector business practices has been broadly encouraged in the public sector.

Extrinsic rewards in the public sector can take many forms. They usually entail a more explicit attempt to measure and isolate individual (or team) output, often through the use of performance indicators, where resulting scores are then tied to rewards such as pay bonuses. Sometimes this is combined with a tendering of public service delivery to private companies, with contacts contingent on performance scores. Other times service delivery remains public, but the employment of public workers (including pay, evaluation and promotion) is more sharply tied to their performance against delineated performance metrics. The use of extrinsic incentives in the public sector has grown over the past few decades, and is an idea that maintains considerable currency in today’s public service, although there is much variation between jurisdictions. If we are discussing whether teachers’ pay should be based on student test scores, whether medical teams should be monetarily rewarded for decreasing infections, or whether official score cards and ranking tables should be published for local service agencies, one important commonality is the use of an external, or extrinsic incentive. Whether the prize is more money, better ranking or better publicity, it lies outside of the work itself. All of these examples represent a public sector attempt at using external incentives to encourage agents to act towards goals identified and set by the principal (or various principals). What such incentive structures often leave out is a consideration of workers’ own goals, and whether they are already aligned to some degree with the goals set by the principal.

Public service motivation

This idea of “goal congruity” is an especially important one in the public sector: Whereas the classical factory model showed that owners and workers often have different goals, this is much less clear in public service areas like teaching, nursing or child welfare, where principals and agents may share a concern for outcomes. Intuitively, it seems fairly uncontroversial to suggest that, for example, a nurse is motivated to care for his patients not only so as to keep his job and gain wages, but also because he cares to some degree about their well-being and health. A robust literature demonstrates the existence of public service motivated agents who “care about their output and share to some extent the same objective function as the principal” and/or who “share some idealistic or ethical purpose served by the government” (Naegelen and Mougeot 2011, 392). Thus, in addition to multiple bottom lines, difficult-to-measure outputs, and multiple principals, this literature argues that the public
sector possesses the further distinction of housing more intrinsic worker motivation than the classic factory model would indicate.

This “Public Service Motivation” (PSM), is defined in the literature as “an individual’s predisposition to respond to motives grounded primarily or uniquely in public institutions and organizations (Perry and Wise 1990, in Moynihan 2010), or more broadly as a “general, altruistic motivation to serve the interests of a community of people, a state, a nation or humankind” (Rainey and Steinbauer 1999, in Moynihan 2010). The argument that the public sector has a unique ability to channel intrinsic motivation is a difficult one to make, as it is clear that intrinsic motivation also exists in the private sector. Recent popular texts like Daniel Pink’s Drive have shown how businesses can profit (and have already profited) by replacing certain external motivators with practices that reflect and augment workers’ intrinsic motivations toward autonomy, mastery and purpose, (which Pink defines as “the yearning to do what we do in the service of something larger than ourselves”) (2009, 129-145.)

However, while intrinsic motivation plays an important role in the private sector, numerous empirical studies provide evidence that intrinsic motivation often plays an even bigger role in public service workplaces.¹ There is some disagreement about the cause of this phenomenon. Georgellis et al. (2010) use British longitudinal data to show that extrinsic rewards (such as earnings, hours, and job security) had an either insignificant or negative effect on the likelihood of worker transition from the private to the public sector, while satisfaction with intrinsic rewards increased the probability of this transition. This study provides support for the hypothesis that individuals driven by intrinsic motivation “sort” themselves into public sector work, while others hypothesize that the public sector itself can have some effect in shaping worker motivations towards a more intrinsic orientation.

Regardless of what causes the phenomenon known as Public Service Motivation (PSM), it is difficult to see how it could be unique to the public sector, as opposed to the broader public service sector—which includes private non-profits and charities. However, it is worth noting that some empirical work does in fact suggest that not only the focus of work on public goals, but also the locus of work in the public sector, is correlated with intrinsic motivation. For example, Houston (2003), using survey data from over 7000 workers in multiple sectors across eleven countries, employs multiple regression analysis to demonstrate a strong correlation between intrinsic motivation² and both the focus of service work, and the location

¹. See Georgellis et al, 2010, for a review of the literature.
². Intrinsic motivation was defined by Houston in three separate measurements, as those who answered “very important” to the question of “how important you personally think [the following] is in a job”: 1) A job that allows one to help other people; 2) A job that is useful to society; 3) A job that is interesting.
of such work in the public sector. Thus, while PSM is generally not considered to be sector-specific, there is some reason to believe that it is particularly prevalent in public service workplaces that are part of the public sector.\(^3\)

To recognize the existence of intrinsically motivated public sector workers does not tell us with certainty that extrinsic incentives have no place in the public sector. For one thing, a goal towards which workers may be intrinsically motivated (for example, to assist children), is usually only one of several organizational mandates. If workers lack similar motivation towards other key organizational goals (such as cost minimization), this could result in an allocation of effort clearly mismatched with the principals' goals (Houston 2003, 290). However, what PSM does imply is that certain incentive problems caused by goal incongruity between principal and agent can be minimized not only through external incentives, but by achieving goal congruity\(^4\)—for example, by employing workers who possess intrinsic motivation to achieve an outcome which is also desired by the principal(s).

**Explaining extrinsic incentive bias: Historical roots and theoretical blind spots**

Many would argue that a public service worker having the potential to possess some intrinsic motivation towards a public service goal—for example a health care worker who cares about patient outcomes—is not only “fairly uncontroversial”, it is obvious, as evidenced by how preposterous it would be to argue otherwise. But if the potential for intrinsic motivation here is obvious, we should ask why it is so often absent from policy discussions. I offer five responses to this important question:

The first reason, I believe, is simply that intrinsic motivation is considered inert, and therefore not requiring recognition or articulation. To use economic language, this might translate into a sense that workers have an “initial endowment” of intrinsic motivation that remains unchanged. Or, as Frey and Jegen summarize, “intrinsic motivation is assumed to be an exogenously given constant” (2001, 596). If we consider intrinsic motivation as an endowment that remains constant, there is no need to question how it might be affected by policy.

The second reason is likely historical: As discussed previously in this paper, incentive theories were originally developed in simple task-based private enterprise, and have since been misapplied, to some degree, to other sectors and types of work. A body of theory on

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3. Despite this prevalence, the argument that the public sector possesses a unique capacity and ability over the non-profit sector to attract and encourage certain forms of intrinsic motivation is not one that I wish to make here. This would be an interesting area for further research and theory.

4. Whether this is best achieved through ‘sorting’ (ie. hiring workers who display PSM) or by encouraging PSM through workplace norms is the topic of a body of research (eg. see Predergast), but beyond the scope of this essay.
intrinsic motivation has been developed over the past few decades, but lacks the historical advantage and, partly for this reason, remains marginal. Large and influential studies, such as Lazear’s work with the windshield factory (1999), continue to demonstrate the power of extrinsic rewards in simple task environments in the private sector; these findings are then often generalized to other sectors and types of work.5

A third set of reasons for extrinsic incentive bias is theoretical, and based on the constraints inherent to certain economic methods and modeling techniques. For ease of modeling, standard economic theory takes a “black-box approach” to motivation, which bundles all motivation under the idea of “preference”, but which in turn leaves the discipline without a clear theory of preference formation. As Heath (2009) points out, while “nothing intrinsic to agency theory prevents theorists from taking an interest in the way that ‘internal’ incentives… can be used to overcome agency problems, it is just that game theorists have no idea how to model such processes, and so have largely chose to ignore them” (2009, 502). Similarly, interdependent choice—the idea that my preferences are influenced by your preferences—is avoided in standard economics through built-in assumptions to ensure modeling capabilities.

The theory of rational choice that underlies neoclassical economics, which assumes that individuals act based on preferences that are transitive and complete, does not technically imply that these preferences must be egoistic or extrinsically motivated. However, as noted by Heath (2009), this tends to be how the theory is understood and applied: One can search the related literature for a long time before finding a single example where individuals are ascribed altruistic motivation. Rational choice assumptions continue to be taught as part of the standard approach to economic modeling and questions of human motivation and interaction. The only widely-accepted challenge to this model comes from behavioural economics, which itself still remains sidelined in most introductory economics courses. Behavioural economists have incorporated psychological findings to provide empirical evidence against basic tenets like transitivity, but often have little to say about the role of norms, social context, values, motivation and institutions. Thus, the field of economics continues to lack both the language and the analytical apparatus to investigate the complexities of such important causes and consequences of human motivation and interaction (Akerlof and Kranton 2010, 7). Rational choice models still exert great influence on diverse areas of study, including political science, especially as economics continues to spread beyond its traditional focus on markets. Lauded for its parsimony, rational choice economics still appears to be standing as a “grand intellectual edifice” (Shepsle

5. Further historical exploration of extrinsic incentive bias in the public sector is beyond the scope of this paper, but might lead to diverse areas of inquiry such as gender, the nature of paid work, the historical role of the church in providing voluntary services, and the changing role of government prior to and throughout the development of the welfare state.
and Bonchek 1997), which exerts influence not only within academia, but among the wider popular imagination. Thus, a bias first created to improve modelling capability has grown to exert a surprising degree of influence on the way we understand human motivation and interaction.

A fourth reason for neglecting intrinsic incentives in the public sector springs again from the propensity to “black box” motivation, and to impute individual motivation retroactively through examining aggregate results. In this way, if a public organization is viewed as providing poor service, we might draw the assumption that its workers lack motivation to help the people they serve. Wilson (1989) famously compared a public welfare office with a private real estate firm to show how lacking appreciation for the very different constraints facing these institutions could lead to just this sort of misunderstanding about the workers’ level and type of motivation. Schelling (1978) also shows how imputing individual preferences through aggregate results leads to fallacies; however this is just what the classical view has achieved by black boxing motivation. The sense, however erroneous, that aggregate results reveal actor preference remains popular, and when applied to a beleaguered welfare office, for example, can create quite a cynical view of public workers.

A fifth and final explanation for extrinsic incentive bias is normative. Rational choice was created as a positivist model, and economists are at pains to stress that it is not a normative prescription for human action. Yet this model of humans as rational, individually-motivated profit maximizers has fed back into cultural values of how humans “should” act, especially in the context of a workplace. This is likely to be especially true in political contexts which valorize the for-profit private sector, and which hold the public sector to be inherently inferior to private enterprise. In such contexts, public managers may realize “symbolic benefits” by creating an impression that government is being run in a “rational, efficient and results-oriented manner”, by incorporating traditionally private sector management tools like extrinsic incentive systems (Moynihan 2008, 68, in Heinrich and Marschke, 2010, 186).

**Motivational crowding out**

The first half of this paper examined the existence of intrinsic motivation among public sector workers, and reviewed how and why this intrinsic motivation often goes unrecognized in theory and work settings. The second half of this paper now explores one reason why this lack of recognition could be harmful: The potential for motivational crowding out. As previously explained, motivational crowding out refers to the undermining of intrinsic motivation by external rewards. A classic and oft-quoted example from Titmuss (1970) hypothesized that paying people for blood donations would undermine social values and would therefore reduce, rather than increase, willingness to give blood (Frey and Jegen 2001, 589). As I will show in the next section, a range of studies has since provided empirical validation of the crowding out effect.
Theorists have suggested several ways to understand how and why the crowding out effect occurs. One of the most intuitive explanations is based on the “signalling” capacity of an incentive—how by instituting an external incentive, a principal can change the way the task is perceived by agents. For example, paying children to read books (an idea that has recently received attention in the US) could be understood as signalling to kids that reading is not an enjoyable task. Or a performance bonus for social service workers who assist clients towards a certain outcome might be hypothesized as signalling to workers that managers had insufficient trust in their intrinsic motivation to help. “When outside intervention carries the notion that the actors' motivation is not acknowledged”, write Frey and Jegen, “his or her intrinsic motivation is effectively rejected. The person affected feels that his or her involvement and competence is not appreciated, which debases its value” (2001, 594).

The introduction of an external incentive can have a powerful framing effect, whereby, for example, agents are led to view a task through the lens of market norms as opposed to social norms. Heyman and Ariely (2004) demonstrate how paying students to complete a simple task (dragging as many shapes as possible from one spot to another on a computer screen), led them to decrease their effort. While the group paid $5.00 for the task performed much better than the group paid $0.50, the most productive group of all was the one paid nothing, which had been asked “as a social request” to perform the task (Ariely 2009, 78). Titmus' hypothesis that paying people for blood donations would decrease supply was tested by Mellström and Johannesson (2008), who divided potential blood-donating women into three groups, and instructed each group either that: A) blood donation was strictly voluntary; B) they would receive a small payment (about $7.00) for giving blood; or C) the $7.00 payment would be given to the women whose blood was taken, but with the immediate option for them to donate it to a children’s charity. Their findings confirmed Titmus' hypothesis—members of group A (voluntary) and C (payment to charity) were significantly (and equally) more likely to donate blood than group B members, who were paid for their donation. Both of these experiments might be understood as demonstrating how intrinsic motivations related to social norms (doing a simple favour, or engaging in a “prosocial” task like giving blood) can be diminished when extrinsic rewards are introduced. This dynamic is explained by Parsons and other theorists as a shift in framing or orientation, whereby humans are theorized as approaching a task with, for example, a normative orientation which can then be replaced by a strategic orientation when money is offered. Dan Ariely captures the power of this shift in orientations through vignettes where someone offers to pay their mother-in-law for thanksgiving dinner, or offers a payment to a date for sex.

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6. Interestingly, the same experiment carried out with men did not demonstrate the crowding out effect.
7. The distinction between payments and gifts, and the way a charity-donation option can shift the frame of a payment, is discussed in Ariely (2009, 81, 96-7, 99).
In contrast to this orientations-shift view, an alternate explanation for crowding out models actors as trying to maximize numerous forms of “utility” at the same time. Whereas the classic economic model has a singular curve for general “utility”, an alternate model offered by Akerlof and Kranton (2010) models actors as maximizing both traditional utility, and also a new category they call “identity utility”. Applying their model to our topic, we see how being paid for a task could raise a traditional utility curve through a price effect, but lower an “identity utility curve” for those considering themselves to be altruistic. Depending on the aggregate balance of the gains and losses to each utility curve, the model will predict a net loss or gain to overall utility from the extrinsic incentive. If the loss to identity utility outweighs the gains to traditional utility, we can predict that a crowding out effect will occur.

This overview might paint the dual-utility curve approach as clumsy and somewhat arbitrary (especially in deciding different categories of utility, be they “identity”, status, altruism, etc.). However, I think this model points us in a useful direction when investigating crowding out in workplace settings. While the Parsonian “orientations shift” model is especially helpful in understanding situations where a market mechanism was not previously involved (such as a blood donation, a family dinner, or a date) the multiple utility curve might be more applicable to scenarios where market mechanisms are already present, such as the workplace. This model allows us to understand how a worker might approach a given task with multiple types of coexisting motivations, which can be subject to opposing effects through a given incentive program.

Evidence of the crowding out effect

It is important to note a few larger scale studies that empirically demonstrate not only the existence of the crowding out effect, but the prevalence of this effect according to certain workplaces and task types. Deci, Koestner and Ryan (1999) conducted a meta-analysis of 128 well-controlled experiments involving intrinsic and extrinsic motivation, and concluded that tangible rewards have a significant negative effect on intrinsic motivation for interesting tasks, when they are contingent on task behaviour (Frey and Jegen 2001, 597-8.) This concept of an “interesting task” is also the focus of a meta-analysis by Weibel et al (2009), which collated 155 subgroup samples from 46 empirical studies. An interesting task was defined here as one which was perceived to be “challenging, purposeful, or enjoyable”—thus including much of the work facing public workers like teachers, nurses or social workers, while excluding most of the tasks in the classic factory model (Weibel et al. 2009, 391). They found that sharp extrinsic incentives (in the form of pay-for-performance) increased output on average by 42% in non-interesting tasks, but decreased output by 13% for interesting tasks. Using longitudinal data, Georgellis et al (2010) find some evidence of crowding out in certain sectors of the British public service—including the NHS and higher education—because intrinsically motivated individuals were found to be less likely to “sort” themselves into these sectors in the presence of higher extrinsic rewards.
As was the case with Public Service Motivation, this crowding out dynamic is fairly intuitive, yet has been largely absent from theory and practice for some of the same reasons explored earlier. The body of evidence synthesized above is still developing, and many questions remain about how, why, and in what context the crowding out effect occurs. Nevertheless, the case that intrinsic motivation exists, and can be undermined to some degree by extrinsic incentives and rewards is now supported by a fairly robust literature. I will argue in the final section of this paper that accepting the notion of motivational crowding out in the public sector has a range of practical and theoretical implications.

Practical implications of crowding out theory to the public workplace

Crowding out theory has interesting implications for the public sector workplace—some of them straightforward, others controversial. Most simply, it suggests that further empirical work should be done to investigate how incentives work in areas where intrinsic motivation has been demonstrated to be important: This includes “interesting task” environments as well as work relationships characterized by incomplete contracts (Frey and Overholzer-Gee 1997, 753). An awareness of crowding out theory encourages incentive designers to be more cautious in introducing extrinsic incentives before attempting an intrinsic motivation-based approach. Crowding out theory also suggests the public sector might rethink the use of sharp, contingent incentives such as pay-for-performance. Weibel et al. argue that blocking pay-for-performance in the public sector would save public money not only due to the costs of performance bonuses themselves, but due to the hidden costs highlighted in crowding out theory (2009). Whether or not we agree they should be blocked altogether, the theory suggests that careful thinking about the implications of public sector performance bonuses is prudent.

Research on PSM and crowding out theory may serve to highlight and problematize extrinsic incentive bias among some public sector managers. Various controlled studies demonstrate that while people assign intrinsic motivation to themselves, they view others as being significantly more extrinsically motivated—for example, while 12% of prospective law students felt that financial reward was a factor in their choice of profession, 63% of them assigned this financial motivation to their peers (In Heath 2009, 53). We could speculate that such extrinsic incentive bias might be especially common among managers who lack interaction with the front line. Whereas frontline service workers’ regular contact with clients might foster (or attract) more of an intrinsic desire to do well by populations in need, managers’ distance from the front line might cause them to underestimate the intrinsic motivation felt by workers. 8 Knowledge of PSM and crowding out might lead to creative workplace policies aimed at challenging such bias—involving, for example, work exchanges or shadowing between front-line and management levels. Heath (2009) shows how extrinsic incentive

8. However, it is also possible to imagine how the opposite effect could occur. This would be an interesting question to investigate.
systems may, instead of intensifying work effort, serve to “communicate the message that management does not ‘trust’ workers”. Because trust usually develops with relations that are mutual and two-sided, it can be “difficult to cultivate in an environment in which one party also has unilateral and arbitrary control over the power to punish and reward the other” (Heath 2009, 516.) For this reason, organizations seeking to cultivate trust and loyalty to organizational goals—important in workplaces where goal incongruity cannot easily be managed through extrinsic incentives—may benefit from downplaying hierarchy.

Crowding out theory could also have implications for job design. In Drive (2009), Daniel Pink argues that private sector workplaces should encourage and harness intrinsic worker incentives through policies providing more worker autonomy, opportunity for mastery and sense of purpose. Much of his work is applicable to the public sector in the form of relatively simple job design changes. Theorists such as Heinrich and Marschke (2010), Predergast (2007), and Holstrom and Milgrom (1991) explore job design as a means for controlling public workplace incentives. Some of their ideas are based on the sorting of employees—through assignment of different tasks to workers based on their levels of intrinsic motivation. For example, Predergast suggests that intrinsically motivated workers in an employment-assistance office be given the task of training the unemployed (where performance outcomes are difficult to measure), while more extrinsically motivated workers be assigned to tasks where output can be effectively gaged (such as securing interviews for unemployed clients).

More controversially, PSM and crowding out theory might imply that outsourcing of public service work is inadvisable. This would be a difficult argument to make conclusively, and the suggestion that public services should never be outsourced to private companies is not one I wish to develop here. However, in so far as some research suggests not only the focus, but the locus of work within a public organization affects intrinsic motivation, and in so far as crowding out theory shows us how monetary incentives can undermine this intrinsic incentive, these theories do imply that caution is due before outsourcing certain forms of public service work, especially to for-profit companies (Houston 2011, 769). The history of New Public Management provides further evidence to encourage this cautionary approach to the questions of outsourcing and privatization.

Another highly controversial implication of crowding out theory is demonstrated by the suggestion that public employees be paid smaller salaries. For example, Georgellis et al.’s (2010) study of the British labour market, where public sector jobs often pay better than private, leads them to suggest that “reducing earnings and other extrinsic rewards could also improve efficiency and performance, by improving the quality of job matches between intrinsically motivated employees and public sector jobs” (Georgellis et al. 2010, 9. See Heinrich and Marschke, 2010, p. 192-5 for discussion.)
This line of argument, sure to be intensely unpopular among many groups, highlights how crowding out theory could be employed towards an array of contradictory policy ideas. Interestingly, a Parsonian “orientation-shift” reading of crowding out might provide a contradictory prescription for pay level: That public employees be paid highly enough that questions of money can be sidelined, ensuring that an instrumental attitude to the work does not predominate.

With these controversial and contradicting proposals, we see that crowding out theory does not offer many clear implications for the public workplace. The one implication that is clear, however, is that the theory cautions against uncritical application of sharp incentives to the public sector, or the naïve assumption that profit and other extrinsic motives can be reliably employed to improve effectiveness and efficiency. Crowding out theory implies that workplaces should be aware of the potential for hidden costs of incentive schemes, and in particular that they should be aware of intrinsic motivation as something which may be altered and influenced (although not always in clear ways), for better or for worse.

**Theoretical implications of crowding out**

In addition to these applications to the public sector workplace, crowding out has a number of implications for theory. The first is simply that further empirical work on crowding out could develop and refine our knowledge of human motivation, allowing for improved theories of incentives, with better predictive capacity. The concept of crowding out, as we saw above, has already served to develop and refine theories in psychology and behavioural economics. The application of crowding out theory to public policy theory might also bear interesting fruit.

Crowding out suggests that, in lacking a well-articulated theory of preference formation, and in treating motivation as an exogenously-given constant, fields like neoclassical economics have developed theoretical blind spots regarding how motivation is shaped and influenced. One interesting consequence, I would like to argue, is that the theory neglects the possibility of self-reinforcing dynamics. A somewhat radical question raised here is whether the assumptions of economic theory have had a self-fulfilling effect in practice: Have humans come to behave more like rational utility-maximizers because economic theory models them as such? Findings within behavioural economics seem to contradict this idea: Despite being modeled as rational, humans continue to exhibit a range of cognitive errors. On the other hand, other behavioural findings affirm the power of framing and suggestion on human action. For example, people primed with images of money are less likely to assist others (Kahneman 2011, 55). People playing the “Wall Street Game” are significantly less likely to cooperate than when the same exercise is retitled “The Community Game” (Liberman, Samuels and Ross 2004). And economic students are more likely than those in other
disciplines to behave in experiments like the rational profit-maximizers modelled by their field (In Heath 2009).

Thus, the most interesting theoretical suggestion of crowding out theory is that we could be altering human motivation through our study of human motivation—or at least through the application of these studies. The latter option, whereby the application of theories about human response feeds back to alter these responses, has been addressed to some degree in policy literature. For example, Schneider and Ingram point out that policy tools reflect but also influence political culture. They discuss how societies that rely on symbolic policy tools may produce citizens who respond mainly to symbolic appeals, “while societies that rely on incentives may create the need for ever-increasing inducements and sanctions, as individuals become less and less willing to take policy preferred actions simply because of their beliefs in the basic norms of citizenship” (1990).

However, the former idea, that the assumptions present in theory itself—and not simply its application in policy—can have an affect on motivation is more controversial, because it challenges the traditional normative-positivist divide at the heart of social science. The discipline of economics in particular, tends to be defiantly anti-normative: It is hailed as the study of how human interactions work, not of how they should work (Levitt and Dubner 2005). Therefore the suggestion that economic modeling has a normative effect is radical. To a discipline with no articulated theory of ideas, it says that ideas have consequences, and in particular that they can sometimes have a self-fulfilling effect.

Challenging the idea that the normative-positive divide is impenetrable could have interesting consequences—the best of which would be improvement to both approaches. Challenging this divide could also mean challenging the hierarchy whereby normative approaches are considered patently inferior or out of place in many academic settings. This might lead to a more fully developed and engaged conversation about how we think public sector workers (as just one example) should be motivated. By no means do I suggest these conversations would produce concrete answers; rather, the suggestion is simply that an already-existing kind of “cryptonormativism” (Heath, 2009) be brought to light for a more open, critical and reflexive examination and debate.

Conclusion

Research on intrinsic motivation and crowding out theory offers, as I have demonstrated in this paper, a number of possible implications that range from the fairly simple to the deeply controversial. The suggestion I wish to conclude with is simply that a fuller understanding and articulation of human motivation is needed—one that better recognizes intrinsic incentives and the intricacies of the crowding out effect. As pointed out here, some of this understanding is already implicitly present in some fields, and intuitively accepted among
many people. However, a further academic treatment of these issues—including empirical research based on laboratory experiments, survey data, longitudinal approaches and ethnography, as well as ethical and normative accounts, would be helpful in developing greater knowledge and more accurate theory.

In focusing on public service workers, I have aimed to highlight a basic practical application of the crowding out research completed to date. In demonstrating how intrinsic incentives can be undermined, crowding out theory encourages a cau
tionary and mindful approach to extrinsic incentives for public service workers. In an era when the public sector workplace continues to be measured against a private sector yardstick, it is especially important to consider that intrinsic incentives may play a uniquely strong role in some parts of the public service sector. The further development of research on this topic should help to clarify where and how external incentive structures are misapplied in the public service, and should enable better alignment of public organizational practice with improved knowledge of human motivation.

References


