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Incentives and prosocial behavior in democratic societies

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ABSTRACT

This paper studies the relationship between monetary incentives to encourage citizens' contributions to a social good (voting, charity donation, etc.) and the society's consideration for that good in the presence of social signaling. We establish that, no matter how much citizens value the social good, low incentives (or disincentives) may emerge as the unique majority voting outcome when concerns for social reputation are sufficiently high.

1. Introduction

In most democratic countries, public authorities resort to monetary incentives to encourage citizens' prosocial behavior, tax deduction to reward charity giving and penalties to punish non-voting or tax evasion being canonical examples. Such "prosocial policies" vary greatly across time and place. Some countries (Australia, Brazil, Belgium, Greece, among others) sanction those who fail to vote with a fine, while voting is not even compulsory in many other countries. Striking variations are also evident in the importance and the enforcement of the punitive measure when there is one: while an Australian voter who fails to participate in an election may simply avoid the fine (about $A20) by

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providing a "legitimate reason", Bolivian non-voters may be denied withdrawal of their salary from the bank for several months.[1] Similarly, although most governments provide tax incentives for charity donation and fine tax evaders, policy data display significant variations across countries.

How can these variations be explained? What are the determinants of public policies to foster prosocial behavior? In a democratic society, it is natural to expect these policies to reflect, at least indirectly, the preferences of a majority of the citizens. Regarding prosocial behavior as a traditional public good, we might thus be tempted to think that public incentives simply reflect the preference of a majority for this good. Concretely, the fine sanctioning non-voters should be large in countries where citizens' concerns for participation in elections are high. Our purpose here is to show that this is not necessarily the case.

There is indeed large evidence that individuals' prosocial behavior is intertwined with psychological factors, among which are the "warm glow" from being prosocial, self-esteem and social-reputation (see Frey & Jegen, 2001, for an account and extensive references). One of the well-documented empirical regularities concerning the impact of external incentives is the so-called "overjustification effect": monetary incentives and punishments may reduce agents' ability to prove others (friends, family, etc.) or themselves that they are intrinsically prosocial, and consequently affect their motivation to behave pro-socially. Bénabou and Tirole (2006) pursue this idea, and study the relationship between incentives to encourage prosocial behavior and the total contribution to a social, public good in a model that takes into account individuals' will to signal their prosocial orientation.[2] It turns out that providing such incentives may have a perverse effect, reducing the total contribution.

This paper brings political economy into Bénabou and Tirole's (2006) framework: we study majority voting over publicly provided incentives. We are particularly interested in the relationship between the equilibrium level of incentives, the society's preference for the social good, and social-reputation concerns. Our main finding is the following: even if society's consideration for the social good is very high, majority voting may lead to extremely low public incentives (and even disincentives) to contribute to that social good when citizens' reputational concerns are substantial.

Two reasons are identified for why this may happen. The first reason is the above-mentioned crowding out of intrinsic motivation to contribute by external incentives: if the aggregate contribution is decreasing in the incentive rate, then voters who value the social good will favor low incentive rates. But, even if aggregate contribution to the social good is increasing in the incentive level, there exists a second reason to explain this result. While voters could choose large incentives in order to foster prosocial behavior, voters with a high prosocial orientation will not find this in their interest. Indeed, large monetary incentives reduce the informativeness of contributions to prosocial activities, and therefore deprive prosocial voters of the chance to display their public-spiritedness. Social-reputation concerns may thus create a desire to weaken public incentives.

This note thus belongs to the extremely sparse political economy literature on incentives to encourage voluntary contributions to public goods.[3] What distinguishes the present analysis from previous contributions is mainly our focus on social signaling.

This paper is organized as follows. In Section 2, we describe the model. The main intuitions and results are presented in Section 3. Finally, Section 4 offers some concluding comments.

2. The model

We first describe the private choices that result from individuals' preferences and government policies, and then turn to the presentation of the collective choice of public policies.

2.1. Preferences, policies, and private choices

Consider the following adaptation of the model elaborated by Bénabou and Tirole (2006). The economy is composed of a large number of citizens who act as economic agents and voters. As an economic

[1] We refer the reader to Powell (1980) for a more extensive description of legal sanctions for non-voting in many countries.

[2] While their paper actually deals with several issues, our focus here is on crowding out. And to avoid having repeatedly to include the relevant section, we leave it as understood that any reference to Bénabou and Tirole (2006) is to the second section of that paper.

[3] Recent contributions on the topic include Scharf (2000), and Epple and Romano (2003).