

# From the book: **FREAKANOMICS**

An International Best seller by Steven Levitt and Stephen Dubner

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**Incentives:** May be incentives are cornerstone of modern western life. However, many times conventional wisdom in inventing incentives is often wrong.

**What is incentive?** Simply urging people to do more of a good thing than bad thing. Incentives do not come organically, politicians, managers, economists, parents have to invent them.

**Some examples:**

1. A child eats green vegetables, he gets a new toy from parents (Positive)
2. A factory is exhaling too much harmful gases, it is fined (Negative)
3. Citizens not paying income tax, TDS introduced (Different method of operation)

## **Three types of incentives: Economic, Social and Moral**

**If financial incentives and fear tactics worked** then the crime would have stopped in the world or at least many of the developed nations, with most educated and well off citizens.

Responding to Moral Incentive means people don't want to do something that is considered wrong and Social Incentive are by which people don't want to be seen by others as doing something wrong. Is it not true that religion contains many with social and moral incentives, and without which there can never be lasting peace for individual as well as society?

Sports has lots of cheating, (taking performance enhancing drugs, false appeals, taking pills, etc) it is not because of the financial incentives but for the bright light of difference between winning and losing.

**First, some cases where financial incentives did not work:**

1. Parents coming late to a School to pickup their child. Financial Incentive of Rs. 100 introduced. Initially they felt bad but with time it did not proved to be a strong deterrent. Their pickup time didn't change and in fact their guilt that they are coming late was also bought off and now they pay small amount to be easy.
2. If blood donors are given Rs 1000. What if we increase this amount to 5,000 surely the number of donors would increase dramatically. They may steal or use force to make people donate blood for money. They may give dog's blood, threats, kidnappings or knife point?

**Case Study: Financial Incentive to teachers:** If students do well, mentor/teacher must be praised and given incentive/bonus of Rs 5000, because the teacher has produced big or best test-score. But what if the teachers go for cheating? She gives questions in advance to students? Or may be she corrects the answers of students by herself while checking the answer sheet? There can be statistical calculations and methods to detect if a teacher has done cheating or not but the system of incentive has failed. Alternate solution could be to standardize the exams.

Organizations must invent social, moral as well as financial incentives.  
What do you think?