

Of Econs and Humans — Theory, Moral Licensing, and Crowding Out

The award of the 2017 Nobel Prize for economics to Richard Thaler highlights the recognition that human behavior is more complex and irrational than the assumptions of conventional, still prevalent economic models. Psychologist Daniel Kahneman, who received the economics Nobel in 2002, described his astonishment that “our two disciplines seemed to be studying different species, which . . . Richard Thaler later dubbed Econs and Humans.” Kahneman warned of “theory induced blindness: once you accept a theory it is extraordinarily difficult to notice its flaws.”

This debate is of extraordinary importance for the future of various national and international environmental programs. Many may rely on assumptions that are questionable, and in some cases perverse in their environmental consequences.

A 2013 study in *Energy Policy* examined the impacts of a water conservation program in a Massachusetts housing complex on overall electricity consumption, including impacts on household CO₂ emissions. Participants reduced their water consumption by 6 percent, but electricity use increased by 5.6 percent compared with a control group. The reduced water use cut energy consumption for hot water heating, but overall increases in electricity use exceeded these energy reductions by two-fold. Taking into account EPA estimates of electricity lost in production, transmission, and delivery, energy use increases with associated upstream losses were six times greater than the energy saved through reduced hot water heating.

The authors state that “adoption of a more environment friendly choice in one domain may actually increase the likelihood of less environment friendly behavior in other areas.” At root is

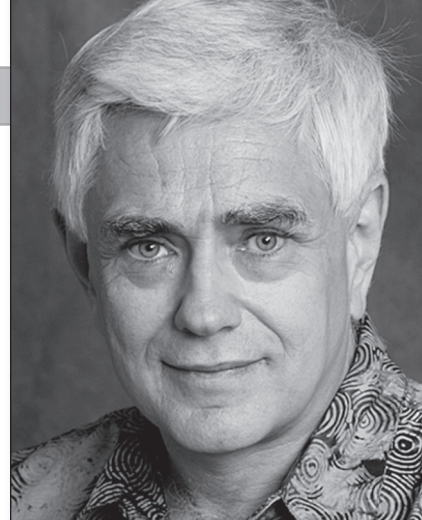
“moral licensing,” whereby people feel that socially or morally praiseworthy efforts in one area lessens the need to act in other areas. They warn that “a considerable amount” of environmental programs and funds might “actually have a much smaller — or even a negative impact on CO₂ emissions” than evaluations indicate.

As early as 1970, Robert M. Titmus, a professor at the London School of Economics, concluded that economic incentives for blood donors in the UK adversely affected, i.e., “crowded out,” donors’ main motivation: altruism and civic duty. Increasing payments for blood donations, he found, can actually decrease blood supply. Since then evidence has grown that some economic-incentive programs to promote publicly desirable activities are perverse in their consequences.

Some economic-incentive programs undermine their own policy goals

Studies in Switzerland, Wisconsin, Nevada, and Washington state on public approval of proposed nuclear waste disposal facilities found higher acceptance when the motivation is the greater public good or civic duty, and that the introduction of economic incentives reduces public acceptance, sometimes more than 50 percent.

In the past, many economists examined empirically expressed preferences without analyzing the impact of external material incentives on intrinsic psychological and cultural values. Yet this distinction, and the interrelationship between external and internal motivation, is critical for understanding how a program to change environmental behavior may work. Already in 1997, a Swiss study concluded that “where public spirit prevails,” using price incentives may crowd out civic duty, and actually make achieving the goals of a particular project more difficult. The authors urged that price incentives should be “reconsidered in all areas where intrinsic



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motivation can empirically shown to be important.”

Sometimes it is argued that while the crowding out phenomenon might apply to populations in richer countries, developing nations would be more responsive to economic incentives. A 2015 *American Political Science Review* article concluded that private economic incentives in a World Bank eco-development project in the Himalayas had a “negative and significant” impact on existing non-economic psychological and cultural motivation to conserve forests in the project population.

Those reporting that the project reduced formerly intrinsic cultural motivations for forest conservation in favor of economic incentives had “lower levels of conservationist behavior” than those who continued to cite the primacy of cultural and environmental values. Collective and community material benefits did have a positive correlation on environmental motivation. But community approaches to resource management, as opposed to private ownership models, are often not favored by governments and aid agencies.

The Indian and American authors warn that many sustainable- and eco-development projects appear to be based on unfounded, simplistic assumptions about the correlation between small household economic incentives and achieving environmental goals. In fact, such “sustainable development projects can have the perverse effect of undermining their own environmental goals.”