Not Just for the Money: An Economic Theory of Motivation

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Some years ago, I was introduced to the work of psychologist E. L. Deci through the medium of a dissertation committee for Amy Rumel, a Ph.D. student at Purdue University. It was fascinating.

Among other things, Deci's experiments had shown that the offering of extrinsic rewards for the completion of an intrinsically interesting task could actually result in participants reducing the effort that they put into the task. Being an economist by training, the profundity of this finding occurred to me at the time. However, under the usual pressures of survival in the academic rat race, any fleeting thoughts I may have had of applying the concept in a consumer economics setting went by the board. But happy to say, there was an economist out there, namely Bruno S. Frey, who not only saw the profundity of Deci's and related findings, but was motivated to contribute to them. He has communicated the importance of the research to economists in this admirably succinct volume.

Extrinsic motivation involves external rewards, most usually associated by economists with the price system. Intrinsic motivation, or "behavioral motivation" as Frey also refers to it, comes from within. For both extrinsic and intrinsic motivation taken separately, the more we are motivated, the more effort we will put into a task. But research has shown that there may be situations when the two do not necessarily work together. Frey invokes a familiar term to economists, "crowding out" to describe the worst-case scenario.

Crowding out occurs when the negative effect on intrinsic motivation of offering a monetary reward outweighs the positive extrinsic motivation. To use the labor market as an example, the result would be a reduction of work effort despite more pay. The profundity of this finding is that the result runs counter to the predictions of economic theory.

Other possible scenarios are that a task provides no intrinsic motivation at all, in which case monetary rewards work as economists predict; intrinsic and extrinsic motivation work in the same direction, which Frey refers to as "crowding in"; that the two work against each other but extrinsic motivation is the stronger, in which case the economists predictions come to pass, but not as strongly as they might expect.

After a brief introduction exhorting economists to look beyond their conception of the marketplace, Part I of Frey's book gives the psychological background to his version of the crowding out effect, and proposes an integrated economic model of human behavior in which crowding out is incorporated. The model leads to several interesting propositions associated with the effect of rewards on performance. The section closes with a new concept, "motivational spillover". Motivational spillover invokes another concept familiar to economists, namely externalities: the dampening down of intrinsic motivation by extrinsic motivation can spread beyond merely task for which the extrinsic reward is intended. The example Frey uses to illustrate this is evocative: "The boy paid for mowing the lawn has not only less intrinsic motivation to do that work, but also is unwilling to do any *other* housework for free" (p.35, Frey's italics). Had I only read this book when my children were still teenagers!

Part II of the book looks at applications of the crowding out concept, and in the process extends us into several important areas with reviews of pertinent empirical research. The areas are, in order, design of a constitution, environmental policy, siting policy (e.g., where to locate a toxic waste dump), regulatory policy, and work motivation and compensation. Part II is an intriguing tour of many significant issues related to intrinsic rewards, extrinsic rewards and their effect on human behavior: how does crowding out play out in blood donation, in recycling, in crime prevention, in faculty merit raises? Read the book for insights on these issues and more.

In Part III, the concluding section of the book, Frey supplements his earlier integrated economic model with two-dimensional visualizations of the effect of crowding out on the supply side of the market. The diagrams are

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accessible to any students who have taken an introductory course in economics, and allow Frey to move to an equally accessible discussion of the consequences of crowding out for economic policy.

But the final word goes to theory. The current model that underpins applied economics as it is adopted in consumer sciences assumes that in our choice behavior we maximize satisfaction subject to resource constraints. Frey's model claims to go beyond this narrow concept of so-called rational economic man. Frey's *Homo Oeconomicus Maturus* "is more mature, in the sense that he is endowed with a more refined motivational structure.." (p.118). Does this mean that rational economic man is dead?

Not really. After some discussion of the possibility of a break with the neo-classical tradition through the construction of a "psychological economics", Frey claims that his book "seeks to circumvents this problem by introducing a well-defined and particular psychological effect into an existing framework of economic theory." (p. 123). The strategy for the integration of one root discipline into another is then described: "Introducing *one* psychological effect at one time accentuates the difference from existing theory. Testable propositions can be derived, and corresponding empirical analysis can be undertaken" (Frey's italics). This is something that those in family and consumer sciences who have attempted to extend the basis of their econometric analysis through the inclusion of "psychological" variables have been doing for some time. As Frey says, we have probably circumvented the problem of developing a new theoretical basis for our work in the process. Mea culpa.

