

Economic Incentives Don't Always Do What We Want Them To

At least since Adam Smith and his famous B's ("It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest."), a fundamental premise of economics has been that financial incentives are the primary driver of human behavior. Over the last few decades, this faith in the power of economic incentives led policymakers in the United States and elsewhere to focus, often with the best of intentions, on a narrow range of "incentive-compatible" policies.

This is unfortunate, because economists have somehow managed to hide in plain sight an enormously consequential finding from their research: Financial incentives are nowhere near as powerful as they are usually assumed to be...

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