

“SOCIAL POLICY AND THE GLOBAL CRISIS: CONSEQUENCES AND RESPONSES” - 8TH
ESPANET CONFERENCE - BUDAPEST 2-4 SEPTEMBER 2010 - STREAM 2. POVERTY AND
SOCIAL EXCLUSION

“Doing the Right Thing” vs. “Working More to Earn More”

a Comparison of Two Incentives-Based Social Policies
in the United States and in France

Elisa Chelle, Ph.D. student at SciencesPo (Grenoble, France)
elisa.chelle@iep-grenoble.fr



Abstract

Incentives-based social policy offers one particular thing : financial rewards for specific behavior. The goal seems plain and simple: reducing poverty by making financially attractive some “choices” that poor people would not have made otherwise. That could be taking their kid to the doctor, accepting a job or working more hours, or for their children having a good grade, getting a library card or graduating from college. That’s for the U.S. version of what is called “conditional cash transfer”, or CCT. The New York City Mayor, Michael Bloomberg, launched the very first American CCT in 2007 as a mean to “incentivize” poorest New Yorkers to “do the right thing”. In France, poor households are also “incentivized” to work rather than to “rely on” welfare. During the last presidential campaign, the conservative candidate Nicolas Sarkozy urged French poor households to “work more to earn more”. He got elected and two years later, in 2009, a welfare reform passed. The revenue for active solidarity, as it is called, offers a monetary reward for poor people getting back to work or working more. Both of these policies relies on the assumption that people rationally choose to live on welfare. They are the continuation of activation policies. Conditional cash transfers are claimed to be an “investment in human capital”. How new are they? Both happened in a crisis context, but also both were prepared in an election context. What kind of quarrels are revived by these programs? Is poverty a matter of bad behaviors or wrong choices, or of economic structure? How does this affect the policy design?

Two Policies Designed to “Reward Work”

Incentives-based social policies are designed to reduce poverty, in the short term by providing cash assistance and in the long term by “teaching good habits”. Monetary rewards for specific behaviors (related to work, education and health) are offered. This paper is drawn from a doctoral research focusing on incentives-based social policy in the United States and in France. In this case, what is called an incentive is a financial reward for achieving pre-definite behaviors. These could include working more hours, taking their children to the doctor or professional training.

The U.S. case is a New York City program called “Opportunity NYC”. The French case is a public policy known the Revenue for Active Solidarity. This research, still under progress, is based on 81 interviews so far with officials, funders and managers. Both policies have been pilot programs (or what is called “social experiments”). They started in 2007. The particularity of such an experimentation is to involve a scientific protocol of design and evaluation.

“Doing the right thing” and “working more to earn more” are the two slogans used by politicians to respectively promote the American and the French program. They both assume that people’s behavior should be changed, or “incentivized”, in order to “help them get out of poverty”. First of all, we will see how this assumption is drawn from behavioral economics. Then, we will question to what extent these incentives can meet their official goal in the context of an economic crisis. Last, we will raise the issue of what political goal incentive-based poverty programs could pursue in spite of the weak power of monetary incentives on people’s behaviors.

To What Extent Behavioral Economics Can Affect Social Policy ?

Incentives are the key issue here. Both of these policies relies on the assumption that people rationally choose¹ to live on welfare, by calculating an economic ratio working vs. not working. Changing behavior is one of the main American concepts to deal with social and political issues,

¹ For the theoretical basis of this kind of rational calculus, see Laffont and Martimort, 2002 ; Miller, 2004.

coming from several shades of both liberal and conservative tones². It has largely been imported in France³.

In the area of poverty studies incentives vs. enforcement to work is a long-standing debate⁴. These arguments reflect different versions of making and keeping poor relief conditional⁵. In that sense, working would be primarily a matter of motivation and that this effort should be externally stimulated⁶. They are considered as a kind of activation policy⁷.

Conditional cash transfers are claimed to be an “investment in human capital”⁸. How new are they? Both happened in a crisis context, but also both were prepared in an election context. What kind of quarrels are revived by these programs? Is poverty a matter of bad behavior or wrong choices, or of economic structure? How does this affect the policy design?

Operating Social Policy in the Midst of an Economic Crisis: From Getting-People-Back-to-Work to Let’s-Salvage-the-Situation

Operating incentives-based poverty policy in a crisis context have not proved successful⁹. The original goal was not for these programs to serve as a safety net function. For one thing, they have been decided before the global economic meltdown. But that’s not the only factor. Other incentives-based programs have shown mitigated results in the past (Gold, 1971 ; Gurgand and

² See for instance the “nudge wave” that proposes a mixed libertarian paternalism or soft paternalism (Thaler and Sunstein, 2008 ; John, Smith and Stoker, 2009). For the plain Conservative version, see Kennedy, 2008.

³ For an example of knowledge transfer in the area of work incentives from Anglo-Saxon countries to France, see Périvier, 2003.

⁴ On work incentives in general, see Levenstein, 1962 ; Macarov, 1970 ; Leonesio, 1988 ; Moffitt, 1992. On CCT incentives to work, see di Maro and Skoufias, 2008. On enforcement or workfare, see Lødemel and Trickey, 2000. For a economic modeled argument comparing the benefit of work enforcement and work incentive among the poor, see Besley and Coate, 1992.

⁵ On conditionality, see Paz-Fuchs, 2008.

⁶ Williamson refers to this phenomenon as a “middle-class belief” (Williamson, 1974 : 634).

⁷ For a general review of activation policy in the United States and in Europe, see Gilbert and van Voorhis, 2001 ; Barbier, 2002.

⁸ For a worldwide review of CCTs, see Fizbein and Schady, 2009.

⁹ Both evaluations of these programs have shown poor results (See Bourguignon et al., 2009 ; Riccio et al., 2010) in terms of getting people back to work.

Margolis, 2008 ; Ebert, 2010). Past and current programs happens to be quite complex to handle for social workers and recipients as well¹⁰.

Rewarding work when there's no more jobs available exclude a lot of potential recipients. The Revenue for active solidarity, as well as Opportunity NYC are both non-structural policies. They have absolutely no effect on job creation. They don't interfere so much with the economic structure.

So these programs turned out to be safety nets, as I was told in many interviews. The incentive part, that was so put forward initially, tends to fade out when unemployment goes up and less and less jobs are available. Activation policy has become very popular in the U.S. and in Europe. However, is "activating" the poor a concrete way to reduce poverty?

If No Activation is Possible Whatsoever, Why Attempting it Anyway? About The Political Power of Incentives

As I said before, these programs have not been undertaken in response to an economic crisis – that nobody really anticipated, even the economists. They just happened to be in a crisis. That is not to say that they took place quite by accident. The Revenue for Active Solidarity and Opportunity NYC share something else: they occurred in an election context¹¹.

In 2007, Mike Bloomberg was to run for his third term. He actually made some "changes" in the New York legislation to be able to run. Two terms was the limit. He was running against a Democrat named Bill Thomson, the City Comptroller. Bloomberg is not Republican anymore but used to be when getting elected for his first term. Let me remind you that he also the richest man of the New York City, with a fortune recently estimated to \$17 billion. Given this situation, doing something for the poor was unexpected from him and controversial at the same time.

¹⁰ About the importance of this phenomenon, see Anderson, 2002.

¹¹ That said, a big difference is that New York City is a far more segregated place than France (see Mollenkopf and Castells, 1992).

The motto of “paying people to do the right thing” infuriated some Democrats as well as some Republicans. Democrats tend to think that this conditional cash transfer is insulting to poor people (“as if they couldn’t make the right choices by themselves” or “as if they were poor because of so-called by bad individual choices”). Republicans tend to not agree with this kind of program on the basis either that work should be mandatory, America being “a land of opportunity” – “*the* land of opportunity”, see Mead 1992) or throwing money at problems won’t solve poverty and people shouldn’t be paid for what they should do anyway.

So that was unexpected and controversial. And most of all politically clever. That makes a perfect political strategy for Bloomberg. He needed to regain political capital as an Independent¹². And he did to some extent, for both Democrats *and* Republicans disagree on his policy. Opportunity NYC was not everything of course. By doing this policy, he is something of a liberal because he does something for the poor and something of a conservative because he does so in a tone of “doing the right thing” (see Huckabee 2008). So, that was more effective in terms of political strategy than in terms of poverty reduction.

In France, we had a presidential election in 2007. The conservative candidate, Nicolas Sarkozy was running against a socialist candidate, Ségolène Royal. Sarkozy, who won the election, made a whole campaign topic of “working more to earn more”. For this aristocrat Hungarian immigrant, it was necessary to build a working-class image. A lot was told about people who “get up early to go to work” and that “work should pay”. Work “finally rewarded” as a matter of “social justice” was a big political hit. The left, usually more concerned about social issues, inequalities and fairness in society, could not really do something against it, or propose something better. They couldn’t say that doing something for the poor wasn’t the way to go. Not in general. Even less in the midst of an election.

Actually the French minister that got in charge of leading the reform, Martin Hirsch, is a well-known Catholic, top civil servant and formerly close to the socialist party. That was the final knock-out for the left. They find themselves unable to propose any alternative and therefore lost the social battle on this ground.

¹² For a complete and powerful analysis of New York City politics, see Berg, 2007.

To Conclude: Are Incentives the Way to Go?

To sum up and conclude, my main points have been the following.

First, financial incentives offers an interesting perspective on how economics are embedded in social policy and change, to some extent, the way we deal with poverty¹³.

Second, incentives don't work in a crisis context. But they are not so effective in a non crisis situation either.

That leads us to the third point: if incentives-based social programs are undertaken anyway, this is primarily as a part of a political strategy.

¹³ Social policy are more and more affected by new public management techniques (see Castonguay, 2009 : Carney and Ramia, 2002 ; Robison, 2006; Sanger, 2003).

REFERENCES

- ANDERSON, Steven G. 2002. "Ensuring the Stability of Welfare-to-Work Exits: The Importance of Recipient Knowledge About Work Incentives", *Social Work*, 47, 2 : 162-170.
- BARBIER, Jean-Claude. 2002. « Peut-on parler d'«activation» de la protection sociale en Europe ? », *Revue française de sociologie*, 43, 2 : 307-332.
- BERG, Bruce F. 2007. *New York City Politics: Governing Gotham*, New Brunswick, Rutgers University Press.
- BESLEY, Timothy and Stephen COATE. 1992. "Workfare Versus Welfare: Incentive Arguments for Work Requirements in Poverty-Alleviation Programs", *The American Economic Review*, 82, 1: 249-261.
- BOURGUIGNON, François et al. 2009. *Rapport final sur l'évaluation des expérimentations RSA*, Paris, La Documentation française : 30 p.
- CASTONGUAY, Julie. 2009. *Benchmarking Carrots and Sticks: Developing a Model for the Evaluation of Work-Based Employment Programs*, Amsterdam, Amsterdam University Press.
- CARNEY, Terry and Gaby RAMIA. 2002. *From Rights to Management: Contract, New Public Management and Employment Services*, La Hague / New York, Kluwer Law International.
- EBERT, Jane E. J. 2010. "The Surprisingly Low Motivational Power of Future Rewards: Comparing Conventional Money-Based Measures of Discounting With Motivation-Based Measures", *Organizational Behavior and Human Decision Processes*, 111, 2 : 71-92.
- FISZBEIN, Ariel and Norbert SCHADY. 2009. *Conditional Cash Transfers: Reducing Present and Future Poverty*, Washington D.C., World Bank Publications.
- GILBERT, Neil and Rebecca VAN VOORHIS (eds). 2001. *Activating the Unemployed: A Comparative Appraisal of Work-Oriented Policies*, New Brunswick, Transaction Publishers.
- GOLD, Stephen F. 1971. "The Failure of the Work Incentive (WIN) Program", *University of Pennsylvania Law Review*, 119, 3 : 485-501.
- GURGAND, Marc and David N. MARGOLIS. 2008. "Does Work Pay in France? Monetary Incentives, Hours Constraints, and the Guaranteed Minimum Income", *Journal of Public Economics*, 92, 7 : 1669-1697.
- HUCKABEE, Mike. 2008. *Do the Right Thing: Inside the Movement That's Bringing Common Sense Back to America*, New York, Sentinel.
- JOHN, Peter, Graham SMITH and Gerry STOKER. 2009. "Nudge Nudge, Think Think: Two Strategies for Changing Civic Behavior", *The Political Quarterly*, 80, 3 : 361-370.
- KENNEDY, Joseph V. 2008. *Ending Poverty: Changing Behavior, Guaranteeing Income, and Transforming Government*, Lanham, Rowman & Littlefield.

- LAFFONT, Jean-Jacques and David MARTIMORT. 2002. *The Theory of Incentives: the Principal-Agent Model*, Princeton, Princeton University Press.
- LEONESIO, Michael V. 1988. "In-Kind Transfers and Work Incentives", *Journal of Labor Economics*, 6, 4 : 515-529.
- LEVENSTEIN, Aaron. 1962. *Why People Work. Changing Incentives in a Troubled World*, New York, Crowell-Collier Press.
- LØDEMEL, Ivar and Heather TRICKEY (eds). 2000. *"An Offer You Can't Refuse": Workfare in International Perspective*, Bristol, Policy Press.
- MACAROV, David. 1970. *Incentives to work*, San Francisco, Jossey-Bass.
- DI MARO, Vincenzo and Emmanuel SKOUFIAS. 2008. "Conditional Cash Transfers, Adult Work Incentives, and Poverty", *Journal of Development Studies*, 44, 7 : 935-960.
- MEAD, Lawrence M. 1992. *The New Politics of Poverty: The Nonworking Poor in America*, New York, Basic Books.
- MILLER, Preston J. (ed.). 1994. *The Rational Expectations Revolution: Readings From the Front Line*, Cambridge, MIT Press.
- MOFFITT, Robert. 1992. "Incentive Effects of the U.S. Welfare System: A Review", *Journal of Economic Literature*, 30, 1 : 1-61.
- MOLLENKOPF, John H. and Manuel CASTELLS (eds). 1992. *Dual City: Restructuring New York*, New York, Russell Sage Foundation.
- PAZ-FUCHS, Amir. 2008. *Welfare to Work: Conditional Rights in Social Policy*, Oxford / New York, Oxford University Press.
- PERIVIER, H el ene. 2003. « Les mesures fiscales d'incitation au travail des personnes non qualifi ees », *Revue de l'OFCE*, 87 : 281-336.
- RICCIO, James, Nadine DECHAUSAY, David GREENBERG, Cynthia MILLER, Zawadi RUCKS, and Nandita VERMA. 2010. *Toward Reduced Poverty Across Generations: Early Findings from New York City's Conditional Cash Transfer Program*, MDRC Report, 398 p.
- ROBISON, Richard (ed.). 2006. *The Neo-Liberal Revolution: Forging the Market State*, Basingstoke / New York, Palgrave Macmillan.
- SANGER, M. Bryna. 2003. *The Welfare Marketplace: Privatization and Welfare Reform*, Washington, Brookings Institution Press.
- THALER, Richard H. and Cass R. SUNSTEIN. 2008. *Nudge: Improving Decisions About Health, Wealth, and Happiness*, New Haven, Yale University Press.
- WILLIAMSON, John B. 1974. "Beliefs About the Motivation of the Poor and Attitudes Toward Poverty Policy", *Social Problems*, 21, 5 : 634-648.