

The Economics of Incentives

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As per economics, an incentive is any factor that provides a motive for a particular course of action. It is simply a means to encourage people to do more of good things and less of bad things. Incentives can be remunerative, moral, coercive, social etc.

I have recently been reflecting on how different countries digest incentives or disincentives. India, of course, has a law or rule (on paper), for just about everything. There are penalties for smoking in trains/airports, fine for jumping a traffic signal, underage driving etc. More often than not, we feel that these rules are not implemented properly. The other side of this is that citizens do not adhere to these rules. The simple explanation is that of inadequate incentives/disincentives. Fine for caught smoking in a train – Rs.100 (who cares!). Fine for jumping a signal – maybe Rs.50....and so on. Low value of penalties coupled with weak implementation – leads to very low probability of an average citizen feeling encouraged to adhere to the law.



Move on to Singapore & Dubai, and you find very high disincentives attached with the ‘wrong’ things. Smoking inside an MRT station – fine S\$20000!! Jumping a signal in Dubai – something like AED 2000! You make the disincentive so penalizing that an average citizen doesn’t break the rules + put in healthy levels of implementation.

Let’s go West for a change and you find that the USA, where most incentives/disincentives of these kinds have become moral incentives. Smoking in a prohibited area, jumping a traffic signal etc. have moral connotations (at least in the sane hours of the day!). On a recent trip, I didn’t see sign-boards informing people about the penalties associated with such an act; instead the sign-board just said – no smoking. Cross-roads had surveillance cameras, but nothing to inform people about the rules. It appears that punitive incentives have been internalized to a large extent in that country.

So, these countries represent the continuum through which incentives are designed, implemented, redesigned, re-implemented and finally yield the desired outcomes.