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When a Nudge Backfires: Using Observation with Social and Economic Incentives to Promote Pro-Social Behavior

*Abstract*

Both theory and recent empirical evidence on nudging suggests that observability of behavior acts as an instrument for promoting (discouraging) pro-social (anti-social) behavior. Our study questions the universality of these claims. We employ a novel four-party setup to disentangle the roles three observational mechanisms play in mediating behavior. We systematically vary the observability of one's actions by others as well as the (non-)monetary relationship between observer and observee. Observability involving economic incentives crowds-out anti-social behavior in favor of more pro-social behavior. Surprisingly, social observation without economic incentives fails to achieve any aggregate pro-social effect, and if anything it backfires. Additional experiments confirm that observability without additional monetary incentives can indeed backfire. However, they also show that the effect of observability on pro-social behavior is increased when social norms are made salient.

(joint with Eugen Dimant and Ulrich Schmidt)