3

Internalization versus Crowding Out

INTRODUCTION

In Chapter 2, we discussed the behavioral mechanisms underlying voluntary compliance and began to examine the interaction between intrinsic motivation and the likelihood of voluntary compliance. We also explored the advantages of intrinsic motivation for compliance in terms of its quality, durability, and ability to lead to a more meaningful internalization process that can also be relevant to other domains.[1]

Most studies on the interaction between internalization and compliance suggest that the state can achieve better results by focusing on intrinsic motivation.[2] Nonetheless, as we have suggested, some intrinsic motivations are better than others. For example, some of the research mentioned in the previous chapter, such as that of Margaret Levi and Tom Tyler,[3] highlights the benefits of compliance driven by institutional factors, such as legitimacy and fairness, rather than relying on morality, which can be more subjective and prone to variation.

Furthermore, it is arguable that the relationship between intrinsic motivation and actual compliance behavior doesn't exist or at least is very low in several settings. For example, as will be discussed in this chapter regarding environmental attitudes, many studies show that the relationship between environmental attitudes and actual environmental behavior is significant but not as strong as might have been expected, given the complexity of the factors moderating this relationship.[4]

[1] See Feldman, Yuval. "The complexity of disentangling intrinsic and extrinsic compliance motivations: Theoretical and empirical insights from the behavioral analysis of law." *Washington University Journal of Law and Policy* 35 (2011): 11.

[2] Cooter, Robert. "Do good laws make good citizens? An economic analysis of internalized norms." *Virginia Law Review* 86 (2000): 1577–1601.

[3] Levi, Margaret, Tom R. Tyler, and Audrey Sacks. "The reasons for compliance with law." In *Understanding social action, promoting human rights*, edited by Ryan Goodman, Derek Jinks and Andrew K. Woods, Oxford University Press, 2012: 70–99.

[4] Kollmuss, Anja, and Julian Agyeman. "Mind the gap: Why do people act environmentally and what are the barriers to pro-environmental behavior?" *Environmental Education Research* 8.3 (2002): 239–260.

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However, other studies focusing on self-determination theory have found a positive relationship between environmental motivation and more frequent engagement in pro-environmental behaviors, such as recycling and energy conservation.[5] Similarly, in the context of tax morality, positive relationships have been found in countries with high tax morale and their levels of tax evasion.[6]

Overall, a variety of factors need to be considered when encouraging compliance, including intrinsic motivation, procedural justice, legitimacy, and the specific details of the behavior in question. A nuanced approach that takes these different factors into account is likely to be more effective than a one-size-fits-all approach based solely on intrinsic motivation, which clearly cannot lead to the needed compliance on its own. Rather, many factors, such as legitimacy and trust, contribute indirectly to compliance by moderating how a law affects intrinsic motivation. Thus, for example, highly trusted governments could more easily enhance intrinsic motivation through regulation.

With many seeing intrinsic motivation as leading to higher quality compliance,[7] the big question is how can both intrinsic motivation and extrinsic motivation be used at the same time when targeting those who lack intrinsic motivation. While, in the previous chapters, we have demonstrated that there are many types of intrinsic motivations, in this chapter we will focus on the effect of recognizing different intrinsic motivations. The mere recognition may have a significant impact on what happens when the law intervenes. In theory, intrinsic compliance motivation appears to positively affect actual compliance behavior. The question we will focus on in this chapter then, is why can't regulations combine the good value of intrinsic motivation with monitoring and extrinsic measures to achieve the best of all worlds?

We begin this analysis by examining a dichotomous and somewhat unsound way of internalization. We explore how the law can affect intrinsic motivation in the desired direction, as well as how it can lead to crowding out where the existence of the law undermines people's intrinsic motivations. We will demonstrate that when accounting for the variation between different compliance motivations and behaviors, many of the existing findings are expected to be limited or at least have limited predictability. We will also explain how two effects can coexist. The purpose is not intended to compare the two effects or to determine which is stronger, but rather to identify what in the law and in what context is more likely to increase or decrease internalized compliance.

[5] Pelletier, Luc G., et al. "Why are you doing things for the environment? The motivation toward the environment scale (MTES) 1." *Journal of Applied Social Psychology* 28.5 (1998): 437–468.

[6] Frey, Bruno S., and Benno Torgler. "Tax morale and conditional cooperation." *Journal of Comparative Economics* 35.1 (2007): 136–159.

[7] Tyler, Tom R., and Jonathan Jackson. "Popular legitimacy and the exercise of legal authority: Motivating compliance, cooperation, and engagement." *Psychology, Public Policy, and Law* 20.1 (2014): 78–95.

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SIMULTANEOUS CROWDING OUT AND PREFERENCE CHANGE?

To what extent is the law able to lead to preference change? What is unique in cases such as not smoking in public places, not picking wildflowers, buckling children into car seats, or even sexual harassment, where the law led to situations where people behaved better, even in contexts where they were less likely to be detected? Could this positive effect be related to visibility of behavior and hence social norms were more likely to function? Or could their success be related to a situation whereby no party benefits from any violation? Why does this positive effect not operate in cases relating to voluntary compliance with building code requirements? What is unique in those cases where a norm of voluntary compliance has emerged?

This chapter will also review some of the caveats regarding internalization. For example, opinions about compliance reasons were widely discussed regarding situations such as the COVID-19 pandemic context.[8] How is this debate on crowding out related to factors such as trust in science in cases where the science is contested? Will the introduction of sanctions will also crowd out the belief in science as it is expected to crowd out the belief in state authorities? We will also examine in what contexts coercive measures can create the greatest damage to intrinsic motivation and what type of intrinsic motivation is most likely to be inhibited by coercive measures.

Further discussion is needed not just to identify which approach can perform both functions simultaneously, but which approach is superior. In other words, if laws are crowding out intrinsic motivation, can they still lead to a change in preferences? In theory, both processes can coexist through many possible parallel pathways. For example, people might change their preferences due to their behavior or habit formation and not necessarily because of intrinsic motivation.[9]

WHY CAN'T WE HAVE IT ALL?

As suggested in the introduction to this chapter, the most important question we need to address when trying to find the right balance between different approaches toward intrinsic compliance motivation is why we need to choose between the different motivations to begin with. Why can't states focus on both coerced and internalized compliance at the same time?[10] When the state employs multiple regulatory

[8] Bargain, Olivier, and Ulugbek Aminjonov. "Trust and compliance to public health policies in times of COVID-19." *Journal of Public Economics* 192 (2020): 104316.

[9] Dynan, Karen E. "Habit formation in consumer preferences: Evidence from panel data." *American Economic Review* 90.3 (2000): 391–406.

[10] Later on, approaches such as that of responsive regulation will be discussed, which basically suggest taking a consecutive approach to the different regulatory styles (compare with Feldman, Yuval. *The law of good people: Challenging states' ability to regulate human behavior*. Cambridge University Press, 2018).

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approaches simultaneously – such as command and control, self-regulation, nudges, and sanctions – the question arises: Can these diverse strategies work in concert effectively? Our research aims to identify optimal combinations of regulatory approaches, considering what we know about the crowding-out effect.[11]

Rather than simply determining the best individual regulatory approach, we seek to understand which strategies aimed at fostering intrinsic motivation can most effectively coexist with external sanctions. For instance, instead of debating whether belief in science or moral conviction is superior in isolation, we must ask which of these intrinsic motivators is better suited to operate alongside monitoring and enforcement mechanisms.

This perspective shifts the focus from a unidimensional evaluation of regulatory tools to a more nuanced understanding of their interplay. It acknowledges that real-world policy implementation often involves multiple, concurrent strategies and that the effectiveness of such strategies may depend on how well they complement each other.[12]

By exploring these synergies and potential conflicts between different regulatory approaches, we can develop more sophisticated and effective policy designs. This approach recognizes the complex reality of governance, where multiple tools are often deployed simultaneously, and seeks to optimize their collective impact.[13]

Indeed, there are situations where a regulator can have all regulatory approaches working together, with no or relatively marginal destructive effects. For example, when the regulator can affirm both legitimacy and sanctions at the same time there might even be a mutual benefit rather than mutual destruction. We will further develop these differences in this chapter as well as in Chapter 4, which focuses on regulatory approaches to change behavior.

WHAT EXACTLY DOES CROWD OUT MEAN?

As suggested in the introduction to this chapter, most research on crowding-out motivation focuses on how incentives and compensation undermine people's intrinsic motivation to comply and to cooperate (such as in cases of civic duties).[14] That is, the introduction of extrinsic motivation on people who were originally motivated to cooperate influences how the intrinsic motivation operates, even completely

[11] Frey, Bruno S., and Reto Jegen. "Motivation crowding theory." *Journal of Economic Surveys* 15.5 (2001): 589–611.

[12] Baldwin, Robert, and Julia Black. "Really responsive regulation." *Modern Law Review* 71.1 (2008): 59–94.

[13] Gunningham, Neil, and Darren Sinclair. "Regulatory pluralism: Designing policy mixes for environmental protection." In *Environmental law*, edited by Peter S. Menell, Routledge, 2019: 463–490.

[14] Frey, Bruno S., and Felix Oberholzer-Gee. "The cost of price incentives: An empirical analysis of motivation crowding-out." *American Economic Review* 87.4 (1997): 746–755; Lafitte, François. "Richard M. Titmuss, *The gift relationship: From human blood to social policy*, Allen and Unwin, London, 1970." *Journal of Social Policy* 1.1 (1972): 81–84.

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replacing it in extreme cases. The crowding-out effect is often considered one of the main reasons why legislation that focuses solely on extrinsic motivation without attempting to influence people's intrinsic motivation does not achieve the desired outcome.

Traditionally the safest regulatory approach is to focus on the common denominator. This means that a fear of punishment is the way to avoid the need to take a specific motivation into account. A legal approach that ignores the variation in intrinsic motivation is doomed to fail as it does not address the complexity and uncertainty associated with targeting individuals' presumed motivations.[15]

THE PROBLEM WITH THE CROWDING-OUT ARGUMENT

One of the omissions in the literature on crowding out relates to the question of what type of intrinsic motivation is being crowded out. Are all types of intrinsic motivation likely to be crowded out in the same way? Are there extrinsic motivations that are more likely to crowd out different types of intrinsic motivation?

Answering these questions is crucial to our ability to predict what we gain or lose from voluntary compliance in cases where the individual who is deciding whether to comply does not have a full view of the extrinsic motivation. People's compliance varies depending on whether and how social norms, citizenship, morality, or knowledge are being crowded out.

According to common findings in crowding-out research, a law that focuses on extrinsic motivation, such as incentives, is likely to undermine internalized compliance.[16] However, when the law focuses on intrinsic motivation, such as relying on science, it is likely to enhance internalized compliance.[17] However, it is important to note that many other scholars have suggested that examining processes such as habit formation or cognitive dissonance lead to a better understanding of the effect of law on people's preferences.[18] These processes are not related to any change in the individuals themselves.

This view is simplistic for a few reasons. First, in theory, law is a broad and multifaceted concept and it could target both types of motivation at the same time. A particular law could potentially cause a crowding out. However, this may not occur in every case. In addition, it's not certain that intrinsic motivation will be crowded out if legislation is present.

[15] Holmes, O. W. "The path of the law." *Harvard Law Review* 10.8 (1897): 457–478.

[16] Atiq, Emad H. "Why motives matter: Reframing the crowding out effect of legal incentives." *Yale Law Journal* 123 (2013): 1070–1116.

[17] Underhill, Kristen. "When extrinsic incentives displace intrinsic motivation: Designing legal carrots and sticks to confront the challenge of motivational crowding-out." *Yale Journal on Regulation* 33 (2016): 213–280.

[18] Compare with Lewinsohn-Zamir, Daphna. "The importance of being earnest: Two notions of internalization." *University of Toronto Law Journal* 65.2 (2015): 37–84.

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Second, even models that focus on crowding out assume that people are intrinsically motivated to comply. However, this is not always the case and different people may respond differently to different situations.

Third, it is important to differentiate between what is being reduced: the intrinsic motivation, even in contexts where it already exists, or the desirable behavior. The reduction in intrinsic motivation may not be as relevant to policy if the crowding-out effect does not reduce desirable behavior. Of course, there are exceptions where intrinsic motivation plays a central role in the likelihood of compliance. This will be further developed in future chapters.

Fourth, morality or social norms might be crowded out by processes of signaling. Doing something moral solely because it is legal might undermine the social and the self-value of behaving morally.

In contrast to moral motivation to comply, scientific truth is less likely to be crowded out by the law. On the other hand, sanctions have been shown to influence morality but have no impact when scientific truth is an issue. Moreover, it is important to understand that the law may not always be extrinsically or intrinsically oriented. In many of the aspects, it can be both giving rationales to comply and signaling to people that lack of compliance will not be tolerated.

NOT ALL INTRINSIC MOTIVATIONS ARE CROWDED OUT EQUALLY

How exactly are intrinsic motivations crowded out and for how long? Is crowding out, with its many competing mechanisms, a social process or an individual one? Various accounts attempt to explain what types of intrinsic motivations are more likely to be crowded out. For example, one can speculate that intrinsic motivations, such as prosocial motivation, are more likely to be adversely affected by external interventions. Will an individual who believes that a certain institution is legitimate and is likely to comply with the laws it issues, cease to believe in that institution's legitimacy if there is legal reliance on external measures? Therefore, it is important to focus on understanding which intrinsic motivations we are discussing before we can make any predictions about the likelihood of crowding out.

THE MULTIPLE MOTIVES PROBLEM

Another issue with the crowding-out argument is that it assumes the law is one-dimensional and that people's motivation to comply is uniform. This assumption can be easily refuted. For example, while some studies show that there is some impact of enforcement on tax compliance,[19] very few people believe that deterrence

[19] Slemrod, Joel. "Tax compliance and enforcement." *Journal of Economic Literature* 57.4 (2019): 904–954.

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is actually the only factor that explains tax compliance,[20] as many people are complying for cooperative reasons.[21] Specifically, as will be discussed in Chapter 9, the more updated view on tax compliance perceives some need for a balance between power and authorities and trust of authorities when attempting to understand the likelihood of tax compliance over time.[22] Even if a dominant motivation, such as cost-benefit, can be identified, it does not undermine the existence of parallel motivations to obey the law. States rarely rely on only one motivation when attempting to change people's behavior. The fine-is-a-price paradigm, first introduced in Gneezy and Rustichini's famous child-care study,[23] also exhibits these problems. While there are some concerns about generalization, this concept aligns with much of the discussion about crowding out in the behavioral economics literature.[24] For example, if an individual recycles because they believe it is important to protect the environment and to signal their virtue to their neighbors, adding sanctions for those who do not recycle will harm only the social-signaling motivation, but not the scientific motivation behind the importance of recycling to the future of the Earth. This analysis suggests that much of the crowding-out research has limitations.

VARIATION IN THE CROWDING-OUT EFFECT

The preceding discussion suggests that we must consider several moderating factors when trying to examine the likelihood of legal intervention changing people's intrinsic motivation. For example, when examining intrinsic motivation in the context of COVID, as will be developed in Chapter 8, one can discuss factors such as solidarity and morality on one hand,[25] and trust in science and scientists on the other.[26] While both could be defined as intrinsic compliance motivations, the crowding-out effect of each is likely to be different. One example of how extrinsic motivators can affect intrinsic motivation is in the application of sanctions. When sanctions are applied, some of the concern for solidarity (an intrinsic motivator) might diminish. This illustrates a potential crowding-out effect. However, it's important to note that

[20] Scholz, John T., and Neil Pinney. "Duty, fear, and tax compliance: The heuristic basis of citizenship behavior." *American Journal of Political Science* (1995): 490–512.

[21] Kirchler, Erich, Christoph Kogler, and Stephan Muehlbacher. "Cooperative tax compliance: From deterrence to deference." *Current Directions in Psychological Science* 23.2 (2014): 87–92.

[22] Kirchler, Erich, Erik Hoelzl, and Ingrid Wahl. "Enforced versus voluntary tax compliance: The 'slippery slope' framework." *Journal of Economic Psychology* 29.2 (2008): 210–225.

[23] Gneezy, Uri, and Aldo Rustichini. "A fine is a price." *Journal of Legal Studies* 29.1 (2000): 1–17. https://doi.org/10.1086/468061.

[24] Frey, Bruno S. "Institutions and morale: The crowding-out effect." *Frontier Issues in Economic Thought* 3 (1997): 223–226.

[25] Liekefett, Luisa, and Julia Becker. "Compliance with governmental restrictions during the coronavirus pandemic: A matter of personal self-protection or solidarity with people in risk groups?" *British Journal of Social Psychology* 60.3 (2021): 924–946.

[26] Algan, Yann, et al. "Trust in scientists in times of pandemic: Panel evidence from 12 countries." *Proceedings of the National Academy of Sciences* 118.40 (2021): e2108576118.

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different types of intrinsic motivation may be affected differently by extrinsic motivators. For instance, the crowding-out effects on solidarity-based motivation may differ from those on other types of intrinsic motivation, such as personal ethical standards. To better predict how extrinsic motivation affects intrinsic compliance motivation, several critical questions require examination. We must understand whether different types of intrinsic motivations, such as moral reasoning or scientific belief, vary in their susceptibility to being crowded out, and explore the underlying mechanisms of this crowding-out process, including over-justification and reactance. Essential considerations include whether crowding out leads to complete behavioral disappearance or merely reduced quality of compliance and how these effects manifest across different personality types and demographic groups. The evaluation framework must account for both quantitative and qualitative measures of compliance, comparing average quality against the number of individuals who become less cooperative. Temporal dimensions are crucial, as short-term and long-term effects may differ significantly, particularly in how behavioral changes relate to shifts in underlying attitudes and beliefs, including the internalization of norms. Understanding which specific aspects of legal implementation trigger crowding out is vital, as is examining the distinct processes that unfold when behaviors are legalized versus when sanctions are introduced. This comprehensive analysis would provide a more nuanced understanding of how regulatory interventions affect voluntary compliance motivation.

Self vs. Social Crowding-Out Processes

Many key questions about crowding-out effects have been overlooked in much of the research on motivation crowding. For example, researchers often haven't explored how different types of intrinsic motivation respond to extrinsic incentives, or how the mechanisms of crowding out might vary across contexts. Furthermore, most of this research has primarily focused on monetary interventions,[27] neglecting the more complex effects of using regulation and enforcement as motivational tools. While laws and incentives both represent extrinsic interventions, laws are far more complex in their ability to crowd out intrinsic motivation. The law itself communicates with intrinsic motivations,[28] and its effect cannot be reduced to simply increasing the price of behaviors that are against the law. Given the further complexity we see in the crowding-out effect created by laws, we will outline the different processes that could be triggered by law and that could be crowding-out motivations (see Table 3.1).

[27] E.g., Frey, Bruno S. "Crowding out and crowding in of intrinsic preferences." *Reflexive Governance for Global Public Goods* 75 (2012): 75–83.

[28] See, for example, Feldman, Yuval. "The expressive function of trade secret law: Legality, cost, intrinsic motivation, and consensus." *Journal of Empirical Legal Studies* 6.1 (2009): 177–212.

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We believe that part of the confusion stems from a lack of theoretical clarity regarding the different mechanisms and processes that fall under the category of crowding out. To advance our understanding, these processes can be divided into two categories:

TABLE 3.1 *A taxonomy of crowding-out processes*

Over-justification:	The idea behind this process which, in a sense, is the original crowding-out paradigm,[29] is related to Edward Deci's original 1971 self-determination model.[30] In this model, people attribute their own behavior to extrinsic rather than intrinsic reasons. The existence of laws, especially when there is an enforcement mechanism, can have an effect like that of incentives. In the case of law, in contrast to that of incentives, it is less likely that the law will be removed. Therefore, the classical fear of the crowding-out effect when introducing incentives is weaker.
Attention:	Attention is somewhat related to the over-justification effect, where people focus their attention on the extrinsic incentives and fail to account for the effect of intrinsic motivation on their behavior.[31] The difference between the expected effects of incentives and laws seems to depend on their relative saliency. This difference may be affected by factors unrelated to the nature of either law or incentives, but rather to how they are being communicated. A related work on reminder nudges demonstrates that, in more complex decision-making settings, the removal of reminder nudges can create a negative spillover on people's behavior.[32]
Control and trustworthiness:	These are two important factors to consider when examining the effect of laws versus incentives.[33] Incentives can be viewed as giving people more autonomy on one hand, as individuals can choose whether to take the incentive. However, in terms of trustworthiness, law is more reliable. Because the law is general and not directed at the individual, there may be less of a problem of around the individual feeling untrustworthy. The law can be perceived as a form of guidance, rather than simply a lack of trust in an individual's ability to behave properly.

(*continued*)

[29] Lepper, Mark R., and David Greene. "Over justification research and beyond: Toward a means–ends analysis of intrinsic and extrinsic motivation." In *The hidden costs of reward*, edited by Mark R. Lepper and David Greene, Psychology Press, 2015: 109–148.

[30] Deci, Edward L., and Richard M. Ryan. *Intrinsic motivation and self-determination in human behavior*. Springer Science & Business Media, 2013.

[31] Chao, Matthew. "Demotivating incentives and motivation crowding out in charitable giving." *Proceedings of the National Academy of Sciences* 114.28 (2017): 7301–7306.

[32] Koch, Alexander K., Dan Mønster, and Julia Nafziger. "Spillover effects of reminder nudges in complex environments." *Proceedings of the National Academy of Sciences* 121.17 (2024): e2322549121.

[33] Falk, Armin, and Michael Kosfeld. "The hidden costs of control." *American Economic Review* 96.5 (2006): 1611–1630.

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TABLE 3.1 (*continued*)

Less spontaneous (such as in the context of prosocial behavior):	Another lesser-known mechanism, which has been called crowding out in the literature, involves people becoming more calculating and less spontaneous when extrinsic measures are present.[34] Rather than thinking about the behavior itself, they are thinking about what they might gain from it. Continuing the hypothetical discussion, this result is more likely to occur with incentives that are more strongly related to measurement than with those related to the legality effect, which might differ.
Cognitive dissonance:	Another important mechanism that is often overlooked is cognitive dissonance, which focuses on the discrepancy between free choice and attitudes.[35] Arguably, when people are either coerced or incentivized to behave in a certain way, they are less likely to feel that they have chosen the behavior. As a result, the likelihoods of cognitive dissonance being created and attitude change happening are reduced.
Decline in virtue signaling:	Virtue signaling involves the more social aspect of crowding out.[36] The decline in virtue signaling, such as the harm caused by monetary incentives to the social virtue of whistleblowing,[37] is mostly related to the fact that people engage in prosocial behavior to gain the approval of others. This approval is greater when the behavior is seen as voluntary. However, this is not the case when others perceive that the behavior is enacted for money or due to fear of the law. Even when the legal compliance required by enforcement is limited, people may still engage in some virtue signaling by complying with a legal requirement, even if they don't have to do so. This is less likely to happen with incentives, unless they are very small, as was the case in the original cognitive dissonance studies.[38]
Bureaucratization of behavior:	This important mechanism is related mostly to legal rather than incentive effects. It refers to the process that occurs when a social practice becomes legalized and its entire structure must become transparent, documented, equal, and so on. These values associated with legality are important. However, their presence is likely to change how people feel about engaging in these social practices. As my joint work with Rinat Markovitch and Eyal Pe'er has shown,[39] affidavits, which are more complex to use, were shown to create greater aversion to pledges, partly because of the greater administrative burden associated with them.[40]

[34] Gråd, Erik, Arvid Erlandsson, and Gustav Tinghög. "Do nudges crowd out prosocial behavior?" *Behavioural Public Policy* 8.1 (2024): 107–120.

[35] Elliot, Andrew J., and Patricia G. Devine. "On the motivational nature of cognitive dissonance: Dissonance as psychological discomfort." *Journal of Personality and Social Psychology* 67.3 (1994): 382–394.

[36] Frey. "Institutions and morale."

[37] Feldman, Yuval, and Orly Lobel. "The incentives matrix: The comparative effectiveness of rewards, liabilities, duties, and protections for reporting illegality." *Texas Law Review* 88 (2009): 1151–1212.

[38] Metin, Irem, and Selin Metin Camgoz. "The advances in the history of cognitive dissonance theory." *International Journal of Humanities and Social Science* 1.6 (2011): 131–136.

[39] Hilo-Merkovich, Rinat, Eyal Pe'er, and Yuval Feldman. "Affidavit aversion: Public preferences for trust-based policy instruments." *Regulation & Governance* 18.3 (2024): 970–986.

[40] Herd, Pamela, and Donald P. Moynihan. *Administrative burden: Policymaking by other means*. Russell Sage Foundation, 2019.

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Reactance:	The mechanism of reactance[41] (e.g., the provocative effect of law)[42] could be considered partly social and partly individualistic. According to the psychological reactance theory,[43] people react negatively to any attempt to limit their freedom of choice. Naturally, this is more likely to happen when certain laws threaten the values of a certain social groups, as seen in Israel in 2018 with the enactment of the Basic Law: Israel as the Nation-State of the Jewish People,[44] which drew negative reactions from non-Jewish Israeli citizens. According to reaction theory, such a negative reaction could be provoked on the individual level as well. However, such reactive extrinsic effects are less likely to occur when incentives are used.
Relational (e.g., fine is a price):	Another mechanism that could be seen as related to the idea of the difference between social and market relations is the use of incentives,[45] which could make change more likely to happen.[46] However, even if legal measures are not included in classical relational theory, they can certainly change the dynamic between friends who do each other favors as well as duty holders who demand that their requests be respected by the other party.

Self-Related Crowding Out and Social-Related Crowding Out

Is the effect of over-justification self-related or social-related? Over-justification affects the self-perception of an individual, making them question why they are behaving in a certain way. Alternatively, it can be social-related, undermining the virtue signaling that was present.

The foregoing general analysis discusses the differences between the more commonly discussed lines of research regarding crowding out in incentive and in legality contexts. One conclusion that can be drawn from this analysis is how difficult it is to predict whether a certain extrinsic intervention will lead to crowding out.

CAN COMPLIANCE BEHAVIOR BE CROWDED OUT?

The crowding-out paradigm for internalized compliance, which is based on research on motivation, has a problem. The original studies were related to various

[41] Brehm, Sharon S., and Jack W. Brehm. *Psychological reactance: A theory of freedom and control*. Academic Press, 2013.

[42] Barak-Corren, Netta, Yuval Feldman, and Noam Gidron. "The provocative effect of law: Majority nationalism and minority discrimination." *Journal of Empirical Legal Studies* 15.4 (2018): 951–986.

[43] Brehm, Jack W. "Psychological reactance: Theory and applications." *Advances in Consumer Research* 16.1 (1989): 72–75.

[44] See https://main.knesset.gov.il/EN/activity/documents/BasicLawsPDF/BasicLawNationState.pdf.

[45] Gneezy and Rustichini. "A fine is a price."

[46] Compare, for example, with Fiske, Alan P. "The four elementary forms of sociality: Framework for a unified theory of social relations." *Psychological Review* 99.4 (1992): 689–723.

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tasks people had to do in a lab and then extrinsic measures were introduced.[47] This approach is different from the paradigm's application. The dynamics of crowding out in legal compliance contexts differ from those in other areas. In compliance situations, the state often defines the expected behavior and provides instructions for it. This contrasts with contexts where intrinsic motivations preexist state intervention.

Many compliance behaviors are very different than behaviors such as going to the gym or playing the piano and are very complex to execute. As a result, people's willingness to engage in them might not guarantee full compliance. As discussed in Chapter 2, there is great variation between the different types of motivation, whether they are related to morality, personal preferences, or belief in science. Similarly, procedural justice and legitimacy have often been strongly associated with intrinsic motivation in many studies.[48] This may be because people do not need external forces such as incentives or monitoring to behave in a certain way. As also discussed in the previous chapter about trust, many factors related to legitimacy and procedural justice fall into the same category, where many of the reasons for complying may not be considered to be intrinsic motivations to begin with. When we think about Deci's original meaning of intrinsic motivation, we focus on behaviors that are rewarding in and of themselves. As we will examine in this chapter, certain government actions might be perceived as crowding out alternative compliance motivations, even if these motivations are not strictly defined as intrinsic motivation. In other words, not all noninstrumental motivation can be seen as intrinsic motivation and not all crowding-out processes are similar to the one discussed in the original crowding-out approach. The following will further explore the difference between internalized and noncoerced compliance. This will help build the theoretical framework needed to understand when government interventions become dangerous.

INTERNALIZED VERSUS NONCOERCED COMPLIANCE

As discussed in Chapters 1 and 2, there is a big difference between internalized compliance, where the main motivation for compliance is intrinsic, and voluntary compliance, which, at a minimum, includes every situation where the individual doesn't feel coerced. When discussing crowding out in this chapter we are referring to the effect on *internalized compliance* rather than the broader definition of *noncoerced compliance* which is discussed in the first chapter. However, due to the importance of internalization in ensuring voluntary compliance, it is important to

[47] Eckel, Catherine C., Philip J. Grossman, and Rachel M. Johnston. "An experimental test of the crowding out hypothesis." *Journal of Public Economics* 89.8 (2005): 1543–1560.

[48] Zapata-Phelan, Cindy P., et al. "Procedural justice, interactional justice, and task performance: The mediating role of intrinsic motivation." *Organizational Behavior and Human Decision Processes* 108.1 (2009): 93–105.

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understand what kind of regulatory interventions are likely to enhance or undermine such compliance.[49] At the same time, because of the gap between voluntary and internalized compliance, a certain regulatory intervention may be likely to adversely affect the process of internalization, while still contributing to the likelihood of voluntary compliance.

This might be related to the fact that the effect on the likelihood of internalization is more long term and depends on other factors, while the perception of voluntariness is shorter term. Moreover, as we discussed in Chapter 1, although intrinsic motivation is seen as an integral component of voluntary compliance, changing people's intrinsic motivations is not the purpose of the law. Additionally, the meaning of what is voluntary is open to interpretation. There is a narrow definition that focuses only on noncoercive compliance and, in that regard, even compliance through nudges and incentives might fall under the category of voluntary.

Indeed, the next chapter, focusing on broader accounts of regulation, will tackle the relationship between regulation and voluntary compliance, rather than internalized compliance, as understood in noncoerced compliance. However, the current chapter takes as its starting position the broader definition of voluntary compliance that includes people who intrinsically want to cooperate. Relying on this intrinsic motivation seems to be the way to achieve "effective voluntary compliance" that doesn't require continuous external intervention by the state.[50] This definition applies to every situation in which people are not subject to sanctions if they don't comply. The reason for our focus is the fear of the "crowding-out" effect of the law on intrinsic motivation, which can only be discussed in the context of internalized compliance.

CROWDING IN VS. CROWDING OUT

Most of the discussion here will focus on the two main processes we are interested in comparing, crowding in (internalization or preference change) versus crowding out.

In abstract terms, one could envision a situation where the law should be able to target only those whose current intrinsic motivation is in opposition to the values of the state. The law could then seek to change their attitudes without the risk of crowding out, as there is no intrinsic motivation that could be harmed. However, this abstract view is problematic on a few levels. First, people's level of intrinsic motivation is not truly binary: they don't either have it or not have it. Second, it is unclear how the state can identify in advance only people with intrinsic motivation. Third, even people with intrinsic motivation might need additional clarification

[49] Lewinsohn-Zamir. "The importance of being earnest."

[50] Which is part of what we referred to in Chapter 1 as *effective* voluntary compliance.

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from the state and it cannot be assumed that they can sustain intrinsic motivation without state encouragement.

An alternative approach that will be developed in Chapters 8–10 is related to the acknowledgment that the level of popularity a given law enjoys is limited; therefore, the likelihood that people will enjoy a high level of intrinsic motivation is also limited. At the same time, since we have argued that even the concept of intrinsic motivation could mean more than one thing, it is not clear whether the effect of law on that intrinsic motivation is identical. For example, it is less likely that intrinsic motivation related to fairness and legitimacy might be affected or crowded out by external intervention by the law. The reason is that fairness and legitimacy are more related to the institution than to the law. Therefore, even the crowding out regarding a specific law is less likely to be substantial.

The Crowding-Out Effect of Intrinsic Motivation: Heterogeneity between People

Another important aspect of crowding out is related not to the heterogeneity of intrinsic motivations but rather to the difference between people. This refers to the interaction between a person's initial motivation and the likelihood that their compliance is driven by intrinsic motivations. For example, Lewis Kornhauser and colleagues conducted a lab study that manipulated the fine paid for breaching a contract in order to help clarify the mechanisms behind the crowding-out effect.[51] They identified a strong interaction between prosocial people and pro-self people. It has been demonstrated that people who are intrinsically committed to caring for others (high social value orientation) are more likely to be negatively affected by external incentives, such as paying a fine. This suggests that there is a challenge around incentivizing some people while ignoring others; this is a major issue that we seek to address in this book. Specifically, we are exploring what parts of the public can be trusted and what types of compliance can be expected from them.

FRAMING OF INCENTIVES AND CROWDING-OUT MOTIVATIONS

Another important question to answer is related to how extrinsic motivation is perceived by the public whose behavior we are trying to change.[52] It is possible to illustrate this by taking two classical examples of incentivizing people, which might lead to opposite effects. Consider a student who enjoys exploring new ideas and genuinely finds learning exciting. They dive into their studies because they're curious and want to understand more about the world, not just to get good grades.

[51] Kornhauser, Lewis, Yijia Lu, and Stephan Tontrup. "Testing a fine is a price in the lab." *International Review of Law and Economics* 63 (2020): 105931.

[52] Gneezy, Uri, Stephan Meier, and Pedro Rey-Biel. "When and why incentives (don't) work to modify behavior." *Journal of Economic Perspectives* 25.4 (2011): 191–210.

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However, when a teacher offers an extrinsic reward (such as extra credit) for completing a task that the student would have undertaken in any event, a subtle shift occurs. The focus moves from the learning process to the outcome (the reward), potentially undermining the student's intrinsic motivation. Their love for learning may feel diminished. This scenario highlights the delicate balance between external incentives and the inherent joy of learning. In contrast, consider a musician deeply passionate about playing their instrument and creating music. Their intrinsic motivation fuels their artistic endeavors. Now, imagine that they receive a financial grant that enables them to continue pursuing their craft. Surprisingly, this external reward doesn't dampen their intrinsic drive; instead, it serves as validation of their dedication and talent. The grant becomes a catalyst, reinforcing their love for music. While our examples focus on monetary rewards, a similar shift in the impact of extrinsic interventions occurs in legal contexts. If individuals perceive their behavior as intrinsically driven, they are less likely to cease prosocial actions when there is a financial incentive. For example, a person volunteering at a homeless shelter out of genuine concern for others may continue to do so even if offered a small stipend. However, if the stipend becomes the primary reason for their involvement, its removal could diminish their motivation to continue volunteering.

It is challenging to understand the likelihood of a certain extrinsic motivation succeeding in changing behavior positively without undermining people's intrinsic motivation. This is especially true when accounting for the fact that people do not just have intrinsic motivation or not. Their level of intrinsic motivation will also affect their interpretation of extrinsic motivation. We can expect a difference when the intervention is targeting the individual rather than the public in general. When the policy is more general, it can be seen as not respecting the specific motivation of the individual to cooperate.

Because there are so many parallel processes of crowding out, it is also very difficult to know in advance when intrinsically motivated individuals will feel that extrinsic motivation enhances their willingness to voluntarily cooperate with legal requirements. Thus, for example, in the context of mask wearing, if a person upholds the law due to their belief in science, then the fact that there are laws or even sanctions that require the same things is unlikely to have an inadvertent effect. In fact, such laws could conversely enhance such people's belief that their scientific understanding is accurate and valid.

However, if they object to laws demanding cooperation, they might engage in some psychological reactance to it.[53] It seems plausible to predict that when people cooperate because they want to feel that they are moral people who choose to help others, clearly, when such cooperative behavior becomes a legal requirement, their ability to feel that they are helping others is reduced, as they are now forced to do

[53] Brehm, Sharon S., and Jack W. Brehm. Psychological reactance: A theory of freedom and control. Academic Press, 2013.

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so by law. Another example can be found in Eugene Volokh's study,[54] which challenges the potential negative effect of Good Samaritan laws, showing that another interesting result regarding crowding out is related to how people perceive it.[55]

HOW DIFFERENT REGULATORY INTERVENTIONS CROWD OUT INTRINSIC MOTIVATION

Some recent research has begun examining how different nudges that either focus on social morals or simply a change in people's default response have changed people's intrinsic motivation. For instance, Erik Grad and his team discovered that in certain situations presenting nudges did not lead to a decrease in prosocial motivation.[56] If someone is being convinced to obey in a certain way, are they more likely to abandon their understanding because of some external intervention, such as a requirement or incentive?

Is it possible to see a reduction in societal feeling of morality because of intervention through nudges, which are mostly without awareness? Essentially, if people are motivated to do the right thing only because of external rewards or penalties, their internal sense of what is right and wrong may weaken over time. This can be problematic if the external incentives are removed or if individuals start to believe that they can engage in unethical behavior without suffering any consequences.

Also, the personal satisfaction of being a responsible citizen is reduced by extrinsic interventions, such as incentives or penalties. This can then affect people's intrinsic motivation to comply with laws and regulations, as people come to perceive the extrinsic intervention as the main reason for their compliance, rather than their sense of duty and responsibility as citizen.[57]

On the other hand, if science informs us about the benefits of getting vaccinated, it is important to consider the impact external factors might have on vaccination efforts. In fact, when a law is based on scientific evidence, it can increase public confidence in a particular policy.

CROWDING OUT VIRTUE SIGNALING

Payment for specific behavior can be seen as a signal to others and this can have a different type of crowding-out effect on the behavior of other individuals. The payment

[54] Volokh, Eugene. "Duties to rescue and the anti-cooperative effects of law." *Georgetown Law Journal* 88 (1999): 105–114.

[55] Lin, Stephanie C., Julian J. Zlatev, and Dale T. Miller. "Moral traps: When self-serving attributions backfire in prosocial behavior." *Journal of Experimental Social Psychology* 70 (2017): 198–203.

[56] Grad, Erlandsson, and Tinghög. "Do nudges crowd out prosocial behavior?"

[57] Frey, Bruno S. "How intrinsic motivation is crowded out and in." *Rationality and Society* 6.3 (1994): 334–352.

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may signal that the behavior needs to be incentivized, that is, it is not something that people would do voluntarily, which could undermine the social norm on which the behavior is based.[58] This is related to the concept of social norms and signaling analyzed by Eric Posner.[59] Social norms are often based on the idea of doing something because it is the right thing to do or because it is expected by others in the community. According to Posner, when extrinsic incentives are introduced, they can send a signal that the behavior is not actually a social norm, but something that is done only for the reward. This can lead to a reduction in the intrinsic motivation to engage in the behavior, as well as a reduction in the effectiveness of the social norm itself.

In a study of how incentives affect the intrinsic motivation of a whistleblower, Orly Lobel and I examined how getting paid for whistleblowing undermines the social status and image of a hero who cares only about fighting corruption.[60] Another famous field experiment by Tobias Cagala, testing the very different mechanism of pledges,[61] showed that when students were asked to make honesty pledges before exams, they were more likely to cheat. Presumably, the requirement to sign a pledge not to cheat led them to believe that others are probably cheating, thus making them more willing to do so as well.

WHAT DO WE KNOW ABOUT INCENTIVES AND CROWDING OUT?

In addition to the expected higher quality of performance, which is driven by voluntary compliance, there is a wealth of relatively consistence research that shows the negative impact of both punishment and incentives.[62] According to the "crowding-out" theory, exposing people to external motivation (either positive or negative) undermines their internal motivation.[63] For example, Bruno Frey found that residents were more likely to oppose a nuclear plant in their neighborhood if they were offered compensation.[64] In addition, Ernst Fehr and Armin Falk showed that in some contexts using incentives could harm the performance of agents as well as their compliance with various rules.[65] Moreover, in a meta-analysis of 128 studies examining the effects of extrinsic

[58] Cagala, Tobias, Ulrich Glogowsky, and Johannes Rincke. "Does commitment to a no-cheating rule affect academic cheating?" Available at SSRN 3111855 (2019). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3111855.

[59] Posner, Eric. *Law and social norms*. Harvard University Press, 2002.

[60] Feldman and Lobel. "The incentives matrix," 1151.

[61] Cagala, Tobias, Ulrich Glogowsky, and Johannes Rincke. "Detecting and preventing cheating in exams: Evidence from a field experiment." *Journal of Human Resources* 59.1 (2024): 210–241.

[62] Gneezy, Uri, and Aldo Rustichini. "Incentives, punishment and behavior." In *Advances in behavioral economics*, edited by Colin F. Camerer, George Loewenstein and Matthew Rabin, Princeton University Press, 2004: 572–589.

[63] Deci, Edward L. "Effects of externally mediated rewards on intrinsic motivation." *Journal of Personality and Social Psychology* 18.1 (1971): 105–115; Frey and Jegen. "Motivation crowding theory."

[64] Frey. "Institutions and morale."

[65] Fehr, Ernst, and Armin Falk. "Psychological foundations of incentives." *European Economic Review* 46.4–5 (2002): 687–724.

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rewards on intrinsic motivation, Deci and colleagues found the robust negative effect of rewards on what they define as free choice intrinsic motivation, with some moderation effect related to the type of incentive and age of participants.[66] In contrast, Shu-Hua Tang and Vernon Hall took a different approach in their meta-analysis focusing on the concept of over-justification, as the main mechanism for crowding-out effect.[67] Additionally, Frey has conducted few reviews of the literature focusing on the problems associated with incentives in agency relationship.[68] Günther Schulze and Björn Frank demonstrated the crowding effect of deterrence and its destructive effect on the intrinsic motivation to behave honestly.[69] Another important review article applying a more economic than psychological approach is that of Samuel Bowles and Sandra Polanía-Reyes in the context of prosocial behavior, showing the contexts in which economic incentives might be counterproductive and have adverse effects.[70] They also suggest alternative explanations for why such effects might occur, which are unrelated to the classical crowding-out effect, such as framing and lack of internalization. It is also notable that other studies have sought to understand the mechanism through which people are intrinsically motivated to cooperate in social rather than individual behavior. These studies have found no variation within groups associated with individual's characteristics.[71]

RELATIONAL ACCOUNT OF CROWDING OUT (FINE IS A PRICE)

Another way that crowding out can happen is when people's relationships change from personal to financial. In the literature of behavioral economics, the famous and

[66] Deci, Edward L., Richard Koestner, and Richard M. Ryan. "A meta-analytic review of experiments examining the effects of extrinsic rewards on intrinsic motivation." *Psychological Bulletin* 125.6 (1999): 627–668. For a focus on joint effects of extrinsic and intrinsic motivation, see: Cerasoli, Christopher P., Jessica M. Nicklin, and Michael T. Ford. "Intrinsic motivation and extrinsic incentives jointly predict performance: A 40-year meta-analysis." *Psychological Bulletin* 140.4 (2014): 980–1008. For a discussion of the crowding-out effect in the context of environmental policy: Rode, Julian, Erik Gómez-Baggethun, and Torsten Krause. "Motivation crowding by economic incentives in conservation policy: A review of the empirical evidence." *Ecological Economics* 117 (2015): 270–282. For a discussion of the crowding effect, albeit with some reservation on the consistency of their effect, see: Promberger, Marianne, and Theresa M. Marteau. "When do financial incentives reduce intrinsic motivation? Comparing behaviors studied in psychological and economic literatures." *Health Psychology* 32.9 (2013): 950–957.

[67] Tang, Shu-Hua, and Vernon C. Hall. "The overjustification effect: A meta-analysis." *Applied Cognitive Psychology* 9.5 (1995): 365–404.

[68] Frey, Bruno S. "On the relationship between intrinsic and extrinsic work motivation." *International Journal of Industrial Organization* 15.4 (1997): 427–439.

[69] Schulze, Günther G., and Björn Frank. "Deterrence versus intrinsic motivation: Experimental evidence on the determinants of corruptibility." *Economics of Governance* 4 (2003): 143–160.

[70] Bowles, Samuel, and Sandra Polania-Reyes. "Economic incentives and social preferences: Substitutes or complements?" *Journal of Economic Literature* 50.2 (2012): 368–425.

[71] Henrich, Joseph, et al. "Cooperation, reciprocity and punishment in fifteen small-scale societies." *American Economic Review* 91.2 (2001): 73–78.

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highly cited mechanism the "fine is a price," became a parallel for psychological research on the crowding-out effect. This well-known, albeit not too robust effect was documented in the context of daycare centers that imposed fines on parents who were late in picking up their children at the end of the day.[72] Imposing a fine on late parents was found to be counterproductive, resulting in an increased number of late pickups. Apparently, the fine caused parents to feel licensed to arrive late. In another study, the potentially disruptive effect of laws was examined. A related theory in the context of prosocial behaviors suggests that both rewards and punishments were shown to trigger an over-justification effect. This effect occurs when external rewards are present, causing people to question whether they actually have "true motivation."[73] In addition, this effect is more likely to occur when the behavior is done in private rather than in public.[74]

EXPRESSIVE LAW VERSUS CROWDING OUT

An important conceptual and somewhat contradictory approach that is crucial for this project on voluntary compliance involves comparing the crowding-out effect of incentives.[75] These are in many ways more coercive but in many others might seem less likely to shift the focus from thinking about the individual and why they should engage in a particular behavior.

As developed in more detail in Chapter 11, Tom Tyler and I have explored the contradiction between the law's ability to enhance social practices through expression and its potential to crowd out motivation by mandating voluntary acts, thereby reducing the signaling value of voluntary social practices.[76] We examined the association between employees' perceived fairness of pay and benefits procedures and their adherence to workplace rules. Specifically, we investigated whether this association differs when these procedures are enacted voluntarily by companies versus when they are mandated by law. Our results suggest that evaluations of procedural justice in performance appraisal hearings have a stronger influence on overall workplace fairness judgments, perceptions of management legitimacy, and employee rule-adherence behavior when employees believe fairer workplace procedures are mandatory and required by law.

[72] Gneezy, Uri, and Aldo Rustichini. "Pay enough or don't pay at all." *Quarterly Journal of Economics* 115.3 (2000): 791–810.

[73] Bénabou, Roland, and Jean Tirole. "Incentives and prosocial behavior." *American Economic Review* 96.5 (2006): 1652–1678.

[74] Ariely, Dan, Anat Bracha, and Stephan Meier. "Doing good or doing well? Image motivation and monetary incentives in behaving prosocially." *American Economic Review* 99.1 (2009): 544–555.

[75] Frey and Oberholzer-Gee. "The cost of price incentives."

[76] Feldman, Yuval, and Tom R. Tyler. "Mandated justice: The potential promise and possible pitfalls of mandating procedural justice in the workplace." *Regulation & Governance* 6.1 (2012): 46–65.

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DUTY TO ENLIST: THE CASE STUDY OF THE ULTRA-ORTHODOX

Jointly with Netta Barak-Corren and Shelli Robson, we examined how intrinsic motivation might affect the likelihood that making military service mandatory could change the nature of ultra-Orthodox motivation to serve in the Israel Defense Forces (IDF).[77]

The issue of military conscription for ultra-Orthodox (Haredi) youth in the IDF presents a classic example of the crowding-out dilemma. When examining this complex issue, we faced a fundamental question: Would efforts to persuade the Haredi community to embrace military service voluntarily prove more effective than mandatory conscription, particularly given that forced service could trigger serious social and political backlash?

Understanding how different interventions might affect intrinsic motivation in this context is particularly challenging. The complexity stems from dealing with a large community that has traditionally resisted military service, making it crucial to carefully consider strategies for encouraging participation. Our research framework explored several critical aspects in developing a new conscription policy, including how military service affects Haredi soldiers' social standing, marriage prospects, and religious identity within their community. We specifically examined how Haredi youth perceive IDF service and what factors influence their decisions regarding enlistment.

Our analysis examined the various intrinsic motivations shaping Haredi youth's attitudes toward military service, including personal, ideological, and normative factors, as well as the prevailing social norms within their community. The findings revealed an interesting gap: While approximately one in four Haredi youth expressed interest in serving in the IDF, only 10 percent demonstrated actual readiness to enlist. Most Haredi youth showed mixed motivations regarding military service, with their attitudes influenced by personal convictions, ideological beliefs, and community norms. This complex interplay of multiple motivations alongside a general resistance to mandatory conscription makes policy decisions about using coercion particularly challenging.

CONFLICTING STUDIES ON CROWDING-OUT EFFECTS

In previous studies, I have compared two possible conflicting effects of law on behavior. On one hand, we have argued that *when* legal requirements "crowd out" the influence of social norms, their overall effect is not sufficient to ensure compliance with the law. For example, when legal requirements are the only influence on employee behavior, the important role of voluntary adherence to social norms

[77] "Conscription to the IDF through an Ultra-Orthodox Lens: Attitudes, Opinions, and Social Perspectives Shelley Robinson | Netta Barak-Corren | Yuval Feldman," idi.org.il/media/25015/conscription-to-the-idf-through-an-ultra-orthodox-lens-attitudes-opinions-and-social-perspectives.pdf.

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in shaping compliance is undermined.[78] Following a similar line of reasoning, Meir Dan-Cohen argues that the positive reputation associated with being a Good Samaritan will disappear if assisting others in need becomes a legal requirement.[79] This argument implies that if employers are compelled by law to treat their employees in a certain way, the social reputation that employers gain from treating their employees fairly is lost. Knowing that their efforts will go unappreciated, employers will have no reason to act on behalf of employees beyond legal requirements, as they will receive no credit for such behavior.[80]

On the other hand, the law can also have an expressive effect on behavior by shaping people's attitudes and beliefs about what is right and wrong.[81] This can lead to voluntary compliance with legal requirements even when they are not strictly enforced. However, this effect is not guaranteed. Therefore, to minimize any negative effects on voluntary adherence to social norms, it is important to consider how legal requirements might be perceived by individuals and organizations. Ultimately, the goal should be to strike a balance between using the law to promote ethical behavior and avoiding unintended consequences that could undermine the effectiveness of legal regulation.

CROWDING OUT, FAIRNESS, AND LACK OF TRUST

In the studies examined in this chapter, we have also focused on the crowding-out mechanism of the signaling of mistrust that is associated with imposing law. For example, Falk and Kosfeld have demonstrated that when a principal signals distrust to an agent, the agent's performance is reduced.[82] Frey and Feld have made a similar argument in the context of tax compliance from a reverse direction.[83] Their research has demonstrated the importance of giving people fair treatment and a voice to increase the likelihood that they will engage in voluntary compliance. Along those lines, Margaret Blair and Lynn Stout have demonstrated that regulation and monitoring can have an inadvertent effect on executive behavior, a finding relevant to current corporate law.[84] They suggest that the mistrust signaled through

[78] Frey. "On the relationship between intrinsic and extrinsic work motivation."

[79] Dan-Cohen, Meir. "Responsibility and the boundaries of the self." *Harvard Law Review* 105 (1991): 959–1003.

[80] Blair, Margaret M., and Lynn A. Stout. "Director accountability and the mediating role of the corporate board." *Washington University Law Quarterly* 79 (2001): 403–448.

[81] Sunstein, Cass R. "On the expressive function of law." *University of Pennsylvania Law Review* 144.5 (1996): 2021–2053.

[82] Falk and Kosfeld. "The hidden costs of control."

[83] Feld, Lars P., and Bruno S. Frey. "Trust breeds trust: How taxpayers are treated." *Economics of Governance* 3 (2002): 87–99.

[84] Blair, Margaret M., and Lynn A. Stout. "Trust, trustworthiness, and the behavioral foundations of corporate law." *University of Pennsylvania Law Review* 149 (2000): 1735–1810. Blair and Stout. "Director accountability and the mediating role of the corporate board," 403.

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harsh regulation serves as a self-fulfilling prophecy. A policy that threatens people overlooks the possibility that a threatened punishment is perceived as a signal that noncompliance is widespread.[85]

REACTANCE THEORY AS AN ALTERNATIVE TO CROWDING OUT

The reactance theory provides an alternative approach to the potential effects of regulation, especially restrictive ones, on people's behavior. According to reactance theory, people resist restrictions. This suggests a negative effect of the law on behavior. Interestingly, when the concept of perceived legitimacy is considered, it is shown that both legitimate and nonlegitimate restrictions create reactance. However, the difference is in the type of mechanism employed against it: according to one study the reactance to the illegitimate intervention was immediate, while longer cognitive deliberation was needed regarding the legitimate one.[86]

A more legally relevant example of this can be found in a joint work with Netta Barak-Corren and Noam Gidron,[87] where we developed the concept of inexpressive law. This is expressed in situations where the national law causes left-wing individuals to experience a feeling of reaction, which leans to greater support for anti-discrimination law. It is important to note that in that context, the focus was reversed to reflect the classical crowding out. The law was in a direction consistent with the intrinsic beliefs of the right in Israel, but in a direction contrary to the intrinsic beliefs of the left in Israel. The polarizing effect itself demonstrates that there is complexity when it comes to predicting behavior.

We conducted a study to investigate the impact of majority nationalism laws on the patterns of minority discrimination.[88] We used the Israeli draft Nation Law as a case study. This law was introduced in response to the ethnic and religious diversification experienced by Western societies, specifically in Israel, in recent decades. The law aims to protect the cultural heritage of the majority by defending the local dominant culture. Based on two experimental surveys conducted with a representative sample of Israel's majority population, our findings provide limited support for the hypothesis that laws promoting majority nationalism heighten bias against minorities. We also found modest support for the hypothesis that such laws generate unintended spillover effects across different minority groups and from the public to the private sphere. A key finding of our research was how majority nationalism laws triggered strong negative reactions among their opponents. We termed this the

[85] Depoorter, Ben, and Sven Vanneste. "Norms and enforcement: The case against copyright litigation." *Oregon Law Review* 84 (2005): 1127–1180.

[86] Sittenthaler, Sandra, Christina Steindl, and Eva Jonas. "Legitimate vs. illegitimate restrictions: A motivational and physiological approach investigating reactance processes." *Frontiers in Psychology* 6 (2015): 1–11.

[87] Barak-Corren, Feldman, and Gidron. "The provocative effect of law."

[88] Barak-Corren, Feldman, and Gidron. "The provocative effect of law."

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"provocative effect of law" and examined its significance for expressive law theory. Our analysis revealed that these laws affect different ideological groups in distinct ways, leading to varying patterns of discriminatory behavior across different social spheres. When legal intervention is used to change people's intrinsic motivation, it can sometimes lead to a backlash if the law does not align with the target group's intrinsic motivation. This provides another theoretical route to understanding the complexity of predicting whether the law will enhance or destroy intrinsic motivation. This is why it is so important to consider the diverse reactions to legal interventions and their potential unintended consequences when we are trying to address these issues.

CROWDING OUT BY GIVING ALTERNATIVE REASONS?

Daphna Lewinsohn-Zamir and colleagues explored the effectiveness of reason giving in promoting compliance with legal norms.[89] While sanctions alone often fall short in ensuring adherence, recent attention has shifted toward nudges – a subtle measure that leverages people's automatic System 1 thinking to influence behavior without resorting to punitive measures. However, nudges have proven both ineffective and contentious. Their article examines how providing information about the underlying reasons behind legal norms can enhance compliance, primarily through deliberative System 2 thinking. They argue that giving reasons can significantly increase compliance while reducing the need for costly enforcement mechanisms. After exploring the theory, their empirical investigation employed vignette studies to demonstrate the feasibility and effectiveness of the reason-giving technique. Their findings reveal that people are more likely to follow legal norms when sound reasons to comply are given, compared to situations where reasons are not provided. It is important to note that persuasive reasons can encourage compliance, but questionable reasons may have the opposite effect.

RELIGION AND REASON GIVING

Religious traditions have long recognized the potential problems with providing reasons for divine laws.[90] The concern was that if the given reasons proved unconvincing, people might question not only those specific reasons but also the divine authority of the religious code itself. This insight raises an important consideration for modern regulation: When people are already intrinsically motivated to follow a

[89] Lewinsohn-Zamir, Daphna, Eyal Zamir, and Ori Katz. "Giving reasons as a means to enhance compliance with legal norms." *University of Toronto Law Journal* 72.3 (2022): 316–355.

[90] Adams, Robert Merrihew. "Divine command metaethics modified again." *Journal of Religious Ethics* (1979): 66–79.

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law for one reason, introducing a different justification might actually weaken their original motivation. While further research is needed to fully understand this effect, existing crowding-out literature suggests that introducing new rationales that differ from a person's original motivations could indeed diminish their compliance.

Sanctions That Enhance Morality

To render the picture even more complex, some research suggests that not only do sanctions not crowd out morality, but they could potentially increase our perception of the immorality of the act.[91] In a series of three experiments, Laetitia Mulder and colleagues examined the influence of sanction severity. They found that severe sanctions lead to stronger moral judgments regarding rule-breaking behavior and stronger social disapproval of rule-breakers than mild sanctions. Interestingly, there was some moderation in the level of trust in institutions.

While fascinating, these findings are limited in a few ways. First, when relying on trust in authorities, the strong sanction may be perceived as a credible signal. Second, as we discussed earlier, there is an open question as to the extent to which we can view morality as an intrinsic motivation to obey a particular rule, as it might be more part of the intrinsic motivation to obey legitimate authority. Thus, it might be the case that if people believed in the actual law, they would have assessed their behavior differently.

FAIRNESS OF THE LAW AS AFFECTING THE LIKELIHOOD OF CROWDING OUT

In their famous study, Valerie Braithwaite and colleagues concluded that nursing home managers were more likely to comply with requests when they felt that they were treated fairly.[92] On the surface, this seminal study appears to answer the main questions of this book: How can voluntary compliance be achieved and what is the best way to maintain it? The main problem with the study is that the managers who felt they were trustworthy may have only been trustworthy to the regulators and not to the rest of the organization. This doesn't solve the regulators' dilemma when they need to decide the best approach in cases where there is a lack of information about the integrity and trustworthiness of the particular entity they are interested in regulating.

In a study from 2009, Neil Gunningham and Darren Sinclair examined what happens when inspectors, focused on the more intrinsically oriented "advise-and-persuade" approach, switch to the more extrinsically oriented deterrence-based

[91] Mulder, Laetitia B., Peter Verboon, and David De Cremer. "Sanctions and moral judgments: The moderating effect of sanction severity and trust in authorities." *European Journal of Social Psychology* 39.2 (2009): 255–269.

[92] Braithwaite, Valerie, et al. "Regulatory styles, motivational postures and nursing home compliance." *Law & Policy* 16.4 (1994): 363–394.

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approach because of some disaster that happens and public demand for a tougher approach.[93] They found that this change in approach has led to problematic consequences and the decline of trust has led to a decline in the regulatory effectiveness. Carol Heimer and J. Lynn Gazley have emphasized the importance of meaningful interaction between inspectors and regulators.[94] This interaction can enhance information gathering and improve compliance.

PARETO SELF-IMPROVEMENT AND THE EFFICACY OF CHANGING INTRINSIC MOTIVATION

Robert Cooter has been working on the notion of "Pareto self-improvement";[95] that is, people must be authentic in their ethical preference change to be able to behave in authentically and systematically ways.[96] Cooter proposes that the law can shape ethical behavior through an instrumental mechanism involving preference change. His theory suggests that people have both low-order preferences (immediate desires) and high-order preferences (longer term aspirations, including the desire for social status). When laws create social conditions where virtue is recognized and valued, people seeking to improve their social standing will work to be perceived as virtuous. This desire for social recognition can lead individuals to modify their low-order ethical preferences to align with their high-order preference for elevated social status. This process, which Cooter terms the "Pareto self-improvement mechanism," exemplifies a rational choice approach to understanding how laws can influence moral behavior.[97] This perspective suggests that people logically change their preferences in response to new information or new social opportunities.[98]

The effectiveness of this mechanism in improving intrinsic ethicality depends critically on whether people cannot falsely present themselves as virtuous when they are not genuinely so.[99] Therefore, Cooter argues that if the best way to appear moral is to actually be moral, then people will want to become moral and change their ethical preferences.[100] Therefore, close social groups are important for observing people's true morality and improving ethical preferences.[101] The state can improve compliance with the law by enacting laws that have moral implications. This is

[93] Gunningham, Neil, and Darren Sinclair. "Organizational trust and the limits of management-based regulation." *Law & Society Review* 43.4 (2009): 865–900.
[94] Heimer, Carol A., and J. Lynn Gazley. "Performing regulation: Transcending regulatory ritualism in HIV clinics." *Law & Society Review* 46.4 (2012): 853–887.
[95] This text is based on an analysis done in Feldman. "The expressive function of trade secret law."
[96] Cooter, Robert. "Expressive law and economics." *Journal of Legal Studies* 27.S2 (1998): 585–607.
[97] Cooter, Robert. *Expressive law and economics*. University of California Press, 1998.
[98] Cooter. *Expressive law and economics*.
[99] Scott, Robert E. "The limits of behavioral theories of law and social norms." *Virginia Law Review* 86 (2000): 1603–1648.
[100] Cooter. "Do good laws make good citizens?," 1577.
[101] Cooter. "Do good laws make good citizens?," 1577.

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done by piggybacking on social mechanisms. If people want to appear moral to others, they will change their preferences to align with the law, which is often equated (at least somewhat) with morality.[102]

We must ask ourselves whether sanctions threaten this process. Are sanctions making it less likely for cognitive dissonance to occur, causing people to avoid thinking about why they want to obey the law? How do we explain the fact that we have probably internalized the need to put on a seat belt simply through habit formation? What about repetition? Is internalizing through repetition different? The law that prevented sexual harassment used sanctions from the beginning, which led to a change in how sexual harassment is viewed. This is all related to the previous discussion on the contradiction between the expressive function of the law and the crowding-out effect.

IS A CHANGE IN INTRINSIC MOTIVATION NEEDED FOR SUSTAINABLE BEHAVIORAL CHANGE?

When discussing the impact of incentives or regulations on intrinsic motivation, it is important to consider whether intrinsic motivation needs to be altered for behavior to change over time. As already discussed in more detail, Cooter argues that for behavioral change to be sustainable, intrinsic motivation must be altered.

However, this argument overlooks certain facts. For example, the literature on habit formation does not include the classical approach to intrinsic motivation. According to Cooter, people need to believe that their behavior is consistent with their values. However, when looking for studies on behavioral change, this does not seem to be the case. Instead, habit formation is viewed as a more sustainable approach.[103]

ALTERNATIVE MECHANISMS OF ATTITUDE CHANGE

For example, scholars like Kathy Milkman have researched behavioral change through habit formation.[104] This approach is seen as the best way to create stable behavioral change that can withstand various external counter effects. Daphna Lewinsohn-Zamir's work on internalization, which was discussed earlier in this

[102] Cooter. "Do good laws make good citizens?," 1598. Similar arguments are advanced by Paul Robinson and John Darley, who argue that legal rules are more effective when they converge with conventional morality: Robinson, Paul H., and John M. Darley. "The utility of desert." In *Criminal law*, edited by Thomas Morawetz, Routledge, 2019: 381–428. See also Tom R. Tyler, *Why people obey the law*. Princeton University Press, 1990: 65; Lessig, Lawrence. "The new Chicago School." *Journal of Legal Studies* 27.S2 (1998): 661–691; Lessig, Lawrence. "The regulation of social meaning." *University of Chicago Law Review* 62.3 (1995): 943–1045; Lessig, Lawrence. "Social meaning and social norms." *University of Pennsylvania Law Review* 144 (1995): 2181–2190.

[103] Gardner, Benjamin, and Amanda L. Rebar. "Habit formation and behavior change." In *Oxford research encyclopedia of psychology*. Oxford University Press, 2019.

[104] Milkman, Katy. *How to change: The science of getting from where you are to where you want to be*. Penguin, 2021.

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chapter, refers to another approach that is similar to the classical effect of cognitive dissonance.[105] According to this approach, behavioral change must precede internal change and internal change is more likely to occur without strong external pressure. This effect has led Lewinsohn-Zamir to argue that a command-and-control sanctions-based approach is less likely to lead to internal change, making it less intrusive and problematic. Interestingly, the assumption is that an internal change is problematic from a rule of law perspective. This issue will be discussed in Chapter 11, which focuses on normative implications.

In addition to the literature on habit formation, models of attitude change also suggest a mixed picture.[106] According to many studies, it is difficult to identify one process through which such change happens.[107] This undermines some of the original models of persuasion and attitude change that sought to differentiate different attributes of messages (such as quality of argument versus source of message).[108]

WHAT REGULATORY INTERVENTIONS ARE MORE LIKELY TO CHANGE PREFERENCES?

Thus, if sanctions are not necessarily the only means to crowd out motivation, as the law might have a similar crowding-out effect, we need to understand what other factors might explain this potential effect. In the following section, which begins by identifying the regulatory toolbox choices, we will examine which regulatory aspects will have a stronger effect on behavior. A related question is what regulatory instrument will have a positive effect on people's intrinsic motivation (which is sometimes referred to as preference change in economic terminology), and what regulatory instrument will have a negative effect on people's intrinsic motivation (which is usually referred to in law and behavioral economics as crowding-out motivation).[109]

IS THERE A REGULATORY INSTRUMENT BEST SUITED TO CHANGE PREFERENCES?

As we showed in Chapter 2, each regulatory instrument has more than one dimension. Therefore, it is difficult to argue that one legal tool is preferable to another

[105] Lewinsohn-Zamir. "The importance of being earnest."

[106] Petty, Richard E., and Pablo Briñol. "Attitude change." In *Advanced social psychology: The state of the science*, edited by R. F. Baumeister and E. J. Finkel, Oxford University Press, 2010: 217–259.

[107] Kruglanski, Arie W., and Erik P. Thompson. "Persuasion by a single route: A view from the unimodel." *Psychological Inquiry* 10.2 (1999): 83–109; Petty, Richard E., S. Christian Wheeler, and George Y. Bizer. "Is there one persuasion process or more? Lumping versus splitting in attitude change theories." *Psychological Inquiry* 10.2 (1999): 156–163.

[108] Briñol, Pablo, and Richard E. Petty. "A history of attitudes and persuasion research." In *Handbook of the history of social psychology*, edited by Arie W. Kruglanski and Wolfgang Stroebe, Psychology Press, 2012: 283–320.

[109] Zamir, Eyal, and Doron Teichman. *Behavioral law and economics*. Oxford University Press, 2018.

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when it comes to preference change. Traditionally, it has been assumed that providing an explanation to people regarding compliance is the best way to change preferences. However, recent research has challenged the connection between what people believe and what they actually do.[110] This raises questions about whether the extra effort needed for preference change is the most effective way to achieve the desired policy outcome.

In a sense, our approach advocates for preference change as a desired goal. This is not necessarily because it will lead to greater cooperation, but because it will improve people's sense of belonging and identification with the state.

As policymakers seek tools to promote thoughtful preference change, the "nudge-plus" approach offers a framework that combines behavioral interventions with reflective thinking.[111] While this approach adds deliberation, it is not suggesting doing so because of empirical evidence. Rather, it suggests that adding deliberation is likely to lead to an increase in an important behavioral component of democracy – the feeling that you understand what is expected of you. It is not necessarily because this might lead to a better or higher quality of compliance.

For instance, a government might initiate a campaign to encourage citizens to consume more fruits and vegetables by disseminating information about the health benefits of such a diet. Additionally, they could make it easier to choose healthier options by placing fruits and vegetables at eye level in grocery stores and adding labels that highlight their nutritional value. The nudge-plus approach combines nudges with education and information to encourage positive changes in behavior.

BEHAVIORAL ETHICS AND THE LIMITS OF USING LAW TO SHAPE PREFERENCES

In joint work with Yotam Kaplan, we have criticized the axiom common to all studies on internalization that people will behave more ethically if their preferences become more ethical.[112] This axiom underlies much of the attempt to change people's preferences. It is impossible to argue against the greater good that comes to the world with more people who have ethical preferences. We have argued that ethical preferences do not necessarily guarantee ethical behavior. Instead, we believe that the design of the situation in which people operate is of greater importance. In short, the argument is that even people who have a strong preference for ethical behavior can end up behaving unethically.

[110] Conner, Mark, and Paul Norman. "Understanding the intention–behavior gap: The role of intention strength." *Frontiers in Psychology* 13 (2022): 923464.

[111] Banerjee, Sanchayan, and Peter John. "Nudge plus: Incorporating reflection into behavioral public policy." *Behavioral Public Policy* 8.1 (2024): 69–84.

[112] Feldman, Yuval, and Yotam Kaplan. "Preferences change and behavioral ethics: Can states create ethical people?" *Theoretical Inquiries in Law* 22.1 (2020): 21–14.

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Research across cognitive and social psychology, behavioral ethics, and behavioral economics challenges the assumption of internal consistency in human decision-making. This is particularly evident in how people make ethical choices, where behavior often proves more complex and less predictable than traditional models suggest.[113] This point is closely related to the growing literature on deliberative, semi-deliberative, and nondeliberative choice.[114] It is possible for a person to have an explicit preference for one state of affairs yet systematically make choices that seem to contradict this preference. In the context of ethical decision-making, it is possible (and even common) for a person to hold an explicit preference for ethical behavior, but at the same time to have an implicit habit, or a nondeliberative tendency, to lie and cheat.[115] Similarly, people can have a preference for helping others, yet behave selfishly due to various semi-deliberative cognitive processes.[116] This could also happen due to self-deception mechanisms, where individuals might misinterpret their own actions, viewing them as helpful when they are in fact egoistic.[117] Preferences are not monolithic, but fragmented. People behave in ways that indicate the existence of fractions or inconsistencies in their preferences, even within a single time. This insight is also related to the literature on situational wrongdoing, which highlights the effects of minor situational changes on people's levels of moral commitment.[118]

In other words, we argued that the current approach of attempting to change people's preferences to improve ethical behavior is oversimplified and not always effective. People's preferences can be fragmented and inconsistent and holding a conscious preference for ethical behavior does not necessarily lead to behaving ethically. Efforts to improve ethical behavior should focus on maintaining moral awareness and changing social norms, institutions, and organizations. The law can play a role in improving ethical awareness indirectly by changing social norms and

[113] Funder, David C., and C. Randall Colvin. "Explorations in behavioral consistency: Properties of persons, situations, and behaviors." *Journal of Personality and Social Psychology* 60.5 (1991): 773–794; Byrka, Katarzyna. *Attitude–behavior consistency: Campbell's paradigm in environmental and health domains*. Technische Universiteit Eindhoven, 2009.

[114] Haidt, Jonathan. "The emotional dog and its rational tail: A social intuitionist approach to moral judgment." *Psychological Review* 108.4 (2001): 814–834 (arguing that moral reasoning is typically the result of quick, automatic evaluation and that rational justifications are only made after the fact); Kahneman, Daniel. *Thinking, fast and slow*. Macmillan, 2011.

[115] Feldman. The law of good people: 1 ("various psychological and social mechanisms … prevent people from recognizing their wrongdoing and encourage them to feel as if they are far more moral, unbiased, and law abiding than they actually are").

[116] Merritt, Anna C., Daniel A. Effron, and Benoît Monin. "Moral self-licensing: When being good frees us to be bad." *Social and Personality Psychology Compass* 4.5 (2010): 344–357 (showing that individuals can use past good deeds to justify future violations of moral norms).

[117] Tenbrunsel, Ann E., and David M. Messick. "Ethical fading: The role of self-deception in unethical behavior." *Social Justice Research* 17 (2004): 223–236.

[118] Bazerman, Max H., and Ann E. Tenbrunsel. *Blind spots: Why we fail to do what's right and what to do about it*. Princeton University Press, 2011.

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institutions.[119] Therefore, improving a person's expressed beliefs or preferences, or encouraging a "taste for fairness,"[120] will not necessarily result in a positive behavior change. This means that the effort to improve ethical behavior should become more nuanced. Improving behavior can require constant maintenance of moral awareness, rather than a discrete intervention designed to alter expressed attitudes.

Our conclusion, which is very relevant to the conclusion of this chapter, is that the law may be ill-equipped to produce an overall improvement in people's internal drive to behave ethically and legally. Instead, we suggest an alternative approach to the role of law. Rather than directly improving ethical awareness, the law should indirectly change conventional social norms, institutions, and organizations.

CONCLUSION

This chapter explores the complex relationship between intrinsic motivation and external regulatory interventions, challenging the traditional view that crowding-out effects are uniform and predictable. Through detailed analysis, we discover that the interaction between internal drives and external pressures varies significantly across contexts and individuals. Most notably, different forms of intrinsic motivation exhibit varying levels of resilience to external intervention – scientific beliefs, for instance, often prove more resistant to crowding out than moral motivations, while legitimacy-based compliance responds differently than purely voluntary cooperation.

The crowding-out process itself operates through multiple interconnected mechanisms at both individual and social levels. At the individual level, we observe self-related processes such as over-justification, attention shifts, and changes in perceived autonomy. These personal responses are complemented by broader social processes, including the diminishment of virtue-signaling opportunities and the bureaucratization of behavior. Understanding these mechanisms reveals why the effectiveness of regulatory interventions depends heavily on perception and framing – the same intervention might enhance compliance in one context while undermining it in another, based largely on whether the target population perceives it as supportive or controlling. This variability is further complicated by individual differences, as people with strong prosocial orientations often react quite differently to external incentives than those with more individualistic tendencies.

[119] Traditional preference-change literature recognizes external constraints on people's preferences. That is, it might be that a person holds a preference for helping others, but they are not able to act on that preference since they do not possess the necessary financial means. Our argument in this chapter adds another layer, that of internal constraints, to the factors limiting people's ability to realize their preferences. That is, we argue that even if a person has a preference for helping others, and that person is able to realize this preference without being externally constrained, it might still be the case that cognitive biases will interrupt and limit that person's ability to realize their explicit preference.

[120] Cooter. "Do good laws make good citizens?," 1577.

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These findings point to the need for a more sophisticated approach to regulation. Rather than viewing crowding out as a universal phenomenon, policymakers must carefully consider how specific interventions might affect different groups and various types of motivation. This understanding opens the possibility of combining regulatory approaches in ways that reinforce rather than undermine voluntary compliance.

Looking ahead to Chapter 4, we will examine how specific regulatory tools affect intrinsic motivation and voluntary compliance. By deepening our understanding of the interplay between rules, incentives, and natural motivations, we can design regulatory systems that enhance rather than suppress human nature's positive inclinations. Ultimately, our goal extends beyond achieving mere compliance to building regulatory frameworks that strengthen the social fabric that makes willing cooperation possible.

The chapter concludes by arguing that successful regulation requires a more sophisticated understanding of how different regulatory tools interact with various types of intrinsic motivation. Rather than viewing crowding out as a universal phenomenon, policymakers need to consider how specific interventions might affect different groups and different types of motivation, potentially combining approaches in ways that reinforce rather than undermine voluntary compliance.

In Chapter 4, we'll examine specific regulatory tools' effects on intrinsic motivation and voluntary compliance. By understanding how rules and incentives interact with people's natural motivations, we can design approaches that bring out the best in human nature rather than suppress it. The goal is to develop systems that not only achieve compliance but also strengthen the social fabric that makes willing cooperation possible in the first place.

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