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Government Incentives vs. Mandates

How governments can best influence citizen behavior

Introduction

Beyond caring for the well-being of its citizens by providing essential services, the primary role of government is to develop social structures and processes that cultivate positive citizen behaviors. This takes the form of negative, prohibitive injunctions or positive, motivating inducements. The challenge for governments across the globe is employing these different methodologies in a manner that effectively encourages their citizens to participate. These methods have existed from the origin of representative democracies, taking various forms and with varying degrees of success.

The challenge of effectively implementing these methodologies is true today, with some cases being well-received and others inciting anger amongst citizens. One endearing example is visible on District of Columbia license plates, which professes the revolutionary-era refrain "No Taxation Without Representation" to confront one type of government mandate - taxation. The most socially cacophonous recent example is, of course, the pandemic response and the divergent reactions to lockdown and masking directives. These examples speak to the importance of ensuring the rationale behind a policy as well as the form it takes are mindful of the sentiments of its citizens. It also highlights the difficulty in pacifying different stakeholders.

Governments operating in a post global pandemic environment must be nimble and agile to address modern challenges. Additionally, rapid changes in societal needs force governments to respond and adapt faster than before. As it seeks to motivate citizens to participate in confronting these new realities, the government relies on two key methodologies: **incentives and mandates**.

In this analysis, we will examine some common incentives and injunctions, discuss how compliance with mandates is overseen, and offer a new model by which to modify behaviors. While the use of mandates, incentives and other methods might elicit strong personal views, McBride Consulting is most interested in ways to streamline administrative and managerial tools to garner the best economic and social outcomes.

Common incentives

Every level of government today—municipal, local, county, state, or federal—utilizes incentives to achieve social goods and serve the public's interest. An illustrative example is the financial incentives included in the tax code, such as deductions, subsidies, credits, and reductions. Through reviewing these tax incentives, we can better understand how incentives are used broadly to induce citizens to participate in specific government programs.

A **tax deduction** decreases the amount of taxable income that a person or business is required to pay. Activities that award a deduction include charitable contributions, business expenses, health savings accounts, and opportunity zones. Fundamentally, each example grants taxpayers a reduced tax burden, while affording the government the means to induce positive citizen behaviors that promote the general welfare. Once a person's or business's taxable income is determined, **tax credits** reduce the final tax bill directly, rather than reducing taxable income in the case of a deduction. Examples include credits for children and dependents, lifetime learning expenses, residential energy efficiency, and recovery rebates. For instance, the Inflation Reduction Act passed by the U.S. Congress and signed by President Biden on August 16, 2022, includes a tax credit of $7,500 to individuals who purchase an electric vehicle.[1] Both tax deductions and tax credits represent a similar dual benefit to society by encouraging the individual to behave in a certain way.

A **tax reduction**—including tax exemptions, subsidies, and forgiveness—represent a government entity waiving the right to receive taxes from a person or business for a certain amount of time in exchange for specific criteria that the government desires for the benefit of society. One example would be allowing a taxpayer to avoid paying property tax to a city government in exchange for creating a business in an economic opportunity zone that provides a certain number of well-paying jobs for residents. This can be a powerful tool to help certain areas—such as those with high rates of poverty or historically underdeveloped areas—to obtain sorely needed investments.

Government **grants**, though different from tax incentives, are a government mechanism to more proactively promote particular social practices and to address community needs. For example, the *Lawns to Legumes: Your Yard can BEE the Change* program managed by the Minnesota Board of Water and Soil Resources offers cost-share funding (individual support grants) for installing pollinator-friendly native plantings in residential lawns.[2] The goal of this program is to combat population decline by creating new pollinator habitat corridors that provide food sources and nesting space for pollinators. Without this grant, homeowners would have fewer incentives to plant native species that attract bees. With this grant, society is more likely to benefit from a more robust environment that will have long-term health and agricultural benefits.

The Coronavirus Relief Fund Act (CRF) under the Trump Administration and the American Rescue Plan Act (ARPA) under the Biden Administration are two other contemporary examples. These stimulus aid packages were provided to states and local governments to initiate emergency and pandemic-responsive programs. Like a grant, the government sought the collaboration of state governments and agencies taking both preemptive and mitigating actions to confront the pandemic's deleterious impacts. Incidentally, McBride Consulting has supported major metropolitan areas around the country in implementing grants management solutions for both the CRF and ARPA stimulus programs.

These incentive methodologies showcase how governments improve the general welfare of their residents. Still, it is worth acknowledging practical drawbacks. Mechanisms that rely on interacting with the IRS, a notoriously complex and inaccessible institution, could prevent less technically adept citizens from accessing these benefits. This may result in significant advantages for big businesses and large organizations with resources than a small business or an individual.

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[1] https://home.treasury.gov/system/files/136/EV-Tax-Credit-FAQs.pdf
[2] https://bwsr.state.mn.us/l2l

Complex financial systems also complicate transparency and accountability, increasing the likelihood of mismanagement, abuse, and corruption. These inefficiencies both counteract the promotion of the general welfare, but also the unnecessary depletion of government resources that could be appropriated elsewhere. For this reason - among others - it is likely why funds were allocated for the IRS in the Inflation Reduction Act, by enhancing making their tools and resources more accessible to a wider audience.[3]

Compliance with Mandates

While **incentives** often offer a financial benefit to the individual or business to promote behaviors, **mandates** are directives by a government executive or agency that enforces behaviors. In other words, incentives are often the carrot (positive reinforcement) while mandates are the stick (negative reinforcement). For mandates to be effective, there must be mechanisms by which a government can ensure compliance. Enforcement and monitoring methods contain several variables, including the goals of the mandate, the tools available to the government entity, and the urgency in shifting the citizenry's behaviors.

Penalties and **fines** are two examples of common enforcement methods to ensure compliance and set deadlines and parameters. After a mandate has been implemented, a government entity can set relevant **penalties** for violations. Those penalties can be financial, or involve imposing restrictions, terminating employment, or result in imprisonment. The pandemic again affords an illustrative example, as many cities, states and places of employment established penalties for individuals who violated mask-wearing ordinances.

To enact these fines, government entities must be capable of identifying those who are noncompliant. Like the pandemic example above, some fines must cover a large geographic and populated area or the compliance and participation of many businesses, which complicates oversight. These activities require resources and planning to ensure effective and targeted enforcement.

Audits also enforce compliance with mandates, albeit on a different timeline and with different processes. While penalties and fines are intended to prevent or punish instances of noncompliance at the point of violation, audits are scheduled retrospective compliance assessments. Audits entail a thorough review of an organization's success in complying with government guidance and parameters and whether an organization has sufficient internal controls in place to reduce the likelihood of violation. Because these are typically completed on a longer timeline, they do not trigger immediate enforcement. Penalties or fines can be levied once instances of noncompliance are identified to prod the entity in the right direction. Indeed, the CRF and ARPA funds conditioned recipients to provide regular reporting and undergo audits to demonstrate compliance.

The Behavior Change Wheel

There are many frameworks that policy makers, researchers and governments can use to effectively change public behavior. Some prevalent models include MINDSPACE, Cochrane's reviews, NICE guidance, Theory of Planned Behavior, and the Health Belief Model.[4] Alone, each model might meet the potential needs of its creators. However, the plethora of options can confound a government entity. The framework of a successful model should be comprehensive, accessible and adaptable to all present and future interventions. It also cannot be siloed to individual phenomenon, but capable of addressing and implementing broad behavioral inducements.

Intervention designers have attempted to discover why some models fail while others succeed. Ultimately, this process helped them arrive at the newest model for categorizing interventions and their unique components. Thus, the Behavior Change Wheel (*Figure 1*)[5] was born.

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[3] https://taxfoundation.org/blog/irs-funding-plan-inflation-reduction-act/#:~:text=The%20Inflation%20Reduction%20Act%20increased,a%20potential%20free%2Dfile%20system.

[4] Michie, S., van Stralen, M.M. & West, R. The behavior change wheel: A new method for characterizing and designing behavior change interventions. *Implementation Sci* 6, 42 (2011). https://doi.org/10.1186/1748-5908-6-42

[5] Ibid.

This framework provides a flexible method to apply targeted interventions and accounts for how behaviors can fluctuate. The green inner circle represents the factors that influence any behavior, the grey and white middle circle highlights the various types of interventions, and the outer blue circle shows policy options that can be used to effectively intervene.[6]
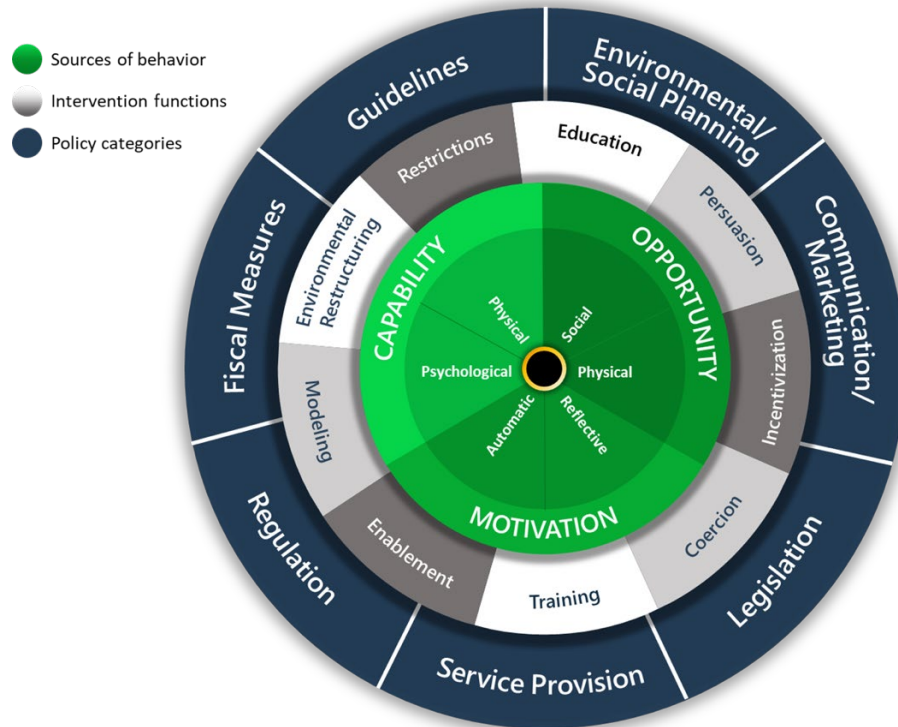

Figure 1: The Behavior Change Wheel

The best interventions must account for both societal needs and the government's goals. While the debates between the two approaches (incentives vs. mandates) are complex and worth understanding, an underappreciated aspect is understanding the level of effort necessary to implement, maintain, and sustain behavioral-change initiatives. Notwithstanding the many options, McBride Consulting recommends that policymakers consider a differentiated approach tailored to the opportunities, capabilities, motivations, interests, and historical context of the targeted population. This will then present a simpler and leaner intervention schema, rooted in the Behavior Change Wheel.

Consider an example: a local government is seeking to reduce speeding-related traffic deaths. It would first investigate *why* drivers are speeding to determine the most effective response – restrictions, persuasion, incentivization, environmental restructuring, education, coercion, enablement, modeling and training. This would involve first ensuring the signage adequately conveys the rule, and then establishing persuasive methods to induce conformity. Ultimately, leveraging the Wheel's methods would enable a holistic response, accounting for the needs of the target stakeholders.

Implementing and Administering Governmental Incentives and Mandates

Achieving a successful implementation of governmental interventions is not easy. There are several approaches that have been taken in the past and some have proven more effective than others. One effective means to garner public support

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[6] England, P. H. (2020, November 6). Behavior change: Guides for national and Local Government and Partners. GOV.UK. Retrieved July 18, 2022, from https://www.gov.uk/government/publications/behaviour-change-guide-for-local-government-and-partners

for an intervention is an accessible public education campaign. This allows the government to communicate why their intervention is necessary and the impact they are hoping to realize.

An example of an effective public education campaign was the push against tobacco and tobacco-use in children. In 2014, the Surgeon General stated, "The evidence is sufficient to conclude that mass media campaigns, comprehensive community programs, and comprehensive statewide tobacco control programs prevents initiation of tobacco use and reduce the prevalence of tobacco use among youth and adults."[7] The key to this successful intervention was the frequency and duration of the campaign and how it accessed the target audiences. This was no simple feat, as the campaign required persistent exposure to the general public. The Surgeon General's report also declared that reducing the number of tobacco related deaths was achieved by a combination of the multi-faceted public education campaign, the increase in cigarette prices through fees and taxes, and supporting groups that promoted preventative and nicotine-quitting activities. It was the extensive resources and the multi-faceted response that gave the government a truly successful outcome.

Other options for administrating government incentives and mandates include the use of technology and reliable self-reporting to better measure and enhance the mandate rollouts. If the government, for example, releases an application for self-reporting on a mandate, it would minimize the need for additional oversight, which costs time and money. However, training might be necessary for self-reporting to ensure its accuracy. There is no one-size-fits-all answer for effective government rollout. Still, the use of public education, technology, and reliable self-reporting may prove to be effective methods to engender sustained results.

To administer an effective strategy, governments would also be wise to leverage third-party consulting support. This would help them in getting a comprehensive and targeted approach, utilizing cost-effective methods. This support could be interjected at various stages of the intervention implementation lifecycle. An example is provided below:
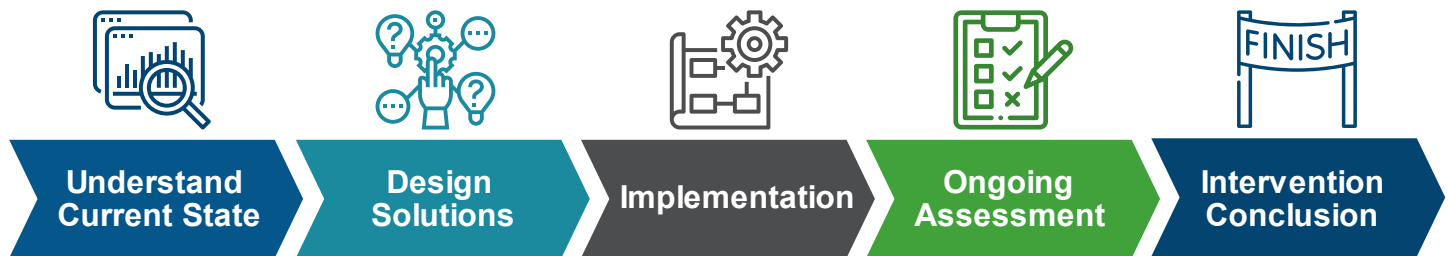

Figure 2: Figure 2: Basic Method of Government Action

Understanding Current-State

Any approach must understand the current state and what necessitates an intervention. This includes performing an external assessment, understanding any causes or the scale of an issue or need and identifying the impacted stakeholders. An internal assessment would also be prudent to understand what resources and tools are at the government's disposal. As an approach is considered - equipped with these gleanings - it will also be critical to understand precedent of the issue or need and what approaches have been used previously. This will help the government determine what strategies proved effective before, and which practices to avoid. Truly assessing the target stakeholders will also be important to understand their motivations and social realities, and how best to communicate with that audience. This includes both understanding what mediums are best to reach these stakeholders for a prospective education campaign and what would make the approach more accessible and attractive to them.

Designing Multi-faceted Solution

After understanding the current state, a solution can be designed. Consider, after determining what resources are available to the government, it will limit what strategies can be employed. The data and research gleaned from the current

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[7] Public Health Service: Office of the Surgeon General. The Health Consequences of Smoking—50 Years of Progress: A Report of the Surgeon General. Department of Health and Human Services. Retrieved January 20, 2023, from https://www.ncbi.nlm.nih.gov/books/NBK179276/pdf/Bookshelf_NBK179276.pdf

state assessment, including the context and motivations of the target stakeholders, will provide precedent of success and help curate the appropriate incentives or dissuasions. This will also inform the education campaign to garner collective support and adoption.

The solution should leverage the behavior change wheel to ensure all elements are incorporated and that the plan is comprehensive. A core element of the design phase is also developing the metrics that will be used to measure success throughout the implementation.

Implementation

Once the approach is designed, the government must initiate the implementation in a coherent manner. All stakeholders involved in the effort must be aligned on the approach. This would mean promoting awareness of the benefits available to participants (incentives) or the penalties associated with violations (injunctions). Bodies involved in enforcement must be made aware of the initiative to ensure the policy is applied consistently. The metrics collection elements must also be stood up so that information can be gleaned to measure progress. This will allow the government to make any needed strategic adjustments as the performance is evaluated.

Ongoing Assessment and Agile

As the program is underway, the program leads must measure performance and stakeholder response to determine whether the intervention is successful and well-received. If needed, the government must be prepared to adjust to better manage stakeholders or curate the policies to the changing environment.

Typical of any project implementation, the budget and resources must also be evaluated throughout relative to the original budget baselines to assess whether the effort is under or over budget. This would then allow the government to shift available resources where they are needed. This will dovetail with the data collection activities, as the performance assessment should indicate where resources are needed or whether investments in education campaigns are required.

Intervention Conclusion (if relevant)

Once a positive equilibrium is met with negative behaviors reduced, positive behaviors increased or externalities changing, the government must be prepared to end the intervention. An obvious example is the CDC managing the shift to a non-masking environment as the pandemic's dangers dissipated. Ironically, this stage must include some of the features of the initial one.

Communication must be made to all stakeholders to make them aware of the shifting policy and to ensure alignment. Residual resources must be preserved, and processes documented for closeout assessments. Tools must be retrieved or repurposed with the conclusion of the intervention. Metrics must be collected to have a final, aggregate data model for future needs. Closeout audits can be conducted retrospectively assess compliance and recoup and misused funds (in grant settings). This process will ultimately guarantee that relevant stakeholders are aligned, waste is diminished, and the public sentiment is addressed.

Conclusion

Governments have the difficult task of conceptualizing and implementing interventions – incentives or mandates – to try and serve their citizens and advance the country's well-being. What complicates this further is doing so in a way that is effective, time-sensitive and attuned to public sentiment. This requires an accounting of all consultative capacities: project and risk management, process control, effective technological infrastructure (hardware and software), and public transparency. To efficiently employ multi-layered government entities and activities warrants a multi-faceted approach. The best way to change social behavior for the betterment of the whole is ensuring your own processes are in order.

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