



Book Carrots and Sticks

Unlock the Power of Incentives to Get Things Done

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Recommendation

Have you been making the same resolutions over and over – about losing weight or stopping smoking – without success? If so, a “commitment contract” can help. In his entertaining new book, lawyer, economist and author Ian Ayres shows how pledging yourself to a reward (a “carrot”) or a punishment (a “stick”) can be a forceful motivator. Ayres describes commitment contracts in a conversational, anecdotal style. *getAbstract* recommends this book to anyone interested in human behavior. It can help you reach that elusive personal or professional goal – if you’re ready to put your money where your mouth is.

Take-Aways

- Unfortunately, people don’t fulfill their resolutions or achieve most goals.
- A behavior called “hyperbolic discounting” encourages you to succumb to immediate gratification rather than focus on a future payoff or reward.
- A “commitment contract” can improve your success rate in reaching your personal and professional goals.
- When you enter into a commitment contract, you match your objective or resolution with a reward (a “carrot”) if you succeed or a penalty (a “stick”) if you don’t.
- Carrots and sticks are “commitment devices” that can restrict your temptation to stray.
- Focusing on a carrot or a stick discourages hyperbolic discounting.
- Sticks are generally more effective than carrots in influencing behavior.
- The most effective stick is the prospect of losing money if you don’t reach your goal.
- Your commitment contract can combine carrots and sticks.
- Enlist the help of a referee in your contract to determine when or if you go off course.

Summary

Eyes on the Prize

Why do so many people fail to reach their goals? They vow to quit smoking but give in to their cravings. They can’t get organized at their jobs when they know they’d perform better if they did. The answer lies in human behavior. Typically, humans want to fulfill their needs without delay. They would rather have a smaller reward now than wait for a larger reward later. This attitude is called “hyperbolic discounting.” In the terms of behavioral economics, “the value today of some future gift should lose a fixed proportion of its value for every unit of delay.”

“Commitment contracts are promises backed by contingent rewards or punishments.”

Hyperbolic discounting can help explain why you might decide on a goal and then not be able to reach it. As temptations or options present themselves, your resistance breaks down. Your mind is “sophisticated” enough to understand that you’ll regret relenting, but you – and everybody else on the planet – prefer immediate relief to the promise of later success.

“It’s our ability to regret in advance that creates the battle between our present more-patient selves and our future give-it-to-me-now selves.”

You feel bad when you cave. Worse yet, you are aware that you will feel bad once you succumb. You know you should wait and deny yourself because you’ll feel like a failure if you give in to the impatient side of your personality. Because people are capable of understanding that they’ll “preproperate” – give in and “eat two pieces of chocolate cake for breakfast” – they mentally set up inner conflicts about their goals. To tough it out and keep your eyes on the prize, enter into a “commitment contract.”

“Carrots and Sticks”

While the original metaphor describes a carrot hanging from a stick in front of a donkey to keep the beast moving forward, think instead of carrots as rewards and sticks as punishments. This image plays a large role in commitment agreements because most people need “incentive contracts loaded with carrots and sticks” to encourage them to perform. This is not a negative; incentives can be beneficial. They can make you more aware of other individuals’ feelings – for example, cleaning up after your dog out of consideration for your neighbor. They also can help improve people’s decisions; for instance, offering students monetary rewards for good grades can help them decide to stay in school.

“Hyperbolic discounters put extraordinary value in receiving rewards immediately (and in pushing off immediate burdens for even short periods) but then become relatively indifferent about when the reward (or burden) arrives in the future.”

Carrots and sticks are code words for “commitment devices.” Unlike ordinary incentives, they can render some paths not worth taking, thereby taking “prospective choices off the table.” Commitment devices such as gastric bypass surgery for dieters or the drug Antabuse for alcoholics make it impossible to relapse without disagreeable consequences. However, you don’t necessarily need surgery or drugs: The stick of pledging money works very well without them. You must pledge a sufficient sum to lessen the chances of breaking your promise. For instance, Dr. Lisa Sanders, a *New York Times Magazine* columnist who wanted to quit smoking, made a pact with a friend: If either one smoked, one would owe the other \$5,000 per cigarette.

“Planning for the possibility of failure can increase the probability of success.”

Carrots also are effective mechanisms for removing the option to cheat or renege. Consider the parent who promised his teenage children a new television and Playstation if they agreed to take a corporate finance course, or Zappos, an online shoe retailer that offers its employees \$2,000 to leave their jobs. Zappos’s objectives are to weed out less-than-committed workers and identify employees who appreciate working for the company. This “anti-incentive” forced the employees to consider the offer and resist it. “Both incentives and anti-incentives are about guiding or channeling internal choice.”

“Giving your CEO stock options is an incentive contract; giving your friend five grand if you smoke a cigarette is a commitment.”

You must take care, however, to ensure that you don’t end up rationalizing a cash penalty as an acceptable price to pay for yielding to temptation. “When you start pricing what was originally inalienable, you are implicitly putting a choice back on the table.” Your stick must be large enough to overcome your natural inclination toward hyperbolic discounting. When you craft a commitment contract, ask yourself three questions:

1. **“To what” are you committing?** – Be specific. Don’t form too lofty a goal.
2. **“To whom” are you committing?** – Recruit a third party to “referee” your progress.
3. **“With what consequences?”** – Does your contract enforce your behavior? What are the penalties for failure? Are you using carrots, sticks or a combination?

Birds in the Hand

Too big a stick can prevent you from committing. Studies have demonstrated that this can be a concern. Highly punitive contracts can result in a “psychological backlash”; for example, when a group of obese men lost weight in an expensive commitment contract, they reverted to their former eating habits out of relief that they’d escaped punishment. Strike a balance between acceptably serious sticks so that you can attain success in the short term and avoid relapsing later.

“Both incentives and anti-incentives are about guiding or channeling internal choice.”

“Loss aversion” plays a role in choosing the size of your sticks. Human beings naturally wish to conserve what they have and dislike relinquishing it. Psychological studies demonstrate that large sticks inspire people to “work twice as hard” than they would for an equally big carrot. Scary sticks “induce a lower rate of failure.” However, carrots can work well if they offer frequent, psychologically reassuring paybacks.

“People hate giving up something they already own...Behavioral economists call this loss aversion.”

Consider a blend of both carrots and sticks in your commitment contract. For instance, a group of men who wanted to lose weight placed money in a pool. They could earn additional cash back because if someone did not lose weight, his fellow participants took his investment. In another example, a New Zealander chose to auction his smoking habit on eBay, with the winning bid going to charity. He would pay the successful bidder \$1,000 per cigarette if he failed. The seriousness of the stick helped him quit; the bidder’s cash benefited a charity.

“You’re more likely to succeed if your failure punishes the worthy or benefits the unworthy.”

Therefore, “framing” your commitment contract is important. Consider whether you wish to deny yourself an attractive carrot (thus causing yourself discomfort if it goes

away) or submit to a stick so serious that you feel palpable relief upon its removal. Also consider your natural desire to avoid risk and loss. Are the increased chances of lung cancer more of a deterrent to smoking than focusing on the benefit of improved health? Is the threat of diabetes enough to inspire you to lose weight, or is it better to think about getting into smaller clothes? If you choose to focus on a penalty (diabetes) rather than a reward (smaller clothing size), beware of allowing your stick to “de-escalate.” You may be better off charging yourself \$1,000 for each time you mess up than setting yourself up to lose a large lump sum the first time you stray.

Innocent Bystanders and Other People Who Matter

A day care center instituted a policy that charged fees to parents who collected their children late. The policy unexpectedly backfired because tardy parents rationalized that they had a “right” to be late as long as they paid extra. Instead, the center owners should have adopted an “anti-incentive” – for example, charging their workers for the parents’ lateness, thus making the parents feel culpable; as it turns out, “sometimes punishing the innocent changes behavior.”

“It’s hard to enter into a contract committing not to eat emotionally. But you could commit to eat breakfast most mornings or to watch less TV.”

Another effective anti-incentive is pledging to donate lots of money to a cause you dislike. This tactic magnifies the psychological impact of slipping up, even if the amount of cash is not a fortune. Be aware, however, that your sophisticated mind has tremendous potential for working its way around the “anti-charity” device. For example, if your stick is a contribution to, say, an abortion rights group, refrain from sending a same-sized gift to a pro-life group by way of balance if you fail.

“Some people have the mistaken idea that flexibility is antithetical to the whole idea of commitment.”

People also have an innate need to emulate others’ behavior, become part of a group and gain other people’s approval. Studies indicate, for example, that hotel guests are more likely to reuse their bathroom towels if they learn that a certain percentage of their fellow guests are doing the same. Householders may be prone to use less energy if their electric bill indicates how many others are saving money by conserving.

“The opportunity to engage in contingent self-extortion can increase your resolve.”

Your innate desire to conform means that a stick that threatens “humiliation” can be extremely effective. Therefore, you will experience a higher level of success if you broadcast your commitment contract and its terms to your family, friends, and others whose opinions are important to you. Ask a trusted individual to pester you on your progress. You will find it difficult to lie to that person. However, make sure that he or she is someone who cares that you make your goal and who will be rigid about not letting you weaken.

The Key to Staying Successful

When you craft your commitment contract, think beyond it. For example, if your contract’s goal is to lose weight, will you keep it off? Many people do not. You also should enter into a “mindfulness” or “maintenance” contract. Vow to sustain your success, whether it’s remaining thin or never picking up another cigarette. You can pledge money or a series of small rewards. Resolve to check up on yourself, to ask yourself repeatedly, “How am I doing?” If your original achieved goal was to get thinner, monitor your weight every day. Promise to respond immediately if your weight increases by up to five pounds. Decide whether you will focus on the fact that you made your initial goal or whether it’s more psychologically beneficial to aim for a new one. Allow yourself some flexibility, but make sure that any “exceptions” you make are “hard-edged.”

Commitments Communicate

Commitment contracts exist in unexpected places. For example, many employers offer wellness programs that enlist pledges from employees to improve their health habits. The carrot can be reduced health insurance fees or free fitness club memberships.

“Before committing to stop one bad habit, we should consider the chances that success will promote other bad habits.”

Participants in various collectives publicly state that they will follow their goals and agree to abide by a group standard. For example, companies can demonstrate their dedication to personnel diversity and inclusion by signing up for the right to use a “Fair Employment Mark” in their advertising. The Chicago Climate Exchange mandates that participating firms “reduce their greenhouse emissions by 1% a year.” And on an individual basis, compulsive gamblers put themselves on a “Do Not Pay” list, which forbids casinos from giving them any winnings. “It is...difficult to get your present self to agree to...a commitment contract where the stakes are very high.”

Commitments Enlighten

A commitment contract can help you gain valuable insight into your life and behavior. For example, “the fundamental attribution” cognitive error causes humans to assign fault to other people rather than themselves. Therefore, it may be unwise to attach yourself to incentives.

“When it comes to commitments, there’s safety in numbers.”

Benjamin Franklin discovered this as a young man, when he endeavored to reach “moral perfection.” Humans who strive too hard might end certain negative practices only to take up others. Psychologists call this “ego depletion.” The stress of a commitment contract may adversely affect your performance overall. Be judicious in choosing how many commitments you undertake and when you undertake them. Commitments also can make you happier, but only if they’re framed as specific results. Therefore, don’t aim for greater happiness; set goals that contribute to that result.

“A Commitment Store”

Websites functioning as reporting and pledge mechanisms offer tools for crafting and enacting a commitment contract. Author Ayres is a co-founder of stickK.com, where you can post your commitment, state your goal, and shop for carrots or sticks. You also can select your referee, post a cash pledge and indicate who will win your pledge should you fail. Almost 95,000 commitments with more than \$7 million at stake are posted to the site, which focuses on goal achievement and offers encouraging success stories. It has three pledge “forfeiture triggers”: failure to report your progress within a specified time period, admission that you veered from your goal and a report from your referee on your conduct.

About the Author

Lawyer, economist and author **Ian Ayres** wrote *Super Crunchers: Why Thinking-By-Numbers is the New Way to Be Smart*. He is the William K. Townsend Professor of Law at Yale University.
