

Perverse incentive

A **perverse incentive** is an incentive that has an unintended and undesirable result which is contrary to the interests of the incentive makers. Perverse incentives are a type of unintended consequences.

Examples

- In Hanoi, under French colonial rule, a program paying people a bounty for each rat pelt handed in was intended to exterminate rats. Instead, it led to the farming of rats.^[1]
 - Funding fire departments by the number of fire calls made is intended to reward the fire departments that do the most work. However, it may discourage them from fire-prevention activities, which reduce the number of fires.^[2]
 - 19th century palaeontologists traveling to China used to pay peasants for each fragment of dinosaur bone (dinosaur fossils) that they produced. They later discovered that the peasants dug up the bones and then smashed them into many pieces, greatly reducing their scientific value, to maximise their payments.^[3]
 - In 1696, the English Parliament adopted a tax under which dwellings were to be assessed according their number of windows. Although the tax was intended to be progressive in that it exempted houses with fewer than ten windows from the bulk of the assessment, in operation it exacerbated the gap in living conditions between rich and poor as landlords were incentivized to brick up tenement windows to reduce their tax liability, leaving working-class tenants with insufficient light and ventilation.^[4]
 - Paying architects and engineers according to what is spent on a project leads to excessively costly projects (cost overruns).^[5]
 - Paying medical professionals and reimbursing insured patients for treatment, but not for prevention, encourages leaving medical conditions until they require treatment.^[6]
 - In 2007, the Bangkok, Thailand police switched to punitive pink armbands adorned with the cute Hello Kitty cartoon character when the tartan armbands that had been intended to be worn as a badge of shame for minor infractions were instead treated as collectibles by offending officers forced to wear them.^[7]
 - After No child left behind imposed pay cuts and layoffs for teachers whose students performed poorly on standardized tests, hundreds of teachers and principals in Atlanta and Washington, DC were found to have altered their students' responses on standardized tests. Teachers in 14 other U.S. cities were accused of similar behaviour.^[8]
 - Opponents of the Endangered Species Act argue that it may encourage preemptive habitat destruction by landowners who fear losing the use of their land because of the presence of an endangered species; known colloquially as "Shoot, Shovel and Shut-Up".^[9]
 - Providing company executives with bonuses for reporting higher earnings encouraged executives at Fannie Mae and other large corporations to artificially inflate earnings statements and make decisions targeting short term gains at the expense of long term profitability.^[10]
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Further reading

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