

Short term versus long term. Using intrinsic motivation or incentives to drive good behaviour. How are policymakers to resolve such tensions? Endorsing opposing views can give good results

A paradoxical approach to policymaking



BY INVITATION

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FOR THE STRAITS TIMES

PRIME Minister Lee Hsien Loong's National Day Rally put the spotlight on retirement adequacy.

During the rally on Sunday, he announced a policy adjustment to let people withdraw part of their Central Provident Fund (CPF) savings in a lump sum after they turn 65, provided enough is set aside to fund monthly payouts for life.

This has led some to characterise the policy adjustment as populist, pandering to people's wishes for lump sum withdrawals of their retirement savings. But, in fact, there are real policy tensions between meeting a person's short-term interests (his needs today) and long-term interests (his retirement needs in old age).

There is a way to resolve such tensions creatively.

Organisational psychology introduces the concept of a paradoxical approach to problem solving.

A paradoxical approach is defined as one that endorses two seemingly contradictory views at the same time, but nonetheless produces a solution that is aligned with both views.

When there are two seemingly opposing positions or dimensions, it is common for people to see conflict. But conflict can be resolved by adopting a paradoxical approach that embraces the two seemingly opposing dimensions. This can produce an outcome that is better than choosing one over the other.

And when the policymaker does so, he can unlock creativity, or produce policy innovation.

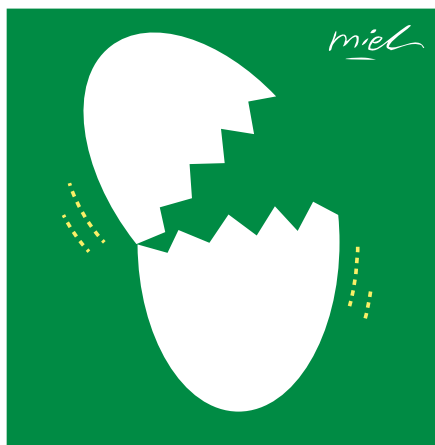
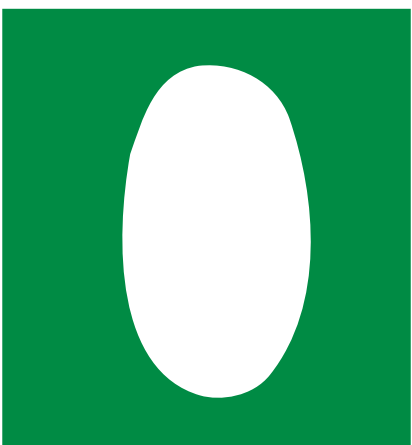
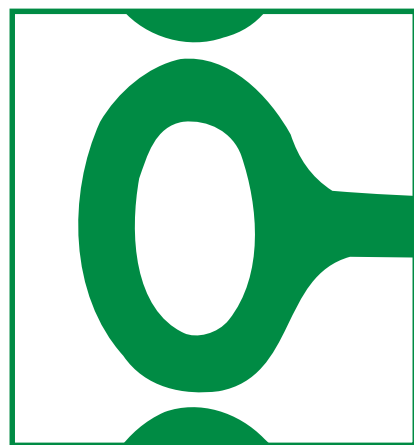
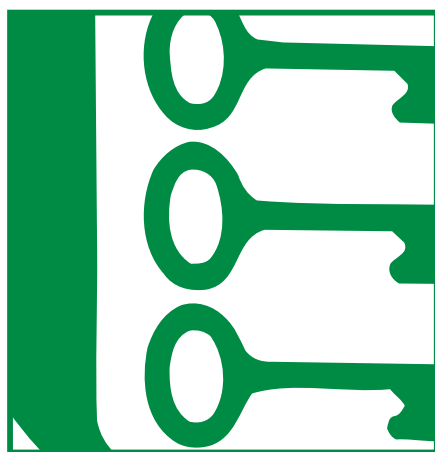
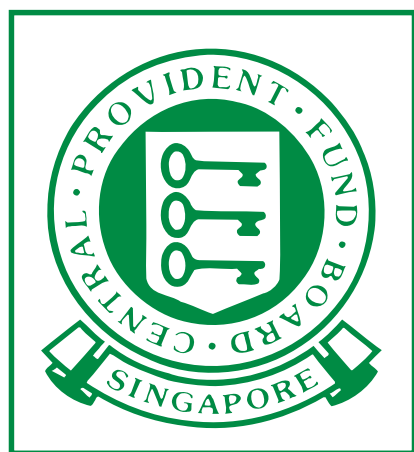
CPF and different needs

TAKE the CPF as an example.

It is a long-term retirement savings plan for workers. Each month, workers and their employers set aside a portion of monthly wages into this compulsory fund, which has a risk-free interest rate. They sacrifice short-term needs for long-term gains.

When CPF members turn 55, a Minimum Sum is set aside and they will be placed on a CPF Life annuity plan. Members will receive monthly payouts from 65 for as long as they live.

During the rally, PM Lee announced that CPF members will be given the option to withdraw part of their CPF savings in a lump sum when they turn 65, after retirement. A limit will be set on the withdrawal, and the Prime Minister suggested that



this could be 20 per cent of the savings. It should leave adequate funds in the CPF account to ensure a steady stream of monthly payouts to meet the longer-term needs of old-age income security.

This policy adjustment will help meet shorter-term but important financial or social needs that the CPF member might have during retirement.

Viewing the policy through the usual lens – of whether it is for the long-term or short-term good of the people – would yield tension and conflict. A seemingly rational conclusion is that such withdrawals should be resisted – the short-term needs should be sacrificed for long-term interests.

But a paradoxical approach solves the problem of competing demands very differently. In such an approach, addressing shorter-term needs will also help meet longer-term interests.

Consider the merits of a higher monthly payout on retirement from the CPF. Some will argue that this is negative for the CPF member's long-term interest, as more money will be drawn down faster.

In fact, it need not be the case. A CPF member who can withdraw a higher monthly payout that is sufficient for daily expenses is more likely to seek medical help when necessary.

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This in turn delays the onset of old-age health problems, promotes health and prolongs the period of active lifestyle. In this way, increasing the monthly payout is a move that is good for both the short and long term.

So rather than viewing higher monthly payouts as a negative step for the long term, policymakers should view them as a positive short-term move with potentially positive long-term effects.

Similarly, taking immediate steps to help workers build up their CPF savings – such as creating incentives for people to work longer – also has positive long-term effects, as their long-term retirement savings get a boost.

All these require a different lens to look at policies, and a recognition that what is good in the short term can also be good in the future.

It is rational and responsible of policymakers to consider citizens' longer-term needs. But meeting

citizens' shorter-term needs is not necessarily populist.

Incentives versus intrinsic motivation

ANOTHER area where the paradoxical approach is helpful is in looking at policies that aim to encourage certain behaviours.

Let us take the example of the Ministry of Education (MOE) Edusave Character Award, which gives cash awards to students with good character and values.

When it was announced in 2012, it attracted a lot of negative attention. Many people construed the award as one that gives "cash for values". By giving a financial incentive for good behaviour, the argument goes, the award is robbing students of the intrinsic motivation to do good. This is a very common dichotomy. Often, people distinguish between incentives and intrinsic motivation to foster desirable behaviour.

was meant to complement the Edusave Scholarship, which also gives cash awards – but for good academic performance.

MOE's reasoning was: If cash awards are given to reward students for academic performance, why shouldn't cash awards also be given to recognise good behaviour and character?

Unfortunately, that point was lost on many, who viewed the issue as one of motivation and objected to the use of a financial incentive.

A paradoxical approach would integrate the seemingly opposing views of giving incentives and fostering intrinsic motivation.

MOE could stipulate that the cash award for good character and values is given to the student as a form of recognition. It could then let the student independently decide what charitable causes or types of leadership development activities he or she wishes to spend the money on.

This retains the signalling and recognition functions of the award, without turning the incentive into a pure monetary reward that is seen as an external driver of behaviour.

At the same time, it focuses on the dimension of the student's intrinsic motivation and creates more opportunities for the student to engage in altruistic activities and develop leadership skills. These benefit the community and can have positive multiplier effects.

This lets the financial incentive (the cash award) reinforce intrinsic motivation.

Schools are now implementing programmes in character and citizenship education to inculcate values and build social and emotional competencies in students.

The National Youth Council wants to develop youth leaders to serve and contribute to the community. They should adopt a paradoxical approach to enable incentives and intrinsic motivation to work in parallel to achieve the desired outcomes.

In recent years, there have been serious attempts to better understand public sentiment and citizen needs. Also, there has been much effort devoted to encourage positive behaviours.

But the different dimensions of needs and motivations that have emerged often create tensions. When tensions occur, it is important to recognise that not all difficult policy decisions involve zero-sum trade-offs.

When a policy can embrace opposing views, the outcome can be more effective than a policy that chooses one view over another.

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