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How to Make Promises Without Having to Fulfill Them?

An Application to the Food Stamp Program (SNAP) and Rebate Schemes

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Abstract: In line with Veblen's contributions on the "dark side" of commercial and political relationships, we show how promises can be used to manipulate the "common man." By imposing excessive access costs on potential promisees (e.g., citizens or consumers), a promiser (e.g., a politician or a firm) can benefit from making a promise without having to wholly fulfill it. These strategically manipulated access costs can be legitimized by the need to prevent abuse and fraud that exempts the promiser from being accused of cheating. Here, two case studies on promises offered to eligible households – the Food Stamp/Supplemental Nutrition Assistance Program and rebates – are developed. Some policy implications are drawn and extensions are suggested.

Keywords: access costs, households, promises

JEL Classification Codes: D720, L140

If all the promises made by our politicians were fulfilled, the whole budget of United States will be insufficient for a small French region. (Pierre Doris, French actor, undated)

In several of his writings, Veblen strongly distrusted both the leaders of business and politicians (Plotkin 2007; Leathers 1989). In his view, these two groups do not pay attention to the masses or "common men," except to identify what business or political language will serve to manipulate them along the desired lines. Rather than serving the collective interests of the common man, government officials and politicians are likely to manipulate governmental decision-making processes to achieve their own goals that are frequently aligned with business ends. "Veblen used the term sabotage to describe the deliberate although entirely legal, practice of peaceful restriction, delay withdrawal or obstruction used to secure some special advantage" (1) (Hudson 2002, 1084; Plotkin 2007).

A very common way to achieve this "sabotage" is to make all kinds of promises. Promises are widespread in human relationships such as commercial transactions or political scene. In order not to incur the costs associated with being perceived as fully dishonest (Gneezy 2005), promisers have different and more or less successful strategies, such as making very general and vague promises, for example, better roads and lower taxes, rather than specific, e.g., Highway 113 will be repaired and income tax will be cut of 25%. A related strategy to make promises without having to fulfill them is

to use strategically access costs that will prevent promisees to benefit from the promise without necessarily implying in the mind of the "common man" that the promiser is responsible for this end result.

More precisely, we focus on promises made by an individual or an institution (the promiser) to a group of citizens or consumers (the promisees). In order to target a specific group and exclude free riders, a promiser can use access costs, such as burdensome paperwork, restrictive deadlines and administrative tasks. For example, rebate requirements allow the manufacturer to screen households according to their opportunity costs. In the case of governmental welfare programs, these access costs ensure that the taxpayers' money will be spent only on those in need and prevent the risk of abuses and fraud. Nevertheless, the promiser can manipulate these access costs with the aim of not wholly fulfilling his promise, by excluding some legitimate promisees. Since many potential promisees fail to complete all requirements (because of high access costs), the promise seldom has to be fulfilled. For instance, U.S. households are literally bombarded with rebate offers, but according to the Federal Trade Commission, "many companies use excessive paperwork and slow processing to discourage redemptions and it is effective, only 10% of consumers actually apply for their rebates."(2) Another example relates to "miraculous" diets and drugs promising rapid weight loss such as 5 kg a week or eliminating a given pain, by using the advertised products. To benefit wholly from the impacts of the "miraculous product," users have to implicitly satisfy several burdensome conditions, such as having a specific weight, physiological state and diet and an "iron will." Several applicants do not meet these requirements, making the whole fulfillment quasi impossible. We also explain why rewarders (frequently, the common men) do not anticipate that the promise will not be entirely fulfilled and identify fields where these strategies are more likely to be implemented.

The remainder of this note is organized as follows. In the next section, we describe the mechanism and why it can last. The third section provides two illustrative case studies concerning households – the U.S. Food Stamp/Supplemental Nutrition Assistance Program and rebate promises of manufacturers – in order to support our insights. The final section outlines some policy implications and concludes.

The Strategic Use of Access Costs in Making Strategic Promises

A promise can be defined as a promiser's commitment toward a group of promisees to perform or do something to the advantage of the latter or any other person.(3) A common problem in this situation is how to prevent non-targeted people from benefiting from the promise or in other words, how to exclude potential free riders. The argument is intuitively convincing to legitimize the erection of access conditions. However, rationing devices can be manipulated for strategic aims, that is, over-increasing access costs may exclude more than free riders, and may discourage a significant part of eligible promisees from benefiting from the promises. Without going further, a crucial point to address is *why would rewarders give promisers credit for making promises they will avoid delivering on by setting administrative burdens that drive people away?*(4) Several reasons, not mutually exclusive, can explain such behavior.

First, rewarders can consider that assessing the promise fulfillment is not efficient because the opportunity cost of such an assessment is too high, making the rewarders' ignorance rational. Second, rewarders may be victims of "causal ambiguity" because they cannot identify the cause of the non-fulfillment (Darbi and Karni 1973), for example, by distinguishing between preventing free riding or strategic exclusion. Even promisees themselves can feel responsible for the non-

fulfillment. Consider the case of a politician offering relief for less-educated and low-income households at the expense of tedious paperwork and queueing in a specific location harming the pride of eligible people (Super 2004). If there is a disconnect between rewarders (for example, other more educated voters) and potential promisees, such barriers can remain undetectable if these outside rewarders apply their own capabilities to judge the required tasks. Third, rewarders can be extremely risk-adverse. They are more concerned with the risk of tolerating free riders than with the possibility of excluding legitimate promisees. Fourth, rewarders can have "warm glow" motives (Andreoni 1990), which imply that rewarders are not interested by the fulfillment *per se*, but mainly by supporting the promiser.

Interestingly, these insights are consistent with Veblen's perceptiveness about human behavior. Indeed Veblen (1919, 174-175) argues very clearly that the "common man does not know himself." This irrationality makes him believe that "the material interests of the populace coincide with pecuniary interests of those business men who live within the scope of the same set of government contrivances" (Veblen 1904, 286). State lotteries constitute an interesting example of manipulation allowing to transfer more of society's wealth from the least privileged to the most privileged, "with, no less, the eager participation of the losers" (Wisman 2006, 956). To explain this situation, Veblen ([1919] 1990, 441) recognizes that human "reasoning is largely controlled by other than logical, intellectual forces, that the conclusion reached by public or class opinion is as much, or more, a matter of sentiment than of logical inference; and that the sentiment which animates men, singley or collectively, is as much, or more an outcome of habit and native propensity as of calculated material interest." The situation of the common man is colorfully depicted in Absentee Ownership: "An illustrious politician has said that 'you can('t) fool all the people all the time' but in a case where the people in question are sedulously (sic) fooling themselves all the time the

politicians can come near achieving that ideal result" (Veblen 1938 quoted by Leathers 1989, 300). To describe democracy, Veblen used the term "ostensible" to indicate that "such a democracy makes a show of its forms, in the process 'stretching' its showy appearances to convey impressions that obscure darker truths. It is a matter of 'what the older logicians . . . called *suppressio veri* and *suggestio falsi*': suppress the truth and suggest the false" (Plotkin 2007, 178; Veblen [1923] 1997, 159).

Let us draw some implications from the previous analysis. First, the strategic increase of access costs is more likely to occur in fields characterized by high monitoring costs or by lack of overlap between rewarders and promisees. Second, strong heterogeneity in the opportunity costs among promisees can help the strategic promiser because some promisees are likely to get the promises and to support the claim credibility while others may attribute the non-fulfillment to their own negligence. Third, the strategic increase of access costs is more likely in fields where strengthening rationing devices seems legitimate. Simply put, rhetoric matters. Indeed, this legitimacy may result from a deliberate strategy by the politician to overemphasize fraud and abuses. Even if this over-exclusion is disclosed, it can be considered as a "necessary bad" and not as an intentional result.

Case Studies: The Supplemental Nutrition Assistance Program (Formely Known as the Food Stamp Program) and Rebate Promises

We present two case studies to show how such strategies may work in the real world and to provide empirical evidence for the insights developed above. We do not argue that all promises are consciously formulated plans of promisers to mislead promisees but the consequences can be

conveniently the same. Numerous other examples can be found in everyday life to illustrate the pervasiveness of these strategies in immigration or permit delivery procedures, public aid programs (for example, low physicians' acceptance of Medicare patients), tax refund or purchase-triggered donations.

The Food Stamp Program/Supplemental Nutrition Assistance Program

The Food Stamp Program (recently renamed the Supplemental Nutrition Assistance Program) was a public program that supplements the food buying power of eligible low-income households by providing them with monthly food coupons to assist in the provision of nutritional and balanced diets. To benefit from such programs, households must meet eligibility requirements and apply, by filing forms, providing information – including verification information – about their household circumstances and so on. If the application is approved, they receive the claimed promise. Reality seems to be another story. Research indicates that many eligible people fail to apply for program benefits (Hernanz, Malherbet and Pellizari 2004). Observation at welfare agencies has revealed *formal* and *informal* practices dissuading eligible claimants (O'Brien et al. 2001; Super 2004). In a detailed study on welfare centers, Danz (2000) states that "such tactics range from inadvertent agency inefficiency to intentional policies." Several studies state that participation has declined in several welfare programs, not because of the decrease of the problem addressed, but because of excessive "red tape" and other rationing devices (Danz 2000; O'Brien et al. 2001; Super 2004). "The average length of a state food stamp application is 12 pages," with the longest in Minnesota (36 pages). In comparison to other applications such as a federal firearms permit or an application for a school bus drivers' license, the food stamp program applications

were far longer and frequently above the individual skills. Most applications (49 of 50 states) contained certification statements written at a 9th or 12th grade reading level, far above that attained by many applicants (O'Brien et al. 2001). Super (2004) argues that a distinguishing feature of informal rationing devices is their "invisibility to those not directly involved in their administration . . . The relative invisibility of indirect methods can also allow policymakers to ration benefits for a broader array of purposes than they could readily hope to justify publicly." These tactics can drive the individual to attribute to himself or to other causes the non-fulfillment of the promise. For example, Super (2004, 824) states that "23 percent of eligible non-participants cited pride as their prime reason for staying away." So, stigma and complex rules may be strategically manipulated in order to drive out needy people (O'Brien et al. 2001).

The main justification for instituting more stringent rules and invasive procedures was to reduce fraud, notably free riding in the program (O'Brien et al. 2001). For example, the U.S. General Accounting Office (GAO) found that in four states, nearly 26,000 deceased individuals were included in households receiving food stamps, totaling $8.5 million in fraudulent payments (U.S. GAO 1998).(5) Strong enforcement of anti-fraud measures is generally popular. Such anti-fraud objectives "led many states to increase the paperwork required to receive food stamps, which helped discourage as many as 12 million eligible people from applying for food stamps" (Becker 2001).

In 2008, the Food Stamp Program (FSP) was renamed the Supplemental Nutrition Assistance Program (SNAP). This program pursues similar objectives while attempting to eliminate "red tape." Rather than using food coupons and burdensome face-to-face interview requirements, the reform notably aimed at simplifying access rules and most benefits are delivered electronically through Electronic Benefit Transfer cards which can be used like debit cards at authorized food retailers

nationwide (Food Research and Action Center [FRAC] 2009). Nevertheless, these reforms have not fulfilled all their promises. For instance, recent results show that state policies such as the use of biometric technology and the use of short certification periods strongly reduce SNAP participation among eligible households (Burstein et al. 2009). At the same time, some public authorities insist that fingerprinting is not used to deter deserving applicants but as "an important fraud-detection tool" (Tribich 2009). According to several studies, among the most common reasons not to participate in SNAP were perceiving oneself to be ineligible, wanting to avoid dependence on government assistance, concern of stigma, the perceived difficulty or "hassle" of applying especially during the work day and language difficulties (Burstein et al. 2009 and references therein; FRAC 2009; Algert, Reibel and Renvall 2006).

Rebate Promises

Rebates are cash refunds given for the purchase of products during a specified period and are used to stimulate households to buy a given product.(6) Purchasers have to follow rebate rules, for example, by sending a form before a given date, which is attached to the product's package along with the sales receipt to the firm or fulfillment companies to get their promised check. Nevertheless, firms may gain from the price reduction format (Douglas and Millner 2005) and "slippage," where households are induced by the rebates but do not send off for them.

According to the popular press, "rebates are actually intended to be a hassle to discourage customers from redeeming them. After all, the more customers who forget or give up on rebates, the more dollars the manufacturer retains" (Moore). Obviously, producers have a vested interest in making the process difficult. Redemption rates never hit 100 percent. According to TCA

Fulfillment, one of the largest fulfillment houses in the United States, "even a $50 rebate on a $50 item – i.e., free after rebate – gets only 50 percent redemption."(7) The redemption rate is so low for several reasons, for example, loss of the form, the bother caused by meeting the rebate rules, procrastination resulting in missed deadlines, discounting of future effort or simply forgetting. Firms can manipulate such parameters in order to escape from their promises (Kandra). The redemption time can be very short in order to decrease the redemption rate.(8) Interestingly, Silk (2004) says that giving consumers more redemption time made them less likely to apply for rebate money (because of procrastination) than those who were stimulated by short submission deadlines. In the same vein, Drago and Kadar (2006) say that "a large number of consumers respond to rebate offers and then fail to provide the necessary effort when it comes to collect their money." According to the same authors, this permanent deviation consistent with psychological insights that longer deadlines imply higher optimism is among the most important factors contributing to the profitability of rebate programs.

In several cases, the household can attribute to himself the non-fulfillment of the rebate rules, making the producer less likely to be incriminated. Fulfillment companies or producers can legitimize the previous rules and conditions in order to prevent fraudulent households from free riding without really purchasing the product or submitting multiple claims. As Bruce Mohl noted in a *Boston Globe* article on November 2, 2003, "TCA touts on its website that last year alone it rejected 800,000 fraudulent and noncompliant claims, saving its retail and manufacturing customers over $20 million. TCA's site indicated the 800,000 rejected claims represented about 20 percent of the rebate forms it had received." Fulfillment houses can also take a long time to check and send the check so they get to use the money.

Concluding Remarks

In his writings, Veblen clearly brought to light several features of the "dark side" of economic and political relationships. We focused on how a strategic promiser can fool promisees. In sum, a promiser can maximize his utility by making promises and imposing a strategic access cost on promisees. The promiser can strategically over-emphasize preceding or anticipated abuses and fraud to legitimize the use of an access cost in order to exclude free riders. Rationing devices are manipulated to strategically prevent people from applying. Consequently, the promiser can increase the number of promises made to different groups, without expanding the necessary resources to fulfill them. The strategic promiser might use the same resources for coping with multiple promises and can get a strategic advantage over an honest promiser. The strategic promiser can also benefit from a first mover advantage, which refers to the edge gained by using this strategy before his competitors. In a one shot promise framework, the first mover can get a "winner-take-all" reward, which makes the one shot promise more vulnerable to this kind of strategy. Even if the strategy is understood, it may be very difficult for claimants to prove that the access conditions are strategically excessive and the promiser has *intentionally* designed and implemented them.

Some groups, notably from the civil society such as associations or unions can develop counter strategies to decrease the access costs set by the strategic promiser. For example, they can help households fill out the documents required. Indeed, these groups can benefit from economies of scale and learning curve effects, whereby subsequent iterations take less time than earlier runs. Such a strategy is likely to increase the number of beneficiaries of a promise and therefore makes the promiser's utility lower than initially expected. A natural extension will be to consider in a

dynamic analysis the results of updated strategies from both sides – promiser *versus* promisees and other groups. A more comprehensive model would include more complex interactions between promisers and promisees, heterogeneity among promisees, the probability of disclosure by third parties, the cost of running such a strategy for the promiser and the possible counter devices. These extensions constitute challenging topics for further research.

Notes

1. The institutional sabotage theory inspired by Veblen's contributions and the public choice group interest theory share several features but also diverge on several points like the emphasis put by the former on power relationships in society (see Hudson 2002 for a detailed comparison of these theories).
2. http://wcbstv.com/investigates/local_story_062110649.html. Accessed January 26, 2005.
3. One can promise to do harm to others. This kind of "negative" promise or threat is not considered here.
4. The rewarders are all those who support the promiser for making promises. In the case of political promises, they can include promisees, other voters and associations willing to reward the politician for making this promise.
5. Several reports on the fraud issue are available on the GAO website (http://www.gao.gov/).
6. For the most part, rebates have been analyzed in the framework of price discrimination theory, where a seller extracts consumers' surplus by designing a non-linear pricing rule (Phlips 1983). In our case, the seller designs a linear pricing rule that appears non-linear to purchasers because some of them make their purchase decision having in mind the benefit of rebates.

Because of the access cost that appears to consumers only after purchase, they are prevented from getting the rebate benefit. Therefore, the seller has eventually extracted a surplus from consumers that they would never have purchased if they had perceived that the pricing rule was linear.

7. http://www.frontlinenow.com/newsletter/redemptionrates.html. Accessed January 26, 2005.

8. An interesting story is reported by Edgar Dworsky, editor of Consumerworld.org, pointing to a rebate from Internet retailer J&R Electronics on a Jungsoft storage device. "The storage device had to be purchased between Feb. 9 and Feb. 16, with the completed rebate request postmarked by Feb. 17 and received at the fulfillment house by Feb. 24. Under those terms, notes Dworsky, it was impossible for anyone outside New York City, where J&R has a retail store, to buy the item, receive it via mail and submit the rebate request in time" (Phipps 2003).

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