would eliminate another moral
associated with conventional debt.
s could not reduce their real obli-
crating massive inflation, as they
with conventional government
cause their nominal GDP would in-
th the inflation.
based on GDP have the great merit
ample. Other measures of national
might seem more accurate than
would sacrifice simplicity. It might
be an improvement to calculate
earnings as GDP minus some na-
cy for costs. This would have the
improving Trills so that they would
volatile and appeal to investors in
markets.
stance, we might subtract some
measure of interest on the con-
national debt from GDP to arrive
al earnings. After all, corporations
their interest costs when they cal-
eir earnings. It certainly would
Greece to have a Trill based on
interest during its recent crisis; it
balked at efforts to roll over
interest costs skyrocketed, mak-
situation even more unmanage-
other hand, adjusting for inter-
dds a complication—and another
oral hazard, since it could tempt
ent to play with interest rates.
ing of Greece, what effect could
had during the Great Recession
termath? Greece’s real GDP fell
10%. If its Trills were leveraged
dly—say, five to one —then the
paid on them would have fallen
10%. This would have done much
e the crisis, making it easier for
payers to bear. It would have
ce a bailout without any inter-
and-wringing or broken prom-
the fact, investors in Greek Trills
ve been unhappy. But they still
e been willing to purchase them,
g the possible upside of such
ed investment. Investors avidly
erged corporate stocks, so it’s
that they would buy leveraged

Markets for national shares would fund-
damentally change the economic atmo-
sphere. An immediate market plan
would accompany every new government
plan affecting the future of the economy,
generating a discussion of each country’s
development plan, as well as a flow of in-
ternational resources toward governments
with plans that passed the market test.
At the same time, with Trill prices gy-
rating up and down from minute to min-
ute, national shares might seem to be a
dangerous extension of financial
capitalism—a system in some ill repute at the
moment. But in fact the enth-
usiasm for the implementation of
financial capitalism has been the
story of every successful nation on the
planet. We should not shrink from hav-
ing real markets for countries, which would
track countries’ successes much more ac-
curately than stock markets do. Stock
markets represent only claims on corporate
earnings after corporate taxes—an unreliable
measure of a country’s success. We can
do better.

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Press, forthcoming).

Stop Tying Pay to Performance

The evidence is overwhelming: It doesn’t work.
by Bruno S. Frey and Margit Osterloh

We’ve talked about
this since the financial
meltdown. Now
it’s time to do it: Un-
link pay from perfor-
mance. The evidence keeps growing that
pay for performance is ineffective. It also
may induce executives to take company-
killing risks. There are other ways to moti-
vate employees that yield better results at
lower cost.

Thanks mainly to provisions linked to
performance, CEO compensation has sky-
rocketed in recent decades, while its cor-
relation with actual corporate performance
has remained as weak as ever. This has
been most true in the U.S., where among
the S&P 500 the ratio of average CEO pay to
average employee salary went from about
40:1 in the 1970s to 325:1 in 2010. The ratio
isn’t as extreme in most other countries, but
the trend is the same. Below the top level,
mismatches between pay and performance
aren’t so acute. But all variable-pay-for-
performance schemes still suffer from four
inescapable flaws:

1. In a modern economy, where new
challenges emerge constantly, it’s impos-
sible to determine the tasks that will need to
be done in the future precisely enough for
variable pay for performance to work well.

2. People subject to variable pay for perfor-
ance don’t passively accept the criteria.
They spend a lot of time and energy trying
to manipulate the criteria in their favor,
helped by the fact that they often know the
specifics of their work better than their
superiors do.

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3. Variable pay for performance often leads employees to focus exclusively on areas covered by the criteria and neglect other important tasks. This is known as the "multiple tasking" problem.

4. Variable pay for performance tends to crowd out intrinsic motivation and thus the joy of fulfilling work. Such motivation is of great importance to business, because it supports innovation and encourages beyond-the-ordinary contributions.

The idea that people work only for money has been thrown overboard by leading scholars. Research has shown that human beings are not interested solely in material gain. They care for the well-being of other individuals and value recognition from coworkers. Many employees apply themselves because they find their work challenging and worthwhile. These non-material motivations point to better ways to get results from the members of an organization.

One way is to select employees more carefully, hiring people who are truly interested in the work—not people whose primary goal is earning the highest pay. Another approach is to pay fixed compensation but adjust it on the basis of a comprehensive evaluation of employees' work after some time. This avoids the multiple-tasking problem. At the end of the year companies can also distribute part of their profits to employees according to their contribution to overall performance, rather than preset criteria. Awards and recognition are effective motivators as well. Research suggests that effort increases among both the winners and other employees when awards are given out.

Variable pay for performance, while it may seem attractive in theory, creates more problems than it solves. There's no proof that it helps achieve its intended purposes, and other approaches not only work better but also strengthen employee loyalty.

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**Declare 20% of the Ocean Off-Limits**

Here's one great way to save fish—and the fishing industry. by Enric Sala

We are consuming fish faster than they can reproduce, denuding the ocean. Conventional solutions, such as forcing reductions in fishing capacity, lowering industry subsidies, and imposing sustainable quotas on catches, have proved difficult to implement globally.

Creating fish banks—marine reserves where no fishing can ever take place—covering at least 20% of the ocean is a bold way to tackle the problem. When areas of the ocean are left to recover from overfishing, the results are impressive. The number of marine species in fish banks increases by 21%, on average, and the fish grow to be 28% bigger, according to data on 124 reserves in 29 countries. The amount of fish per hectare increases 166%, on average, and fish biomass, or total weight, shoots up 446% over the next 10 years. In most cases, the fish biomass keeps rising for more than 25 years.

There are spillover effects, too. Because of the higher biomass and higher reproduction rates inside a fish bank, adjacent areas often get rejuvenated. The creation of the Columbretes Islands Marine Reserve in Spain, for instance, increased catches in surrounding fisheries by about 10% a year. In the same way, after five small fish banks were established in St. Lucia, catches in adjacent areas grew by 46% to 90%, depending on the gear used, over a five-year period.

These spillover effects more than offset the financial losses to fishermen caused by the creation of no-fishing zones. In Kenya and the Solomon Islands, the incomes of people living near marine reserves doubled within a decade. Reserves attract more tourists, too. The 345,400-square-kilometer Great Barrier Reef Marine Park—of which 33% is a marine reserve—generates around AU$5.5 billion a year in net economic benefits and has created more than 50,000 full-time jobs.

Fish banks also help preserve ocean ecosystem benefits such as carbon sequestration. In fact, "blue carbon" projects could generate additional revenues for lo-