

# To Introduce or Not To Introduce Monetary Bonuses: The Cost of Repealing Teacher Incentives\*

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## Abstract

School accountability and teacher performance pay programs form the foundation of recent reforms in public education. Existing research has found that monetary incentives promote teacher effort and increase student achievement. However, no studies have examined the potentially negative effects of repealing such programs. This paper exploits novel data from North Carolina, where the state government first reduced and finally repealed its teacher incentive bonuses. Using these exogenous policy changes, the paper shows that student achievement at the lowest-performing schools (1) significantly decreased after the reduction in bonuses, and (2) further decreased after the repeal of the incentive program. These findings illustrate that once incentives are introduced it is not cost-free to reduce or remove them.

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