Could 'nudges' steer us towards a less-cash society?

Leo Van Hove
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The end of the cash era
Nudge

Richard H. Thaler
Cass R. Sunstein

Nudge
Improving Decisions About Health, Wealth, and Happiness

- behavioural economics

- T & S’ claim: seemingly small changes in the choice context - 'nudges' - can have massive effects on people's behaviour

- my Chapter: policy suggestions for WOC?
Agenda

1. Why?
2. How?
3. What is ‘nudging’?
4. Nudging in the payments sector
5. An experiment in Belgium
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THE CURSE OF CASH
KENNETH S. ROGOFF

THE WALL STREET JOURNAL
LIFE | IDEAS | THE SATURDAY ESSAY
The Sinister Side of Cash
Paper money fuels corruption, terrorism, tax evasion and illegal immigration—so the U.S. should get rid of the $100 bill and other large notes

ILLUSTRATION: JUSTIN METZ
By KENNETH S. ROGOFF
Aug. 25, 2016 11:08 a.m. ET

- “paper currency, especially large notes such as the U.S. $100 bill, facilitates crime”

- “Of the more than $4,200 in cash that is circulating … for every man, woman and child in the U.S., almost 80% of it is in $100 bills”

- 13 EU countries
- cash, cheque, debit and credit card, direct debit and credit transfer payments up to €50,000
- total social cost 0.96% of GDP
- + households = + 0.2%
- social cost of cash nearly half
- marginal social cost!

Social costs of POS payments in the Netherlands 2002–2012: Efficiency gains from increased debit card usage

DNB Occasional Studies
Nicole Jonker

- 2002: 0.46% of GDP = EUR 305
- 2009: 0.31% of GDP = EUR 245
- 2012: 0.28% of GDP = EUR 226

- number of debit card payments more than doubled between 2002 and 2012

private costs! (SEB, 2015)
- cash payment costs merchants EUR 0.25
- debit card payment EUR 0.19
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2. How?

- try to lower costs?
  - plastic banknotes
  - more efficient distribution
  - …
- try to lower usage? <<<
  - the natural way = innovation, ‘game changers’
  - the hard way = cost-based pricing
    - make social cost visible to users
    - explicit % fees for ATM withdrawals
    - fees ~ social cost (not = !); align private and social costs
    - but: nobody really keen …
- the soft way = nudging
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3. Nudges: quid?

- steering people in the 'right' direction by making subtle changes to the choice context

- paternalistic = someone knows what’s ‘right’

- libertarian = people should be free to choose

  ! no significant change to people's economic incentives

  ⇒ cost-based pricing does not qualify

"soft, and nonintrusive type of paternalism [where] choices are not blocked, fenced off, or significantly burdened"
3. Nudging: why would it work?

- we are not as smart as we think we are
- we are less rational than policymakers and economists think
- we make bad choices
- we all have a bit of the impulsive weak-willed Homer Simpson in us
- we could use help …

enter libertarian paternalism
3. Nudging: why would it work?

• Reflective System vs. Automatic System

• our inner Homer Simpson has a tendency to go along with the status quo or default option
  • T&S: "the combination of loss aversion with mindless choosing implies that if an option is designated as the 'default', it will attract a large market share"

• we use heuristics or rules of thumb
  • anchoring heuristic: guesses are influenced by irrelevant anchors
  • anchors can serve as nudges
3. Nudging: why would it work?

- **social influence** is very effective
  - information
    - T & S: "sometimes the practices of others are surprising, and hence people are much affected by learning what they are"
  - energy use example
  - peer pressure
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4. Nudging in the payments sector

• harness power of inertia => make electronic default option
  • difficult at POS, only between cards
  • different at U-POS
  • anchoring heuristic + default at ATMs

• social influence
  • “80% of our customers pay by card” (hidden message: why don’t you?)
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5. An experiment in the VUB canteen (PhD of Sibel Aydogan)

**setting**
- university canteen, used by personnel and students
- attempt to promote payments with Belgian debit card

**type of nudge**
- provide information + harness social norms
- in particular exploit connection with *alma mater*

**in practice**
- selection of pro-card slogan
- posters attached to all cash registers
- 8 weeks
5. An experiment in the VUB canteen (PhD of Sibel Aydogan)

Less cash = safer for the VUB. Payment by card preferred.
5. An experiment in the VUB canteen

time series analysis on sales data

- students: **no effect** ...
- VUB employees: +2.8 pp, but only temporary
- level of attachment matters

post-experiment survey (n = 399)

- only 46% had actually noticed our posters ...
- 23% of which said they had changed their behaviour
- = **10%** of population <= time series analysis
5. An experiment in the VUB canteen

post-experiment survey

• habits are ‘sticky’
• NL: van der Cruijsen, Hernández & Jonker (2015) show that people overestimate card usage

qualification: explanations for lack of success

• canteen = low-value payments
• surcharge of EUR 0.10 for transactions < full menu
• how do students obtain cash? => ‘cash first’ rule?
• impact of meal vouchers
This clearly did not happen ...