



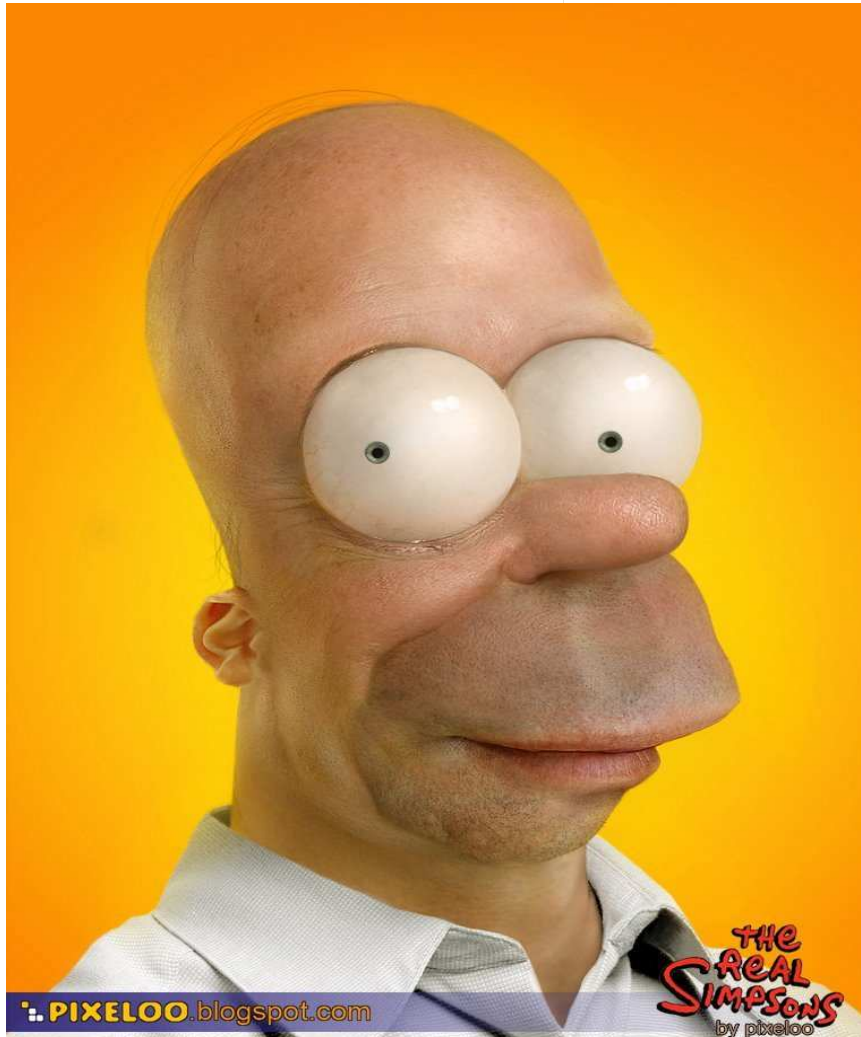
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# Could 'nudges' steer us towards a 'less-cash society'?

Leo Van Hove

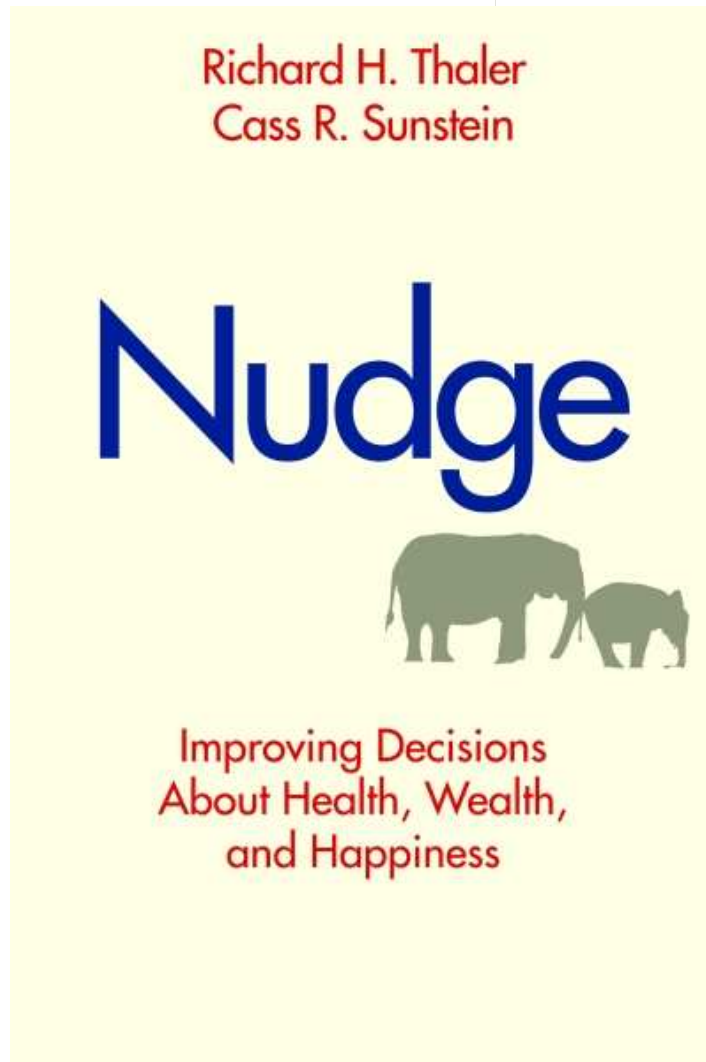


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# Nudge



- behavioural economics
- **their claim:** seemingly small changes in the choice context - 'nudges' - can have massive effects on people's behaviour
- **my paper:** policy suggestions for WOC?



# War On Cash

- **why** should cash be discouraged?
  - social costs
  - fairness
  - underground economy
  
- **how** could this be done?
  - (cost-based pricing)
  - **nudging**



# Structure of my paper



- nudging: quid? THEORY
- WOC: why? PROBLEM
  - social cost of cash
  - fairness
  - underground economy
- is there a match? FIT?
- WOC nudges OUTCOME
  - gov't, CBs, merchants, banks



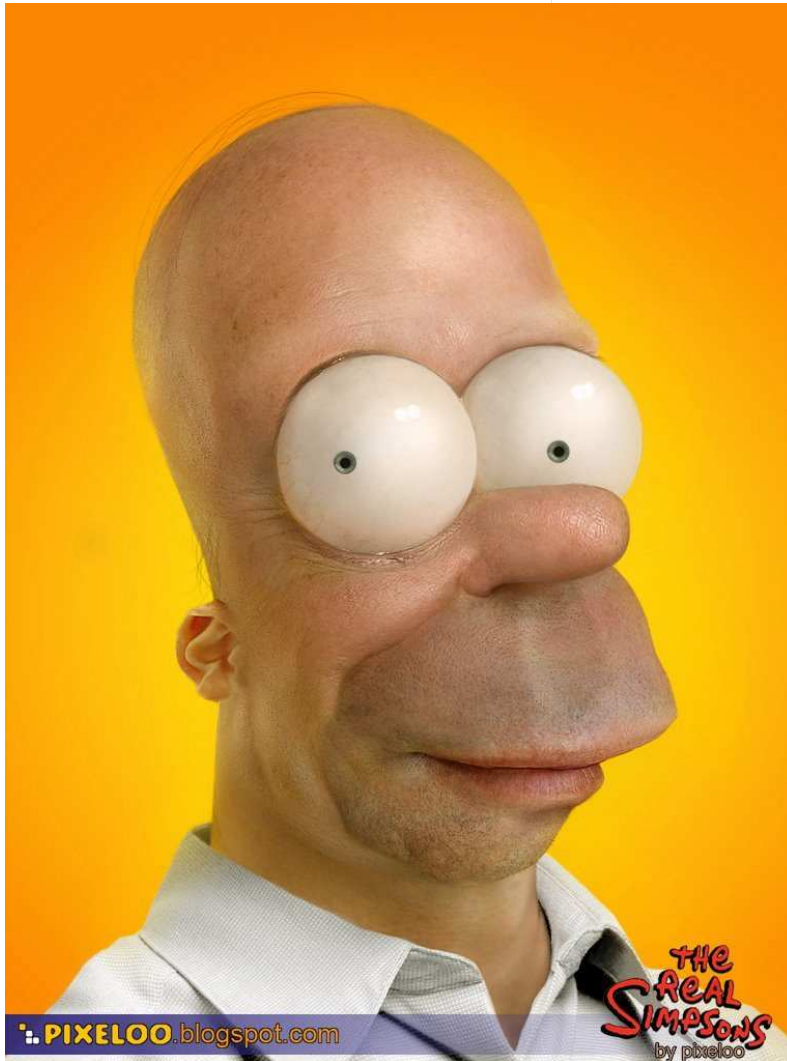
# Structure of my paper



- **nudging: quid?** **THEORY**
- **WOC: why?** **PROBLEM**
  - social cost of cash
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- **is there a match?** **FIT?**
- **WOC nudges** **OUTCOME**
  - gov't, CBs, merchants, banks



# Libertarian paternalism



- 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



# Libertarian paternalism: quid?

- nudging = steering people in the 'right' direction by making subtle changes to the choice context
- choice architects = business people, policymakers, anyone
- paternalistic = "it is legitimate for choice architects to try to influence people's behaviour in order to make their lives longer, healthier, and better"
- 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"**



# Harnessing systematic biases

- Reflective System vs. Automatic System
- our inner Homer Simpson has a tendency to go along with the status quo or **default option**
- use of heuristics or rules of thumb
  - **anchoring heuristic**: guesses are influenced by irrelevant anchors
  - anchors can serve as nudges: "we can influence the figure you will choose by ever-so-subtly suggesting a starting point for your thought process"



# Harnessing systematic biases

- people are loss averse => inertia
- **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

# Agenda



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# Why?: social cost

> CENTRAL BANK STUDIES <  
BE - NBB, December 2005

- **total** social cost of cash at POS  
0.58% of GDP
- **marginal** social cost of cash  
for payment of EUR 50
  - cash: 53 cents
  - debit: 21 cents



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# Relevance for my problem?

- *Nudge* is all about "how people systematically go wrong"  
>< paying cash is not irrational
- T&S: libertarian paternalism should make people's lives "go better (*as judged by their own preferences*, not those of some bureaucrat)" = smokers, drinkers, overeaters, **but** cash users?
- T&S: "people will need nudges for decisions that are difficult and rare, for which they do not get prompt feedback, and when they have trouble translating aspects of the situation into terms that they can easily understand" >< we do it everyday / feedback is immediate / paying can be done on automatic pilot.



# Relevance for my problem?

- BUT: "choice architects need to know how to encourage ... *socially beneficial* behavior" - cf. social cost of cash
- interesting // with pollution
  - polluters impose externalities on others // =
  - incentives are not properly aligned and there is a 'tragedy of the commons' // cash users can free ride => overuse of socially costly resources
  - "people do not get feedback on the environmental consequences of their actions" // no awareness of social cost of cash
- status quo bias // payment habits are slow to change



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# Governments

- **provide info**
- harness power of inertia => **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"
- change '**legal tender**' laws?
  - J.-M. Godeffroy (ECB): "Today, normal money is scriptural money moved around electronically" .
  - cf. Singapore



# Governments

- no obligation to accept, except for debts
  - except SK, and then ...
- might impact consumer confidence
  - T&S: "In many contexts defaults have some extra nudging power because consumers may feel, rightly or wrongly, that default options come with an implicit endorsement from the default setter, be it the ... government, or [another choice architect]"



# Central banks

- change denominational structure
  - 'principle of least effort'
  - abolish high-denomination banknotes
  - coins of EUR 0.01 and EUR 0.02
  - coins of EUR 1 and EUR 2



# Commercial banks

- consumer education
- reduce number of ATMs
  - Finland
  - ! worked for cheques in BE !
- anchoring heuristic + default at ATMs



# Commercial banks

- help steer consumers in choice of payment instrument
  - difficult at POS, only between cards
  - (Moneo example)
  - different at U-POS: make card default option
  - vending machines in DE & AT
  - self-pay terminals turn POS into U-POS



# Merchants

- typically accommodate (CA vs. Europe)
  - surcharging is *not* a nudge
- card-only lanes in supermarkets
- talk to customers - caveat!
  - example of NL
- social influence - caveat!



# Conclusion

- nudging is not new in payments industry
- nudging has its limits
  - think underground economy
- should not become excuse for doing nothing
  
- but might help
  - cost-based pricing requires political courage

**> new perspective <**

LESS  
CASH  
LESS