

Nudges are Not Enough



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Six claims about nudges

1. Nudges tend to have clear short-run, proximate effects
2. Nudges tend to have smaller long-run effects
3. Nudges often have counter-vailing distal effects
4. Well designed and carefully tested nudges have an important place in policy
5. But nudges aren't enough *on their own* to achieve socially efficient behavior change
6. For that, we're also going to need hard paternalism
(see Laibson 1996, O'Donoghue and Rabin 2006, Bubb and Pildes 2013, Loewenstein and Chater 2017)

Illustrate with three examples

- A. Minimum payment defaults (FCA)
- B. Peer norming
- C. Retirement savings

A. Minimum Payment Defaults

“The semblance of success in nudging consumers to pay down credit card debt”

Adams, Guttman-Kenney, Hayes, Hunt, Laibson, Stewart, (2019)

- A **debt-reduction nudge** that generates its intended consequence
- The nudge worked so “well,” that one of our two cooperating credit card companies abandoned the study after a week
- However, the study also generated distal unintended consequences, which completely offset its intended debt-reduction effects (so the nudge isn’t a threat to the credit card industry after all)

Background for study

- Research led by **Financial Conduct Authority**
- Try out a policy before making it the law of the land
- **Pre-registration** with strategy for controlling multiple testing
- **Randomized field experiment on credit card payments**
- Goal: try to help people better manage their revolving credit
- **Intervention *shrouds* option to automatically make the minimum payment each month**
 - Minimum payment is:
fees + interest + 1% balance due
- Shrouding the auto-minimum-payment increases the salience of the other automatic payment options: e.g., automatically pay in full or select an automatic fixed monthly payment

Control arm

Pay your card bill

Make a payment

Set up a Direct Debit

To set up a Direct Debit you'll need to be the account holder and be able to authorise payments from the account. Not the account holder or need joint signatures? Just download the Direct Debit instruction form fill it out and return it to us by post. If your joint account only needs one signature, just complete the form below.

How much would you like to pay each month?

The amount will be reduced by any payments received since your last statement

The minimum

It will take longer and generally cost more to clear your balance this way. If you make extra payments, your direct debit will only collect the difference needed to reach the minimum

Statement amount

You will clear your balance this way. If you make extra payments your direct debit will only reduce the difference to your last statement

This much

£

We'll collect your fixed amount or the minimum payment due, whichever is the greater. If you make extra payments, your direct debit will still collect the fixed amount or the remaining balance if this is lower

Pay your card bill

Make a payment

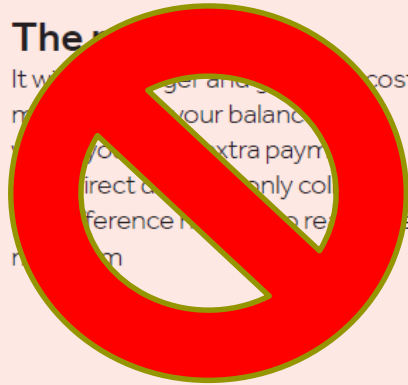
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How much would you like to pay each month?

The amount will be reduced by any payments received since your last statement

The minimum
It will be the larger and it will cost more to set up. Your balance will be reduced by your balance. If you make extra payments your direct debit will only collect the difference between the remaining balance and the minimum payment.



Statement amount
You will clear your balance this way. If you make extra payments your direct debit will only reduce the difference to your last statement

This much
£
We'll collect your fixed amount or the minimum payment due, whichever is the greater. If you make extra payments, your direct debit will still collect the fixed amount or the remaining balance if this is lower

Treatment arm

Pay your card bill

Make a payment

Set up a Direct Debit

To set up a Direct Debit you'll need to be the account holder and be able to authorise payments from the account. Not the account holder or need joint signatures? Just download the Direct Debit instruction form fill it out and return it to us by post. If your joint account only needs one signature, just complete the form below.

How much would you like to pay each month?

The amount will be reduced by any payments received since your last statement

The minimum

It will take longer and generally cost

your direct debit will only collect the difference needed to reach the minimum

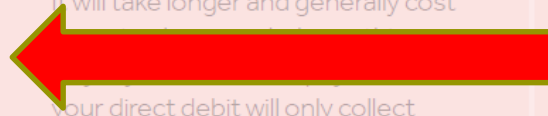
Statement amount

You will clear your balance this way. If you make extra payments your direct debit will only reduce the difference to your last statement

This much

£

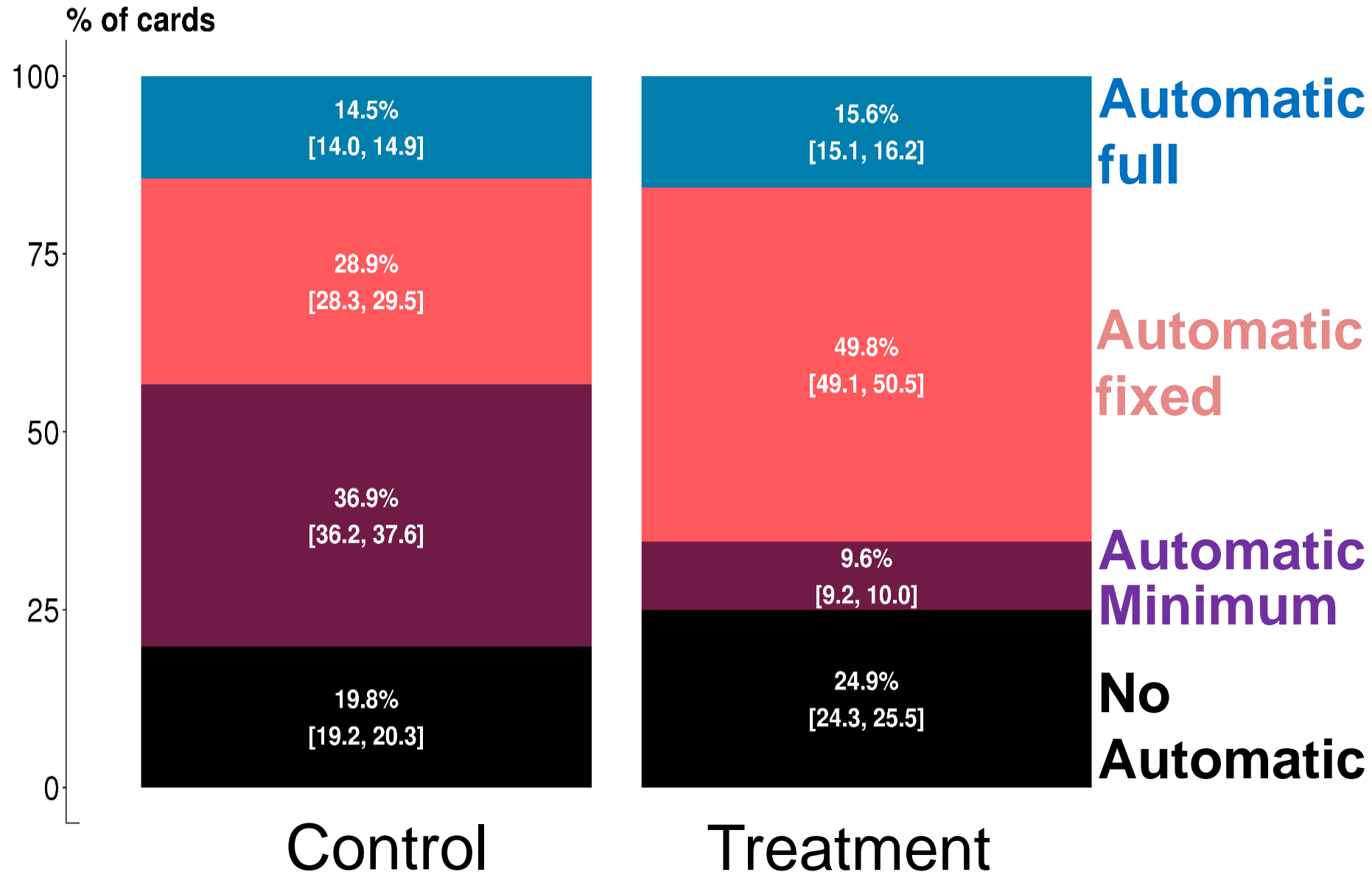
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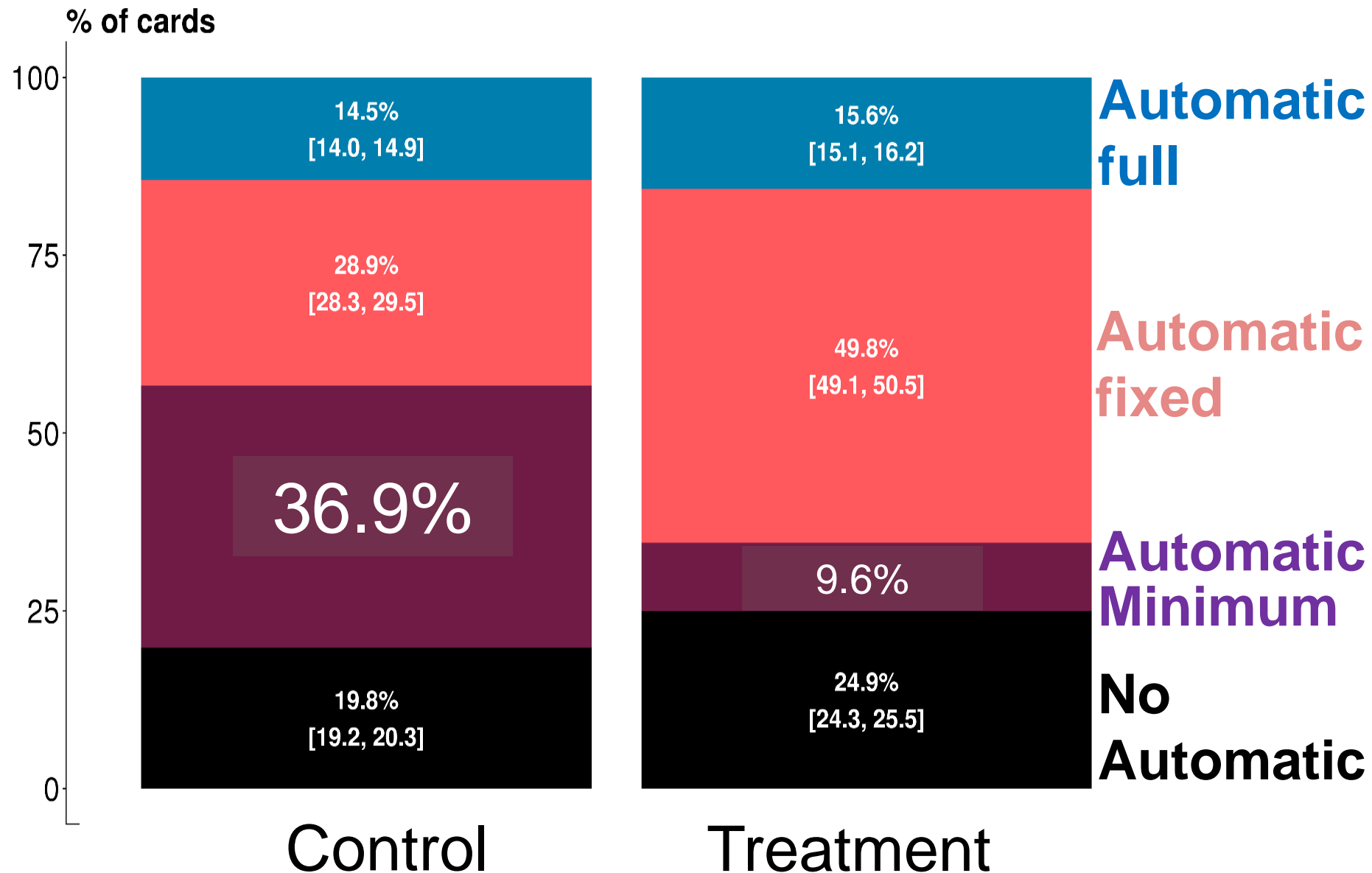
Sample

- 40,708 UK credit cards newly issued in 2017
- Cardholders who attempt to set up an automatic payment are randomized into control and treatment
- Cardholders see either the control or the treatment auto-pay set-up screen for 30 days
- No difference in call center routing/experience

Automatic payment status at 2nd statement cycle for Control arm (left) and Treatment arm (right)



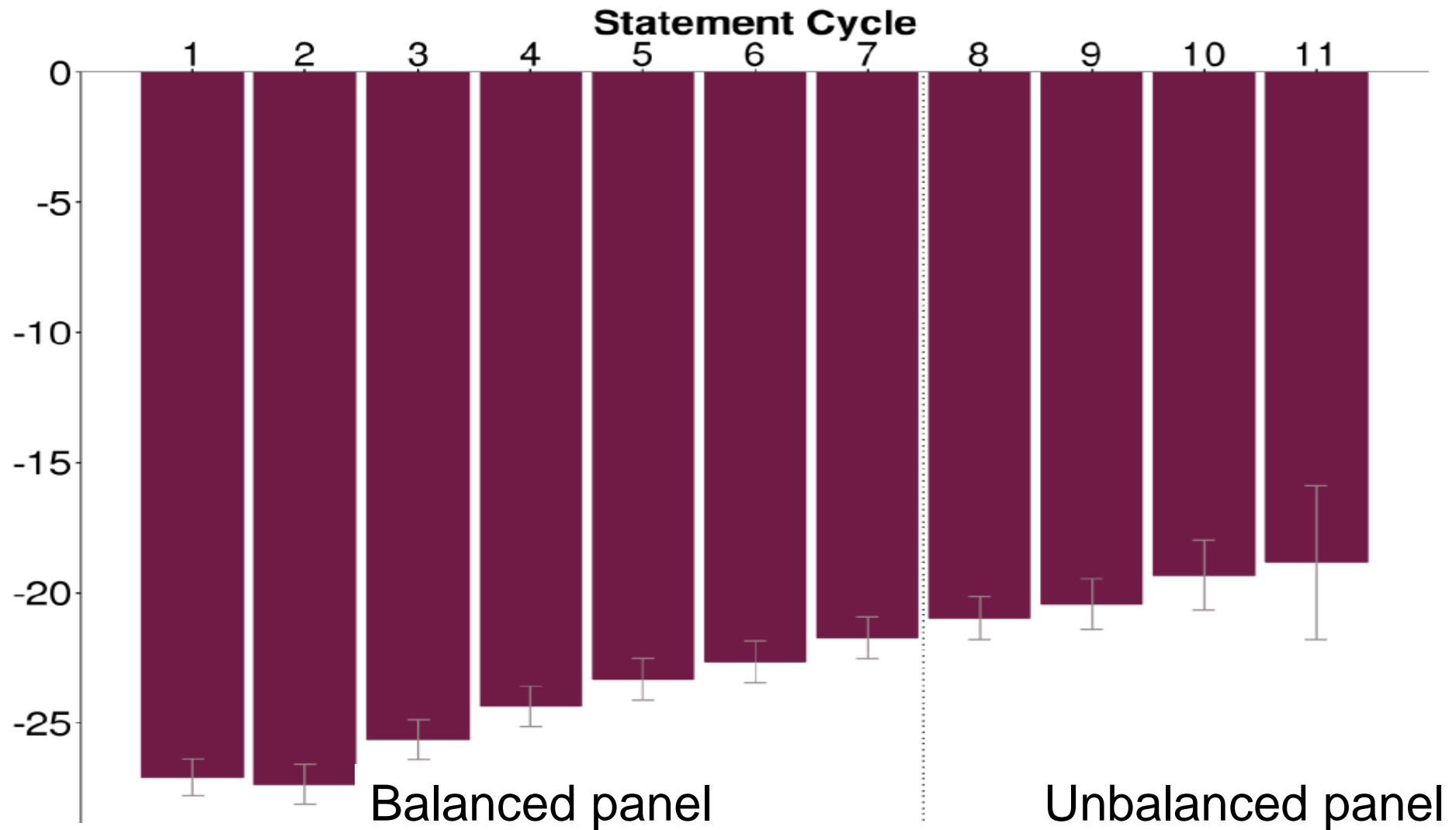
Automatic payment status at 2nd statement cycle for Control arm (left) and Treatment arm (right)



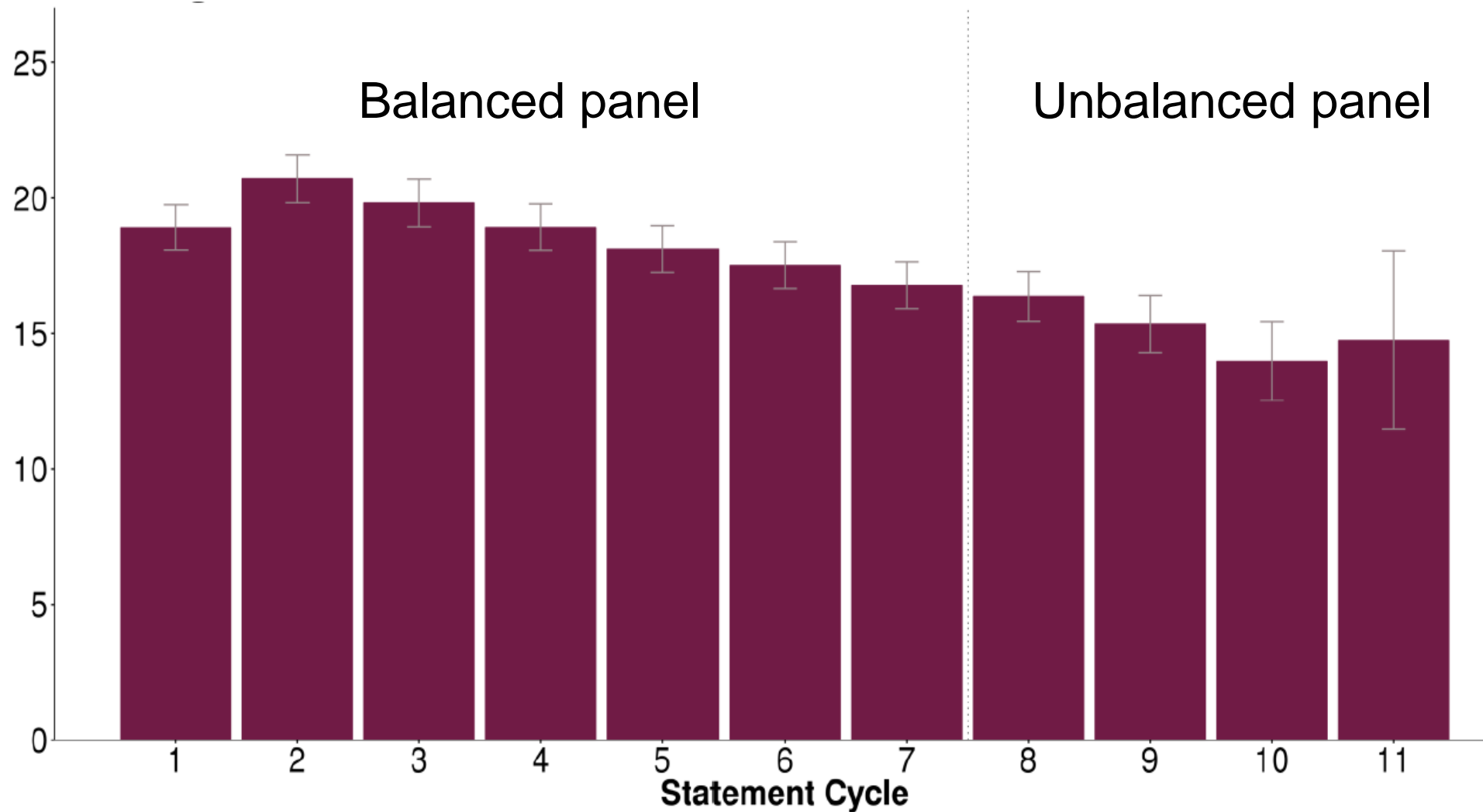
“Success”

- Treatment causes a fall in the fraction of card holders with an automatic minimum payment
 - 36.9% in control
 - 9.6% in treatment
- Aside: for the firm that dropped us mid-study we observe an even bigger fall in the fraction of card holders with an automatic minimum payment
 - 52.6% in control
 - 6.8% in treatment

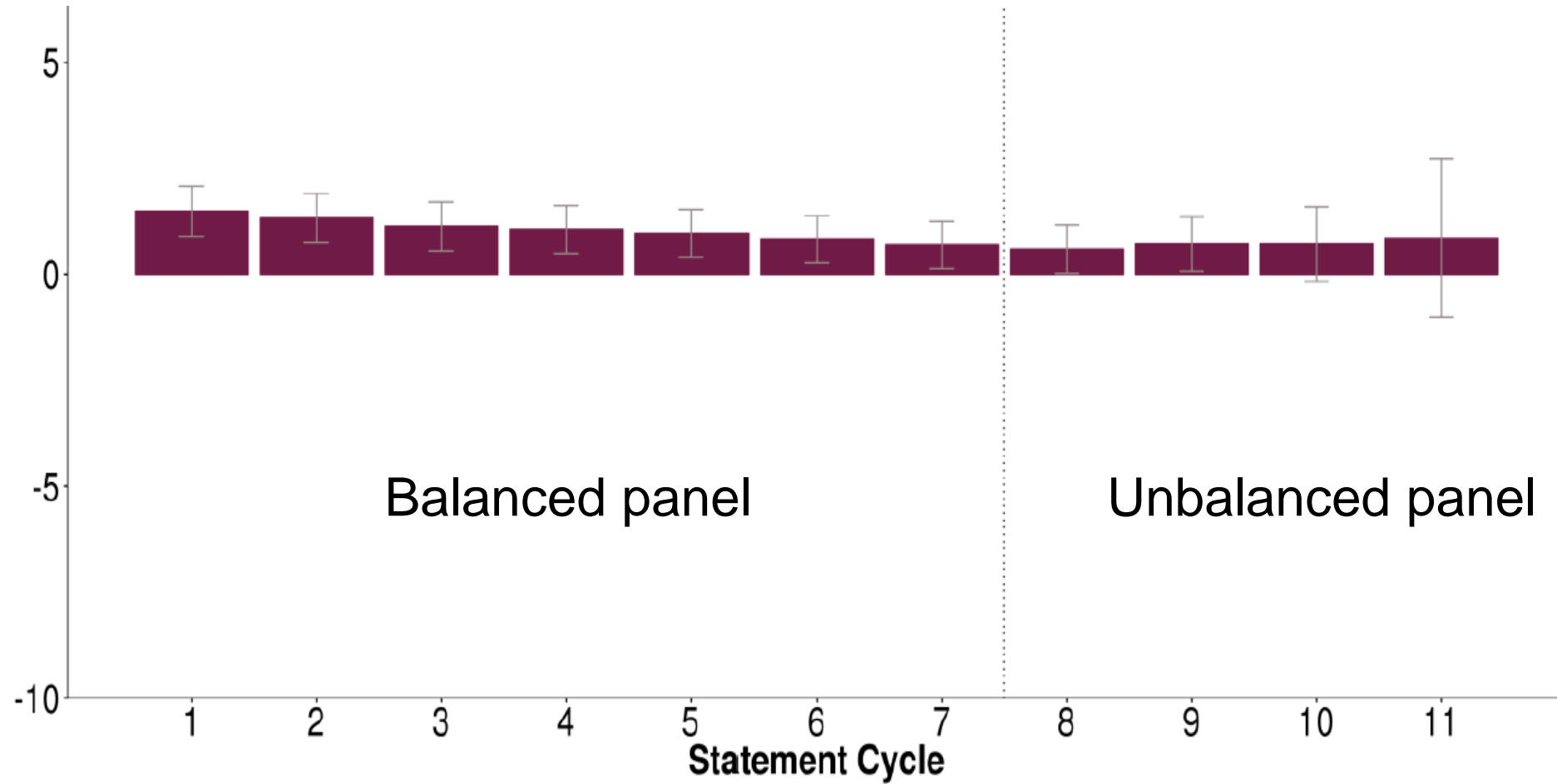
Treatment effect on automatic minimum payment



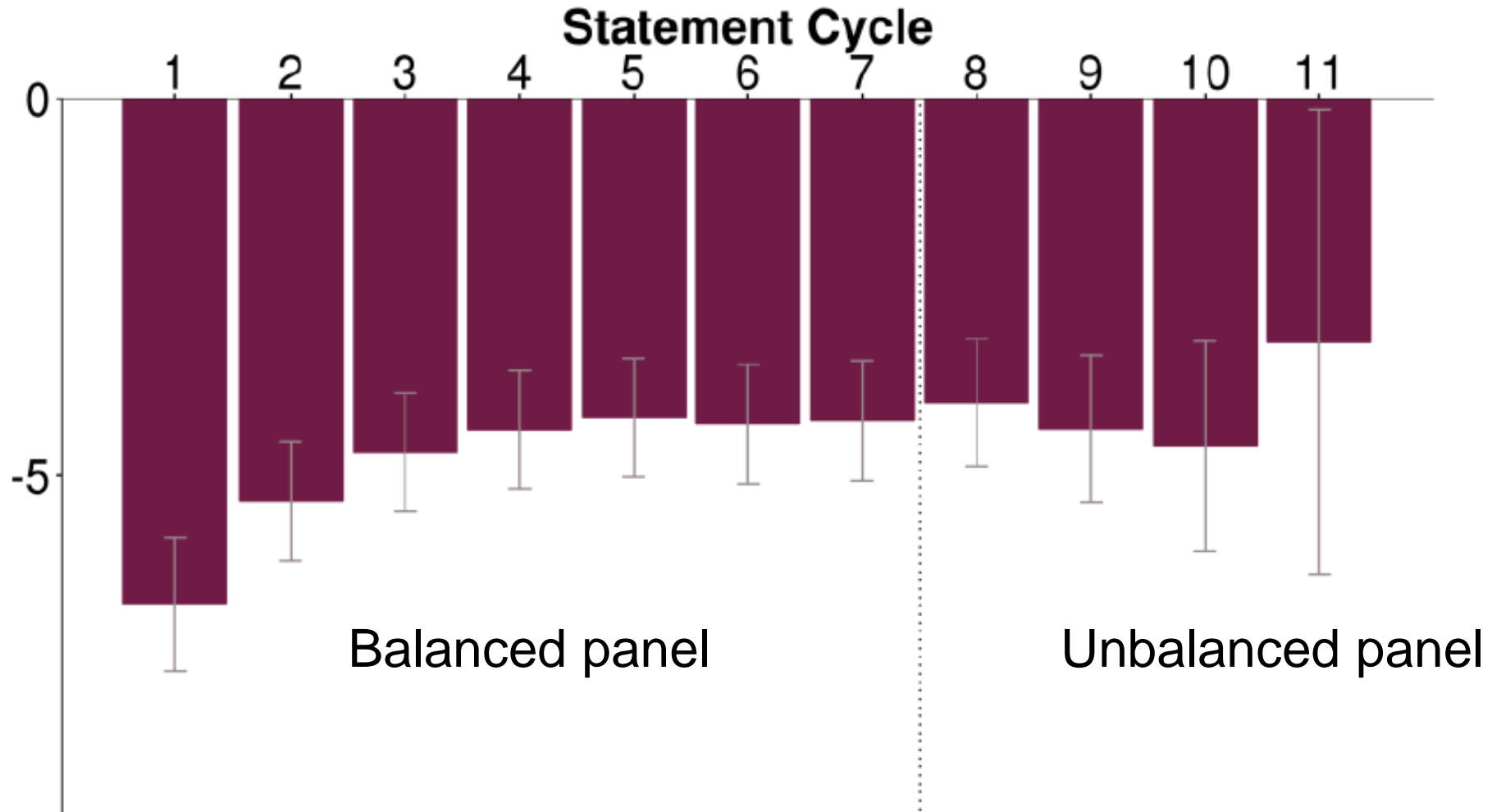
Treatment effect on automatic fixed payment



Treatment effect on automatic full payment

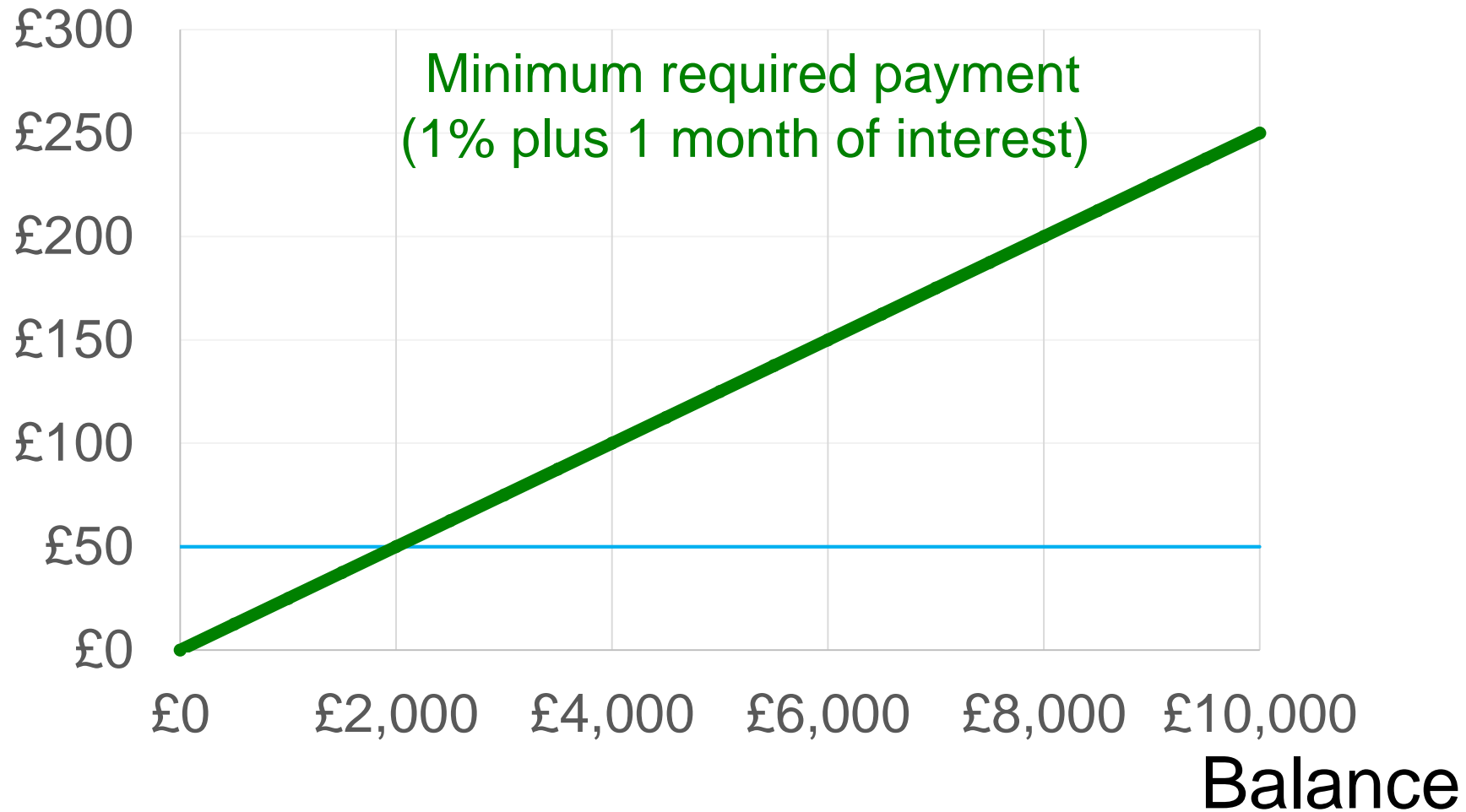


Treatment effect on any automatic payment (unintended consequence)

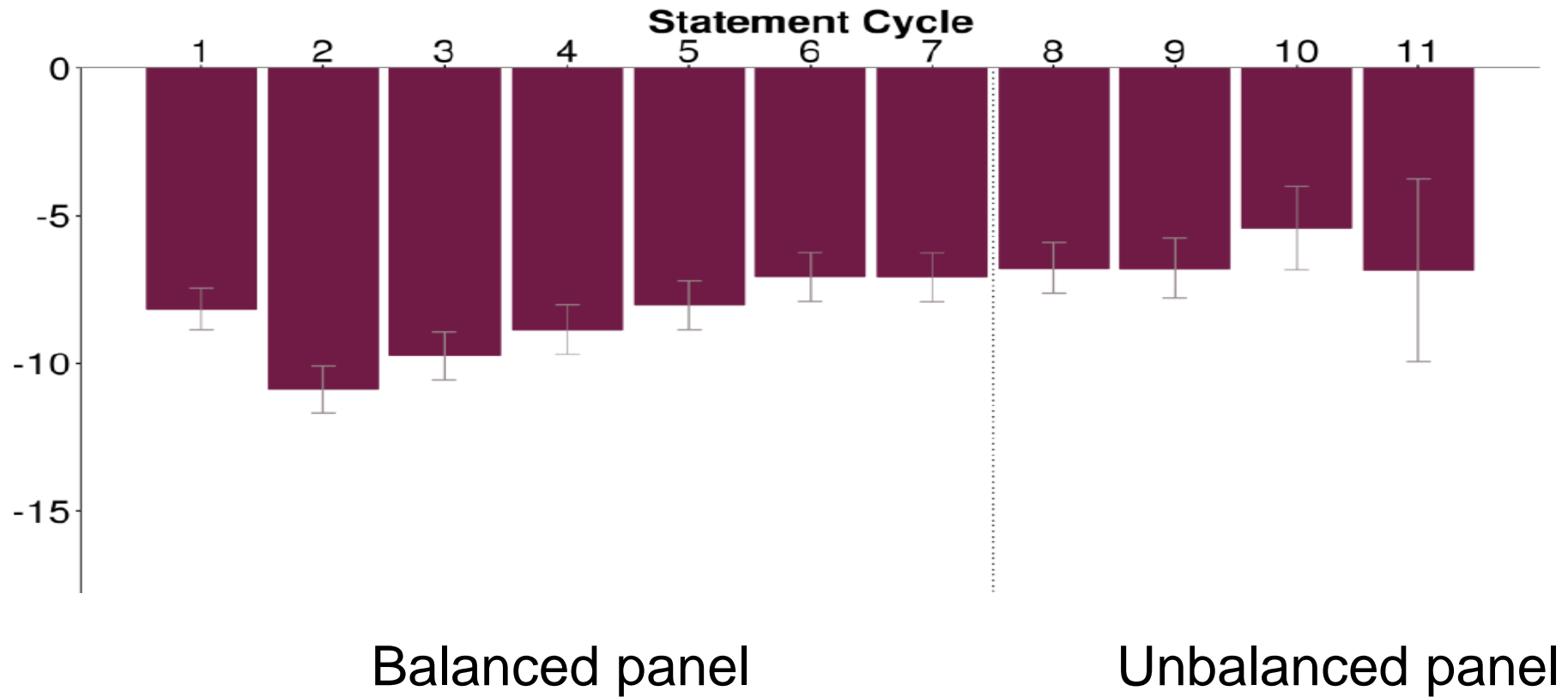


What does a fixed payment of £50 do?

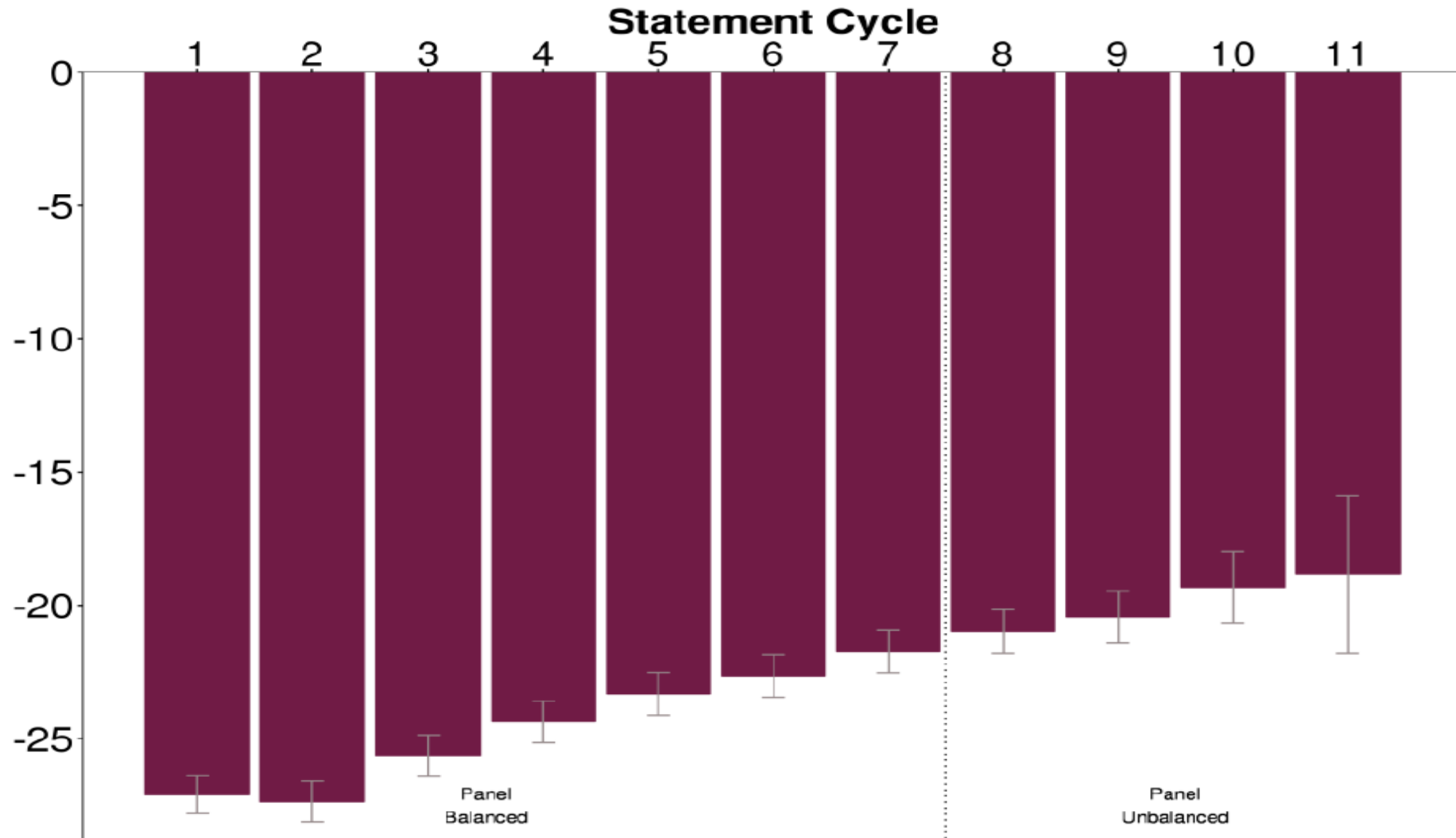
Monthly payment



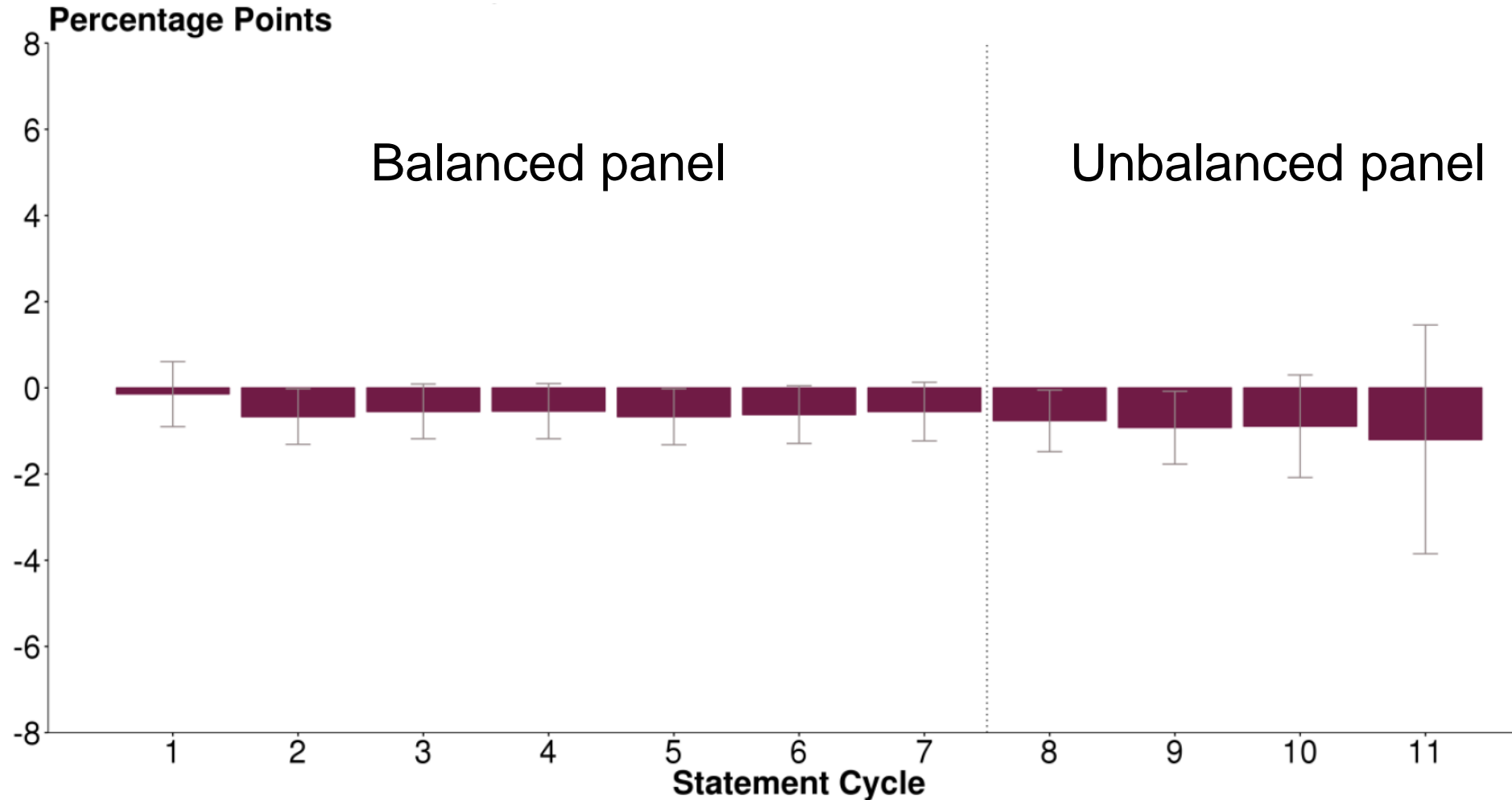
Treatment effect on making a minimum payment (for all reasons)



Treatment effect on automatic minimum payment



Treatment effect on debt net of payments as a percent of statement balance



Intervention does not raise cumulative payments due to manual payments offset

Treatment effect on payments, cumulating all payments in cycles 1-7



“*Semblance of success*”

The intervention has no effect on total debt repayments, credit card spending, borrowing costs, or debt net of payments.

1. The intervention reduced the fraction of people who set up auto-payments in the first place
2. Small automatic fixed payments (e.g., £50) do little to impact the flow of automatic payments
3. Consumers in the treatment arm may have offset their increased automatic payments by reducing the value of their ad hoc manual payments.

B. Social marketing and peer effects

Beshears, Choi, Laibson, Madrian, Milkman (2014)

How does information about your peers affect savings behavior?

Logo

Stop Waiting... Start Saving!

Participate in the **company retirement plan** to plan for your future and get company matching money. Simply check **Yes** on the attached response card, and return it by **August 22, 2008** to enroll in the **plan**.

Join the 87% of 25–29 year old employees at **company** who are already enrolled in the **plan**.

By checking **Yes**, you will:

- **Start contributing 6% of your eligible pay to the **plan****. By doing so, you will receive the **company** match, which is 50 cents on the dollar on the first 6% of your eligible pay you contribute on a before-tax basis.
- **Invest in the **company** Target Retirement 2045 Fund**. The asset mix of the **company** Target Retirement 2045 fund is designed for someone who may retire in 2045 and will become more conservative as you approach retirement.

Once you enroll in the **plan** you have the freedom to change your contribution rate and investment options at any time. Visit

URL or call **phone number** for more information.

Variation in peer information has no net impact on savings behavior

- Small perverse effects for unionized workers
- Small intended effect for non-unionized workers
- Sources of variation of peer information:
 - Exclusion vs. inclusion of peer information
 - Variation in peer success (due to variation in comparison group)
- All sources of variation generate consistent findings.

C. Retirement savings

Default enrollment in retirement savings plans has been hailed as one of the leading examples

Proximate effects of auto-enrollment

- Participation rates go from 40% to 90% (at one year of tenure)
- Average savings *rate* goes up about 1% or 2% (of income) depending on how high the default savings rate is set

Long-run effects of automatic enrollment are smaller than the short-run effects

- Households that were not auto-enrolled, slowly enroll on their own.
- For example, with auto-enrollment, participation rates rise from 90% to 95% during the first three years of employment. Without auto-enrollment, participation rates rise from 40% to 70% over the same period (Choi, Laibson, Madrian, and Metrick 2001).

Leakage tends to undermine accumulation

- Where leakage is allowed (e.g., the US and not the UK), about 40% of retirement plan contributions leak out of the system (Argento, Bryant, and Sabelhaus 2014).
- Leakage seems to be the same or slightly higher for savings caused by auto-enrollment relative to the leakage rate for all retirement savings (Beshears et al 2019).

Auto-enrollment crowds out future savings and *may* crowd in debt

- Auto-enrollment engenders dynamic crowd-out effects with respect to opt-in enrollment at the next employer (Choukhmane 2019)
- Four years after hire, automatic enrollment *may* increase auto loan balances and first mortgage balances, though it does not increase non-collateralized debt (Beshears et al 2019)

Successful savings system feature some hard paternalism

- Mandatory minimum savings (for a theoretical argument, see Beshears et al 2019)
- Illiquidity (for empirical data, see Beshears et al 2015)

Six claims about nudges

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2. Nudges tend to have smaller long-run effects
3. Nudges often have countervailing distal effects
4. **Nevertheless, well designed and carefully tested nudges have an important place in policy**
5. But nudges aren't enough *on their own* to achieve socially efficient behavior change
6. For that, we're also going to need hard paternalism

Three illustrative examples:

- A) removing credit card minimum payment defaults
- B) peer norming to raise savings
- C) auto-enrollment in retirement savings plans