In Today’s Supreme Court Case, Freedom Of Speech Meets Your Wallet

January 13, 2017

FiveThirtyEight:

Every time we buy something with our credit cards, whether at a high-end restaurant or a local bodega, merchants pay a percentage of the transaction to companies like Visa and MasterCard. These “swipe fees” are the subject of a long-simmering feud between retailers, which have profit margins to protect, and credit card companies, which say the fees are just the (invisible) cost of doing business. Some businesses prefer to steer customers toward using cash by tacking a surcharge onto credit card purchases to cover the cost of the fee, but credit card companies have successfully lobbied legislatures in 10 states to prohibit this practice.

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Richard Thaler — one of the founders of behavioral economics, which draws on psychological research to understand why people make seemingly irrational economic decisions — hypothesized about the impact of credit card surcharges in 1980, when the discipline was just getting off the ground. He predicted that consumers would view cash discounts and credit card surcharges as fundamentally different things, preferring to avoid a surcharge rather than receive a discount. According to behavioral economic theory, one of the quirks of the human mind is that we hate to lose money more than we like to save it; if that’s true, it means consumers’ negative feelings about a surcharge would be stronger than their positive feelings toward a discount — even if the end result was the same.

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“You can imagine that a rational person would look at a cash discount, understand that it’s functionally the same as a credit card surcharge, and make his decision accordingly,” said Todd Rogers, a professor of public policy at Harvard. “But the cool and important contribution that behavioral science can make here is to highlight how people behave in reality, which is not in this so-called rational way.” The word “surcharge,” he said, prompts consumers to think about the price differential in a way that “discount” does not — which, in turn, has an effect on their willingness to use cash.

Read the whole story: *FiveThirtyEight*