

Cash preferred

The reason why Germans still prefer to pay with cash rather than with credit cards was a mystery to economists until now. A recent Bundesbank study is shedding some light on the phenomenon.

Today, there are almost no retailers left that wouldn't accept a card for payment. The old saying "you can't spend more than you have in your pocket" has become outdated in the 21st century. Customers can access their accounts anywhere, anytime quickly and easily.

There is much support for the theory that modern payment methods will sooner or later turn bills and coins into novelty items. Yet, even in these times of plastic money, customers dig through their wallets and pick out the exact amount at the cash register, to the penny. Three central bank economists have researched this behavior in an empirical study.

A look into the wallet

Before this, economists believed that transaction costs were the determining factor as to which payment method a customer preferred. When paying cash, the "transaction cost" is the time and effort of going to the ATM. When using a card, this doesn't apply. In a purely economic sense, there is no argument for using cash.



So how do we explain the preference for bills and coins? The economists of the German and Austrian central banks have an explanation: "We focused our attention on the single characteristic only cash has – the memory function." In order to find out whether the preference for hard coins really is connected to this characteristic, the researchers asked 2,300 adults from all over Germany about their payment preferences and their habits in the use of credit cards. And the study participants wrote a journal about their expenses for a week.

The researchers analyzed more than 25,500 individual transactions. Cash comes in first in numbers of transactions, but also in value. A look into one's wallet is telling – and that's also the conclusion of the study: Mostly, those who prefer cash to card payments place great value on having control over their expenses – these are very often people who have to spend carefully.

Preference for plastic

The researchers nicknamed this group the "pocket watchers." These buyers paid cash for two-thirds of all their purchases. Only for purchases greater than EUR 116 did they begin to choose the electronic alternative. Of the other consumers, only about every second euro goes across the counter in cash; cards are being used for purchases starting at EUR 62. "Our results show that cash has retained an important role, seemingly more cost-efficient alternatives notwithstanding," according to the researchers. Their conclusion is confirmed by the popular payment habits in Italy and Austria that can be explained by the study's model. The researchers are having a tougher time justifying why Americans across the board prefer plastic to cash.

Researchers believe that social norms and differing traditions are responsible – even before the dizzying rise of credit cards, checks were the most common payment alternative. At least, the central bankers have a simple tip for the American credit card users who are over-indebted: "Use cash." <

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"Using cash to monitor liquidity – implications for payments, currency demand and withdrawal behavior,"

Link to download the study: www.bundesbank.de/download/volkswirtschaft/dkp/2011/201122dkp_en.pdf