

Financial Five a Day podcast

Episode 7 – Peter John

George Callaghan, Peter John and Martin Higginson:

GEORGE CALLAGHAN: Hello, and welcome to the Financial Five a Day podcast with me George Callaghan, professor of economics and personal finance at the Open University, and Martin Higginson, also at the Open University, a senior lecturer in economics and personal finance.

In this podcast series, we'll be using the concept of financial 5 a Day to invite all of us to think more purposefully about improving our financial nutrition. In much the same way that the fruit and veg 5 A Day campaign shifted habits on healthy eating, we invite you to listen and to learn about the money stories of our guests and be inspired by their tips and guidance.

MARTIN HIGGINSON: We would especially like it if these stories encourage you to reflect on your own money habits and perhaps make some changes yourself, helping you to become more conscious and purposeful around money. Although, we must note that we are not offering regulated financial advice.

GEORGE CALLAGHAN: Today's guest is Peter John. Peter is head of the School of Politics and Economics and professor of public policy at King's College London. He's known for his work on behavioral interventions, which are often described as nudges. We're looking forward to exploring how nudges can be used to influence personal finance behavior. Peter, could we start by you telling us about your own money story?

PETER JOHN: Yes, thank you very much for having me on the podcast. And it's great to have the chance to talk about my work, but also it's quite nice that you've got the personal dimension too, and that's really, really nice you've done that. I'm a very typical academic in many senses that when I started out, I worked for a research organization.

There weren't actually many academic jobs around, so perhaps got a little bit of insight perhaps into just a slightly different way of looking at research in terms of research contracts and the like. But classically, in academic where the bulk of our income comes from our employers, universities. We do have chances to earn additional income from consultancy, writing books, giving talks.

So partly as a result of that we had to get to grips with the with the tax system and expenses and trying to work those sorts of things out. And like many academics, like many UK citizens, the main financial decision has often been on property.

And for a variety of sort of accidents, I've managed to end up having three properties through a partner and various sets of decisions, which probably on the face of it, don't all look 100% rational. But, I think, human beings often make lots of financial choices in relationship to their personal life, the things that are happening, and then they need to make sense of that often after the event.

I think my best financial decision was I had a job at University of Southampton, and I was actually getting very bored there. And I bought a house and I decided I'd like to go back to London. It was mid 1990s, and I thought I'd start commuting. So I sold my house in Southampton and bought a smaller one-bedroom flat in London.

I thought, at least, I'll be able to go out to galleries and enjoy cultural life and that sort of thing.

But it was actually, in retrospect, a very smart decision because it was just before the major escalation of property prices. So that is like my main asset is working where I'm-- I have moved to a two-bedroom flat, but that was a really, in retrospect, a very good financial decision.

But nothing of that ilk actually affected. The decision was purely personal. I wanted to improve my personal life, but it actually, in the end, ended up a good financial decision in terms of giving me quite a large-- because even really small one-bedroom flats in the central parts of London just have ridiculous pound signs attached to them.

But that was not the lecturer politics in the mid 1990s wasn't thinking about that. But I think that's typical of many people. And, obviously, you do face financial decisions. You look at things like pensions, I mentioned tax before. And I think academics and behavioral scientists are like many citizens. They have limited time, limited attention, and they try and do a reasonable job processing that information. But that's not any guard against making very poor decisions. at times.

MARTIN HIGGINSON: I wonder, Peter, I mean, that's a very clear account of a young academic making decisions. I wondered whether how about the even younger self before you entered the kind of world of academia, do you think there were things that in your formative young years, teens, whatever, that you think influence your later approach to money thinking growing up?

PETER JOHN: Personally, I used to go out with-- was very, very, very orderly in terms of how they kept all their records in terms of finance receipts. I also between school and university had

a job in a-- actually, it was a university finance department where I was actually responsible for processing all the university's invoices.

But actually, at the time, I became quite interested in things like accountancy and keeping records. And I've still got in these cupboards around me the remains of the sort of quite efficient filing system where everything is kept and recorded. Over time, it's decayed, I think, partly out of just busyness. But also I feel that the internet world has made that kind of rather orderly collection of information much more difficult. So when you do your tax return.

The map paper stuff we have these days is quite limited. So most of it is just going on to Amazon website and looking what books you bought and that kind of thing. But it's a shame because I think PayPal allowed you to have quite a high degree of control and also a way to record things in one particular place.

And, obviously, you can do that in an internet way. But, I think, the skills I learnt at a young age, I've been quite careful in recording things has gone. I mean, this affects research as well in a sense. I think, in research, you used to be quite paper based. And as I've moved from job to job, I always ended up sort of—

GEORGE CALLAGHAN: In the old days throwing away lots of paper [INAUDIBLE] down. And all the records and tapes and things weren't kept. And I feel we're not quite as good as we used to be, I think, partly because we got that instant access means we're not forced really to really keep those real careful records.

MARTIN HIGGINSON: That's an interesting point. That mention of paper, it's made me think of paper money and how particularly since the lockdown, the use of cash has diminished really substantially. What do you think that means for personal finance and indeed maybe as a way into thinking about nudges? Was paper money nudging people to perhaps covet it and look after it a bit more carefully?

PETER JOHN: Oh, absolutely. And one only needs to see your own behavior how easy it is just to produce your card or your phone and pay for things. And a lot of financial decisions are made quite quickly on the moment. And it's quite nice building in little bits of hesitation into those decisions. And also if you need to make a large transaction, in the old days, you'd go and get some money and put it into your wallet.

I mean, it is absolutely fantastic the convenience and also the not having to have change in your pockets and those sort of things. Again, a little bit like with the tax returns, I think, we need to learn new sets of habits to help us guide us to making better decisions. And, obviously, this is where nudges come in that they assume that we're time pressured.

And we don't really have the time to think through each individual decision, so we need a framework to help us get there. And then, of course, there's the issue of whether policymakers are the right people to do that or whether-- in a sense a bit like myself and my tax return that I've learnt these habits from other people, from peers.

I haven't really needed the state to help me. Maybe the state could have helped me. But, I think, there's a issue of who helps whom, which is at the core of kind of nudge and helping individuals with these potentially complex decisions.

MARTIN HIGGINSON: Do you think you could illustrate-- I mean, you were saying how we might need to form new habits. I just wonder whether you could illustrate through the idea of a nudge what new habits you might think would be useful, and how nudge could help there, Peter? And also, I mean, just a added connected question is whether these nudges are just a very short-term fix or whether they can actually be longer lasting in changing behavior?

PETER JOHN: Well, absolutely. I mean, I must start off from an interesting kind of politics. But, I think, financial decision making since it's part of a of the external world which most individuals they have certainly a certain amount of time they can allocate to being interested in politics, being interested in running their final finances.

And, I think, we're all sort of slightly flawed human beings that we have a range of things that we're interested in. And we really have the time to devote to actually really looking at every decision in absolute detail. And also even you read academic textbooks, it wouldn't be actually rational to spend vast amounts of time.

If you go to a supermarket and compare every kind of price, and then compare it to other supermarkets, you're going to spend days and days going to each supermarket. You probably drive yourself insane trying to remember all the different prices. And, of course, that would then crowd out lots of other potentially more important decisions.

So we've got to rationalize on time. And so sometimes we invent our own heuristics to help us. But the question is whether external agencies can actually provide us with little heuristics or little cues which can help us get to where ideally we'd like to go. And often, this can work at quite an unconscious level just prompting people.

And, obviously, in the commercial world, I've been using nudges right from the beginnings of commerce to encourage people to buy things, to make things attractive, to present sort of financial offers in ways which seem appealing, and encourage that kind of hot decision making.

Because people sometimes might be in a hurry in a supermarket and often pulling things off shelves, there's obviously, a deal, two for price of one.

I think the brain finds it quite hard to do those computational divisions. Even with phones at one side, you probably don't get your phone out to compare the prices of all the different offers. So you often grab things. And often because these things are not massively high cost-- if your grocery bill just goes over a few pounds, you probably don't notice it, at least, in the short term.

So you could devise these kind of queues to kind of help people.

There's a good debate about short and long term, I think, in a lot of what we call treatment effects do decay over time. I studied voting behavior trying to get people to turn out to vote.

And we know that if you door knock in one election, and then you check the voting registers in the election afterwards, basically, we find that about 50% of the people who newly turned out to vote, then go on to vote in the subsequent election. So half the people don't bother again.

I mean, I personally feel that's actually from a very light little door knock where you just encourage somebody to vote on the doorstep, have a 1-minute conversation with them that not only can you get them to go to the polls at that time, but actually, half of them go subsequent election. To me, I think, that's quite a result.

But it does mean these sort of what we call treatment effects do decay over time. And one counter to that is this notion of habit. And this is a little bit what is behind that voting example that sometimes you can nudge people, and then by doing the activity, by going to that voting booth, once you've done it once, then you get into a habit.

And we know that lots of behaviors in politics and commerce are habitual. People like habits.

They go to the same place once you've done it once. So it's not the dazzling nature of the nudge that often has the effect. It's actually the long-term habits.

And, obviously, this is very important in terms of things like personal health, diet, exercise. All these things are habit induced. I've just come back from having a swim in my local pool. I'm a very keen swimmer. And how did that habit happen? It happened a long, long time ago probably a result of my mom taking us to swimming pools. And I don't actually have to think every morning when I get up. It's all booked in. It's completely routine.

So a lot of nudges would like to get to just change the equilibrium point just a tiny bit. And again, I think, we can discuss to what extent do nudges lead to dramatic changes in behavior. The

answer, most of the time they don't. What they can do is to allow people to go a little bit further along the journey, which ideally they like to do.

So in terms of sport and exercise, you can nudge people to do that. But it probably requires somebody to like the idea of exercise in the first place. And then the nudge can help them get it in a sense routinize it and get there. I mean, I think nudges can scale up.

And one of the things I'm also interested in is the way in which nudges might interact with each other. This is called kind of spillover effect. So let's say you nudge somebody to vote, and they might actually end up recycling more.

So, I think, one of the things we're quite interested in are these kind of virtuous circles of behavior whereby you can actually do one thing and then another. And that actually may get people along a route of behavior change.

But imagine your listeners probably think, well, that sounds a little bit insidious that people like Peter are sitting behind his computer and plot how I'm going to get you to recycle, and then you're going to do something else.

MARTIN HIGGINSON: And Peter, you introduced this idea of heuristics. In other words, shortcuts that will help people change their pattern of behavior. And you also mentioned that, in a sense, nudges are nothing new.

And inside a consumer society, we've been living with nudges or coming up to Christmas might even feel like shoves where we're really pressured to buy and spend and in certain ways. I wonder I really like this example of the door knock then having a lasting impact, although, it might decline over time. What do you think in the world of personal finance might be some of the door knocks?

PETER JOHN: I think one of it is this issue of awareness of the kind of choices which you're making. And, I think, we know that people have to make, especially if you're making a major financial decision like purchasing a house. And you heard about my earlier motivation around improving my-- I wasn't really thinking about the long-term investment value of this flat I bought.

But I think the problem is that the level of information in personal finance is quite high, and the kind of choices does require some time for you to sit down and work them out in quite a precise way.

So the question then becomes, are there ways in which everyday citizens can approach their financial decision making in ways which are sensible but doesn't mean they then need to turn into crazy accountants because one is they might not have the skill set to do that.

But, in general, I think, people want is a set of skills which allow them to navigate the financial world so they avoid making really bad decisions. Actually, there's lots of different terms here. We used the word term nudge. The other term which is related to is this term boost. And I don't know if you've come across the work of Robert Hartwig and others. And their basic line is how we increase people's capabilities to make decisions.

And again, the assumption is a lot of this is in the medical world where people often are faced with-- they see their doctor with a medical problem, and they might be given various choices of treatment, which is very common these days. Doctors say, well, we can either do nothing, you can do treatment A, which is mildly interventionist, or treatment B, which is very interventionist. And these are the success rates of prognosis for those.

And we know from the classics of behavioral economics and positive psychology, people find those decisions very, very hard to do. So the question then becomes can we give people a set of skills to, at least, look at some of those kind of ratios and figures and give people rough rules of thumb so they can actually compare various choices.

So the idea is what they claim is you can give people little mini training courses in just probability statistics. They got one course that they call how can you turn people into Bayesians in a day, I think, or something is what-- Bayesian statistics is a very helpful way to look at this in many ways. But you don't expect people to go back and look at Bayes formula, and then compute out all the different choices.

But you can give them various rules of thumb, different decision rules. So when they do actually make that decision, they can make-- and I think finance is very much in that kind of country. I think you'd be unreasonable to expect everyone to do what Peter did and have his little Excel spreadsheet look at everything.

But I think people might want to look at a range of different offers and be alert to the various way which figures are presented to then perhaps search out particularly if they think, well, perhaps they might not want the mortgage for a very long period of time so what are the exit clauses? And those things can be done relatively time efficiently.

And also if they seek out a financial advisor, then it allows them to ask the right sort of questions. So I think the nudge approach effectively will boost approach, treats people as time poor. But

also I think this is another thing which I think is really important is it kind of respects people. It doesn't want to preach down to people. It doesn't want to overload them with information.

And in the end of it, it's people like you and me who are struggling day to day to do things. How can we help them along is the art of the nudges that have been introduced in so many areas, including financial decision making.

MARTIN HIGGINSON: So this really interesting how you have these different types of nudges. So you have what people might see as a traditional nudge, which is you've described as maybe a bit more paternalistic. Then you've got this boost area, which I suppose as educators, we see as education courses, it might be a little package, it could be a YouTube video, or whatever.

But then you also talked about this more reflective side, which you described as a nudge plus. I wonder if you could explain a little bit more about that because, I think, that ties into this deeper thinking side perhaps, which might also have a positive effect on these other nudges you've talked about, Peter.

PETER JOHN: Absolutely. And, I think, in many areas, the nudge is actually connected to wider public purposes. Voting, obviously, is important for democracies. Recycling of waste links to what we might want to do to address climate change. And I think you can nudge somebody, and if they unconsciously reflect on it, you might get policymakers saying, well, great, we've got more recycling targets.

But, in actual fact, a better long-term goal might be to engage citizens that while you're nudging them, making them aware of why you're nudging them, and encourage them to engage in debate is actually part of the overall project, which it gets around the paternalism. You're trying to do something to people without their consent and working on unconscious biases effectively.

And OK, we might get a beneficial outcome, but it's rather treating people rather like objects rather than citizens. So it gets over the ethical dilemma of nudges. But also, I think, it's more appropriate for the long-term project in which we're engaged that you explain to people why we want them to recycle. They can reflect. They can ask lots of questions.

And, of course, even the nudge world, we don't even know whether every nudge is right for every person. So in the financial world, those classic nudges or pension defaults. And this is where when you join an employer, you get defaulted into the company or organization or pension schemes. Whereas before, you often had to make a positive choice to do that.

But it may be the case the pension scheme might not be actually suitable for actually everyone. It might be the case that somebody decided, all right, I want to spend my whole life going around

the world from job to job. Does it actually make sense to kind of save in one pension scheme, which might be slightly costly to get out of after three or four years.

So I think having a conversation with the individual even on the classic nudges makes sense. But, of course, these things take time. They're hard to organize. And that's the sort of thing that I'm trying to research is how to do these things time efficiently. And that's what we're doing with the nudge plus agenda.

MARTIN HIGGINSON: Fascinating. And in the world of personal finance, Peter, when you think about where we inhabit a consumer society where companies spend an awful lot of money on marketing and advertising to persuade and pressurize us to buy stuff.

You've then got a financial services industry that offers us credit cards, personal loans, buy now pay later. Where and who might be doing this nudging to help the citizen navigate their way through and make the best choice for them?

PETER JOHN: Going back to the big debate about the justification of nudges and the justification of being paternalistic. And this is what Thaler and Sunstein is saying, well, there's so much nudging going on out there which we've had no say in by the private industry. Come on. Let's allow government, which might have more of your interests at heart, to do their own nudging. So I'm very much up for that.

And I do think there's a case for self-reflection and education in personal finance. And, I think, we talked about boosting in particular. And I think if you are making big financial decisions, you're actually sometimes making big choices about your life and how you want to live it.

So OK, you might be staring into a spreadsheet with your mortgage calculations, but actually, that choice will be quite important for you to make. So I'm very much up for-- I can defend traditional nudges, I, think, in personal finance. But I still think there's room for some interventions which could be more reflective.

MARTIN HIGGINSON: And I wonder, Peter, having researched, lived this world of nudges for quite a while, whether any of this has actually changed your own view on money for yourself, or are you looking at it from the outside, or looking at your own kind of behavior? Do you look at the world of personal finance and the world of money differently having researched the area of nudges?

PETER JOHN: I mean, certainly, you're aware of the various techniques. In a sense, obviously, you look at various promotional material. And so I think it is helpful in that respect. Though,

actually, sometimes I think some research is quite interesting so that citizens themselves develop a healthy skepticism.

I think they develop heuristics. And again, I think there's a lot that links to my certain view of citizens as voters, although, citizens don't know a huge amount when they sometimes can't name their own MP or a councillor. If you ask them the number of how many how many how many MPs they are they often don't know the answer but I think they've got a good sense of what's going on if they're being sort of—

And, obviously, we do have massive records of people making poor decisions. But I do think underlying that I've got a confidence that we can see through things, which is why I don't like the short-term nudges, and why do those short-term nudges decay over time, or otherwise people get used to them. And so, in actual fact in terms of one of the financial nudges I've done was trying to get people to be more aware of the deadlines around court fines.

So we did some nudges around texting people, getting you where the bailiffs are coming, that sort of thing, working with the ministry of justice. But over time, those treatment effects are being declined in our own study. And I think part of the reason is that people they got common sense..., and they get used to things. They get used to being kind of nudged.

So I'd like to think that the nudge agenda to me it comports with how we are, how we think I am. I think, it takes a realistic view about human beings. In a sense, they're not going to have the massive virtues of the Athenian citizen. And a lot of people do want to make the right decision. They also want to make financial decisions. The right decision for their families and the like.

So, I think, there's pathways, I think. I think that those things offers pathways for you to make these more sensible decisions without incurring massive cognitive costs, I think. And also, I think it's a way in which you can then spread financial literacy away from the people who are just focusing on the tax returns, or the slightly eccentric people who've got spreadsheets in front of them.

So I do see it every day. And yeah, I think, I've accidentally landed on this research agenda partly through my interest in political participation. I'm also really interested in the relationship between citizens and bureaucracies and how that works. And also a lot of my own frustrations about dealing with bureaucracy and complaints and all those sort of things.

And I've believed that by making a few minor changes, you can actually make things a lot better, both for the bureaucrats and the organizations and the citizens themselves. So actually, I even take some of these nudge ideas into my job as head of school. So we had a recent strategy.

So we've thought of various nudges to either encourage people to think about different kinds of grant sources and the like.

And we got one initiative I discovered in my strategy. We found that in our new environment where we're all working at home, professional services and academic staff don't seem to know each other so well as they used to. So I've got this [INAUDIBLE] initiative. We advise to them at beginning of term to have tea in a local hotel randomly selected. Lecturers have tea on us in a local hotel, get to know each other.

And the idea is they'll enjoy the tea, have a nice time, and then, hopefully, when they see each other in the corridor they can drop an email to each other. So I think it has actually influenced my own professional and personal behavior.

MARTIN HIGGINSON: And Peter, just to round up, if I was to invite you to leave our listeners with one self-reflective nudge related to personal finance that they could take away today, what would it be?

PETER JOHN: Yeah, I think, taking a little bit of time, trying to avoid hot decision making, and to focus on just a few essentials about the decision which you're making. I mean, even if you're in a supermarket, I mean, do you need to rush around the supermarket? You can actually just look at the prices, just be aware of the nudges which other people are being directed to you. So I think maybe it's just take time and use your nerves, I think. It would be hard to sum that up.

GEORGE CALLAGHAN: Yeah, many thanks, Peter. That's wise words. Another really interesting interviewee on the more academic side of our interviewees. Maybe using a couple of words that are not everyday English. Heuristics being one which is just a shortcut. My takeaways from that was how time poor many people are. And so when we're thinking about the interventions around financial 5 a Day, we've got to keep that absolutely front of mind.

MARTIN HIGGINSON: Yeah, he did say towards the end about his top tip would be to take time. And he was saying how there is this almost kind of like a battle, these heuristics, these shortcuts, which quite a few people may not really be aware of are techniques that shops, banks, other institutions use to get people to behave in a certain way.

And what he was really saying is well, you need to sit back, reflect a little bit before you make that decision. Because these shortcuts which enter your mind can actually make you make perhaps a decision you would regret.

GEORGE CALLAGHAN: And also he's got a wonderfully positive take on humanity. He realizes that people have got lots and lots of pressures on them, but very often they want to do the right thing. And that's where I think financial education, what we were doing on this pod, makes a contribution.

It actually recognizes people have got agency. They've got this capacity to make good decisions. And what we maybe need to do is use these nudges to use a classic nudge, then a nudge boost help people make better financial decisions.

MARTIN HIGGINSON: Yeah, I thought his description of three types of nudges, which, I think, perhaps perhaps many, many of our listeners might not have been aware of is combining them as you said, George. So I mean, just to review what he said is he gave an example of pensions.

So a classic nudge is auto enrollment. So anybody in the workplace is automatically enrolled into a pension. Now, that is because our kind of nature is not to opt out. So people are autoenrolled into a pension, and that is quite a successful nudge to get people to save for the longer term.

But he also said what is important is this boost element, which is building up the skills, which as educators George you and I are passionate about is the idea of financial education and the nudge plus which is reflecting. And he actually said, didn't he, in that respect to the pension, well, a deeper reflection might be that a citizen thinks this isn't the right scheme for me. So that was a really interesting combining the academic work with drilling down into the individual behavior.

GEORGE CALLAGHAN: Indeed. And he also spoke about trying to avoid how we describe I really like the phrase of a hot decision. In other words, a pressurized, quick decision. And maybe what people could do is rather than rushing around the supermarket, we could actually have a meditative walk around the supermarket and compare prices. But another great interview.

MARTIN HIGGINSON: Brilliant. And I'm going to now make these hot decisions by going to stop now.