

# People still are suckers for using credit

I should have known: Call people suckers and they'll take offense.

A number of folks were either confused or offended when I said recently that we are all suckers — that is, losers — when we use credit to pay for services and goods.

I offered that view while reporting on a proposal from the Federal Reserve and two other banking regulators to curtail or ban certain credit card industry practices.

"I do not understand your argument that anyone who uses credit cards is a chump, even if they pay their balances off in full every month," another reader wrote. "I can assure you that I make the same purchases and contributions, with credit cards, that I would make without them."

I'm reasonably sure that many people do not make the



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same purchases when they pay with plastic. This isn't just a feeling or anecdotal evidence. Researchers have found that people's willingness to purchase more products or services increases with the use of plastic.

In their groundbreaking research, Drazen Prelec and Duncan Simester of the Sloan School of Management at MIT found that study subjects paid more when instructed to use a credit card rather than cash. In fact, they found people were willing to pay up to 100 percent more with plastic.

So have I thrown a net too widely in arguing that we are all suckers, even those of us who faithfully pay off our bills every month?

Nope. Net tossed just right.

You have to admire the marketing might of credit card issuers. They have done an outstanding job in persuading otherwise smart people that using plastic can come with no price.

Oh, there is a cost. You may be able to bear it, but there is an extra cost.

Greg Davies at Britain's Warwick University found in one study aimed at marketers that customers using credit cards spend more than those paying with cash or checks in purchasing situations that are otherwise identical in every other respect.

He found that credit cards reduce the pain of payment because of the following:

■ Paying for the product or service is put off when you use plastic. Therefore we don't do the same mental accounting as we do when we pay with cash.

■ When we buy several things on a credit card at one time and pay in a single transaction, there is no clear signal that we may have overspent on any one of the items.

■ Paying with cash is a visual clue that money is being spent. And while checks don't have the same effect, writing down the amount physically still imprints on your brain that you are letting go of some cash.

I haven't given up on using credit — yet. But I'm mindful that I do spend more when I swipe that card. Like others who use credit cards for the convenience, I may not be weighed down by this debt, but to say that there is no extra cost versus cash is irrational. □