Proposal: 1818(AG67) Debit Card Interchange Fees and Routing

Description:

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Proposal: Regulation II: Debit Card Interchange Fees and Routing [R-1818]
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Your comment: In market systems, firms pursue profits, but are disciplined by competition. Surprisingly, to ensure low prices we must allow high prices, and let market forces do the rest. But our political leaders have increasingly chosen the worst of all possible worlds, where they regulate competition, but then impose rules to control fees and prices. It's a mess, and it's about to get worse.

To be fair, many politicos, and credentialed "experts," honestly believe that their Rube Goldberg systems of rules, regulations, and "best practices" is better than market competition. But that failure of judgement is all the more reason North Carolinians should demand that regulators allow commerce and entrepreneurship to open up our financial system to the scolding winds of innovation.

Prices are estimates of the value of an activity. A high price signals outsiders "There are opportunities here! Enter this industry and compete!" But in financial markets, we have moved toward central state "control" of price, under the pretext that this protects consumers. The problem is that more than 120,000 families in our state are unbanked, and over 570,000 are "underbanked," using financial intermediaries that don't meet their needs.

There are many reasons for this, but one big factor was the decision in 2011 to cap the fee that large corporate entities pay financial institutions to process debit card transactions. The cap has had two effects: first, the Walmarts and Amazons of the world are able to gobble up enormous saving on myriad transactions, because their costs are artificially limited by a corrupt bargain with regulators. The difference is negligible on any one transaction, but taken together the artificial savings for big retailers are enormous.

Second, poor families who lack the political power of large retailers are forced to subsidize the financial industry by paying higher fee for banking. Many small banks will be unable to offer accounts with fees low enough for poor families to use those services. By putting a thumb on the scale, regulators have forced the poorest to pay for the services enjoyed by the biggest and strongest, or to forego banking services entirely.

To their credit, some Federal Reserve analysts had misgivings about the 2011 big-box giveaway. They labeled it a "challenge," and noted that its implementation was "likely to increase banking costs for consumers." But now the central bank's leadership has proposed Regulation II, which will force the price cap even lower. The idea is that lowering the swipe fees businesses must pay will benefit the economy.

The problem is that that is simply not true: forcing transaction fees below the market price just forces the regulated firms to try to cover their costs on other margins. The change will benefit a few large companies, but it will hurt existing financial institutions and increase the costs that thousands of regular North Carolinians must pay at the same time. Worst of all, the artificially low price will signal potential new competitors that they should stay out: "No reason to do business here!"

As Lisa L. Cole Martin, an adjunct instructor at North Carolina AT&T State University, put it, Regulation II "appears poised to exacerbate" North Carolina's "inequities, benefiting large retailers rather than addressing the needs of those in greatest need." Bank fees and interest rates will go up and that's for the residents who manage to keep bank accounts at all. Many people will become unbanked, a harm whose impact is hard to quantify, but very real.

North Carolina has already felt the wrath of this policy when it was first implemented in 2011. It shouldn't have to feel the wrath of a second wave. The Federal Reserve should pump the breaks on Regulation II while it still can.

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