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

Description:

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From: Economic Policy Institute, Julianne Malveaux

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Proposal: Regulation II: Debit Card Interchange Fees and Routing [R-1818]
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First name: Julianne
Middle initial:
Last name: Malveaux
Affiliation (if any): Board member, Economic Policy Institute
Affiliation Type: ()
Address line 1:
Address line 2:
City:
State:
Zip:
Country:
Postal (if outside the U.S.):

Your comment: Americans on both ends of the political spectrum frequently voice frustration over the growing power of corporate interests. Understandably so. These conglomerates exploit their market power with government officials to secure subsidies, tax benefits, and favorable deals that limit competition. A recent proposal from the Federal Reserve, Regulation II which provides an unfair landscape to retailers like Amazon and Walmart, increasing profits to an even greater degree off the backs of Main Street and our most vulnerable communities is a particularly egregious example.

In 2011, as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Congress issued a rule limiting the interchange "swipe" fees that banks and credit unions could charge corporate America for processing stores' debit card transactions. Congress said this price cap would help Main Street and underserved communities because the corporations in question would pass the cost-savings they secured onto their customers in the form of lower prices and fees. At the time, the Federal Reserve was skeptical, but it still followed the legislative branch's lead and finalized the proposed rule.

Time proved the Federal Reserve's fears well-founded: these projected Main Street savings never materialized. Instead, the big box stores pocketed millions, while minority communities' local community banks and credit unions were forced to cut back on their services to low-income customers, usually in the form of increased monthly fees for checking accounts and elimination of most promotional offers such as points and airline miles.

Many civil rights advocates have pointed out that the African American community felt the brunt of this wealth transfer. Takein M. Cooper, for example, outlined how "these regulations increased our nation's unbanked population by 1 million people, disproportionately so in minority and low-income areas."

While minority communities were left hanging, Federal Reserve research shows that large retail merchants have reaped nearly $8 billion per year since this rule went into effect. In other words, the big retailers used their influence to push a regulation that has made them nearly $100 billion at working families' expense over the last dozen years. What could these communities have done with these dollars? Improving education, health care, and food access would all have been possibilities. The dollars could have been invested in much-needed economic development, or just to put a few extra dollars in someone's pocket.

Now, the big box stores and their allies are at it again. Circumventing Congress, they are using their influence inside the Beltway to convince the Federal Reserve's new leadership to forget the central bank's previous concerns and restrict these swipe fees by more than 30% further so that they can fatten their bottom lines even more.

We all know the story of these big box store chains. They come into our communities with much fanfare, promising lower prices, better service, and more comprehensive selections. However, their biggest success is their ability to strangle local businesses, which they frequently do without remorse and without compensation, leaving previously prosperous small businessmen and women without jobs, livelihoods, and, many times, options.

These industry giants are no friends to the working man or woman. They hire people at poverty-level wages with few benefits and little job security, frequently the same people that they put out of business in the first place. They aggressively restrict their employees who try to unionize (Massachusetts Walmart workers just had this happen weeks ago). Their business model is based on outsourcing supply, eliminating competition, and preventing unionization. It is predatory capitalism at most odious.

Let me be clear: Washington must ensure that corporations do not place profits over people. The Fed should refrain from putting its thumb on the scales to determine which businesses boom and fail. This new proposal that decreases the big box stores' swipe fees greatly degree. It's biased and it's wrong.

Former NAACP Executive Director Dr. Ben Chavis, civil rights activist Rep. Nikema Williams (D-GA), and over 30 other of her congressional colleagues were correct to tell the Fed, as the congressional members did in a recent letter, that this proposed rule is a wrong-headed example of business as usual in Washington. The Fed must slow their roll on this one and convene discussions with Rep. Williams and her congressional colleagues to ensure that this policy does not have unintended consequences. They should also hear from the businesses and customers affected by the rules change.

Julianne Malveaux, PhD (JulianneMalveaux.com) is the Honorary Co-Chair of the Social Action Commission of Delta Sigma Theta Sorority, Incorporated and serves on the boards of the Economic Policy Institute as well as The Recreation Wish List Committee of Washington, DC. Her latest book is Are We Better Off? Race, Obama and Public Policy. A native San Franciscan, she is the President and owner of Economic Education a 501 c-3 non-profit headquartered in Washington, D.C. During her time as the 15th President of Bennett College for Women, Dr. Malveaux was the architect of exciting and innovative transformation at America's oldest historically black college for women.