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

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From: Todd G. Buchholz

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Comments:

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Proposal: Regulation II: Debit Card Interchange Fees and Routing [R-1818]
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First name: Todd
Middle initial: G
Last name: Buchholz
Affiliation (if any):
Affiliation Type: Other (Oth)
Address line 1:
Address line 2:
City:
State:
Zip:
Country: UNITED STATES
Postal (if outside the U.S.):

Your comment: Comment From Todd G. Buchholz Former Economic Advisor to President George H.W. Bush My name is Todd Buchholz, and I am an economist who served as White House director of economic policy, taught economics at Harvard University, and served as managing director of a prominent global investment fund. I was honored to serve with Federal Reserve Chairman Jerome Powell during the presidency of George H.W. Bush. I am writing to oppose Rule II, the Federal Reserve's proposal to further strengthen price controls on interchange fees for debit card transactions. Perhaps one cannot blame the Federal Reserve and Congress for initially adopting the so-called Durbin Amendment in 2010-11. After all, the banking system had proved faulty during the Global Financial Crash of 2008 and seemed ripe for overhaul. Moreover, policymakers at the time could rely only on hypothetical projections of the Durbin Amendment's impact on the sector and on consumers. Today, however, we have clear evidence, both theoretical and empirical, that the Durbin Amendment's unintended consequences swamp its good intentions and that the public would be further harmed by extending and intensifying its reach. When the Federal Reserve originally debated the Amendment's price controls, Chairman Bernanke and other members of the Board of Governors raised objections to the rule, worrying that price caps could injure small businesses and consumers. Bernanke described the process as "one of our most challenging rulemakings under Dodd-Frank" and pointed out that "very few rules the Fed has ever written took more person-hours than this one and many, many difficult decisions." A careful student of the history of economics, Bernanke knew that price controls almost always create artificial shortages, and that consumers typically bear the brunt of their force. By capping prices and quashing potential profits, price controls discourage producers from supplying goods and services. In the case of the Durbin Amendment, banks are supplying less, well, banking. Faced with price limits, banks cut back on lending, raised minimum balances on checking accounts, reduced efforts to acquire new customers, and slashed the conveniences that American households had grown used to, including inexpensive checking accounts and ATM transaction fees. Evidence for the pain inflicted by the Durbin Amendment comes, not just from one source or from lobbyists, but from a range of independent research conducted by the Federal Reserve, the Federal Reserve Bank of Richmond, as well as researchers at the University of Pennsylvania and Georgetown. Perhaps most damning, a study conducted by Vladimir Mukharlyamov and Natasha Sarin showed that the poorest Americans suffered most, as banks were pressured to raise fees in order to make up for the losses spurred by price caps. The study showed that banks doubled checking account fees and that the number of unbanked households jumped sharply after implementation because fewer households could afford to keep higher minimum balances. According to some estimates, over one million Americans left the banking system due to the increased costs associated with the Durbin Amendment. This could not possibly be the original intent of the rule. Proponents of the rule argue that it spurs competition in a stagnant credit card industry. Yet few Americans, who on average own four credit cards, would say that they have few choices among credit card companies. In fact, competition among banks, credit unions, credit card issuers, and new forms of credit, including BNPL (buy now pay later), peer-to-peer lending, crypto-backed finance, and point-of-sale financing testify to intense competition when consumers reach into their wallets and purses. Americans have suffered from a number of economic busts since this century began, from the 2000 "tech-wreck," to the 2008 Global Financial Crash, to the 2020 Covid-induced Great Cessation. Rather than dampen the chances of another crisis, Rule II would stifle competition and hinder economic growth at a time when Americans are searching to restore their finances and build prosperity for themselves.