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

Description:

Comment ID: 160469

From: Northwood University, Alex Tokarev

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

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

Comments:

Date: Feb 23, 2024
Proposal: Regulation II: Debit Card Interchange Fees and Routing [R-1818]
Document ID: R-1818
Revision: 1
First name: Alex
Middle initial:
Last name: Tokarev
Affiliation (if any): Northwood University
Affiliation Type: Educational (Edu)
Address line 1:
Address line 2:
City:
State:
Zip:
Country: UNITED STATES
Postal (if outside the U.S.):

Your comment: Please accept these comments in opposition to rulemaking by the Federal Reserve to implement further price controls on debit card interchange fees. As economists, we would support rules that improve efficiency in the financial sector. By this, we mean reforms that bring more transparency and competition, which benefits consumers. Unfortunately, as with the response to the Depression of the 1930's and the recession of 2008-2009, the political process today is likely to give us more onerous, burdensome, and costly, instead of better regulation. We often encourage students to think of the government as a drug (e.g., atorvastatin or insulin). It's good that we can use it for a few prescribed problems. It may be impotent to cure the cause of sickness, but it treats some symptoms and preserves lives. However, more is not better. Too much of a good thing, such as a safe and effective drug, may kill us faster than the disease. More rulemaking could make us worse off. After a certain point, the costs of regulation become unacceptably high, i.e. they start outweighing the benefits. We do not need to take drugs if we are (relatively) healthy. When we get sick, we need the right drug in the right amount. And it is always prudent to consider first the existing natural cures for our afflictions. Take Section 1075 (a.k.a. the "Durbin amendment") of the Dodd-Frank Consumer Protection Act of 2010. With the rise of e-commerce, millions of consumers switched to using debit cards instead of cash or checks. Increased conveniency and safety boosted sales, but merchants disliked the small fee they had to pay for the transactions. Some saw it as a "market failure." As a result, politicians gave us a classic example of the Nirvana fallacy. Voters and public servants who do not study public choice economics are prone to reject realistic (but imperfect) market alternatives. Instead, they favor imaginary perfect outcomes of government interventions, naively assuming that policy makers are benevolent, omniscient, and omnipotent. The Durbin amendment forced the Federal Reserve (a supposedly independent private institution) to impose limits on interchange fees for debit card payments. The restriction promised big benefits, expecting that merchants would pass the savings from the lower transaction costs to the consumers in the form of lower prices. What could go wrong? Everything. Consumers paid more fees and the largest corporations like Amazon and Walmart received a multi-billion-dollar windfall tantamount to a subsidy. Studies have found that 9 out of 10 financial institutions

raised fees to cover the costs. Consumers saw no savings. Instead, the price caps lowered rewards programs and free checking accounts, increased banking fees, and limited choices of networks routing debit transactions. The law of unintended consequences of political interventions in the market is just as implacable as the law of gravity. The new proposal to cap the interchange fee to 14.4 cents (down from 21 cents), in addition to other Fed mandates, will only exacerbate the problems of the previous caps. It's time to repeal the Durbin amendment and not pile on worse laws on top of the bad ones.
Kristin Tokarev, BBA Economics, MS Business Analytics Alex Tokarev, PhD Economics, Northwood University