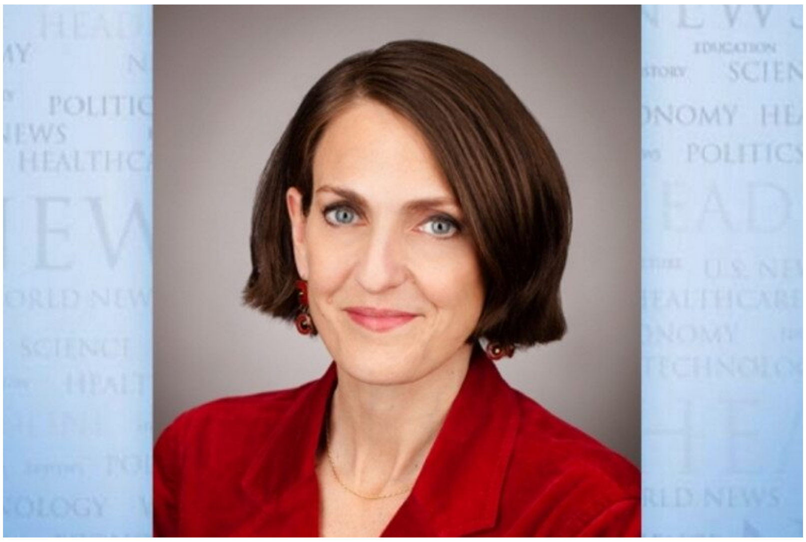
Progressives and Populists vs. the Credit Card Market


Veronique de Rugy

Central planning, never out of fashion on the left, is now more popular than ever on the right thanks to the GOP's populist takeover. This is why a recurring effort to intervene in the credit-card processing market is finding more support in the new Congress than it did in the previous one.

Interchange fees are charged by payment networks, such as Visa or Mastercard, whenever you use a credit card. Collected fees go to both the credit-card processing service and the card issuer. Card issuers must maintain and improve payment networks, protect data, combat fraud and bear the risk of debtor default. Fees help cover all of this.

Some merchants who enjoy the benefits that come with accepting credit cards as payment — namely, attracting customers who prefer this convenience — have decided they don't like to pay the cost. So as special interests often do, they've turned to Washington to intervene on their behalf. Of course, they and their advocates claim this will benefit the public, since their savings would supposedly be passed on to consumers through lower prices.

That's how we got the Durbin Amendment, part of the 2010 Dodd-Frank Act. This price-control measure capped fees that debit cards could charge. Since then, Sen. Dick Durbin, D-Ill., has wanted to expand the idea to credit cards. So far, that hasn't happened.

Enter the Credit Card Competition Act, which Sen. Durbin sponsors. It's an attempt to reduce credit-card fees by using a slightly different route: Rather than a straight-up price control, it would amend the Electronic Fund Transfer Act to compel the Federal Reserve to require that banks add at least one additional payment network for their cards. Proponents — including a handful of Republicans, such as freshman Ohio senator and populist conservative J.D. Vance — claim the added competition requirement will lead to lower costs for merchants and ultimately consumers.

Yet there is little reason to believe this, and very good reason to fear the emergence of harmful unintended consequences. This is not idle speculation; we've already seen it play out with debit cards. After the Durbin Amendment was passed, a study from the Federal Reserve Bank of Richmond found that almost none of the savings were passed on to consumers despite a $145 billion reduction in fees paid by retailers.

The Durbin Amendment not only failed to help customers but appears to have hurt them. It resulted in the widespread elimination of debit-card rewards programs and fewer banks offering free checking accounts. The ranks of the unbanked increased by an estimated 1 million people. Some of that is likely to happen again if more credit-card central planning is adopted.

Unsurprisingly, this is about more than small businesses. The effort is primarily being pushed by

Walmart and Target, who stand to gain billions of dollars in additional revenue. More revenue for big-box stores isn't a problem in and of itself, as long as it's the result of better serving consumers. But this government-induced increase in big-box profits would come by reducing banks' revenue and in turn removing some consumers' preferred card networks — limiting even further the competitive differences among card products and popular credit-card rewards programs.

As explained by The Points Guy, a popular website on consumer credit card and travel perks, "If enacted, this bill could dramatically change the rewards ecosystem. It could affect your ability to collect (and redeem) points and miles toward travel or earn cash back that can offset some of your everyday spending."

It's also an example of the outrage theater politicians inflict on us. Think about how odd it is that Vance has agreed to do Target's bidding after declaring that he will no longer shop there because of the company's woke agenda. While exposing inconsistency from legislators is entertaining, what concerns me is that fewer and fewer are upholding this economic fundamental:

Central planning fails because its success would require the mind of God, yet planners are human. Even if they somehow weren't corruptible, they can never be sufficiently informed to outperform the market, which is composed of the untold bits of detailed consumer and seller knowledge that are signaled through prices. Interference in the market process, whether it be through direct or indirect price controls, inevitably produces harmful unintended consequences.

Left to its own devices, the market has found an equilibrium between card issuers and merchants. Politicians who interfere to favor one side or the other will, as always, bring about unpleasant surprises.

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