Hawley, Sanders Aim to Cap "Usurious" Credit-card Interest Rates


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Claiming credit-card companies are charging "usurious" interest rates, Senators Josh Hawley (R-Mo.) and Bernie Sanders (I-Vt.) introduced legislation Tuesday to cap credit-card rates at 10 percent.

Bipartisan Bluster

"Working Americans are drowning in record credit card debt while the biggest credit card issuers get richer and richer by hiking their interest rates to the moon," Hawley said in a press release. "It's not just wrong, it's exploitative. And it needs to end."

The Sanders-Hawley bill would impose a 10-percent ceiling on credit-card interest rates for five years. This, both men noted, is in keeping with a campaign promise by President Donald Trump.

"While working Americans catch up, we're going to put a temporary cap on credit card interest rates," Trump said at a September campaign rally. "We're going to cap it at around 10 percent. We can't let them make 25 and 30 percent."

The self-described socialist Sanders, naturally, was only too eager to help Trump fulfill this pledge, posting on X in December that he planned to introduce legislation "to do just that." Then, on the same day that, in a Senate speech, he charged Trump with plunging the nation into "oligarchy, authoritarianism, and kleptocracy," Sanders followed through on his promise to assist Trump in achieving one of his objectives.

In a Tuesday press release, Sanders said:

> During the campaign, President Trump pledged to cap credit card interest rates at ten percent. Today, I am proud to be introducing bipartisan legislation with Senator Hawley to do just that. When large financial institutions charge over 25 percent interest on credit cards, they are not engaged in the business of making credit available. They are engaged in extortion and loan sharking.

Sanders cited a Monday *Forbes* report stating that the average credit-card interest rate is 28.61 percent, which he deemed "usurious." He went on to decry the huge sums of interest payments and fees that credit-card companies collect and the present record level of credit-card debt.

Taking Credit

Rather than consider that the policies he favors, such as inflationary money creation and economy-stifling mandates, might be behind much of the debt problem, Sanders resorted to the tried-and-true authoritarian method of imposing price controls. In this case, he wants to artificially hold down the price of instant gratification in the form of credit-card interest.

As usual, too, Sanders made the same ahistorical assumption that all politicians make when promoting price controls, namely that companies will simply reduce their prices without otherwise modifying their behavior. In his press release, he asserted:

> If a consumer has a $5,000 credit card balance with a 28% interest rate and can only afford to make the minimum payment of $166 a month it would take that person over 24 years to pay off and would cost nearly $11,000 in interest. If credit card interest rates were capped to 10%, that same consumer would save over $7,000 in interest.

But what if, by capping the interest rate at 10 percent, the government prevented that consumer from being able to get credit in the first place?

In 2019, when Sanders and Representative Alexandria Ocasio-Cortez (D-N.Y.) proposed similar legislation capping credit-card rates at 15 percent, the Mises Institute's Ryan McMaken noted:

> Credit card companies don't attach high interest rates to credit cards because they are mean and cruel. Credit cards with especially high interest are that way because the borrowers have been determined to be an especially high credit risk.... The high interest rate exists to ensure the lender can make consumer loans while still accounting for the high risk of default by borrowers based on a risk profile.

Furthermore:

> If lenders cannot price their product in a way that allows them to recover costs, they'll simply stop providing that service. Rather than face lower interest rates on credit cards … high-risk borrowers are more likely to not be able to borrow using credit cards *at all*. [Emphasis in original.]

Temporary Insanity?

By reducing the availability of credit, Sanders-Hawley might keep some high-risk borrowers from taking on further debt, but it might also drive them toward even more costly or shady ways of obtaining cash. Moreover, it might prevent some high-risk borrowers, such as young adults with no credit history, from improving their creditworthiness by taking on credit-card debt and repaying it in a timely fashion, making it impossible for them ever to get credit.

And take no comfort in the fact that the rate cap is supposed to expire in five years. As the American Financial Services Association, a consumer-credit industry trade association, pointed out shortly after Trump made his ill-advised pledge:

> Some might argue that a temporary rate cap on only one form of credit would have a limited effect. But anyone that knows Washington knows that what one day is temporary and limited doesn't stay that way. The Spanish-American War tax was supposed to be limited. And more than 100 years later, the Treasury Department was still collecting that monthly tax from consumers who had phone service. There is little doubt that once the proverbial

> rate-cap camel sticks its nose under the credit tent, it will be fully inside in no time.

When it comes to foolhardy economic policies, Sanders is a hopeless case. Hawley and Trump ought to know better. But they should all remember their oaths to uphold the Constitution, which does not give Washington the authority to set any interest rates, credit-card or otherwise.

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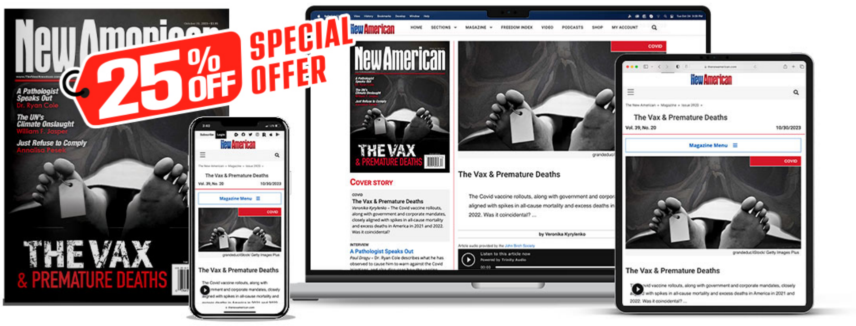

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