



Written by [Michael Tennant](#) on May 17, 2010

Senate Gives Fed Power to Regulate Debit-card Fees

In the world of American business — the one practically every politician and pundit will tell you is a laissez faire environment — if one doesn't like the terms being offered by another, the solution is not to negotiate and arrive at a compromise but to get the government to force the latter to accede to the demands of the former.



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Congress, already having [decided](#) a year ago to entrust the Federal Reserve with the power to set credit-card fees, has now turned its sights on banks that issue debit cards. The *New York Times* [reports](#): “Sixty-four senators, including 17 Republicans, agreed to impose price controls on debit transactions over the furious objections of the beleaguered banking industry.” (The *Times* mentions the number of Republicans voting for the bill because it gives the bill the appearance of bipartisanship and because the *Times* still labors under the illusion that “meddling in dealings between businesses generally is anathema to Republicans and a relatively low priority for Democrats.”)

“The legislation,” writes the *Times*, “directs the Fed to cap [debit-card transaction] fees at a level that is ‘reasonable and proportional’ to the cost of processing transactions.” The Fed’s sense of what is “reasonable and proportional” has already led it to create currency at a breakneck pace, destroying the value of the dollar, and spawned the creation of at least two severe economic downturns since its inception, yet it will now be in charge of telling the banks that actually process debit-card transactions what “reasonable” fees they may charge.

In addition to controlling transaction fees, the legislation also prohibits both credit- and debit-card issuers from “requiring [businesses] to accept cards even on small transactions, and prohibiting businesses from offering discounts based on the method of payment,” according to the *Times*, which noted, “Many small businesses already violate the rules.” Rather than band together and use their immense leverage to work out a compromise with the card issuers, however, large firms such as Coca-Cola and Home Depot (which lobbied “fiercely” for the bill, says the *Times*) chose to use the power of the federal government to get their way.

An amendment to “the Senate’s sweeping financial legislation,” the full “bill still needs to pass the Senate, and then it must be reconciled with a House bill that does not mention debit-card ‘interchange’ fees,” the *Times* reports.

Only a rudimentary understanding of economics is required to predict the result of this amendment



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should it become law. Because price controls artificially increase demand and reduce supply, banks can be expected to curtail debit-card issuance while consumers and businesses, seeing the playing field tilted in their favor, will demand more debit cards and card transactions. Banks may increase other fees to make up the shortfall. Consumers, however, may not be so happy when they discover that large businesses are now requiring minimum purchases for debit-card transactions or that their neighbors who take the time to go to the ATM first get a discount for using cash. Undoubtedly this will spur Congress on to further legislation to remedy the problems they've created, which will lead to still more legislation to fix the problems created by the last law, until, as economist Ludwig von Mises [wrote](#), we have at last "a system in which government directs all business decisions — in which the state determines what to produce and how, under what conditions, and to whom the products must be sold. This is a system of socialism in which private property at best survives in name only."

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