

## THE ECONOMICS OF PAYMENT CARD INTERCHANGE FEES AND THE LIMITS OF REGULATION

June 2, 2010

[Todd Zywicki](#)

### **Summary**

Fresh off of the most substantial national liquidity crisis of the last generation and the enactment of sweeping credit card regulation in the form of the Credit CARD Act, Congress continues to deliberate, with a continuing drumbeat of support from lobbyists, a set of new regulations for credit card companies. These proposals, offered in the name of consumer protection, seek to constrain the setting of “interchange fees”— transaction charges integral to payment card systems—through a range of proposed political interventions. This article identifies both the theoretical and actual failings of such regulation. Payment cards are a secure, inexpensive, welfare-increasing payment mechanism largely unlike any other in history. Rather than increasing consumer welfare in any meaningful sense, interchange fee legislation represents an attempt by some merchants to shift costs away from their businesses and onto card issuing banks and cardholders. In particular, bank-issued credit cards offer a dramatic improvement in the efficiency and availability of consumer credit by shifting credit risk from merchants onto banks in exchange for the cost of the interchange fee—currently averaging less than 2% of purchase value. Merchants’ efforts to cabin these fees would harm not only consumers but also the merchants themselves as commerce would depend more heavily on less-efficient paperbased payment systems. The consequence of interchange fee legislation, as Australia’s experiment with such regulation demonstrates, would be reduced access to credit, higher interest rates for consumers, and the return of the much-loathed annual fee for credit cards. Interchange fee regulation threatens to constrain credit for consumers and small businesses as the American economy begins to convalesce from a serious “credit crunch,” and should be accordingly rejected.

[View Article](#)