

What is most surprising about the GAO report is how little the analytical discussion of this subject has advanced in the last decade. We all know that interchange rates might contribute to higher retail prices: customers that use cheaper payment products can be said to “subsidize” customers that use credit cards. Starting with the Australian initiative, regulators for a decade have sought to understand the costs of credit-card processing and to push interchange fees down to the “competitive” level of the “costs” of providing the service. Conversely, economists writing about two-sided networks have shown that the focus on costs reflects a fundamental misunderstanding of the two-sided network, in which the interchange fee is an allocation of burden between merchants and cardholders, not a charge for services rendered to one side or the other.

[Read the full piece here.](#)