

The Role of Payment Card Networks and the Dangers of Imposing Price Controls

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## **Excerpt**

Electronic payments in general and payment cards in particular are rapidly replacing cash and checks as the preferred means of making consumer as well as many business purchases. By enabling faster, more secure, traceable transactions, payment cards have been a key element in promoting greater integration of the world economy.

Indeed, the entire growth of e-commerce and Internet shopping would be inconceivable without modern payment card networks. However, the pace of future innovation and growth is likely to be hampered by increasingly invasive government regulation, especially regarding the fees that may be charged by payment card networks.

Both consumers and merchants benefit from the use of payment cards. Consumers benefit from convenience, such as by making transactions from home and avoiding holding cash. Meanwhile, credit cards enable consumers to make purchases even when they don't have sufficient liquid resources - enabling them to smooth out their consumption.

Merchants also benefit in several ways. First, they make more sales because consumers are not constrained by the amount of money in their wallet (or the need to make a trip to the bank or cash machine).

Second, they enable businesses to process transactions more quickly (about twice as fast as cash - which in turn is faster than check). Third, the infrastructure required to support electronic payments is less cumbersome, piggybacks in part on existing communications networks, and reduces the need for physical security of currency (e.g., armoured cars and safes). Fourth, credit cards enable retailers to offload the cost and risk of offering their own credit operations.

This has enabled small businesses to flourish and grow, enabling them to compete with larger companies without the need to run their own, expensive credit operations. Fifth, payment card networks facilitate the collection and

processing of enormously valuable consumer data that can be used by merchants to expand their sales. Finally, electronic payments enable long-distance transactions (over the Internet, for example), dramatically increasing the size of merchants' available markets.

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