

Congress aims to rob consumers and reward major retailers

by Daniel R. Ballon and Lawrence J. McQuillan

A recent survey found Americans rank skyrocketing gas prices as their most serious economic concern. The House Judiciary Committee will soon consider a proposal to put more money in the pockets of gas station owners and major retailers, while raising the interest rates and fees that most consumers pay on their credit cards.

The Credit Card Fair Fee Act (HR 5546) would artificially lower the transaction fees that merchants pay each time a customer swipes his card. Banks use these fees to offer consumers a variety of perks and rewards. By taking money away from credit providers and handing it to merchants, HR 5546 will increase the profits of big retailers and impose higher costs on credit card users. This will result in fewer cards, higher annual fees, rising interest rates and the end of rewards programs.

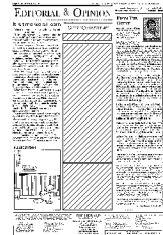
How could the bill's authors support this? Rep. Chris Cannon (R-UT) received the maximum allowable donation to his 2006 reelection campaign from the political action committees of several big-box retailers including Wal-Mart. Two other co-sponsors of HR 5546 represent districts that include the corporate headquarters of Wal-Mart (Rep. John Boozman), Best Buy and Target (Rep. Keith Ellison). Nobody benefits more from the "Fair" Fee Act than these megastores.

While Rep. Cannon insists that his bill will remedy "anti-competitive" behavior, it actually subverts the very laws designed to promote competition. Conspiracies between private companies to fix prices are considered the most serious violations of antitrust law, and are the only cases that provoke criminal prosecution. But the Credit Card Fair Fee Act's stated purpose is to disregard these laws, granting retailers "antitrust immunity for the negotiation and determination of rates." In other words, HR 5546 promotes anti-competitive conduct that would otherwise be illegal.

If this government-sponsored collusion fails to siphon enough money into retailers' coffers, HR 5546 empowers lobbyists to influence a panel of three government-appointed lawyers who can arbitrarily set transaction fees. How is this corporate welfare justified? Merchants argue that increasing their profits from credit card sales will allow them to lower prices.

But retailers have already demonstrated that transaction fees have virtually no effect on final prices. If this weren't the case, customers who use cash or debit cards would be offered a discount. Instead, most retailers charge identical prices for all payment types, regardless of whether a transaction fee applies. In reality, the credit cards themselves already return some of their transaction profits back to consumers. While credit card transaction fees average about 1.75 percent, nearly 85 percent of card users participate in rewards programs that typically rebate between one and five percent of the purchase price. The "Fair" Fee Act would redirect a lot of this money from consumers directly into the pockets of merchants.

Customers enjoy these cards because of the benefits they provide and retailers welcome these cards to attract cus-



tomers. If merchants find transaction costs “unfair,” they are free to stop accepting credit or shop around for a better deal. The CEO of Costco, the nation’s largest warehouse retailer, declared in 2004 that “Visa and MasterCard’s fees are outrageous.” Rather than lobby the government to rig the market, Costco signed an exclusive deal with American Express.

New technologies are rapidly expanding competition among electronic payment services. The Internet has spawned options such as PayPal and Google Checkout, and several startups will soon turn mobile phones into “electronic wallets”. If Congress unfairly protects and favors existing payment services, it will be harder for new technologies to emerge and grow. Congress should not be in the business of picking technological winners and losers.

In a time of rising gas and consumer prices, Congress should not be helping gas station owners and “big box” retailers to fix prices at the expense of consumers and turn plastic into gold.

Daniel Ballon, Ph.D. is a fellow in Technology Studies at the Pacific Research Institute, where Lawrence J. McQuillan, Ph.D., is director of Business and Economic Studies.