

Debit Interchange and the Harmful Effects of Price Controls

“Sen. Richard Durbin’s crusade against U.S. banks has blinded him to an undeniable reality: His price-fixing schemes have hurt the very consumers whose interests he claims to protect.”

—The Durbin Debit Card Dupe, *Chicago Sun-Times*, 1/12/12

Despite the continued assertion by supporters of the Durbin debit card interchange amendment that it represents “reasonable regulation,” this piece of legislation was an ill-fated intrusion of the government into the private market.

- Price controls don’t work, have unintended consequences and are bad public policy.
- History has shown the ill-effects of price controls time and again.
- Policymakers should oppose efforts to impose further price controls on the payment system.

Price controls never have the results envisioned by their authors. They distort the allocation of resources and history is replete with various examples of the negative consequences that price controls invariably bring. Here in the United States, the Nixon administration’s imposition of price controls on gasoline in the 1970s resulted in people having to wait in long lines – sometimes for hours on end – just to fill up their gas tank.

Simply put, price controls do not work. Rather than make products and services cheaper, they erect barriers to market entry, reduce product quality, create black markets, sap continued industry innovation, and spur costly rationing. **The very people price controls are intended to protect often end up being those who are most harmed by them.**

This is true of the Durbin amendment. Though retailers claimed that government-mandated price caps would allow them to reduce prices for consumers, nothing in the law compels them to do so and there is little evidence that they have. In fact, numerous newspaper articles indicate that consumers have seen absolutely zero savings as a result of the new law:

- “[Consumers] have not enjoyed any pass-through benefit from lower swipe fees in the price of retailer goods and services...”

—Dispute over Debit Card Fees Still Simmers, *Arizona Republic*, 12/15/11

- “Large retailers like the price caps. And some policymakers see banks as a convenient villain. If the price controls remain, the loser will be the average bank customer, who will likely see less innovation, worse service, and higher prices over time.”

— Editorial: Customers Should Not be Shocked at Debit Card Fees, *The Denver Post*, 10/13/11

The clear reality is that the debit price controls amount to little more than a windfall for big-box retailers at the expense of consumers, small businesses and the banking industry. This type of government interference has only made it more difficult for banks to provide the lending and other financial services that are indispensable to the growth of local communities and the health of the overall economy.

Policymakers should strongly oppose continued efforts by retailers to impose further price controls on the card payment system and should take steps to repeal those that already exist.