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Credit Cards and Small Business: The Benefits, Opportunities and Policy Debate

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Executive Summary

Most households and businesses continue to reap tremendous benefits from the vast expansion in the use of credit cards in our economy. For entrepreneurs, these benefits include the fact that credit cards are an important source of financing and have enabled a vast expansion in the market for the goods and services they produce.

Nonetheless, given actions in recent years in the courts and in the halls of Congress, it could appear that small business owners are at total odds with the credit card industry. Understanding the economic and business realities, nothing could be further from the truth. While the vast majority of entrepreneurs appreciate what credit cards bring to their enterprises, special interests are pushing for radical government intervention in the market that would disrupt the value that both small businesses and consumers receive. Some merchant and consumer groups are advocating for severe regulatory steps as well as price controls on “interchange fees,” which would only serve to undermine credit card use and access.

Contrary to the claims made about monopolies and/or monopoly power, the payments industry is competitive and dynamic, and government interference ultimately would do more harm than good with respect to credit card use and access for small business owners and their customers. Among the negative consequences would be lost investment, innovation, competition, service and production.

In this study, “**Credit Cards and Small Business: The Benefits, Opportunities and Policy Debate,**” SBE Council Chief Economist Raymond J. Keating highlights key moments in the history of the credit card business, and notes how the modern system works. Keating looks at the “interchange fee,” and helps readers understand the economics of “two-sided markets.” He walks through the facts, the trends, the numbers, and the many benefits to small businesses.

Beyond the fact that credit cards increase sales and are an important financing tool for small businesses, they also guarantee payments and have become a critical instrument for helping entrepreneurs weather the economic recession. Credit cards enhance efficiency for small businesses, and eliminate major costs that would otherwise fall on them if they had to establish their own credit and billing systems. Costs related to potential employee theft are reduced or eliminated with credit cards, and small businesses benefit from the rewards and innovations that credit card companies offer to cardholders. Small business owners should understand that the businesses providing these benefits have every incentive to get the price right, and that government price controls come with many costs and unintended consequences.

The study highlights the harmful downside of government setting prices on interchange fees, and addresses the myths used to advance such interference. The consequences of proposed price controls are also covered. For example, the study notes:

- When government sets prices, service can take a big hit. In this case, fewer cards can be issued, and the benefits of competition can be reduced. Assorted rewards derived by consumers from using their cards can be wiped out. Other card-related fees can be increased for both consumers and merchants.

- In Australia, for example, the impact of price controls has harmed consumers by causing higher cardholder fees and less valuable reward programs. The mandated reduction in interchange fees also has led to reductions in merchant service charges, but merchants have not presented evidence that they are passing those reductions on to consumers.
- Small community banks will also lose if government imposes price controls on interchange fees. Interchange fees – in particular default fees – allow smaller financial institutions to offer card payment services, and therefore, better compete for customers with large banks. If the government steps in to establish price controls, small banks simply lack the resources to negotiate rates with thousands of acquiring banks. These small banks would be placed at a severe competitive disadvantage, and take a hit on their revenues. Many would be forced out of the market, and therefore, choices reduced for consumers and small businesses.
- It must be recognized that interchange fees can and do vary by level of risk. For industries where risk of repayment is much higher, then interchange fees might reflect this. The imposition of uniform interchange fees would mean that merchants would have fewer incentives to protect against fraud, and the additional costs to credit card issuers will be reflected in reduced access to credit cards for many consumers, and increased costs and/or reduced benefits for all consumers.

The study concludes that the track record on government price controls has never been positive, and the potential negatives for interchange fees are numerous. Price controls sound like a simple and reasonable solution to some, but they always come with shifting costs, reduced services and less innovation. The push for price controls via litigation or legislation will only benefit trial lawyers and legislators, while small businesses and consumers will pay dearly. Small business owners who use credit cards as a financing tool for their businesses will get squeezed on several ends -- higher costs to use their card for business purchases, fewer services and less innovation from issuers, and lower sales due to a decreased number of cards in use by consumers.

About the Author

Raymond J. Keating is the chief economist for the Small Business & Entrepreneurship Council. Keating also serves as an adjunct professor at the Townsend School of Business at Dowling College in New York where he teaches graduate and undergraduate courses on innovation and entrepreneurship.

In addition, Keating writes a weekly column for Dolan Media Company publications, including *Long Island Business News*. Keating's analysis and commentary pieces also have appeared in such publications as *The New York Times*, *The Wall Street Journal*, *The Washington Post*, *The Washington Times*, *Boston Globe*, *Newsday*, *Los Angeles Daily News*, and many others.

Keating has testified before congressional and state legislative bodies, and has spoken to groups across the nation on a wide range of economic, policy and small business topics. The media taps him regularly for his views, including print, radio and television (for example, NBC, CNBC, Fox News, Fox Business Network, CNN, PBS, etc.) interviews.

Introduction

How often do people take for granted the businesses they benefit from most? Do they assume that no matter what burdens are imposed on them, these enterprises will always be there, offering everything they did before and do now, with expectations for still more in the future?

Consider the pharmaceutical industry as an example. Businesses – from small, entrepreneurial firms to the world’s largest drug makers – invest large amounts of resources and take on enormous risks trying to bring new medicines to market that will improve or save lives. That’s, to say the least, a valuable service. Nonetheless, there is a presumption among some consumers and various elected officials that people have a right to prescription drugs at certain costs. They believe that prescription drug makers should be limited in the prices they can charge and, therefore, limited in the profits they can earn.

Of course, government-imposed price controls and profit limits greatly curtail incentives for companies to invest. Innovation, therefore, is restricted or may evaporate altogether. The result? The pipeline for new and improved medicines is strangled. Ultimately, consumers suffer. There is a reason why the U.S. has the most vibrant and innovative pharmaceutical industry in the world – unlike most other nations, we do not impose price controls.

Another example is energy. Our homes, vehicles and businesses are driven by fossil fuels. Oil, natural gas or coal truly power our lives and economy. Yet, when the price of oil, for example, rises above certain levels, some people express alarm about the profits that energy companies make, and talk circulates in political circles about imposing a so-called “windfall profits tax.”

But what would result if such a tax were imposed on domestic energy companies? Quite simply, the incentives to invest in and expand domestic energy exploration and production would be diminished, and reliance on foreign sources of energy would be artificially expanded. That’s exactly what happened when a windfall profits tax was in existence from 1980 to 1988.

Prescription drugs and energy are two of the most glaring examples of businesses that have a great impact on everyday life, yet the risks faced by, and the work, costs, and investments undertaken by such enterprises are largely taken for granted, and the economics of the industries simply ignored.

A third example is what this report is focused on, i.e., the credit (and debit) card industry.

As we shall see, most households and businesses reap tremendous benefits from the vast expansion in the use of credit cards in our economy in recent times. Among the key beneficiaries of expanded credit card usage have been small businesses. Those benefits come from credit cards being an important source of financing for entrepreneurs and small businesses, and from credit cards allowing for a vast expansion in the market for the goods and services produced by small businesses.

Nonetheless, given actions in recent years in the courts and in the halls of Congress, it would be pretty easy to conclude that small business owners despise the credit card industry. Indeed, it

might appear that credit card companies, and the banks that they partner with, are out to make life more difficult – in particular more costly – for millions of small businesses across the United States.

Small businesses understandably need to closely track expenses, and cut costs where possible. So, one target that periodically gains attention is the “interchange fee” that a merchant pays when a customer uses a credit card to make a purchase. Naturally, this is another cost of doing business about which some corporate retailers and business owners complain. Many others, of course, understand the necessity of such costs. But going beyond finding ways in the marketplace to deal with these costs, some business groups simply have decided that it is time for the government to do something about forcing credit card companies to reduce interchange fees. In other words, that the government should impose price controls.

It’s another case of the work, costs, investments and risks faced by businesses in an industry being largely taken for granted, and the economics of the industry simply being ignored. Perhaps most bizarre is that various business interests are the ones pushing for this government intervention. These interests, however, probably would be among the first to explain the efficacy of prices, profits and competition in the free market if they were similarly attacked via the courts or legislators. They would be pointing out the ills of excessive and frivolous litigation, and price controls. For example, the business community is largely unified in expressing the need for tort reform. None of these businesses would be too keen on having the courts or lawmakers dictating or capping the prices they could charge for their own goods and services.

If successful in having the government intervene to set prices, and, again, limit profits in the credit card industry, then there will be consequences in terms of lost investment, innovation, competition, service and production. Consumers and small businesses would be made worse off in the end.

The Credit Card Business

Given that various retailers and other interests are leading the charge against the credit card industry, it is ironic to note that retailers started the card payment industry in this nation in an effort to expand sales and boost profits.

The history of the payment card industry is neatly relayed by David S. Evans and Richard Schmalensee in *Paying with Plastic: The Digital Revolution in Buying and Borrowing*. Briefly highlighting some key points would be worthwhile for our purposes.

In the early 20th century, hotels, oil companies and department stores started issuing simple payment cards. Sears began offering lines of credit in 1910 to its best customers, with the Sears card coming along in 1920s. Indeed, various department stores allowed customers to use monthly payment installments by the 1920s. “Metal ‘charge-plates’ with embossed consumer information were introduced by department stores in 1928. During the 1920s as well, oil companies issued ‘courtesy cards’ for charging gas.”ⁱ

But the payment card industry was truly launched in 1950.

As the story goes, Frank McNamara forgot his wallet at a restaurant in 1949, and a year later, “Diner’s Club” was launched by McNamara and Ralph Schneider. At the start, various New York City restaurants were signed up, and cards were distributed freely to select people. By the end of the first year in existence, 42,000 cardholders paid \$18 a year. “And 330 U.S. restaurants, hotels, and nightclubs accepted these cards; they paid an average of 7 percent of the cardholder’s bill to Diners Club... Unlike store cards, Diners Club cards provided a broader medium of exchange – one that extended to at least all merchants in the club.” By 1957, with the cardholder fee for Diners Club at \$26 and the merchant fee still at 7 percent, about 70 percent of the charge card’s revenues came from merchants.”ⁱⁱⁱ (Note: Fees mentioned above are in 2002 dollars.)

The market, of course, generated various competitors. In fact, one year turned out to be critical. California’s Bank of America was the nation’s largest bank, and introduced its credit card in 1958. Different from a charge card, Bank of America offered revolving credit. “By the end of 1959, twenty-five thousand merchants accepted the card and almost two million California households had one.” Wrestling with assorted problems, Bank of America’s card did not earn a profit until 1961.ⁱⁱⁱ

Also in 1958, American Express launched its charge card, with a slightly higher card fee than Diners Club to suggest greater exclusivity, but with a lower merchant fee at 5 percent to 7 percent for restaurants, and between 3 percent and 5 percent for hotels. Profits came by 1962, with 900,000 cardholders and 82,000 merchant locations.^{iv}

Interstate banking regulations made it difficult for Bank of America to compete with cards like Diners Club and American Express, so in 1966, the bank went the route of franchising, i.e., licensing its BankAmericard to banks across the nation and in other nations.^v

MasterCard arrived in 1966, as a cooperative of banks. The franchise model gave way to the cooperative model, with Bank of America converting to a membership-owned cooperative of banks in 1970 as National BankAmericard, Inc., which would later become Visa.^{vi}

In 2006, MasterCard moved to a corporate and ownership structure, going public on the New York Stock Exchange in 2006. Visa completed its reorganization in 2007, with its initial public offering in 2008, with shares also trading on the New York Stock Exchange.

MasterCard and Visa actually do not issue payment cards or contract with merchants to accept their cards. Instead, these firms license their payment brands to financial institutions to perform those tasks. The credit card companies manage global payment and processing systems/networks.^{vii}

As for how the payment card systems work, there are two basic models. MasterCard and Visa operate four-party-payment systems.

- *Issuing banks* market and issue credit cards (i.e., extend credit) and debit cards (i.e., allow consumers to deduct the amount for transactions from their checking or brokerage accounts) to consumers.

- *Cardholders* are the consumers who use credit/debit cards to purchase goods and services.
- *Merchants* accept credit/debit card payments for their products.
- *Acquiring banks* contract with merchants to accept card payments.

A four-party transaction basically involves the following:^{viii}

Step 1: The consumer uses a card to purchase a good or service.

Step 2: The merchant, or acquiring, bank asks the network operator (Visa or MasterCard) for the cardholder's (issuing) bank.

Step 3: The network operator's authorization system validates card security features and forwards to the issuing bank for approval.

Step 4: The issuing bank approves the purchase.

Step 5: The network operator sends approval to the acquiring bank.

Step 6: The acquiring bank sends approval to the merchant.

Step 7: The purchase is completed.

The entire process takes mere seconds.

In this process, the interchange fee is a percent of the transaction amount usually paid by the acquiring bank (i.e., the merchant's bank) to the issuing (cardholder's) bank. The total merchant service charge includes the interchange fee and a small discount fee.

The entire interchange fee goes to the issuing bank, not the network. That is, MasterCard and Visa do not receive revenues from the interchange fee.^{ix}

The Wall Street Journal ("Credit-Card Woes," March 29, 2008) summed it up this way: "Typically, a retailer gets 98 cents on the dollar for a credit-card transaction; the bank that issued the credit card gets most of the remaining 2% in what's called an 'interchange' fee."

In contrast, American Express, for example, operates a three-party-payment system. The operator of a three-party system effectively serves as both issuer and acquirer. Its network reaches directly to consumers and merchants. The company issues cards, enrolls merchants, and processes transactions.

A three-party system has no need to charge interchange fees, and instead, charges merchants a discount fee, which is a percent of the purchase price.

Interestingly, the per-transaction cost that merchants pay under the three-party-payment is notably higher than the cost under the four-party-payment system.

For example, in 2007, Visa’s average interchange rate for all products was 1.62 percent, average interchange for rewards-based credit was 1.89 percent, and average merchant discount for all products was 1.96 percent. Meanwhile, American Express’s average merchant discount was 2.56 percent.^x

This put the average American Express per-transaction merchant discount rate 31 percent higher than the average Visa merchant discount.

Obviously, both consumers and businesses find value in this service, as the growth of payment cards has been nothing less than striking. How people and businesses pay for goods and services has undergone an explosion in competition and change in recent times.

Consider the following points, for example:

- The first year for which the Federal Reserve offers data on consumer revolving credit outstanding is 1968. Revolving credit is mainly about credit cards, along with home equity lines of credit. The growth of consumer credit and the use of revolving credit over the past four decades are illustrated in the following table:

Consumer Credit Outstanding
(millions of dollars, seasonally adjusted)

| <u>Month</u> | <u>Total Consumer Credit</u> | <u>Revolving Credit</u> | <u>Revolving Credit as Percent of Total</u> |
|--------------|------------------------------|-------------------------|---|
| Nov 1968 | \$116,196.05 | \$1,997.21 | 0.0002% |
| Nov 1973 | 189,308.80 | 11,362.28 | 6.0% |
| Nov 1978 | 302,730.20 | 45,040.68 | 14.9% |
| Nov 1983 | 429,977.38 | 76,786.94 | 17.9% |
| Nov 1988 | 729,660.07 | 183,011.11 | 25.1% |
| Nov 1993 | 856,523.42 | 306,564.01 | 35.8% |
| Nov 1998 | 1,408,442.69 | 521,207.79 | 37.0% |
| Nov 2003 | 2,066,643.84 | 766,783.66 | 37.1% |
| Nov 2008 | 2,570,938.84 | 973,532.62 | 37.9% |

From November 1968 to November 2008, total consumer credit increased by over 2,100 percent, including a rise of better than 48,600 percent in consumer revolving credit. Meanwhile, from 1968 to 2008, inflation (as measured by the GDP price deflator) registered about 394 percent, and the U.S. population expanded by 53 percent.

- In a June 2006 paper, James M. Lyon, the first vice president for the Federal Reserve Bank of Minneapolis, reported: “According to recent estimates, 92 percent of households with incomes over \$30,000 hold at least one credit card, with an average for all households of 6.3 cards.”
- “The share of payments that are made electronically in the United States (credit cards, debit cards, and direct payments) grew from 25 percent in 1995 to over 50 percent in 2002.”^{xi}
- In 2003, Americans for the first time used cards – credit cards, debit cards, and others – more than cash and checks to pay for retail goods and services, according to the July 23, 2004, *Wall Street Journal* (“As Cash Fades, America Becomes a Plastic Nation”). *Journal* reporter Jathon Sapsford observed: “By letting consumers buy things with unprecedented convenience and speed, cards have transformed the economy. They have helped keep consumer spending strong even through terror attacks and recessions.”
- “According to e-Marketer, online retail sales in the United States hit \$102 billion in 2006 – an increase of 24 percent over 2005.”^{xii}
- A study from Dove Consulting and the American Banker’s Association found the following breakdown in terms of consumer payments at the point of sale in 2005: 33 percent in cash, 11 percent for checks, 19 percent for credit cards, 19 percent for PIN-debit, 14 percent for signature-debit, and 4 percent in gift/pre-paid cards. That is, cash and checks added up to just 44 percent of consumer payments.

This has been nothing less than a revolution in the way commerce is being conducted, in the U.S. and around the globe.

Small Business and Credit Cards

This revolution obviously has benefited consumers. But small businesses have reaped tremendous rewards as well.

Let’s consider what might be called ...

The Top 10 Benefits for Small Businesses from the Use of Credit/Debit Cards

1) What’s good for consumers is good for small business.

Quite simply, the gains that consumers accrue due to the use of credit/debit cards translate into plusses for the small businesses that sell goods and services to those consumers. Among the benefits for consumers are:

- a) **Consumers are extended unsecured credit to make purchases.** Revolving credit has made gaining access to credit relatively easy. Consumers are able to make purchases – including, for example, covering emergency and major expenses – while being able to make payments that best fit their circumstances. In

addition, it is worth noting that consumers who pay off their credit card balance each month in effect are benefiting from interest-free short-term loans.

b) **Consumers gain in terms of convenience.** A cardholder can access funds at anytime from virtually anywhere in the world in order to pay for goods and services. And what can be paid for with credit/debit cards is expanding by leaps and bounds, from car repairs to health care expenditures to education to virtually everything available via the Internet. Automatic bill payments are a tremendous convenience, eliminating assorted costs and allowing for timely payments. To sum up, according to the Electronic Payments Coalition, “Payment cards are accepted in more than 24 million locations in more than 150 countries.” And those numbers, of course, are growing.

c) **Consumers can achieve increased security.** Consumers are protected against lost cards, theft and fraud. Liability usually is limited due to stolen or lost cards, for example. And consumers have automatic access to large amounts of money, which most would not consider carrying around as cash. Credit/debit cards are simply safer than carrying cash or using checks.

d) **Enhanced financial management is possible.** Cardholders can peruse purchases online, review detailed monthly statements, and manage and plan with the help of annual statements broken down by categories that allow for better management of expenses.

e) **Rewards and innovations enhance the quality of service for cardholders.** Competition and investment offer consumers choice among thousands of issuers of cards, a wide array of innovations, and assorted reward programs, including college savings programs, frequent flier miles, “cash back” programs, and special access to events, for example.

f) **Cardholders can rely on a system for resolving disputes.** When a consumer gets into one of those rare conflicts with a provider of goods or services, he benefits from the saving of time and resources through card services that handle disputes.

2) Helping to finance small businesses.

Credit cards have become a critical tool in expanding small business access to credit. They particularly serve businesses when in need of quick access to funds, and when going through the process of getting a business loan is not a viable option whatever the reasons.

A variety of data, sources and reports have made clear just how important credit cards have become for small businesses, including:

- MasterCard has reported that “more than half of all small businesses in the United States use a credit card for financing.”^{xiii}

- The National Small Business Association’s “2008 Year-End Economic Report,” which surveyed small businesses over the last two weeks of December 2008, had a similar number. It found that 49 percent of small business owners used credit cards to finance their business.

- The August 20, 2008, issue of *Business Week* included a piece by reporter John Tozzi titled “Credit Cards Replace Small Business Loans.” Tozzi noted some important trends:

π “While data on small business borrowing is scattered, indications show that entrepreneurs are increasingly relying on credit cards to finance their businesses, especially early-stage companies. The percentage of firms using credit cards has jumped from 16% in 1993 to 44% today, according to surveys by the National Small Business Association, a trade group.” [And now 49 percent, according to the latest survey noted above.]

π “A Federal Reserve survey showed that the percentage of firms using business credit cards jumped from 34% in 1998 to 48% in 2003. And numbers from the NSBA and the Fed show that between 20% and 30% of all small businesses carry a revolving credit-card balance, rather than paying their bills in full each month.”

π “Over the last decade, credit-card companies have courted small business owners as issuers try to expand beyond the saturated consumer card market. Some 12% of the 6 billion credit-card offers mailed each year promote small business credit cards, according to Mercator Advisory Group, an industry researcher. That’s 720 million offers, or roughly 26 for each small firm in the U.S. ‘As issuers have discovered the small business segment, they have become fairly aggressive about getting small business cards into the hands of some very early-stage businesses,’ says Mercator analyst Ken Paterson. That’s because credit-card companies see small business as a fertile growth market. Visa (V) estimates that total small business spending in the U.S. hit \$4.7 trillion in 2007, but the volume charged on small business payment cards (including debit) is just \$283 billion, according to Mercator’s estimates.”

- A November 28, 2008, story by Brian O’Connell – “As credit lines dry up, small businesses turn to credit cards” – at CreditCards.com updated the numbers on the small business volume of charges: “Small businesses will rack up more than \$300 billion in credit card charges, up from \$140 billion in 2002, according to the TowerGroup, a financial services industry research and advisory firm.”

- In late December 2006, Chad Moutray, chief economist for the U.S. Small Business Administration’s Office of Advocacy, observed that “the small business credit card market continues to be quite dynamic.” The Office of Advocacy at the time reported that small business loans under \$100,000 had increased by 25 percent from June 2004 to June 2005, with most of that increase coming from credit card use by small businesses.

According to the Office of Advocacy’s “Small Business and Micro Business Lending in the United States, for Data Years 2006-2007,” which was released in June 2008, “major business credit card lenders continued to promote small business credit cards.” All business loans under \$1 million are considered small business loans, including those under \$100,000 which fall into the sub-category of micro business loans. Consider the following data from the report:

**Percent Change in the Dollar Amount and Number of Small Business Loans
(Business Loans Under \$1 Million)**

| Loan Size | June 03-June 04 | June 04-June 05 | June 05-June 06 | June 06-June 07 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Under \$100,000 | | | | |
| Amount | -0.5% | 1.9% | 5.5% | 9.4% |
| Number | -11.1% | 24.8% | 0.0% | 13.7% |
| \$100,000-Under \$1 million | | | | |
| Amount | 7.2% | 4.8% | 5.5% | 7.6% |
| Number | 6.6% | 5.0% | 12.8% | 31.8% |
| Under \$1 million | | | | |
| Amount | 5.3% | 4.1% | 5.5% | 8.0% |
| Number | -9.4% | 22.6% | 1.2% | 15.0% |

The dollar amount of micro business loans grew by 9.4 percent over the period of June 2006-June 2007, with the number of those loans expanded by 13.7 percent. The dollar amount percentage increase was the largest over the past four years, while the percent increase in the number of loans was much larger compared to the periods ending June 2004 and June 2006, but not as fast as the 24.8 percent increase in the period ending June 2005.

In the end, credit cards have become central to the financing of small businesses in the twenty-first century.

3) Increased sales for small business.

Small businesses need to meet the demands of consumers, and consumers increasingly are demanding the acceptance of electronic payments, including credit and debit cards. Consumers want more payment options than just cash or checks.

Offering the added options of credit and debit card payments means more customers and increased sales. In addition, when paying with credit cards, small businesses benefit because consumers tend to spend more than when they use cash or checks.

Consider several examples:

- In February 2006, Waffle House announced that it would start accepting credit cards for the first time at its 713 company-owned restaurants after being a cash-only business for more than a half-century. It is expected that more franchise restaurants will start accepting credit cards, with many doing so prior to the announcement. Walt Ehmer, Waffle House vice president, said: “We listen to our customers to find ways to enhance their Waffle House experience, and accepting credit cards was the biggest suggestion we heard... With many in our society not carrying cash, this gives them the convenience of eating with us and then using their credit cards.”^{xiv}

- A January 21, 2001, Business Wire Story (“Good Times Announces Acceptance of Credit Cards”) noted that Colorado-based Good Times Restaurants announced that they would start accepting Visa, MasterCard and Discover in its Colorado restaurants. Scott LeFever, vice president of operations, noted that testing for several months revealed “an increase in our average expenditure without any detriment to our speed of service.”

- A March 5, 2006, article in Mississippi’s *Daily Journal* (“Cashing in on cash-only”) reported that the start up costs of accepting credit cards were not insignificant for some businesses, but also noted the importance of accepting plastic. Mississippi State University economist Meghan Millea pointed out that not taking credit cards costs eateries and other merchants sales and clients. She said: “The idea of having credit cards increases consumers’ liquidity, meaning how easily they can access their money to make expenditures. So, the easier it is for consumers to get access to their money, the easier it is to spend. When those businesses refuse accepting this form of payment, it actually decreases this form of spending. I can see them losing customers who chose this form of payment. It’s probably costing them.”

The *Daily Journal* article concluded: “Larry Wade, manager of Tupelo’s Danver’s, estimated that for every \$4,000 or \$5,000 in sales, he’ll be charged \$100 to \$150 [in transaction fees]. But those are costs that many ... are willing to pay. They say the potential for bigger sales and more customers will boost the bottom line, and, one day, they hope to fully recover their investment. In the six months since Wade went to plastic, he has already seen increased sales. On Tuesday, ‘we took in \$1,200 in credit and debit cards – that’s 22 percent of sales,’ Wade said. ‘There’s a guy who comes in now and says, I come by more often now because you do take credit and debit cards. You know there are others out there who just haven’t said anything but it’s the same thing.’”

- Merrill Lynch’s 2005 Q1 Earnings Report on McDonald’s noted: “Wendy’s has stated that the average bill for a customer paying with a credit card is approximately 35 percent higher than the average bill for a customer paying with cash. And Sonic, which recently rolled out credit cards to some of its locations,

experienced an increase of two percent in sales for stores that offered credit cards, versus those that did not.”^{xv}

- More vending machines are accepting payment by credit card and debit card, with vending machine operators seeing not only appreciation from consumers but also increased sales volume. “By accepting a preferred method of payment, vending machines are able to rack up higher sales. Data from Automatic Merchandiser Magazine showed that the number of vending machines that take plastic increased to 3.2 percent of machines from 2 percent of machines from 2004 to 2005,” while research from USA Technologies, which develops such payment options for vending firms, points to consumers spending “32 percent more per vending purchase with credit cards and debit cards than with cash and coin transactions.” For good measure, “data from 1,100 vending machines between July 2006 and September 2006 showed that the more expensive an item, the greater the use of credit cards and debit cards.”^{xvi}

- As reported by Lisa Rogak at CreditCards.com (“Many airlines now accepting plastic for in-flight purchases,” August 4, 2008), “Many airlines that, for decades, accepted only cash for onboard purchases recently have begun to accept credit cards. Some are even going one step further and refusing to accept cash at all. Given that some airlines now charge passengers for soft drinks and even water, many who rely on credit cards welcome the news. ‘It removes the burden of remembering to withdraw cash for the trip,’ says Robb Walters of Seattle, a frequent flier who rarely carries cash. ‘I also receive miles for the transaction on my credit card.’ In addition, paying with plastic allows him and other business travelers to track and record their expenses for reimbursement and tax purposes more easily.”

The story went on to note direct benefits for airlines beyond the convenience factor for passengers: “There's another benefit for the airlines: Accepting credit cards onboard probably generates more revenue, since people tend to spend more when they use a credit card no matter where they are.”

In addition, when it comes to credit card transactions, issuing banks pay the acquiring bank, which in turn pays the merchant long before the consumer even gets a credit card bill. If businesses had to extend credit to customers themselves, they would have to deal with not getting full payments for days, weeks or longer.

4) Guaranteed payments for small businesses.

Once a transaction with a credit card is approved, the merchant is guaranteed payment. That is a significant benefit, especially given the risks involved with extending credit to consumers.

The following table, for example, presents the delinquency rates (i.e., number of loans with delinquent payments as a share of total loans) and charge-off rates (i.e., loans determined to be

uncollectible as a sharer of total loans) for consumer credit card loans. (Source: The Federal Reserve)

Consumer Credit Card Loans: Delinquency Rates and Charge-Off Rates

| Quarter | Delinquency Rate | Charge-Off Rate |
|---------|------------------|-----------------|
| 2000:1 | 4.39 | 4.62 |
| 2000:2 | 4.51 | 4.24 |
| 2000:3 | 4.53 | 4.29 |
| 2000:4 | 4.56 | 4.70 |
| 2001:1 | 4.80 | 4.77 |
| 2001:2 | 4.95 | 5.24 |
| 2001:3 | 5.00 | 5.25 |
| 2001:4 | 4.69 | 6.43 |
| 2002:1 | 4.94 | 7.85 |
| 2002:2 | 4.79 | 6.27 |
| 2002:3 | 4.89 | 5.94 |
| 2002:4 | 4.85 | 5.63 |
| 2003:1 | 4.68 | 5.77 |
| 2003:2 | 4.53 | 6.11 |
| 2003:3 | 4.23 | 5.40 |
| 2003:4 | 4.43 | 6.07 |
| 2004:1 | 4.21 | 5.38 |
| 2004:2 | 4.15 | 5.39 |
| 2004:3 | 4.06 | 4.67 |
| 2004:4 | 4.04 | 4.71 |
| 2005:1 | 3.71 | 4.63 |
| 2005:2 | 3.66 | 4.35 |
| 2005:3 | 3.88 | 4.33 |
| 2005:4 | 3.54 | 6.05 |
| 2006:1 | 3.88 | 3.13 |
| 2006:2 | 4.13 | 3.52 |
| 2006:3 | 4.09 | 3.87 |
| 2006:4 | 3.95 | 4.03 |
| 2007:1 | 4.03 | 3.93 |
| 2007:2 | 4.01 | 3.85 |
| 2007:3 | 4.35 | 4.05 |
| 2007:4 | 4.59 | 4.15 |
| 2008:1 | 4.85 | 4.70 |
| 2008:2 | 4.88 | 5.47 |
| 2008:3 | 4.79 | 5.62 |

This data reveals a substantial business risk that is removed from the backs of small businesses, and taken on by credit card issuers.

5) Weathering Economic Storms.

Small businesses have taken two major hits recently. First, the economy slipped into recession in December 2007, and this promises to be a lengthier and deeper recession than what is typical in

the post-World War II era. Second, due to both the housing mess and the down economy, credit has tightened.

Consider the following as reported from the Federal Reserve's latest survey (January 2009) of senior loan officers on banking lending practices:

- “About 65 percent of domestic banks reported having tightened lending standards on commercial and industrial (C&I) loans to large and middle-market firms over the past three months. This percentage was down from the reported tightening in the October survey but still above the previous peaks reported in 1990 and 2001. At about 70 percent, the fraction of domestic respondents that tightened standards on C&I loans to small firms was only slightly lower than that found in the October survey. Significant majorities of domestic respondents indicated that they had further tightened price terms on C&I loans to firms of all sizes over the past three months.”
- “U.S. branches and agencies of foreign banks also tightened their business lending stance further over the past three months. About 65 percent of foreign institutions, a slightly smaller percentage than in October, indicated in the January survey that they had firmed their lending standards on C&I loans.”
- “All domestic and foreign respondents pointed to a less favorable or more uncertain economic outlook as a reason for tightening their lending standards and terms on C&I loans over the past three months. Most respondents indicated that a worsening of industry-specific problems and their bank's reduced tolerance for risk were also important factors in their decision to tighten C&I lending policies. In contrast, only about 25 percent of the domestic respondents that had tightened standards or terms noted that a deterioration in their bank's current or expected capital position had contributed to the change, in comparison with approximately 40 percent in the October survey.”
- “On net, domestic banks reported that they had reduced the size of existing credit lines for all major types of business and household accounts. Regarding existing accounts for businesses, roughly 60 percent, on balance, reported a decrease in the limits on commercial construction lines of credit, about 50 percent indicated a decrease in the limits on credit lines extended to financial firms, about 30 percent indicated a decrease in credit limits on business credit card accounts, and roughly 25 percent noted a decrease in the size of C&I credit lines. On net, large fractions of foreign banks also decreased limits on commercial construction lines of credit, credit lines extended to financial firms, and C&I credit lines.”

A *New York Times* story on October 1, 2008 (“Brother, Can You Spare a Loan?” by J. Alex Tarquinto) noted how this climate has affected SBA-backed loans: “[T]he number of new loans backed by the federal Small Business Administration has dropped sharply over the last year. For example, the number of loans backed by a major federal loan-guarantee program fell 30 percent over the last 12 months. The average size of the small-business agency loans went up, though,

because most of the shortfall had come from smaller loans. Bank loan officers — not the government — make lending decisions for all Small Business Administration-backed loans, so the federal agency does not have data on whether tighter lending standards or a decline in applications led to this trend. But Eric Zarnikow, the associate administrator for the office of capital access at the Small Business Administration, said it was probably a little of both. ‘When we talk to loan officers, we are consistently hearing that demand is down,’ Mr. Zarnikow said. ‘They are saying that small-business owners are less willing to take on additional debt, and the borrowers who do come to us are less creditworthy.’”

All indications are that credit has only tightened further since the Fed survey and this *Times* report, coupled with a decline in the demand for loans.

In such an economic and credit climate, small businesses often turn to credit cards to help keep their businesses functioning. Just consider a few examples:

- A CreditCard.com story (“As credit lines dry up, small businesses turn to credit cards” by Brian O’Connell) on November 12, 2008, reported:

“‘I have no qualms about using credit cards to run our business,’ says Mitch Frankenberg, co-founder of the Paw House, a Vermont resort catering to dog owners and their pets. ‘Right now, banks are scared and have tightened up. We use credit cards because they have more favorable terms than our credit line.’ ...

“Paw House's Frankenberg says it wasn't overly difficult finding decent credit card deals when expanding his business with a second location in West Dover, Vt. ‘We purchased an entire inn near Mt. Snow that was twice as big as our first facility,’ he says. ‘We'd had a great relationship with our bank, so that wasn't an issue. If you're smart, credit cards are a great way to create reserves for expansion. It's not like 2002. Promotional rates have really dried up, but the financial conditions attached to his new cards were better than expected,’ he says. ‘I got a \$25,000 credit card deal from one lender, and I can live with the interest rate. The key was doing my homework and finding the best deal, and that takes time,’ he says...

If small business owners can learn how to read the fine print, manage their debt expectations and shop for good deals, using a business credit card needn't be a painful luxury. ‘Credit cards for business owners are like baseball cards for kids -- it's nice to have a collection of them to use if you need them,’ says Frankenberg.”

- A CNNMoney.com story (“Cash crunch: small businesses get creative” by Stacy Crowley) on October 3, 2008, noted:

“A more conventional - and expensive - option for cash-strapped business owners are credit cards. Husband-and-wife team Jeff Smith and Carmen Cosby are juggling a stack of them to cobble together the cash they need for You are my

Sunshine, a maternity boutique and childbirth education center they opened in Wilmington, N.C., last year.

“Smith and Cosby pitched several banks to no avail, so they turned to low-interest cards and temporary 0% deals, pulling together the \$50,000 they needed to open their store. Now, a year and a half later, they're struggling to keep up with rising interest rates. Although they've never missed a payment, some of their rates have crept up past 18%.

“‘We calculated that we could pay a 10-year, \$200,000 loan at 10% for less money than we're paying per month now,’ Smith said. ‘All of our profit right now is going to pay off the interest.’ That's taking its toll on the business. Carmen Cosby's mother and sister moved to Wilmington last year to help Smith and Cosby with You are my Sunshine, but the couple recently sent their relatives back to New York: ‘We couldn't afford to keep them here,’ Smith said.

“The credit crisis isn't just holding back new businesses, it's hurting the prospects for existing outfits. That's what's happening at OC Surf 'n Sport, a Dana Point, Calif., bodyboarding gear business Eddie Solomon started in his garage five years ago.

“In January, Solomon caught his big break: a major sporting-goods retailer placed an order for Solomon's bodyboards. He took out a \$25,000 credit line at a local bank to finance production, delivered the goods to his customer in March, and paid off the credit line at the end of June. The boards sold well, and another big order came in - but when Solomon went to tap his credit line again, he found it was gone.

“Frustrated, Solomon is saving up his cash and expects to rely on credit cards to finance the rest of the order. ‘Hopefully those credit lines will hold up,’ he said. ‘I'll just have to deal with the very high interest rates.’”

- In the October 10, 2008, *U.S. News & World Report*, Matthew Bandyk reported (“Credit Card Financing by Small Businesses Gets Crunched”):

“If lower limits prevent them from borrowing enough money to finance basic operations, what can small-business owners do? One strategy might be to simply open up new credit card accounts. If you're in otherwise healthy financial standing, this could be advantageous—if the new cards open you up to more credit than you need, the unused credit will make you look like a less risky borrower. But if you're opening new accounts as an act of desperation, you are probably not going to have credit left over. That means you could be digging yourself a deeper hole by adding new cards. ‘The more you put yourself out there, the worse your credit score gets,’ says Jerry Silberman, founder of Corporate Turnaround, a firm that helps businesses get out of debt.”

6) Eliminate major costs that would otherwise fall on small businesses.

The acceptance of credit/debit cards relieves merchants of fundamental and formidable costs.

Think about the costs involved if businesses still had to offer lines of credit to their customers, including credit risks, billing and collections, additional customer service, protecting against fraud (data breaches, lost or stolen cards, etc.), designing and operating data processing systems, complying with regulations from the local to the federal levels, and undertakings to gain new cardholders to make the endeavor worthwhile.

Those are significant costs. Small businesses benefit enormously from these services being performed by the credit card industry at costs far lower than businesses could ever achieve themselves.

7) Enhance efficiency and cost savings for small businesses.

The use and acceptance of credit cards allows small businesses to better manage expenses and track purchases. In addition, there are time and efficiencies lost when employees are counting change, waiting for customers to get the right amount of bills and change or write checks, handling and counting cash and checks, and delivering cash and checks to banks. As a result, credit card acceptance is expanding, with some businesses even going cashless.

Consider the following examples:

- An NPR “Morning Edition” report (“Plastic Only: Café Refuses to Accept Cash”) on October 11, 2006, noted: “It’s been over five months since [café] owner Margarita Uricoechea decided to stop taking cash. It might seem drastic, she says, but it’s made her life a lot easier. She rarely goes to the bank now and doesn’t worry about having to make change.”^{xvii}
- In a December 22, 2006, article in the *Kansas City Star* (“Spending Money with a Swipe”) reported: “‘Obviously we love it, because we like to think our reputation is we do get you in and out very quickly, and the consumer expects that, and they like it,’ said Mike Thornburgh, spokesman for QuikTrip. ‘It doesn’t slow us down during transactions, and it saves a ton of storage space. You always have electronic copies, you don’t need a paper copy.’”^{xviii}
- The November 17, 2003, issue of *Business Week* reported: “In some markets, cable giant Cox Communications Inc. persuaded up to 20% of its 6.3 million subscribers to pay with plastic and found that renewals jumped. ‘There was no need for any other incentive programs,’ says Warren Jones, director of competitive strategy and customer retention at Cox.”
- A report (“Visa helps turn friendly skies into no-cash zones” by Mark Calvey) from the July 11, 2008, *San Francisco Business Times*, also noted that airlines increasingly are adopting a policy of only accepting credit or debit card payments from passengers. The airlines include Virgin America, JetBlue, Hawaiian Airlines, Midwest Airlines and Sun Country Airlines. The *Times* noted: “Payment by debit or credit card is convenient for passengers and more efficient for airlines, which no longer have to worry about handling cash and the related security issues, or the

need to make change for the growing assortment of items for sale on board that were once complementary. 'We've had an incredibly positive response to the ease-of-use of the credit card swipe at each seat,' said Virgin America spokeswoman Abby Lunardini."

The article mentioned earlier on airlines accepting credit cards for onboard purchases by Lisa Rogak at CreditCards.com noted direct benefits for airlines beyond the convenience factor for passengers: "In-flight credit-card acceptance is also good news for the airlines, according to Peter Nicas, CEO and founder of ProfessionalTravelGuide.com, an online travel and trip planning resource. 'Accepting only credit cards takes away the burden of managing large amounts of cash,' he says. 'In addition, handheld wireless credit card machines typically take less time to run than cash transactions.'"

- An August 29, 2007 article ("Restaurant in Oregon Decides Cash Is Too Much Trouble") in the *Credit Union Times*, it was noted that David Hatfield, owner and operator of Café 3456 in Bend Municipal Airport in Oregon, decided that he would no longer accept cash. It was reported: "Hatfield said he had made the switch for a number of reasons. Since his restaurant is about 10 miles outside of Bend, he couldn't make the run to the bank every day to deposit the cash, he said. In addition, with minimum wage in Oregon running at \$8.00 per hour it didn't make sense to keep paying servers to count out the shifts take each afternoon. 'Cards just helped make things a whole lot simpler,' he said."

8) Improved security for small businesses.

Small businesses also eliminate the costs related to employee theft when it comes to accepting credit/debit card transactions. Again, examples from real small businesses make the point clearly:

- The October, 11, 2006, NPR "Morning Edition" report about a café going cashless also noted that "the credit card policy has solved other major problems she faced as a small business owner: how to keep large amounts of cash safe and how to trust employees with her café when she can't be there herself."^{xix}

- The July 11, 2008, *San Francisco Business Times* article about airlines increasingly are adopting credit or debit card payments from passengers noted the security advantages. The August 4, 2008, CreditCards.com did so as well: "Liz Mendel, president of Dolphin Travel, a full-service travel agency in Oakland Park, Florida, thinks there's another reason why credit card acceptance is on the rise in the skies. It's called 'shrinkage,' and it happens when, for example, a flight attendant takes \$6 in cash for a glass of red wine, puts \$5 in the cash drawer and then puts \$1 in his or her pocket. 'It makes sense for the airlines because the 'shrinkage' that can take place when cash is handled will be minimized,' she said."

9) Exports, international growth, and opportunities for entrepreneurs

In March 2008, the U.S. Department of Commerce's International Trade Administration published a report titled "Credit Card Market: Economic Benefits and Industry Trends." This report made the following key points that cover the U.S. and other nations:

- Electronic payment, including credit, debit and other electronic instruments for payments from consumers to merchants, “improve economic inefficiencies, make payments more secure and convenient, and, as a corollary to the lessons learned from microfinance, provide the impetus for further economic and social development.”
- “The development of an electronic payments system enlarges the consumer market and boosts the purchase of U.S. exports, particularly in the e-commerce and travel and tourism sectors.”
- “An analysis of credit card penetration data shows a moderate correlation between credit cards per capita and exports per capita, which is higher than the correlation between GDP per capita and exports per capita. Also a moderate correlation exists between changes in credit card penetration and exports. Although it is likely that both credit card penetration and exports between 1998 and 2005 were affected by economic growth in GDP, that analysis suggests that the development of electronic payments markets has important implications for further economic and trade opportunities for U.S. businesses.”
- “Electronic payment networks have the potential to provide cost savings of at least 1 percent of GDP annually over paper-based systems through increased velocity, reduced friction, and lower costs.”
- “Credit cards are one of the most reliable sources of start-up funds for new entrepreneurs. Unlike bank loan officers, private angel investors, or government lending programs, credit cards offer a simple and rapid access to capital that has helped a significant number of U.S. entrepreneurs establish new businesses. In addition, factoring future credit card receipts for short-term capital needs is a valuable option for many small businesses. The small and medium-sized enterprise sector in emerging countries, which typically has difficulty assessing financing, could benefit from that alternative financing source.”

The implications for U.S trade are clear. What might not be so clear to many is how important trade is to U.S. small businesses. According to the SBA’s Office of Advocacy, 97 percent of U.S. exporters are smaller firms with fewer than 500 employees.

10) Rewards and innovations benefit small businesses.

Just as is the case with their customers, small businesses benefit from the rewards offered to cardholders. As noted earlier, rewards and innovations enhance the quality of service for cardholders. Competition and investment offer choices among thousands of issuers of cards, a wide array of innovations, and assorted reward programs, including college savings programs, frequent flier miles, “cash back” programs, and special access to events.

Understanding the Economics

In order to survive and hopefully thrive in the marketplace, a business must serve its customers well. The business must provide the right value at the right price.

Credit and debit card systems operate in what is known as “two-sided markets.” What does that mean? Well, in essence, credit card companies serve two sides of a market, and must get prices and services right on each side of that market in order for everyone to thrive. The interchange fee is the price used to balance this market.

Charge acquiring banks, and therefore, merchants, too much, and the risk increases that businesses will stop accepting credit and debit cards. Similarly, if costs are too high for consumers, they’ll choose other payment options.

Interchange rates can even be set too low. If the government imposes price controls, for example, profits are limited and then innovation and investment are reined in, with both consumers and businesses suffering accordingly.

In addition, it needs to be understood that a default interchange fee is needed by system operators like Visa and MasterCard because of the enormous costs that would be involved in negotiating individual agreements between thousands of issuing and acquiring financial institutions. Particularly for smaller financial institutions, a system without a default interchange fee would not be cost effective or workable.

Two economists - David S. Evans of LECG Europe and Richard Schmalensee, dean at MIT's Sloan School of Management - presented a fascinating paper at a Kansas City Federal Reserve conference on interchange fees in Santa Fe in May 2005.^{xx} The paper is worth highlighting here for its humility. After reviewing the extensive economic literature on two-sided markets and interchange fees, they essentially acknowledged that economists do not know what the ideal, or "socially optimal," interchange fee is, nor do regulators have anyway of knowing.

In addition, Evans and Schmalensee declared: “Since regulation is a blunt policy instrument in practice, unless there is substantial market failure there is scant chance that regulation will reliably improve matters. And unless there is a known, practical regulatory rule that, if followed, is reasonably certain to improve performance, it is likely that regulation will be on balance harmful.”

For good measure, the authors noted that "the global movement toward privatization, deregulation, and incentive regulation reflected an emerging consensus that even in these near-textbook cases, [that is, network public utilities like water, electricity, telephone and gas,] economic welfare was in practice not reliably improved by government ownership or price regulation. Politics inevitably intrudes into government price-setting, for instance, and limitations on profit rates tend to lead to waste and inefficiency.”

Evans and Schmalensee concluded: “There is no apparent basis in today's economics - at a theoretical or empirical level - for concluding that it is generally possible to improve social welfare by a noticeable reduction in privately set interchange fees. Thus, if antitrust or other regulators had to show that such intervention would improve welfare, they could not do so.”

When assessing the issue of interchange fees, it also is critical to keep in mind that the payments market is competitive, offering consumers and merchants a variety of options. And competition is expanding.

Choices exist among a wide array of payment options and services, including Visa, MasterCard, Americans Express, Discover, PayPal, Debitman, Google Checkout, STAR, NYCE, Accel, China UnionPay, JCB, NETS, the Euro Alliance of Payment Schemes, Revolution Money, Tempo, Amazon, thousands of card issuers – and, oh yes, cash and checks.

Finally, the role of profits is critical to keep in mind. The profits made in the credit card industry encourage the expansion of cardholders and merchants in the network, as well as investment and innovation, which in turn benefit both consumers and businesses. As with other businesses, credit card companies and banks have every incentive to get the price right for their services so as to maximize their profits. Again, set interchange fees too high and businesses will not accept the cards; set them too low and fewer cards are issued. Prices and profits also act as signals in the marketplace to spur competition.

In the end, the goal is to maximize benefits for all parties involved.

Policy Proposals

Given the understandable need to reduce costs, as noted earlier, various business interests have pushed an agenda through the courts and through proposed legislation to have the government intervene in the credit card industry. In particular, these entities are looking for the government to set interchange fees.

Merchant groups brought lawsuits against Visa, MasterCard and assorted banks in late 2005, which were amended and consolidated in April 2006. The complaint is that MasterCard, Visa and the banks are violating antitrust laws. An April 2006 press release from the National Association of Convenience Stores asserted: “The complaint alleges that Visa and MasterCard are able to set these fees without apparent respect to the typical market forces.”

Brian W. Smith, Abbot B. Lipsky, Jr., Andrew J. Robinson and William J. Rinner recently laid out a brief history of interchange fee litigation in a late 2008 analysis.^{xxi} Key points:

- “As the sheer volume of credit card transactions increased, merchants began to target interchange fees, challenging them as a form of illegal price fixing. In 1984, a federal district court rejected this challenge in *National Bancard Corp. v. Visa U.S.A., Inc.* (‘NaBanco’) and was upheld on appeal. The court ruled that interchange fees determined by the association of banks comprising the membership of the Visa credit card system – as opposed to individual bargains being struck between each issuing and merchant bank – did not constitute an unreasonable restraint of trade.”
- “The Ninth Circuit in *Kendall v. Visa U.S.A., Inc.* recently affirmed a lower court’s dismissal of merchant claims that credit card companies and banks violated the Sherman Act by conspiring to fix interchange fees by charging or adopting fees set by the association managing the card

network. Noting gaps in the merchants' theory of price-fixing conspiracy, the court recognized the establishment of minimum fees as little different from how 'the cost of eggs set a floor for the price of an omelet on the menu' and that '[t]his behavior suggests a rational business decision, not a conspiracy.'"

- In the most recent suits brought against MasterCard and Visa, consolidated in the Eastern District of New York, the "merchants again complain Visa, MasterCard and their member banks conspired to set interchange fees at 'supracompetitive levels in violation of the federal antitrust laws.' Plaintiffs allege that interchange fees cost every American household approximately \$232 a year in 2004."

Others have asserted that interchange costs hit the average family for \$378 in 2007, compared to \$159 in 2001.^{xxii} The National Retail Federation and other groups claim that consumers paid \$42 billion in interchange fees in 2007.^{xxiii}

Again, though, the action does not stop with the courts. Legislation has been pushed as well.

In 2008, for example, the "Credit Card Fair Fee Act" was introduced by House Judiciary Committee Chairman John Conyers (D-MI) and Rep. Chris Cannon (R-UT). The bill would have done two things. First, it would waive antitrust laws to allow merchants to band together in order to negotiate interchange fees with credit card companies and issuers. Second, if an agreement was not reached, three Electronic Payment System Judges, appointed by the Department of Justice and the Federal Trade Commission, would dictate rates and terms for three years. A press release from Conyers' office declared: "The judges will apply a market standard in their determinations designed to replicate the rates and terms of payment that would have been negotiated in a competitive marketplace between a willing buyer and willing seller, both of which have no market power."

William M. Sheedy, global head of Visa's corporate strategy and business development, noted that the Credit Card Fair Fee Act applied only to electronic payment networks with at least 20 percent market share, thereby excluding American Express and Discover Financial Services.^{xxiv}

The Credit Card Fair Fee Act was approved by the House Judiciary Committee by a vote of 19 to 16 in July 2008 – ten Democrats and nine Republicans voting in favor, with eight Democrats and eight Republicans opposing. But the bill was amended to exclude the three-judge panel that would set interchange fees, and to include the Department of Justice's Antitrust Division overseeing negotiations and mediation. Boycotts would not be allowed during negotiations and merchants would be required to pass along savings to customers or employees.^{xxv}

Consumer groups, such as the Consumers Union and the Consumer Federation of America, are in the mix as well. They are looking for the government to reduce over-limit and late fees, to ban marketing to people under 21, and to reduce or cap debit card transaction fees.^{xxvi}

The Negatives of Government Interference

In the April 2008 NPN Magazine, Richard Oneslager, president of Balmar Petroleum and chairman of the National Association of Convenience Stores, was quoted: “As entrepreneurs and businessmen, we want market based solutions to our issues. The Credit Card Fair Fee Act is the free-market solution to the battle over interchange rates.”

Of course, reality reveals the exact opposite. The interests pressing for government price controls in interchange do not want a “free-market solution” on interchange. They instead want government to overrule the market to impose their desires.

Fundamental economics and a proper understanding of the credit card industry reveal that the arguments, court cases, and legislation being peddled by those looking to impose government price controls on the credit card industry make no sense, and will have negative effects on consumers, merchants, and the businesses and employees within the industry.

Let’s consider the main charge, i.e., that MasterCard, Visa and banks are somehow violating antitrust laws.

Too often when antitrust litigation and regulation are inserted into the marketplace, the relevant market is generally defined quite narrowly in order to make the case that antitrust action is warranted. In the case of payment cards and interchange fees, this regularly occurs.

Consider the following assessment of the market by Brian W. Smith, Abbot B. Lipsky, Jr., Andrew J. Robinson and William J. Rinner:

“Three forms of competition operate in the credit card payment industry: (1) competition for consumer credit card subscriptions (consumers may hold multiple credit cards); (2) competition for participation in card systems (merchants may accept multiple cards); and (3) competition among networks at the system brand level itself, where networks advertise their benefits and discounts, such as cash back on transaction. This competition already benefits consumers, impelling card companies to innovate and provide benefits and services as the lure to use one card over another.”

The authors are quite correct in noting that the level of competition cited benefits consumers, and boost companies to innovate and improve service. But the actual level of competition is far more expansive.

As noted earlier, a study from Dove Consulting and the American Banker’s Association regarding consumer payments at the point of sale in 2005 found the following breakdown: 33 percent in cash, 11 percent for checks, 19 percent for credit cards, 19 percent for PIN-debit, 14 percent for signature-debit, and 4 percent in gift/pre-paid cards. This is the proper market definition that we should be looking at when assessing monopoly or so-called monopoly power in the payments market. Obviously, this is a competitive and dynamic market. Just consider the

number of competitors at work within each payment method noted, except, that is, for government being the sole supplier of cash.

In addition, since MasterCard and Visa do not actually receive interchange fee revenues, it is hard to say that those companies have an incentive to increase interchange fees to some anti-competitive levels. To the contrary, the incentives for MasterCard and Visa are to set the default interchange fees at levels that maximize the use and acceptance of their cards. That is, they want their cards carried by as many consumers as possible, and accepted by as many businesses as possible. Set those fees too high, then merchants will stop accepting those cards.

Both Visa and MasterCard point out that the average interchange rate on a per transaction basis has essentially remained steady in recent times. MasterCard has reported: “Interchange rates have risen slowly (1.9% since 1990 – well below the rate of inflation).”^{xxvii} Similarly, “Visa’s average interchange on a per-transaction basis has decreased over the past thirty years and has remained steady over the last ten years.”^{xxviii} Meanwhile, they both have noted that total interchange fee revenues have risen because more merchants are accepting and consumers are using credit/debit cards to make purchases.

Interestingly, MasterCard has reported that their system’s average interchange rate in 2007 was 1.82 percent, while average credit losses for MasterCard credit card issuers as a percent of transaction volume registered 2.41 percent.^{xxix}

In addition, a glaring and telling question must be asked: If Visa and MasterCard hold some degree of monopoly power, why are their average merchant discount fees – including interchange – lower than what is charged by American Express? In a land lacking competition, this simply should not be.

To support government interference, some also have argued that interchange fees are higher in the U.S. than in other countries. However, as an April 2005 report from the Aite Group noted, interchange is only part of the story. Total merchants service charges in the U.S. actually rank among the lowest for key industrialized nations.

As noted in the Introduction to this paper, the track record on government price controls is not pretty. The potential negatives of government price controls over interchange fees are numerous.

When government sets prices, service can take a big hit. In this case, fewer cards can be issued, and the benefits of competition can be reduced. Assorted rewards derived by consumers from using their cards can be wiped out. Other card-related fees can be jacked up for both consumers and merchants.

Brian W. Smith, Abbot B. Lipsky, Jr., Andrew J. Robinson and William J. Rinner point out: “Even if merchants pass on the price of interchange fees to consumers, cardholders using their networks receive benefits directly stemming from the interchange fee revenues collected by the issuers. Reducing the interchange fee would likely allow merchants to reap a larger portion of the profits derived from their access to card networks, but consumers would receive fewer benefits from card issuer innovation.”^{xxx}

We have interesting, but completely predictable results regarding credit card industry price controls from Australia.

In 2003, the Reserve Bank of Australia (RBA) implemented various regulations for the payment card industry. The key measure was price controls on interchange fees. The RBA imposed a 50 percent reduction in interchange fees (from an average of 0.95% to 0.50%), while also lifting prohibitions on merchants being able to impose surcharges for the use of payment cards.^{xxxii}

An April 2008 study by CRA International of London looked at the impact of the RBA's regulations. This report found the following:^{xxxii}

- “The reductions in interchange fees ordered by the RBA have clearly harmed consumers by causing higher cardholder fees and less valuable reward programmes.”
- “As expected, the reductions in interchange fees have led to reductions in merchant service charges. Merchants however have not presented any empirical evidence documenting the extent to which reductions in merchant service charges have been passed through to consumers, and neither has the RBA or anyone else.”
- “While the RBA's regulations have clearly benefited merchants, they have harmed consumers by causing cardholder fees to increase and the value of card benefits such as reward programmes to decline. Consumers have also been harmed to the extent the reduction in the profitability of issuers caused by the RBA's regulations has reduced incentives to invest in new types of cards and payment system innovations.”
- “The RBA believed that interchange fees were causing a distortion in the payment system (a) because they believed that, on an incremental cost basis, credit card transactions were more costly in resource terms than ... debit card transactions and (b) because they believed that interchange fees were having significant effects on consumers' choices of payment methods. The empirical evidence does not support either leg of the RBA's case for intervention.”

In a May 2008 report, the Government Accountability Office (“Credit and Debit Cards: Federal Entities Are Taking Actions to Limit Their Interchange Fees, but Additional Revenue Collection Cost Savings May Exist”) also found: “Several countries have taken steps to lower interchange rates, but information on their effects is limited. Among the three countries GAO examined, regulators in Australia and Israel intervened directly to establish limits on interchange rates, while Mexico's banking association voluntarily lowered some rates. Since Australia's regulators acted in 2003, total merchant discount fees paid by merchants have declined, but no conclusive evidence exists that lower interchange fees led merchants to reduce retail prices for goods; further, some costs for card users, such as annual and other fees, have increased. Few data exist on the impact of the actions taken in Mexico (beginning in 2004) and Israel (beginning in the late 1990s). Because of the limited data on effects, and because the structure and regulation of credit and debit card markets in these countries differ from those in the United States, estimating the impact of taking similar actions in the United States is difficult.”

In September 2008, the RBA reportedly declared that if the credit card industry could come up with another way to set interchange rates they deem fair and competitive, the RBA might remove the interchange cap, with the threat looming that the RBA will decide in August if the cap will be reduce further to 0.3 percent of the sale.^{xxxiii}

There promises to be negative fallout elsewhere as well, including another group of small businesses.

Small community banks will lose out. Interchange fees – in particular default fees – allow smaller financial institutions to offer card payment services, and therefore, better compete for customers with large banks. If the government steps in to establish price controls, small banks simply lack the resources to negotiate rates with thousands of acquiring banks. These small banks would be placed at a severe competitive disadvantage, and take a hit on their revenues. Many would be forced out of the market, and therefore, choices reduced for consumers and small businesses.

Consider various reports regarding the consequences for small financial institutions:

- At an Iowa bankers gathering in July 2008, Larry Winum of Glenwood State Bank said the following to U.S. Rep. Steve King (R-IA) regarding the impact of the Credit Card Fair Fee Act: “I contacted your office on this and your staff says we are trying to protect the small business man. I said that is what community bankers are. We are small business people. We have to be put in this formula with the small business person. It just looks like this particular bill is going to favor people like the Wal-Marts, and we are going to be at the mercy of whatever they come up with. And if you think we are going to be able to negotiate with Wal-Mart and every other retailer out there, it’s just not going to happen.”^{xxxiv}
- Reporter Stacy Kaper noted the following in the February 21, 2008, issue of *American Banker* (“Interchange Limits Heat Up on Hill”): “Community bankers are also worried. ‘The fact is, many community banks run their credit card business for very little profit, and some even run it at a loss, and the only way they can sustain that when they are scraping by with that narrow margin is with the incentive of interchange being there,’ said Jason Kratovil, a lobbyist for the Independent Community Bankers of America.”
- In the November 4, 2008, *American Banker*, reporter Michele Heller provided an extensive analysis of how small banks would be hit by the government getting involved in setting interchange fees. It’s worth noting the following here:

π “Credit and debit cards generate little profit for most community banks, so if interchange rates are reduced as a result of legislation moving through Congress, many could exit the credit card business and restructure their debit-linked checking accounts. ‘I would be out of the credit card business, which already is not a money-maker for me, but is there as a service to customers,’ said John Buhrmaster, the president of the \$308 million-asset First National Bank of Scotia in New York. ‘I would have to keep debit cards, but without interchange income offsetting the costs of services attached to checking accounts that we provide for

free - and with the fraud losses that we'd still have to cover - we would not be able to offer those free services.”

π “Of the many players in the electronic payments system, community banks and credit unions have perhaps the most at stake in House and Senate bills that would standardize interchange rates and create an exemption to antitrust laws, so merchants could bargain collectively with banks and card networks on the fees. Though card programs are not big profit centers for most community banks, they allow the banks to compete with the largest financial institutions and to foster relationships with their customers. Whatever revenue is reaped helps cover losses and maintain the card system.”

π “First National Bank of Scotia, a unit of Glenville Bank Holding Co. Inc., has issued about 1,100 credit cards and 9,000 debit cards. Last year its credit card program made just \$24,000, excluding personnel costs. Income from debit cards is difficult to break out, because the program supports other checking services the bank offers for free, Mr. Buhrmaster said; any revenue that comes in from debit cards is offset by fraud losses, which totaled \$60,000 last year. Interchange fees play a significant role in keeping card programs solvent at community banks, which do not have the volume and product lines to offset a revenue loss the legislation would most likely create.”

π “To try to ease opposition from community banks and credit unions, the House Judiciary Committee amended Rep. Conyers' [2008] bill to say institutions with less than \$1 billion of assets do not have to participate in interchange negotiations. Community bankers say that would leave them with two unpalatable choices: Accept fees negotiated between merchants and the card networks, or try to negotiate independently with thousands of merchants.”

π “Jeff Morrow, executive vice president at the \$5 billion-asset Dollar Bank in Pittsburgh, predicted that just four or five of the largest banks, which can absorb the fixed costs that include processing and fraud losses, would be able to compete in the credit card business without interchange income... Even a 5% reduction in interchange revenue could change whether credit card programs are viable, he said.”

π “‘Debit cards are not a stand-alone product - they are an add-on to checking accounts,’ Mr. Morrow said. ‘I can't believe any bank would say they're going to get out of the checking account business. But if revenue that banks get from interchange on their debit cards were to be diminished, it would change the entire economics of checking accounts. Banks would have to find an alternative source of revenue to make good on that. The way checking accounts are offered and priced to the public would change dramatically and in unpredictable ways.’ If Dollar Bank makes \$1,000 on checking accounts, and its net interchange revenue is \$500, a 10% decrease in net interchange would turn into a 5% drop in profits

from checking accounts, he said. ‘It would affect our ability to continue reward programs.’”

π “‘This will cut into community and smaller bank revenue streams at a time when banks need to make 'good' loans wherever and however they can,’ said Avivah Litan, research director at Gartner Inc. ‘With lower interchange fees, smaller banks simply can't make a business case for issuing credit cards. It will just make it harder for community banks to stay profitable, but as long as they maintain their roots in good, solid customer and community service, they should be able to find their profits elsewhere.’”

π “Ken Clayton, senior vice president of card policy at the American Bankers Association, said the legislation would create a Hobson's choice for community banks. They must choose between ‘not providing a service their customers demand, and letting those customers go to other institutions that can better bear the cost of issuing cards, or issuing the cards at a loss, which makes it more difficult for them to provide other services at competitive prices to local communities.’”

Are there other problems?

- It must be recognized that interchange fees can and do vary by the level of risk. For industries where risk of repayment is much higher, then interchange fees might reflect this added risk. The imposition of uniform interchange fees would mean that merchants would have fewer incentives to protect against fraud, and the additional costs to credit card issuers will be reflected in reduced access to credit cards for many consumers, and increased costs and/or reduced benefits for all consumers.
- Obviously, such litigation sets a precedent for future lawsuits when people or businesses don't like the prices they're charged. Litigation is costly for businesses and consumers.
- As noted in a December 19, 2008, entry in the Small Business & Entrepreneurship Council's BusinessTrends blog, I highlighted that representatives and appointees in the federal government – including the Federal Reserve –are quite concerned about a credit crunch and the negative implications for the economy in general. If that is the case, then why did the Federal Reserve put forth various regulations on credit card issuers that look destined to raise credit costs and reduce access to credit?

The Fed issued a set of requirements that dictate how credit card issuers operate and price their services. Some of these measures sound quite appealing. But, again, this government intervention into the marketplace comes with potentially serious costs. Consider several points made in a November 30 report by Meredith Whitney, Joseph Mack and Kaimon Chang titled “Consolidated Lending Market Poses Risk to Overall Consumer Liquidity” from Oppenheimer:

π The authors are “beginning to see evidence of broad-based declines in overall consumer liquidity.”

π Part of this story is increased regulation: “We believe that by restricting a lender’s ability to price for risk and significantly altering the economics of the credit card industry, lenders will ultimately choose to provide fewer credit lines to fewer customers. In fact, ... we expect over \$2 trillion in outstanding lines to be reduced over the next 18 months.”

π The authors are concerned about an unprecedented combination hitting the economy: “We view the credit card as the second key source of consumer liquidity, the first being their jobs. Pulling credit at a time when job losses are increasing by over 50% year on year in most key states is a dangerous and unprecedented combination.”

π With the Unfair and Deceptive Acts or Practices proposals, the authors note “that the regulators believe they are actually doing what is best for the consumer, but we argue that the ‘unintended consequences’ of such actions will at least do a commensurate amount of harm to the economy by stifling consumer spending... Due to an inability to maintain pricing flexibility on unsecured loans, we believe there will be a dramatic reduction of risk taking and therefore credit lines outstanding. This line reduction will strain credit quality not just for credit card loans, but, in our opinion, for all consumer loans.”

π The authors compare this regulatory scenario to what recently happened in Japan: “We believe what happened in Japan related to the change in Grey Zone laws provide an informative proxy of what to expect in the US if our regulatory timetable remains ‘as is.’ In December 2006, Japan passed a series of laws setting the maximum interest rate lenders can charge to a range of 15% to 20%, down from what had been over 29%. In addition to these restrictions, moneylenders could face criminal sanctions if they charge rates over 29.2%. What happened as a result of the reduction in lenders’ ability to set their own prices (however unfair they may or may not have been) was a dramatic contraction in lending by those lenders.” The fallout included lenders going bankrupt and some firms exiting the business, with a reduction in liquidity for Japanese consumers.

Whitney followed up with a March 10, 2009, *Wall Street Journal* analysis, in which she raised the projection for credit card lines being reeled in by the close of 2010 from \$2 trillion to \$2.7 trillion. She also observed: “Along with many important and necessary mandates regarding fairness to consumers, impending changes to Unfair and Deceptive Acts or Practices (UDAP) regulations risk the very real unintended consequence of cutting off vast amounts of credit to consumers. Specifically, the new UDAP provisions would restrict repricing of risk, which could in turn restrict the availability of credit. If a lender cannot reprice for changing risk on an unsecured loan, the lender simply will not make the loan. This proposal is set to be effective by mid-2010, but talk now is of accelerating its adoption date. Politicians and regulators need to seriously consider what unintended consequences could occur from the implementation of this proposal in current form. Short of the U.S. government becoming a direct credit-card lender, invariably credit will come out of the system.”

This provides another example of the ill effects of government intervention in such markets.

Conclusion

Finally, let's quickly look at the realities for the various parties involved if government intervenes on interchange fees.

First, there are the lawyers. Class-action lawsuits mean that lawyers are going to make big bucks. So, lawyers have every incentive to gin up this issue. At a Santa Fe conference on interchange fees sponsored by the Kansas City Federal Reserve Bank in May 2005, Noah Hanft, general counsel and corporate secretary at MasterCard International, correctly concluded that "the essence of the interchange challenge is a simple desire by class-action lawyer to make piles of money and by merchants who think they will pay less." He added: "We should not be stifling competition and innovation to line the pockets of class-action lawyers."

Second, there are the politicians and regulators. The potential for political pandering is considerable. Politicians can rail against big bad credit card companies in the name of helping the little guy and consumers. For good measure, the potential exists for politicians and regulators to gain power, to extend their control in the marketplace.

Third, there are the consumers. Price controls sound good to some, but they always come with shifting costs and reduced services. Under Australia's mandated reduction in interchange fees, consumers faced higher fees and reduced rewards. That also means small business owners who use credit cards as a finance tool for their businesses could get squeezed on both ends -- higher costs to use their card for business purchases, and fewer sales due to a decreased number of cards in use.

Fourth, there are businesses in general. Some narrowly pursue their desire to reduce interchange fees, and miss the larger picture, not only for consumers, but also for the business community. Lawsuits about interchange fees set a dangerous precedent, giving the green light to those who do not like certain prices or business practices to sue or lobby for government intervention.

Fortunately, there are plenty of businesses that recognize that running to the government for price controls is not good business. Consider the following sample of comments SBE Council received from business owners regarding lawsuits or other proposed government interference on interchange fees.^{xxxv}

- "I'm the owner of Portage Equipment & Supply, where we sell lawn and garden supplies. Like any good businessman, I keep a close eye on my costs and when I decided that the fees charged by American Express were too high I stopped accepting their card. That was my choice, the same as the choice Amex made when they set their fees at that level. No one told us what to do - no court or legislative body. We each made our decisions as independent businesses, based on our own best interests. That's the way America should work. Everyone should have the right to set their own prices and make their own policy decisions, from a

small businessman like me to a big corporation like Amex. If we make a wrong decision, the market will let us know about it. There's no need for government to step in and tell us what to do." - Charles Stimson

- "It appears to me that this is just another case of people trying to use the court system to get their way. Visa and MasterCard have the right to set their prices at any level they want, the same as I do or the merchants do or anyone else that's in business does. If you set your prices too high, you'll know because you won't have any customers. If you set your prices too low, you'll know because you won't make money. It's pretty simple." - Ed Provitz, Connecticut Cabling & Communications

- "I'm all for cutting costs, but using the court system to force other companies to meet your pricing demands is way out of line. The government does set prices in some countries, but America isn't one of them and I hope it never will be. Everyone knows the courts already have more cases than they can handle; cluttering dockets with half-baked lawsuits like these are just making a bad problem even worse." - Rodney Grubbs, Visionary Sports

The market has served small business owners and consumers quite well when it comes to their experience with and use of credit cards. Unwarranted government intervention only raises costs and will have unintended consequences for those who currently benefit from credit cards. With capital and credit extraordinarily tight at the moment, and with the economy facing severe challenges in the year ahead, doesn't it make sense for our elected officials to focus on ways to increase economic activity and enable job growth and innovation, rather than interfering in markets that are working?

ⁱ David S. Evans and Richard Schmalensee, *Paying with Plastic: The Digital Revolution in Buying and Borrowing* (Second Edition), The MIT Press, Cambridge, Massachusetts, 2005, page 53.

ⁱⁱ David S. Evans and Richard Schmalensee, *Paying with Plastic: The Digital Revolution in Buying and Borrowing* (Second Edition), The MIT Press, Cambridge, Massachusetts, 2005, pages 54-55.

ⁱⁱⁱ David S. Evans and Richard Schmalensee, *Paying with Plastic: The Digital Revolution in Buying and Borrowing* (Second Edition), The MIT Press, Cambridge, Massachusetts, 2005, pages 56-57.

^{iv} David S. Evans and Richard Schmalensee, *Paying with Plastic: The Digital Revolution in Buying and Borrowing* (Second Edition), The MIT Press, Cambridge, Massachusetts, 2005, pages 58-59.

^v David S. Evans and Richard Schmalensee, *Paying with Plastic: The Digital Revolution in Buying and Borrowing* (Second Edition), The MIT Press, Cambridge, Massachusetts, 2005, pages 61-62.

^{vi} David S. Evans and Richard Schmalensee, *Paying with Plastic: The Digital Revolution in Buying and Borrowing* (Second Edition), The MIT Press, Cambridge, Massachusetts, 2005, pages 63-66.

^{vii} See: 1) MasterCard Worldwide, "Benefits of Open Payment Systems and the Role of Interchange," www.mastercard.com, 2008; and 2) Joshua R. Floum, Paula Quintiliani, Jonathan Gleken, Julie Goshorn, Lauren Peay, Timothy Muris, and Thomas Brown, "Visa White Paper on Interchange," Visa Inc. May 5, 2008.

^{viii} MasterCard Worldwide, "Benefits of Open Payment Systems and the Role of Interchange," 2008.

^{ix} See: 1) MasterCard Worldwide, "Benefits of Open Payment Systems and the Role of Interchange," www.mastercard.com, 2008; and 2) Joshua R. Floum, Paula Quintiliani, Jonathan Gleken, Julie Goshorn, Lauren Peay, Timothy Muris, and Thomas Brown, "Visa White Paper on Interchange," Visa Inc. May 5, 2008.

^x Joshua R. Floum, Paula Quintiliani, Jonathan Gleken, Julie Goshorn, Lauren Peay, Timothy Muris, and Thomas Brown, "Visa White Paper on Interchange," Visa Inc. May 5, 2008.

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- ^{xi} Electronic Payments Coalition, “Benefits to Consumers,” accessed in January 2009, www.electronicpaymentscoalition.org.
- ^{xii} Electronic Payments Coalition, “Benefits to Consumers,” accessed in January 2009, www.electronicpaymentscoalition.org.
- ^{xiii} MasterCard Worldwide, “All About Payment Cards,” www.mastercard.com, accessed in January 2009.
- ^{xiv} Press release, “Waffle House Restaurants Now Accepting Credit Cards,” Waffle House, Inc., February 15, 2006.
- ^{xv} As quoted on Electronic Payments Coalition site at www.electronicpaymentscoalition.org.
- ^{xvi} Jeremy Simon, “Use your credit card for small purchases in vending machines,” CreditCards.com, May 14, 2007.
- ^{xvii} As quoted on Electronic Payments Coalition site at www.electronicpaymentscoalition.org.
- ^{xviii} As quoted on Electronic Payments Coalition site at www.electronicpaymentscoalition.org.
- ^{xix} As quoted on Electronic Payments Coalition site at www.electronicpaymentscoalition.org.
- ^{xx} Information previously related by Raymond J. Keating, “Interchange Interference,” SBE Council Cybercolumn, www.sbecouncil.org, February 16, 2006.
- ^{xxi} Brian W. Smith Abbott B. Lipsky, Jr., Andrew Robinson and William J. Rinner, “Why the Market Should Set Credit Card Interchange Fees,” *Bank Accounting & Finance*, October-November 2008.
- ^{xxii} Michael Sanson, “Fighting the Credit Card Companies,” *Restaurant Hospitality*, June 2008.
- ^{xxiii} “House Committee OKs Interchange Bill,” *Cards & Payments*, August 2008.
- ^{xxiv} “‘Fair Fee Act’ Targets interchange Rates, Forces Negotiations,” *Cards & Payments*, July 2008.
- ^{xxv} “House Committee OKs Interchange Bill,” *Cards & Payments*, August 2008.
- ^{xxvi} Sheryl Harris, “Credit card reform, fees on consumer agenda,” *Cleveland Plain Dealer*, January 4, 2009.
- ^{xxvii} MasterCard Worldwide, “Interchange Myths and Facts,” www.mastercard.com, accessed in January 2009.
- ^{xxviii} Joshua R. Floum, Paula Quintiliani, Jonathan Gleken, Julie Goshorn, Lauren Peay, Timothy Muris, and Thomas Brown, “Visa White Paper on Interchange,” Visa Inc. May 5, 2008.
- ^{xxix} MasterCard Worldwide, “Benefits of Open Payment Systems and the Role of Interchange,” www.mastercard.com, 2008.
- ^{xxx} Brian W. Smith Abbott B. Lipsky, Jr., Andrew Robinson and William J. Rinner, “Why the Market Should Set Credit Card Interchange Fees,” *Bank Accounting & Finance*, October-November 2008.
- ^{xxxi} As noted in CRA International (Robert Stillman, William Bishop, Kyla Malcolm, and Nicole Hildebrandt; “Regulatory intervention in the payment card industry by the Reserve Bank of Australia: Analysis of the evidence,” London, April 28, 2008
- ^{xxxii} CRA International (Robert Stillman, William Bishop, Kyla Malcolm, and Nicole Hildebrandt; “Regulatory intervention in the payment card industry by the Reserve Bank of Australia: Analysis of the evidence,” London, April 28, 2008
- ^{xxxiii} Kate Fitzgerald, “A Wake-Up Call For the Card Industry?” *Cards & Payments*, December 2008.
- ^{xxxiv} “Credit Card Fair Fee Act subject of debate at convention,” *Northwestern Financial Review*, September 1-14, 2008.
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