



Credit Cards and the Reverse Robin Hood Fallacy: A Primer

The International Center for Law & Economics (ICLE) recently released a [study](#) addressing the “Reverse Robin Hood” fallacy, a belief which holds that credit card rewards function as a transfer of wealth from the poor to the rich.

The study highlights the faulty logic present in this line of reasoning, arguing the evidence suggests that the Reverse Robin Hood hypothesis, “should be rejected and that action to address it could be counterproductive.” Ultimately, the study concludes that legislators attempting to solve the problem by imposing caps on credit card interchange would “create far more risk of harm than good.”

Main Takeaways

- **Retailers typically cite the 2020 Boston Fed study as evidence for the Reverse Robin Hood hypothesis, but the study’s assumptions are inconsistent with known data and previous empirical research, rendering its conclusions untenable.**
 - The Boston Fed study authors explicitly exclude the effects of cross-subsidies from other fees, including costs associated with fraud and theft and the time taken to process transactions. It is arbitrary to focus solely on interchange fees, especially if the numbers involved are relatively small.
 - The study does not provide a firm basis to conclude that credit card rewards are regressive in real life because the model only offers hypothetical scenarios which operate under unrealistic assumptions.
 - According to [Todd J. Zywicki](#), one scenario assumes that high- and low-income consumers shop at the same stores and buy the same things and that the merchant passes through 90 percent of the payment-card costs.
 - These assumptions do not reflect reality. But under them, the authors conclude that every consumer in the lowest-income cohort is paying less than those in the highest-income cohort, but when these assumptions are relaxed, the difference nearly disappears.
 - The actual empirical data on merchant pass-through suggests a much lower number of around 50 percent (as opposed to the 90 percent in the above scenario), and according to the 2020 Boston Fed Study’s model with this pass-through rate, there would be no regressivity at all.
- **Just because upper-income Americans may accrue more total benefits than those of lower-income, that does not mean that the former is benefitting at the expense of the latter, as the Reverse Robin Hood fallacy proclaims.**
 - Credit card networks are a two-sided market, meaning that all participants in the credit-card ecosystem—regardless of their income level—benefit from its complex relationships. This means that participants on one side of the market, such as merchants, pay charges that are used to provide benefits to another side of the market, such as consumers. These benefits apply irrespective of income.

- It is a fundamental feature of retail consumer markets that not every consumer gains the same amount from every amenity or service offered by a merchant. Simply because higher-income people may benefit more than lower-income people from a retailer's loyalty program or some other benefit, that doesn't automatically imply the presence of a market failure or a need for regulatory intervention.
- The Reverse Robin Hood fallacy is based upon the assumption that consumers of all income groups would have to shop at the same places and buy the same goods. This is a highly unlikely scenario due to different quality preferences, prices, etc., among consumers of different income levels, even when shopping at the same merchant, as [Malte Krueger](#) found.

➤ **The availability of rewards cards is more tied to credit scores than to income, which means that people with lower incomes are not barred access to—and do benefit from—the use of rewards cards.**

- The Reverse Robin Hood fallacy assumes that credit card rewards are intrinsically connected to wealth and income, making the rewards card system exclusionary toward the lower-income earners. But this isn't the case. Card rewards are much more closely linked to credit score, undermining a core assumption of Reverse Robin Hood.
 - According to a recent report from the [American Bankers Association](#), access to rewards cards is tied to credit score—not income. The report found that income has little bearing on a cardholder's credit score and did not substantially impact eligibility for rewards cards ownership.
- Data from [Verisk](#) shows that 86 percent of credit cardholders have active rewards cards, including 77 percent of cardholders with a household income of less than \$50,000, proving that lower-income consumers are given access to and implement the use of rewards cards.
 - A study from [Pheonix Marketing International](#) found increased popularity in rewards credit cards during the pandemic. This was especially true among those who carry debt on their rewards card, reporting that 60% of those who carry credit card debt think that rewards credit cards are more important now than during pre-pandemic months.

➤ **Capping credit card interchange fees is itself regressive, disproportionately harming lower-income Americans and reducing benefits to consumers.**

- Similar to the occurrence of bank account fees following the enactment of the Durbin Amendment, the increase in annual fees on cards would almost certainly exceed the retail savings for lower-income consumers.
 - The [Consumer Financial Protection Bureau](#) found that the Durbin Amendment's caps on interchange fees for debit cards led to a loss of access to bank accounts and higher bank fees for hundreds of thousands of low-income consumers.
 - [Mukharlyamov and Sarin](#) found that "over 70 percent of consumers in the lowest income quintile bear higher account fees since they fall below the average post-Durbin account minimum required to avoid a monthly maintenance fee."
- Capping interchange fees could mean a reduction or elimination of rewards offering, which could be especially harmful to lower- and middle-class consumers.

- According to a 2017 survey by [RFi Consulting](#), compared with high-income consumers, lower- and middle-class consumers are more likely to spend credit-card rewards on everyday purchases and other items they would have bought anyway, proving that capping interchange fees would directly rob these lower- and middle-class shoppers of their rewards.