



PIRG MISLEADS U.S. HOUSE ANTITRUST TASK FORCE

In May 2008, the head of the Ralph Nader-founded U.S. Public Interest Group (PIRG) testified before a U.S. House committee under the guise of a “consumer advocate.” PIRG works against consumer interests, however, when it sides with powerful merchants seeking Congressional favors by asking the government to step in to tell banks and credit card corporations how much to charge in “interchange fees” to fund their operations.

PIRG MISLEADS ON COST OF INTERCHANGE FEES

- While PIRG repeatedly pointed to the gross figures credit card corporations and banks collected as interchange fees, it failed to put interchange fees in the context of the \$2.4 trillion worth of products and services consumers bought through credit and debit cards.
- PIRG buried the fact that these interchange fees average only 2% of a \$100 purchase.
- PIRG failed to mention that a recent study found that the societal cost of a cash transaction was *greater* than either the merchant cost or societal cost of a credit/charge transaction.

PIRG IGNORES CONSUMER BENEFITS

PIRG failed to discuss consumer benefits of credit cards in an intellectually honest way. Its rhetorical attack on credit cards amounted to an embarrassingly weak footnoted admission that the group “seriously doubt[s]” the benefits consumers receive.

PIRG’s testimony glossed over the many benefits consumers receive from using credit cards, including secure transactions, protection against fraud, ease of use, and rewards programs. Consider these facts published by Federal Reserve Bank of Minneapolis researcher James Lyon in June 2006:

“More cards today have enhancements, such as rewards programs, annual fees have declined (down 50 percent since 1990), and the spread between average annual percentage rates and prevailing Treasury rates has fallen by 4 percent per year since 1990. Finally, card associations have been innovators; credit card fraud is down 7 percent annually since 1990, while volume has increased by 16 percent.”

Rewards programs do not just fund the “affluent,” as PIRG alleges. They are often used for significant public good. Operation Hero Miles gives free plane tickets to family members of wounded serviceman, allowing them to travel to the military hospitals where their loved one recuperates. Americans donated more than 540 million miles within the first six months of Operation Hero Miles’ existence. The “Working Assets” program donates \$.10 from every credit card transaction to progressive groups such as ACLU, Greenpeace, Doctors Without Borders, Organic Consumers Association and Planned Parenthood.

Most importantly, **credit cards can provide inexpensive access to credit for low-income Americans**, many of whom take advantage of 0% and low-interest rates to pay down debt.

PIRG MISLEADS ON ISSUE OF CONSUMER AND MERCHANT CHOICE

In PIRG's written testimony before the Committee, the word "compel" is used at least four times to suggest that credit card associations exercise oligopolistic power. History suggests PIRG is wrong about merchants' power. Sears, Wal-Mart and several large grocery chains have negotiated lower rates, suggesting that they have significant leverage to affect interchange fee levels.

Moreover, PIRG claims "Merchants certainly have no choice but to accept" the interchange fees set by credit card associations. Yet fast food restaurants did just that for years, until they were able to negotiate interchange fee rates that made good business sense.

PIRG further claims that credit card associations prevent merchants from offering cash discounts. That is in no way true. In fact, PIRG's own testimony acknowledged in its footnotes that the significant bar to offering cash discounts actually comes from signage and billing logistics that would be "very hard to offer."

Finally, PIRG ignores existing and emerging consumer options that compete in today's marketplace, including PayPal, Google Checkout, Discover and American Express. That list does not even include potential competition from Microsoft's likely entrance into the micropayment arena.

UNINTENDED CONSEQUENCES OF GOVERNMENT INTERFERENCE IN INTERCHANGE FEES

Americans are wary of government interference in markets, and for good reason. Evidence from both domestic and international sources suggests legislators and regulators should leave pricing issues to market participants:

- The Federal Reserve Bank of Minneapolis' James Lyon has argued: "Ironically, a 1998 DOJ action may have indirectly contributed to an increase in interchange fees" after its lawsuit against VISA and MasterCard forced them to *increase* their interchange fees "to prevent banks from defecting to American Express, which pays a higher interchange fee—about 2.25 percent—to its bank partners.
- Lyons also pointed to the experience of credit card holders in Spain, where the government pressured interchange fees lower but "annual cardholder fees have increased.
- According to the *Wall Street Journal*, a study released in April 2008 showed that the Reserve Bank of Australia's order to cut interchange fees by nearly 50% didn't lead to savings for consumers. Instead, card fees climbed and rewards programs lost value.

Despite the claims of self-styled consumer advocates such as PIRG, the consequences — foreseen and unforeseen — of government intervention into consumer transactions will harm the very consumers Congress wants to help. A new government bureaucracy interfering in consumer transaction costs is likely to increase other credit card fees, decrease rewards programs used for consumer and charitable benefit, and endanger access to inexpensive credit options for low-income consumers.