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Card Fees Really Aren't a Burden on the Poor

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The article "Card-Fee Battle Puts Consumer in Middle" (Business & Finance, June 22) about payment-card interchange fees focuses on what businesses say, not on what they do, about payment methods. Businesses say they hate card payments because of the fees involved. But cash payments are costly in a less explicit way, as they require businesses to keep a cash register, reconcile their books each day and make frequent trips to the bank. Cash also exposes businesses to theft and fraud, against which they have little recourse compared with card-fraud attempts.

The hidden costs of accepting cash explain why many U.S. businesses are going cashless. The Federal Reserve Bank of San Francisco reports that cashless businesses are able to process up to 15% more transactions per hour than when they accepted cash. Consumers are also increasingly shunning cash for cards, although they still prefer cash for amounts below $10.

Whether low-income consumers lose out from card fees is unclear. Because they tend to spend less than higher-income consumers, they get fewer card rewards. But they gain the security and credit-building benefits card payments offer. Policy makers should be cautious about intervening in the market: When they capped debit interchange fees in 2010, they drove many banks to stop offering free checking accounts. Guess who lost out the most? Low-income consumers.

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If accepting cards required the merchant to raise prices without providing benefits, no merchant would do it. Merchants likely accept credit cards because reward cards stimulate customers at all income levels to buy more when using a reward card than they would if they paid cash. And if card acceptance increases sales, merchants can spread their fixed costs across a larger revenue base. Card-accepting merchants may then reduce prices, benefiting everyone.

Determining the precise distributional effects of reward cards would require a comparison between a world without cards and actual markets. That would be difficult if not impossible. We can draw tentative conclusions, though. If credit-card use benefited the rich over the working class by raising prices, one would expect to see discount stores accepting only cash and debit cards. Such stores, the theory goes, then could attract lower-income customers by slashing prices. That hasn't happened. Discount stores appealing to lower-income customers invariably accept credit cards. This suggests that if card acceptance increases prices, the impact is negligible. And, if that's true, then no one is really punished because of reward credit cards.

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