Proposal: 1818(AG67) Debit Card Interchange Fees and Routing

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From: Akhil Ramesh

Proposal: 1818(AG67) Debit Card Interchange Fees and Routing

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Comments:

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Proposal: Regulation II: Debit Card Interchange Fees and Routing [R-1818]

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Your comment: Over the last eight years, there has been a growing bipartisan effort in Washington to rethink trade and economic dependencies on any single nation, particularly the People's Republic of China. Industrial policies supporting supply chain diversification have found support among both Democratic and Republican lawmakers. Policies such as the CHIPS and Science Act, which works toward securing the semiconductor supply chains, and the Inflation Reduction Act support the onshoring, nearshoring and friendshoring of critical and advanced technology supply chains. While these policies are borne out of national security concerns, frustrations from the hollowing out communities of well-paid manufacturing jobs are not new. People in the Midwest and other parts of Middle America have made it abundantly clear ever since the protests to discard the Trans-Pacific Partnership in the Obama administration. Interestingly, while there is a concerted effort to move semiconductor supply chains, EV batteries and even solar panel manufacturing, there is little effort to reduce the reliance on China for day-to-day goods sold in big box retailers. Despite Washington positioning partners such as India and Vietnam to friend-shore supply chains of products sold by big retailers such as Walmart, Amazon and others, the supply chains have not significantly shifted out of China. Dependence on China is increasingly becoming a matter of fait accompli. In this environment, the Federal Reserve's proposal of Regulation II, which would slash the allowable interchange, or "swipe," fee that financial institutions can charge retailers for payments made via debit cards by almost 30 percent, does not demonstrate Washington's commitment to Middle America. On the contrary, it shows the disconnect from the realities of communities, in this case, mom-and-pop stores. While big-box retailers could gain up to $2 billion with the proposed rule change, banks, both big and small, particularly small, will be grossly affected. Interchange fees are charged between banks to process debit and credit card transactions. Retailers incur a fee every time they process a debit or credit card transaction. Any increase in fees affects smaller retailers and benefits larger retailers. While the Biden administration has prioritized securing supply chains and improving their resiliency in advanced and critical technology, the status quo prevails in other sectors. Earlier in the year, The American Bankers Association and 50 state bankers' associations, sent a letter to the Federal Reserve stating they are "in strong opposition to the Federal Reserve's misguided proposal to reduce the regulated interchange cap under Regulation II." It asked for the proposal's withdrawal "pending a rigorous study of [its] impacts and the cumulative impacts of the tsunami of newly finalized and pending regulations from the banking agencies" Onshoring, nearshoring and friendshoring have been adopted to strengthen American supply chains and enhance national security protections, particularly against acts of economic coercion. A similar approach is required for everyday goods that prioritizes American communities over big-box retailers. In this case, the proposed regulation may only negatively impact American banks, big and small and consequently levy a high price on the consumer in the form of maintenance and other fees. Going forward, the U.S. should prioritize the concerns of Middle America and not simply the shareholder value of America's corporations. Following last week's meeting between American business leaders and Xi Jinping, it becomes clear that the interests of Wall Street, big corporations and Washington do not necessarily converge. The interests of Middle America and big businesses do not converge either. In the boisterous democracy of America, people-driven movements can bring down governments, especially in an election year. As November approaches, policymakers must be cognizant of the electorate's concerns over those of business and commercial interests to have any success. Thawing relations with China, hosting bilateral dialogues and doing the bidding of business leaders singing praise of Xi does not bode well for lawmakers seeking reelection in Washington. Regulation II is a walk down a memory lane of neoliberal policies prioritizing corporate interests. Dialing back economic and trade policymaking to the pre-Trump era in an election year may not be what the doctor ordered. Akhil Ramesh is the director of the India Program and Economic Statecraft Initiative at Pacific Forum. Follow him on Twitter: Akhil_oldsoul.