

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

Description:

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

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

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Your comment: Regulation II Will Rig the Deck Against Minority Businesses

As the National Director at the Minority Business Development Agency, located within the U.S. Department of Commerce, one of my primary concerns was creating conditions for the economic success of all Americans, including those in underrepresented communities. Recent statistics from the Office of Business Advocacy at the Small Business Administration, found over three million Black-owned businesses employ 1.2 million people. Being part of America's economic engine and taking part in the American Dream is critical for a better future for all. But this success did not happen overnight and cannot occur if policymakers in Washington, D.C. don't promote economic policies that encourage our entrepreneurial spirit. That's why a recent proposal by the Federal Reserve is such a concern, as it empowers the largest corporations in the world and does little to benefit America's small business owners.

In a March 5th letter to the Fed, a 38-member congressional coalition sounded this alarm. The issue centers on the Fed doubling down on its 2011 price cap of debit card swipe fees.

Essentially, in 2011, Congress instructed the Federal Reserve to artificially lower the fees businesses pay to banks when consumers use debit cards at their stores. Although the Fed was not a fan of this congressional mandate at the time, the central bank reluctantly complied with the legislative branch's directive, adopting a policy capping the interchange fee to approximately 24.5 cents per transaction.

As Harry C. Alford, the now late President of the Black Chamber of Commerce, said at the time, the winner of this policy was not consumers but rather the wealthiest corporations in America. According to Alford, while "big box retailers claimed this policy would help small mom-and-pop businesses by creating a ceiling on the amount they can be charged on debit transactions," these large companies "neglected to mention that the price controls also created a floor that was often higher and more expensive than what these small businesses were paying in the first place."

The result was large companies like Walmart and Costco raked in billions of dollars (over \$106 billion, to be precise) by escaping their swipe fee obligations, giving them an incredible marketplace advantage they continue to use to stifle their small business competition.

Now, however, most of the Federal Reserve skeptics of this policy from the previous decade are out of power, and the central bank's new leaders are proposing to tighten the screws once again, further reducing this price cap by 28% to approximately 17.7 cents. This new rule, which the Fed is formally calling Regulation II, is outrageous, and will constitute a remarkable expansion of the government-mandated subsidy for the largest retailers in the world if it is implemented.

These mega retailers seem to delight in their privileged status. Recall these corporations were deemed "essential" by the government and were allowed to stay open during the pandemic while most states forced small businesses to close their doors. The last thing these behemoths need today are more favors from America's politicians and regulators.

The marginal benefit small businesses might receive from a reduction in their swipe fee liabilities would be far outweighed by the massive windfall that the mega-retailers will receive. Small companies simply cannot scale their costs as well. Flush with billions of more dollars from Regulation II, Costco and Walmart will put tens of thousands of more small and medium entrepreneurs, including minority-owned businesses, out of business.

When push comes to shove, Regulation II is just another example of government favoritism for the corporations who can press their agenda in the halls of power, while everyday folks attempting to provide products and services on a smaller scale get squeezed, marginalized, and ultimately liquidated because they simply cannot compete. The Federal Reserve needs to go back to the drawing board on this. Washington should use its power to enhance small business, not to serve as a lacky for large multinational retailers.

David J. Byrd served as the National Director of the Minority Business Development Agency (MBDA) at the U.S. Department of Commerce. He previously served as the Deputy Assistant Secretary, Office of Policy Development at the U.S. Department of Housing and Urban Development.