Discussion of Consumer Payment Choices: Trends and Policy Implications By Guerin-Calvert and Ordover

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Key Points of Paper

- Summarizes current trends in consumer payments–shift to card payments and new technologies, e.g. aggregators and wands
- Policy debate over fee structure and levels should use two-sided market analysis
- Shift to card payments may reduce variable costs in the long run
- Government regulation of fees is not warranted

General Observations

- Current draft is a work in progress
- No new model or empirical investigation in current draft to support conclusions
- As existing literature highlights, assumptions matter
- Difficult to do merchant welfare calculations when merchants are competitive
- One payment method not ideal for all situations

Two-Sided Markets

- Two necessary conditions (Rochet and Tirole)
  - Price-ratio between end-users affects adoption
  - End-users are not able to negotiate prices

Price Based on Payment Instrument

- Merchants often restricted by card network
- Not common to see different prices in jurisdictions where allowed
- Payment pricing occurs in markets that are highly competitive or where little competition exists
- Assuming competitive issuers, acquirers, merchants and networks, Chakravorti and Emmons find that existence of different prices is first best

Examples of Surcharges and Discounts

- Some U.S. gas stations offered cash discounts in the 80s
- German department store offered credit card discounts after the introduction of the Euro
- Some online merchants impose surcharges on checks
- Some merchants surcharge PIN debit transactions
- Generally, observe only one price (Frankel)

Why Merchants Accept Credit Cards?

- Allow merchants to make sales to illiquid consumers
- Issuer extends long-term credit to consumers that may be costly to extend directly by merchants
- Useful for remote payments such as bill payment, Internet purchases, pay at the pump, and car rentals
- Authors claim increase transaction speed (may have amount caps)

Are Merchants Better Off?

- Simple Answer: Most likely, but may argue over pricing of services
- However, under certain conditions merchants may be worse off (Chakravorti and To)
  - No repeat purchasers
  - No bargaining power
  - Only one issuer/acquirer/network
- Need data to find out more

Network Competition

- Chakravorti and Roson find competition improves merchant and consumer welfare unambiguously

- Price level falls but price ratio may be less optimal with two networks than one

- Considers competition and cartel between two different types of networks

Innovation

- Alternative solutions to card-based products are becoming available, e.g. ACH-based products
- Payment networks are offering a diverse set of payment options e.g. credit, debit, and prepaid
- Merchants continue to challenge existing paradigm

Conclusion

- Look forward to reading completed paper
- Assumptions matter!
- Need data for empirical studies