

Comments on Chang, Evans, and Garcia Swartz

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Disclosures

- Testified on behalf of RBA
 - Credit cards 2003
 - PIN debit (EFTPOS) 2005
- No current relationship with RBA
- Haven't talked to them about this paper

What the Paper Does

- Looks for statistical effects of credit interchange reform
 - Quantities
 - Marginal usage prices for cardholders
- Fails to clearly find effects that RBA (perhaps) sought
- Cautiously infers that RBA reforms were powerless or even counterproductive

My comments

(1) Dataset has low power

- What does it mean to *fail to find* statistically significant effect from a dataset?
- The New York Mets

(2) What theory predicts in multi-price environment

- Effect won't all come through “obvious” marginal price

Dataset has low power

- Trendy, for unexplored reasons
 - Theory would seem to predict effect on *levels*
 - Stickiness, sunk investments?
 - Implications for short-run evaluation of policy
- Lots of modeled-as-random variation
- Not so much data
- Data *not-inconsistent* with *very wide range* of possible effects of regulation
 - Ineffective/Counterproductive? Maybe (by these data)
 - Highly effective? Maybe (by these data)

What the data look like

- For many relevant series, growth in 2003 and 2004 is well below 9-year average
 - Real purchase volume per capita: 8.1 vs 17.8
 - Suggests strong effect?
 - But 13.0 in 2001, 2002...
- Can't clearly claim that these data prove regulation worked
- Clearly not proof that regulation didn't work

Economics of Pass-Through

- Relationship with competition
 - *Not true* that imperfect competition implies lower pass-through; it does increase range of uncertainty
- Multi-price environment
 - Coalition or Principal-agent lens
 - How we predict a firm's response to a price change
 - Ramsey pricing lens
 - Equal proportional demand reduction
 - Can't look at just one price

Charge cards

- RBA didn't regulate fee structure of Amex, Discover
- Potential problem
- “Over the longer run, one would expect issuers to choose systems that offer...higher interchange fees” (p.36)