



## Economic Review

# Cash or Debit Cards? Payment Acceptance Costs for Merchants

by: Fumiko Hayashi

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Debit cards have been more costly for U.S. merchants to accept than cash in recent years, though the reverse is true for merchants in other countries.

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Although studies consistently find that credit cards are the most costly payment method for merchants to accept in person, research has been mixed on the relative acceptance costs of debit cards versus cash. To accept debit cards, for example, merchants pay interchange fees for processing card transactions among other costs—and despite regulation in the United States to cap interchange fees, some U.S. merchants still consider these fees too high. Cash transactions also impose costs: merchants may pay bank fees to deposit cash or hire employees to count and sort it.

Fumiko Hayashi examines which of two payment methods—cash or debit cards—is more costly for merchants to accept in person in six countries: the United States, Australia, Canada, the Netherlands, Norway, and Sweden. She finds that debit cards have been more costly for merchants to accept than cash in the United States in recent years, while cash has become more costly to accept than debit cards in the other five countries. Two factors explain this difference. First, although interchange fees are just one component of merchants' debit card acceptance costs, the fees alone are higher than the total cost of accepting cash in the United States. Second, the number of cash transactions has declined at a much slower pace in the United States than in other countries, keeping the cost of accepting cash from rising.

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Fumiko Hayashi is a Vice President specializing in payments in the Economic Research Department at the Federal Reserve Bank of Kansas City. Since joining the Federal Reserve in 2001, Ms. Hayashi published studies on the ATM and debit card industry, regulatory developments around interchange fees and card network rules, consumer payment choice, various types of payment methods (including credit, debit, and prepaid cards, mobile and QR code-based payments, instant payments, and central bank digital currency), payment fraud and security, nonbanks and fintechs in the payment system. She is currently conducting research on undeserved consumers in payments, fraud and scams involving instant payments, role of intermediaries in the payment system modernization, among others.

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