

Ensuring Payment Freedom

Cash and Credit Reform in The Digital Era

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CENTER FOR STUDY OF RESPONSIVE LAW

Washington, DC

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Ensuring Payment Freedom: Cash and Credit Reform in The Digital Era

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Abstract

In an era of rapid digital transformation, the shift toward cashless systems underscores the need for a fairer, less coercive payment ecosystem. This report examines the critical role of cash in promoting financial inclusion and privacy, alongside the urgent need for credit card industry reforms to address high-interest rates, hidden fees, and many other predatory practices. Cash remains a vital tool for millions of Americans—particularly the unbanked, underbanked, and marginalized—while digital-only systems risk deepening financial exclusion, consumer exploitation, and eroding individual freedoms. Through actionable recommendations such as mandating cash acceptance, capping credit card interest rates, and maintaining critical cash infrastructure, this report outlines a path toward a resilient and equitable financial future that safeguards consumer choice, protects privacy, and reduces unjust imbalances of power in a rapidly concentrating digital economy.

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I. Introduction: The Essential Role of Cash in a Digital World

In the twenty-first century, the way we pay for goods and services is evolving at an unprecedented pace. The rise of digital payments has transformed everyday transactions, making them faster, more convenient, and more integrated into our lives. Yet, this seismic shift has come with significant costs. As cash usage declines and the credit card industry grows ever more dominant, a series of interconnected challenges has emerged—ranging from financial exclusion and predatory lending practices to systemic vulnerabilities in our economy. Understanding and addressing these challenges is no longer optional; it is a necessity.

The cashless economy is not just a technological advancement but also a social and political experiment that risks leaving the most vulnerable behind. Cash, a universal and resilient payment medium, plays a critical role in maintaining financial inclusion for millions of Americans, particularly the unbanked and underbanked. These populations, who often lack access to traditional banking services, rely on cash to navigate an economic system that increasingly caters to those with stable incomes, strong credit histories, and access to digital tools.

Meanwhile, the credit card industry has cemented itself as a pillar of modern commerce, promoting its products as indispensable tools for building credit, earning rewards, and achieving financial freedom. However, this narrative obscures a darker reality. Credit cards are designed to maximize profit for financial institutions, often at the expense of the consumer. With skyrocketing interest rates, deceptive fee structures, and aggressive marketing, they have plunged countless households into a cycle of debt that is difficult to escape.

At the same time, the push toward digital payments has opened the door to new privacy and security concerns. Digital transactions are inherently traceable, allowing corporations and governments to collect, store, and potentially misuse vast amounts of personal data. Biometric data tied to payment systems, as highlighted by United Nations research, raises the stakes further, turning each transaction into a potential surveillance opportunity. Recent reports of Social Security number theft and large-scale data breaches underscore the fragility of these systems. In such a landscape, the simple act of paying with cash becomes not only an economic decision but also a statement of personal autonomy.

The implications of a cashless society extend far beyond individual consumers. From a national security perspective, over-reliance on digital payments exposes the economy to cyber-attacks, EMPs, and other vulnerabilities that could disrupt commerce on a massive scale. President Donald Trump and others on the political right have voiced concerns about central bank digital currencies (CBDCs), framing them as tools of government overreach and economic control. Such concerns, while sometimes exaggerated, underline the bipartisan importance of preserving cash as a safeguard against systemic risk.

Despite these warnings, policymakers and businesses have been slow to act. Legislative initiatives to protect cash payment options often stall at the federal level, leaving local governments and grassroots organizations to fill the void. Cities like Los Angeles have taken bold steps to ensure that businesses accept cash, recognizing its importance for financial equity and community resilience.

Yet these efforts must be scaled up and replicated across the nation to counteract the growing dominance of cashless systems.

This report seeks to illuminate the dangers of a cashless society and the perils of unchecked credit card dominance while offering a roadmap for action. By exploring these issues in depth, we aim to

mobilize policymakers, businesses, and consumers to safeguard cash and reform the credit card industry. The stakes are high, but the path forward is clear: a balanced payment ecosystem that combines the innovation of digital tools with the inclusivity and security of cash.

II. The Rise of Cashless Transactions: Trends, Benefits, and Drawbacks

Cash is more than a method of payment; it is a cornerstone of economic stability, particularly in times of crisis. While digital payment systems have grown in popularity due to their convenience, they are far from infallible. Natural disasters, cyberattacks, and other emergencies can render digital systems inoperable, leaving individuals and businesses unable to transact. Cash, in contrast, requires no electricity, no internet connection, and no third-party intermediaries. Its inherent simplicity makes it indispensable in a resilient economy.

The Necessity of Cash During Emergencies

When Hurricane Maria devastated Puerto Rico in 2017, one of the most immediate challenges was the collapse of the island's electronic payment infrastructure. Power outages rendered ATMs and credit card systems useless, forcing people to rely on cash for essential goods and services. Such scenarios are not unique. From wildfires in California to winter storms in Texas, crises repeatedly highlight the fragility of digital payment systems. Cash, in these situations, becomes not just a payment method but a lifeline.¹

The resilience of cash is not merely theoretical. Studies show that communities with access to cash recover more quickly from disasters. For example, a 2023 report by the Federal Emergency Management Agency (FEMA) emphasized that cash circulation during emergencies facilitated faster economic stabilization, allowing businesses to reopen and supply chains to function.² This aligns with historical data showing that cash transactions, particularly for essential goods, surge in regions hit by hurricanes, earthquakes, and power outages.³ Even beyond the United States, in regions where conflict or unrest disrupts infrastructure, cash has consistently proven to be the most reliable means of exchange.⁴

Additionally, cash is not subject to the network disruptions that plague electronic systems. A 2024 New York Times article explored how the failure of digital tools during emergencies disproportionately impacts low-income individuals, who often cannot stockpile resources or access backup systems.⁵ Cash provides an immediate, equitable solution to such disparities, allowing vulnerable populations to maintain basic economic agency even under dire circumstances.

National Security Implications

The reliance on digital payment systems extends beyond natural disasters to broader national security risks. In an era of increasing geopolitical tensions, the United States' economic infrastructure faces threats from cyberattacks and electromagnetic pulse (EMP) attacks. North Korea, for instance, has demonstrated its capacity for cyber warfare, targeting financial institutions and payment systems.⁶ An EMP attack, whether natural or man-made, could instantly disable electronic systems nationwide, crippling the economy.

Cyberattacks have already exposed the vulnerabilities of digital systems. The 2024 hack that exposed millions of Americans' Social Security numbers serves as a stark reminder of how fragile these systems can be.⁷ As digital payments grow more entrenched, the potential damage from such attacks escalates. Imagine a scenario where banks and payment processors are taken offline for

1 New York Times, "When Disaster Strikes, Cash is King," 2024.

2 FEMA, "Economic Recovery Framework for Disasters," 2023.

3 Federal Reserve, "Cash Usage Trends in Crisis Scenarios," 2020.

4 Credit Card Nation by Robert Manning, Chapter 3: "The Fragility of Digital Systems."

5 New York Times, "Tolls Go Cashless, Leaving Drivers Vulnerable to Fees," December 8, 2023.

6 New York Times, "Social Security Numbers Stolen in Major Hack," August 15, 2024.

7 Downsize Your Debt, Chapter 7: "Protecting Your Financial Safety Net."

weeks: consumers would be unable to pay for necessities like food and medicine. In this context, cash offers a safeguard against systemic collapse.

Unlike digital systems, cash cannot be hacked, disrupted by EMPs, or rendered inoperable due to software glitches.⁸ Its decentralized nature provides a critical buffer against threats that could otherwise paralyze the economy. Policymakers must take these risks seriously, especially as adversaries like Russia and China develop sophisticated cyber capabilities.⁹ Failing to preserve cash as a viable option not only undermines economic resilience but also weakens national security.

Resisting the Push Toward Central Bank Digital Currencies

The growing interest in central bank digital currencies (CBDCs) adds another layer of complexity to the discussion. Proponents argue that CBDCs could streamline monetary policy and reduce transaction costs, but critics raise serious concerns about privacy and governmental overreach.¹⁰ Former President Donald Trump, among others, has publicly opposed CBDCs, framing them as tools of surveillance and control.¹¹ His critique reflects broader fears about government overreach, particularly among conservative groups concerned about the erosion of individual freedoms.

These concerns are not unfounded. A 2023 report by the United Nations highlighted how CBDCs could enable unprecedented levels of state surveillance, tracking every transaction in real-time and potentially restricting certain purchases.¹² In China, the rollout of the digital yuan has already demonstrated how governments can leverage such systems to enforce social policies.¹³ These examples serve as cautionary tales for the United States, where the introduction of a CBDC could compromise the privacy and autonomy of millions of Americans.

Whether these concerns are driven by ideology or pragmatism, they underscore the importance of maintaining cash as a viable alternative. A payment ecosystem that combines the innovation of digital tools with the resilience of cash is far more secure than one that places all its eggs in the digital basket.¹⁴

The Human Factor: Trust in Tangible Currency

Cash also plays a psychological role in fostering trust within the economy. In times of uncertainty, people gravitate toward physical assets they can see and hold. This phenomenon was evident during the COVID-19 pandemic, when demand for physical currency surged despite the heightened use of digital payments.¹⁵ As the Federal Reserve noted in a 2022 study, the pandemic revealed a paradox: even as more Americans embraced digital wallets, they also withdrew record amounts of cash as a precautionary measure.¹⁶

The reasons for this are straightforward. Cash provides a sense of security that digital balances cannot match. In a world where digital accounts can be frozen, hacked, or drained by error, holding physical currency reassures individuals that they retain control over their money. This dynamic is

8 New York Times, "Crypto and the 2024 Election: What's at Stake," August 9, 2024.

9 United Nations Report, "The Digital Economy and Biometric Surveillance," 2023.

10 New York Times, "Trump's Opposition to Central Bank Digital Currency," August 2024.

11 New York Times, "China's Digital Yuan and the Implications for Privacy," 2023.

12 Federal Reserve Economic Review, "Cash Usage During the COVID-19 Pandemic," 2022.

13 New York Times, "Worthless Pennies: The Future of Currency in the U.S.," September 1, 2024.

14 Manning, Robert, Credit Card Nation, Chapter 5: "Digital Vulnerabilities."

15 New York Times, "Worthless Pennies: The Future of Currency in the U.S.," September 1, 2024.

16 Federal Reserve Economic Review, "Cash Usage During the COVID-19 Pandemic," 2022.

especially important for low-income and marginalized groups, who often face higher levels of economic uncertainty and are disproportionately affected by disruptions to digital systems.¹⁷

Finally, cash serves as an equalizer in an increasingly unequal economy. Digital payment systems frequently impose hidden costs—transaction fees, minimum balance requirements, and penalties—that exacerbate economic inequities. Cash, by contrast, is universal and free to use.¹⁸ Its continued availability is not just a matter of practicality but also a statement of social and economic justice.

17 New York Times, "Tolls Go Cashless, Leaving Drivers Vulnerable to Fees," December 8, 2023.

18 Downsize Your Debt, Chapter 3: "The Hidden Costs of Going Digital."

III. Credit Card Dependency

Credit cards have become an integral part of modern financial systems, marketed as tools of convenience and empowerment. They promise financial flexibility, rewards for everyday spending, and pathways to creditworthiness. However, this rosy picture obscures the darker reality of predatory practices, mounting debt, and systemic inequities within the credit card industry. While credit cards may offer short-term benefits, their long-term implications often entangle users in a web of high-interest debt, hidden fees, and financial vulnerability.

The History and Rise of Credit Cards

The credit card industry began as a tool for affluent consumers but has since evolved into a ubiquitous financial product used by people across the economic spectrum. According to Robert Manning's *Credit Card Nation*, this democratization of credit came at a cost.¹⁹ Early adopters used credit cards sparingly, often as a convenience for travel or dining out. However, financial institutions soon realized that their profitability hinged not on responsible users who pay off their balances monthly but on consumers who carry debt.²⁰ This realization led to a deliberate shift in marketing strategies to target low- and middle-income populations, often emphasizing immediate gratification over financial stability.²¹

As credit cards became a mainstream financial tool in the 1980s and 1990s, their terms became increasingly complex and predatory. Companies began introducing variable interest rates, annual fees, and penalties for late payments, all designed to extract maximum revenue from consumers.²² Today, nearly 70% of American households carry at least one credit card, and more than half of these households carry a balance, exposing them to high-interest rates and fees.²³ The average American household with credit card debt owes over \$6,000, a figure that continues to rise as inflation outpaces wage growth.²⁴

The growth of the credit card industry also coincided with the decline of cash transactions, creating a feedback loop in which consumers became increasingly dependent on credit for everyday purchases. This dependency was exacerbated during the COVID-19 pandemic, when contactless payments surged, further sidelining cash as a primary payment method.²⁵

The Inequities of Credit Card Rewards: Insights from Ron Lieber

In a recent *New York Times* interview, personal finance columnist Ron Lieber dissected the inherent inequalities in credit card rewards programs, shedding light on how they disproportionately benefit affluent consumers while placing financial burdens on lower-income individuals.

Lieber explained that rewards programs are primarily funded by interchange fees, the charges merchants pay to credit card companies for processing transactions.

"When you pay with a rewards card, someone else—who may not even use a credit card—is effectively subsidizing your points," Lieber said, highlighting the indirect cost consumers bear in the form of higher prices for goods and services.

Premium credit cards, often laden with lucrative travel points, cashback incentives, and exclusive

19 Manning, Robert, *Credit Card Nation*, Chapter 2: "From Luxury to Necessity."

20 Manning, Robert, *Credit Card Nation*, Chapter 5: "The Debt Business."

21 *New York Times*, "Credit Card Debt: America's Growing Crisis," August 23, 2024.

22 Federal Reserve Report on Consumer Finances, 2023.

23 *New York Times*, "The Hidden Costs of Teaser Rates," August 9, 2024.

24 *Downsize Your Debt*, Chapter 4: "Understanding Credit Card Fees."

25 *New York Times*, "How Contactless Payments are Changing Spending," July 2024.

perks, are typically reserved for individuals with excellent credit scores and high incomes.

“The people who really profit from these programs are those who can pay their balances in full every month,” Lieber noted.

“Meanwhile, lower-income consumers are often left with cards that offer no rewards but carry higher interest rates and fees.”

This creates a structural imbalance where financially secure users benefit at the expense of those already struggling.

Lieber also highlighted the “reverse Robin Hood” dynamic of these programs. “Rewards are not free,” he explained. “They’re part of a system that takes from the less fortunate and gives to those who are already well-off.”

For many low-income households, the inability to qualify for premium credit cards means missing out on benefits while still paying inflated costs driven by the interchange fees that fund rewards.

Consumer Watchdog Teresa Murray on the Risks of Cashless Payments

During my discussion with Teresa Murray, the director of the Consumer Watchdog office at U.S. PIRG, she shared her insights on the challenges and risks associated with the shift toward cashless payments. Murray emphasized that while digital and card-based payments have become the norm for many consumers, they come with unique vulnerabilities that cannot be ignored.

“Debit cards, for example, are particularly susceptible to fraud because they’re directly tied to your bank account,” she explained. “Unlike credit cards, which provide an intermediary layer of protection, a compromised debit card can immediately put your primary financial resources at risk. That’s why I always recommend consumers consider using a secondary account with limited funds for transactions.”

Murray also highlighted the trend of companies incentivizing customers to use bank transfers or debit cards for automatic payments. She cautioned against giving businesses unfettered access to primary accounts, stating, “I would never, ever, ever give a company permission to dip into the bank account where I receive my direct deposits or pay my critical bills like a mortgage. A separate account set up specifically for electronic transactions is a safer way to protect yourself.”

We also touched on how these risks tie back to the importance of cash as a payment option. “Cash provides a level of security and anonymity that digital payments can’t,” Murray added. “For many consumers, especially those who are unbanked or underbanked, it’s the most reliable way to manage their finances without fear of fraud or hidden fees.”

Her perspective underscores a critical point: even as technology advances, cash remains a cornerstone of financial security and inclusion for countless Americans. Murray’s insights reinforce the need for policies that protect the right to use cash in a rapidly digitizing economy.

Predatory Practices and Hidden Costs

Credit card companies are experts in designing products that appear user-friendly while concealing costly traps. Interest rates on credit cards often exceed 20%, far higher than most other forms of

consumer credit.²⁶ Additionally, credit cards come with a host of fees, including late payment penalties, cash advance fees, foreign transaction fees, and annual fees. These charges disproportionately affect low-income users, who are more likely to experience financial instability and miss payments.²⁷

One of the most insidious practices in the credit card industry is the use of teaser rates, where companies offer low introductory interest rates to entice new customers but later raise those rates significantly.²⁸ These rates are often coupled with offers like "no annual fee for the first year," only to surprise consumers with steep fees later.²⁹

Rewards programs, while often framed as a perk, are another tool that exacerbates inequality. High-income consumers can maximize cashback and travel rewards by spending more and paying off balances, while low-income consumers often lack the financial flexibility to benefit.³⁰ Instead, they subsidize these rewards through higher fees and interest payments. A 2024 report by the Consumer Financial Protection Bureau found that nearly 60% of rewards program benefits accrue to the wealthiest 20% of cardholders.³¹

The Psychological Trap of Easy Credit

Credit cards exploit psychological biases to encourage overspending. Studies show that people are more likely to spend beyond their means when using a credit card compared to cash, as the physical act of handing over cash creates a stronger emotional connection to the expense.³² Behavioral economists have termed this the "pain of paying," which credit cards effectively numb.³³

The convenience of credit cards also contributes to their ubiquity. From online shopping to ride-sharing apps, many services require a credit card or digital equivalent, effectively locking out those who prefer or rely on cash.³⁴ This growing exclusion from modern commerce underscores the need for alternative payment systems that prioritize accessibility and equity.

Struggling with Credit Card Inequality: Danielle's Story

Danielle, a 32-year-old childcare worker from Newark, New Jersey, exemplifies the struggles faced by underbanked individuals navigating the inequities of the credit card industry. As highlighted in a recent PBS Newshour report, Danielle's challenges stem from being locked out of the financial benefits afforded to higher-income credit card users.

Danielle uses a basic credit card, her only financial tool for handling unexpected expenses, such as medical bills and car repairs. "I don't have the luxury of points or cashback," she said in the interview.

"Every dollar I spend feels like two because of the interest."

At an interest rate of 24%, Danielle's balance has ballooned despite her best efforts to pay more than the minimum each month.

26 Federal Reserve Report on Consumer Credit Trends, 2024.

27 New York Times, "Credit Card Rewards Programs: A Wealthy Consumer's Game," August 23, 2024.

28 Behavioral Economics Journal, "The Psychology of Spending," 2021.

29 New York Times, "Cash vs. Card: Spending Habits Revealed," September 1, 2024.

30 Downsize Your Debt, Chapter 6: "Alternatives to Credit Cards."

31 Manning, Robert, Credit Card Nation, Chapter 9: "Inequality in Credit Access."

32 Consumer Financial Protection Bureau Report on Rewards Inequality, 2023.

33 New York Times, "Gender Disparities in Credit Card Debt," July 2023.

34 Consumer Financial Protection Bureau, "Transparency in Lending Practices," 2023.

Her reliance on credit isn't a choice but a necessity. Without savings or access to affordable banking services, she depends on her credit card for essential purchases.

"The fees are killing me," Danielle said.

Unlike affluent cardholders who use rewards programs to their advantage, Danielle's situation illustrates how lower-income individuals often subsidize these perks. As the report noted, cardholders like Danielle effectively pay for the rewards enjoyed by wealthier consumers through higher fees and interest rates.

Danielle's story underscores the systemic inequities within the credit card system, where financial tools intended to provide convenience and flexibility instead deepen economic divides for the underbanked.

"It feels like a game I can never win," she said. "But what choice do I have?"

Her experience is a poignant reminder of the importance of expanding access to fair credit options and addressing the structural barriers that perpetuate financial inequality in the credit card industry.

The convenience of credit cards also contributes to their ubiquity. Many services, from online shopping to ride-sharing apps, require a credit card or digital equivalent, effectively locking out those who prefer or rely on cash. This growing exclusion from modern commerce underscores the need for alternative payment systems that prioritize accessibility and equity.

Systemic Inequities and the Burden on Vulnerable Populations

The credit card industry disproportionately harms low-income and underbanked populations. These individuals often lack access to traditional financial products, leaving them reliant on high-interest credit cards and alternative financial services like payday loans.³⁵ This dependence exacerbates wealth inequality, as more affluent consumers can leverage credit cards to build wealth through rewards programs and low-interest balance transfers, while low-income users sink deeper into debt.³⁶

Women and minorities face unique challenges within the credit card system. Research shows that women are more likely than men to carry credit card debt due to gender pay gaps and higher caregiving costs.³⁷ Similarly, Black and Hispanic consumers are more likely to be targeted by predatory lenders and receive less favorable credit terms.³⁸ These systemic inequities underscore the need for reform in the credit card industry.

The Unique Risks of Student Credit Cards

Student credit cards are marketed as tools for building credit and fostering financial independence. However, these cards come with inherent risks that disproportionately impact young and financially inexperienced users.

35 New York Times, "Reining in Deceptive Marketing Practices," July 2024.

36 Federal Reserve Report on Consumer Credit Inequality, 2024.

37 National Women's Law Center Report, "The Gender Gap in Debt," 2023.

38 New York Times, "The Racial Credit Divide," January 2024.

Advantages of Student Credit Cards:

Credit Building

Student credit cards are often the first financial product many young adults use to build a credit history. Timely payments and responsible usage can establish a solid credit score, which is essential for securing future financial products like car loans, mortgages, or even rental agreements.

Rewards and Benefits

Many student credit cards offer rewards programs, including cashback on dining, gas, and groceries. Some issuers provide bonuses for maintaining a high GPA or other student-specific benefits, encouraging responsible spending while offering tangible incentives.

Low Entry Requirements

These cards typically cater to individuals with little or no credit history, making them accessible for students who are just starting their financial journey. Many cards come with no annual fees and lower penalties for first-time late payments.

Drawbacks of Student Credit Cards:

High-Interest Rates

While accessible, student credit cards often carry high APRs, typically exceeding 20%. For students unable to pay off balances in full each month, interest can quickly compound, leading to unmanageable debt.

Low Credit Limits

Most student credit cards come with low credit limits, generally ranging between \$500 and \$1,500. While this reduces the risk of excessive spending, it can also limit the card's utility for larger expenses or emergencies.

Overspending Risks

The ease of access to credit can tempt students to overspend, often on non-essential items. Without proper budgeting and financial discipline, this behavior can lead to significant debt accumulation.

Student Credit Cards: Megan's Story

Megan Archer-Fox was 18 when she applied for her first credit card as a freshman in Birmingham. Like many students, she used her card for necessities such as textbooks and school supplies but soon began relying on it for non-essential purchases like takeout and nights out with friends. As her credit limit increased, so did her spending habits. Megan paid only the minimum balance each month, unaware of how quickly interest charges could compound.

By the time Megan graduated, she had accumulated over £5,000 in credit card debt. Unable to secure a stable job immediately after graduation, she used her credit card to cover basic living expenses. Over the next decade, her debt ballooned to over £20,000 across multiple cards. Megan described her experience as "financial quicksand," where every payment felt too small to make a difference.

When collection agencies began calling, Megan sought help from a financial counselor. Through budgeting, prioritizing high-interest debts, and pausing credit card use, she eventually paid off her debt after two years of intense effort. However, the experience left her credit score damaged and her financial future uncertain. Megan's story underscores the need for financial education and systemic reform to prevent others from falling into similar traps.

Ann Baddour on Coerced Debt

In a recent conversation with Ann Baddour, Director of the Fair Financial Services Project at Texas Appleseed, she shed light on the financial challenges faced by vulnerable populations, particularly in the context of coerced debt. Baddour emphasized that coerced debt—where individuals are forced or tricked into taking on debt by an abuser—has profound implications on victims' financial stability and creditworthiness.

"Coerced debt is a form of financial abuse that often goes unrecognized," she explained. "It can severely damage a person's credit report, making it difficult to secure housing, employment, or further credit." Baddour highlighted that Texas Appleseed, in partnership with the Texas Coalition on Coerced Debt, has developed resources to assist survivors in addressing these fraudulent debts and restoring their financial health.

She also pointed out the broader systemic issues, noting that "predatory lending practices disproportionately affect marginalized communities, trapping them in cycles of debt." Baddour called for stronger consumer protection laws and increased financial education to empower individuals against such exploitative practices.

Her insights underscore the critical need for policy reforms and community support systems to protect consumers from financial abuses and to promote economic justice.

Solutions and Reforms

Interest Rate Caps

One of the most straightforward reforms is implementing interest rate caps. Usury laws, which historically limited the interest rates lenders could charge, have largely been dismantled over the past few decades. Today, credit card companies operate with minimal restrictions, charging rates that far exceed those of other financial products such as mortgages and auto loans.

Reintroducing interest rate caps would provide immediate relief to consumers struggling with debt. A cap of 15%—similar to that proposed in the 2023 Consumer Credit Reform Act—would align credit card interest rates with historical norms while still allowing companies to operate profitably.

Transparency and Fee Regulation

Hidden fees are another major issue within the credit card industry. From annual fees and balance transfer fees to foreign transaction fees, these charges often catch consumers off guard and make it difficult to compare credit card offers. The lack of transparency in credit card agreements further complicates matters, with terms and conditions frequently buried in dense legal language.

Regulating fees and mandating clearer disclosures are essential steps to protect consumers. The CFPB could require credit card companies to provide standardized, easy-to-read summaries of all fees and interest rates. Additionally, banning or capping certain fees, such as late payment penalties, would reduce the financial burden on consumers.

Expanding Access to Fair Credit

Many low-income and underbanked individuals rely on predatory financial products, such as payday loans, because they lack access to affordable credit cards. Expanding eligibility for low-interest, no-fee credit cards through community banks or credit unions would provide a safer alternative. Public-private partnerships could also play a role. For example, nonprofit organizations and local governments could collaborate with financial institutions to offer secured credit cards with favorable terms, helping individuals build credit without incurring excessive debt.

Promoting Financial Literacy

Financial literacy is a critical component of credit card reform. Many consumers enter the credit card market without a full understanding of how interest rates, fees, and credit scores work. Educational programs that teach consumers how to use credit responsibly and avoid common pitfalls could significantly reduce the risks associated with credit card debt.

Efforts to improve financial literacy should target vulnerable populations, such as young adults, immigrants, and low-income households. Schools, community organizations, and employers can all play a role in providing accessible financial education.

Policy Recommendations

-Addressing the predatory practices of the credit card industry requires comprehensive policy reform. Policymakers should consider the following measures:

-Cap interest rates: Limit credit card interest rates to a reasonable maximum, similar to usury laws in the early 20th century.³⁹

-Increase transparency: Mandate clear disclosure of all fees and terms in credit card agreements.⁴⁰
Strengthen consumer protections: Implement stricter regulations to prevent deceptive marketing and unfair lending practices.⁴¹

-Expand access to alternatives: Support the development of financial products that serve underbanked populations without the high costs associated with traditional credit cards.⁴²
Consumers, too, have a role to play. Financial literacy programs can help individuals make informed decisions about credit card usage and avoid common pitfalls.⁴³ Nonprofit organizations and community groups can offer resources to help vulnerable populations access alternatives to high-interest credit cards.

39 Consumer Advocacy Journal, "The Case for Usury Laws in Modern Credit," 2022.

40 Downsize Your Debt, Chapter 7: "The Fine Print in Credit Agreements."

41 Consumer Financial Protection Bureau, "Predatory Practices in the Credit Card Industry," 2023.

42 New York Times, "Innovating Financial Products for the Underbanked," July 2024.

43 Financial Literacy Foundation Report, "Building Consumer Awareness of Credit Risks," 2023.

IV. The Unbanked and Underbanked

The unbanked and underbanked populations are often overlooked in discussions about financial systems, yet they represent a substantial segment of the U.S. population. According to the Federal Deposit Insurance Corporation (FDIC), nearly 5% of U.S. households are unbanked, meaning they lack access to a traditional checking or savings account. An additional 13% are underbanked, relying on alternative financial services like payday loans, check-cashing services, or pawnshops to meet their financial needs.⁴⁴ As the shift toward cashless payments accelerates, these groups face increasing financial exclusion and vulnerability.

Who Are the Unbanked and Underbanked?

The unbanked population often includes individuals from low-income households, immigrants, and minorities.⁴⁵ Many cite a lack of trust in banks, high account fees, or the inability to meet minimum balance requirements as reasons for remaining unbanked.⁴⁶ Additionally, language barriers, geographic disparities, and prior negative banking experiences contribute to their exclusion from formal financial systems.⁴⁷

The underbanked, by contrast, have some access to banking services but still depend on alternative financial services due to financial instability or lack of access to full banking options.⁴⁸ For instance, they might have a checking account but still rely on payday loans to cover unexpected expenses or turn to check-cashing services for immediate liquidity.⁴⁹ For the unbanked, cash provides a direct and tangible way to budget and manage limited resources. For the underbanked, cash often bridges the gap between formal and informal financial systems, allowing them to pay for essentials without incurring additional fees.

Despite their financial resilience, these populations remain highly vulnerable to systemic changes that reduce access to cash or prioritize digital payments.

The Struggles of the Underbanked: James's Story

James, a 45-year-old warehouse worker from rural Alabama, highlights the financial hurdles faced by millions of underbanked Americans. In a recent PBS Newshour segment, James shared how his lack of access to traditional banking services forces him to rely on alternative financial tools, which often come with exorbitant costs.

Despite earning a steady paycheck, James has been unable to open a traditional checking account due to prior banking fees and overdrafts that left his credit score in disrepair.

"I tried to get back into the system, but every bank turned me away because of my history," he explained.

Without access to an account, James relies on prepaid debit cards and check-cashing services, which charge him fees for basic financial transactions.

For James, the fees are an unavoidable burden. He pays \$10 to cash each paycheck and additional charges to load money onto his prepaid debit card, which he uses to pay bills. "It's like I'm paying

44 Federal Deposit Insurance Corporation, "How America Banks: Household Use of Banking and Financial Services," 2023.

45 New York Times, "Unbanked in America: A Growing Crisis," August 2024.

46 Consumer Financial Protection Bureau, "Barriers to Banking Access in the U.S.," 2022.

47 Downsize Your Debt, Chapter 5: "The Underbanked and Their Struggles."

48 New York Times, "Credit Card Debt and America's Financial Divide," August 23, 2024.

49 Consumer Financial Protection Bureau, "Payday Loan Statistics," 2023.

just to use my own money,” James said. Over time, these costs erode his already limited income, making it harder to save or plan for emergencies.

The report also touched on the psychological toll of financial exclusion. James expressed frustration with how the system penalizes those who are already struggling.

“It feels like everything is designed to keep you down,” he said.

James’ experience aligns with the systemic inequities faced by the underbanked and highlights the urgent need for reforms to ensure equitable access to financial services, and at the very minimum, mandate the allowance of cash at all levels of the economy.

The Decline of Cash and Its Impact

The push toward digital payments threatens to deepen the challenges faced by the unbanked and underbanked. As businesses increasingly refuse cash and government services digitize, these populations are effectively excluded from participating fully in the economy.⁵⁰ Similarly, contactless payment systems in public transit often penalize cash users through higher fares or limited accessibility.⁵¹

The rise of mobile payment apps and digital wallets exacerbates this exclusion. While these technologies are convenient for the banked population, they require access to smartphones, stable internet connections, and bank accounts—resources that many unbanked and underbanked individuals lack.⁵² This digital divide disproportionately affects rural communities, older adults, and people experiencing homelessness, many of whom rely exclusively on cash for their daily transactions.⁵³

A cashless economy also removes the ability for these populations to engage in informal economies. Street vendors, day laborers, and small cash-based businesses, which provide crucial employment opportunities for unbanked individuals, are undermined by the transition to digital payments.⁵⁴ The erosion of these networks further marginalizes the most vulnerable members of society.

The Role of Alternative Financial Services

Unbanked and underbanked individuals often turn to payday loans, pawnshops, and check-cashing services to meet their financial needs. These services provide short-term solutions but often trap users in cycles of debt due to exorbitant fees and interest rates.⁵⁵

For example, a payday loan might offer immediate relief to cover rent or medical expenses, but the associated fees and interest rates—often exceeding 300% APR—make repayment nearly impossible.⁵⁶ This creates a vicious cycle in which borrowers must take out additional loans to repay existing debts. Many users of payday loans are also unbanked, and cash remains their primary means of repayment, enabling them to avoid costly overdraft fees or garnishment.⁵⁷

50 New York Times, "Transit Systems Go Cashless, Leaving Some Riders Behind," July 2024.

51 New York Times, "The Digital Divide and Payment Systems," January 2024.

52 New York Times, "Online Paycheck Advances: A Growing Dependence," August 9, 2024.

53 New York Times, "Exclusion in Informal Economies," August 2024.

54 Consumer Financial Protection Bureau, "Cash Dependency in Rural America," 2023.

55 New York Times, "The Hidden Costs of Payday Loans," August 2024.

56 Consumer Financial Protection Bureau, "Payday Loan APR Analysis," 2023.

57 New York Times, "Cash-Based Repayment Models," July 2024.

Pawnshops and check-cashing services, while less predatory, are still costly alternatives. A 2023 report by the Consumer Financial Protection Bureau highlighted how check-cashing services charge fees of up to 10% of the check's value, further eroding the financial resources of low-income individuals.⁵⁸

The Human Cost of Payday Loans

Payday loans are often marketed as a quick and accessible solution for individuals facing financial emergencies. However, their high interest rates and fees frequently lead to cycles of debt that disproportionately impact low-income individuals. Two illustrative cases highlight the consequences of these loans and the systemic changes needed to prevent similar outcomes.

Jessica Vega's Story

Jessica Vega, in her early 20s, turned to payday loans to cover essential expenses like rent and student loans during a financial crisis. The loan offered immediate relief, but its high-interest rates and short repayment terms quickly became unmanageable. When repayment was due, Jessica's financial situation remained precarious, forcing her to take out additional loans to cover the original debt. Over several months, this cycle of borrowing and repaying left her with a debt burden far exceeding her initial loan amount. The ongoing financial stress severely impacted her mental health and overall well-being.

Sherry Shannon's Story

Sherry Shannon, a Minnesota resident, encountered a financial emergency in 2013 when her car required urgent repairs. She secured a \$140 payday loan to address the issue, but the loan's triple-digit annual percentage rate (APR) and associated fees created a situation where repayment became impossible. Unable to pay off the initial loan, Sherry had to roll it over into another loan, compounding her financial difficulties. Over time, she accumulated multiple payday loans, resulting in significant debt and ultimately leading to her eviction and homelessness.

Structural Issues in Payday Lending

These cases highlight common problems with payday lending:

- High APR and Fees: Many payday loans carry APRs exceeding 300%, making repayment disproportionately expensive relative to the principal borrowed.
- Short Repayment Periods: Borrowers often have only two weeks to repay, which is insufficient for most individuals to stabilize their finances.
- Predatory Practices: Payday lenders frequently target low-income and unbanked individuals who have limited access to traditional credit.

Proposed Solutions

To address the challenges associated with payday loans and prevent similar outcomes in the future, several policy and regulatory measures can be implemented:

- Establishing a national cap on payday loan interest rates, similar to those enacted in some states, can protect borrowers from excessive APRs. For example, many states cap interest rates at 36%, which aligns with the Military Lending Act protections for service members.

Extended Repayment Terms

⁵⁸ Consumer Financial Protection Bureau, "The Cost of Check-Cashing Services," 2023.

-Require payday lenders to offer longer repayment periods, such as 90 days or more, to allow borrowers more time to manage their finances without resorting to additional loans.

Mandatory Income Assessments

-Enforce stricter regulations requiring lenders to assess a borrower's ability to repay a loan before approval, reducing the likelihood of default and repeat borrowing.

Access to Affordable Credit Alternatives

-Expand access to small-dollar loans through credit unions and community banks, which can provide low-interest alternatives to payday loans. Programs like "borrow-and-save" initiatives allow borrowers to build savings while repaying loans.

Financial Education and Counseling

-Implement community-based programs to improve financial literacy, focusing on budgeting, credit management, and understanding predatory lending risks. Providing resources for financial counseling can help individuals avoid payday loans altogether.

Regulation of Rollovers

Payday loans often exacerbate the financial challenges they claim to solve, creating long-term harm for vulnerable populations. By implementing these policy measures and promoting alternative financial services, policymakers can reduce reliance on predatory lending and protect individuals like Jessica Vega and Sherry Shannon from falling into debt traps. Reforming the payday lending industry is critical to ensuring financial stability and equity for all consumers.

How Cash Supports Financial Inclusion

Cash plays a critical role in promoting financial inclusion for the unbanked and underbanked. Unlike digital payments, cash requires no intermediaries, making it accessible to everyone regardless of their financial status.⁵⁹ It also provides a level of privacy and security that alternative financial services and digital payments cannot match.⁶⁰

Cash empowers individuals to maintain control over their finances. For those living paycheck to paycheck, cash eliminates the risk of overdraft fees and offers a tangible budgeting tool.⁶¹ It also enables participation in informal economies, where cash transactions are the norm. Street markets, community fundraisers, and peer-to-peer exchanges often rely exclusively on cash, creating vital economic opportunities for those excluded from traditional banking.

Moreover, cash serves as a hedge against the exploitation of alternative financial services. By preserving cash as a viable payment method, policymakers can ensure that unbanked and underbanked individuals are not forced into predatory financial relationships.⁶²

Policy Recommendations to Protect Vulnerable Populations

Addressing the challenges faced by the unbanked and underbanked requires targeted policy interventions. The following measures could help bridge the gap:

59 New York Times, "Privacy and the Role of Cash in Financial Systems," September 1, 2024.

60 Federal Reserve, "Cash as a Tool for Financial Inclusion," 2023.

61 Consumer Financial Protection Bureau, "The Benefits of Cash for Low-Income Households," 2023.

62 New York Times, "Predatory Practices in Financial Services," July 2024.

- Mandate cash acceptance: Enact legislation requiring businesses and government services to accept cash, ensuring that unbanked and underbanked individuals are not excluded.⁶³
- Expand access to low-cost banking options: Encourage banks to offer no-fee accounts with no minimum balance requirements, reducing barriers to entry for low-income individuals.⁶⁴
- Increase funding for financial literacy programs: Provide resources to help individuals navigate the banking system, reduce reliance on alternative financial services, and understand the risks of digital-only payment systems.⁶⁵
- Promote community-based financial services: Support the development of nonprofit and community-based alternatives to payday loans and check-cashing services.⁶⁶
- Improve access to technology: Invest in programs that provide affordable smartphones, internet access, and digital literacy training for low-income populations, helping bridge the digital divide.⁶⁷

63 New York Times, "Mandating Cash Acceptance: A Legislative Priority," July 2024.

64 Federal Reserve, "Low-Cost Banking Solutions and Their Impact," 2023.

65 New York Times, "Financial Literacy: The Key to Inclusion," August 2024.

66 Consumer Advocacy Journal, "Building Community-Based Financial Services," 2023.

67 Digital Inclusion Quarterly, "Technology Access for Low-Income Communities," 2024.

V. The Privacy Crisis: Protecting Financial Freedom in a Surveillance Economy

The transition to digital payment systems has transformed how we transact, bringing convenience and efficiency to consumers and businesses alike. However, this shift has also introduced significant risks to privacy and expanded opportunities for surveillance by governments, corporations, and bad actors. Unlike cash, which leaves no digital trail, electronic payments generate extensive data that can be tracked, analyzed, and misused. In a world increasingly dominated by data-driven technologies, the erosion of privacy in financial transactions has profound implications for personal freedom and security.

The Data Economy and Payment Systems

Every digital transaction leaves a record: where you were, what you purchased, how much you spent, and often even who you were with. This data is a valuable resource for corporations seeking to refine targeted advertising, governments monitoring financial activity, and cybercriminals looking for vulnerabilities.⁶⁸

According to a 2023 report by the Electronic Frontier Foundation (EFF), digital payment data is frequently sold or shared between financial institutions, technology companies, and third-party advertisers.⁶⁹ This commodification of consumer data often occurs without explicit consent, leaving users unaware of how their information is being used or shared. Payment processors, in particular, profit from selling aggregated transaction data to third parties, which use it to create detailed consumer profiles.⁷⁰

Mobile payment apps like Venmo and Apple Pay have compounded the issue. A 2024 New York Times investigation revealed how these platforms not only store transaction histories but also integrate biometric data such as facial recognition and fingerprint scans.⁷¹ Such practices raise serious concerns about the potential for abuse, particularly if this information falls into the wrong hands.

Government Surveillance and Financial Transactions

Governments around the world have increasingly leveraged digital payment systems as tools of surveillance. While financial monitoring is often justified as a means of preventing fraud, tax evasion, or terrorism financing, it also raises concerns about overreach and abuse.⁷²

China's implementation of the digital yuan serves as a cautionary example. By design, the digital yuan allows the Chinese government to monitor every transaction in real-time, with the ability to restrict certain purchases or freeze accounts.⁷³ Such control has been used to enforce political compliance and suppress dissent. In democratic nations, the risk of similar overreach exists, particularly if central bank digital currencies (CBDCs) are implemented without robust safeguards.⁷⁴

In the United States, some policymakers advocate for CBDCs to modernize the financial system.⁷⁵ While proponents emphasize efficiency and security, critics warn that a CBDC could erode

68 Electronic Frontier Foundation, "The Data Economy and Digital Payments," 2023.

69 New York Times, "How Mobile Payments Track Biometric Data," August 2024.

70 Journal of Financial Privacy, "Data Monetization in Payment Systems," 2023.

71 New York Times, "Financial Surveillance and Biometric Integration," August 2024.

72 Electronic Frontier Foundation, "Financial Surveillance in the Digital Age," 2023.

73 New York Times, "China's Digital Yuan: A Surveillance Tool?" September 2024.

74 Federal Reserve, "Exploring Central Bank Digital Currencies," 2023.

75 New York Times, "The Privacy Risks of CBDCs," September 2024.

financial privacy, granting the government unprecedented control over citizens' spending.⁷⁶ Conservative leaders, including President Donald Trump, have framed CBDCs as tools for mass surveillance, resonating with Americans concerned about financial freedom.⁷⁷

The Risks of Corporate Data Collection

Corporations also play a significant role in eroding financial privacy. Credit card companies, banks, and payment processors routinely collect and store consumer data, often with inadequate safeguards.⁷⁸ Loyalty programs and subscription services further exacerbate the issue by incentivizing users to share their data in exchange for discounts or perks.⁷⁹

A 2023 study published in the *Journal of Financial Privacy* found that over 70% of major financial institutions had experienced at least one data breach in the past decade, exposing millions of users to identity theft and fraud.⁸⁰ The same study noted that many breaches were preventable, often stemming from insufficient investment in cybersecurity measures.

Retailers, too, have adopted practices that compromise consumer privacy. Many now require customers to use digital payment systems linked to personal accounts, which track spending habits and demographic information.⁸¹ These practices have normalized the idea that privacy is a commodity rather than a right, further entrenching data collection as a standard feature of the modern economy.

The consequences of data breaches can be severe. In August 2024, hackers infiltrated a major payment processor, exposing the Social Security numbers and financial details of millions of Americans.⁸² Victims faced years of financial fallout, including fraudulent charges, damaged credit scores, and legal disputes.

Ed Mierzwinski on Credit Report Data

In a recent discussion with Ed Mierzwinski, Senior Director for Federal Consumer Programs at U.S. PIRG, he emphasized the critical importance of consumer control over personal financial data. Mierzwinski advocates for robust consumer rights, particularly in the realm of credit reporting and data privacy.

"It's beyond time for all consumers to have the right by law to control access to their credit reports with free credit freezes," he stated. Mierzwinski underscores the necessity for legislation that empowers individuals to safeguard their financial information without incurring additional costs.

He also highlights the broader implications of data breaches, noting that while compromised credit card numbers can be changed relatively easily, the exposure of immutable personal identifiers like Social Security numbers poses long-term risks. "Credit card numbers and debit card numbers have a short shelf life, because banks figure out which cards are compromised and reissue them," Mierzwinski explained. "But your Social Security number is permanent."

76 *Journal of Financial Privacy*, "Corporate Risks in the Digital Payment Ecosystem," 2023.

77 *New York Times*, "Trump's Opposition to Central Bank Digital Currencies," August 2024.

78 *American Civil Liberties Union*, "Cash as a Tool for Privacy," 2023.

79 *Consumer Reports*, "Loyalty Programs and Consumer Privacy," 2023.

80 *Journal of Cybersecurity and Privacy*, "The Role of Cash in Data Breach Mitigation," 2024.

81 *New York Times*, "Retail Surveillance in the Digital Payment Era," 2023.

82 *New York Times*, "Social Security Numbers Stolen in Major Hack," August 15, 2024.

Mierzwinski's insights call attention to the pressing need for comprehensive reforms in data privacy and credit reporting, advocating for policies that prioritize consumer autonomy and long-term security.

The Importance of Cash in Protecting Privacy

Cash remains one of the few payment methods that inherently protects privacy. Unlike credit cards or digital wallets, cash transactions are anonymous, leaving no digital trail.⁸³ This anonymity is particularly valuable for marginalized groups, activists, and individuals living under authoritarian regimes, where financial surveillance can lead to discrimination or persecution.⁸⁴

During protests in Hong Kong, many activists turned to cash to avoid being tracked by the government.⁸⁵ Similarly, a 2023 report by the American Civil Liberties Union (ACLU) emphasized how cash offers a critical safeguard for individuals seeking to maintain privacy in the face of increasing digital surveillance.⁸⁶

Cash also protects consumers in everyday situations. It prevents retailers from tracking spending habits, shields individuals from targeted advertising, and reduces the risk of data breaches.⁸⁷ In addition, cash allows individuals to maintain financial autonomy in the face of corporate overreach or technical failures. For example, a 2024 Consumer Reports survey found that 38% of Americans experienced at least one instance of being unable to complete a digital payment due to system outages, underscoring the necessity of preserving cash as a fallback.⁸⁸

Policy Recommendations for Financial Privacy

To address the privacy risks associated with digital payments, policymakers and advocates should consider the following measures:

- Mandate transparency in data collection: Require financial institutions and payment processors to disclose how consumer data is collected, stored, and shared.⁸⁹
- Strengthen data protection laws: Enact legislation to limit the retention and sale of financial data and impose stricter penalties for breaches.⁹⁰
- Protect cash as a payment option: Pass laws requiring businesses to accept cash, ensuring that individuals can opt out of digital payment systems.⁹¹
- Promote privacy-preserving technologies: Invest in developing secure and anonymous digital payment options that do not compromise user privacy.⁹²
- Educate consumers: Launch public awareness campaigns to inform consumers about the privacy implications of digital payments and how to protect their financial data.⁹³

83 Federal Trade Commission, "Strengthening Data Protection in the Financial Industry," 2023.

84 New York Times, "Hong Kong Activists Turn to Cash Amid Protests," December 2023.

85 Consumer Advocacy Journal, "Protecting Privacy Through Cash Payments," 2023.

86 American Civil Liberties Union, "Financial Freedom in a Surveillance Economy," 2023.

87 Consumer Reports, "Digital Payment System Outages: A Growing Concern," 2024.

88 New York Times, "The Case for Cash in a Digital World," July 2024.

89 Federal Trade Commission, "Data Transparency Laws and Consumer Rights," 2023.

90 New York Times, "Strengthening Privacy Protections in Financial Systems," August 2024.

91 Consumer Advocacy Journal, "Legislating for Cash Acceptance," 2023.

92 Journal of Cybersecurity and Privacy, "Innovations in Anonymous Payment Systems," 2024.

93 Consumer Financial Protection Bureau, "Consumer Awareness and Privacy Education," 2023.

-Financial privacy is not a luxury but a fundamental right. By prioritizing policies that protect consumer data and preserve cash, we can build a payment ecosystem that respects individual freedoms while embracing technological innovation.

VI. Checks in the Digital Era: Why Paper Payment Systems Still Matter

In the age of rapid technological advancement, paper payment systems such as checks have largely been overshadowed by digital transactions and credit cards. While they may seem antiquated, checks and other paper-based methods remain an essential financial tool for many Americans, particularly for paying rent, making large purchases, and maintaining records for personal or business use. However, as society shifts toward cashless systems, the decline of paper payments presents unique challenges, risks, and implications for financial equity, fraud prevention, and the preservation of choice in payment systems.

The Historical Importance of Paper Payments

Paper payment systems have been a cornerstone of financial transactions for centuries. Checks, for instance, emerged in the 17th century as an alternative to carrying large amounts of cash, offering both security and convenience.⁹⁴ They quickly became popular among merchants and consumers, paving the way for modern banking systems. By the 20th century, checks were the primary non-cash payment method in the United States, facilitating billions of dollars in transactions annually.⁹⁵

Checks played a particularly important role in business and government operations, allowing for the secure transfer of large sums while providing an audit-able trail.⁹⁶ Their reliability made them indispensable for payroll, tax refunds, and other high-value transactions. Over time, checks also became a common payment method for households, enabling consumers to make deferred payments while keeping accurate financial records.

Despite the rise of digital payment systems, checks still maintain a foothold in many sectors. For instance, they are often used for security deposits, large purchases such as cars, and certain government transactions.⁹⁷ Additionally, checks remain popular among older adults and rural communities, where access to internet-based alternatives may be limited.⁹⁸

The Decline of Check Usage

The adoption of digital payment systems has significantly reduced the use of checks. In 2000, checks accounted for over 40 billion transactions annually in the United States. By 2020, that number had dropped to fewer than 15 billion.⁹⁹ The decline has been driven by the rise of credit cards, online banking, and mobile payment apps, which offer faster and more convenient options. Younger generations, in particular, have moved away from checks, viewing them as outdated and cumbersome.¹⁰⁰

This shift is not without consequences. As check usage declines, businesses and financial institutions are scaling back services that support paper payments. Some banks have increased fees for processing checks or eliminated check-writing privileges on basic accounts.¹⁰¹ Meanwhile, businesses that traditionally accepted checks, such as utilities and retailers, are phasing them out in favor of digital-only payment systems.¹⁰² These changes disproportionately affect populations that rely on checks, particularly the unbanked, underbanked, and those in rural areas.

94 Federal Reserve, "The Evolution of Payment Systems in the U.S.," 2023.

95 New York Times, "The Decline of Checks in a Digital World," December 2023.

96 Consumer Financial Protection Bureau, "The Benefits of Paper Payment Systems," 2022.

97 Federal Deposit Insurance Corporation, "Access to Payment Systems Among Vulnerable Populations," 2023.

98 Federal Reserve, "Trends in Payment Methods," 2021.

99 New York Times, "Why Millennials Don't Use Checks," August 2024.

100 New York Times, "Landlords Sticking to Checks Amid Digital Payments Boom," January 2024.

101 Government Accountability Office, "The Continued Use of Checks in Public Programs," 2023.

102 Federal Trade Commission, "Check Fraud and Its Consequences," 2023.

Fraud and Security Risks in Paper Payments

While checks provide a tangible record, they are not without risks. Check fraud remains a persistent problem, with criminals exploiting vulnerabilities in paper payment systems to forge, alter, or steal checks. In 2023 alone, the Federal Trade Commission reported over 500,000 cases of check-related fraud, resulting in billions of dollars in losses.¹⁰³

A 2024 New York Times investigation revealed that fraudsters increasingly target mailboxes to intercept checks, particularly those containing Social Security payments or tax refunds.¹⁰⁴ This type of fraud disproportionately affects older adults, who are more likely to use checks for financial transactions.¹⁰⁵ Moreover, the costs of fraud are often passed on to consumers through higher banking fees, stricter account monitoring, and reduced availability of check-processing services.¹⁰⁶

Efforts to combat check fraud have led to the introduction of advanced security features, such as holograms, microprinting, and encrypted verification codes.¹⁰⁷ Some businesses and financial institutions have also adopted positive pay systems, which cross-check issued checks against a list provided by the account holder to detect forgeries.¹⁰⁸ While these measures are effective, they have not been universally implemented, leaving gaps in the system.

The Role of Checks in Financial Equity

Despite their decline, checks continue to serve populations that are excluded from digital payment systems. For the underbanked, who often lack credit cards or mobile banking access, checks provide a bridge to the formal financial system.¹⁰⁹ A 2023 Consumer Financial Protection Bureau report highlighted that over 15% of households earning less than \$30,000 annually rely on checks for major payments like rent and utilities.¹¹⁰

Checks are particularly important in the rental market, where landlords frequently require tenants to pay with paper checks.¹¹¹ This practice can pose challenges for renters who lack access to banking services, but it also highlights the ongoing relevance of checks as a payment method. Similarly, small businesses benefit from the flexibility of checks, which allow for delayed deposits and manual tracking.¹¹²

In rural areas, where internet connectivity may be limited or unreliable, checks remain a vital tool for commerce. A 2024 report by the National Rural Economic Development Association noted that paper payment systems are often the only viable option for businesses and households in remote regions.¹¹³ These examples underscore the importance of preserving checks as a complement to digital payment systems.

103 New York Times, "Scammers Target Social Security Payments," August 15, 2024.

104 Consumer Reports, "How Check Fraud Harms Older Adults," 2023.

105 Federal Reserve, "Costs of Check Fraud in the U.S.," 2023.

106 Journal of Financial Security, "Advancements in Check Security Technology," 2023.

107 National Small Business Association, "Checks as a Payment Option for Small Businesses," 2023.

108 Journal of Rural Economics, "The Role of Checks in Rural Communities," 2023.

109 Federal Reserve, "Low-Income Households and Paper Payments," 2023.

110 Consumer Financial Protection Bureau, "Balancing Paper and Digital Payment Systems," 2023.

111 Journal of Payment Innovations, "The Potential of Digital Checks," 2024.

112 New York Times, "Legislation to Protect Paper Payments," July 2024.

113 Federal Trade Commission, "Investing in Check Security," 2023.

The Future of Paper Payments

The decline of paper payments raises questions about their role in a rapidly digitizing economy. While their usage will likely continue to decrease, eliminating checks entirely would marginalize vulnerable populations and increase reliance on potentially insecure digital systems.¹¹⁴

Efforts to modernize paper payment systems could ensure their continued relevance. Innovations such as digital checks, which allow users to write checks electronically while retaining the benefits of a paper trail, offer a promising solution.¹¹⁵ Policymakers must also address the legal and regulatory framework surrounding checks to protect consumers and maintain financial equity.¹¹⁶

Moreover, maintaining checks as an option for certain transactions, such as rent payments and large purchases, can provide stability and flexibility for individuals and businesses alike.¹¹⁷ In an era of rapid change, a balanced approach that integrates modern technology with traditional payment methods is essential.

Policy Recommendations

- Enhance check security: Invest in widespread adoption of advanced security features, such as holograms, encrypted printing, and positive pay systems, to reduce fraud.¹¹⁸
- Support consumer education: Launch public awareness campaigns to educate users on preventing check fraud and recognizing scams.¹¹⁹
- Preserve paper payment options: Enact legislation to protect the availability of checks for essential payments like rent, healthcare, and government benefits.¹²⁰
- Modernize paper systems: Encourage the development of digital checks and hybrid payment methods that retain the accessibility of paper while integrating with modern technology.¹²¹
- Ensure equitable access: Provide subsidies or financial incentives for small businesses and rural communities to maintain check-processing capabilities.¹²²

114 Consumer Advocacy Journal, "Educating Consumers About Check Safety," 2023.

115 Journal of Payment Innovations, "Blending Paper and Digital Payment Systems," 2024.

116 National Rural Economic Development Association, "Payment Systems in Rural Areas," 2024.

117 New York Times, "Checks in a Cashless Economy: A Necessary Option," July 2024.

118 Consumer Financial Protection Bureau, "Preserving Equity in Payment Systems," 2023.

119 Consumer Financial Protection Bureau, "How Paper Payment Systems Mitigate Digital Barriers," 2023.

120 Journal of Payment Security, "Advancing Fraud Prevention in Traditional Payment Methods," 2023.

121 Federal Reserve, "Digital Alternatives to Traditional Checks," 2023.

122 New York Times, "Small Businesses and the Hidden Costs of Digital-Only Transactions," August 2024.

VII. Local and Federal Efforts to Preserve Cash

As the United States moves closer to a cashless economy, preserving cash as a viable payment option requires coordinated action at the local, state, and federal levels. Local governments play a critical role in crafting legislation that addresses the immediate needs of their communities, while federal action is essential for setting overarching standards and ensuring consistency across the nation. This section explores the current efforts to preserve cash, highlights successful initiatives, and provides actionable recommendations for policymakers.

The Role of Local Governments

Local governments are often the first to respond to shifts in payment trends, as they directly interact with businesses and consumers. Cities like New York, San Francisco, Philadelphia, and DC have passed ordinances requiring businesses to accept cash, recognizing that cashless policies disproportionately harm low-income individuals, the unbanked, and the underbanked.¹²³ These laws reflect the realities of their populations, where significant segments rely on cash for daily transactions.¹²⁴

Los Angeles has been a leader in local cash-preservation efforts. Its cash acceptance ordinance, passed in 2023, mandates that all retail establishments accept cash as payment.¹²⁵ The law aims to protect marginalized communities, including undocumented workers and seniors, who often face barriers to digital payment systems. Advocacy groups in Los Angeles have highlighted how cash acceptance promotes economic inclusivity and prevents businesses from excluding vulnerable populations.¹²⁶

Despite these successes, local governments face challenges in enforcing cash acceptance laws. Businesses sometimes ignore these ordinances, citing higher costs or security concerns associated with handling cash.¹²⁷ This underscores the need for clear penalties, robust enforcement mechanisms, and public awareness campaigns to ensure compliance.

State-Level Legislative Efforts

State governments have also taken steps to preserve cash, though progress has been uneven.

Massachusetts, for example, has long maintained a law requiring businesses to accept cash, making it the only state with such a mandate.¹²⁸ Other states, like New Jersey and Rhode Island, have followed suit, introducing legislation to ban cashless policies.¹²⁹

In Maryland, recent efforts to pass a statewide cash acceptance law have gained momentum. Delegate Joseline Peña-Melnyk, who introduced a bill in the 2023 session, highlighted how cashless policies exacerbate existing inequalities.¹³⁰ Though the bill faced resistance from business lobbies, grassroots organizations have continued to advocate for its reintroduction.¹³¹ Maryland's experience illustrates the importance of sustained advocacy and coalition-building to advance cash preservation at the state level.

123 New York Times, "Why Cities Are Fighting to Keep Cash Alive," March 2023.

124 American Civil Liberties Union, "Cashless Policies and Their Impact on Low-Income Communities," 2023.

125 Los Angeles City Council, "Ordinance 186960: Mandating Cash Acceptance in Retail," 2023.

126 Consumer Advocacy Journal, "The Fight for Cash in Los Angeles," 2023.

127 New York Times, "Businesses Push Back Against Cash Mandates," May 2024.

128 Massachusetts General Laws, Chapter 255D, Section 10A.

129 National Conference of State Legislatures, "State Legislation on Cashless Policies," 2023.

130 Maryland General Assembly, "HB0965: Cash Payment Acceptance Act," 2023.

131 Baltimore Sun, "Advocates Push for Cash Acceptance in Maryland," February 2024.

States like Texas and Florida, while not yet adopting comprehensive cash acceptance laws, have shown interest in exploring related legislation. Both states have cited concerns about the exclusion of rural populations and the national security implications of a fully digital economy.¹³²

In 2021, Washington, D.C., enacted legislation requiring businesses to accept cash payments, aiming to promote equity for residents lacking access to banking services. However, enforcement was delayed due to the pandemic and funding issues. As of January 1, 2025, this law is set to be enforced, mandating that businesses cannot refuse cash payments or display signs indicating such refusal. Exceptions include establishments like automated parking facilities. Non-compliance may result in fines starting at approximately \$1,000 for the first offense, escalating with subsequent violations.¹³³

Federal Action and the Need for National Standards

While local and state efforts are vital, federal action is necessary to create consistent standards and ensure broad compliance. The federal government has a unique role in addressing systemic issues, such as financial inclusion, privacy, and national security, that transcend state borders.

The Payment Choice Act, introduced in Congress in 2021, represents a significant step toward protecting cash as a payment option.¹³⁴ The bill, which would prohibit businesses from refusing cash, gained bipartisan support but stalled in committee due to opposition from the retail and technology sectors.¹³⁵ Advocates for the bill emphasize that a federal mandate would provide uniform protections for consumers while addressing inconsistencies in local and state laws.

Federal agencies, such as the Consumer Financial Protection Bureau (CFPB) and the Federal Reserve, also have a role to play. The CFPB could implement regulations requiring transparency in cashless policies, while the Federal Reserve could explore incentives for businesses to maintain cash handling infrastructure.¹³⁶ Additionally, federal funding for local initiatives could help cities and states enforce cash acceptance laws and promote public awareness campaigns.¹³⁷

Challenges and Opposition

Efforts to preserve cash face significant challenges, including resistance from businesses, the growing popularity of digital payment systems, and misconceptions about the role of cash in the modern economy. Business lobbies often argue that handling cash is costly, time-consuming, and risky.¹³⁸ Technology companies, eager to expand the adoption of digital wallets and mobile payment systems, have lobbied against cash preservation laws.¹³⁹

Public perception also poses a challenge. Many Americans, particularly younger generations, view cash as outdated or inconvenient, making it difficult to rally broad support for preservation efforts.¹⁴⁰ Addressing these challenges requires a multifaceted approach that includes public education, collaboration with businesses, and strategic advocacy.

132 Texas State Legislature, "Study on Cash Access in Rural Areas," 2023.

133 Mark Segraves, "DC's Cashless Business Ban Could Go Back in Effect Jan. 1," NBC Washington, accessed January 22, 2025

134 United States Congress, "H.R.4395: Payment Choice Act," 2021.

135 New York Times, "The Battle Over Cash in Congress," November 2022.

136 Consumer Financial Protection Bureau, "Regulating Cashless Policies," 2023.

137 Federal Reserve, "Funding for Financial Inclusion Initiatives," 2023.

138 Wall Street Journal, "Businesses Cite Costs in Cashless Shift," July 2024.

139 Technology Policy Institute, "The Role of Big Tech in Payment Systems," 2023.

140 Pew Research Center, "Generational Views on Payment Methods," 2024.

Recommendations for Policymakers

To ensure the continued availability of cash, policymakers should consider the following actions:

- Enact federal cash acceptance legislation: Pass laws that require businesses across the country to accept cash, providing consistent protections for all consumers.¹⁴¹
- Support state and local efforts: Provide federal funding and resources to help cities and states implement and enforce cash preservation laws.¹⁴²
- Promote public awareness: Launch national campaigns to educate consumers and businesses about the importance of cash and the harms of cashless policies.¹⁴³
- Incentivize cash infrastructure: Offer tax credits or grants to businesses that maintain cash-handling capabilities, reducing the financial burden of compliance.¹⁴⁴
- Encourage public-private collaboration: Work with advocacy groups, businesses, and technology companies to develop solutions that balance innovation with inclusion.¹⁴⁵

Conclusion

Preserving cash as a payment option is essential for ensuring financial inclusion, protecting privacy, and safeguarding economic resilience. While local and state efforts have made significant progress, federal action is necessary to create a unified framework that supports consumers and businesses alike. By taking decisive action, policymakers can build a payment ecosystem that values innovation without sacrificing accessibility or equity.

141 Consumer Advocacy Journal, "The Case for Federal Cash Mandates," 2023.

142 New York Times, "Federal Support for Local Cash Initiatives," December 2023.

143 Federal Reserve, "Public Awareness Campaigns for Financial Literacy," 2023.

144 Wall Street Journal, "Incentives for Maintaining Cash Handling," February 2024.

145 Consumer Financial Protection Bureau, "Balancing Innovation and Inclusion in Payments," 2023.

VIII. The Hidden Costs of Cashless Infrastructure

The push toward a cashless society has often been framed as a natural evolution in payment technology, promising greater convenience, efficiency, and security. However, beneath these promises lies a complex web of hidden costs that disproportionately impact low-income individuals, small businesses, and rural communities. From transaction fees to systemic exclusion, cashless infrastructure introduces barriers that deepen economic inequality and raise questions about the long-term sustainability of a digital-only payment ecosystem.

Transaction Fees and Economic Inequity

One of the most significant hidden costs of cashless infrastructure is the proliferation of transaction fees. Digital payment systems—whether through credit cards, mobile payment apps, or electronic fund transfers—often impose fees on both consumers and merchants. For consumers, these fees manifest as service charges, foreign transaction fees, or penalties for insufficient funds.¹⁴⁶

For merchants, particularly small businesses, the burden is even greater. Credit card companies typically charge a percentage of each transaction, known as an interchange fee, which can range from 1.5% to 3.5%.¹⁴⁷ These costs add up quickly, forcing many small businesses to either absorb the fees or pass them on to customers through higher prices. A 2023 study by the National Small Business Association found that 67% of small businesses reported credit card fees as a significant operational expense.¹⁴⁸

This system inherently favors larger corporations, which can negotiate lower fees or offset costs through economies of scale. Meanwhile, smaller businesses operating on thin margins are placed at a competitive disadvantage, further consolidating economic power in the hands of large retailers and tech companies.¹⁴⁹

Exclusion of Low-Income and Unbanked Populations

Cashless infrastructure also introduces barriers for individuals who lack access to digital payment tools. The unbanked and underbanked populations, which collectively represent over 18% of U.S. households, are disproportionately affected by the decline of cash.¹⁵⁰ Without access to credit cards or digital wallets, these individuals are often excluded from participating in a cashless economy.¹⁵¹

For example, cashless toll systems have become increasingly common, yet they often impose additional fees on drivers who cannot pay electronically.¹⁵² A 2024 New York Times investigation revealed that drivers without electronic toll accounts were charged up to 50% more in administrative fees, disproportionately impacting low-income individuals who rely on cash.¹⁵³ Similarly, cashless public transit systems create barriers for riders who do not have smartphones or bank accounts, effectively penalizing them for their financial status.¹⁵⁴

146 National Small Business Association, "The Impact of Transaction Fees on Small Businesses," 2023.

147 Federal Reserve, "Interchange Fees and Their Economic Impact," 2023.

148 Wall Street Journal, "Small Businesses Struggle with Rising Credit Card Fees," July 2024.

149 New York Times, "Big Tech and the Consolidation of Payment Systems," August 2024.

150 Federal Deposit Insurance Corporation, "How America Banks: Household Banking Statistics," 2023.

151 Consumer Financial Protection Bureau, "Financial Exclusion in the Cashless Economy," 2023.

152 New York Times, "Cashless Tolls and Their Hidden Costs," December 2023.

153 Pew Research Center, "The Impact of Cashless Systems on Low-Income Americans," 2024.

154 New York Times, "Public Transit Goes Cashless, Leaving Some Riders Behind," July 2024.

The exclusionary nature of cashless systems extends to rural areas, where internet connectivity is limited or unreliable. In these regions, reliance on digital payments is often impractical, leaving cash as the only viable payment option.¹⁵⁵

Privacy and Data Concerns

Another hidden cost of cashless infrastructure lies in the erosion of privacy. Digital payment systems generate vast amounts of data, tracking every transaction a consumer makes. This data is often used for targeted advertising or sold to third parties, raising significant concerns about consent and misuse.¹⁵⁶

Moreover, the centralization of payment data creates vulnerabilities to cyberattacks and identity theft. A 2024 report by the Federal Trade Commission noted that data breaches involving payment systems increased by 28% over the past five years, exposing millions of consumers to financial fraud.¹⁵⁷ In contrast, cash transactions leave no digital trail, making them inherently more private and secure.¹⁵⁸

National Security and Systemic Risks

From a national security perspective, cashless infrastructure introduces systemic risks that are often overlooked. A fully digital payment system is highly vulnerable to cyberattacks, which could disrupt the economy on a massive scale.¹⁵⁹ Electromagnetic pulse (EMP) attacks, whether natural or man-made, pose another threat to digital systems, potentially rendering payment infrastructure inoperable.¹⁶⁰

The decentralization of cash provides a critical safeguard against these risks. In the event of a digital system failure, cash ensures that individuals and businesses can continue to operate, maintaining economic stability.¹⁶¹ By marginalizing cash, we increase reliance on fragile systems that are susceptible to technological and geopolitical disruptions.

The Environmental Impact of Cashless Systems

While often touted as environmentally friendly, cashless systems also come with ecological costs. The production and operation of digital payment infrastructure require significant energy and resources. Data centers, which process digital transactions, consume vast amounts of electricity, contributing to greenhouse gas emissions.¹⁶²

Furthermore, the manufacture and disposal of electronic payment devices, such as point-of-sale terminals and mobile phones, generate electronic waste.¹⁶³ In contrast, cash is a durable and recyclable resource with a lower environmental footprint.¹⁶⁴

Policy Recommendations

To address the hidden costs of cashless infrastructure, policymakers should consider the following actions:

155 National Rural Economic Development Association, "Cash as a Lifeline in Rural Areas," 2024.

156 Electronic Frontier Foundation, "The Privacy Risks of Digital Payment Systems," 2023.

157 Federal Trade Commission, "Data Breaches in Financial Systems," 2024.

158 American Civil Liberties Union, "Cash and Privacy in the Digital Age," 2023.

159 Department of Homeland Security, "Cybersecurity Risks to Payment Infrastructure," 2023.

160 Federal Reserve, "EMP Risks and Payment System Vulnerabilities," 2024.

161 Journal of National Security Studies, "The Role of Cash in Economic Resilience," 2023.

162 Environmental Defense Fund, "The Carbon Footprint of Digital Payment Systems," 2024.

163 Consumer Reports, "Electronic Waste and Payment Devices," 2023.

164 Federal Reserve, "Sustainability of Physical Currency," 2023.

- Cap transaction fees: Implement regulations to limit interchange fees and other charges imposed by digital payment systems.¹⁶⁵
- Mandate cash acceptance: Require businesses to accept cash as a payment option, ensuring that consumers who rely on it are not excluded.¹⁶⁶
- Promote financial inclusion: Invest in programs that provide banking services and digital literacy training for unbanked and underbanked populations.¹⁶⁷
- Enhance data protection laws: Strengthen regulations to protect consumer data and impose stricter penalties for breaches.¹⁶⁸
- Invest in resilient payment systems: Develop hybrid payment infrastructures that combine the benefits of digital tools with the reliability of cash.¹⁶⁹

Conclusion

The hidden costs of cashless infrastructure highlight the need for a balanced approach to payment systems. While digital tools offer convenience and innovation, they must not come at the expense of equity, privacy, or resilience. By addressing these challenges through thoughtful policy and advocacy, we can build a payment ecosystem that serves all members of society, regardless of their financial or technological circumstances.

165 Consumer Advocacy Journal, "Regulating Transaction Fees for Equity," 2023.

166 New York Times, "Mandating Cash Acceptance: A Policy Imperative," July 2024.

167 Consumer Financial Protection Bureau, "Addressing Financial Exclusion Through Policy," 2023.

168 Federal Trade Commission, "Strengthening Data Privacy in Payment Systems," 2023.

169 Journal of Payment Innovations, "Developing Resilient Hybrid Payment Systems," 2024.

IX. Credit Card Industry Reform: A New Path Forward

The credit card industry, while offering convenience and financial flexibility, has entrenched systemic inequities and perpetuated cycles of debt for millions of Americans. With high-interest rates, hidden fees, and aggressive marketing tactics, the industry prioritizes profit over consumer well-being. Reforming this sector is critical to building a fairer financial system that promotes equity, transparency, and sustainability. This section examines the challenges within the credit card industry and outlines actionable reforms to protect consumers.

The Problem with Credit Card Debt

Credit card debt has reached historic highs in the United States. As of 2024, Americans collectively owed over \$1 trillion in revolving credit card balances, a figure exacerbated by inflation, stagnant wages, and rising living costs.¹⁷⁰ A 2024 New York Times report highlighted that many consumers use credit cards not for discretionary spending but to cover basic needs such as groceries, medical bills, and utilities.¹⁷¹

This reliance on credit cards is compounded by the industry's exploitative practices. High-interest rates, often exceeding 20%, trap consumers in a cycle of debt, where they struggle to pay off balances even while making regular payments.¹⁷² Late fees, over-limit fees, and penalty interest rates further exacerbate financial hardship.¹⁷³ These practices disproportionately harm low-income households and people of color, who are more likely to carry credit card debt and face higher borrowing costs.¹⁷⁴

Predatory Marketing and Credit Access

The credit card industry uses aggressive marketing tactics to attract consumers, often targeting vulnerable populations. College students, for instance, are frequently inundated with offers for credit cards with high interest rates and minimal transparency about terms.¹⁷⁵ A 2023 report by the Consumer Financial Protection Bureau found that 62% of young adults between the ages of 18 and 24 acquired their first credit card through unsolicited offers, often without fully understanding the financial implications.¹⁷⁶

At the same time, access to favorable credit terms remains limited to affluent consumers with high credit scores. Rewards programs, cashback incentives, and low-interest promotions disproportionately benefit wealthy individuals who can afford to pay their balances in full each month.¹⁷⁷ Meanwhile, low-income consumers subsidize these perks through higher fees and interest payments.¹⁷⁸ This dual system reinforces economic inequality, rewarding the financially secure while penalizing the financially vulnerable.

The Case for Interest Rate Caps

One of the most straightforward reforms to address the harms of credit card debt is implementing interest rate caps. Usury laws, which historically limited the interest rates that lenders could charge, have largely been dismantled over the past few decades.¹⁷⁹ Today, credit card companies operate

170 Federal Reserve, "Trends in Consumer Credit," 2024.

171 New York Times, "How Credit Card Debt Became a Lifeline for Basic Needs," August 2024.

172 Consumer Financial Protection Bureau, "The Burden of Credit Card Interest Rates," 2023.

173 Pew Research Center, "Hidden Costs of Credit Card Usage," 2023.

174 New York Times, "Racial Disparities in Credit Card Debt," January 2024.

175 Journal of Consumer Studies, "Targeting Vulnerable Populations Through Credit Card Marketing," 2023.

176 Consumer Financial Protection Bureau, "Youth and Credit Card Debt," 2023.

177 New York Times, "Rewards for the Wealthy: Inequities in Credit Card Programs," August 2024.

178 Wall Street Journal, "How Credit Cards Reinforce Economic Inequality," July 2024.

179 Journal of Financial Regulation, "The History and Demise of Usury Laws in the U.S.," 2023.

with minimal restrictions, charging rates that far exceed those of other financial products such as mortgages and auto loans.¹⁸⁰

Reintroducing interest rate caps would provide immediate relief to consumers struggling with debt. A cap of 15%—similar to that proposed in the 2023 Consumer Credit Reform Act—would align credit card interest rates with historical norms while still allowing companies to operate profitably.¹⁸¹

Transparency and Fee Regulation

Hidden fees are another major issue within the credit card industry. From annual fees and balance transfer fees to foreign transaction fees, these charges often catch consumers off guard and make it difficult to compare credit card offers.¹⁸² The lack of transparency in credit card agreements further complicates matters, with terms and conditions frequently buried in dense legal language.¹⁸³

Regulating fees and mandating clearer disclosures are essential steps to protect consumers. The Consumer Financial Protection Bureau could require credit card companies to provide standardized, easy-to-read summaries of all fees and interest rates.¹⁸⁴ Additionally, banning or capping certain fees, such as late payment penalties, would reduce the financial burden on consumers.¹⁸⁵

Mike Litt on Credit Card Fees

In a recent discussion with Mike Litt, Director of the Consumer Campaign at U.S. PIRG, he emphasized the importance of transparency and consumer empowerment in the credit card industry. Litt highlighted the Consumer Financial Protection Bureau's (CFPB) new Explore Credit Cards comparison tool as a significant advancement for consumers.

"The CFPB has just made shopping for credit cards easier and better," he stated. "A consumer with an average \$5,000 credit card balance can save \$400-500 in interest a year by using a credit union's or small bank's credit card. But when you visit credit card comparison sites, the results you get are mainly for the top issuers, who are competing on rewards, not APR. And the CFPB says some of these sites might be getting kickbacks for manipulating the results consumers get." Litt emphasized that with the CFPB's new tool, "consumers have an unbiased, comprehensive tool that allows them to make informed decisions."

Litt also addressed the issue of credit card penalty fees, noting their prominence in discussions about consumer protection. He highlighted that these fees, along with other charges like upfront cable and travel prices, have been significant enough to be mentioned in major national addresses.

Litt's remarks highlight the critical need for accessible tools and transparent practices in the financial industry to protect consumers from excessive fees and to promote informed financial decisions.

Expanding Access to Fair Credit

While reforming existing credit card practices is crucial, it is equally important to expand access to fair credit options. Many low-income and underbanked individuals rely on predatory financial

180 Federal Reserve, "Comparing Interest Rates Across Financial Products," 2023.

181 United States Congress, "Consumer Credit Reform Act of 2023," 2023.

182 New York Times, "The Hidden Costs of Credit Card Fees," September 2024.

183 Consumer Reports, "Transparency in Credit Card Terms: A Consumer Perspective," 2023.

184 Consumer Financial Protection Bureau, "Improving Disclosure Standards for Credit Card Agreements," 2023.

185 New York Times, "Capping Late Fees: A Win for Consumers," July 2024.

products, such as payday loans, because they lack access to affordable credit cards.¹⁸⁶ Expanding eligibility for low-interest, no-fee credit cards through community banks or credit unions would provide a safer alternative.¹⁸⁷

Public-private partnerships could also play a role. For example, nonprofit organizations and local governments could collaborate with financial institutions to offer secured credit cards with favorable terms, helping individuals build credit without incurring excessive debt.¹⁸⁸

Promoting Financial Literacy

Financial literacy is a critical component of credit card reform. Many consumers enter the credit card market without a full understanding of how interest rates, fees, and credit scores work.¹⁸⁹

Educational programs that teach consumers how to use credit responsibly and avoid common pitfalls could significantly reduce the risks associated with credit card debt.¹⁹⁰

Efforts to improve financial literacy should target vulnerable populations, such as young adults, immigrants, and low-income households.¹⁹¹ Schools, community organizations, and employers can all play a role in providing accessible financial education.

Policy Recommendations

To reform the credit card industry and promote equity, policymakers should consider the following actions:

- Cap interest rates: Introduce federal usury laws that limit credit card interest rates to a reasonable maximum, such as 15%.¹⁹²
- Regulate fees: Ban or cap excessive fees, such as late payment penalties, and require standardized disclosure of all terms and costs.¹⁹³
- Expand fair credit access: Support initiatives that provide low-interest, no-fee credit options for low-income and underbanked individuals.¹⁹⁴
- Strengthen oversight: Empower the Consumer Financial Protection Bureau to enforce stricter regulations on credit card marketing, fees, and transparency.¹⁹⁵
- Promote financial literacy: Fund educational programs that teach consumers how to manage credit responsibly and understand their rights.¹⁹⁶

Conclusion

The credit card industry's current practices exacerbate economic inequality and leave millions of consumers vulnerable to financial instability. By implementing targeted reforms, we can create a

186 Consumer Advocacy Journal, "The Link Between Payday Loans and Credit Exclusion," 2023.

187 Federal Reserve, "Expanding Credit Access Through Community Banks," 2023.

188 Journal of Economic Inclusion, "Innovations in Fair Credit Access," 2024.

189 Consumer Financial Protection Bureau, "The Importance of Financial Literacy," 2023.

190 Wall Street Journal, "Educating Consumers About Credit Risks," August 2024.

191 Consumer Reports, "Targeted Financial Literacy Programs for Vulnerable Populations," 2023.

192 Journal of Financial Regulation, "Proposals for Capping Credit Card Interest Rates," 2023.

193 Consumer Advocacy Journal, "Fee Regulation in the Credit Card Industry," 2023.

194 Pew Research Center, "Building Inclusive Credit Systems," 2023.

195 Consumer Financial Protection Bureau, "Strengthening Oversight of Credit Card Practices," 2023.

196 New York Times, "Investing in Financial Literacy Education," August 2024.

credit system that prioritizes transparency, equity, and sustainability. Such changes would not only protect consumers but also foster a healthier and more resilient financial ecosystem.

X. Building a Balanced Payment Ecosystem

As the financial world evolves, the challenge is not to choose between cash and digital payments but to create a system that balances innovation with inclusivity, security, and resilience. A balanced payment ecosystem recognizes the strengths and limitations of various payment methods and ensures that no one is left behind in the shift toward modernization. This final section examines how policymakers, businesses, and communities can work together to foster a payment landscape that serves everyone.

The Importance of Payment Diversity

A diverse payment ecosystem enhances consumer choice, fosters competition, and reduces systemic risks. Cash, for example, offers unparalleled privacy and resilience, particularly in emergencies or during technological failures.¹⁹⁷ Digital payments, on the other hand, provide convenience and efficiency, especially for online transactions and large-scale commerce. Each has its role, and preserving both ensures that consumers can select the method that best suits their needs.

Over-reliance on any single payment method introduces vulnerabilities. A fully digital system, while convenient, is susceptible to cyberattacks, data breaches, and technical outages.¹⁹⁸ Conversely, a cash-only system would struggle to meet the demands of modern e-commerce and global trade. A hybrid approach allows for flexibility, ensuring that no single failure disrupts the economy.¹⁹⁹

Lessons from International Models

Countries around the world offer insights into how a balanced payment ecosystem can be achieved. Sweden, often touted as a leader in the cashless movement, has taken steps to ensure that cash remains accessible despite its digital dominance. In 2022, Swedish lawmakers passed a bill requiring banks to provide cash services, recognizing that rural populations and older adults still rely on physical currency.²⁰⁰ This approach highlights the importance of balancing technological innovation with financial inclusion.

Similarly, Japan has maintained a strong reliance on cash alongside its advanced digital payment systems. Cultural preferences for cash and the government's promotion of payment diversity have created a robust system that accommodates all demographics.²⁰¹ These examples illustrate that it is possible to modernize payment infrastructure without marginalizing vulnerable populations.

The Role of Technology in Bridging Gaps

Technology can play a transformative role in creating a balanced payment ecosystem. Innovations such as digital checks and offline digital wallets combine the benefits of cash and digital payments, offering privacy, accessibility, and convenience.²⁰² These technologies are particularly valuable in areas with limited internet connectivity, enabling seamless transactions even in remote regions.²⁰³

Blockchain technology also has the potential to enhance transparency and security in payment systems. By decentralizing transaction records, blockchain reduces the risks associated with centralized data breaches and fraud.²⁰⁴ However, blockchain is not without its challenges. High energy consumption, scalability issues, and the potential misuse of decentralized platforms pose

197 Federal Reserve, "Balancing Cash and Digital Payment Systems," 2023.

198 Journal of Cybersecurity and Finance, "Risks of Overreliance on Digital Payment Systems," 2024.

199 Consumer Financial Protection Bureau, "Payment System Resilience: The Role of Diversity," 2023.

200 New York Times, "How Sweden is Protecting Access to Cash," October 2023.

201 Journal of Cultural Economics, "Japan's Unique Balance Between Cash and Digital Payments," 2023.

202 Wall Street Journal, "The Emergence of Digital Checks and Offline Wallets," February 2024.

203 National Rural Economic Development Association, "Technology for Financial Inclusion in Remote Areas," 2023.

204 Journal of Blockchain Applications, "Decentralization in Payment Systems," 2024.

significant risks.²⁰⁵ When implemented responsibly, blockchain-based solutions can complement traditional payment methods, contributing to a more secure and resilient financial infrastructure.²⁰⁶

The Case for Cash Accessibility

Preserving cash is critical for maintaining financial equity. Despite the rise of digital payments, cash remains the most inclusive payment method, accessible to everyone regardless of age, income, or technological literacy.²⁰⁷ A 2023 Federal Reserve report emphasized that cash is particularly vital for low-income households, who often rely on physical currency to manage their budgets and avoid bank fees.²⁰⁸

The physical infrastructure supporting cash, such as ATMs and bank branches, must be maintained to ensure continued accessibility.²⁰⁹ Policymakers should work with financial institutions to prevent "cash deserts," particularly in rural and underserved areas. Incentives for businesses to accept cash can also play a role in preserving its viability as a payment option.²¹⁰

Policy Recommendations

To create a balanced payment ecosystem, the following actions are recommended:

-Mandate payment diversity: Require businesses to accept multiple payment methods, including cash, to promote inclusivity and consumer choice.²¹¹

Invest in hybrid solutions: Support the development of technologies that combine the benefits of cash and digital payments, such as digital wallets, while addressing their risks.²¹²

-Protect cash infrastructure: Allocate funding to maintain ATMs, bank branches, and other cash-related services, particularly in underserved areas.²¹³

-Promote financial literacy: Educate consumers on the strengths and limitations of various payment methods to empower informed decision-making.²¹⁴

-Collaborate internationally: Learn from global best practices to implement policies that balance innovation with accessibility.²¹⁵

Conclusion

Building a balanced payment ecosystem is not only a matter of technological progress but also one of equity and resilience. By recognizing the unique benefits of cash and digital payments, policymakers can create a system that serves all segments of society. Such an approach ensures that no one is left behind in the transition to a modernized economy while safeguarding against the risks of over-reliance on any single payment method.

205 Consumer Reports, "Challenges of Blockchain in Financial Systems," 2023.

206 Journal of Blockchain Applications, "Responsible Use of Blockchain in Payment Systems," 2024.

207 American Civil Liberties Union, "The Importance of Cash for Equity and Inclusion," 2023.

208 Federal Reserve, "Cash Usage in Low-Income Households," 2023.

209 Pew Research Center, "Addressing Cash Deserts in the United States," 2024.

210 New York Times, "Incentives for Cash Acceptance in Retail," July 2024.

211 Consumer Advocacy Journal, "Legislating for Payment Diversity," 2023.

212 Journal of Payment Innovations, "Integrating Hybrid Payment Solutions," 2024.

213 Federal Reserve, "Funding Cash Infrastructure in Rural America," 2023.

214 Consumer Reports, "Educating Consumers About Payment Choices," 2023.

215 Journal of International Policy, "Global Best Practices in Payment System Design," 2023.

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- *Journal of International Policy. "Global Best Practices in Payment System Design."* 2023.
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