The Subversive Power of Commons-Based Businesses

Credit unions offer better credit cards than banks.

By David Bollier

There's s good reason why conventional businesses don't like commons-based alternatives: they tend to have structural advantages that let them offer better quality products and services. The latest example is documented in an oped article in today's *New York Times.*

Harvard doctoral candidates Ryan Bubb and Alex Kaufman describe how credit cards issued by investor-owned banks charge higher fees and penalties than customer-owned credit unions. And when the credit unions do charge fees and penalties, they charge less than banks. Credit unions also offer Visa and Mastercard cards for lower annual fees and longer grace periods.

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Bubb and Kaufman cite these facts – the results of an extensive study that they performed – to show that banks can still lend profitably under the recently passed credit-card reform legislation, the Credit Card Accountability, Responsibility and Disclosure Act. Banks have pissed and moaned that the reforms will require them to cut credit limits, raise annual fees and eliminate rewards programs (e.g., free plane tickets) for credit-card users. These are the same banks, incidentally, that have recently benefited from billions of dollars in taxpayer bailouts. Even a modicum of public accountability from banks — in terms of reasonable credit card terms — is apparently too much to ask for.

Bubb and Kaufman utterly demolish the banking industry's claims that it cannot afford to offer credit under the law's new terms. If credit unions can profitably offer credit cards to customers under the new law, well, so can banks. They will simply earn less money. That's the real bone of contention. As Bubb and Kaufman put it:

Banks and credit unions compete for customers in the same market. The primary distinguishing characteristic of credit unions is that they answer to a different group of owners: profits that are not reinvested are paid to the union's shareholder-customers as a dividend, much as investor-owned banks reinvest or pay dividends on their shareholder-investors….Credit union cards demonstrate that punishing fees are not an essential ingredient of profitable lending.

The lesson here is that commons-based businesses can act as a competitive wedge for higher-quality performance in the marketplace. They often have superior cost-structures and financial loyalties (to investor-customers), enabling them to compete more effectively. That's why conventional businesses loathe them. In the past, the banking industry has tried to impose new restrictions on the ability of credit unions to compete and expand.

This same dynamic is currently playing out in the health care reform battles. Insurers and pharmaceutical companies are not eager to see a publicly managed alternative provide genuine competition to them. Republicans and centrist Democrats are enraged that a public option would provide more efficient services at more competitive prices. Hello? Isn't that the point? And let's not start with claims that commons-based businesses have subsidized advantages. If anything, it's the conventional businesses that have leveraged their political power to acquire all sorts of financial and regulatory advantages for themselves. And yet that is STILL not enough to make them competitive in many instances (because so much of the revenue is being constantly siphoned off to investors).

If the market as now constituted can't compete against commons-based alternatives, well, then, perhaps it's time to let the bloated, inefficient businesses of the conventional market give way to the superior alternatives.

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