

## The Economy in Perspective

*The medium is the message* ... During this holiday season, while standing in line to buy just the right gift—or to return just the wrong one—you might stop to reflect on the evolution of shopping. There was a time when people would “go shopping” as a social pastime, but those days now appear to be the relic of a bygone era. In the second phase of the evolution, retailers learned how to reel in customers with double coupons, “midnight madness” sales, and everyday low pricing. Then came malls featuring petting zoos, beauty contests, and amusement park rides. But the inescapable truth of the shopping experience is that the transaction itself is too slow, sometimes frustrating, and not very high-tech.

Cash is a problem. No one wants to keep going to the bank, even if cash can be obtained quickly from ATMs. Check writing can be annoying when so many forms of identification are required. Standing behind a check writer is like standing behind someone giving pennies to the bank teller. Credit cards overcome many of these shortcomings, but they, too, require that a check be written when it's time to pay the bill. Besides, charge cards have been around awhile and are showing their age. No pizzazz. Heading into the twenty-first century, we need something that befits a cybershopper.

Fortunately, the shopping scene is receiving a shot in the arm from payment entrepreneurs. Thanks to technological innovations, the very act of making a purchase can now add luster to otherwise numbing encounters with parking lots, sales associates, and merchandise racks. If developers of new payment vehicles have their way, consumers will be as exhilarated by *how* they make a purchase as by what they take home.

Credit card issuers have found many ways to put the punch back into using these payment devices, illustrating how purely functional transactions can be turned into a more pleasant experience. Credit cards have traditionally carried an annual fee and looked stodgy. The only pleasure associated with their use was the knowledge that you really weren't paying for what you were taking out of the store: that came later at billing time (or even months later if you decided to finance the purchase). Now you can obtain several cards for free and choose from an array of colors, designs, and celebrity pictures. Using these cards can automatically provide accident and travel insurance, charitable donations, frequent-flier mileage, cash rebates, and merchandise credits. So, depending on your mood at transaction time, you can transcend the mere purchase of groceries to

satisfy a deeper craving—like adding points toward that Caribbean cruise.

Retail payment vehicles have broadened well beyond cash, checks, and credit cards. Stored-value cards are designed to reduce the need to stop at the bank for cash, yet they take the place of cash for small-dollar purchases. For example, you can ride the public transit system and exit the turnstile by “swiping” a card that holds a dollar-denominated balance of “transit money” through a reading device. The device deducts the fare from your available balance. At the airport, you can place a long-distance call by using another card that stores long-distance minutes, for which you have already paid. Swipe. Your child uses a card to buy lunch at the school cafeteria. Swipe.....swipe (back for seconds). And don't forget movie rental cards—swipe, swipe, swipe for that Jack Nicholson festival weekend. The possibilities are endless. One can imagine prepaid shoe-shine cards, coffee shop cards, and car wash cards.

But paper currency and checks are likely to be with us for some time before being completely replaced by electronic payment vehicles. No one wants to carry around dozens of special-purpose electronic money cards, each to be used as cash for only one merchant. Nor does it make sense to carry many cards denominated in telephone units, transit miles, and donuts, because it is not easy to exchange these units with people or merchants other than the issuer. What makes money valuable is its universal acceptance.

Yet it is apparent that the technology to replace paper payment instruments is rapidly falling into place. The attraction for payment processors lies in the knowledge that replacing paper checks with electronic ones will cut handling costs dramatically. The United States spends about \$60 billion annually processing paper checks, so the business opportunities are quite attractive. Cash, too, is expensive for merchants to transport and protect from theft.

To be successful, however, service providers will have to address some important security issues and assemble a large merchant network. They will also have to persuade consumers to abandon those hopelessly old-fashioned greenbacks and paper checks by offering something of better value. But the handwriting is on the wall: Faster and cheaper payment services are comin' to town. So the next time you stand in a check-out line tapping your toes and staring at your watch, think about how excited you'll feel when it's your turn to pay. Using your debit card with the Santa Claus logo may just earn you a trip to the North Pole.