

# Taking Government Cards Seriously

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Government Use of the Payment Card System:  
Issuance, Acceptance, and Regulation



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# “Instrumental” Thinking & Gov’t Cards

- Testbeds for innovative functionality
- Bringing balance to policymaking
- Forced cost discipline

# Advancing Payments Functionality

- The problem
  - Difficult to start a 2-sided network
- The result
  - High (insuperable?) barriers to entry
    - Startup model rarely practical
  - Slow pace of development
    - Example: payment info “in the pipe”
- The solution
  - Instant market of “captive” gov’t clients and large payors/payees
  - Big new ideas
    - Direct Express, DoD Controlled Spend
    - Data analysis to quell misuse; POS recognition (SmartPay)

# Balanced Policymaking

- The problem
  - Political capital of banks and merchants
- The result
  - Durbin, BAPCPA, etc.
- The solution
  - Federal payors/payees
    - Politically powerful
    - Sensitive to consumers
  - Test site for regulatory/network initiatives
    - Durbin routing/rebate reductions?
    - Reg E “lite” (or Reg E Max)?
    - PCI?
    - High-value interchange discounts?

# Forced Cost Discipline

- The problem
  - Rapid consolidation → declining competition
  - CARD Act & Dodd-Frank/Durbin exacerbate
- The result
  - Excessive “slack”
- The solution
  - Competition for government K →
    - Rebates/infra-MC prices
    - Anticipated spillover benefits
      - Visa/SmartPay
      - Citi'sDoD projects

Thanks!