Taking Government Cards Seriously

Ronald J. Mann
Columbia Law School
“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 $\rightarrow$ declining competition
  - CARD Act & Dodd-Frank/Durbin exacerbate

- The result
  - Excessive “slack”

- The solution
  - Competition for government K $\rightarrow$
    - Rebates/infra-MC prices
    - Anticipated spillover benefits
      - Visa/SmartPay
      - Citi’s DoD projects
Thanks!