More often than not, political battles harm payments

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To paraphrase Leon Trotsky, the payments industry may not be interested in politics, but politics is interested in the payments industry, generally for the worse.

Visa CEO Al Kelly's comments about the impact of the temporary U.S. government shutdown and Brexit underscore politics matter for payments.

While payments firms must navigate political and regulatory waters, consumers and merchants are best served by a competitive free market free of politics, with minimalist regulators playing the role of the night watchman.

The shutdown's impact thus far at least has been modest. January saw a surge in job creation, with 304,000 new jobs. Average weekly earnings were up 3.5% year over year.

On the other side of the pond there's a chorus of Brexit angst. But Europe's largest payments market, the U.K., is doing just fine so far. In November,

its unemployment rate stood at 4%, the lowest since 1975. The EU could do a free-trade deal with the U.K. in a heartbeat, if politics permitted.

EU general-purpose payment card transaction growth was a healthy 11.2 percent in 2017. It's possible a WTO-Brexit will modestly tamp payments growth. But PSD2 will likely to have a more lasting impact on card payment growth.

And there are potential Brexit benefits. British regulators take a more market-oriented view toward payments than EU central planners. Additionally, there may come a point when Visa can charge rich cross-border fees, illegal within the EU, between the U.K. and the EU.

China's economic nationalism and rivalry with the U.S. are cause for concern. Ant Financial's acquisition of MoneyGram was a casualty, blocked on national-security grounds. Money-transfer challenger WorldFirst sensibly spun off its U.S. operations to eliminate a potential stumbling block to its acquisition by Ant Financial.

And leading U.S. payment networks have paid a price. For close to two decades China has prevented Visa, Mastercard, American Express, Discover and PayPal from competing in its enormous domestic market, notwithstanding its 2001 WTO commitment to open it.

Regulators operate in a political climate. And, when regulators have or have taken power, they exercise it. One should view their actions through the lens of Noble Prize-winning economist James Buchanan's Public

Choice Theory. Regulators act to maximize their utility and power, not market performance and consumer welfare.

Occasionally, however, discrete interventions have improved competition.

The U.K. Payment Systems Regulator pressured banks to divest their monopoly interbank-payment processor Vocalink, thinking it would be more likely to seriously entertain competitive bids for the services if it didn’t own the processor. Mastercard acquired Vocalink. While enjoying incumbency’s advantages, it will have to compete to retain U.K. banks’ business.

Brazilian regulators jawboned Visa to stop granting an exclusive acquiring license to Cielo. With the end of Cielo’s monopoly, a competitive and more innovative acquiring market blossomed.

And the U.S. Department of Justice forced Mastercard and Visa to eliminate bans on member banks' participation in American Express and Discover, boosting network competition.

More often than not, however, activist politicized regulation harms payments markets, and, in turn, consumers.

The DOJ’s 2013 initiative Operation Choke Point’s stated goal was to curb criminal enterprises by limiting their access to electronic payments and banking. In practice, however, it became a lawless political club used to bludgeon legal businesses regulators disliked.

Politics spurred national champion payment networks in China, India, Brazil, Turkey and Russia. The EU cheered but didn't advantage its would-be supranational champions Monnet and EAPS, both of which ultimately failed.

Politically favored payment systems deny banks, merchants and consumers the market-ruthlessly-enforced best.

After Russia's invasion of Crimea, Washington demanded U.S.-headquartered Mastercard, Visa, American Express, Discover and PayPal cut off transactions. If Mastercard and Visa instead were domiciled in Switzerland, and, consequently, not subject to U.S. policy, arguably, there'd be less reason to launch national champions. Still, it's unlikely a Visa based in Geneva would have been any more welcome in China, or prevented most national champions.

The EU, China, India, Australia and the U.S. imposed price controls on interchange and/or merchant discount fees. Regulators beat their chests about the "societal good" they'd engineered. But price controls cause systemic resource misallocation.

Political costs on payments businesses aren't always imposed from outside.

Mastercard promised to reduce greenhouse-gas emissions by 20 percent by 2020. This is management engaging in politics and virtue-signaling

rather than focusing on maximizing shareholder value by delivering more revenue-generating transactions to more people and merchants worldwide.

Every transaction uses electricity. Fossil fuels generate a majority of electricity in all but a handful of countries that rely heavily on hydro and/or nuclear. More Mastercard transactions deliver more value, generate more revenue, and consume more electricity. The only way the global payment network can meet its goal is to pay extra by buying greenhouse-gas credits. Mastercard's near-indestructible business model can shoulder the burden, but it shouldn't have to.

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