



# Payment Rails: Public, Private Sector, or Does It Even Matter?

## The Merchant Payments Ecosystem

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\* Views expressed are strictly the speaker's.



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# State of Play

The world is served by a patchwork of interoperating, complementary, and competing public and private-sector payment systems. They have different DNA, different levels of dynamism, resources, accountability, power over their competitors and users, incentives, and objectives. Whether the private sector or the state provides payment systems has enormous implications for value and innovation.

# Proposition

Government shouldn't provide payment systems unless the private sector is unable to serve an important need or there is a compelling national security interest to do so. Private-sector payment systems enjoy greater dynamism, and are more innovative, accountable, and self-correcting. Public-sector payment systems are less answerable to those they serve, less innovative, and often conflicted.

# There has been an ebb and flow of private-sector and public payment systems through the ages.

- Coins were minted by the Lydian kingdom in the 7<sup>th</sup> century B.C.
- The first paper money was issued by Chinese merchants early in the 9<sup>th</sup> century during the Tang dynasty.
- In the 11<sup>th</sup> century during the Song dynasty, government took over paper-money issuance.
- Italian and Flemish merchants and money traders issued promissory notes that served as money during the medieval ages.
- During the 17<sup>th</sup> century the American colonies issued paper letters of credit serving as money.
- The private Bank of England issued the first banknotes at the end of the 17<sup>th</sup> century
- Ecuador's central bank launched the first CBDC in 2014

# Physical cash

## Private sector

- Private banknotes were issued in many countries into the 20<sup>th</sup> century. They're still issued in Scotland, Northern Ireland, Hong Kong, and Macau

## Public sector

- Central banks enjoy a monopoly issuing cash in almost all countries

# Digital cash

## Private sector

- Fiat-currency-backed stablecoins like Circle, JPM Coin, and Tether
- Cryptocurrencies such as bitcoin, XRP, and ether.

## Public sector

- ~ 130 countries exploring CBDCs
- Banks already use CBDCs with accounts at central banks

# Electronic retail and P2P payment networks

## Private sector

- Cartes Bancaires, Dankort, Interac, Mastercard, PayPal, SistemaPay, Visa, Zelle, et al

## Public sector

- AfriGo, LankaPay, Mir, NepalPay (in development), Pix, et al

# Interbank payment systems

## Private sector

- The Clearing House, EBA Clearing, Mastercard, Visa, Swift, et al

## Public sector

- Central banks including the Federal Reserve System, the ECB, the Bank of Brazil, and the Bank of Mexico, quasi-public NPCI, et al



# Reasons governments operate payment systems

- National security concerns
- Private sector viewed as unable to serve a payments need
- Efficiency considerations
- Resiliency for systemically-important systems
- Viewed through the lens of Nobel-Prize winner James Buchanan's Public Choice Theory, public bureaucrats seek to expand their remit, power, and prestige.

# Why government shouldn't operate payment systems

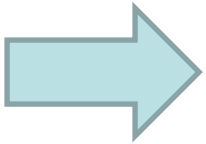
- Less innovative than the private sector.
- Less accountable
- Often conflicted.
- Deters private-sector entrants, would-be challengers, and innovation.

# Innovation

- Most payment innovation comes from the private sector, which invented cash, checks, interbank clearing, credit cards, global bankcard networks , electronic bill and P2P payment systems, e-wallets, and digital currencies.
- Chinese merchants invented paper money
- Scottish banks created two-sided banknotes
- NYC financier Frank McNamara invented the general-purpose payment card.
- Spurred by visionary Dee Hock, U.S banks created global bankcard networks Visa and Mastercard
- Computer scientist David Chaum invented the first digital currency Digicash

# Innovation

- Peter Thiel started the first digital wallet to scale, PayPal.
- Radio DJ Steve Streit created the first general-purpose prepaid card, Green Dot.
- Entrepreneurs Jeremey Allaire and Sean Neville with Circle and Brock Pierce and Craig Sellars with Tether were stablecoin pioneers.
- Pony Ma's Tencent developed digital currency Q Coin and mobile payments phenom WeChat Pay.
- Jack Ma's Alibaba created Alipay.



The bar for governments providing payment systems should be high. Unless the private sector is unable or unwilling to serve important payment needs or a compelling national security interest is at stake, the state should encourage and defer to private-sector payment systems.