



July 29, 2019

The Honorable Jerome H. Powell  
Chairman  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, N.W.  
Washington, DC 20551

Dear Chairman Powell:

We write to urge the Federal Reserve against providing real-time payments (RTP) services that would compete against current private sector solutions. As economists who have expertise in the effects of government regulation of, and intervention in, the private marketplace, we have strong concerns about the Fed competing with the private sector while concurrently regulating it.

Generally, central banks and governments should not interfere in the payments market by operating their own services. Over the long term, government competition with the private sector will distort the market, stifle innovation, and ultimately harm services to banks and consumers.

Competition between the Fed and the private sector in the payments market would be inherently unequal. First, the Fed does not price its services as private sector payment systems do. Although the Monetary Control Act of 1980 requires the Fed to charge fees for its payments services, the authority to price in a manner that is fair “over the long run” gives the Fed an extraordinary benefit. The Fed can underprice its RTP services vis-à-vis private sector competitors for years, thus giving the Fed an incredible advantage over private sector competitors.

The private sector is more efficient and effective at providing goods and services to customers than government. As a government institution, the Fed is insulated from market pressures, cannot effectively price regulatory controls as a regulator itself, and its employees do not reap the monetary benefits of its innovations. Absent a market failure, government should not intervene. The Fed’s own policy, “The Federal Reserve in the Payments System,” reflects the importance of looking to the private sector for payments services innovations.

The Fed has already alluded to a number of private sector RTP offerings. These include the RTP Network operated by The Clearing House (TCH), Zelle, Mastercard Send, Visa Direct, and many others. In April 2019, Zelle announced year-over-year transaction values increased 54% and year-over-year transaction volume increased by 72%. Also, TCH has taken a number of steps to ensure that the RTP Network, on its own, will be able to provide equitable access to banks—large and small—and achieve near-universal access by 2020. Based on the time and money (nearly \$1 billion) already invested by the private sector, any RTP undertaking by the Fed would cost hundreds of millions of dollars, create a duplicative set of payment rails that do nothing to drive innovation, take up to 5 years

to build, and result in further delay in bank adoption of RTP.

Private sector payment systems should be permitted to meet RTP objectives without unnecessary public sector involvement. The private sector is doing just this. The Fed should therefore continue to encourage private sector progress and should announce that is abstaining from offering its own RTP services.

Sincerely,

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