

Discussion of  
**“CBDC and Payment Platform Competition”**  
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# What they do

- Lack of competition among payment platforms
  - ▶ **excessively high** interchange fees
  - ⇒ **Q.** How does adding a CBDC change the equilibrium outcomes?
- Model: Two-sided platform model
  - ▶ consumers and merchants choose platform(s)
  - ▶ sources of distortion: **market power** and **network effects**
  - ⇒ platforms set excessive high fees without CBDC
- Result: adding a benevolent CBDC platform lowers market power but ambiguously affects network distortion
  - ▶ fees on consumers ↓ but on merchants ↑ or ↓
  - ▶ net effect: **welfare-enhancing**
- CBDC pricing: **enhanced competition** versus **platform network effect**
  - ▶ the network benefit of the private platform has to be utilized

# Comment #1: Welfare improvement

- An issue in the current payment system
  - ▶ credit card companies charge high interchange fees
    - ⇒ merchants transfer the costs to the retail prices
    - ⇒ transfers from low-income consumers to high-income consumers
- The result (w/ CBDC): platform may set a higher fee on merchants
  - ▶ merchants may transfer the costs to the retail prices
    - ⇒ undermining the consumer welfare
- Will a CBDC platform still improve welfare when such pricing behavior is considered?

## Comment #2: Regulations

- This paper studies the effect of introducing a CBDC on the inefficiencies in the payment system
  - ▶ adding a CBDC does not achieve the first-best
- Is a CBDC the right tool to mitigate the inefficiencies?
  - ▶ alternative approaches: cap on interchange fees, prohibition of no surcharge rule, etc
  - ▶ “... interventions were initiated and executed based on partial analysis ignoring the two-sided nature of the industry”
- The necessity of CBDC would be stronger if ...
  - ▶ either policy alone does not achieve the FB, and
  - ▶ correcting the inefficiencies requires both a CBDC and a regulation

## Comment #3: Central bank resources

- A CBDC platform transfers funds from/to the central bank
  - ▶ whether it works as a subsidy or tax depends on parameters
- Subsidy: where does the fund come from?
  - ▶ The paper: the CB has a large endowment
  - ▶ Reality: some costs  $\Rightarrow$  sustainable?
- Who is the bank subsidizing or taxing?
  - ▶ what types of economic agents are likely to use CBDC?
  - ▶ might some heterogeneity of agents create opposing results?

## Additional remarks

- Comment #4: fees on merchants may rise (surprising) – intuition?
  - ▶ is the private platform taking advantage of “loyal” customers?
  - ▶ by losing market power, the platform anticipates much fewer customers?
- Comment #5: are results robust to other eq'm selection methods?
  - ▶ sunspot, refinement, robust-control (min-max), etc...
- **Interesting paper!**
  - ▶ nice application of two-sided market models to CBDC
  - ▶ promising framework to think of the payment platform competition