



Big Brother meets Big Data: Governments start scrutinizing credit card records

By Bob Sullivan – October 19th, 2012

The economy is so bad in Argentina that the government recently said it would start taxing overseas credit card purchases. It also demanded that banks report all credit card transactions -- foreign or domestic -- saying the data would be used to find tax cheats.

Even George Orwell couldn't have imagined this meeting of Big Brother and Big Data: a handy database of every single purchase made by citizens, ready to be categorized and analyzed by the government. Let your mind wander for a moment and you can imagine the disturbing possibilities of a government so invasive that it knows when and where you buy milk and bread.

The obvious question: Could it happen here? There are grand cultural and economic differences between Argentina and the United States, but if the history of privacy tells us anything, it is this: Governments and corporations can rarely resist the temptation of using technology to gain the upper hand.

"This gives me chills," said Gartner banking consultant Avivah Litan, who was in Argentina recently consulting with that nation's government banking officials. "I think it is a reminder that our data can be looked at by anyone and probably is being looked at." Argentina is not the first government to examine credit card receipts. In 2011, Brazil began taxing overseas credit card transactions. And Spain recently outlawed cash transactions over \$2,500, a tactic that forces consumers to use traceable, electronic purchasing tools for big-ticket items.

Big Brother is not behind these drastic measures. In Argentina, where only about 50 percent of the population buys with plastic, a currency crisis and high inflation have led to a dramatic rise in overseas purchasing. Taxing foreign purchases is an attempt to stem this tide, and encourage domestic spending. Brazil's motivation is similar.

But once the pipeline for data is established and the database is built, what's to stop mission creep? Argentina has said it will examine domestic transactions for evidence of undeclared purchases or other signs of tax evasion. What else could a government find in a database of transactions?

"When I first saw the story it kind of took my breath away," said Bill Hardekopf, who operates the credit card information website LowCards.com "I thought, 'Oh my, a government can track the purchases of every one of their citizens?' "

There is a way to avoid becoming a line item in a government credit card transaction spreadsheet: pay with cash, something one in two Argentinians still does. But in the U.S.,

cash has become passé. Last year, only 27 percent of point-of-sale purchases were made with cash, compared to 66 percent for credit and debit cards, according to Javelin Strategy and Research, which expects that number to dip to 23 percent by 2017.

Meanwhile, a host of new payment tools -- still rough around the edges -- are about to find their way into consumers' pockets and purses. Mobile cellphone payments are coming of age, with a quarter-trillion in annual transactions expected by 2016, according to IE Market Research. And even the simplest of cash transactions -- "Buddy, can I borrow \$5?" -- might not be long for this world. Starbucks recently partnered with Square, a simple tool that allows cellphone users to accept casual payments from friends or small business clients. The convenience of such tools is undeniable; so is their traceability.

"As we become more and more of a cashless society, the likelihood of purchases being tracked increases. Whether that is used for negative purposes, or will cause personal privacy issues, I don't know, but I can see the possibilities," Hardekopf said.

But could it happen in the U.S.? Hardekopf said he had trouble imagining Washington could get away with the Argentinian tactic. He believes privacy interest groups would scream, other safeguards would kick in and the U.S. population just wouldn't swallow it. But there are no laws preventing this kind of information sharing between banks and government agencies, Litan points out. Law enforcement officials routinely obtain personal information, such as cellphone locations and credit card receipts, during the course of criminal investigations.

"The (U.S.) government does have access to this information now because it regulates the banks," she said. "There's no secrecy laws like there are in Switzerland. There's no privacy laws that would prevent this."

Dan Mitchell, an economist at the libertarian Cato Institute, said there have already been attempts by both state and local governments to more broadly obtain detailed consumer financial data. The health care reform bill included a provision that required merchants to report credit card processing volume data to the IRS, for example. And recent efforts by states to enforce sales tax on online purchases will necessitate detailed reporting on credit card transactions by merchants, he warned.

"So it's just a question of expanding the existing set of Orwellian laws," Mitchell said. Probably the strongest firewall against such an intrusion would be banks themselves, which would no doubt fight massive data requests. But transaction data sharing from banks to government officials has risen sharply since the Sept. 11, 2001, terrorist attacks. The number of Suspicious Activity Reports filed by banks with their federal regulators has soared from 281,000 in 2002 to 1.5 million in 2011 (.pdf), according to the Financial Crimes Enforcement Network. Much of that increase can be attributed to a rise in mortgage fraud, but it demonstrates a dramatic increase in cooperation between banks and government officials. There also is a long history of federal authorities buying access to large troves of consumer data -- such as the one once operated by commercial data broker ChoicePoint, now owned by the same firm which operates Lexis-Nexis. That's why privacy expert Rob Douglas says that Argentina's data sharing is not an isolated incident.

"Given the explosion in the collection and retention of personal data by governments around the world under the guise of national and economic security, I fear the Argentine model is where all countries - including the U.S. - will end up under one scenario or another," he said. "After all, government by its very nature constantly seeks to know more about the governed. With the ever-expanding ability to store and sift vast amounts of personal data, it's inevitable that governments will do so unless reined in by the governed."