FACT SHEET

AMERICAN ECONOMIC LIBERTIES PROJECT

Myth vs. Fact: The Credit Card Competition Act of 2023

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This brief is about the Credit Card Competition Act, legislation that would mitigate a private sales tax of 2-4% levied through the credit card system on virtually every business, big and small.

People pay for goods and services in different ways. Cash and checks are taken at 100% of their value. When you use a credit card, however, a percentage is siphoned off to the issuing banks and networks. This pays for administration and profit. In most countries, this percentage is very low. In the U.S., however, 2-4% of every transaction goes to a private credit card network. These are massively high prices, amounting to $126 billion paid in credit card swipe fees a year, often the highest cost for any business after labor. That's almost $350 a year for every American man, woman, and child.

Why is the price so high? The answer is monopoly power. Right now, Visa and Mastercard, which control 83% of the payment card network, can dictate to merchants that they must use one specific high-priced payment network to service a transaction. If a merchant doesn't want to use this network and pay their price, that merchant can't accept Visa or Mastercard, which effectively means that merchant is out of business. There have been multiple antitrust suits on this problem, with varying degrees of success. But it's clear that legislation is needed to break what has become a private sales tax.

Credit card "swipe fees," also known as interchange fees, are the target of the bipartisan Credit Card Competition Act (CCCA). To introduce competition, the bill would require banks with more than $100 billion in assets that issue credit cards to allow multiple payment networks on their cards. The bill also would require that one of those alternative payment networks is not Visa or Mastercard, opening the door to other payment networks and jump-starting competition in a stagnant, captured market.

This increased competition will give merchants a choice of which network to use each time they run a credit card. This will incentivize card networks to lower swipe fees and compete on security and other features, driving down costs for grocers, convenience stores, restaurants, and other small businesses, which all overwhelmingly support the Credit Card Competition Act.

This memo dispels many of the common inaccuracies and misconceptions regarding the bill.

MYTH: Today's Credit Card Networks Are Competitive, Convenient, and Efficient

FACT: Visa and Mastercard's Duopoly Hurts Merchants and Burdens Small Businesses

- Visa and Mastercard's market power — 83% of the market — allows them to set market prices and force regular increases. Merchants have no way to negotiate rates, and no choice but to accept Visa and Mastercard networks and their cards.
- As a result, credit card "swipe fees" have more than doubled over the past decade. In 2022 alone, merchants paid $126 billion in card processing fees, a 20% increase over the previous year.
- High swipe fees are the basis of Visa and Mastercard's middleman profit model, giving the firms profit margins of 45-50%, which far outpace much of the S&P 500. By contrast, the average profit margin for general retail is around 2.4%.
- This imbalance has consequences: credit card swipe fees are merchants' second-biggest cost after wages — even more than health insurance and other costs.
- Visa and Mastercard charge small businesses higher swipe fees than their larger counterparts, creating a competitive imbalance that compounds big retailers' advantages.

MYTH: The Visa-Mastercard Duopoly Is Good for Consumers

FACT: The Duopoly's High Swipe Fees Inflate Costs for Consumers

- Merchants inflate the prices of goods and services to pay the dominant credit card networks' extractive fees. Only a small slice of the billions of dollars of swipe fees is used to subsidize rewards programs, promotions, and riskier credit underwriting for credit card users.
- The average family spends $1,000 a year on swipe fees.
- These fees impose the greatest hardship on the most vulnerable consumers — the millions of American consumers without credit cards or banking relationships. Cash customers subsidize card usage by paying inflated prices for many goods and services.

MYTH: The CCCA Will Eliminate Credit Card Rewards Programs

FACT: Credit Card Rewards Will Continue, Even Though They Aren't Good for Most People or the Economy

- A study on the effects of the CCCA on credit card rewards programs determined the bill would reduce reward programs by less than one-tenth of a percent.
- Visa and Mastercard operate in Europe, where swipe fees are capped at 0.30% — a tenth of what they often are in the U.S. — and still offer credit card rewards programs there, further undermining claims that lowering swipe fees here will decimate rewards programs.
- Visa and Mastercard argue that the CCCA would reduce credit card rewards that consumers have grown accustomed to. However, credit card rewards programs are not as beneficial as they would like you to think.
- While some affluent consumers do benefit from credit card perks and rewards, these programs are largely a form of wealth redistribution from poorer to richer households, with lower-income consumers ultimately footing the bill.
- For all consumers, credit card rewards only recoup a small percentage of the swipe fees they pay on every transaction. Even if credit card rewards were phased out, consumers would save more by paying less in swipe fees than by continuing to pay inflated prices and earn back a fraction of their swipe fees in perks, cash back, and other rewards.

MYTH: More Competition in Credit Card Networks Will Raise Prices and Decrease Security

FACT: The CCCA Has Been Projected to Save Americans Billions and Increase Credit Card Security

- With merchants able to choose between multiple payment networks to process credit card transactions, the CCCA is expected to save U.S. businesses at least $15 billion per year.
- By opening the door to competition from independent card networks, which the Federal Reserve says have one-fifth of the fraud of Visa's and Mastercard's networks, the CCCA would allow merchants to freely choose networks that can out-compete Visa and Mastercard both on price and network security, ultimately making credit cards safer.
- The bill exempts credit card-issuing banks with less than $100 billion in assets from having to provide multiple payment networks on their credit cards, giving smaller financial institutions a break. That means every single credit union in the country but one (Navy Federal Credit Union) is exempt from the bill.

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