

Credit Card Swipe Fees: A Hidden Monopoly Tax on Small Businesses and Shoppers



The Problem: How Credit Card Monopolies Flex Their Power

Markets, not individual firms, are supposed to set prices. But the market for credit card “swipe fees” — what credit card companies and banks charge merchants to process card transactions — lacks competition, leaving most price-setting power in the hands of just two players, Visa and Mastercard. Absent competition, these middlemen can dictate their rates. This means that independent businesses and their customers are subject to what is essentially a monopoly tax imposed by two mega-corporations. We pay more, while Visa and Mastercard, along with the big banks that issue half of all credit cards, reap the surplus.

The Harms to Small Business

While large corporations, such as Amazon and Walmart, have some leverage to negotiate better rates, independent businesses have little choice but to pay whatever the banks and networks demand. “Swipe fees have ballooned into my second-largest operating cost after labor,” explained the owner of a fourth-generation grocery store in the Cleveland area. In a national survey of small, independent business owners, 38% of respondents reported that credit card fees are a significant challenge for their business. Sixty percent said capping these fees would be very effective at helping small businesses survive and succeed.

The Stats

85 percent: Visa and Mastercard’s control of credit and debit card transactions.

2 percent: In the U.S., the average credit card swipe fees per transaction. It’s often closer to **3 percent**.

7 times: how much more American businesses versus European businesses pay in swipe fees.

3.6 cents: The actual per-transaction cost to card issuers. This is a tiny fraction of the \$2 to \$3 swipe fee that Visa and Mastercard can charge on a \$100 sale.

\$160.7 billion: The amount that merchants were made to pay in 2022 to banks and card networks, including Visa and Mastercard — an increase of about 46% since 2020.

\$1,000: How much swipe fees increase the cost of food and goods for the average American family per year.

About half: the portion of all credit cards issued by just 4 banks — Chase, Wells Fargo, Citi, and Bank of America. They get a cut of each swipe fee.

The Solutions

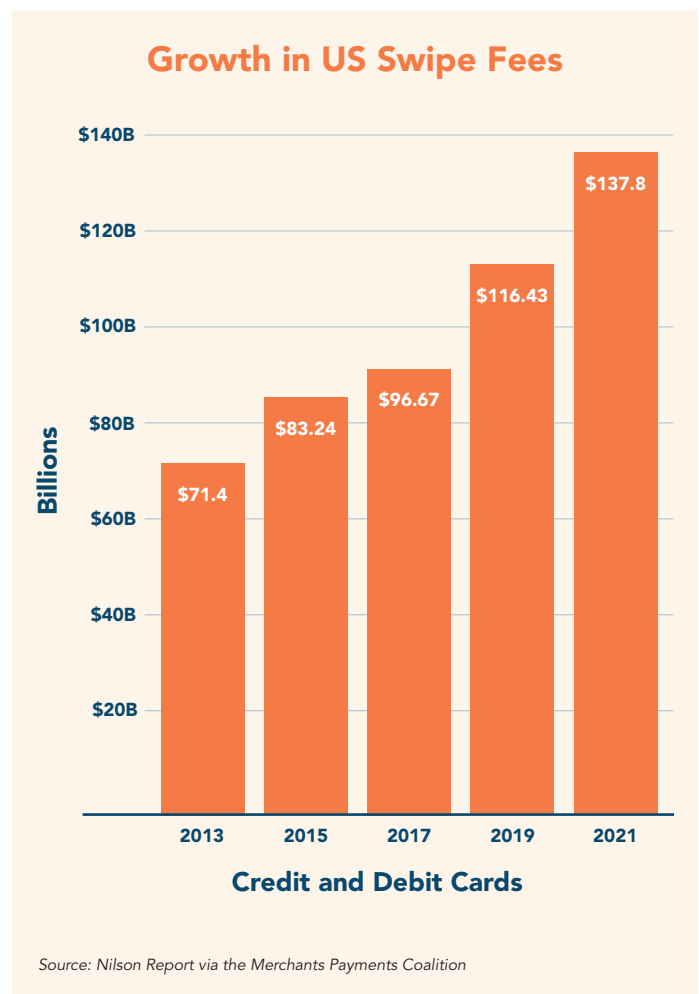
Mandating Competition — The bipartisan Credit Card Competition Act of 2023 is designed to reduce excessive credit card swipe fees, which would spur competition and curtail this monopoly tax. The legislation requires at least two credit card networks be offered to merchants from card-issuing institutions instead of just one, and at least one of those networks must be a network other than the Visa/Mastercard duopoly. This competition and choice between networks would incentivize better service and lower costs with an estimated savings of \$15 billion per year.

Capping Fees — This is a good step for reducing fees, but small businesses need even stronger protections. The European Union, for example, caps swipe fees at 0.3 percent of a credit card purchase, and 0.2 percent of a debit card purchase, ensuring that more money goes to local businesses. Today, the U.S. has no cap on credit card fees, but there is a cap on debit card fees, which was established by the Federal Reserve as part of the banking reforms passed in the aftermath of the 2008 financial crisis. However, the Fed's debit card fees cap is far too high, resulting in a windfall for card companies and banks. Meanwhile, the E.U. isn't messing around with compliance: they fined Mastercard €570 million for a swipe fee-related violation in early 2019.

The Bottom Line

Visa and Mastercard have used their monopoly power to extract exorbitant swipe fees from small businesses and customers. Congress must take action by passing the Credit Card Competition Act, but this is a first step. Capping fees is a proven remedy to ensure small businesses and consumers do not pay the price of the financial sector's growing power over our economy.

For more information, including sources: see [Capping Credit Card Swipe Fees](#), [Visa Wants to Rule How We Pay for Purchases](#), and [ILSR's 2022 Independent Business Survey](#).



Stay in Touch!

Sign up for ILSR Newsletters.
ilsr.org/newsletter-signup

ILSR INSTITUTE FOR
Local Self-Reliance