Virtue-signaling banks hurt shareholders and customers

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House Financial Services Chair Maxine Waters and Sen. Elizabeth Warren called for and got Wells Fargo CEO Tim Sloan's scalp, highlighting a dangerous politicization of banking. Politicized banking misallocates capital, increases financial-system risk and reduces value for consumers and businesses.

In "Fragile by Design," Charles Calomiris and Stephen Haber observe the U.S. has long had the most politicized banking system in the democratic developed world and consequently has been prone to financial crises. For a century and a half there was a "political bargain" between agrarian populists, small banks and government protecting unit-branch banking, making risk diversification well-nigh impossible. Leading up to the financial crisis of 2009, the political bargain was between megabanks seeking license to expand and urban activists, regulators and politicians demanding looser credit for politically sympathetic constituencies, particularly overallocation of credit to housing. For decades the Community Reinvestment Act has forced banks to appease activists and extend credit they otherwise wouldn't.

In a similar worrisome vein, many of America's most successful public financial services companies engage in political virtue signaling as a matter of course — albeit at the expense of their businesses, with complicit boards, media and regulators. When management diverts resources from a company's mission, they deliver less value to customers and rob shareholders.

In a sign of the times, Barron's ranked "the 100 most sustainable U.S. companies," based on factors such as greenhouse gas emissions and diversity. But the most vigilant and ruthless enforcer of sustainability is the free market. Firms satisfying real needs people are willing to pay for are sustainable.

In their seminal "The Modern Corporation and Private Property," Adolf Berle and Gardiner Means underscored that while public corporations provide enormous benefits, the interests of managers and owners aren't completely aligned. Boards are supposed to police management on shareholders' behalf. But directorships are often cozy sinecures with directors reluctant to rock the boat.

Former Senate Banking Committee Chairman Phil Gramm and Michael Solon worry that more stock voted by exchange-traded funds with interest in general marketing rather than in individual firms has also weakened checks on management.

Moreover, management at great companies have more latitude to abuse their trust.

Mastercard is one of the world's best-known and best-performing companies. And yet it employs a "science-based target initiative" —

organized by several nonprofits — to attest to its green bona fides and to support efforts to reduce greenhouse gas emissions by 20% by 2025. SBTI gives its imprimatur to companies complying with the ballyhooed Paris Climate Agreement, to which America is no longer a party. Mastercard transactions use electricity 24 hours a day, seven days a week, 365 days a year — the payment network can meet its pious goal by paying extra buying greenhouse gas credits. Mastercard's near-indestructible business model can shoulder the burden. But it shouldn't.

Yet the payments company is far from the worst offender.

With fanfare, Citigroup announced several years ago that it will "source renewable power for 100% of its energy needs by 2020." But wind and solar cost more and aren't reliable. Citi can't authorize credit card transactions round-the-clock using solar and wind, whatever the cost. It must buy offsets. Citi doesn't pay depositors more, underwrite credit more effectively or offer richer credit card rewards because of more expensive electricity and vast swaths of land blanketed with wind mills and solar panels.

Wells Fargo trumpets its misuse of resources with nary a peep from its board, regulators, Warren or Waters. It has declared 100% of its energy will be from "renewable" sources by 2020. The bank further preened it will provide $200 billion in financing for "sustainable" businesses — Orwellian doublespeak for lending to firms unsustainable without subsidies. And it pledged $65 million in charitable donations for "critical environmental needs." These are the abuses that should have put Sloan in the pillory.

Political virtue signaling is also rampant on guns. Andrew Sorkin demanded Mastercard, Visa, American Express and banks cut off the firearms industry. Guns are subject to a host of laws enacted by the people's representatives. Nonetheless, Bank of America and Citi announced restrictions on serving the gun industry, driven not by a view that it's unprofitable, but rather by distaste for firearms and a desire to publicly attest to their virtue.

At the same time, JPMorgan Chase will no longer finance private prisons, bowing to pressure from left-wing activists objecting to incarcerating illegal aliens.

Still, there may be areas where corporate virtue signaling makes sense. American Express is launching a card made from plastic recovered from the sea. It's designed to win new cardholders by enabling them to virtue-signal every time they make a payment. If it wins profitable cardholders telling themselves and their friends that they're virtuous, it'll be a winner.

Banks and payment systems do enormous moral good. Shareholders, customers, the financial system and the economy writ large would be best served by management zealously tending to their businesses and forgoing on-the-job political virtue signaling.

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