Political – Not Business – Priorities Will Roil Payments in 2021

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The payments industry operates on a continuum of varying degrees of politicization, imposed and self-imposed. For maximizing value, less is better. Increased politicization will challenge the payments industry in 2021.

U.S. regulators have already exercised enormous discretionary power over payments, sometimes lawlessly. Hatched by the Department of Justice in 2013, Operation Choke Point forced banks and processors not to serve politically out-of-favor sectors like subprime credit, tobacco retailers, gun dealers, escort services, and coal companies. It was used to implement regulators'—rather than Congress's—policy preferences.

Expect it to be reincarnated on steroids, rebranded or perhaps unbranded. Expect also that Davos CEOs will be enlisted as private-sector enforcers under what Milton Friedman derided as "the cloak of social responsibility," a way of rationalizing the politicization of business.

Regulatory and political pressure will be brought to bear on the networks, the ideal choke points. And banks will be expected to enforce climate-change and racialist dogma that can't be advanced by legislation.

The managements of American Express, Discover, Mastercard, PayPal, and Visa already push anti-CO2 and racialist policies, to the detriment of their customers and shareholders. Friedman once observed that professional management spending someone else's money for a putative general benefit are, in effect, imposing taxes.

In 2020, PayPal committed $530 million to fund black-owned businesses. Mastercard pledged to invest $500 million in minority communities and minority-owned businesses. American Express announced it will spend $1 billion promoting "racial, ethnic, and gender equity internally and externally.” Investment and spending decisions driven by race or gender rather than commercial merit harm payment systems’ customers and shareholders. But woke regulators will demand more such decision-making.

Payment systems rely on electricity 24/7/365, the cheaper and more reliable, the better. Yet, they piously trumpet that they’re increasing its cost. Visa announced it uses 100% “renewable” energy. It can’t, however, because the grid relies on fossil fuels and nuclear energy. It’s spending more buying carbon credits to virtue-signal.

Mastercard declared its “first priority” was improving its operations’ environmental footprint and pressures suppliers to disclose their carbon emissions. Instead, its priority should be delivering great payment products, delighting customers worldwide to maximize sustainable profits for its owners.

PayPal CTO Sri Shivananda declared climate change was causing raging wildfires and monsoons. He pledged PayPal’s efforts to help ensure Gaia’s temperature doesn’t increase more than 1.5 degrees Celsius. The earth has been warming and cooling for billions of years. PayPal doesn’t know what climate is optimal, much less have the obligation or ability to affect it.

Meanwhile, regulators will bully banks and payment systems to suppress their own CO_2 emissions, as well as those of customers and suppliers.

In Europe, payments protectionism has reared its ugly head. The European Central Bank and the European Commission have their latest would-be payments champion, the European Payments Initiative (EPI). It’s a political project. They want the European Union to have “strategic autonomy” in payments, that is, not to rely on U.S.-domiciled Mastercard, Visa, Google Pay, and Apple Pay. They will strong-arm banks and processors to commit to EPI. However, allocating resources to political payments white elephants will only make consumers, merchants, and banks poorer. Government shouldn’t try to pick or create payments winners and losers.

China’s greatest entrepreneur and richest man, Jack Ma, and the world’s biggest mobile-payment system and lifestyle app, Alipay (Ant), were slapped down after he publicly crossed the regime, criticizing increased regulation as stifling innovation. Regulators proposed straitjacketing Ant’s enormously profitable consumer-lending business. And, China’s President for Life Xi Jinping personally kneecapped Ant’s IPO, which had been expected to be the biggest in history.

Ma was forced to grovel, offering to give the government “any of the platforms Ant has, as long as the country needs it.” Ant Chairman Eric Jing, too, kissed Beijing’s ring, singing regulators’ praises.

Professional management shouldn’t, on its prerogative, politicize business. Coinbase CEO Brian Armstrong set an example, giving severance packages to employees who wouldn’t pledge to focus on business goals and not take stands on political issues.

Beware. The payments industry will have to navigate difficult political waters in the New Year.

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