The Tsunami of Virtue-Signaling in Financial Services: Management teams are choosing virtue-signaling over value-creation

By Eric Grover

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TO paraphrase O'Sullivan's law, all public corporations that are not explicitly anti-woke will become woke over time, at the expense of their owners and of society writ large. The orgy of progressive peacocking sweeping the financial-services and payments industries is emblematic, and particularly troubling because these industries form the backbone of the economy.

No CEO embodies performative progressive piety more than PayPal's Dan Schulman, who warned "values all of us hold dear are under attack" and decried "a rise in racism and xenophobia." In 2020 PayPal committed $530 million to funding black-owned businesses. Sitting in the same pew, Mastercard committed $500 million to minority communities and minority-owned businesses. Preening Chase declared it would direct $30 billion in credit and equity to minority-owned housing and businesses. American Express's head of Enterprise Inclusion, Diversity and Business Engagement announced it would spend $1 billion promoting "racial, ethnic and gender equity internally and externally."

These vanity projects exemplify a risk identified by economists decades ago.

In their seminal The Modern Corporation and Private Property, Adolf Berle and Gardiner Means highlighted the agency problem that arises when public corporations' professional management pursues its own interests rather than those of owners. They worried that corporate executives would have undue influence over the boards of directors charged with policing their behavior on shareholders' behalf.

In a similar vein, Nobel Prize–winning economist Milton Friedman presciently worried that management would serve causes and interests unrelated to shareholders' interests. In his landmark 1970 piece "The Social Responsibility of Business is to Increase its Profits," he argued that businesses would produce the best social outcome by lawfully and ethically increasing profits for shareholders.

Executives tout popular causes in order to demonstrate to themselves and their social and professional networks they're good men. Management at stellar performers such as Visa, Mastercard, PayPal, and Amex likely feel emboldened to take license because they run strong businesses.

But making investment decisions based on skin color rather than commercial merit is not only bad for shareholders, it's morally abominable. Banks and payment networks are institutionalizing racial criteria, making hiring decisions not based on a candidate's skills but on his skin color. These criteria reduce long-term profits and destroy wealth.

With perhaps even greater zeal, banks and payment systems have embraced climate-change theology, with commitments to reduce carbon emissions and invest in "sustainable" businesses.

The world's largest payment network, Visa, announced that it has met its goal of using 100 percent "renewable" energy. Its network, however, must be up 24/7/365 worldwide. Wind and solar power aren't. The grid, therefore, relies on fossil fuels and nuclear power. Visa spends money on carbon credits to offset these power sources, but more reliable and cheaper electricity worldwide would be better for Visa's payment network, bank licensees, cardholders, and merchants, and, consequently, for shareholders.

Mastercard's chief sustainability officer Kristina Kloberdanz preached "uniting as a force for good so that our planet can thrive." Mastercard employs the "Science Based Target Initiative" to attest to its green bona fides and efforts to reduce greenhouse-gas emissions by 20 percent by 2025. SBTI is a consortium of groups giving its imprimatur to companies complying with the Paris Climate Agreement, which the U.S. has not signed onto.

Mastercard and Citi are founding members of a coalition to plant a hundred million trees, with a view to fighting climate change. If they were logging companies, planting trees would be an excellent use of funds.

Five of America's six largest banks — Citi, Goldman Sachs, JP Morgan Chase, Wells Fargo, and Morgan Stanley — have pledged to end funding for new oil-and-gas drilling and exploration projects in the Arctic.

Lo, energy is critical to providing payments, credit, bank accounts, indeed to everything we consume and produce.

Contrary to catastrophic climate-change fantasies, the crusade against fossil fuels and nuclear power waged by affluent corporate executives is a very real threat to the world's poor for whom cheap and reliable energy is a sine qua non of economic prosperity.

Even if one believes that the benefits of cutting carbon emissions outweigh the costs, CEOs are not the right people to tackle this challenge. It's for politically accountable legislatures to debate and act, not unaccountable corporate chieftains.

To be fair, managers may simply be acting out of self-interest. Economists Aneesh Raghunandan and Shiva Rajgopal's research suggests beyond personal virtue-signaling, some captains of industry are buying indulgences to obtain regulatory forbearance. Banks must kowtow to woke regulators exercising enormous discretionary power over them. By staying in regulators', politicians', and activists' good graces, Mastercard and Visa hope to reduce antitrust risk.

The regulator's hammer is more likely to come down on out-of-favor industries. Under the Obama DOJ's notorious Operation Choke Point, regulators lawlessly prevented banks and payment processors from serving gun dealers and manufacturers, subprime-credit providers, escort services, tobacco shops, and coal producers. Count on President Biden's financial regulators to aggressively push woke climate-change, diversity, and gun policies.

There are also instances in which virtue-signaling may have merit.

Amex introduced consumer and corporate "green" cards made principally from recycled plastic. To reduce CO_2 emissions, Danske Bank is reissuing all cards with cards made of recycled plastic. Citi introduced a credit card on which transgender cardholders can put their preferred name. Doconomy launched a card limiting spending based on estimates of its carbon footprint. While they seem like self-congratulatory virtue-signaling, if these products win or help retain profitable cardholders, booyah.

These projects, though, are the exceptions that prove the rule. The vast majority of corporate social-justice initiatives circumvent the desires of customers and shareholders. What, then, is to be done?

Friedman offered a framework for reform. Paraphrasing, he counseled the solution wasn't simply to appoint the right management. The important thing was to establish a political climate of opinion that makes it profitable for even the wrong management to do the right thing, that unless it was profitable for the wrong management to do the right thing, the right management wouldn't to the right thing either. Directors enjoying cozy sinecures and derelict policing CEOs stealing company resources for their own pet causes must incur stigma and be at risk of losing their positions.

America's great banks and payment systems must focus on growing, delighting customers, and maximizing sustainable long-term profits. Corporate chieftains passionate about Davos causes should use their personal time and checkbooks to support them.

ERIC GROVER is the principal at Intrepid Ventures, providing corporate development and strategy consulting to financial-services, payment-network, and processing businesses, principally in North America and Europe.