Report of the fourth Käte Hamburger Lecture

World Financial Crisis and Civil Society: Implications for Democracy

with Prof. Jan Aart Scholte (PhD), Professor of Politics and International Studies at the University of Warwick

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Finance lies at the heart of contemporary capitalism, and financial crises are one of the most disruptive and harmful developments in society today. Current operations of financial markets also raise profound questions about social inequality, ecological integrity, and declining democracy. With such vital issues at stake, one might expect to see large, sustained and influential civil society mobilisation on finance, in the way that major citizen activism has developed on environmental problems, human rights, poverty and trade. Yet, even after the magnitude of the latest world crisis, civil society engagement with respect to financial markets and their regulation has mostly been small, short and without impact.

In the 4th Käte Hamburger Lecture, Prof Jan Aart Scholte, Professor of Politics and International Studies at the University of Warwick, analysed the reasons for the surprisingly small-scale involvement of transnational social movements in the global governance of financial flows and suggested ways to enhance civil society engagement in the future. He presented some provocative hypotheses on global finance and its democratisation which he developed in a paper written during his stay as Senior Fellow at the Käte Hamburger Kolleg / Centre for Global Cooperation Research (KHK / GCR21).

Prof Scholte’s argument proceeded in three stages. In a first step, he examined the current structure of global financial markets and the limited response of civil society organisations towards the unsatisfactory governance of global finance. He briefly discussed the ‘financialisation’ of the contemporary economy which disconnects a large portion of commercial activity from actual goods and services and entails that finance is becoming the major force in global capitalism. He underlined that this process often works contrary to public interests. The intensifying liberalisation of the markets from the 1980s onwards led to an increase in crises and collapses and a rise in unjust distributions and social inequality. Moreover, the governance of global finance is highly undemocratic, with little public participation and accountability. According to Prof Scholte, these undesirable outcomes result largely from the existing rules for the regulation of financial markets. Consequently, for the outcomes to be changed, the rules and regulatory arrangements of financial markets have to be changed. How can different rules be obtained? Prof Scholte maintained that civil society constitutes one
possible agent of change. Since global politics lacks global political parties, global plebiscites and global parliaments, transnational civil society organisations (CSOs) could be the crucial actors to promote a significant alteration of the current governance structure of global finance. However, not much has so far been done by CSOs to achieve a transformation of the existing regulatory scheme of global financial markets. While some activism does indeed occur in this area, it has not been sufficiently large, sustained and effective. It is therefore important to analyse on-going civil society engagement and to understand the reasons for the limited activities in order to learn from the shortcomings and to make constructive propositions for amelioration.

To do so, the notion of civil society has to be defined first. Prof Scholte understands civil society in this context as “a political space where associations of citizens seek, from outside political parties, to shape societal rules”. These associations include non-governmental organisations (NGOs), business forums, faith groups, labour unions, professional associations, research institutes and other social movements. Of these actors, the business forums have been the most active in financial markets. Bodies like the Institute of International Finance (IIF), the International Capital Market Association (ICMA) or the World Economic Forum (WEF), national banking associations or economic policy research institutes like Brookings or Bruegel are highly involved in global financial governance. Yet, these associations generally push for neoliberalist agendas and do not contest the core principles behind existing regulations. Some NGOs focus explicitly on matters of finance like Finance Watch, Europeans for Financial Reform or the Tax Justice Network. Others work on financial markets as part of larger projects like campaigns on speculation in food and land, trade in financial services, capital flight or on financial transaction taxes. Labour unions have not been much interested in financial matters, their engagement not extending much beyond ritualistic, rhetorical declarations. Finally, some grass-roots movements like Jubilee 2000 and Attac, as well as the more recent protest movements Occupy and the Indignados, mobilise against the current regulatory arrangements of the global financial sector.

After this brief overview of existing activism, Prof Scholte emphasised that civil society has had some impact. For instance, some modest reforms
and certain policy alterations have been achieved, in particular in the fields of debt cancellation and financial transaction taxes. Likewise, public awareness of the topic has been raised to a certain extent. However, compared to the magnitude of the recent crisis, civil society engagement has remained low.

After this exploration of the current state of affairs in global finance, its governance and civil society responses to its deficient regulation, Prof Scholte went on to scrutinise the reasons for the comparatively small amount of civil society engagement. In the second part of his lecture, he engaged in a twofold response to the puzzle of small-scale public activism in the face of large regulation deficits. The first half of his multifaceted explanation pertains to actors, the second half to structures.

Concerning the factors related to actors, he highlighted three points: secrecy, public ignorance and material capabilities. The secrecy of the finance sector constitutes a first extensive obstacle to successful mobilisation. Most activities of the key institutions in global finance are happening behind closed doors. Similarly, the use of specialist languages makes it difficult for the general public to understand and follow financial markets and their governance. In a similar vein, public ignorance about the recent developments of the world markets – of their financialisation – entails that outdated understandings of the economy prevail. Furthermore, outdated notions of statist governance tend to predominate, although rules for financial markets are no longer only made in the policy-making arenas of nation-states. Transgovernmental networks, OECD committees and private actors have assumed a significant decision-making role in contemporary global financial governance. Hence, we face a lack of public awareness of the decision-making procedures in global finance and consequently, it is very difficult to organise civil society engagement around these issues. To illustrate this fact, Prof Scholte asked the lecture audience if they knew of the Financial Stability Board (FSB). Only five people raised their hands, which means that 93% of the people attending the lecture had never heard of one of the central regulatory institutions in global finance. This ignorance on matters of global finance can also be found among many civil society actors. There is little training on financial markets for campaigners and the priorities for advocacy in this area are very low. Insufficient material
capabilities to support political campaigns on global finance constitute a third point. Funding levels of CSOs in this advocacy area are low, particularly in comparison to the means of industry lobbies, and as a result the capacities for awareness-raising and campaigning are decisively limited.

With regard to structural forces, Prof Scholte elaborated on another three factors: hierarchies, finance capital and a neoliberal discourse. Social hierarchies constitute an impediment to effective civil society engagement in that the dominant social power structures in society are deeply seated in global financial markets. Western elites are the main beneficiaries of the finance economy and are not disposed to alter the current system. CSOs are thus up against deep-rooted interests which are hardly going to change through a handful of public interest organisations. Additionally, those hierarchies can be engrained within civil society itself. Prof Scholte provocatively wondered whether the structural interests of many civil society actors are not closely aligned those of the elites. Subaltern resistance to global financial capitalism could be more fully opposed to existing governance patterns – yet, subaltern activism has been limited so far. A further structural obstacle to civil society activism is the power of finance at the heart of capitalism today. Consequently, if you take on finance, you take on contemporary capitalism itself. And, related to the previous point on hierarchies, many CSOs depend on funding through global finance and therefore may be reluctant to scrutinise it too critically. Finally, material forces go along with a particular way of thinking about the economy. The dominant neoliberal discourse purveys the assumption that there is ‘no alternative’ to (finance) capitalism as the core organising principle of the modern economy. An entire generation has been growing up with this mindset which is continually promoted through the media, the education system, officials, politicians, corporate managers and other authorities. In some cases civil society actors themselves adopt this discourse in their efforts to engage with powerful institutions; yet in doing so the CSOs may lose much of their critical force.

Following this assessment of the actor-related and structural impediments to successful civil society activism, Prof Scholte, in the third part of his lecture, presented some strategies for raising CSO
engagement. He argued for more public disclosure by firms and governance bodies in the financial sector and for more transparency with regard to the language they employ. Furthermore, civil society has to take on more of the work of public education about the financialisation of the world economy and the governance of the financial sector. Activists themselves need more training on international political economy and civil society has to pay more attention to financial governance beyond the state. The priorities of funders should change so that more money becomes available for advocacy on financial markets. Moreover, CSOs should form coalitions to pool their knowledge and material capabilities. Those CSOs that challenge the neo-liberal structure of the world economy should enter business forums such as the IIF to advance counter-arguments. In addition, more voice should be given to subaltern groups within civil society activism in order to better recognise their role and their standpoints. Financial firms and governance agencies need to establish more channels to relate with non-business civil society actors. Finally, it is important to appreciate the full extent and depth of interests that are aligned with finance capital, including within civil society itself, and to resist the neoliberal discourse. Prof Scholte closed by inviting the audience to check their own language with regard to economy and finance and to contest their own assumptions about the world market.

In his comment, discussant Peter Wahl, Chair of the Executive Committee of “World, Economy, Ecology and Development” (WEED), a non-governmental organisation criticising the effects of globalisation and demanding a change in finance, economic and environmental policies, and a founding member of Attac, agreed with the basic assumptions of Prof Scholte’s lecture. However, he considered the reasons for the small impact of civil society on financial regulation to be slightly different. He stated that actors and structures are linked in a particular way and that a historical perspective is necessary to understand their interconnection. He thus intended to introduce a historical dimension that had been neglected in Prof Scholte’s lecture. Peter Wahl thought that CSOs were not the only actors who underestimated the role of global financial institutions. Political parties and multilateral forums were equally incapable of understanding and regulating the financialisation of global
markets. The weakness of civil society is therefore part of a much broader phenomenon which he tried to express using the Gramscian hegemony theory. He conceived this broader phenomenon as a fundamental historical shift in the balance of power on the political, economic and discursive level. A transnationalisation of the markets had the result that banks increasingly evaded the sovereign control of national politics, which went hand-in-hand with an erosion of democracy. Along with this shift in economic and political power, a shift in the social paradigm occurred. Thinkers like Keynes and Marx were excluded from the public discourse and university curricula and an academic critique of capitalism had been delegitimised to a certain extent. In contrast to the post-war economy, neo-liberalism had thus become hegemonic and civil society alone was not capable of shifting the underlying balance of power. However, Peter Wahl wished to conclude less pessimistically than Prof Scholte. He thought that the current crisis of the financial systems opened up chances and opportunities for critique that could mark the beginning of a new paradigmatic change. CSOs could be part of this process and needed to find points of entry into decision-making fora to challenge and deconstruct the hegemonic neoliberal discourse.

In the ensuing debate with the audience, several aspects of Prof Scholte’s lecture were fruitfully discussed. One point that was raised concerned the issue of transparency and public ignorance. With regard to the question of how a local public can be better informed on matters of global finance, Prof Scholte answered that it is of crucial relevance for CSOs to frame the issue in an understandable manner. Climate change, for instance, used to be considered as a highly technical topic that could only be understood by people who possess expert knowledge. Yet, after successful deconstructions and information campaigns, climate change became subject to public debates. The same could and should be achieved in the domain of global financial markets and its regulation. Other points pertained to the helplessness that many activists feel, in particular facing the problem of vested self-interests in the current structure of the global economy. Peter Wahl and Prof Scholte emphasised that, even in light of strong structural impediments, it is highly important for civil society to continue pushing for an essential transformation of the current
regulatory arrangements, as this is the only chance for change to occur. Furthermore, stronger coalitions between existing CSOs, subaltern groups and national political parties that show an interest in the topic could strengthen the debate and the activism for change.

Generally, the debate between Prof Scholte, Peter Wahl and the audience was a very lively and intense exchange. Questions came from academics, students, members of local NGOs and interested citizens, which shows that a great interest in the topic exists. Once people are informed about the issue, they engage actively in the topic. This should give us hope for an eventual alteration of the current structures of global financial governance.

Report written by Nele Kortendiek