

# **Civil Society and the Financial Crisis: Transgression and Institutional Voids**

*Helmut K. Anheier*

**Hertie School of Governance & University of Heidelberg**

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# Précis

We still have to wait until historians and social scientists shed light on the exact progression, causes and the main consequences of the global financial and economic crisis since 2008.

Argument here: a dual transgression of global finance has created an **institutional void** in which an overarching regulatory framework and the normative corrective of civil society are equally absent.

Highlighting the evident dearth of societal actors in the domain of finance, we are left with a central governance question: **under what conditions could civil society act as a normative corrective to “re-embed” the financial system and thereby reverse the erosion of confidence in markets and democratic fabrics?**

# The Problem

- Some fields or subsectors de-couple, transgress, achieve a dynamic of their own 
- Creates institutional voids, e.g., areas of weak institutional capture
- Not a new phenomenon, e.g., disembedding of markets 
- Voids can spread, e.g., finance to „real“ economy; health care to education
- But more frequent in context of global governance problem 
- **What can we do about them?**



# The Argument

- Financial sector as a prime example of an institutional void through dual transgression
    - Loss of local embeddedness (civil society, local orientation)
    - Transnationalization
  - At global governance level
    - Low institutionalization
    - Weak organizations
- ➔ Need for re-coupling, “reining finance back in”



# The Proposal

- Concerted effort, not by governments and regulators, but civil society plus
- Role of foundations as independent actors to build civic infrastructure for finance
- Build expertise, support movements
- Combine new forms of popular protest with financial autonomy of foundations, and the expertise of new experts
- Longer term project
- Sustained investment needed



# Requirements, Institutions and Organisations

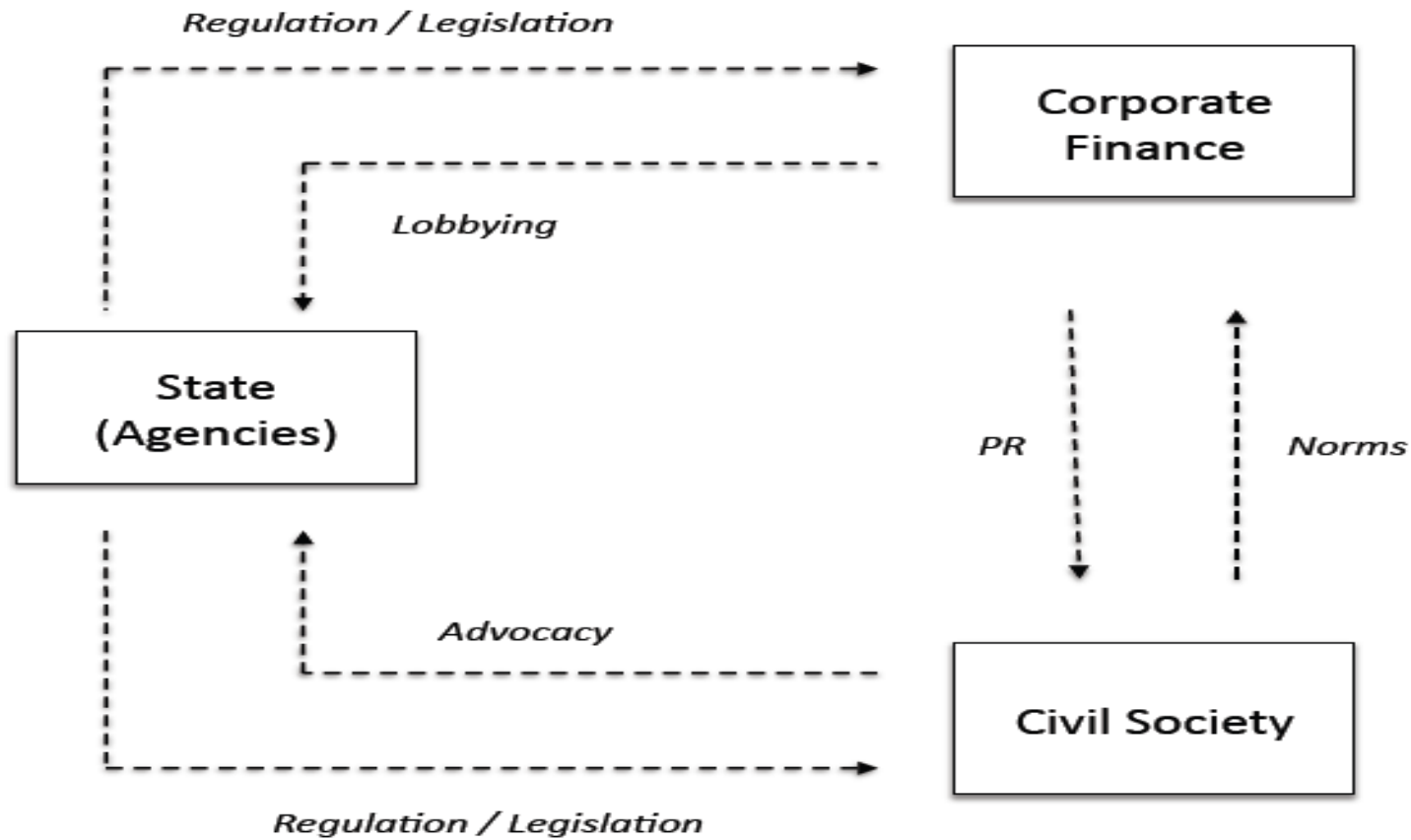
	<b>Institutions adequate to requirements of policy domain</b>	<b>Institutions inadequate to requirements of policy domain</b>
<b>Organisations adequate to institutional specifications</b>	<p>Adaptive Coping</p> <p>Example: corporatism, autonomy in wage bargaining</p>	<p>Institutional Deficit</p> <p>Example: NATO security policy 1980s-90s; higher education 1990</p>
<b>Organisations inadequate to institutional specifications</b>	<p>Organisational Deficit</p> <p>Example: NATO security policy 2010s, higher education 2010's, environmental policy</p>	<p>General Under-Institutionalisation/ Institutional Void</p> <p>Example: global, financial system</p>

# Congruency between Requirements, Institutions and Organisations and embeddedness / transgression

	<b>Congruency between requirements, institutions and organisations</b>	<b>Incongruency between requirements, institutions and organisations</b>
<b>Societal Embeddedness</b>	<p>Legitimacy dividend and adaptive advantage</p> <p><i>Example: Environmental Policy</i></p>	<p>Legitimacy risk; Necessity for discussion and for political action</p> <p><i>Example: German Agenda 2010</i></p>
<b>Societal Transgression</b>	<p>Legitimacy risk; Necessity for discussion and for political action</p> <p><i>Example: European policy</i></p>	<p>Legitimacy Deficit for Democracy</p> <p><i>Example: Current finance policy</i></p>

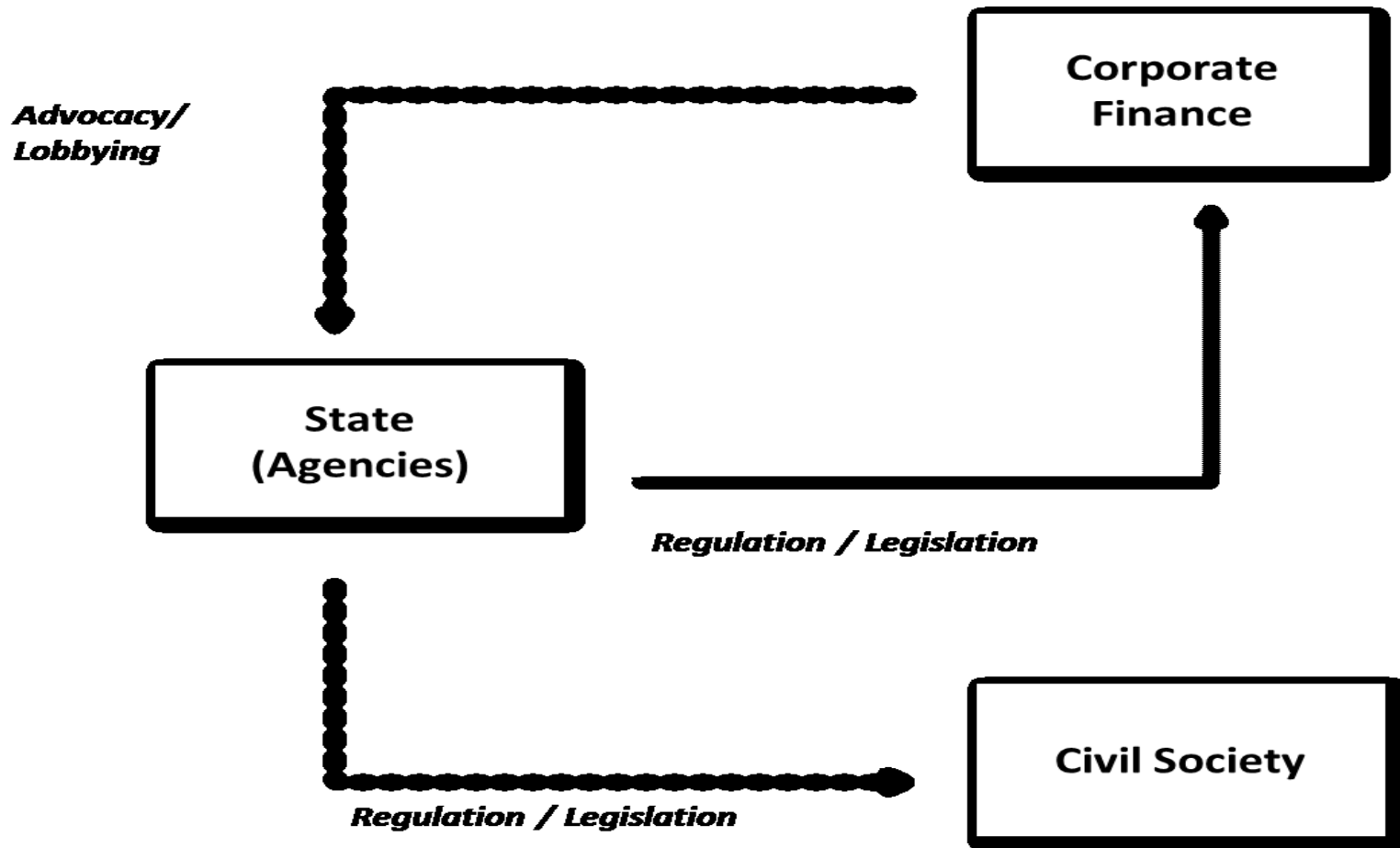


# Influence Patterns: Ideal





# Influence Patterns: Actual

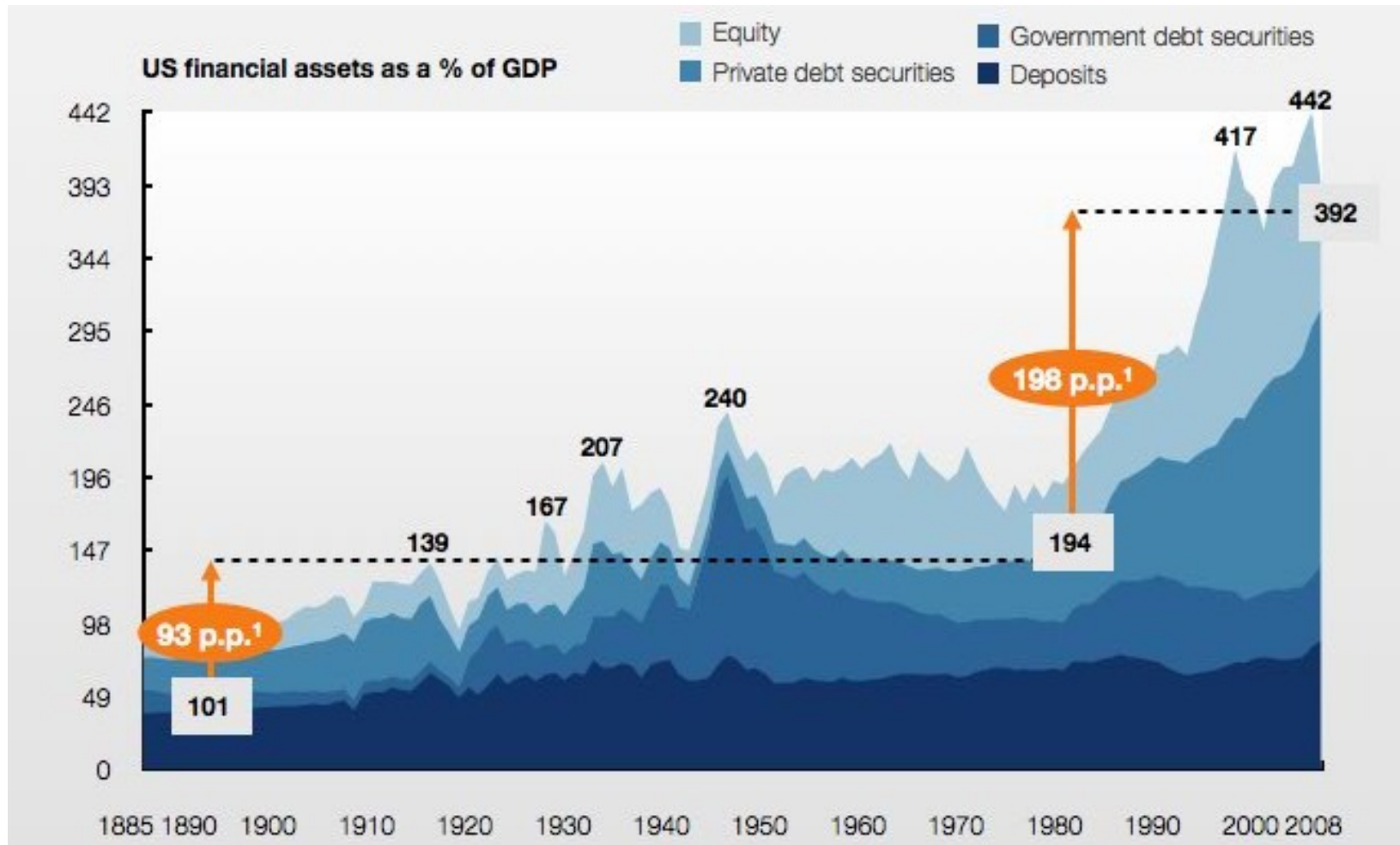


# Civil Society and Policy Fields

	<b>Coupled, grounded space</b>	<b>Decoupled, transgressional space</b>
<b>Civil society present</b>	Local environmental policy; Local financial institutions; Domestic security, armed forces; Human rights; Labour market	Climate change; Internet; Data protection
<b>Civil society absent</b>	Infrastructure development	Global finance; Failed states



# Finance: Asset growth over time



<sup>1</sup> Percentage points of GDP



# Cross Border Flows

## The web of cross-border investments in 1999

Width of lines shows total value of cross-border investments between regions<sup>1</sup>  
 Figures in bubbles show size of total domestic financial assets, \$ billion, 1999  
 2008 exchange rate

<img alt="Dashed blue line icon" data-bbox="362 283 375 296"/> 0.5-1% of world GDP  
 <img alt="Thin blue line icon" data-bbox="362 298 375 311"/> 1-5% of world GDP  
 <img alt="Medium blue line icon" data-bbox="362 313 375 326"/> 5-10% of world GDP  
 <img alt="Thick blue line icon" data-bbox="362 328 375 341"/> 10%+ of world GDP  
 World GDP, 1999 = \$35 trillion  
 Blue lines represent an increase between 1998-1999



<sup>1</sup> Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment.  
 SOURCE: McKinsey Global Institute Cross-Border Investments database

## Exhibit 13

### The web of cross-border investments weakened slightly in 2008

Width of lines shows total value of cross-border investments between regions<sup>1</sup>  
 Figures in bubbles show size of total domestic financial assets, \$ billion, 2008  
 2008 exchange rate

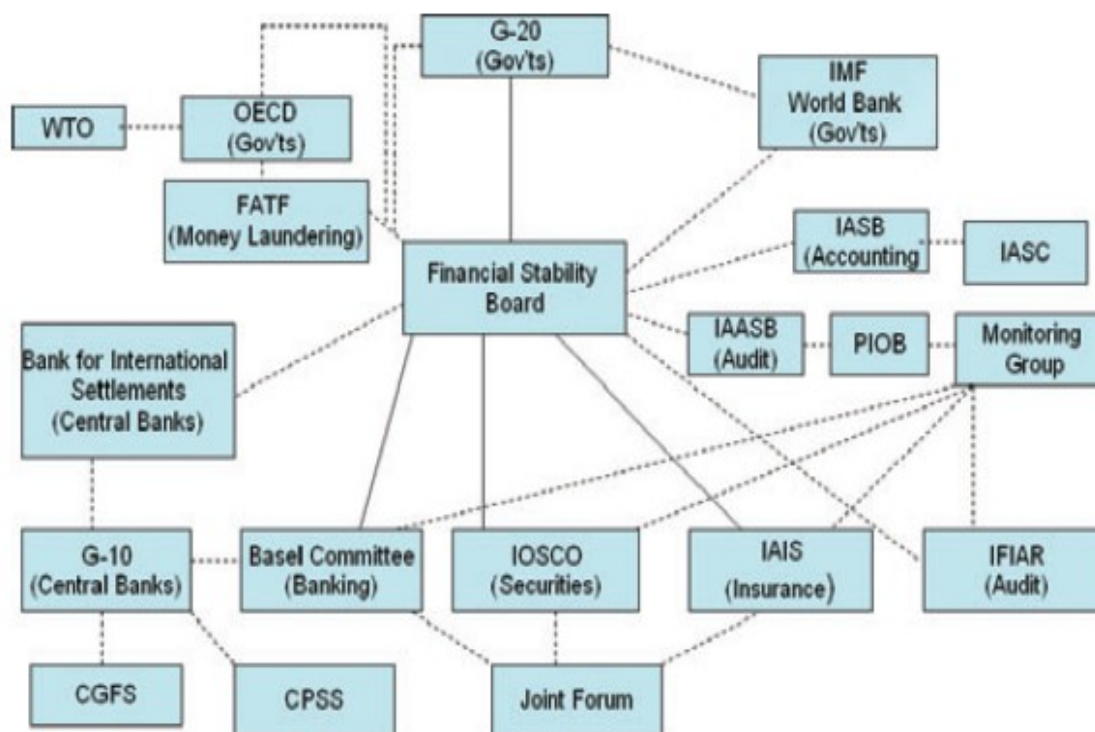
<img alt="Dashed blue line icon" data-bbox="835 330 848 343"/> 0.5-1% of world GDP  
 <img alt="Thin blue line icon" data-bbox="835 345 848 358"/> 1-5% of world GDP  
 <img alt="Medium blue line icon" data-bbox="835 360 848 373"/> 5-10% of world GDP  
 <img alt="Thick blue line icon" data-bbox="835 375 848 388"/> 10%+ of world GDP  
 World GDP, 2008 = \$61 trillion  
 Blue lines represent an increase between 2007-2008  
 Orange lines represent a decrease between 2007-2008



<sup>1</sup> Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment.  
 SOURCE: McKinsey Global Institute Cross-Border Investments database

# Global Committee Structures

Figure 1. Global committee structure: a regulator's view.



Source: Adapted with permission from Sloan and Fitzpatrick in Chapter 13, *The Structure of International Market Regulation*, in *Financial Markets and Exchanges Law*, Oxford University Press, March 2007.



# Nonprofit Organisations in Finance Field, USA

Year	Nonprofit Organisations in Finance		Nonprofit Organizations		Relative	
	Number	Expenditure in millionen Dollars	Number	Expenditure in millionen Dollars	Number	Expenditure in millionen Dollars
1989	77	\$311	137.459	\$603.152	0,06%	0,05%
1990	85	\$354	145.703	\$623.862	0,06%	0,06%
1991	84	\$369	155.350	\$685.454	0,05%	0,05%
1992	86	\$422	164.848	\$714.060	0,05%	0,06%
1993	91	\$451	171.742	\$748.727	0,05%	0,06%
1994	104	\$469	181.283	\$773.302	0,06%	0,06%
1995	119	\$500	190.531	\$780.060	0,06%	0,06%
1996	120	\$491	200.161	\$829.371	0,06%	0,06%
1997	132	\$553	218.341	\$860.169	0,06%	0,06%
1998	128	\$613	227.706	\$919.397	0,06%	0,07%
1999	142	\$617	249.886	\$1.010.804	0,06%	0,06%
2000	133	\$666	252.006	\$936.874	0,05%	0,07%
2001	135	\$722	264.821	\$985.046	0,05%	0,07%
2002	141	\$887	278.490	\$1.076.748	0,05%	0,08%
2003	141	\$1.136	289.283	\$1.124.194	0,05%	0,10%
2004	143	\$946	303.077	\$1.166.512	0,05%	0,08%
2005	151	\$1.025	315.224	\$1.215.950	0,05%	0,08%
2006	157	\$1.109	328.689	\$1.280.629	0,05%	0,09%
2007	160	\$1.063	344.875	\$1.333.030	0,05%	0,08%
2008	159	\$1.226	356.728	\$1.379.017	0,04%	0,09%
<b>2009</b>	<b>161</b>	<b>\$1.164</b>	<b>368.816</b>	<b>\$1.443.843</b>	<b>0,04%</b>	<b>0,08%</b>

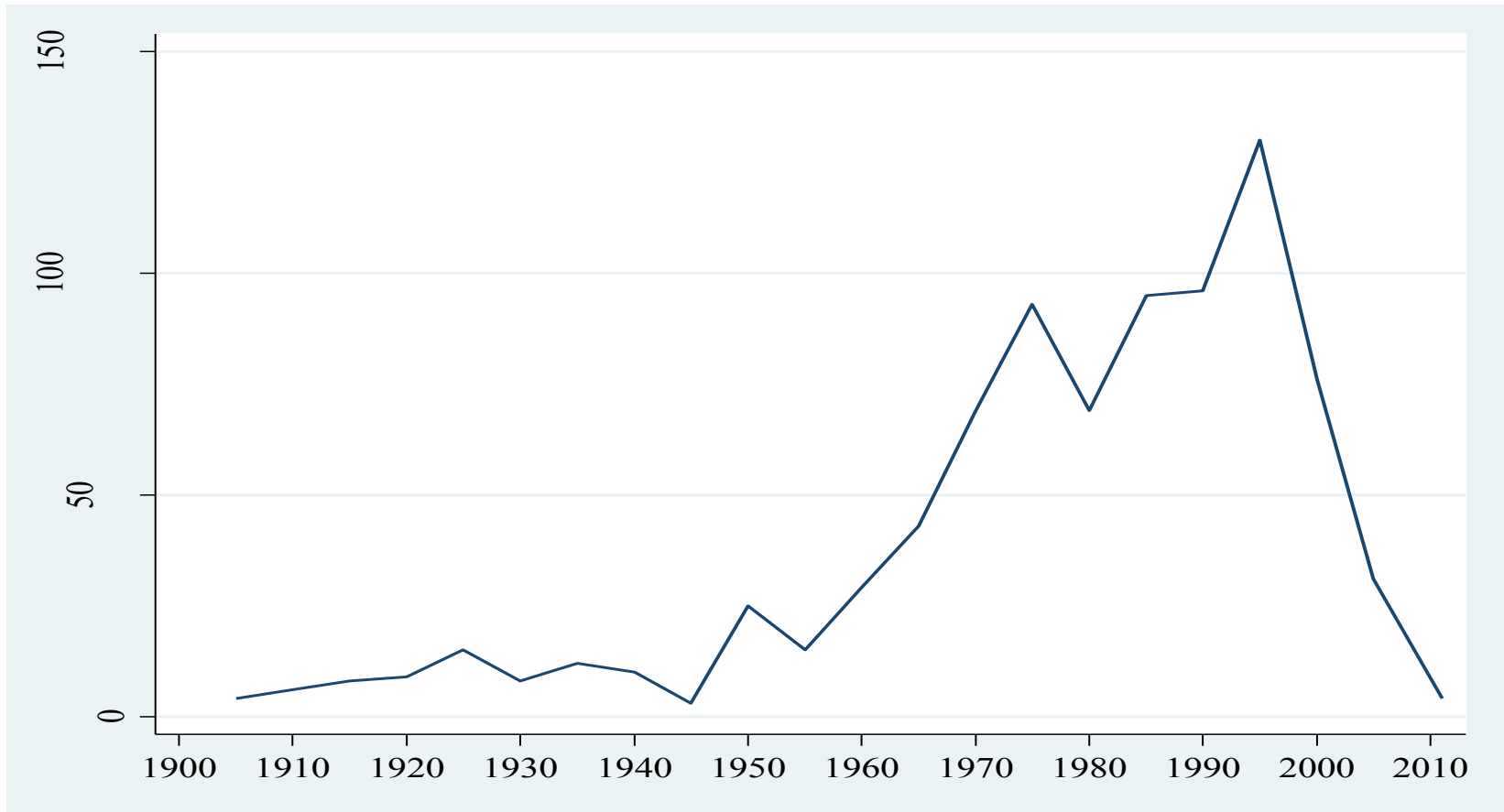


# International NGOs in Finance Field, by year

<b>Period</b>	<b>Number</b>	<b>%</b>	<b>Com.</b>
<b>- 1800</b>	2	0,2%	0,2%
<b>1811-1820</b>	2	0,2%	0,5%
<b>1851-1860</b>	2	0,2%	0,7%
<b>1881-1890</b>	5	0,6%	1,3%
<b>1891-1900</b>	3	0,3%	1,6%
<b>1901-1910</b>	10	1,2%	2,8%
<b>1911-1920</b>	17	2,0%	4,7%
<b>1921-1930</b>	23	2,7%	7,4%
<b>1931-1940</b>	22	2,5%	10,0%
<b>1941-1950</b>	28	3,2%	13,2%
<b>1951-1960</b>	44	5,1%	18,3%
<b>1961-1970</b>	112	13,0%	31,3%
<b>1971-1980</b>	162	18,8%	50,0%
<b>1981-1990</b>	191	22,1%	72,1%
<b>1991-2000</b>	206	23,8%	95,9%
<b>2001-2011</b>	35	4,1%	100,0%
<b>Total</b>	864	100,0%	



## International NGOs in finance field by year of founding







## “Web Activism Sites” in international finance

Name	Single Visitors Oct2011	Page clicks Oct 2011	Average time visited
<a href="http://www.finance-watch.org">www.finance-watch.org</a>	< 10.000	Insufficient data	Insufficient data
<a href="http://www.ifivatchnet.org/">www.ifivatchnet.org/</a>	< 10.000	Insufficient data	Insufficient data
<a href="http://www.jubileedebtcampaign.org.uk">www.jubileedebtcampaign.org.uk</a>	10.000	Insufficient data	Insufficient data
<a href="http://www.oikos-international.org/">www.oikos-international.org/</a>	< 10.000	Insufficient data	Insufficient data
<a href="http://www.brettonwoodsproject.org/">www.brettonwoodsproject.org/</a>	< 10.000 / 9.600	30.000 (Oct)	Insufficient data
<a href="http://www.eurodad.org/">www.eurodad.org/</a>	< 10.000	Insufficient data	Insufficient data
<a href="http://www.transparency.org">www.transparency.org</a>	52.000 / 62.000	350.000 / 560.000	7:50
<a href="http://www.attac.org/">www.attac.org/</a>	24.000 / 42.000	120.000 / 240.000	4:00
<a href="http://www.socialbusinesstour.com/">www.socialbusinesstour.com/</a>	< 10.000	Insufficient data	Insufficient data

### Comparison:

<a href="http://www.greenpeace.org">www.greenpeace.org</a>	690.000 / 830.000	3,2 Mio. / 5 Mio	4:50 / 5.3
<a href="http://www.hrw.org">www.hrw.org</a>	200.000 / 170.000	830.000 / 1.1. Mio	5:20 / 6.0
<a href="http://www.amnesty.org">www.amnesty.org</a>	290.000 / 460.000	2,2 Mio. / 3.2 Mio	5:20 / 4.5



## “Web Activism Sites” associated with the Occupy Movement

<b>Website</b>	<b>Unique visitors October 2011</b>	<b>Page views October 2011</b>	<b>Total visits October 2011</b>	<b>Mean time on website October 2011</b>
<b>www.occupywallstreet.org</b>	120.000 / 240.000	520.000 / 1,6Mio	240.000 / 570.000	4:30 / 5:30
<b>www.occupytogether.org</b>	43.000 / 350.000	240.000 / 2Mio	96.000 / 820.000	5:30 / 4:50
<b>wearethe99percent.tumblr.com</b>	36.000 / 420.000	120.000 / 2,4Mio	66.000 / 850.000	5:20 / 7:10



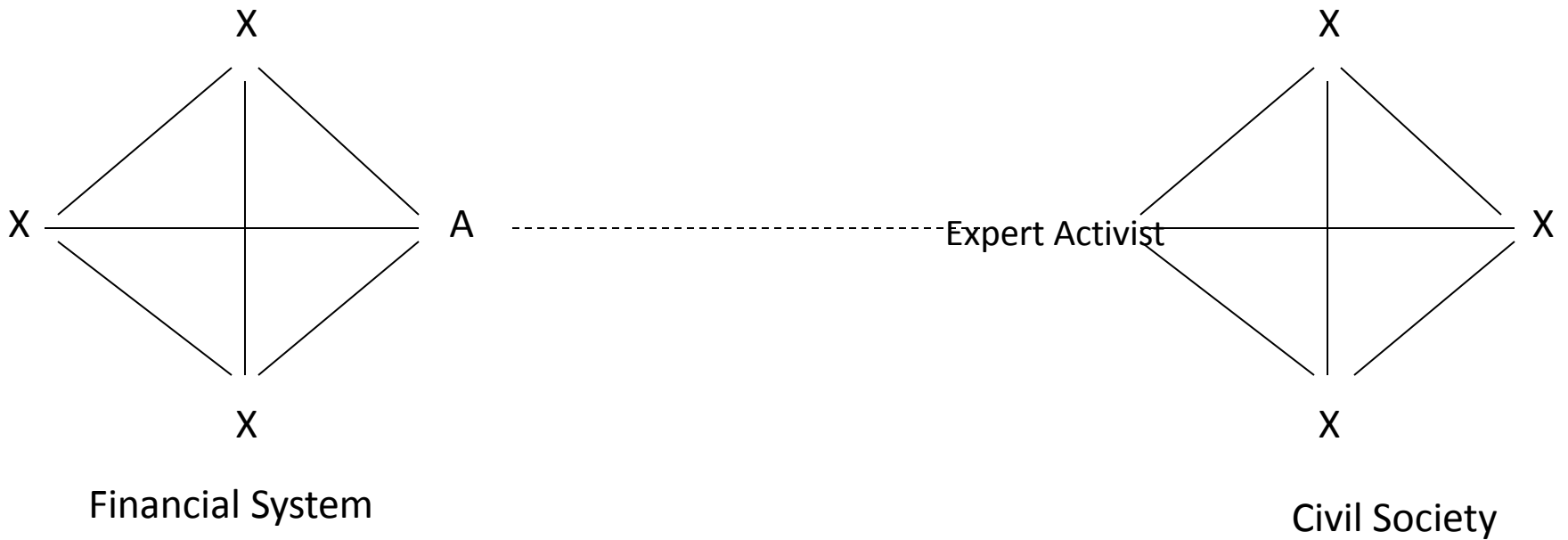
## Foundation Initiatives in Finance Field

Type of Engagement	Civil society initiatives with support from philanthropic foundations
<b>Research, Awareness, Information, Education</b>	<ul style="list-style-type: none"> <li>• Institute for New Economic Thinking</li> <li>• Task Force on Financial Integrity and Economic Development</li> <li>• New Era Economics Programme, IPPR</li> <li>• New Economics Foundation</li> <li>• High Pay Commission</li> <li>• Future Social Market Economy</li> </ul>
<b>Advocacy</b>	<ul style="list-style-type: none"> <li>• Bretton Woods Project</li> <li>• Tax Justice Network</li> <li>• Bank Information Center</li> <li>• Corporate Watch</li> <li>• Corporate Europe Observatory</li> </ul>
<b>Ethics</b>	<ul style="list-style-type: none"> <li>• Your Ethical Money</li> <li>• Fair Pensions</li> <li>• Social Business Tour</li> </ul>

Source : Fioramonti, Lorenzo; Thümler, Ekkehard: Civil Society and the Accountability of Financial Markets: the Role of Philanthropic Foundations. Centre for Social Investment, Heidelberg, 2011

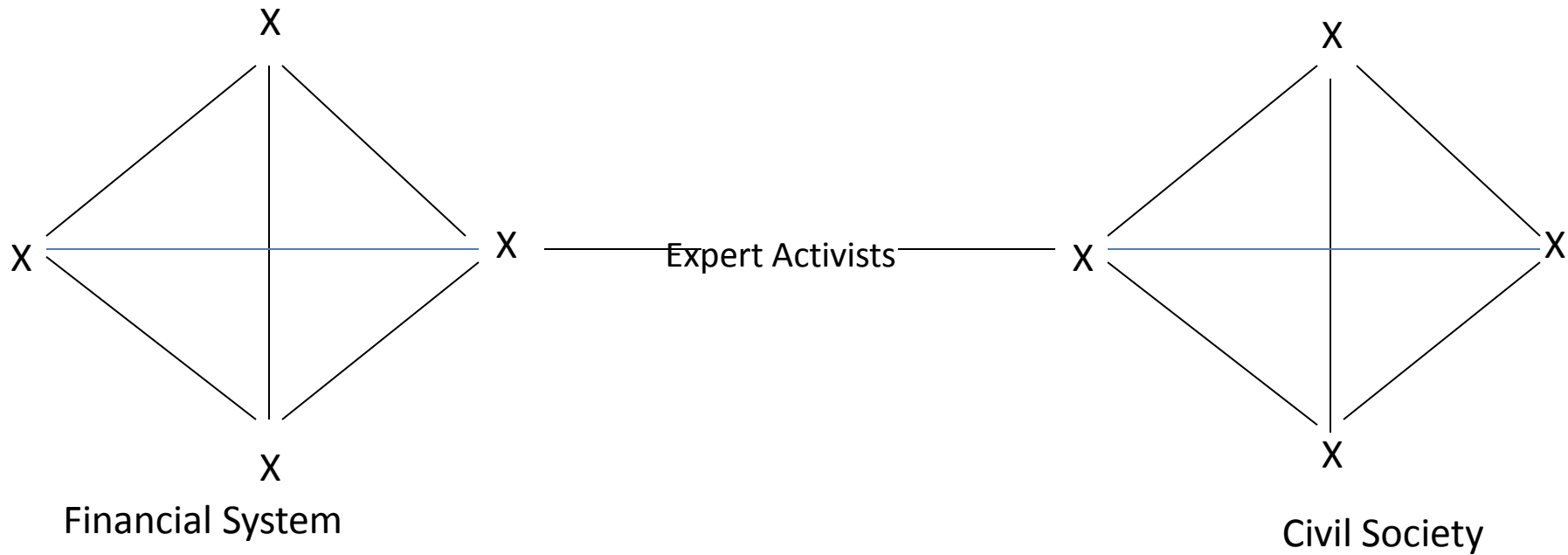


# A. Weak Tie Configuration

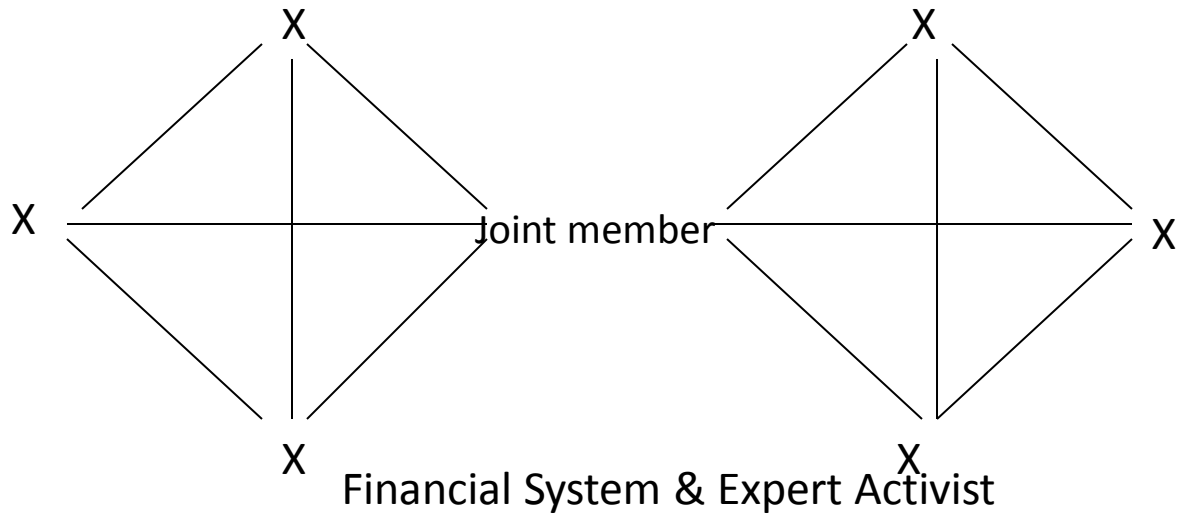




# B. Structural Holes and Closure



# C. Structural Folds and Intergroup Cohesion





# The Proposal

- **Concerted effort**, not by governments and regulators, but Civil Society *plus*
- **Role of foundations** as independent actors to build civic infrastructure for finance
- **Build expertise**, support movements
- Combine new forms of popular protest with financial autonomy of foundations, and the expertise of new experts
- Longer term projects
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