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

*Helmut K. Anheier*

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

Lecture at Brno, 15 January 2013



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# Introduction

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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.




I argue that 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?**

# Main propositions

- The latest global financial crisis has proven that **financial deregulation created institutional voids** that threaten the confidence into market capitalism and liberal democracy
- To fill institutional voids, **building up more institutions and better rules** alone would not improve the situation because **it also has to be ensured that the rules are adequately implemented**
- The **development of a stronger transnational civil society** should be encouraged to fill these institutional voids; they could also enhance **legitimacy** of the global finance sector
- **Foundations could perfectly serve this purpose** because they possess strong ties to both the cultural and the finance sector and may help bring about better institutional rules and implementation

# How Institutional Voids emerged in the global finance sector

- 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?**

# How Institutional Voids emerged in the global finance sector

- **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
- **Requirements for successful governance of institutions:**
  - Are the **institutional rules adequate** to the requirements of the **policy field**?
  - Are the **institutional rules sufficiently implemented** by key actors?
  - ➔ **When neither requirement is met: Emergence of institutional void**
  - ➔ **Need for re-coupling, “reining finance back in”**



# Requirements, Institutions and Implementation

	<b>Institutional Rules adequate to requirements of field or policy domain</b>	<b>Institutional Rules inadequate to requirements of field or policy domain</b>
<b>Implementation of institutional rules is sufficient</b>	<p><i>Adaptive Coping</i></p> <p>Example: corporatism, autonomy in wage bargaining</p>	<p><i>Institutional Deficit</i></p> <p>Example: NATO security policy 1980s-90s; higher education 1990</p>
<b>Implementation of institutional rules is insufficient</b>	<p><i>Implementation Deficit</i></p> <p>Example: NATO security policy 2010s, higher education 2010's, environmental policy</p>	<p><i>Institutional Void</i></p> <p>Example: global, financial system</p>



# 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>





# Possible ways of filling institutional voids

- 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



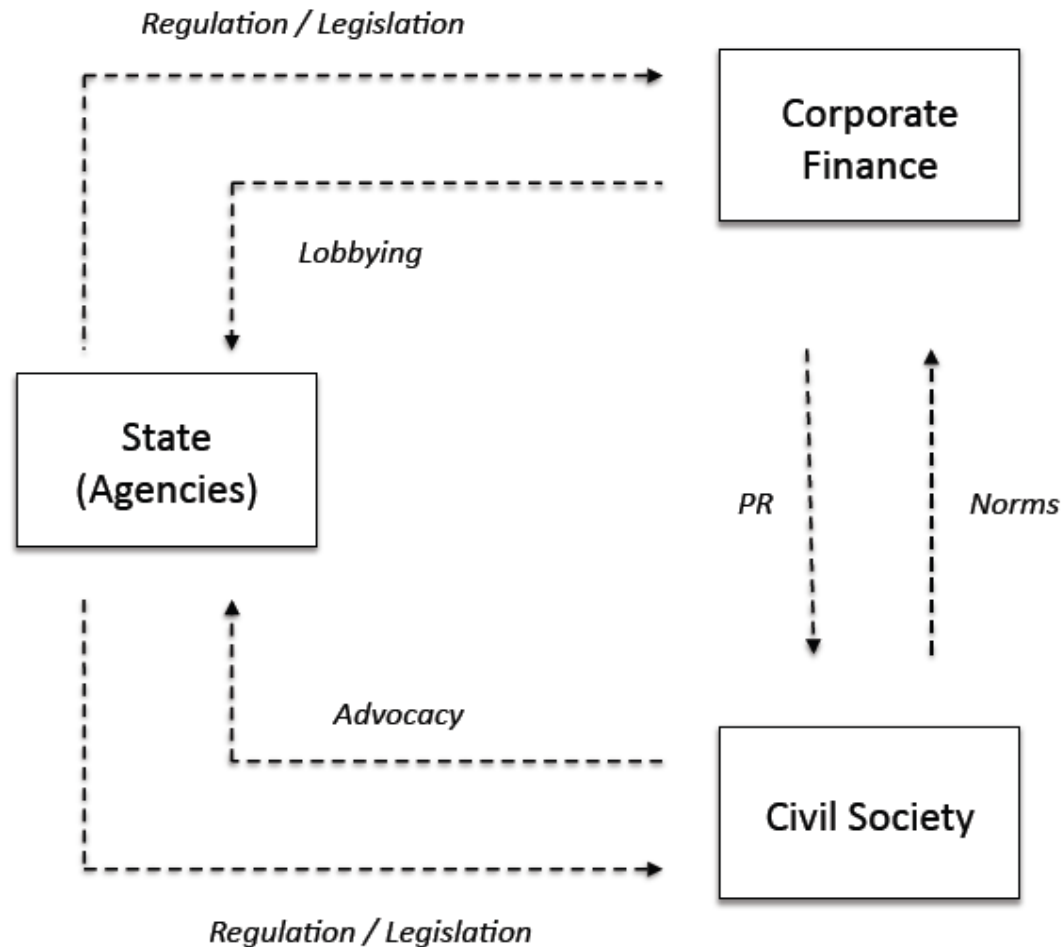
# Why civil society is key

- Civil society organizations have already played a significant role:
  - Encouraged the IMF to various institutional procedures, e.g. public consultation, transparency and policy evaluation.
  - Do advocacy or lobby national governments to take a stance toward the IMF
  - Played a crucial role during the Asian crisis:
    - made links between economic and political democratization issues and promoted alternative economic development principles and strategies
    - agenda-setting: raised broader systemic implications such as the link between economic and political democratisation issues
  - Need for more inclusive processes, representing wider range of interest → civil society best suited to bring about transparent and inclusive processes and to act as watchdog



# Why civil society is key – Institutional and normative set-up of international finance

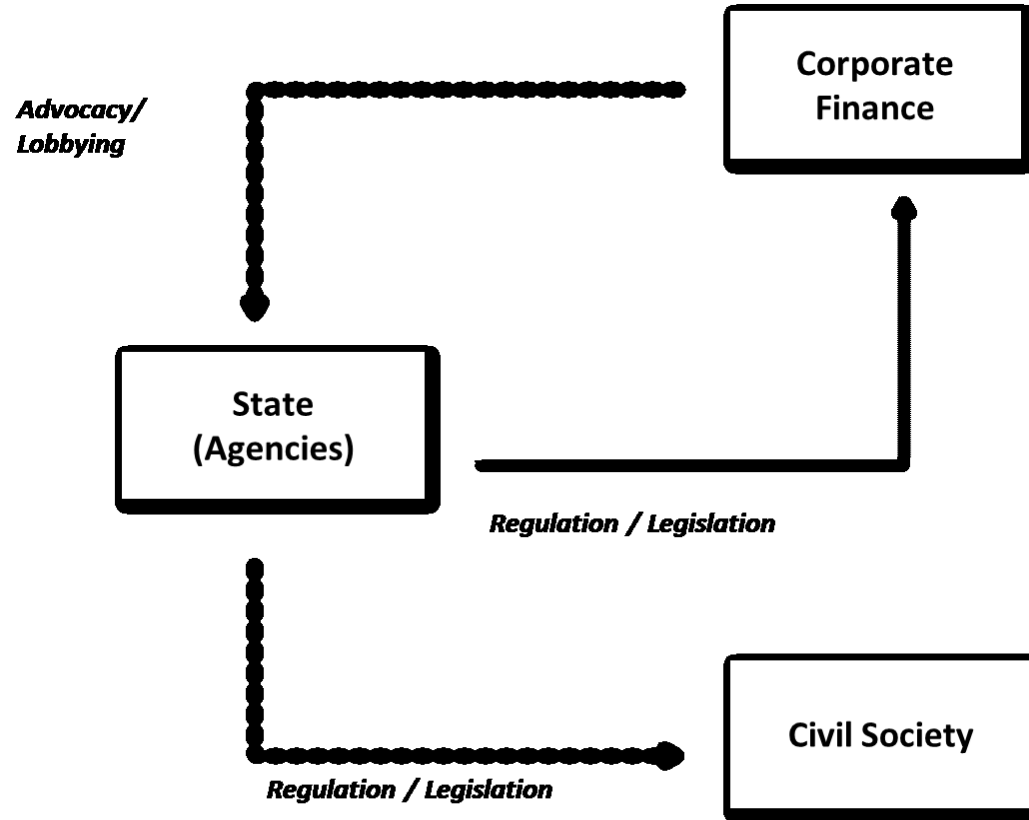
Figure 1: Ideal  
influence  
patterns





# Why civil society is key – Institutional and normative set-up of international finance

Figure 2: Actual  
influence  
patterns





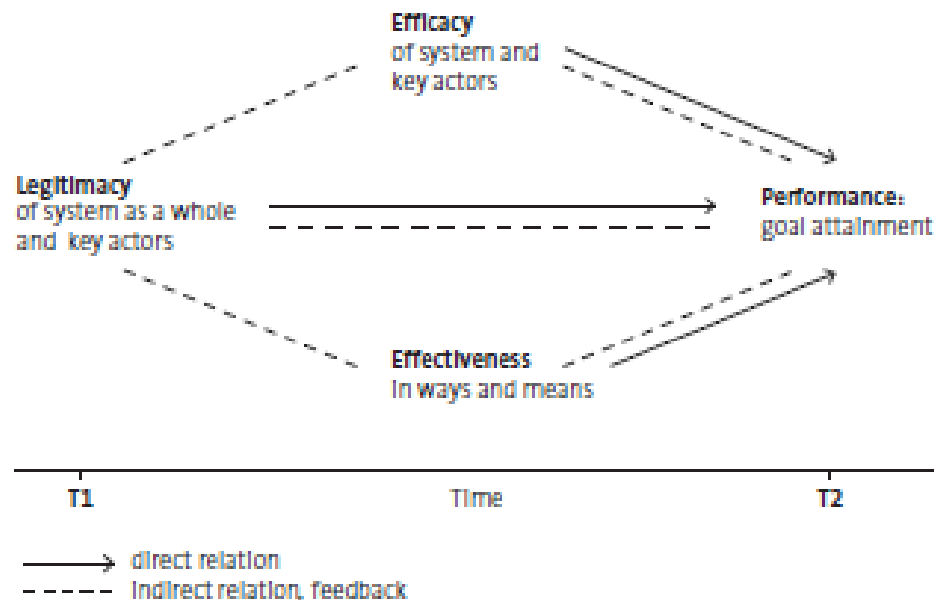
# Why civil society is key – Institutional and normative set-up of international finance

	Congruency between requirements, institutions and organisations	Incongruity between requirements, institutions and organizations
<b>Societal Embeddedness</b>	<p><i>Legitimacy dividend and adaptive advantage</i></p> <p>Example: Environmental Policy</p>	<p><i>Legitimacy risk;</i></p> <p><b>Necessity for discussion and for political action</b></p> <p>Example: German Labour Market Reforms 2002 (Agenda 2010)</p>
<b>Societal Decoupling</b>	<p><i>Legitimacy risk;</i></p> <p><b>Necessity for discussion and for political action</b></p> <p>Example: European policy</p>	<p><i>Legitimacy Deficit for Democracy</i></p> <p>Example: Current fiscal and financial policy in Europe</p>



# Why civil society is key – Institutional and normative set-up of international finance

- **Why legitimacy is important:**
  - The legitimacy of the governance system in place becomes a positive and negative reinforcer that magnifies the effects of efficacy and effectiveness on performance and vice versa.



# Ideal Role of Civil Society – Foundations as key actor

- Hypothesis: Certain institutional roles and comparative advantages make foundations a potential key actor in filling institutional voids:
- **Roles:**
  - **Charity („Immediate Relief“):**
    - Complement and Substitute Government
  - **Philantropy**
    - Innovation
    - Social and Policy Change
  - **Control, Redistribution**
    - Asset Protection
    - Redistribution



# Ideal Role of Civil Society – Foundations as key actor

- Hypothesis: Certain institutional roles and comparative advantages make foundations a potential key actor in filling institutional voids:
- **Comparative Advantages:**
  - **Social Entrepreneur**
    - Respond, Initiate
    - Convene, Catalyze
  - **Institution Builder**
    - Lead Collaborations
    - Establish Self-Sustaining Institutions
  - **Risk Absorber**
    - Accept Programatic, Social, Political Risk
    - Preserve Assets Dedicated to Valued Goals



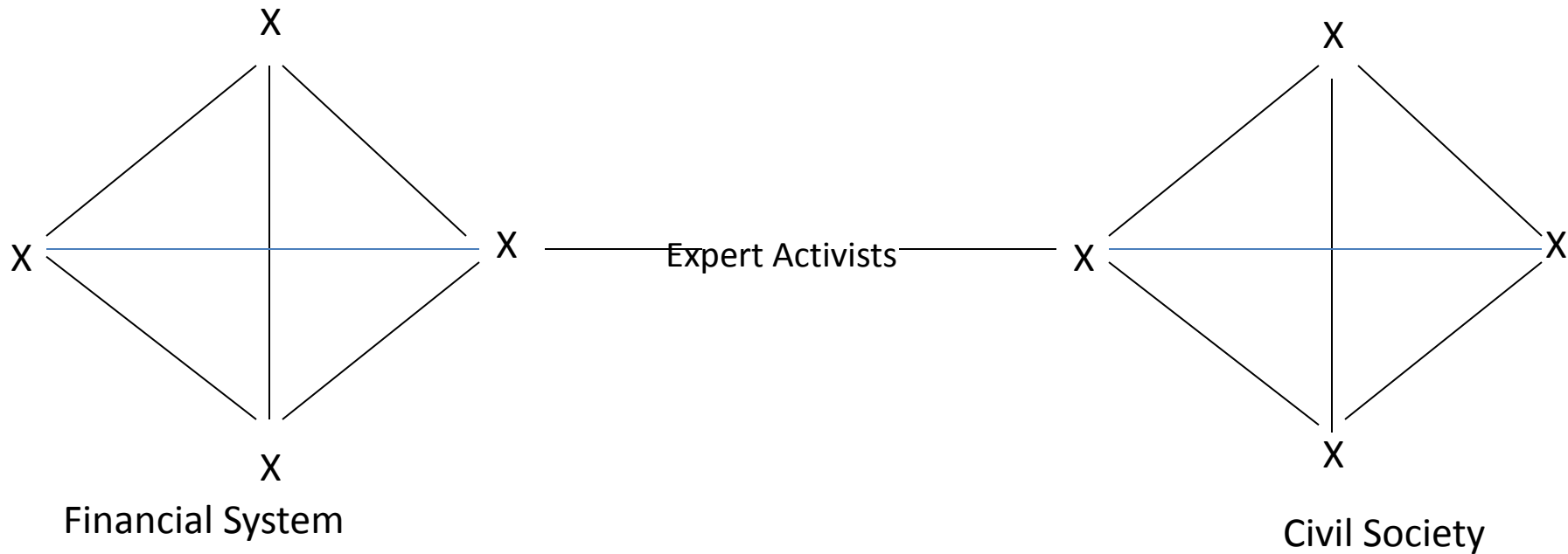
# Ideal Role of Civil Society – Foundations as key actor

- Hypothesis: Certain institutional roles and comparative advantages make foundations a potential key actor in filling institutional voids:
- **Most importantly:**
- Philanthropic foundations have the ability to help generate **structural folds**:
  - Structural folds are a distinctive network topology, where “actors ... are multiple insiders, facilitating familiar access to diverse resources” (Vedres and Stark, 2010, p. 1150) → Actors at a structural fold create bridges between different sectors
  - Philanthropic foundations could connect the two segments of civil society and international finance and bring about structural fold.

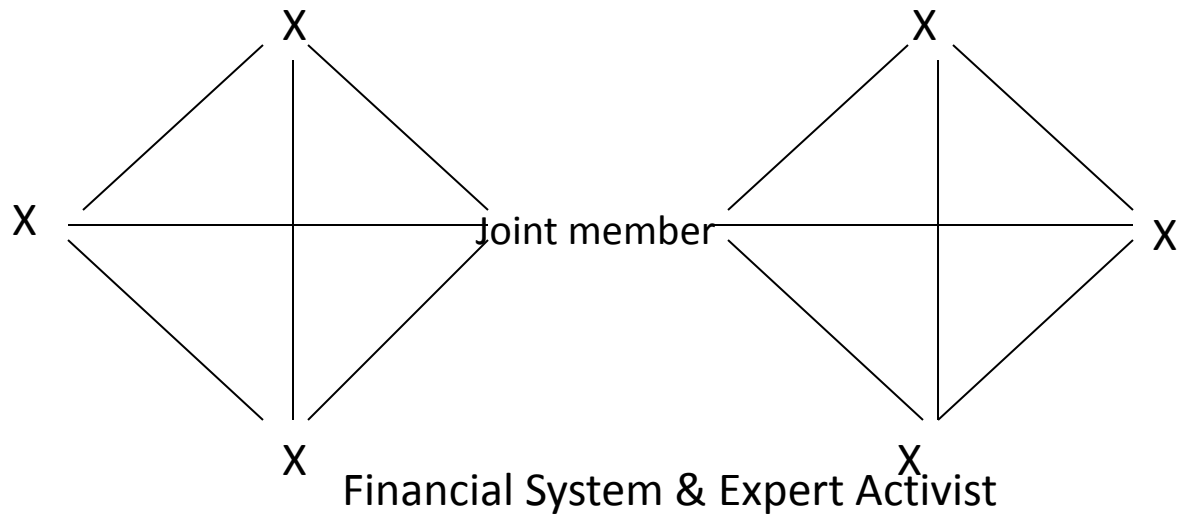
# Ideal Role of Civil Society – Foundations as key actor

- **Structural folds are important because:**
  - would help mitigate the complexity-attractiveness problem by implanting civil society experts inside the financial system
  - through distinctive network position at the intersection of finance and civil society, foundations could:
    - facilitate the exchange of ideas between two groups
    - Build common normative framework through inter-cohesion

# Structural Holes and Closure

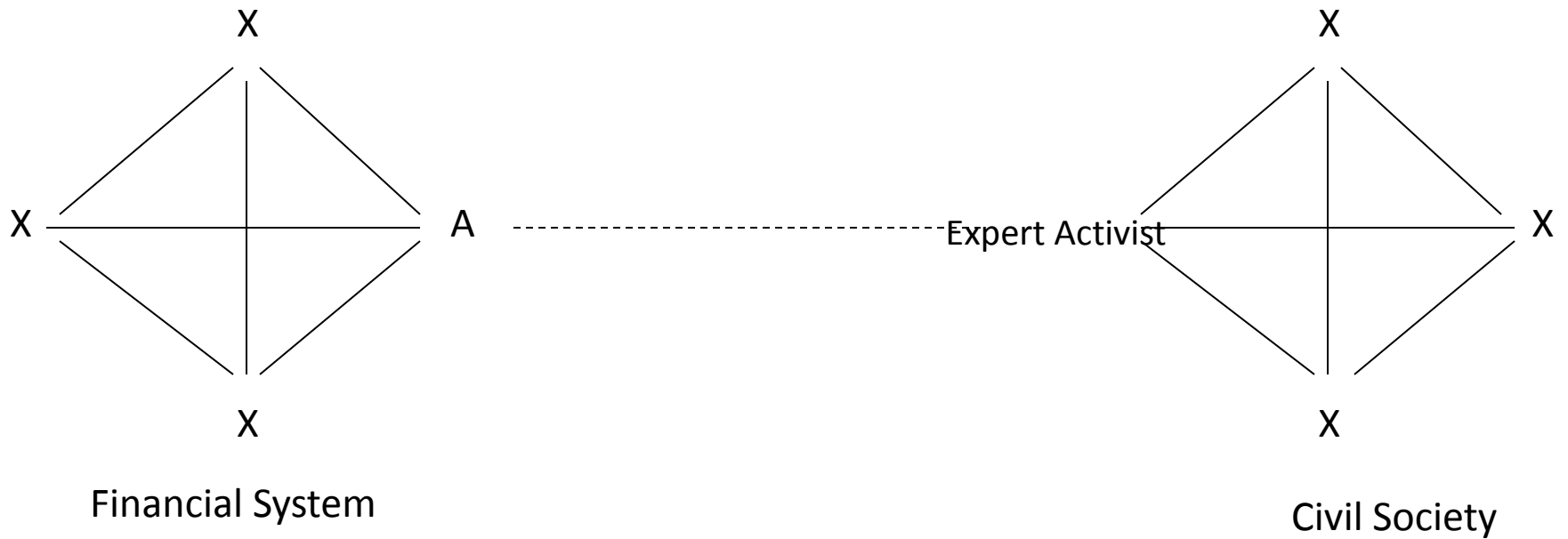


# Structural Folds and Intergroup Cohesion





# Weak Tie Configuration





## 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>

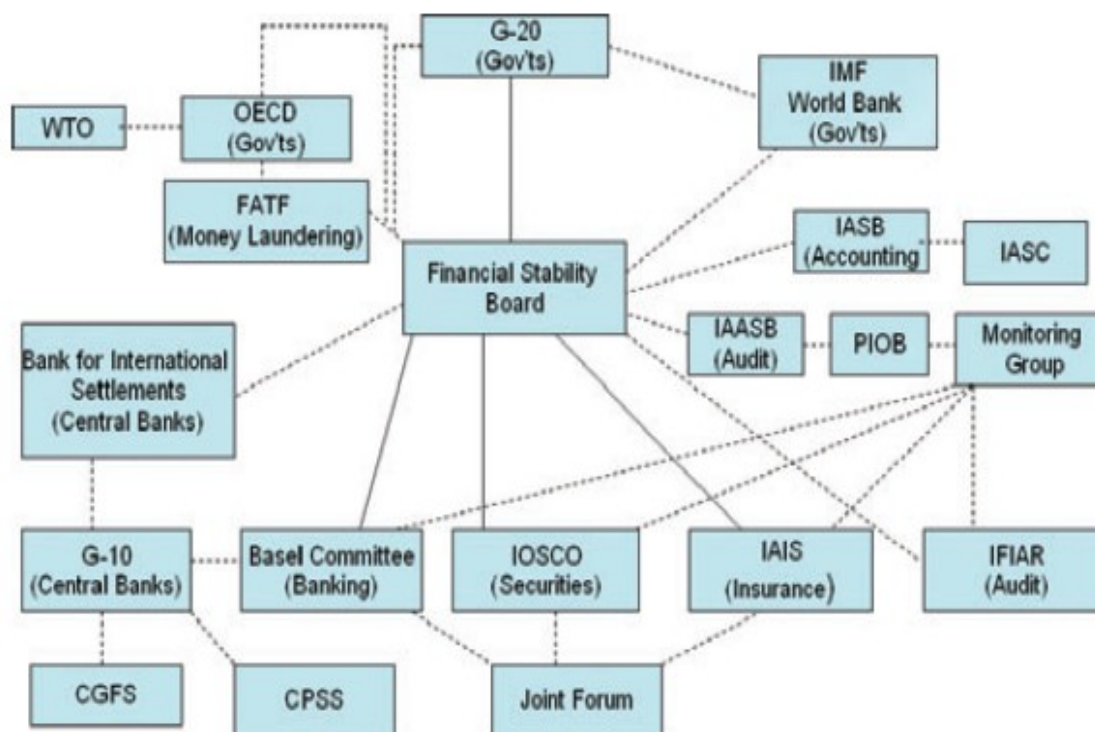
Source : Fioramonti, Lorenzo; Thümler, Ekkehard: Civil Society and the Accountability of Financial Markets: the Role of Philanthropic Foundations. Centre for Social Investment, Heidelberg, 2011

# Current state of civil society in global finance

- BUT: Current status of civil society organizations falls short of filling institutional voids:
  - Low in number
  - Low in voice
  - Lack mobilization potential
    - Indicator: social media → few website visits
    - Example: Occupy Movement
- Some empirics to illustrate this

# 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

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



## “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.ifWATCHnet.org/">www.ifWATCHnet.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

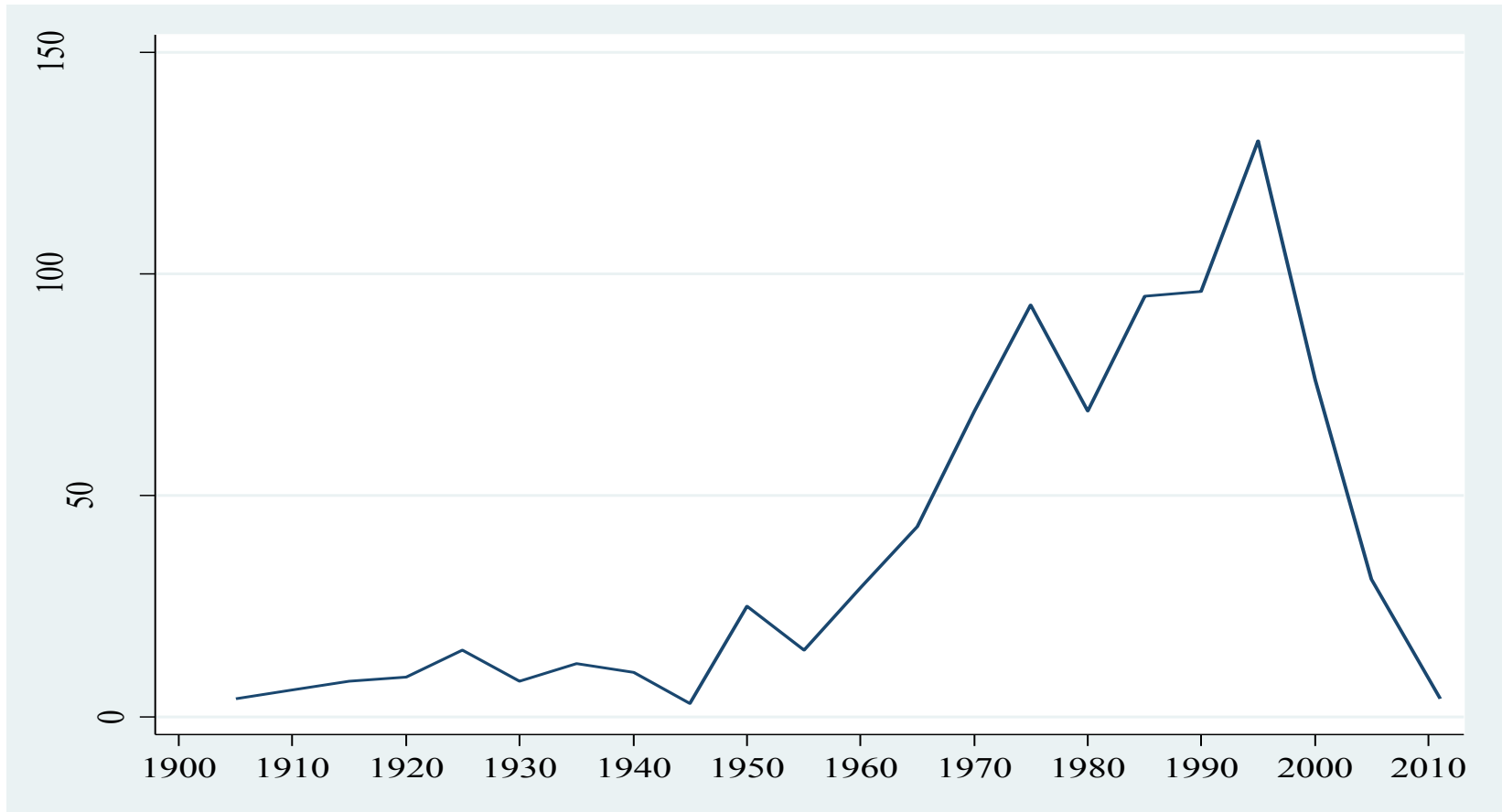


## “Web Activism Sites” associated with the Occupy Movement

<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

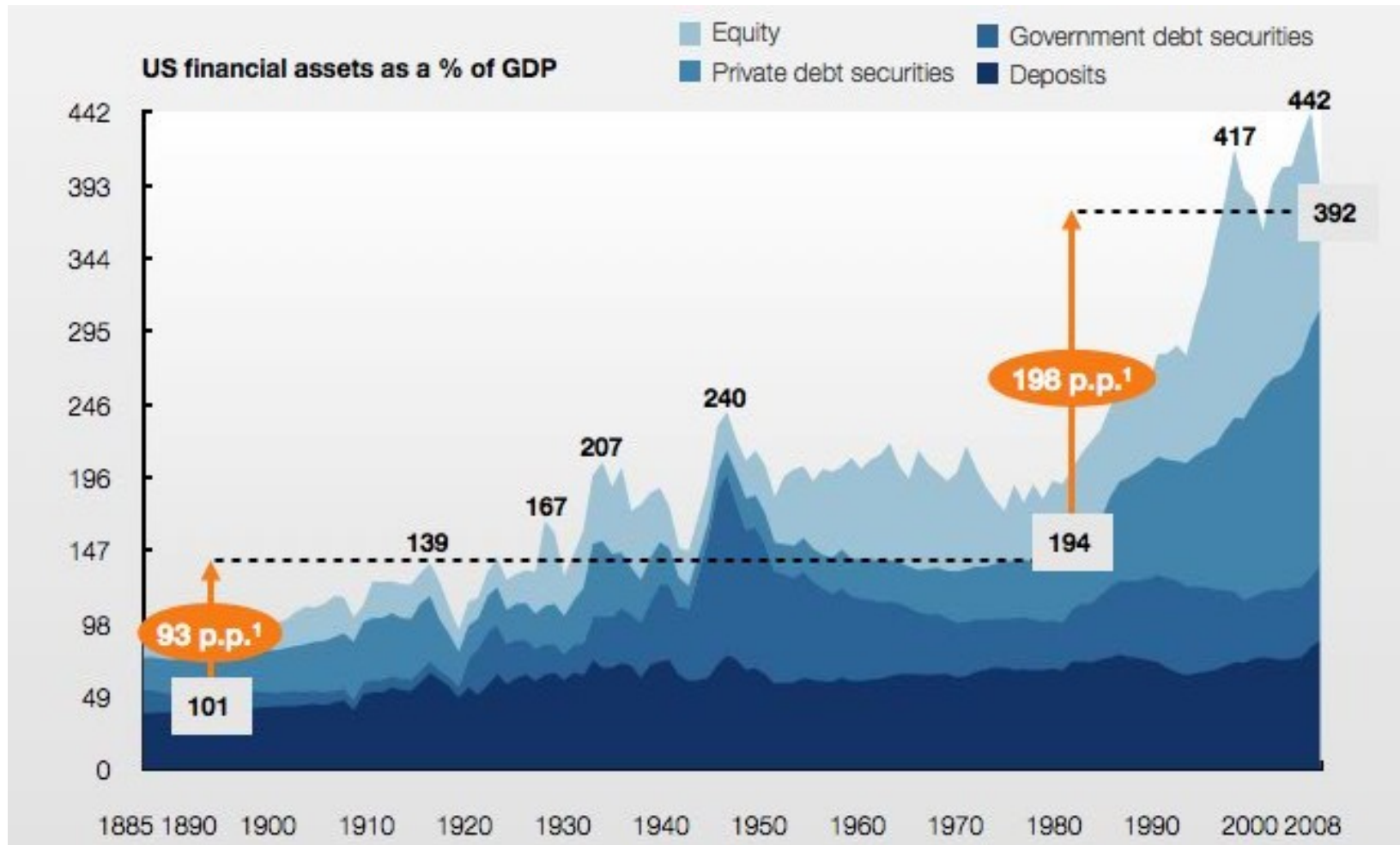


## International NGOs in finance field by year of founding





# Finance: Asset growth over time



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

Source: Federal Reserve; National Bureau of Economic Research; Robert Shiller, McKinsey Global Institute analysis



# 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="0.5-1% of world GDP icon" data-bbox="362 283 375 296"/> 0.5-1% of world GDP  
 <img alt="1-5% of world GDP icon" data-bbox="362 301 375 314"/> 1-5% of world GDP  
 <img alt="5-10% of world GDP icon" data-bbox="362 319 375 332"/> 5-10% of world GDP  
 <img alt="10%+ of world GDP icon" data-bbox="362 337 375 350"/> 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="0.5-1% of world GDP icon" data-bbox="835 331 848 344"/> 0.5-1% of world GDP  
 <img alt="1-5% of world GDP icon" data-bbox="835 349 848 362"/> 1-5% of world GDP  
 <img alt="5-10% of world GDP icon" data-bbox="835 367 848 380"/> 5-10% of world GDP  
 <img alt="10%+ of world GDP icon" data-bbox="835 385 848 398"/> 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



# Conclusion

- **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
- Sustained investment needed