Global Financial Governance and Theories of Group Polarization

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If we want to understand how we might enhance the legitimacy of global governance, we need to first understand the nature of contemporary legitimacy deficits and how certain global governance practices undermine levels of legitimacy. In this respect, it is hardly controversial or novel to suggest that global financial governance suffers from a number of legitimacy challenges or gaps (Seabrooke, 2007, Porter, 2001, Baker 2006, Soederberg, 2004, Underhill, 1995), but in this paper I want to focus on the nature of one specific source of legitimacy problems, which I think is often overlooked in the existing literature, and has certainly received sparse attention at least in terms of how it constitutes and creates legitimacy problems. My concern here is with the numerous groups, clubs and committees that occupy pivotal positions in the process of global financial governance and the characteristics, attributes and dynamics they display. Groups such as the G10, the G7, to a lesser extent and more recently the G20, committees such as IOSCO, Basle and the Financial Stability Forum, have all proved quite effective in producing a degree of consensus amongst their members, but their operation has a notable and conspicuous downside, which has affected the ideological and ideational orientation of the entire global financial

governance complex. In this paper I am going to discuss how a branch of literature derived from social psychology, but recently taken up by political theorists interested in the potential of deliberative democracy, and referred to here as group polarization theory, has relevance for the way we understand global financial governance and the 'legitimacy problems' it faces. My argument here is that application of the insights of group polarization theory provides us with a fuller and more rounded understanding of some of the principal legitimacy problems faced by global financial governance, and therefore points us in the direction of the kinds of things that should be being considered and explored if such legitimacy problems are to be rectified.

The rest of the paper is divided into four sections. Firstly, the concepts of legitimacy and legitimacy problems are discussed. Secondly, group polarization theory is introduced. Thirdly, the group and committee characteristics and features of global financial governance are outlined, together with the legitimacy problems such features pose, while group polarization theory is applied to global financial governance to further shed light on the source of some of its legitimacy problems, including how these problems are created and constituted. In the final section, the question posed is what does group polarization theory tells us about how specific legitimacy problems might be addressed? The paper is intended to be only an initial starting point and in this regard it is suggestive, rather than definitive. It is designed to provoke further debate about how we might think through some of the legitimacy problems facing global financial governance, what the root of these problems are and what could be done to address them.

Legitimacy and Legitimacy Problems

Vast amounts have been written about the nature of legitimacy and this brief section is neither the time nor the place for an exhaustive summary. My intention here is simply to provide a working definition of legitimacy and say something about my understanding of the concept of legitimacy and the nature of 'legitimacy problems'. Legitimacy, David Beetham has noted, involves established, rules, procedures or norms that are justifiable according to socially accepted beliefs about the rightful source of authority and the proper ends and use of that authority, in turn producing consent from subordinates and recognition by other authorities (Beetham, 1991). Where consent is absent and those making decisions are defied by supposed subordinates legitimacy problems can be said to exist. A legitimacy problem is however slightly different from Seabrooke's concept of a legitimacy gap, which refers to the space between claims to the fairness and rightfulness of policy actions by those who seek to govern and the conferral of those claims through *belief-driven* acts of implementation by those being governed (Seabrooke, 2007, p.258). Such legitimacy gaps are in fact a key symptom of legitimacy problems, as are poor records of performance where enforcement and implementation of policy initiatives are concerned. Legitimacy problems are in fact those specific features that detract from and undermine the authority of a particular mode of decision making. In other words, legitimacy problems are the cause of disputed and contested authority, rather than the act of contesting and disputing that authority.

Authority in global financial governance can be conceived of as existing along three dimensions, - moral, intellectual and technical (Porter 2005)[1]. Moral authority is related to perceptions of fairness, stemming from questions of who participates and

[1] This is my own assertion and formulation, but it is certainly similar to the one put forward by Tony Porter, who has written at length on the subject of technical authority.

who is represented in certain decision making processes. Therefore a decision making process that is representative of a broad range of interested parties and is perceived as being inclusive, rather than exclusive will have some degree of moral authority (Germain, 2001). Technical authority refers to practical issues of suitability, fit and appropriateness of particular policy solutions for different national contexts. This involves technical questions of ensuring particular policy proposals are enforceable and can be implemented from a technical and logistical perspective in a variety of national contexts. In other words technical authority in global financial governance refers to an awareness, knowledge, and sensitivity of the particular logistical, technical and procedural challenges and issues facing a range of national societies and ensuring that knowledge and understanding is built into proposed policy solutions. Finally, intellectual authority refers to the persuasiveness and intellectual credibility of arguments emerging from a particular decision making process. Here the issue at stake is whether a process generates convincing arguments about the types of policy it advocates, based on a thorough and rigorous consideration of various alternatives, and a process of evidence and data based debate and deliberation.

For a governance or decision making process to score highly in terms of legitimacy it needs to perform well along all three of these dimensions. My argument in this paper is that global financial governance scores badly along all three dimensions and group polarization theory provides a feasible explanation of why this is the case and why the existing practice and process of global financial governance suffers from certain legitimacy problems that detract from its moral, technical and intellectual authority.

Group Polarization Theory

Group polarization theory refers to a striking but much neglected, statistical regularity concerning group dynamics. It is a phenomenon observed in social groupings in a variety of social and political contexts, in which members of the group debate issues and start with similar core beliefs, and it is among the most robust patterns found in deliberating bodies all over the world[2]. Evidence suggests that regular group deliberations result in a deepening in the core beliefs of the group, as those beliefs come to be held with greater conviction, while possible alternative views are screened out, or go unheard. Some versions of group polarization theory assert that interaction between group members result in their views becoming more extreme over time, but I would contend that this is a potentially simplistic and misleading line of reasoning. In certain cases a more extreme shift in views in the general direction of pre-deliberation tendencies may occur, but this does not always apply. It is equally likely that core beliefs will over time be accompanied by more qualifications, meaning that those beliefs may appear less extreme, but the level of attachment to them amongst group members actually increases, as those beliefs are effectively elevated to the status of indisputable truths. My understanding of group polarization theory therefore, is not that the beliefs and views of group members become more extreme over time, but that they become more entrenched and more firmly held, which is a slightly different and more subtle process.

The literature identifies two mechanisms at work explaining this phenomenon (Zuber et al, 1992, Beach, 1997, Spears, Lee and Lee, 1990, Harrington, 1990, Sunstein, 2002). The first relates to social influences on behaviour and in particular people's desire to maintain their reputation and self conception within the group.

[2] A variety of social psychology research based on participant observation and reflection has identified the dynamics of group polarization in a variety of social groupings.

People want to be perceived favourably by other group members. Upon hearing what others believe therefore, they adjust their positions in the direction of the dominant position. There is some initial evidence that such a process is at work in the case of the G20, which brings finance ministry and central bank officials from a range of emerging markets to the table with representatives from the G7. Finance ministry and central bank officials from non G7 countries are regarded by their G7 counterparts as technically competent and capable individuals (Dodge, 2001, Baker, 2006), not least because they often have a formal neo-classical economic training from leading western (American) graduate schools. Even when officials dissent from neo-liberal orthodoxy, powerful social influences are at work that may ensure such officials keep quiet on a particular issue, for fear of undermining their reputation and credibility with their G7 counterparts. In other words, the social context of the group makes it inappropriate for them to voice their dissent for fear of damage to their reputation. I will say more about this later in the paper. The second dynamic involves the emergence of limited 'argument pools' within groups and the directions in which such limited pools lead group members (Sunstein, 2001). A group whose members are already inclined in a certain direction will be exposed to a disproportionate number of arguments supporting that same direction. The result will be to move participants further in the direction of their initial inclinations, strengthening those inclinations at the expense of alternatives. The result is a limited argument pool that is skewed in a particular direction, producing what Cass Sunstein refers to as *enclave deliberation*, - deliberation among like minded people who spend much of their time in isolated enclaves without sustained exposure to competing views, and often hear only echoes of their own voices (Sunstein, 2001.)

Group polarization theory therefore predicts that group members' views will converge and differences among them will diminish over time. Research into the social psychology of group dynamics has found that social ties among deliberating group members, such as membership of a common profession, leads to the airing of similar opinions, which increases individual confidence in their views, but also tends to suppress dissent and therefore leads to inferior decisions (Beach, 1997, Heath and Gonzales, 1997).

Normative concerns have quite correctly been raised about the dangers of the phenomenon of group polarization and the practice of enclave deliberation concerning the difficulties this raises for society as a whole. Concerns have been raised about error and social fragmentation when like minded people, insulated from others draw on limited argument pools. If governance processes are dominated by forms of enclave deliberation we can expect many affected parties to feel excluded and to contest and resist the outcomes of these forms of enclave deliberation. In this respect, enclave deliberation will invariably suffer from legitimacy problems that will result in challenges to its authority and resistance to and even rejection of its outcomes. Sunstein accordingly makes the argument that, "when group discussion tends to lead people to more strongly held versions of the same view with which they began, and when social influences and limited argument pools are responsible, there is little reason for great confidence in the effects of deliberation." (Sunstein, 2001 p.188.) The biggest single danger of enclave deliberation is that certain policy stances are favoured not because of the force and strength of the argument, but because of social dynamics and the limited nature of the arguments and positions considered in the course of deliberation, resulting in inferior policy positions being adopted.

Group Polarization, Global Financial Governance and Legitimacy Problems

The discussion above raises the question of whether the phenomenon of group polarization is observable in the operation and mechanisms of contemporary global financial governance and more especially whether global financial governance is characterized by enclave deliberation, limited argument pools and what legitimacy problems this may pose. My purpose here is not to present comprehensive evidence which incontrovertibly demonstrates the applicability of group polarization theory to global financial governance. Such a task would require extensive case research based on participant surveys and interviews, and a detailed survey of group views and outputs over a period of time. Participant views would need to be assessed both before entering into regular group interaction and after group interaction, along with participant perceptions of the nature and dynamics of intervening group interaction. A number of social psychological studies have been set up along these lines to investigate group dynamics and strong patterns of group polarization have been found to exist in a number of cases of deliberating groups. Instead, my intention here is merely to provide a survey of the existing literature to show that there is some evidence of processes of group polarization in global financial governance and that we should be concerned about such processes from a legitimacy perspective.

As the global financial institutional architecture has emerged since the Second World War, concerns have grown over the legitimacy of the governance and decision making processes involved in this architecture. A considerable IPE literature has identified a number of legitimacy problems affecting the global financial architecture. My contention here is that the process of group polarization is the overlooked unifying theme that is the source of many of these legitimacy problems.

One recent contribution has illuminated just how poorly the global financial architecture has been performing in terms of technical authority (Thirkell-White, 2007)[3]. One of the outcomes of the post-Asian financial architectural review exercise was the creation of twelve multilateral standards and codes. However, the implementation of the standards and codes agenda appears to have met with limited success (Thirkell White, 2007, Walter, 2006). Concerns have been raised by the G24 group of developing countries about the costs of implementation, the lack of adequate technical assistance and the lack of appropriateness of the codes and standards for particular national contexts (Thirkell White, 2007, p. 27.) Moreover, many of the codes are not precisely defined and are often written in ambiguous language (Thirkell White, 2007 Walter, 2006).

The nature of the concerns expressed by the G24, together with the ambiguity surrounding the codes and standards themselves, represent a challenge to the technical authority of the standards concerning their appropriateness and practicality. A poor record in terms of implementation inevitably focuses attention on the question of how the codes were formulated in the first place. Numerous voices have noted how the process was dominated by the G7 and private sector experts (Thirkell White, 2007, Soederberg, 2004, Baker, 2006, Porter, 2003, Best 2003). Immediately, this alerts us to the lack of representativeness in this process and this in turn can be cited as being the root source of the low levels of technical authority and moral authority enjoyed by the codes. Ultimately, however it was process that generated the knowledge, ideas and

[3]These included: monetary and financial transparency: fiscal transparency; special data dissemination standard/ general data dissemination system; all presided over by the IMF; principles of corporate governance monitored and evaluated by the World Bank; International Accounting Standards reported on by the International Accounting Standards Board (ISAB); International Standards on Auditing monitored by the International Federation of Accountants (IFAC); core principles for systemically important payments systems and recommendations for securities settlement systems overseen by IOSCO; core principles for effective banking supervision evaluated by the Basle Committee; objectives and principles of securities regulations monitored by IOSCO; and insurance core principles evaluated by the International Association of Insurance Supervisors (IAIS).

assumptions on which the standards and codes agenda was based that has undermined its authority. As Thirkell White explains, “the standards and codes were implemented on the basis of a neoliberal economic mindset that expected technically ‘correct’ measures to be normatively and politically attractive.”

Why then has the standards and codes agenda proved not to be normatively and politically attractive to developing countries? Why are the standards and codes not functioning as expected? Why do they appear to lack technical and moral authority? My tentative answer to these questions is that the standards and codes were largely formulated through various forms of enclave deliberation that were not only unrepresentative and therefore lacking in moral authority, but also based on a limited neo-liberal argument pool, reflecting the relatively narrow social composition of the various contributing groups and committees. The consequence of this limited argument pool was that the standards and codes agenda was accompanied by a lack of an awareness of the technical and practical limitations to their implementation.

Furthermore, the standards and codes were based almost entirely on neoliberal assumptions concerning the desirability and efficiency of liberalised financial markets and the essentially rational basis of market decision making. In this respect, the codes and standards were in part based on the notion that the reasons for market disturbance lay not with the nature of financial markets themselves, but with inadequate information and data. In other words, markets themselves were efficient and it was the poor quality and availability of information and concealed data, - a so called lack of transparency that to blame for financial crises (Blyth, 2003). The standards and codes were consequently an attempt to improve transparency and the availability and quality of information on which market actors could base their investment decisions. As Leslie Elliot Armijo argued ‘transparency advocates’ dominated subsequent debates

on the future of the global financial architecture and formulated proposals on the future of that architecture, while other voices, based on alternative conceptions of financial markets, such as the financial stabilization camp that advocated controlling the free movement of capital, either went unheard or were ignored (Armijo, 2001). Clearly, this is suggestive of enclave deliberation involving transparency advocates employing a skewed neo-liberal argument pool, and a one sided debate involving an inadequate consideration of the various alternatives, with consequent negative affects for claims to intellectual authority.

The above line of thought is further strengthened when we consider the nature of the neo-liberal arguments on which the standards and codes agenda were based and what the standards and codes story tell us about the limitations and weaknesses of those arguments. The transparency position on which the codes and agenda is based, expects financial market participants to not only make rational decisions, when adequate information is available, but also to discipline national government policy. Yet there are clear problems with such assumptions, which throw the whole standards and codes agenda into question. Most notably, there appears to be little market awareness of the standards and codes or of the public country Reports on the Observance of Standards and Codes (ROSCs) published by the IMF and the World Bank and little use of them in terms of credit assessment (Thirkell White, 2007, Mosley, 2003). The process of how markets react to data is unclear and uncertain. Different investors and analysts will have different interpretations and values and reach different judgements. In this respect, markets operate in complex ways and there is much to suggest that they rely on mutual guess work, rumour, perception, analysis of the behaviour of other traders and investors, as much as a scientific reasoned evaluation of data and information. If we accept this possibility, then the

transparency standards and codes agenda would appear to be pre-destined to fail not least because it is unlikely to prevent future market disturbance and financial crisis, especially if market actors are not paying much attention to the codes or the ROSCs and do not engage in a rounded and thorough consideration of all available data. Therefore, not only is there evidence to suggest that the implementation record on codes and standards is poor, but also to suggest that the exercise may have been futile from the outset because it was based on flawed intellectual assumptions about how actors financial markets actually make investment decisions. On this basis, there are good grounds for claiming that the standards and codes agenda lacked intellectual authority, as well as technical and moral authority, because it was based on a narrow and contested view of financial markets, that may have been flawed from the outset, and which may yet prove to be found wanting where the task of producing and sustaining financial stability is concerned.

However, while there are good reasons for believing that enclave deliberation and limited argument pools maybe a feature of global financial governance, there are also good reasons to be sceptical of such claims, at least where the dynamics of group polarization are concerned. It is certainly not a picture realist international relations scholars would recognise, and would probably be disputed by liberal intergovernmentalists and other shades of liberal IR scholars, for whom national interests and preferences tend to trump other considerations. A significant note of caution, or health warning needs to accompany claims regarding group polarization in relation to global financial governance. Most of the existing case research that has identified dynamics of group polarization has been based on studies of national deliberative groups and bodies. Very little, if any of this research has been directed at transnational groups or what Robert Keohane and Joseph Nye once famously called

transgovernmental coalitions and networks (Keohane and Nye, 1974, Slaughter, 2004, Baker, 2007). This raises the question of whether theories of group polarization can readily be transferred from national settings into the international domain, given the fact that if group members are from different nationalities, national identities and loyalties may override any group dynamics at work.

Elsewhere I have investigated the tensions that exist between the transgovernmental and more traditional intergovernmental characteristics of the Group of Seven finance ministries and central banks (Baker, 2006, 2007). National interest is not absent from such groups, but group dynamics, socialization processes, shared professional ethos and identity, shared norms and beliefs, group consensus and collective positions are also present to varying degrees at different times. The extent to which national identities and loyalties motivate individual participants and the extent to which the group identities and dynamics assume primacy, varies across time and issue, depending on the nature of the personalties involved, their relations with one another and the political climate or sensitivities surrounding a particular issue. Moreover, national and group identities and loyalties are continuously in flux as dynamic group interactions proceed and positions shift. Importantly however, none of the committees and groups that operate in global financial governance are either entirely intergovernmental (national) or transgovernmental (group), rather they involve a fluid mixture of both (Baker, 2007.) Individuals are more than capable of wearing two hats at one and simultaneously seeing themselves as both a member of a group and as a national representative.

This does raise the question of group dynamics. What evidence is there of group dynamics and social processes at work in some of the principal deliberative groupings and committees in global financial governance? In particular what is the social and

institutional basis of groups and committees that play a key deliberative role in global financial governance? The G7 and the G20 are of course confined to finance ministries and central banks, the Basle Committee involves central bankers and regulators, the Financial Stability Forum consists of finance ministry and central officials, a representative from the lead financial regulator in the G7 countries and officials from the IMF, OECD and World Bank. Membership in key groups and committees is then largely restricted to finance ministry and central bank officials.

Empirical research has shown how neo-liberal orthodoxy is shared amongst central bankers, even in so-called emerging market countries. Juliet Johnson has shown how through technical assistance and training programmes, established central bankers from the developed countries integrated post-communist and developing country central bankers into their community, with the aim of not only passing on knowledge, but also to inculcate postcommunist central bankers with the culture and values of the broader central banking community, including an attachment to price stability (low inflation) and free or liberalised financial markets (Johnson, 2006). In the course of these training programmes post communist central bankers developed lasting contacts with other central bankers and they were encouraged to think like central bankers, meaning that the postcommunist central bankers came to have more in common with their Western counterparts than with other political and economic actors in their own states (Johnson, 2006). In other words, shared ideas and a common neo-classical training and perspective have acted to tie central bankers together and provide them with a common outlook.

It is less clear that this applies in the case of finance ministries, but many of the autobiographies of former finance ministers and finance ministry officials indicate a strong sense of collegiality with colleagues and common ground that was often not

found at home, in terms of the appreciation of neo-liberal market based economics and financial orthodoxy (Lawson, 1992, Rubin and Weisberg, 2003, Volcker and Gyohten, 1992). Obviously such evidence is far from conclusive, but the personal testimonies of finance ministry officials repeatedly emphasize significant degrees of collegiality with their foreign counterparts and a sense of group dynamics.

The so-called deputies group of finance ministry officials that undertakes the preparatory work for G7 and G20 meetings also has a reputation for its high level of collegiality and the personal relationships and understandings it fosters[4]. The deputies group dominates G7/ G20 agenda formulation, acts as a *de facto* secretariat and plays the lead role in communiqué drafting. One of the pronounced features of the deputies group is the consistently large number of its members that are professionally trained economists, to either Ph.D or Masters level from leading western graduate schools[5]. Deputies meet anything from six to ten times, in a regular cycle of face to face interaction and deliberation and are in constant weekly and even daily contact through emails and telephone conference calls (Baker, 2006). Officials attach a high vale to the network and its collegiality. For example, upon becoming Deputy Secretary at the US Treasury, Lawerence Summers continued to act as G7 deputy, despite the fact that the post had traditionally been performed by the Under Secretary for International Affairs (Summers' previous position), because of the value he attached to the

[4] Point made repeatedly by officials in confidential interviews with the author from 1997-2000.

[5] I am grateful for research assistance from Brendan Carey in producing this data. This is also true of the various CV's of the G20 finance ministers and central bank governors. In all G20 emerging markets except Russia either the central bank governor or the finance minister has spent some time studying an economics or financial related discipline in the USA or the UK. In fact, of the 11 Finance ministers currently representing G20 emerging markets, 5 have a masters and / or a PhD in Economics from an American university and 2 have MBA's from American Universities. Of the 11 emerging market central bank governors in the G20, 3 have completed a significant amount of their education in the UK and 6 have attended American Universities at postgraduate level. Only the Russian and Chinese central bank governors were entirely educated locally. Furthermore, the Chinese Finance minister has been employed by the US treasury department, the Brazilian finance minister has held council positions in two American universities and run a Boston based bank and the Turkish finance minister spent two years as a consultant in a Chicago securities based firm.

collegiality in the deputies group and because he enjoyed the nature of the issues the group discussed (Rubin & Weisberg, 2003)[6]. Upon belatedly hearing of the Japanese proposal for an Asian Monetary Fund, Summers even personalized the issue with the Japanese deputy – Eisuke Sakakibura, referring to their friendship in a telephone call, in which he objected to the proposal[7]. The Japanese later dropped the proposal.

In short, there is significant evidence of some degree of group dynamics at work, including a neo-liberal orientation and a shared common professional ethos as neo-classically trained economists that serves to tie finance ministry and central bank personnel together and create a high level of collegiality and group identity. Group Polarization theory suggests that if group members are linked by affective ties dissent is significantly less frequent, reducing the number of divergent arguments and intensifying social influences on choice (Sunstein, 2002, p.181). As we shall there is evidence to suggest that such a pattern is at work where global financial governance is concerned.

While there is some evidence of group identity amongst groups of finance ministry and central bank officials, what evidence is there to suggest that group dynamics and social influences are at work in the way group polarization theory would predict? Is there evidence to suggest that social influences and group dynamics are at work in screening out alternatives and entrenching existing views? Three examples of group dynamics at work are worth mentioning here. First, there is the case of German finance minister Oskar Lafontaine, whose radical proposals for a system of target zones for exchange rates and a looser European monetary regime, were dismissed by G7 colleagues, even by the French, who might have been expected to be more sympathetic to such proposals, to the point were Lafontaine had little

[6] Point made in confidential interview with US Treasury official February 1998.
[7] *Sakakibara*, Yomiuri Shimbum, 26 November, 1999.

credibility amongst his finance ministry and central bank colleagues and was barely taken seriously, leading to a short lived and ill fated term of office[8]. Second, Ian Taylor, has identified how South African officials, have felt inhibited in terms of the positions and initiatives they can push in the G20, because those of a non neo liberal orientation would not only receive much of a hearing, but would risk undermining the credibility and reputation of those officials with their G7 counterparts (Taylor, 2004). Third, the Asian financial crisis and the subsequent architectural exercise did not lead to open questioning of the principle of capital account liberalization. Despite contrary evidence that suggested liberalization itself may have been part of the problem, including a growing number of voices that were critical of liberalized finance, attachment to the goal of capital liberalization provided the basis for all subsequent proposals on the global financial architecture. While the US position began as a crude decrying of 'crony capitalism' in Asia, interactions and deliberations with G7 partners saw that position progress fairly rapidly to a more sophisticated one that emphasised that capital liberalisation had to be properly sequenced and proceeded by certain pre-conditions, including a well established market economy, trade liberalization, a strong financial sector supported by an efficient supervisory system capable of monitoring the risks involved in exposure to foreign currency denominated loans and a macroeconomic framework consistent with a liberalized financial system (Baker, 2006). Meanwhile, although the Japanese initially pushed the idea of an Asian Monetary Fund, this was quietly shelved following discussion with G7 counterparts, with the Japanese contributing fully to the subsequent architectural exercise

[8] *Financial Times*, 30 October, 1998. Klaus Gretschmann acting as the Chancellor's economic adviser and 'sherpa' for Germany's summit preparations for the Cologne event of 1998 refused to circulate a policy paper prepared by Lafontaine's deputy Flassbeck to the other summit sherpas, for fear it might cause Germany embarrassment on the international stage.

supporting the focus on greater transparency and the desirability of capital account liberalization as an ultimate policy goal all states should aspire to (Sakaibara, 1999.)

As we have seen the transparency approach and the standards and codes agenda were based on neo-liberal assumptions about the nature of financial markets. These assumptions have not weakened, rather further discussions led to a convergence of views and ironing out of initial differences suggesting that group dynamics may have been at work. The outcome of this deliberative process was that attachment to liberalised finance and faith in the efficiency of free market forces actually strengthened, as the G7 sought to create a range of supportive institutional devices such as the codes and standard agenda. The motivation behind these efforts and the entire transparency based standards and codes agenda, was to institutionalise capital account liberalisation and free capital flows as a universal global norm, - what Jacqueline Best has referred to as the re-embedding of global finance through the creation of supportive institutional mechanisms (Best, 2003), even if the success of this agenda appears to have been limited, due to an ongoing process of contestation (Thirkell-Whie, 2007). In other words, support for the objective and goal of capital liberalisation as the overriding principle of global financial governance has not wavered amongst finance ministry and central bank officials from the G7 countries, rather it has become entrenched. Furthermore, the qualification to support for this objective, in the form of endorsement of some limited controls on financial inflows into banking systems under certain circumstances, was motivated by a concern to strengthen and protect the norm of capital liberalisation, rather than to over turn it.

Group polarization theory would explain this apparent ideational entrenchment among leading finance ministries and central banks, by pointing to group dynamics amongst like minded individuals, isolated from alternative perspectives and

arguments. A limited argument pool and a form of enclave deliberation have in this instance resulted in the reinforcement of existing views and a flawed attempt to institutionalize pre-deliberation preferences and tendencies through the transparency based standards and code agenda, which was designed to bring national practices into conformity with alleged market preferences. Even if individuals within the finance ministry and central bank community have doubts and concerns about the validity of prioritizing liberalized finance and sound money, there are strong disincentives that may prevent them from being expressed in collegial group settings, not least the damage this may to do an individual's reputation with their peers. Accordingly, there is little evidence of significant dissent existing amongst groups such as the G7 deputies.

Further evidence that the symptoms of group polarization were evident in global financial architectural debates, is provided by the contents of a UN report on the future of the global financial architecture that received little uptake in settings such as the G7 and the G20. The contents of the report included: transforming the IMF into a genuine lender of last resort able to issue its own liquidity; more concerted approaches to debt re-structuring including the use of concerted payment standstills mandated by the IMF; a flexible approach to capital account liberalization including capital controls not as instruments to be inexorably abolished, but permanent safeguards invoked as necessary; greater regulation of non bank funds including portfolio equity and hedge funds; and greater country ownership of adjustment policies and negotiated conditionality. These proposals received little or no consideration by the groups of finance ministry and central bank officials that dominated and controlled global financial architectural debates. The G7 later entrusted the Financial Stability Forum, which was largely staffed with officials from

within its own finance ministry and central bank bureaucracies, with the task of producing a report on the issue of hedge fund regulation. The outcome of the subsequent report, which rejected direct regulation, was entirely predictable, given the pre-deliberation tendencies of the officials involved, at least from the perspective of group polarization theory.

Another possible objection to the application of group polarization theory to global financial governance, would involve highlighting the role of formal multilateral institutions, such as the IMF and World Bank, as opposed to informal groups and committees of officials. Even if one does not agree with studies that have found that leading states tend to develop common positions through groupings such as the G7 and then act through the IMF (Pauly, 1997, Woods, 2006), there are compelling reasons for believing that arguments relating to limited argument pools and enclave deliberation also apply to the IMF (Stiglitz, 2002). Bessma Momani has comprehensively shown in empirical research that there is a bias in IMF recruitment practices towards conservative macroeconomic approaches and those schooled at Anglo-American graduate schools (Momani, 2005). Internal dissent within the Fund is consequently limited, while a strong view exists that there is no viable alternative to neo-classical approaches. Momani criticizes the Fund for recruiting individuals that preach its message, producing insular and myopic staff that ignore alternatives. (Momani, 2005, p.183). This of course is a pattern that is all too familiar to students of group polarization theory.

The evidence presented here concerning the existence of limited argument pools, enclave deliberation, and some degree of group polarization, as salient and recurrent features of the global financial architecture and its institutional landscape, is sufficiently strong, for us to take concerns about the negative impact of such

phenomenon seriously. I have discussed how enclave deliberation and a limited argument pool have had a negative impact on the technical, intellectual and moral authority of global financial governance. Yet surely outreach initiatives and consultation with civil society groupings (the IMF increasingly consults with civil society groupings) have been on the increase, producing more diverse argument pools and reducing the insularity of enclave deliberation[9]? Unfortunately, group dynamics and the pattern of group polarization would indicate that ideas become so ensconced that dialogues of the deaf are just as likely to result from such informal exchanges and consultation. Mere conversations and consultations, should not and cannot therefore, substitute for active participation, or representation in key deliberative processes that actually formulate the proposals and reports that inform global financial governance. When group polarization is present, ideas will be so entrenched that the purveyors of what they perceive to be a subtle intellectual orthodoxy, might hear dissenting voices, but will not listen. This raises the question of what can be done to offset the perceived negative consequences of the patterns of group polarization and enclave deliberation that seem to characterize global financial governance and thereby create a more, legitimate, authoritative and effective form of governance?

Creating a Desirable Heterogeneous Enclave Deliberation Mix?

From a normative perspective, this paper has to this point assumed enclave deliberation to be negative. However, there are reasons to be supportive of enclave deliberation in certain circumstances. When deliberating groups are of a more heterogeneous composition least weight tends to be given to the views of low status

[9] Another example of enclave deliberation was the Basle Committee's Basel II process. They invited submissions from civil society groupings, but these came almost exclusively from central banks and large private financial institutions. The closest to a contribution from civil society came in a submission for Institute of Development Studies at the University of Sussex.

members (Christenson and Abbot, 2000). Enclave deliberation amongst low status groups might be the only way to ensure the views and voices of such groups are developed and heard. At the very least such processes lead to the development of shared positions and will enhance the confidence with which these can be expressed and articulated by low status groups in more heterogeneous settings. Monetary and financial regionalism in East Asia, the G24 group of developing countries and efforts to construct an international financial apex policy forum for Islamic countries, are all examples of enclave deliberation that may lead to the generation of alternatives to the dominant neo-liberal orthodoxy and widen the argument pool produced by the processes of global financial governance. Enclave deliberation clearly serves a purpose and even in its more conservative forms it can enhance technical understandings and solutions.

How though can the negative consequences of enclave deliberation be minimized? Group polarization theory suggests that there are good reasons to believe that social homogeneity is damaging good deliberation. In this context, institutional design becomes a key issue. It is of critical importance to design institutions that ensure that when individuals and groups develop common positions, it is because of the force of the arguments employed and not because of social dynamics and a limited argument pool (Sunstein, 2002). To overcome the negative consequences of enclave deliberation, Cass Sunstein argues in favour of heterogeneous deliberative processes that guard against a situation in which like minded people wall themselves off from alternative perspectives. He also warns that a certain measure of isolation will in some cases be crucial to the development of ideas and approaches that would not otherwise emerge and that deserve a social hearing (Sunstein, 2002). The danger is that members of low status groups are often quiet in heterogeneous groups, with such

bodies tending to be dominated by high status members. However an increase in the number of deliberative enclaves should increase society's aggregate argument pool. What is required therefore is a balance between enclave deliberation in which groupings can develop positions and more heterogeneous forms of deliberation that bring different groupings, of different social, national, intellectual and ethnic composition together. Heterogeneity has the merit of ensuring enclaves are not walled off from another, while encouraging an exchange of views between those that disagree. In this respect, it is important that members of different groups are not isolated from conversation with people who have quite different views, but are subjected to competing positions, thus ensuring that policy makers do not insulate themselves from views that may turn out to be right, or at least informative. Outcomes should be the result of learning, and consideration of a range of evidence, rather than group dynamics.

Unfortunately, a venue for heterogeneous exchange in the global financial architecture is conspicuous by its absence. Consequently, I would suggest that in the case of global financial governance the balance is currently too heavily skewed in the direction of enclave deliberation, with attendant legitimacy problems that undermine, the moral, intellectual and technical authority of the global financial architecture. Group polarization theory reveals that the act of deliberation, depends on social context, the nature of the deliberative process and the nature of the participants. Limited argument pools and social influences appear to have unfortunate effects in terms of entrenching views, producing concerns over fairness and representation and producing inferior outcomes with a corresponding detrimental impact on technical, intellectual and moral authority. Exposing group members to arguments to which they are not antecedently inclined on the other hand, increases the range of evidence and

perspectives on which to base decisions, with corresponding benefits for technical, intellectual and moral authority. In accordance with this theories of group polarization indicate that heterogeneous groups are often better source of good judgements, simply because more arguments are made available (Sunstein, 2002). But at the same time, there are practical limits to heterogeneity such as time and size. Consequently according to Sunstein:

> What is necessary is not to allow every view to be heard, but to ensure that no single view is so widely heard, and reinforced, that people are unable to engage in critical evaluation of the reasonable competitors. (Sunstein, 2002, p.193).

Unfortunately, there is little evidence to suggest that global financial governance is meeting even this minimal threshold criteria and plenty of evidence to suggest that neo-liberal views have been excessively dominant in the most important deliberative processes, at the expense of alternatives.

If heterogeneity offers a potential route away from the pitfalls of group polarization, enclave deliberation and limited argument pools, we have to consider how global financial governance might be made more heterogeneous. I would argue in favour of a mixture of government agencies from the developed and developing world being represented in a broad agenda setting process, similar to the current G7 or G20, so as to break up the current finance ministry-central bank monopoly of debate. This should include some representation from welfare, labor, social affairs and industry ministries from a range of developing and developed countries (possibly on a rotational basis, the precise details would need to be worked out) as well as finance ministries and central banks[10]. Moreover, there should be some representation for wider international institutions that have an interest in and have contributed expert reports on global

[10] This would involve a finance minister, or central bank representation alternating with labour, welfare and industry ministry representatives, particularly those in emerging markets, so that at any one time finance ministries and central banks would not monopolise the deliberative setting.

financial affairs, most notably the United Nations (UN). A UN representation in the deliberative settings that really matter, would at least ensure a greater hearing for its less conservative proposals and a genuine debate, whereas the UN's 1999 post-Asian report received no effective uptake in the G7 or G20. Likewise, debate would be broadened by the inclusion of several renowned academic economists from a variety of perspectives, including those more critical of current financial orthodoxy. Such a forum need not go beyond 30-40 representatives, but it would broaden representation and include voices that are currently excluded, particularly if such a process was given a broad oversight and agenda setting mandate[11]. Ultimately re-configuring global financial governance will also require broadening the national delegations that participate in the IMF, the FSF and other key decision making processes, as well as a reconsideration of staffing patterns at these institutions. IMF chiefs would be well advised to take group polarization theory's arguments concerning limited argument pools and their consequences seriously, especially in the context of Momani's findings about the bias in that institution's recruitment patterns. More interesting deliberations about macroeconomic policy, exchange rates and the distribution of and uses for private credit, as opposed to simply being based on private accumulation for the few, need to be given a hearing. Participation in the deliberative spaces of the global financial architecture should be as broad as possible, not as narrow as possible, as is currently the case, not least because financial governance is not just about technical issues but affects a range of important distributional issues including the level of welfare provision, labour rights, inter-ethnic

[11] Ironically Keynes argued that the Fund should only deal with finance ministries and central banks to keep political forces at bay, ensuring deliberations avoided becoming politicized, while remained technical. Yet it is this desire to ensure that IMF deliberations remained 'technical' by dealing only with finance ministries and central banks that has allowed the limited argument pools of neo-liberal orthodoxy to become entrenched, displacing Keynes' own economic theories in the process.

redistribution, levels of acceptable economic risk and the allocation of costs when risk management proves inadequate. Nevertheless, there is still a place for enclave deliberation particularly amongst marginalised groups and regionally specific groups of countries. Enclave deliberation can then feed into and inform more heterogeneous forms of deliberation, ensuring that a wider range of considerations and views are reviewed and allowing outputs that are regionally specific and sensitive (Seabrooke, 2007).

Conclusions

The legitimacy problems of global financial governance are: i) a limited primary argument pool that excludes alternatives resulting in an entrenchment of group member's views, and which is also skewed in a neoliberal direction, involving a benign and generous view of global finance that maybe unwarranted, all of which undermines the intellectual authority of global financial governance; ii) the relatively restricted and narrow social grouping that has constructed and entrenched this limited neo-liberal argument pool has lacked an awareness, knowledge and sensitivity of the practical difficulties and costs associated with implementing their proposals in certain national contexts, limiting the technical authority of global financial governance; iii) too many groups and voices have been excluded from this process, creating concerns about fairness and representation, leading to resentment and resistance which has undermined the moral authority of global financial governance. In this context I have argued that there is sufficient evidence of processes of group polarization, enclave deliberation and limited argument pools being present in the operation of global financial governance, for claims about the problems and pitfalls of such processes, as identified in the social psychology literature, to be taken seriously. The extent to which the dynamics of group polarization are evident in the operation of global financial governance is however

complicated and far from clear cut. The presence and importance of group dynamics is obviously complicated by the international nature of global financial governance. A lot of the groups and committees that comprise the global financial architecture are characterized by tensions between national positions and interests, and the pull of group dynamics. The extent of either and the outcomes of these tensions should quite properly be the subject of further empirical research. Nevertheless, there is enough evidence to suggest that we should take seriously the prospect that global financial governance is characterized by a certain degree of group polarization, enclave deliberation and the presence of a limited argument pool.

A possible alternative to the current pattern of ideologically skewed enclave deliberation, is a form of heterogeneous deliberation which would bring marginalized and lower status groups to the table. Such a process would enable a wider range of arguments to be heard and would prevent homogenous, convergent and conformist group dynamics running their course, producing sub-optimal or inferior outcomes and screening out competing perspectives. This is not to say that enclave deliberation is wholly bad. On the contrary, it can serve a purpose for marginalised groups. However, currently, the balance between heterogeneous and enclave deliberation in global financial governance is too heavily tilted in the direction of enclave deliberation. Further debates about the reform of global financial governance to enhance legitimacy and to improve its moral, intellectual and technical authority, should focus on how to achieve a more optimal balance between enclave and heterogeneous forms of deliberation and decision making. Harnessing the insights of group polarization theory, this paper has come down in favour of creating a heterogeneous deliberative body and giving it a prominent agenda setting role to set trajectories for the future governance of global finance. A fairer, more

pluralist, representative and legitimate form of financial governance, with enhanced levels of moral, intellectual and technical authority, might then emerge.

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