Financial Governance and Transnational Deliberative Democracy

Randall D. Germain
Associate Professor
Department of Political Science
Carleton University
1125 Colonel By Drive
Ottawa, On.
K1S 5B6
Canada

Tel: + 00 1 613 520 6614
Fax: + 00 1 613 520 4064
Email: randall_germain@carleton.ca

Paper prepared for the conference:
'Pathways to Legitimacy? The Future of Global and Regional Governance'
Centre for the Study or Regionalisation and Globalisation
University of Warwick
17th – 19th September, 2007

(draft only; please do not cite without permission)

Abstract

Recent concern with the institutional underpinning of the international financial architecture has intersected with broader debates concerning the possibility of achieving an adequate deliberative context for decisions involving transnational economic governance. This broader debate has been informed by scholars working within traditions associated with international political economy, deliberative democracy, cosmopolitanism and critical theory. This paper uses this debate to ask whether the structure of financial governance at the global level exhibits the necessary conditions supportive of deliberative democracy. It particular, it considers the extent to which a public sphere is part of the structure of financial governance. Although in some ways financial governance is a hard case for this debate, an argument can be made that a public sphere has emerged as an important element of the legitimate international financial architecture. At the same time, the analysis of the role of the public sphere in financial governance reveals important lessons which public sphere theorists and deliberative democracy advocates need to consider in order to extend their analysis into the economic realm.

Author bio

Randall D. Germain is Associate Professor in the Department of Political Science at Carleton University (Canada). His work has been published in scholarly journals such as *The European Journal of International Relations, Review of International Studies* and *Global Governance*, among others. He is also the author of *The International Organization of Credit: states and global finance in the world-economy* (Cambridge University Press, 1997), the editor of *Globalization and Its Critics: perspectives from political economy* (Palgrave, 2000), and the co-editor (with Michael Kenny) of *The Idea of Global Civil Society: politics and ethics in a globalizing era* (Routledge, 2005).

Financial Governance and Transnational Deliberative Democracy

The Problem of Financial Governance

How to finance economic growth and development, tempered with some degree of social equity and political autonomy, has been a mainstay of academic and practitioner interest since the Industrial Revolution spread beyond the shores of Great Britain in the 18th century. The debates spawned by the problem of how to make finance serve economic, political and social goals, however, have up until quite recently been framed in national terms, as debates posed either within the confines of national borders or within the parameters of how to achieve inter-*national* cooperation. That is to say, the political economy of finance, and especially of financial governance, has been predominantly organized around nations, national economies and their interactions. Although finance itself – whether rendered as combinations of institutional networks, specific market formations or bundles of transactions – has long moved seamlessly between and among such nationally-constituted 'economies', the problem of governance posed by the organization of finance have been considered primarily in *national* or inter-*national* terms. Historically, therefore, we can say that the 'problem' of financial governance has been national in scope and extent.

This formulation of the problem no longer suffices, for two reasons. First, the practical day-to-day organization of finance has become so suffused by a global scale that simply to be effective financial governance must at the very least be able to accommodate and/or respond to globally organized dynamics and interests. The history of financial governance over the past thirty years has been largely about states grappling with this trajectory. Second, the logic of finance, financial institutions and financial markets has come increasingly to undermine or subvert the logic of national territorially organized authority. The logic of the former is heterogeneous and operational on a global scale, while the logic of the latter is homogenous and territorial (Pauly 1997; Cerny 2003). That is, as a totality, even though finance responds to dynamics and incentives which cut across and flow through (in order to take advantage of) boundary-induced differences, they are themselves predicated upon a global or a world form of organization that swallows up such national divisions. In this sense, financial arbitrage demands multiple jurisdictions for the possibility of gain even as it subsumes these within its own operational logic.[1] As finance has come to be organized on a world scale, so too have governance efforts been inclined in that direction; they remain incomplete and handicapped when directed solely at the national level.

At the same time, even if the problem of financial governance demands a global scale, we should refuse to frame it entirely in global terms. There is a national dimension to financial governance that remains robust in the face of strong global dynamics. One element of this national dimension can be described as outward-oriented self-interest, in the sense that governments have a clear interest in framing international regulatory and

[1] Financial arbitrage is the practice of buying and selling financial assets in two or more markets in order to profit from differentials in price or regulatory requirements.

competitive norms and rules in a manner favourable to themselves and their leading financial institutions' interests. In this sense, financial governance is always going to be at least in part about the politics of national self-interest, of extracting relative gains that benefit the home side as much as possible. The other element of this national dimension can be described as inward-oriented self-interest, in that governments and their leading financial institutions will sometimes have a direct and tangible material incentive to resist the imposition of international norms and rules where these conflict with established practice and the existing (national) distribution of rewards and penalties. A strong and resistant national response to such norms is always a possibility. And finally, both of the elements that sustain a national framework of financial governance are reinforced by the many and manifold connections between the organization of finance and that of money, through which all finance flows. In the end, in order for the wealth represented by finance to be realized, finance itself requires currencies, and they in turn depend upon the authority of territorially-bound states for their value (Kirshner 2003). Currencies are value-less without the sanction and support of national authorities, even if such authorities do not always control the day-to-day fluctuations in their monies as closely as they would like.

The problem of financial governance thus has a conceptual muddle at its core that derives in part from the critical historical juncture we now face: the practices and institutions of finance are increasingly driven by globalized dynamics that surround the influence of nation-state-based authorities, yet such authorities are absolutely crucial to the possibility of governing such practices and institutions effectively; indeed, they are integral elements of their very organization. Compounding this historical problematic is a more theoretically abstract one: although the classical and neo-classical economic traditions broadly equate investment with savings, in fact there is a lively debate about the capacity of credit to be created and used to finance activities and investments independent of savings (Strange 1998; Germain 2004). In other words, if finance – or credit – is considered more as a resource to be fashioned than a 'thing' already in existence, it should be conceived as a product whose materiality depends as much upon credibility and perception for its value as upon the tangible assets it supposedly represents or is based upon. In this sense the conceptual problem at the core of financial governance involves questions about organization, form and process that are every bit as important as the more technical questions about capitalization, market share and disclosure rules that currently dominate discussions of governance. Governance is as much about controlling the meaning of credit – and what actually constitutes such a resource – as it is about controlling a pre-existing thing called finance.

We can formulate the problem of financial governance within this context. It has two elements. The first element is conceptual, and revolves around the need to consider how a structure of governance enables authoritative rules to be produced that allow finance to be created within and flow throughout the global economy; indeed, it is about how a structure of governance authorizes, constitutes and valorizes credit in the first place. The second element is more historically construed insofar as it revolves around an assessment of the constraints and opportunities that face specific governance arrangements at determinate points in time. Bringing the two together, we may outline the problem of

financial governance today as "which authorities are involved in governing finance as an organized system of activity that spans national economies" and "how can their efforts best produce an accountable, legitimate, effective and fair governance structure"? Such a formulation directs our attention both to the kinds of authorities involved in governing finance, and to the particular arrangements they arrive at to structure their interactions (which ultimately produce the rules and norms that 'govern' their activities). For in finance as in other walks of social life, it is by these rules and norms that we come to recognize and 'know' certain kinds of activities as being financial in nature, and thus subject to such governance as may be demanded.

When viewed in these terms, the debate over the evolving structure of financial governance can be further extended by an interrogation with the rich set of questions that the agenda of deliberative democracy possesses. In particular, we can ask to what extent a crucial element of deliberative democracy – the emergence and operationalization of a public sphere – is applicable within the context of financial governance. This is so because the debate about how to establish and extend a public sphere is precisely a debate about the role and force of publicity and participation in political decision-making processes, which are centrally important to the problem of financial governance. This paper therefore explores the partial emergence of a global financial public sphere as one element of the puzzle of how to make financial governance more accountable and therefore 'legitimate' at the global level. The idea of making financial governance more democratically accountable globally is very attractive, for the operation of financial markets and their consequences are often portrayed as being removed from popular pressures and reluctant to take into account any kind of fair and reasonable ethical considerations. Deliberative democracy, if organized globally or transnationally, has the potential to make finance better serve developmental and social goals.

The argument developed in this paper is that the outlines of an operational global financial public sphere can in fact be seen, and that this is an important achievement with important implications for financial governance. In particular, the increased publicness of debates about the norms and rules of financial governance which a public sphere facilitates has helped to leverage the structure of governance from a highly secretive and closed architecture to a more open and inclusive one. This important development is nevertheless incomplete, and its connection to other attributes of deliberative democracy remains weak. There are few formal institutional venues within which all aspects of financial governance can be fully and adequately linked and deliberated upon, and the capacity to translate operational logic into institutional accountability is highly problematic. For these reasons financial governance is a hard case for the proponents of transnational deliberative democracy, for it occurs within an environment that is systematically skewed against many of its central precepts.

This paper proceeds in four steps. First, the link between deliberative democracy and financial governance is established by highlighting the nexus of public authority and publicness on a global scale. Second, within this context the connection between deliberative democracy and a public sphere is explored, both generally and then within the specific contours of financial governance. Third, the idea and contours of a global

financial public sphere are examined in some detail. The existing elements of this public sphere are illustrated, and objections to the operational veracity of these elements are outlined. Finally, we return to the broader consideration of deliberative democracy and the public sphere to consider what the case of financial governance holds for our theoretical understanding of the possibility of deliberative democracy at the global level. Overall, this paper offers a guardedly optimistic assessment of entrenching a more accountable and therefore legitimate structure of financial governance, but it will require careful development on a global scale within the constraints of the peculiar institutional conditions which mark out the global financial system.

Financial Governance and Transnational Deliberative Democracy

The technical and democratic deficits of financial governance have a long pedigree. The most visible manifestation of technical deficits is the long string of financial crises that have rocked the world on a regular basis (Kindleberger 1978; Eichengreen 2002: Strange 1998; Pauly 1997; Moran 1986; Nesvetailova 2007). Within national financial systems, however, financial crises have almost always led to improvements in governance structures and arrangements. Indeed, the 20th century stands as a tribute to how financial crises within nation-states have produced financial governance reform that has made such systems sounder, fairer and ultimately more effective economically and developmentally.[2] It is also arguably the case that the series of international financial crises that hit the world's financial system during the 1990s has yielded technical lessons that have strengthened it in some important respects.[3] Nevertheless, while it can at least be argued that certain technical lessons have been learned recently, it is harder to make the case that the democratic deficit has been satisfactorily addressed, or even fully acknowledged.

The 'democratic deficit' of financial governance is entirely about who should govern and what kind of structure such governance should take (Coleman and Porter 2000; Germain 2001; Porter and Wood 2002; Soederberg 2004; Woods 2006; Porter 2005; Underhill and Zhang 2003; Best 2005). At its core this debate concerns the appropriate structure through which relevant authorities should work to establish norms and rules, monitor their observance and reward compliance and/or punish non-compliance. In other words it is a debate about who should make decisions and how those decisions should be implemented. This debate is only secondarily about what kinds of rules and norms should be established, and how the costs and benefits of compliance should be distributed, although these are not of course unimportant. For these reasons the debate

[2] For example, the 1907 and 1932 financial crises in the US produced the Federal Reserve system and the separation of commercial from investment banks respectively; the secondary banking crisis in the UK in the 1970s resulted in a much stronger supervisory regime separate from the Bank of England; and of course the international banking crisis of 1974, which claimed the Franklin National Bank in the US and Bankhaus Herstatt in Germany, culminated in the formation of the Basle Committee on Banking Supervision (BCBS) in late 1974 (Herring and Litan 1995; Wood 2005; Germain 1997).

[3] As Barry Eichengreen (2002) carefully explains, although financial crises will undoubtedly be with us as long as capitalism survives, there is much we can do to ameliorate their worst consequences with suitable financial reforms.

over financial governance is very amenable to consideration in terms of deliberative democracy.

There is a growing literature on deliberative democracy, both nationally and transnationally (Held 1995; Anderson 2002; Fishkin and Laslett 2003; Morrison 2003). Most basically, deliberative democracy theorists ask how political decisions can be taken in large, stratified, and complex societies in ways that respect the autonomy of individuals while reaching for a conception of the common good that is pursued through collective action (Warren 2002). Originally developed within the context of mass democracies, deliberative democracy advocates investigate the conditions under which political decisions can be made without abandoning the grounds of politics to technical administration; they are intent on preserving the inherently political nature of collective life by ensuring that the most important and wide-ranging questions of how to live politically are subject to an informed democratic debate through which consensus – formation and negotiation is as far as possible protected from coercive influence (Petitt 2003). It is most importantly about establishing an arena within which debate can proceed in order to result in a decision that even those who oppose it can accept as legitimate and fully discussed.

Within this context, the role of publicity or publicness is crucial. At a general procedural level, one important strand of deliberative democracy stresses the argumentative and agonistic aspect of decision-making, and the manner in which decisions need to be taken in a manner which reduces as far as possible the coercive potential which agents may bring to bear on their deliberations. When issues and problems of a collective political nature are discussed in public, it is the deployment of reason, logic and evidence which bears significant weight when deciding the merits of contending positions, rather than the power and capacity of some to force agreement. Publicity and publicness are a key defense (albeit not an iron-clad one) here against manipulation and the deployment of coercion; thus deliberative democracy advocates devote considerable attention to establishing both the need for and requirements of some kind of public sphere as a crucial aid in achieving adequate deliberative democratic procedures (Calhoun 1992).

At a more substantive level, publicity and publicness are increasingly important to the formation of specific norms and principles that form the guiding framework within which governance occurs. Especially where norms and principles reflect or embody specific combinations of preferences – where in other words norms and principles are chosen through some kind of cost/benefit calculation where some win and some lose and it is the balance of consequences that is determinant – a public debate is crucial to the legitimacy of the framework because it is the public airing of reasons for one over another set of norms and principles that enables all to agree to any particular outcome (Gutmann and Thompson 2003). Public deliberation here is a substantive as well as a procedural element of deliberative democracy; it forms a necessary part of its logical core.

Deliberative democracy at the global or transnational level incorporates many of these same elements (McGrew 2002; Held 1995; Archibugi 2003). To address the twin deficits of a lack of democratic accountability and the need to govern social, political and

economic developments beyond the nation-state (but without over-riding the democratic advances achieved by nation-states), deliberative democracy advocates point to the need to make institutional reforms at the global or transnational level that confront contemporary challenges. These include most importantly making the Security Council of the United Nations, various international economic and financial institutions and certain international political institutions more democratically responsible and accountable. They also involve somehow ensuring that nation-states take global concerns into account when formulating apparently 'domestic' economic and political policies. And a key plank of almost all advocates is for greater publicity to attend to the deliberations of such global institutions (McGrew 2002).

Thus we have in the argument for greater deliberative democracy at the transnational level a specific demand that publicness form a critical component of democratic deliberation. This demand most often takes the form of a call to entrench a public sphere or spheres at the global level as the means by which deliberative democracy can be extended. A public sphere, it is argued, can give voice to stakeholders and enable citizen participation in political life beyond the narrow and often rigid parameters of state institutions. Providing for a public sphere allows the political aspect of collective life to escape the domination of technique and administration that rules so much of mass society. There is of course much debate over the scale and scope of the public sphere, and whether its guiding ethos should follow the formulations of Hannah Arendt, Jürgen Habermas, John Dewey or other theorists (Calhoun 1992; Villa 1992; Cochrane 2001). For our purposes here, however, the main concern is with the relationship between the public sphere as an element of deliberative democracy within the context of financial governance. And for that purpose two aspects of the public sphere must be examined: *1)* its conceptual and empirical possibility in terms of a global formulation; and *2)* its relevance for financial governance.

Deliberative Democracy and the Public Sphere: towards a global formulation

The idea of the public sphere is an attractive one for deliberative democracy advocates because it is within a public sphere that dialogue among citizens occurs as an integral if not formal element of democracy. Although it is not the only means of realizing dialogue within a political community, a public sphere is the chief means by which active citizens can engage in democratic discussion about issues that are under decision within a formal deliberative process. The public sphere is thus part arena, part institutional milieu, and part site of active consensus-formation. It is, as James Bohman (1998: 183) indicates, where 'publicity' gains entry into the political process under specific conditions. These conditions include allowing social and cultural criticism to take place, and providing for a form of communication directed at indefinite audiences that span many dimensions of social difference. Public spheres thus foster what he calls 'wide public reasoning' and in doing so allows political decision-making to become legitimate. Within this context, the idea of the public sphere has been considered most often at the national level, within established polities with already-accepted frameworks of law and institutions (Calhoun 1992).

To move beyond the nation-state is to ask whether the public sphere can be globalized. Several scholars have posed this question, including Bohman (1998; 1999; see also Lynch 2000; Cochrane 2001; Mitzen 2005). Two issues are key in this consideration: 1) whether the institutional conditions of the public sphere exist at the global level; and if so, 2) whether the public sphere is singular or multiple in its realization. Both of these issues, however, depend on being able to distinguish between a public sphere and public space, or what Nancy Fraser (1992) identifies as a 'weak' versus a 'strong' public. In his formulation, Hauke Brunkhorst (2002: 676-80) labels a weak public that which only carries moral influence or weight, while a 'strong' public adds to this administrative or political influence. In Fraser's (1992: 132-34) terminology, a 'strong' public contributes to actual decision-making in some way, while a 'weak' public does not. For Bohman (2001) the real question is whether a public sphere enables meaningful participation to occur. A public space may allow for some debate, but a public sphere extends this to encompass 'deliberation', a political activity that is capable of bestowing authority onto decisions.

If we take Villa's (1992: 712) representation[4] of the public sphere as an "institutionally bounded discursive arena that is home to citizen debate, deliberation, agreement and action", how can we conceptualize it at the global level? Scholars have suggested that we look for several conditions that may indicate whether a public sphere has come into being. First, following Bohman (1998), we need to recognize a multiplicity of audiences as critical to a public sphere's operation. A public sphere counter-poses itself to a small group of policy-makers that deliberates and decides in private; it has multiple audiences that span different social hierarchies and participate through various media. At the global level this would involve audiences across borders and social classes, at the very least. Second, it requires some kind of institutional anchor that both has access to but is not entirely defined by the state. At the global level this may be identified with international organizations (Lynch 2000: 308), or multilateral diplomacy (Mitzen 2005). In any case, a public sphere is constituted in part when there is an inter-state component to its operation. We may think of this as the administrative aspect of a public sphere at the global level. Third, we need to see in its operation the use of what Bohman (1999) calls 'wide public reasoning", or what Villa (1992) considers to be the rules of non-coercive negotiated agreement. Here deliberation must involve mutually-accepted codes of conduct based upon rationality and the use of evidence before a public sphere can be recognized (cf Held 1995). There would in all likelihood be no difference in the operation of this aspect of a public sphere at the national or global level, even given different cultural traditions (Bohman 1998: 205-11).

A further condition under which a public sphere is able to come into being and operate is a form of media that enables communication between engaged citizens and decision-makers to proceed. In the contemporary era this is of course the media in all its forms as well as the possibility of mobilization through public demonstrations. Another way of

[4] This representation is preferred over those, such as John Keane's (1998: 169-70), which do not incorporate an institutional element. Keane sees a public sphere in terms of a particular relationship between two or more citizens, which is a definition that strips the public sphere of any kind of deliberative context. In the above terms, his definition remains mired at the level of space, or 'weak' publics.

stating this condition is in terms of information-exchange, meaning that a public sphere requires the possibility of information being made available in multiple forms and through channels which are not controlled or unduly impeded in a manner that compromises the integrity or limits the types of information available. From the early part of the 20th century, this has involved mass communications and most crucially broadcast media in all its manifestations, producing arguments for public broadcasting and limits to media ownership as crucial conditions for the actualization of a public sphere (Keane 1998; Stevenson 2005; Garnham 1992). At the global level, of course, strictures against media concentration are more difficult to enact because of the multiple and competing legal jurisdictions at play. At the same time, given the global scope of any potential public sphere, the sheer number of media outlets provides some relief from the spectre of over-concentration. At any rate, a public sphere – whether national or global – must provide some way for citizens to both gain access to relevant information and contribute to the development of such information for any subsequent deliberation to enjoy a 'public' character.

If we move from the consideration of a public sphere more generally to the specific case of finance, we may add one additional condition that is necessary for the actualization of a public sphere, but not identified as such in the literature. This condition is an environment of decentralized power, where no single agent or institutional matrix is able to exert undue influence over the entire structure of governance. The centralization of power renders the operation of a public sphere irrelevant, either because a dominant financial power holds such sway that it can dictate agendas and rules for the international activities of financial institutions, led in the first instance by financial institutions based in its national economy, or because a single financial market is so dominant that it enables its core financial institutions to exert a paramount influence over credit practices. In either case governance need not involve many agents or actors in its conception and exercise, precisely because the main players are small in number, cohesive in their activities and homogenous in their organization and outlook.

For example, a public sphere was not necessary for the operation of the global financial system during either the pre-1914 period of the international gold standard, or in the post-1945 Bretton Woods period. In the former period, the role of the London markets enabled London-based financial institutions such as the Rothschilds and Barings banks to exercise dominant influence over financial governance practices (Langley 2002), while in the latter period the US government, by virtue of its central position at the heart of public international finance, was able to direct the development of global financial regulation along a trajectory that disproportionately benefited the US economy and US financial institutions (Germain 1997). We no longer live under the shadow of the London markets nor under the thumb of US regulators, with the result that a global public financial sphere has been able to emerge.

A corollary of this condition is that financial markets themselves must display a sufficient degree of competition to maintain a decentralized dispersion of power. Where financial markets are organized along monopolistic or – more usually – oligopolistic lines, the establishment of a public sphere becomes much more difficult to organize precisely

because the dispersal of power on which deliberative democracy thrives is compromised. In the case of finance such a structure of power is associated with decentralized financial markets that are resistant to the direction and guidance of major financial institutions acting uncompetitively. We will take up this issue below when we consider challenges to the argument that a global financial public sphere has indeed come into being.

As this discussion indicates, there is no inherent reason why a public sphere cannot be conceptualized at the global level. Wide public reasoning can be established as the *via media* across borders as well as within; differences within the social hierarchy are present across borders as well as within; and institutional structures exist globally as well as nationally. Publicity and publicness are as applicable for decision-making globally as nationally. And the information requirements of a public sphere do not change with an increase in scale. This difference in scale, however, has prompted most scholars who write about the public sphere to accept that at the global level it should be conceived in plural rather than singular terms: we should look for public spheres rather than one over-arching public sphere (Bohman 1998; Lynch 2000; Mitzen 2005). The reasoning behind this is that public spheres are issue-specific, and the modalities of different issues will configure public spheres along separate (albeit inter-connected) lines.

There is a certain logic to this line of argument. Different issues may well demand lines of argumentation and reasoning which follow alternative pathways, or they may call into being quite distinct citizen groups. Moreover, the institutional anchors may be configured separately from issue to issue. The main implication for theorizing public spheres at the global level is precisely that we should look for issue-specific instances of governance where decisions depend upon information-rich environments. At the same time, precisely how issue-specific a public sphere can or should be remains open to question. For example, is global economic governance an issue-specific domain itself, or is it further sub-divided into more specific areas such as finance? Although this question does have important institutional implications, we will leave it aside and simply assume that a public sphere is in some part determined by quite specific issues, which means that we are dealing at least in some measure with a plurality of public spheres.

We earlier identified the problem of financial governance as revolving around the question of which authorities are involved in systematically governing the activities of financial institutions across borders, and how they combine to produce a structure of governance. The idea of a public sphere maps onto this problematic very well, for several reasons. First, finance itself is an information-rich activity that relies upon certain norms of reasoning for the very constitution of its materiél. Credit, after all, is dependent upon an agreed upon determination of its value to have any force or meaning, and information is a crucial (albeit not the only) component of this determination. Second, insofar as finance is global, it relies upon certain negotiated agreements as to how its principal institutions are regulated or controlled when their activities span borders. These agreements can of course be negotiated in secret, but increasingly since the mid-1970s they have been undertaken in public fora that have subjected the terms under discussion to increasingly rigorous critique. Third, there is a decentralized aspect to the organization of political and financial power at the global level that reinforces the demands of

negotiation for governance arrangements. Put in slightly different terms, a wide variety of agents that span the world's social hierarchies (political, economic and societal) are involved in contesting governance arrangements, and where they interact may be taken as constituting at least in part a 'public sphere'. And finally, state authorities are very much involved in governing finance, and it is their deliberations that are the target of all who claim to represent stakeholders in the satisfactory operation of financial systems. There is in other words a very strong and clear public administrative anchor to financial governance.

There is thus a *prima facia* case to be made that a public sphere is at work in the context of financial governance at the global level. We may call this a 'global financial public sphere'. The next step is to map out the principal elements of this public sphere, and then to consider some criticisms which challenge the relevance of the public sphere to financial governance, namely that the idea of a global financial public sphere ignores the role of power in global finance, and that even as presently constituted, such an institutionalized arena has deliberative deficits that render it normatively unattractive and politically malign.

the global financial public sphere

What are the elements of a putative global financial public sphere? Adapting the conceptual schema advanced by Villa (1992) and Bohman (1998; 1999), we can point to four key elements that interact to form what may be called a global financial public sphere. These are an inter-state institutional framework, globally-oriented financial markets, a globally-active media, and the globally-oriented activities of what many now call civil society. If a global financial public sphere is even partially in place, it is actualized and reproduced through the reciprocal inter-actions of each of these (more-or-less) institutionalized elements. Although no single institution or configuration of institutions necessarily sets out to produce or constitute on its own a public sphere, the consequence of their actions together is to create a political arena within which an ongoing process of public deliberation increasingly defines the global parameters of financial public policy. And what is crucially important is that so configured, the global financial public sphere enables many (though not all) of the key stakeholders to participate at least to some degree in the deliberative process of governance.

In order to be more than a discursive arena – or a weak public in the views of Fraser (1992: 132) and Brunkhorst (2002: 676-7) – a public sphere must embrace an institutional dimension that is able to produce policies after due deliberation. In the case of the global financial public sphere, this is represented by the complex institutional framework that we can identify as the international or inter-state financial architecture (eg. Soederberg 2004; Armijo 2002; Germain 2001). This architecture embodies a complex division of labour that brings together the key public authorities in their individual and collective formulations (ie as the US <u>and</u> the G-7, for example). It is within this increasingly internationalized framework that major decisions about the future shape and operational imperatives of global finance develop (Porter 2005).

There are two interesting aspects about this architecture: 1) it is state-led; and 2) it has been extended over the past several years both horizontally and vertically. In vertical terms, representatives of private sector financial institutions now have entry points into the structure of governance that were previously denied to them on a formal basis. Equally importantly, the financial architecture has developed over the past decade in a manner that explicitly knits together much more adequately the overlapping and competing segments of the world's financial system. That is to say, it is not only bank regulators but also insurance supervisors, stock market regulators, accountants and certain credit rating organizations that have an (admittedly uneven) role in organizing, contributing to and deliberating upon financial governance. The vertical mosaic that is the global financial system finally has a structure of governance that at least corresponds to how credit is created on an ongoing basis. Horizontally, the financial architecture has been significantly extended out from its G10 core of only a few decades ago. Emerging market economies have been brought into many of the deliberative parts of the financial architecture in important ways, and now have the ability to shape and influence the development of the rules and norms that guide global finance. Thus, although the financial architecture remains state-led, it is increasingly open to participation from non-state institutions and from (some) developing country officials.

The inter-state financial architecture is in turn related to and bound by the activities and operations of key financial markets, such as international bond and credit markets, foreign exchange markets and some futures and derivatives markets. These markets constitute the heart of the global financial system, and are driven by powerful dynamics that shape and are shaped by the public agendas of states. At the same time, financial markets also shape in powerful ways the financial institutions that are the putative target of governance. Market interaction helps to produce the financial institutions that governments in fact try to govern, which means that they have a crucial role to play in the evolution of the institutional networks whose interactions form the terrain of governance. These institutions in turn attempt to shape and direct the exercise of financial governance, and as indicated above are also active participants in the government-led inter-state framework (Cutler, Haufler and Porter 1999; Tsingou 2003; Cerny 2003).

But why should we think of financial markets as part of the public sphere? Are not the actions of financial institutions that participate in such markets inherently 'private'? The answer to this question must return to an important condition through which we can know that a public sphere is at work, namely its level of information-richness. Financial systems deal in information. They are information-rich, and financial markets constitute one of the principal channels through which information is generated and disseminated. Markets in this sense are information generators, and much of this information resides in the public domain. Financial markets, therefore, not only generate and shape the actions of financial institutions, they also produce information which is fed into the public domain thereby becoming part of the deliberative process. They are 'public' channels of information that publicize prices, events and evaluations which help others to track financial developments. Such channels include the published ratings of credit ratings agencies, stock market indices, quarterly profit announcements and the timely disclosure

requirements that corporate governance rules increasingly demand. Global financial markets provide information that enables those affected by general social and political norms of action to engage in a practical discourse that helps to evaluate their validity. It is in this sense that financial markets should be viewed as a constituent element of the global financial public sphere.

The third element of the global financial public sphere is an increasingly globalized media. The media (including television, radio, print and internet-based sites) is one of the key mechanisms promoting communication and exchange within the public sphere. Significant here is the growth of interest in and reporting of financial issues, both among the financial press and the more broadly focused popular press. The widespread impact of financial crises and the sheer number of near-meltdowns since the 1992 European Exchange Rate Mechanism (ERM) debâcle have brought home to the general public the stake they have in the general health of the financial system. The unfolding sub-prime mortgage catastrophe in the US is further confirmation of this trend. It is important to note, however, that the media on its own does not necessarily promote a public sphere (Bohman 1999; Lynch 2000; Stevenson 2005; Garnham 1992). Its importance lies in the way in which the media disseminates information that can be used by both the defenders of established views and those who wish to subject such views to critical public scrutiny. In other words the media has mostly worked to restrict the realm of privacy in public deliberations and thereby to open up financial discourse to the deliberative scrutiny of the public (Keane 1998: 183).

But of course, in a global context the media compromises public discourse in a number of ways, two of which are important to note. First, to the extent which the media itself is a corporate entity, public discourse becomes subject to particularistic interests that elide the collective public good which should lie at the heart of such discourse. In other words, the distinction between public discourse and propaganda should not be overlooked in the operation of popular mass media today, especially where levels of concentration in terms of media ownership are high. This compromise also holds for state attempts to shape (whether overtly or covertly) public discourse, as for example in Russia and Venezuela. Second, even where public discourse is faithfully supported by the media, differential access to media poses a problem for its contribution to the operation of a public sphere. The media is not a level playing field, and this power differential shapes in important ways the effectiveness of the public sphere.

The final element of the global financial public sphere might be termed civil society, or more exactly the organizations with an interest in finance that have been identified as belonging to civil society (Scholte and Schnabel 2002). These are organizations that neither fall formally under the rubric of government nor are fully active in markets. Rather they are non-state and non-market actors that – starting from a variety of motivational purposes – attempt to influence the arrangements of financial governance in directions that are consistent with their core beliefs. They range from religiously inspired organizations to organizations of conscience to broad-based social movements to oppositional organizations that exist in contest with either government agencies or market-based institutions (O'Brien et al 2000; Scholte 2002). These organizations engage

in the debate over financial governance primarily by either seeking to influence governments and inter-governmental institutions directly or through mass protest, and sometimes both. They contribute to the anchoring of a public sphere precisely because they have become part of the intended audience of the world's financial discourse (cf Helleiner 2005; Cameron and Helleiner 2006).

As the above suggests, the creation, consolidation and reproduction of a global public sphere is contingent upon a number of dynamics. One such dynamic is the complex and overlapping balance of power that exists between competing interests and institutions within each element supporting the public sphere. Within the inter-state institutional framework, for example, the existing balance of power privileges representatives of mature financial systems over representatives of emerging market financial systems, and in particular representatives of capital market-based financial systems rather than bank-based financial systems. This could be portrayed in terms of the G-7 versus G-20, or the Financial Stability Forum versus the IMF: each organization or institutional grouping has specific interests that often conflict with respect to specific issues such as promoting capital account liberalization or reconsidering the norms of sovereign debt rescheduling.

Within global financial markets, on the other hand, transnationally-oriented financial institutions are often privileged over nationally-oriented financial institutions, most importantly because of their role in cross-border financial transactions. This tension sets up an ongoing friction between large integrated universal banks based in G-7 economies and the many banks based in emerging market economies who primarily lend to domestic businesses in their home economy. Here, transnationally-oriented financial institutions are well represented through special-interest organizations like the G-30 and the Institute of International Finance, while domestically-oriented financial institutions are less well-organized and represented (although they are not completely bereft of influence). At the same time, competition between financial institutions occupying different market sectors – such as hedge funds versus commercial banks versus investment banks versus pension funds – adds a further layer of competition to this dynamic. Not all transnationally-oriented financial institutions have the same interests in a single governance structure.

We should also acknowledge that many of the fastest growing banks are in emerging market economies, and they are re-orienting their activities both to take advantage of the increased openness of their home economies to global markets, and to better serve and follow businesses based in emerging market economies as they engage in global competition by globalizing their own activities. These range from Indian banks following the success of Indian soft-ware, outsourcing and industrial companies; Chinese banks following the expansion especially of Chinese industrial and resource-extraction companies; Russian banks following their oil-fuelled expansion boom; and Latin American banks that are now following the belated entry of their industrial companies into global markets. While the industrialized world's financial institutions still dominate the global financial system, their hold is no longer as firm as it once was. The global forays of the newly emergent financial institutions help to underpin the more assertive stance that financial regulators and central bankers in emerging market economies are playing internationally.

Within the context of civil society, it is interesting to note that many civil society organizations and the global media have been used as outlets for experts who disagree with prevailing policy orthodoxies. In this sense they have thus served in effect as a platform for the dissemination of positions critical of many government initiatives, as for example with Paul Krugman's high-profile columns in the *New York Times*. Such critical media platforms have complemented in many ways the equally important grass-roots activities of civil society organizations, who have campaigned – not always successfully – for alternative financial policies ranging from forgiving international debt to imposing international taxes on financial speculation (Dawson and Bhatt 2002; Patomäki 2001). Over the past decade, the balance of power within and between the global media and civil society organizations has been beneficial to the consolidation of a global financial public sphere.

the global financial public sphere in action

How can we illustrate empirically that a global financial sphere is in operation? One way of answering this question is to ask if we can identify the principal operational features of a public sphere adumbrated above. With respect to the first operational feature – clear modes of public reasoning – there are strong indications that a mode of public reasoning now informs much of the dialogue concerning governance issues. For example, former Managing Director of the IMF, Michel Camdessus (1999), has spoken about the world's financial system as a 'global public good', that is a good that is undiminished through consumption, nonexcludable and for the benefit of all (Kaul et al 1999, ch.1). Such a claim can only be invoked within the context of a clear mode of public reasoning. In this case, legitimating the claim of a 'public good' only makes sense if evidence is privileged over assertion, if the different starting points of participants (eg developed versus emerging markets) are acknowledged, and if the historical record of governance is used to adjudicate competing claims about its legitimacy and effectiveness. In other words, the claim that the world's financial system is a 'public good' only makes sense within the operational context of a public sphere, where it can be challenged and evaluated according to acceptable rules of critical engagement that follow a public mode of reasoning (cf Bohman 1998).

We can see such a public mode of reasoning operating in the case of the Highly Indebted Poor Countries Initiative (HIPC), initially launched by the IMF and World Bank in 1996. HIPC itself was at first resisted by the Fund and the Bank (and their main shareholders), but concerted pressure from a wide range of non-state actors – chiefly organizations we might characterize as belonging to civil society – and more sympathetic governments eventually prevailed in extracting a coordinated multilateral response to debt relief. Whether it was the activities of 'Jubilee 2000' (a group formed to argue for the enhancement of the HIPC initiative), Bono (the former rock star who has made debt relief a personal crusade), Christian activist groups in the US, or the pressure of the British and Canadian governments to push the debt relief agenda forward, is less important than the awkward public way in which the debate about debt relief has refused to fold (Gariyo

2002; Durbin and Welch 2002; Cameron and Helleiner 2006). On this reading, the primary significance of Jubilee 2000's activities (and that of other advocacy groups) lies precisely in terms of their continued capacity to engage critically with multilateral institutions and states, and thereby making an impact on the debate by force of argument, reason and evidence. It is unlikely that this train of events would have occurred without the benefit of actions which took place within a 'public sphere'.

The second key operational feature of the global financial public sphere is a plurality of participants. One of the most striking departures of the contemporary period lies in the extension of the literate 'audience' for financial governance beyond the self-interested parties of government (chiefly central bankers and regulators) and the financial community. Despite the formidable levels of expertise usually demanded as the price of entry into financial discussions, there has been an explosion of participants in debates concerning financial governance. On the official governmental side, we have witnessed since 1999 an extension of participation into emerging markets in the form of the formation of the G-20 and FSF (Germain 2001). Both of these new fora include representation from emerging market economies on a scale without historical precedent in terms of to the actual governance of finance. When contrasted to the limited scale of representation that occurred during the last great exercise in recasting global financial governance between 1973-1977, which was technically limited to the Committee of Twenty (and practically to the G-10), the scale of representation today is substantially broader and deeper in scope.

But it is the extension of the 'audience' of financial discourse into what many would identify as the organs of civil society (Scholte 2002) that is possibly the more significant development in terms of establishing the public sphere. This extension of the audience first became apparent in the industrialized economies from about 1995 on, when a number of critical organizations such as the 'Bretton Woods Project' were formed. These were essentially loose, elite level organizations that inserted alternative points of view into debates about the international financial architecture. They were the most recent manifestation of a history of elite opposition to the financial arrangements preferred by what some have identified as the transnational capitalist class (Cooper 1974; cf van der Pijl 1984; 1998).

The global potential of these civic organizations took on a new force in the late 1990s, however, when they were joined by a set of southern-based NGOs and think tanks responding to the devastation of the 1997/98 Asian financial crisis. These organizations – such as 'Focus on the Global South' in the Philippines, 'Third World Network' in Malaysia and the 'Public Interest Research Centre' in India – added an activist urgency to the debate over financial reform born of dealing with the catastrophic post-Asian crisis decline in living standards, thereby helping to transform the terrain over which public deliberation occurred. This process was taken a step further in 1999 when other civil society organizations dramatically inserted themselves into the consciousness of developed countries with the 'Battle of Seattle' and other pitched encounters at G-7 and IMF meetings (RIPE 2000; Millennium 2000; Wilkinson 2005). From a polite discussion

among educated gentlemen, the debate over global financial governance has evolved into a much wider, more contested and very public exercise.

Widening participation in the debate over financial governance links to the third key operational feature of the public sphere, namely a growing critical reciprocity within the context of the debate over financial governance. While pitched battles in Seattle, Gothenburg and Genoa may grab headlines, it is the ongoing debate over issues such as capital controls, benchmarks and codes, capital account liberalization and prudential standards where the new critical reciprocity is most in evidence. One example will illustrate this reciprocity: the debate over reformulating capital adequacy measures, more commonly known as Basle II.

The Basle II process to revamp international capital adequacy guidelines began in earnest in 1999 with the publication of a framework document that set out how to address the pitfalls of the original 1988 Capital Adequacy Accord, which had itself been modified on several occasions (Kapstein 1994; King and Sinclair 2003; Wood 2005). This process was centered in the Basle Committee on Banking Supervision (BCBS), but involved increasingly extensive discussions among a widening set of perceived stakeholders. At the center of the debate was how much capital financial institutions (principally internationally-active banks) need to hold in reserve, the composition of this capital, and how the risks faced by the institutions should be determined (so as to know how much capital to hold). The discussions that shaped these issues took place among regulators, industry participants and academics, from 1999 until 2006, when Basle II was initially introduced. The trajectory of these debates switched tracks on several occasions, and the final framework departed significantly from the initial template. Most importantly form our point of view, at every stage of the process much of the debate was public and the results of tests undertaken to gauge the effects of Basle II were made publicly available. Indeed, the negotiations were in essence driven by the vociferous complaints of the banking industry to the results of the BCBS's own tests. Although there are many critics of the Basle II process – both within the financial industry and among regulators and academics – what is distinctive about the Basle II process was its unprecedented openness together with the expanded number of 'participants'. We may say then that there was a critical reciprocity at play in the development of the BCBS's capital adequacy guidelines, similar to that evident also in debates about capital account liberalization and prudential supervision (cf Germain 2004; Stiglitz 2002; Porter 2001).

There is thus a plausible argument to be made that a global financial public sphere has empirical purchase and now serves as part of the deliberative process for financial governance. Care should be taken, however, when evaluating the robustness of this claim. I do not want to claim that financial governance is synonymous with a public sphere, much less that the process of deliberation is entirely organized around a public sphere. Rather, I wish to advance a more limited set of claims: 1) that a public sphere can be charted at the global level as part of the overall structure of financial governance; and 2) that incorporating this recognition into our understanding of financial governance helps us to comprehend how governance in fact proceeds.

challenging the idea of a global financial public sphere

Several objections to this argument about a global financial public sphere may be lodged. First, some may dispute the *publicness* of financial governance, arguing instead that financial governance remains the preserve of power politics and secretive or unaccountable decision-making. In other words, the empirical plausibility of this argument can be contested. Second, the deliberative aspect of the argument can be questioned. That is, even if gains in the enhanced public and participatory possibilities of a global financial public sphere are acknowledged, the extent to which this results in a better and more genuinely *deliberative* governance process still needs to be proven. And third, notwithstanding the advances in governance techniques celebrated by public sphere advocates, the material thrust of financial governance continues to benefit the interests of capital rather than other social and economic classes. Capitalism may be amenable to governance through a public sphere, but the inevitable results of such governance will not and cannot ameliorate the prospects of continued poverty for wide swathes of the world's population and inequality between classes, which many scholars consider to be the root causes of financial instability. We will examine each objection in turn.

The first challenge to the plausibility of the argument advanced here comes from those who view the motor forces of financial governance through the prism mainly of power politics. Louis Pauly (1997; 1999), for example, is adamant that financial governance follows in the wake of powerful states. In the contemporary period this means first and foremost that financial governance is organized primarily around the needs and interests of the US, as shaped and influenced by US financial interests. As such, when we look to the internationalization or globalization of financial governance and especially arguments for a new *publicness* to this governance, we should be alive to the way in which this process is fundamentally driven by the American government's interests and those of its financial community. There is a further element to this argument, namely that we cannot conceive of governance structures and processes that are not anchored by powerful states, meaning ultimately that any *publicness* that may develop is relatively controlled and prescribed by the holders of power within the system. Although the idea of a public sphere may be normatively attractive, it will be a surface phenomena that does not alter the underlying power dynamic through which pressures for particular types of governance arrangements are channelled.

There is much to this challenge, for power has never been absent from the structure and process of financial governance. The important question, however, concerns how this power is organized, and through what kinds of media it is constituted and exercised. And here the empirical features discussed above must be seen as part and parcel of the reconfiguration and even reconstitution of financial power in the contemporary period. Not only has the US government lost its position as the final arbiter of the global financial agenda, it is no longer able to dictate the pace and direction of financial reform. This can be seen for example in the direction of financial regulation, which is running counter to expressed US interests in several ways. The Basle II process pitted the American regulatory preference for a higher ratio of Tier 1 capital against British, European and Asian preferences for a more variegated set of capital requirements, and

while US demands were not ignored, in the end they did bend in several important respects towards the 'global' standard (Wood 2005). A similar development has occurred with respect to accounting standards, where a standoff between America's FASB and its GAAP standards and IASB standards is now swinging in the ISAB's direction (Eaton 2005). What both sets of developments suggest is that American preferences are no longer the powerful and universal guides they used to be, and that other regulatory authorities and financial practices are challenging their authority.

Where these critics are on firmer grounds is in their recognition that no aspect of financial governance is immune to the exercise of American power, whether through governmental or private sector agents. The US, in terms of market size, financial institutional density and governmental leadership, remains at the heart of the global financial system. It contains the deepest, most liquid markets that are driven by some of the world's largest, most innovative and dynamic financial institutions, and American regulators cannot be ignored as significant drivers of international financial standards (Braithwaite and Drahos 2000). Furthermore, two of the most important international financial institutions are located in Washington, and are thus very sensitive to American interests and debates. Nevertheless, recognizing the prevalence of American interests and influences is a far cry from arguing for the dominance of these same interests and influences. And however one cuts it today, the interests and influence of the US no longer dominate the political agenda of global financial regulation. They may be better described as veto-holders rather than absolute agenda-setters. This reconfiguration of America's role is one reason why a global financial public sphere has taken shape, namely because such a realm becomes possible when power is not concentrated and subject to the *dictat* of any one agent. This decentralized structure more accurately describes the current global financial system; hence the emergence of a governance structure that is much more public than previously.

Even if we can respond to those who may be sceptical about the structural conditions supporting increased publicness of global financial governance, on what basis can we persuade them that such governance is now also more *deliberative* in its effects, or in other words that a public sphere does in fact enhance the 'democratic' nature of financial governance. In some ways this is a harder critique to address, because of course the democratic accountability of those who take decisions with regard to financial regulation is in important respects muted or indirect. Central banks and regulatory agencies are increasingly statutorily independent from central government. International institutions such as the IMF and BIS are not accountable to those directly affected by their policies, and markets are in no way responsive to the morally-problematic consequences of their activities. Global finance and its governance structure remain on many counts virtually impervious to popular pressures, which many equate with some form of accountability (Porter 2001; Underhill 2007).

The key to this argument, of course, is how we might conceive of the formal deliberative processes of financial governance. On one hand, many of the organs of financial governance are at one level both deliberative and accountable, if we accept that their statutory independence includes oversight mechanisms. For example, while central banks

may be formally independent of central government, they are not immune to governmental influence, or to alterations in their mandates (or re-interpretations of same). In fact, central bankers everywhere are acutely aware of the political nature of their mandates, and are reluctant to actively undermine the political foundations of their putatively 'economic' role. In no way can we think of central banks as operating outside of an established political and legislative process; thus to argue that they are immune to popular pressures or political oversight appears odd. Rather, we should acknowledge that central banks – like most institutional actors within established democracies – play by very specific political rules, and that these rules are themselves open to political contestation (or, in our terms, *deliberation*).

That the deliberative aspect of financial governance does not follow 'normal' patterns of political contestation should not be surprising. We are dealing, after all, with the constitution of authority, the formulation of rules and the exercise of power within a highly variegated and stratified environment. What does *deliberation* look like in such a context? It is a hybrid structure, composed in roughly equal parts of authority that is public, private, institutionalized, diffuse and expert-based. The mediation of authority, in this sense, is organized through multiple channels that operate in overlapping and often times conflictual ways. Yet the outcome is a constantly expanding set of rules and procedures that at every turn specifies the principles around which financial activity is organized and through which we in fact come to know what 'finance' is (or is not). Deliberation is an inherent part of this development, although it is not always centred on formal bureaucratic procedures.

Within this context, the public sphere should be seen as facilitating a particular kind of deliberation, whether in the strong or weak sense deployed by Fraser (1992) and others. It is deliberation because, as construed above, a global financial public sphere involves policy development through the overlapping interaction of multiple stakeholders and concerned citizen groups. This can happen through market-structured interactions, or civil society interventions, or in formal institutional settings framed by international financial institutions and/or national regulatory authorities, or all three. Braithwaite and Drahos (2000: 31-33) identify these as "webs of influence and citizen sovereignty". Not all stakeholders have equal access of the decision-making components of the public sphere; nevertheless, all elements of the public sphere have a bearing (albeit differentially weighted) on the development of policy. It is on this basis that the global financial public sphere facilitates deliberation within the governance structure of finance.

At the same time, even if we acknowledge that financial governance has become more public and more deliberative with the advent of a public sphere, has it become any better, if we count as 'better' progress towards a more stable global economy and a fairer or more equitable distribution of income within it? The answer here is of two halves. At one level, the global economy has been more stable since 1998 if we measure such stability in terms of the incidence and severity of financial crises. Since the 1997/98 Asian financial crisis and Russian default, there have been few catastrophic financial crises and none which have had global repercussions. Brazil (1999), Turkey (2000) and Argentina (2001) have all experienced financial panics of various degrees (with

Argentina's the worst), but none have triggered regional or global meltdowns, and even the Argentinian devaluation and default left a remarkably low regional footprint. Indeed, the global economy has grown strongly since 2000, and has only recently displayed even the slightest hint of turbulence with the sub-prime mortgage turmoil in the US. If we judge financial governance by the measurement of 'stability', the developments since 1998 must be seen as successful.

Yet, inequality between countries, within countries and among social classes has grown. In the US, for example, the earnings of the top quintile now outstrip the bottom quintile by a larger degree than historically recorded, larger even than during the late 19th century period of the 'robber barons'. Entire countries have seemingly dropped out of the global economy, despite its sustained growth over the past decade, while inequality within some countries that formerly had relatively egalitarian wage structures is growing at a startling pace.[5] As global finance extends to all parts of the world, it seems to be synonymous with inequality and impervious to redress. This is the strongest argument against viewing the public sphere as a normatively attractive development, for its establishment, in the realm of finance at least, has not brought with it an amelioration of the pervasive ills associated with the expansion of global capitalism and its financial system.

Of course, we are also entitled to ask whether we should not distinguish here between the form and the content of governance, and between cause and effect over time. The governance of finance remains in important respects a national perogative, and as such it follows established national trends. What the advent of a public sphere does is enable a broader array of stakeholders to influence the agenda of financial governance, both within and between nation-states, but it does not of itself determine this agenda. This – the content of governance – remains the product of the stakeholders themselves, with some more influential than others. In this sense we should not be surprised that the framework of financial governance to date has not reduced inequality on a global scale, as that can only happen when marginalized and vulnerable stakeholders become better organized and more effective in their governance efforts. And as happened before within national contexts, we may expect some success in the future (Seabrooke 2006).

It is also pertinent to acknowledge that the developments discussed here are relatively recent, dating only from the 1997/98 Asian financial crisis. If we place financial governance into a longer historical perspective, we can see that the kind of publicness and forms of deliberation illustrated above have never before been seen within the structure of financial governance, where the decision-making norm is one of secrecy with highly constricted participation among a very small elite. This structure of decision-making has only recently been broadened and deepened within the framework of an emergent public sphere, so again it should not be surprising that the effects of this new-ish structure are as of yet muted. Inequality exists; the question is has it peeked and if so

[5] This picture of growing inequality is not of course universal. Inequality between countries has been ameliorated significantly with the economic growth of several developing countries, notably India and China, even if inequality within these two countries is on the increase. And a few previously highly unequal countries such as Brazil have recently improved their Gini co-efficient. As with any global statistical portrayal, we are dealing with shades of grey rather than black and white.

are the political mechanisms in place to begin reducing it. To the extent that the global financial public sphere allows or encourages this kind of debate to become entrenched, its future effects will be much more positive than recently.

Nevertheless, the question remains as to whether the establishment of a public sphere can address the ills so often associated with capitalism. The answer must be that the 'benefits' of a public sphere at the global level – namely enhanced publicness, wider participation and a critical and reciprocal form of deliberation – will not and cannot ameliorate the deleterious consequences of capitalism beyond what we have witnessed at the national level. And where a public sphere has become an established part of national governance structures and national political systems, capitalism has not vanished, even if its worst excesses have been tamed. This is because, in a crucial way, capitalism is a necessary foundation upon which a public sphere is constituted; it is almost impossible to imagine a public sphere (in the realm of economic governance) that is not organized around and supported by the operation of markets along capitalist lines. In the case of finance, capitalist market structures need to be liberal and decentralized in order to sustain the fragmentation of power that is a condition of the public sphere's operation. In this respect, then, the existence of a global financial public sphere requires capital markets predicated on private property, 'free' exchange of labour, liberalized rules for capital and current account transactions, etc. Although there is great scope to vary these singly and in combination – and the operation of a public sphere will facilitate the development of policies in this regard – a public sphere will not 'challenge' the fundamental organizational characteristics of capitalism *per se*. If we see merit in a public sphere, we must also accept that capitalism is one of its necessary conditions of operation.

Deliberative Democracy, the Public Sphere and Financial Governance at the Global Level

We have argued above that a public sphere has emerged with respect to global finance, and that this is a novel if uncompleted achievement. It remains to ask whether it will persist, and what implications this argument holds for deliberative democracy advocates more generally. In other words, how firmly anchored is the global financial public sphere, what is its likely future relationship to financial governance, and how does this relate to broader currents of transnational democracy?

There are two developments that are capable of interfering in the consolidation of the public sphere. Global financial markets could once again become highly centralized, in the manner of the late 19th century, allowing governance to become the product of multiple decisions made by private financial institutions operating out of a particular 'world' financial center, or possibly a series of tightly linked globally-oriented financial centers. Financial governance, in this sense, would become in effect the by-product of market decisions, as occurred under the rubric of London's City bankers during the 19th century gold standard. Private authority would substitute for public authority.

Is this likely to happen? With the continued development of global financial markets (in bonds, equities, foreign exchange, derivatives, futures, etc…) anchored in different financial centers and led by different kinds of financial institutions, the centralization of the financial system under the direction of one set or type of financial institution is remote. Yet this is exactly what would be required for an effective form of governance to emerge from private authorities alone. Instead, it is more likely that decentralized globalization will remain a key structural feature of the world's financial system for some time to come, thereby reinforcing the demand for a robust public sphere to operate as part of the structure of financial governance.

A second possibility would be if the US were to regain its post-1945 position as a genuine financial hegemon. In this case, *de facto* financial governance could once again proceed without recourse to a 'global' public sphere. Such governance would not require as wide a consensus on rules, standards and benchmarks as is now demanded, simply because the overweening power of the US to set the rules, produce the standards and enforce the benchmarks would be re-established. However, this is unlikely to occur, simply because the overwhelming material dominance upon which American hegemony was constructed after 1945 is unlikely ever to be refashioned again.

A different version of this argument could be made, however. It could be argued that a reconstructed transnational and neoliberal hegemony is emerging (Gill 2003; Overbeek 1993; van der Pijl 1998), and it might be claimed that such a hegemonic structure would obviate the need for a public sphere. However, because of the way in which neo-liberalism as a discourse works to instantiate a particular understanding of identity and citizenship, such a refashioned hegemony would in all likelihood still require a public sphere for its realization. One of the insights of public sphere theory is that where new forms of hegemony are themselves dependent upon a reconfigured sense of the individual and collective self, the public sphere becomes one of the crucial ideational battlegrounds over which these identities are contested (Villa 1992). In short, a global financial public sphere is most likely to play some kind of a governance role into the indefinite future.

As indicated above, however, the debates surrounding the idea of the public sphere are themselves premised on the continued vitality of global capitalism as the background canvas over which the thematic concerns of governance are played out. As much as proponents of the public sphere might contend, the public sphere in effect relies on the dispersion of formal power that capitalism promotes in its liberal and competitive phase. Where capitalism operates to create and distribute wealth according to comparative (and even competitive) advantage, enabling development to spread and inhibiting highly unequal concentrations of wealth to form, governance will rely on broad participation and a relatively egalitarian process of consensus formation. Should capitalism as an overarching social system evolve too far beyond this form, then the process of consensus formation of which the public sphere is such an important part might well become undermined and possibly collapse.

Fundamentally, this last point poses the question of the transformative potential of the public sphere. On one hand the public sphere makes possible the participation of a new

range of agents in a variety of ways and means which many did not have access to previously (civic associations via a global media, for example). At the same time, participation in the public sphere disciplines agents in a way that may also blunt their more radical and transformative motivations (cf. Hardt and Negri 2000). The public sphere is in this sense a mediated space, shot through with the configurations of power that originate in the constituent institutional arrangements of the global political economy (governments, markets, media, etc). It is not a transformative space of its own accord; rather it must be itself transformed from a 'weak' into a 'strong' public if it is to provide an enabling environment that can be used in particular ways, whether to protect, preserve or unseat established privileges. Charting the global financial public sphere, in other words, only provides us with a first cut at some of the mechanisms of governance in the 21st century. But at least it directs attention to the actual way in which the mechanisms of governance operate today, thereby establishing the limits of the possible in terms of financial governance.

This conclusion holds two lessons for public sphere theorists and deliberative democracy advocates. The first lesson, for public sphere theorists, is that power and markets must be seen as fundamental constituent elements of a public sphere, for two reasons. First, the effectual operation of a public sphere relies on a distribution of power – a balance of power if you will – that is decentralized and fragmented, and is able to withhold overwhelming influence from one or a few agents. It is only within this context that the need for negotiation and consensus-formation acquires political and administrative purchase. Without such a balance of power among stakeholders, a public sphere become superfluous; thus power needs to be made more conceptually central to public sphere theory. Second, certain forms of market organization under capitalism actually promote such decentralization. Capitalism in its liberal and competitive phase does this, but not in a manner that is naturally self-sustaining. Thus a public sphere must become a venue to address instability and inequality if it is to promote and perpetuate the conditions under which it can operate.

The second lesson, for deliberative democracy advocates, is in some ways tougher. This lesson is how to widen the circle of stakeholders sufficiently to promote a healthy dialogue that does not impede effective action. In the case of finance, the list of stakeholders is potentially endless, meaning that some means must be found to extend the audience of financial governance beyond its technocratic base, but yet without paralyzing the actual machinery of governance. The public sphere has to date played a role in this, but it is one compromised by the peculiar institutional accountability of the institutions of financial governance at the global level. Thus the lesson for deliberative democracy advocates is how to fashion participation and accountability of these institutions in such a way as to widen participation while maintaining strong connections between national regulators, governments and markets. The answer to this has yet to be definitively found, but at least the framework within which these connections can be fostered is developing along the lines indicated in this paper. And while to some this may look more like a glass half empty rather than half full, there is a strong argument to be made that it is half full and filling at a judicious pace.

REFERENCES

Archibugi, Danielle. 2003. 'Cosmopolitan Democracy and Its Critics.' In Morrison (2003).

Armijo, Leslie Elliott, ed. 2002 *Debating the Global Financial Architecture*. Albany: State University of New York Press.

Best, Jacqueline. 2005. *The Limits of Transparency: Ambiguity and the History of International Finance*. Ithaca: Cornell University Press.

Bohman, James. 1998. 'The globalization of the public sphere.' *Philosophy and Social Criticism* 24 (2/3): 199-216.

Bohman, James. 1999. 'Citizenship and norms of publicity: wide public reason in cosmopolitan societies.' *Political Theory* 27 (2): 176-202.

Bohman, James. 2001. 'Cosmopolitan Republicanism: citizenship, freedom and global political authority.' *The Monist* 84 (1): 3-21.

Braithwaite, John and Peter Drahos. 2000 *Global Business Regulation*. Cambridge: Cambridge University Press.

Brunkhorst, Hauke. 2002. 'Globalising Democracy Without a State: weak public, strong public, global constitutionalism.' *Millennium* 31 (3): 675-90.

Calhoun, Craig ed. 1992 *Habermas and the Public Sphere*. Cambridge: MIT Press.

Camdessus, Michel. 1999. 'International Financial and Monetary Stability: a global public good?' Remarks to the IMF conference *Key Issues in Reform of the International Monetary and Financial System*. Washington, May 28: http://www.imf.org/external/np/speeches/1999/052899.html.

Cameron, Geoffrey and Eric Helleiner. 2006 'Another World Order? The Bush Administration and HIPC Debt Cancellation.' *New Political Economy* 11 (1): 125-40.

Carter, April and Geoffrey Stokes, eds. 2002. *Democratic Theory Today*. Cambridge: Polity Press.

Cerny, Philip G. 2003. 'Webs of Governance and the Privatization of Transnational Regulation. In *Governing the World's Money*, eds David M. Andrews, C. Randall Henning and Louis W. Pauly. Ithaca: Cornell University Press.

Cochrane, Molly. 2001 'Conceptualizing International Public Spheres.' Paper presented to the annual meeting of the International Studies Association, Chicago.

Coleman, William D. and Tony Porter. 2000 'International Institutions, Globalisation and Democracy: assessing the challenges.' *Global Society* 14 (3): 377-98.

Cooper, Richard N. 1974. 'Prolegomena to the choice of an international monetary system.' *International Organization* 29 (1): 63-97.

Cutler, Claire A., Virginia Haufler and Tony Porter, eds. 1999. *Private Authority and International Affairs*. Albany NY: State University of New York Press.

Dawson, Thomas and Bhatt, Gita. 2002. 'The IMF and Civil Society: striking a balance." In Scholte and Schnabel (2002).

Durbin, Andrea and Carol Welch. 2002. 'The Environmental Movement and Global Finance.' In Scholte and Schnabel (2002).

Eaton, Sarah. 2005 'Crisis and the Consolidation of International Accounting Standards: Enron, the IASB, and America.' *Business and Politics* 7 (3): 4th article.

Eichengreen, Barry. 2002. *Financial Crises and What to Do About Them*. Oxford: Oxford University Press.
Fishkin, James and Peter Laslett, eds. 2003 *Debating Deliberative Democracy*. Oxford: Blackwell.
Fraser, Nancy. 1992. 'Rethinking the Public Sphere: a contribution to the critique of actually existing democracy.' In Calhoun (1992).
Gariyo, Zie. 2002. 'Civil Society and Global Finance in Africa: the PRSP process in Uganda.' In Scholte and Schnabel (2002).
Garnham, Nicholas. 1992. 'The media and the Public Sphere.' In Calhoun (1992).
Germain, Randall D. 1997. *The International Organization of Credit*. Cambridge: Cambridge University Press.
Germain, Randall D. 2001. 'Global Financial Governance and the Problem of Inclusion.' *Global Governance* 7 (4): 411-26.
Germain, Randall D. 2004. 'Globalising Accountability within the International Organisation of Credit: financial governance and the public sphere.' *Global Society* 18 (3): 217-42.
Gill, Stephen. 2003. *Power and Resistance in the New World Order*. London: Palgrave.
Gutmann, Amy and Dennis Thompson. 2003. 'Deliberative Democracy Beyond Process.' In Fishkin and Laslett (2003).
Hardt, Michael and Antonio Negri. 2000. *Empire*. Cambridge: Harvard University Press.
Helleiner, Eric. 2005. 'The Strange Story of Bush and the Argentine Debt Crisis.' *Third World Quarterly 26 (6): 951-69.*
Herring, Richard J. and Robert E. Litan. 1995. *Financial Regulation in the Global Economy*. Washington: The Brookings Institution.
Kapstein, Ethan. 1994. *Governing the Global Economy*. Cambridge: Harvard University Press.
Kaul, Inge, Isabelle Grunberg and Marc Stern, eds. 1999. *Global Public Goods*. Oxford: Oxford University Press.
Keane, John. 1998 *Civil Society: old images, new visions*. Cambridge: Polity Press.
Kindleberger, Charles P. 1978 *Manias, Panics, and Crashes: a history of financial crises*. New York: Basic Books.
King, Michael R. and Timothy J. Sinclair. 2003. 'Private Actors and Public Policy: requiem for the new Basel Capital Accord.' *International Political Science Review* 24 (3): 345-62.
Kirshner, Jonathan. 2003. 'The inescapable politics of money.' In *Monetary Orders: ambiguous economics, ubiquitous politics*, ed. Jonathan Kirshner. Ithaca: Cornell University Press.
Langley, Paul. 2002. *World Financial Orders*. London: Routledge.
Lynch, Marc. 2000. 'The Dialogue of Civilisations and International Public Spheres.' *Millennium* 29: 307-30.
McGrew, Anthony. 2002. 'Transnational Democracy.' In Carter and Stokes (2002).
Millennium. 2000. 'Special Feature: Seattle, December 1999.' *Millennium* 29 (1):103-40.
Mitzen, Jennifer. 2005. 'Reading Habermas in Anarchy: multilateral diplomacy and global public spheres.' *American Political Science Review* 99 (3): 401: 17.

Moran, Michael. 1986. *The Politics of Banking*, 2nd ed. London: Macmillan.
Morrison, Bruce. 2003 *Transnatioanl Democracy in Critical and Comparative Perspective*. Aldershot: Ashgate.
Nesvetailova, Anastasia. 2007. *Fragile Finance: Debt, Speculation and Crisis in the Age of Global Credit*. Basingstoke: Palgrave.
O'Brien, Robert, Anna Marie Goetz, Jan Aart Scholte and Marc Williams. 2000 *Contesting Global Governance: multilateral economic institutions and global social movements*. Cambridge: Cambridge University Press.
Overbeek, Henk, ed. 1993. *Restructuring Hegemony in the Global Political Economy*. London: Routledge.
Patomäki, Heikki. 2001. *Democratising Globalisation: the leverage of the Tobin Tax*. London: Zed Books.
Pauly, Louis W. *Who Elected the Bankers?* Ithaca: Cornell University Press.
Pauly, Louis W. 1999. 'Good Governance and Bad Policy: the perils of international organization overextension.' *Review of International Political Economy* 6 (4): 401-24.
Petitt, Philip. 2003. 'Deliberative Democracy, the Discursive Dilemma, and Republican Theory.' In Fishkin and Laslett (2003).
van der Pijl, Kees. 1984. *The Making of a Transatlantic Ruling Class*. London: Verso.
van der Pijl, Kees. 1998. *Transnational Classes and International Relations*. London: Routledge.
Porter, Tony. 2001. 'The Democratic Deficit in the Institutional Arrangements for Regulating Global Finance.' *Global Governance* 7 (4): 427-39.
Porter, Tony. 2005. *Globalization and Finance*. Cambridge: Polity Press.
Porter, Tony and Duncan Wood. 2002 'Reform Without Representation: the international and transnational dialogue on the global financial architecture.' In Armijo (2002).
RIPE. 2000. 'Special themed section: The Battle of Seattle.' *Review of International Political Economy*. 7 (4): 465-504.
Scholte, Jan Aart. 2002. 'Civil Society and Democracy in Global Governance.' *Global Governance*. 8 (3): 281-304.
Scholte, Jan Aart and Albrecht Schnabel, eds. 2002. *Civil Society and Global Finance*. London: Routledge.
Seabrooke, Leonard. 2006 *The Social Sources of Financial Power*. Ithaca: Cornell University Press.
Soederberg, Susanne. 2004. *The Politics of the New International Financial Architecture*. London: Zed Books.
Stevenson, Nick. 2005. 'Media, cultural citizenship and the global public Sphere.' In *The Idea of Global Civil Society: politics and ethics in a globalizing era*, eds. Randall D. Germain and Micheal Kenny. London: Routledge.
Stiglitz, Joseph. 2002. *Globalization and Its Discontents*. New York: WW Norton & Company.
Strange, Susan. 1998. *Mad Money*. Manchester: Manchester University Press.
Tsingou, Eleni. 2003. 'Transnational policy communities and financial governance: the role of private actors in derivatives regulation.' *Centre for the Study of Globalisation and Regionalisation*, Working Paper no.111/03.

Underhill, Geoffrey G.D.R and Xiaoke Zhang, eds. 2003 *International Financial Governance Under Stress: global structures versus national imperatives*. Cambridge: Cambridge University Press.

Underhill, Geoffrey G.D.R. 2007 'Global Financial Architecture, Legitimacy and representation: voice for emerging markets.' *GARNET Policy Brief* (no. 3, January).

Villa, Dana R. 1992. 'Postmodernism and the public sphere.' *American Political Science Review*. 86 (3): 712-21.

Warren, Mark. 2002. 'Deliberative Democracy.' In Carter and Stokes (2002).

Wilkinson, Rorden. 2005 'Managing Global Civil Society: the WTO's engagement with NGOs.' In *The Idea of Global Civil Society: politics and ethics in a globalizing era*, eds. Randall D. Germain and Michael Kenny. London: Routledge.

Wood, Duncan. 2005 *Governing Global Banking*. Aldershot: Ashgate.

Woods, Ngaire. 2006 *The Globalizers: the IMF, the World Bank and their Borrowers*. Ithaca: Cornell University Press.