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The Politics of Democratizing Finance: A Radical View*

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Abstract

How can finance be durably democratized? In the centers of financial power in both the United States and the United Kingdom, proposals now circulate to give workers and the public more say over how flows of credit are allocated. This article examines five democratization proposals: credit union franchises, public investment banks, sovereign wealth funds, inclusive ownership funds, and bank nationalization. It considers how these plans might activate worker and public engagement in decision making about finance by focusing on three modes of public participation: representative democracy, direct democracy, and deliberative minipublics. It then considers the degree to which democratization plans might be resilient to de-democratization threats from business. It argues that of the five, bank nationalization goes furthest in guarding against de-democratization threats but is still pocked with pitfalls if it relies solely on representative democracy. It argues that two criteria appear necessary for democratically durable alternatives: the active direct participation of workers and citizens and the weakening of businesses' capacity for democratic retrenchment.

Keywords

finance, democracy, labor, credit, business power

Proposals now circulate that aim to democratize financial flows by subjecting them to democratic processes and public accountability. Politicians in both the Democratic Party in the United States and the Labour Party in the United Kingdom, less than a decade ago key sources of market reforms, are developing parallel plans that call for the creation of a public investment bank and a share levy on firms to fund worker-owned pools of capital that would be subject to democratic allocation.[1] Other plans, such as Fred Block's and Robert C. Hockett's, democratize finance at other scales. By developing a credit franchise model, their plans aim to democratize finance through local credit unions, whose boards are elected by and responsible to their members and subject to public policy constraints about lending practices.

Yet few have offered a full account of how their plans will enhance democratic participation and make such processes durable. That political concerns lie beyond the attention of much of the popular and scholarly discussion is, in my view, a mistake. Financialization has transformed politics in rich capitalist democracies, weakening democratic institutions and rearticulating political coalitions.[2] This article suggests that unless the democratic politics of reform are confronted with clear eyes and policies developed that can also weaken the capacity of financial elites to erode newly installed democratic institutions, the viability of those democratic projects will likely be undermined. Democracy must be workable not just economically but also socially and politically. To explore this argument, I compare several popular progressive plans for democratizing finance. My aim is to assess the degree to which they might enhance or diminish the democratic accountability of finance to the public and weaken the capacities of business or political elites that stand to erode it.

In the first part of this article I examine three modes of public participation that might be relied on in the development of new institutions for the public management of finance: representative democracy, direct democracy, and deliberative minipublics. Then I turn to a brief description of Block and Hockett's credit franchise system along with several other plans to democratize finance, including public investment banks, sovereign wealth funds, inclusive ownership funds, and bank nationalization. Next I explore the ways that both financial and nonfinancial sectors of business crowd out the voice of ordinary citizens in politics. Drawing from the political sociology of business power, I identify two critical mechanisms of corporate political influence, *active engagement* and *structural prominence*, that might erode and undermine democratic projects. I then ask how the proposals might perform democratically once installed. I focus on the degree to which each reform does or does not confront the direct and indirect powers of capital identified in part 1. In particular, I consider how democratizing finance *itself* might restructure the balance of political forces in society or leave those forces undisturbed. Answering these questions requires us to shift away from purely economistic concerns, such as the allocation of financial assets and market efficiency. Additionally, we need to address questions of power and politics. I argue that for democratizing finance to be viable, it first needs to be radical, simultaneously curtailing the power of finance in politics and empowering ordinary people in the management of public finance.

Although this article throws out more questions than it can answer, it suggests that of the five proposals, bank nationalization goes furthest in guarding against the democratic dilemmas likely to beset any democratizing project. Yet even here, simple public ownership, if rooted in representative democracy, is likely not enough to empower ordinary working people in decisions about flows of credit. Public ownership alone potentially leads to classic principal-agent problems that arise from the separation of ownership from control and bedevil representative democracy in capitalist societies. Four problems of representative democracy concern me most proposals considered later in this. The first is the informational asymmetry between the state and the public. The second is what Pepper Culpepper has termed "quiet politics"— that in areas where policymaking occurs outside of sustained public scrutiny, the concerns of elite special interests tend to hold sway.[3] The third is the weakness of existing democratic institutions in the United States. And, finally, fiscal constraints on state managers have historically promoted return-maximizing investment over social investment.

I argue that given these constraints, even nationalized public finance might only poorly enhance popular control over finance flows. Public ownership may be a necessary but insufficient condition for financial democracy. Therefore, in addition to thinking through suitable kinds of ownership models, this article concludes by pointing to the crucial need to develop new models of public activation and engagement in financial governance.

Three Modes of Public Participation

For the most part, global flows of finance are driven by private actors in capitalist markets aiming to maximize returns. Rhetorically, democratizing this finance aims to make credit allocation and financial markets accountable to the public. Such an ambition has historically been defined as socialism, but today the moniker might be recast to include the term "democratic." In Block's words, democratic socialism is "simply the extension of democracy to include the economy" and a "commitment to democratic institutions and democratic norms."[4] To realize this rhetoric in practice, any project for democratizing finance would need to be specifically attentive to the kinds of democratic institutions that might be installed to activate and reproduce popular engagement and public influence. New institutions of democracy that mobilize public participation will be core to a project that democratizes finance. In this section I do not discuss actual democratizing proposals but focus broadly on how publics might participate. Below I discuss three distinct mechanisms of public participation that might be pursued in a democratizing finance agenda: representative democracy, direct democracy, and deliberative minipublics. These modes of engagement vary on two dimensions: the degree to which participation is voluntary or mandatory and the degree to which preferences are expressed through representatives or active deliberation.[5]

Representative Democracy

Most proposals considered in this article, with exception of the inclusive ownership funds, rely on representative democracy as it largely obtains in most advanced capitalist countries. Here participation is voluntary: all citizens can opt in or out of participating. And their main means of exercising political voice is in voting during elections, propositions and referendums. However, representative forms of democratic governance, where the public elects politicians who govern on their behalf, have historically been beset by principal-agent problems. Principal-agent problems arise when agents are tasked with taking actions that determine some payoff to the principal but there is both an information asymmetry between the principal and agent—with the agent having more access to information—and an asymmetry in their preferences.[6]

The problem, at its heart, is that separating operational decisions from public oversight and say weakens democratic accountability. In the case of public finance, embedding lending agents in ongoing and direct personal relations with the primary principals, the public, begins to solve the monitoring and accountability problems. Community members, workers, and users of new credit lines should be institutionally and more directly integrated into the decision-making process. First and foremost, significantly enhanced collective financial literacy would be required for middle-income and poor workers and nonexperts. I do not have in mind the sort found in financial self-help books, which promote the formation of an "investing subject" attuned to "mad money"–style investing or even the logic of modern portfolio management.[7] Instead, a new popular education for financial literacy must be developed that concerns investing for the *social*—not solely for profit. This education will require significant state resources for full-time social investment research teams housed in various universities and governments, popular education projects and publications, time off work for workers to participate, and regular conferences and public events, among other initiatives. Broadly, there are two institutional alternatives to representative democracy that might be developed to achieve this embedding.

Direct Democracy

First are the democratic institutions akin to the participatory budget experiments, modeled most famously in Porto Alegre, Brazil, and installed in over 1,500 cities worldwide.[8] Participatory budgeting is done by citizens in community and district-level assemblies gathered to deliberate, negotiate, and eventually make direct decisions about how to allocate public money. They first develop a diagnosis of their needs (related to everything from sewage to education to healthcare) and resources; then they hold assemblies to discuss and vote on priorities; and finally they hold larger-level assemblies to make a binding budget. These "schools of democracy" are open to all who wish to attend and therefore ultimately voluntary. With respect to public finance, similar forms of direct democracy might be developed in the allocation of credit at different geographic scales—the neighborhood, the city, the region, the nation. One drawback of direct democracy is that these new institutions might be made unsustainable by "direct democracy fatigue" or other collective action problems with respect to actual participation. Because the time cost of participation is relatively high, in this mechanism of participation we run the risk of self-selection biases with respect to which individuals actually show up.

Deliberative Minipublics

A final possibility is the management of financial flows at various scales through representative bodies chosen at random or through a stratified selection from the relevant constituencies. For set mandatory terms, like citizen juries, these bodies might serve as trustees for the public in the operational management of public finance. Democratic theorists call such bodies *deliberative minipublics*.[9] It is increasingly understood that democracy requires divisions of cognitive labor: some make judgments on the public's behalf about issues about which most people lack operational knowledge. In all likelihood, we simply cannot know what is best for every policy area at all times or be engaged in enough simultaneous debates to learn.[10] Representative democracy attempts to resolve this dilemma through elections. But because interest groups undermine the democratic process both during and between elections, the result is a less democratic outcome that runs counter to the aspirations of real deliberative democracy. As a matter of civic duty, deliberative minipublics might learn, deliberate about, and take on the role of operational managers of the system of public finance before passing on their duties to a new group when their term concludes. Such an arrangement has the advantage of being both deliberative and not subject to self-selection biases.

Experiments in democracy have been many and wide ranging; these institutional designs are hardly exhaustive.[11] Regardless of the particular design of new democratic institutions to embolden the public in financial reform projects, a wider range of stakeholders must be included in both setting the mandates and in the operational management of the system. For reform to be democratically viable, not only must the power of capital be confronted directly but the capacities of ordinary citizens greatly enhanced.

Five Plans to Democratize Finance

With greater public control over lending and flows of finance, the reallocation of credit might not only help stabilize financial turbulence but also redirect capitalist societies toward new forms of social egalitarianism and more ecologically sustainable modes of organizing life. So Hockett's and Block's parallel essays tread on urgent ground. Taking their views together, democratizing finance is an attempt to push progressive discussion of finance in new directions—beyond simply using the power of the state to pursue regulatory modifications, toward feasible and viable models of finance that are socially allocated and publicly accountable. But in developing a plan for credit franchises, Hockett and Block are not alone in their effort to draw up a proposal that democratizes financial flows. Others proposals circulate, even at the highest levels of politics: the creation of a public investment bank, the creation of a sovereign wealth fund, the creation of inclusive ownership funds, and finally the state nationalization of banks "too big to fail." I will briefly describe each of these proposals and then turn to the political sociology of business power to assess the potential democratic durability of each against countermobilizations from capital. None alone, I argue, sufficiently curtails the power of business and activates public engagement to make them viable.

Nonprofit Credit Unions

Block's proposal for democratizing finance rests on Hockett's analysis of the existing financial system in places such as the United States. Hockett argues that with respect to its institutional design, "contemporary financial systems as we now find them are best interpreted as public-private *franchise* arrangements."[12] He shows that the state plays a central role in dispensing, extending, and "managing the flow of monetized public full faith and credit."[13] Contrary to popular lay understandings of banking, Hockett argues that lending is not directly tied to deposited preaccumulated loanable funds. Instead, accommodation (a public authority taking on a privately issued debt liability as its own) and monetization (the beneficiary of accommodation can spend the proceeds of the loan as currency) are operations by which the state enables credit to be "indefinitely generated in immediately spendable form."[14] Hockett takes this argument to its logical end, suggesting that there are no hard limits to the state's ability to generate credit or money spontaneously. Block sums it up: "Credit creation is ultimately dependent on the power and resources of governments."[15]

From Hockett's public-private franchise model, Block's proposal for financial reform relies on a representative form of democratizing finance by incrementally creating supplemental not-for-profit credit unions governed by state investment guidelines that allocate investment into credit-starved sectors at lower rates of interest. In his view, this would have *two* key results, one allocative and the other political. First, it would significantly improve the distribution of credit, enhancing the economic welfare of working and poor people and certain sectors of business. New nonprofit franchisees would be tasked with allocating credit to credit-starved sectors of the economy such as infrastructure, clean energy and energy-saving retrofits, small and medium-sized firms, multifamily housing for middle- and low-income families, and social entrepreneurship projects. These institutions would supplement the existing ones as a "parallel credit system" to fill the gaps in the credit sector that large centralized financial institutions are not willing to lend to.[16]

Yet there are also political implications. Block characterizes his proposal as a "real utopia" precisely because a parallel credit system would then help left governments overcome formidable barriers to a democratic transition to socialism. Historically, in periods of attempted democratic transition, resistance from both domestic and foreign companies in the form of disinvestment or capital flight, shifting liquid or productive capital in and out of the domestic market, has led to economic downturns and slowdowns. Those political recessions, the exercise of businesses structural power, erode popular support for socialist agendas, undermining the governments that are trying to advance them. Wright has theorized this as the "transition trough" in his *Envisioning Real Utopias*.[17] These troughs are very deep in transitory strategies that rely exclusively on radical "ruptural" breaks with existing institutions and structures of power. As Wright notes, "Any serious [ruptural] move towards socialism would trigger significant destruction of the incentive and information structures that animated economic coordination under capitalism."[18]

Block's proposal is not a ruptural one; instead, it combines Wright's "symbiotic" and "interstitial" transitional paths toward socialism. According to Wright's definition, it is symbiotic because it entails critical elements of class compromise. By supporting certain sectors of business with much-needed capital, Block's proposal aims to avoid a direct confrontation with capitalist class power. But the path is also interstitial because the support of credit unions as franchises makes "relatively small transformations [that] cumulatively generate a qualitative shift in dynamics and logic of a system."[19] These changes occur within unoccupied spaces in the dominant financial system.[20] It is argued that this supplemental financial system will help pave the way toward a more traversable break with the dominant financial order. The eventual break will still generate a transition trough, albeit a shallower one than the ruptural path. However, with the franchisee model of finance installed, the severity and duration of the transition trough will be reduced in two ways. Nonprofit credit institutions will be able to increase domestic investments to offset domestic investment slowdowns and also increase their borrowing abroad to offset pressures of capital flight on the currency.

Public Investment Banking

North Dakota is home to the United States' only public bank, but in recent years the idea of installing others has achieved greater popularity. Although most legislation is at the municipal level, some have argued for a national investment bank. Like Block's plan, a public bank does not replace existing financial institutions but rather supplements them with financial services provided by the government. And in most plans the basic governance design relies on representative democracy. Supporters argue that the public provisioning of banking goods and services might fill gaps in the market for plain vanilla banking; offer lower-cost debt to local, state, and federal governments; allocate credit to small businesses at lower interest rates; and invest in infrastructure. Many banks have moved away from low-cost financial services to higher-profit activities, leaving a significant percentage of poorer workers without financial services.[21] Nearly 27 percent of the American population in 2015 was unbanked or underbanked and pushed into high-cost forms of borrowing to survive, such as payday loans, check cashing, money orders, pawnshops, international remittances, and auto loan titles.[22] Mehsra Baradaran proposes a public banking option situated in the US Postal Service (USPS), where there is already a working infrastructure in place.[23] There is a post office in every US zip code: 5.5 times the number of branches as Wells Fargo, the largest bank branch network.

Thomas Herndon and Mark Paul, however, argue that the USPS model would be restricted from direct competition with private banks and that direct public-private competition in the provision of financial services could be a powerful lever for financial regulation.[24] As a possible solution, they propose a new public bank that instead partners with the USPS to take advantage of its infrastructural resources. The public bank would be a government corporation rather than an agency; as it would be able to generate its own revenue to cover costs, it would avoid the congressional appropriations process. Herndon and Paul argue that such an arrangement would also help regulate the private financial system through competition. Predatory lenders that charge exorbitant fees and interest rates would have to change their practices to be competitive, and the government could limit access to an online financial services marketplace to those firms that accepted robust consumer protection standards.

Such a public banking option, much like Block's nonprofit franchises, is geared toward fixing an allocative market failure, filling gaps in credit-starved sectors. But public banking might also be geared toward industrial policy by investing in ways that deal with large-scale social problems. Block and Matthew Keller, as well as Mariana Mazzucato, have pointed to the critical role played by state investment in the development of new technologies.[25] Public banks might invest in areas of uncertainty and nurture new lines of technology for broader social purposes, such as addressing demographic change, inequality, and climate crises. With the left's recent upsurge in electoral politics, this idea has even found its way onto party platforms. The centerpiece of the Labour Party's industrial strategy in the United Kingdom is a national investment bank, which over ten years would raise and manage a £250 billion fund, with the primary aim of reallocating 60 percent of energy to renewables and zero-carbon sources. In so doing, research and development would increase to 3 percent of GDP by 2030.[26] In addition to this core objective, the bank would coordinate a network of regional development banks that would fill gaps in the credit market in much the same way as Block's franchises.

Sovereign Wealth Funds

Another set of proposals call for the establishment of sovereign wealth funds.[27] More than fifty countries have established such funds. Together they hold over $7 trillion in assets,[28] of which about half are held by Middle Eastern funds. Saudi Arabia, Kuwait, and the United Arab Emirates are notable examples. But the largest fund is

Norway's, which holds an average of 1.3 percent of every publicly listed company in the world. The country's oil fund was founded in 1990 as a vehicle to invest surplus profits from the state-run oil company. By 2017 it had grown massively, holding nearly 8,500 billion kroner. Today it has over $1 trillion in assets.

How sovereign wealth funds allocate their investments is largely political and again typically based on a representative form of democracy. However, in authoritarian states, such as Saudi Arabia, the funds cannot be considered institutions that democratize finance to any degree. Quite the opposite, they might even be working to centralize control of asset allocation in fewer hands. In societies with functioning institutions of representative democracy, there has been some public input into how the funds are managed and their financial assets allocated. We can imagine deeper modes of democratic control of those public funds as well. But with respect to the transparency, political accountability, and responsible investment standards of existing sovereign wealth funds, the two that stand out are Norway's and New Zealand's. Norway's fund in particular has taken a role in actively disinvesting from products deemed socially harmful, such as tobacco, nuclear arms and cluster weapons, and coal. Furthermore, with mixed success, the fund occasionally uses shareholder voice to try to affect corporate governance decisions. But the monetary costs of those stances are small; the fund is primarily governed by the profit incentive and so is heavily constrained by the global financial markets in which it is invested.[29]

The People's Policy Project estimates that a similar fund could be established in the United States to create a more egalitarian distribution of wealth. The government could bring assets into the fund through a combination of voluntary contributions—ring-fencing existing assets (transferring existing state assets into it), levies (taxes and fees on consumption, payroll, and capital), leveraged purchases (borrowing at low interest rates to invest in the fund and orient itself toward investing aimed at higher rates), and monetary seigniorage (new money creation by the Federal Reserve to buy assets in the fund).[30] They argue that the fund, as in the proposal for a public bank, should be set up as a state-owned corporation through the Treasury Department, which would appoint its board members, chairs, and auditor. The Treasury would create rules and mandates, which the corporation would manage and follow in day-to-day operations. The fund's allocation of assets, as well as ownership rights and shareholders' voting, would be decided by Congress and issued as directives to the corporation through the Treasury. The critical outcome of the plan is the distribution of a universal basic dividend from the returns on the fund's portfolio. Every qualifying citizen would be given one nontransferable share in the fund that would entitle him or her to that dividend.[31]

Inclusive Ownership Funds

Under plans announced by both Labour in the United Kingdom and the Sanders campaign in the United States, all private companies employing more than 250 people would be compelled to adopt an inclusive ownership fund, which allocates shares of the firms to their workers and increases labor's power in governance decisions.[32] Here, the democratization of finance operates within firms to reallocate streams of finance generated within nonfinancial and financial enterprises alike. Within a decade of adoption of the Labour Party plan, every eligible company would be required to allocate 10 percent of its equity into the worker's fund. The *Financial Times* describes this as "one of the most interventionist business policies put forward by a mainstream political party in the United Kingdom for a generation."[33] The shadow chancellor of labor, John McDonnell, has said that "what this will ensure is that in large companies, in addition to rewarding workers with wages, they will reward them with shares that will go into a pool that will allow them to have an ownership role."[34] Although their shares would build over time, workers would be unable to cash them in or trade them, unlike the share plans promoted by Margaret Thatcher in the 1980s.

In addition to giving workers a direct stake in a firm's profits and how those profits are used, the funds promise a crucial form of workplace democracy. In theory, with their ownership stake workers will have the ability to influence the daily management and broad direction of the firm directly. In addition, according to Labour, workers would receive about £5 billion a year in dividends by the fifth year of the plan's operation, although the dividends received by individual workers would be capped at £500 per year. The rest would be distributed to a public fund to pay for welfare benefits and renewal of decaying public services, thus countering the possibility of rising sector- or firm-based economic inequality between workers. Labour calculates that 10.7 million workers—approximately 40 percent of the private sector workforce—would initially be covered by the plan.[35]

Distinct from sovereign wealth funds, which are established at the country level and accountable to representative democratic processes, the inclusive ownership funds would be established at the firm level as a means to industrial democracy. The public outside those firms, to the extent that they are stakeholders in their decisions, would not be participants in decision making. In contrast, Sweden's experiment with the wage-earner funds in the 1970s, commonly called the Meidner Plan, was to be established at the sectoral level by a gradual transfer of the ownership of Swedish companies from private shareholders to funds administered by labor unions. To avoid paying a hefty tax on their profits, companies would issue new company stock to the relevant sectoral fund. Somewhat distinct from sovereign wealth funds or inclusive ownership funds, the Meidner Plan was oriented to the goal of socializing capital itself. Rudolph Meidner suggested that with an average profit margin of 15 percent a year the funds would have a majority ownership of Swedish firms within twenty-five years. The exercise of shareholder rights would effectively give workers control over the firms. Many of the plan's most ambitious features were drastically rolled back by resistance from Swedish firms and policymakers.[36]

Bank Nationalization

The final financial reform on offer would entirely eliminate private financial institutions that are "too big to fail" by converting them into public ones.[37] There has been a massive concentration of financial resources into a handful of institutions over the last few decades. In 1990, the top ten banks in the United States controlled 25 percent of total bank assets. On the eve of the crisis in 2007, the top ten banks owned 60 percent.[38] Subjecting those assets to state control, and therefore representative democracy, enters a completely new terrain in such places as the United Kingdom and the United States, which unlike France, Japan, or Germany, lack a robust a tradition of public ownership of finance.

Proposals for nationalized banking tend to rely on representative forms of democracy. And as with every proposal under consideration, much depends on the nature of the political mandate. A nationalized sector could fill gaps in credit markets by granting more opportunities for small and medium enterprises to be financed and might provide credit for green initiatives and technologies, education, health, and housing. It might also underwrite government bonds issued for important social purposes. Their financing, in combination with the public's claims on any profit generated through them, could generate resources to restore public provision of goods across several areas of social need to become the basis for a Green New Deal or other large-scale public projects. In contrast to credit franchises and public investment banks, which would supplement the existing milieu of capitalist financial institutions, public banks would operate within this milieu and would compete with and perhaps replace those institutions.

While new investment practices are adopted, others, such as predatory lending and risky speculation on exotic financial derivatives, could be eliminated.[39] Nationalizing banks too big to fail might be part and parcel of a general reversal of financialization itself, as public finance would also help rein in financial markets by imposing pricing and trading volume regulations on them. Furthermore, much like the mission-oriented banks discussed above, the provision of higher quality banking services with enough market share could promote a dynamic of a "race to the top" in the quality of and cost of financial services provided.[40] Currently, large banks allocate their most risky activities through wholly or partially owned subsidiaries, such as hedge funds and private equity funds. Public ownership over those institutions could entail the partial elimination of this "shadow banking system."[41] These activities often fall outside of the regulated banking system, involving little transparency and weak or no fiduciary, leverage, or capital requirements.[42]

Threats to Democracy in Public Finance

Questions remain about the democratic viability of these proposals, particularly with respect to both the mechanisms of democratic engagement they rely on and their capacity to remain durable against efforts at retrenchment by interest groups. The latter is critically important, given the outsized role of business power in formal democratic institutions. That power is exercised in two key ways in capitalist democracies. The first is active engagement, the ways businesses influence politics directly through campaign contributions, lobbying, and interpersonal connections with state managers and policymakers. Second, businesses influence politics indirectly through their structural prominence, that is, the way a business or sector's position in the economy and the control the business or sector has over key investment decisions matter to policymakers.[43]

Much research focuses on the direct ways financial institutions influence politics. In the twelve months of the 2017–18 election cycle in the United States, banks and financial interests spent $719 million on campaign contributions and lobbying to influence policy, far more than that of any other sector of industry identified by the Center for Responsive Politics.[44] Sixty percent of these contributions went to Republicans, and the remainder went to Democrats. Financial firms and banks actively engage in politics, directly intervening where they can and expending significant organizational resources to anticipate and change regulatory rules and decisions before policymakers take action on their own. Andy Hindmoor and Josh McGeechan show how lobbying efforts of US banks led to both regulatory changes and the policy embrace of the acceptance by lawmakers that that they were too big to fail.[45] Drawing from comparative data, Stephen Bell and Hindmoor show that the financial sectors in both London and New York are able to remain one step ahead of regulators in a "game of regulatory arbitrage."[46] In their view, states simply do not have "the administrative or regulatory capacity to tame finance."[47] And since 2008, financial industry spending has exceeded precrisis levels. That might help explain why, in 2017, the House majority rolled back key parts of the Dodd-Frank Act and the Senate weakened rules that guarded against discrimination in lending and allowed consumers to sue financial companies that broke the law.

Because it is indirect, structural prominence—how the position of a firm, sector, or capital in the economy bears on the decisions and capacities of policymakers—offers far greater challenges to researchers.[48] Because it is often anticipated by political actors, researchers must delve into the somewhat murky area of policymakers' perceptions of their action environments.[49] Early work on structural power considered the role of business in politics broadly. Charles Lindblom and Fred Block have both famously argued that the power of business in capitalist societies, in contrast to that of elected officials and other organized interest groups, lies in their ability to make crucial decisions about the production and distribution of goods and services.[50] In market systems, private investment choices have far-reaching public implications. As a result, states depend on firms to invest in ways that promote growth and employment. Despite this insight, attention to structural power, criticized by some as too abstract, strangely fell in the 1990s and the first decade of the 2000s. Much work concerned the structural power of capitalists as a class. Few, however, considered how that power varied. But as Hacker and Pierson note, "The structural power of business is variable, not constant."[51] Only recently have scholars redirected their attention back to the mechanisms and variability of structural power across cases. In their study of bank bailouts in the United States and the United Kingdom, Pepper Culpepper and Raphael Reinke identify two: automatic structural power occurs when governments anticipate and respond to business, while strategic structural power occurs when businesses take a disinvestment action to achieve an aim.[52]

The relative weight of the private sector to the state in the economy has been the fundamental measure of the structural power of capital.[53] However, one can employ a similar methodology to consider the relative size of a particular industry or even a particular firm. Sectors with greater structural prominence contribute toward a larger share of the economy, might generate significant employment, and typically have multiple links to other sectors.[54] For finance to be durably democratized, as part of its installment any financial reform project must confront both sources of political power. If the active engagement and structural prominence of financial interests in politics are not significantly curtailed, the resulting arrangement will be only weakly democratic. We should presume that financial interests will draw on their sources of power to roll back popular influence and gains. I now turn to a discussion of several proposals for financial reform, after which I will revisit the question of finance's power.

Active Engagement and Structural Prominence in Practice

A viable plan to democratize finance, in the light of our discussion of active engagement and structural prominence, must not only activate public participation in decisions but also weaken the private interest groups that currently play a disproportionately large role in policymaking. Let us table for now the questions of the feasibility and desirability of implementing these democratizing finance projects. Here I want to take up another issue: Would these reforms put institutions in place that would make the reforms democratically durable, and would they operate in ways that genuinely reflect popular will rather than sectoral interests?

With the important exception of bank nationalization, each plan to democratize finance leaves the financial sector as is, actively engaged in the democratic process. To the extent that corporate financial institutions will be weakened, they will largely be weakened *relative to* the growing power of the new public ones that supplement them. That being said, an inclusive ownership fund and a sovereign wealth fund do offer two distinct routes to weakening the efficacy of active engagement by financial institutions. The Labour Party's inclusive ownership funds would not significantly alter the prominence of the London financial sector in the economy, but they might change the orientation of nonfinancial and financial firms with respect to both their corporate governance and how they approach their own particular involvement in politics. Workers gaining a greater share of, and say in, the firms they work for might lead to a different governance orientation, even if the profit motive still imposes hard limits on what is possible. But such an approach to the active engagement of business in democracy is not without significant roadblocks. At a minimum, the workers' ability to redirect corporate governance depends heavily on their level of political engagement, the extent of rank-and-file democracy, and their degree of financial literacy.

Bank nationalization goes even further than inclusive ownership funds, sovereign wealth funds, credit union franchises, and national investment banks to limit finance's active engagement in democratic politics. Challenging the property rights of financiers by establishing public ownership over banks too big to fail, in combination with active public control of those banks, directly negates their organizational power as private entities. Surely, the needs of public banks and the influence of their personnel will still influence policymakers. But the public ownership and control of the banks targeted by Sanders's "Too Big to Fail, Too Big to Exist Act" would swiftly undercut the power of finance capital's direct influence on politics.[55] US banking is highly monopolized and concentrated.[56] And the ownership of publicly traded banks is also concentrated in just a few asset management firms, such as BlackRock, Vanguard, Fidelity, Berkshire Hathaway, Wellington, and State Street.[57] Making banks public would also erode the capacities, even if only marginally, of asset management and mutual fund corporations for direct leverage in politics.

Leaving aside the question of finance's active engagement in politics, the deep structural dependencies that currently inhere between the state and the financial sector will certainly persist if that sector is left unrestructured. To the extent that the proposals for financial reform other than nationalization will alter the structural prominence of financial institutions, they will do so only relatively by slowly filling in new niches in the market. National investment banks, credit union franchises, sovereign wealth funds, and inclusive ownership funds are, after all, each *parallel financial institutions* that at worst would operate only in the interstices of the existing profit-oriented system. The structural prominence of finance might not be undermined in the short run by these parallel institutions, but how might the political strategies employed by both finance and nonfinance capital be affected by these reforms?

Capital strikes (withholding investment) and capital flight (moving liquid or physical assets elsewhere) both lie at the core of the exercise and threat of structural power.[58] Even the threat or hint can be enough to get policymakers to act on the behalf of business.[59] Capital controls are the classical socialist solution to such indirect mechanisms of business influence in politics and the economy more generally. But supplemental forms of public finance, strategically allocated to offset disinvestment, might also run counter to capital strikes or flight. New pools of public finance could be mobilized to offset the social costs of businesses' exercising their structural power. Even if supplemental public finance does not directly undermine the structural power of finance, it is at least theoretically possible that it could be allocated to do so indirectly.

Of sovereign wealth funds, as we have seen, Norway's oil fund is both the largest and most progressively oriented. With over $1 trillion in assets, it appears to have the capacity to offer a line of investing defense against capital flight and financial disinvestment. There are two distinct ways the fund might be used to weaken the exercise of Norwegian capital's structural power. First it could allocate finance into areas that have suffered disinvestment. Second, it could use shareholder voice in companies in which it owns a large share to help shape corporate governance decisions in the public interest. Yet reality hardly matches the theory here. By design, Norway's oil fund was not set up to alter the balance of class power but rather to generate state profits. The allocation of investments in its portfolio largely reflects this aim. The fund's assets are largely channeled by political mandates to achieve competitive rates of return, not to allocate resources to promote the social good—even if the profits are in part used to fund public programs. Disinvestment has been carried out in select cases. Since 2006 the oil fund has disinvested from coal, oil, nuclear weapons, and cluster munitions. But it is largely incapable of being mobilized in ways that exert influence over Norway's domestic capital. Unlike Norway's smaller *folketrygdfondet* (government pension fund), the sovereign wealth fund is not invested domestically to any significant degree. To offset the greater risk of more localized economic crises, it is diversified and invested primarily in international financial markets.

The fundamental issue is that leaving capitalist financial institutions intact and private fails to confront the basic source of their structural power in politics: their control over the allocation of finance. With the sole exception of nationalization, each of the democratization plans leaves finance's economic power highly concentrated in a small number of institutions. As a result, profit-oriented financial firms will retain substantial power. Their share of the financial market will not be undermined, at least in the short term, by the supplemental financial institutions in each of the reforms. Most working people are not credit starved but rather credit saturated—and as a result heavily in debt. These dependencies give financial institutions significant leverage over the electorate and politics. Reform proposals that aim to undermine this structural prominence over the long term with plans that gradually erode it, as the credit union franchises, inclusive ownership funds, and sovereign wealth funds do, face the potential backlash of disinvestment and political recessions in the shorter term.

This raises a critical concern. If the gradual installation of nonprofit financial institutions, inclusive ownership funds, national investment banks, and sovereign wealth funds did begin to weaken the overall structural prominence of finance capital, then capital would likely intervene to undermine their installation before they are sufficiently widespread to weaken private financial institutions. The threat of weakening the class power of business has been a great historical motivator for its reactionary movements, and these reforms would undoubtedly motivate such a reaction even if the institutions they create fill gaps in the credit market rather than explicitly undermine the profits of financial firms. Businesses have already hinted at such an immediate class reaction even as these ideas circulate far away from real legislative debate. About the establishment of inclusive ownership funds, the director general of the Confederation of British Industry, Carolyn Fairbairn, warned on BBC Radio 4's *Today*, "Take steps like this and we will set the clock back, investment will flee our country and, whatever Labour says about this, the outcome will be one that reduces pay in people's pockets."[60]

Fairbairn's promise of disinvestment raises concerns about the temporality of reform. If plans to democratize finance are gradualist in their implementation, any social power they might afford to poor and middle-income workers will likely only result once they have *matured*. With exception of inclusive ownership funds and bank nationalization, other plans implicitly accept Block's warning about the need to "avoid pursuing reforms that [challenge] the power of big business directly."[61] These proposals aim to enact financial democracy behind the backs of the large and centralized financial institutions themselves. But as the state changes capital flows, firms will anticipate the danger this poses to not only their bottom line but in some cases their very organizational survival. It is hard to imagine a scenario in which large financial firms simply let that happen when they have the means to intervene to bring it to a halt. Financial and nonfinancial firms alike will recognize this *well before* the gradual implementation comes close to being complete and the balance of class power has shifted in favor of the public.

This outlook again suggests that the path that confronts financial power directly, bank nationalization, might also be the most *democratically* viable. What is crucial, however, is developing the political and social power to make a break with the dominant model of finance possible in the first place. We can see that developing working people's organizational power both outside and inside the state is critical to such a large-scale transformation. The question of feasibility—how to achieve such a shift in the balance of class forces—is beyond the scope of this article. But it will certainly require large-scale organization in the workplace, in the community, and in formal political institutions. Democratizing finance will not be the means to that organization; it will be the result.

The Limits of Representative Democracy

Both the active engagement of banks in politics and their structural prominence in the economy result from their private control and allocation of investments. State takeover and public ownership might appear as the simple solution to this problem, but even here thorny problems remain that might stagger the project of democratizing finance. In short, publicly owned financial institutions will not necessarily be public in their orientation. In this section, I explore the democratic pitfalls of forms of public ownership that rely exclusively on representative democracy.

In *The Unseen Revolution*, Peter Drucker argued that "if 'Socialism' is defined as 'ownership of the means of production by the workers'—and this is both the orthodox and only rigorous definition—then the United States is the first truly 'Socialist' country."[62] Drucker came to this conclusion because of the widespread dispersal of stock holding in the United States by the mid-1970s. Through their pension funds workers own a significant share of American capital. By the time Drucker was writing, nearly 25 percent of all US corporate equities were held in the pension funds of American workers.[63] But the field of corporate governance casts serious doubt on Drucker's view. Simply put, ownership need not equal control.[64] Although the actual degree of stock dispersal across the population has been subject to considerable disagreement,[65] there is no doubt in the debate itself not only that owners may not necessarily have control but that managers (or those with daily operational control of firms) may not be accountable to owners. Indeed, managers might direct corporate strategies in ways contrary to what the owners might prefer.

The separation of ownership and control has generated a large body of research on principal-agent problems—not only in economic relationships but in political processes of representation as well. Governance design is thus critical in the project of democratizing finance. Some proposals develop explicit mechanisms and means for ordinary workers to control investment allocation more directly, whereas others rely more heavily on representative democracy. The proposal of the People's Policy Project for a sovereign wealth fund locates governance decisions solely in electoral politics and formal political institutions, which leaves popular participation quite thin and voluntary. The fund would be managed by a state-owned enterprise under the Treasury Department. The Treasury would be responsible for creating the rules, mandates, and directives that guide the fund's operation, but the employees of the state-owned enterprise would be responsible for the day-to-day operations. Block's credit franchise model, which encourages credit unions to invest in areas where there is an established social need with state subsidies or guaranteed rates of return, ultimately rests on a similar form of representative democracy. As credit unions, they will be organized as cooperatives, with each member having a vote to elect the board leadership. But at the same time, in their role as franchises of the state, their membership's decisions about what to do with state franchise investments would be driven by congressional directives that lay out clear lending guidelines. In a somewhat different way, Labour's National Investment Bank would have a two-tier board: a supervisory board including representatives from business, labor, and local government that sets overall strategy within parameters set by government policy and an operating board responsible for day-to-day management and decisions.[66] And finally, the inclusive ownership funds, also proposed by Labour, would be owned collectively by the workers of a firm—and would give the workers voting rights in governance questions about the firm's allocation of income.

Reform proposals that rely on government control alone democratize finance in a distinctly *representational* form—the model of governance either explicit or implicit in most nationalization proposals as well. In this mode of participation, the state enforces guidelines on public finance that presumably reflect the will of the electorate. However, there are four interrelated reasons why representative state institutions of public finance might not be durably capable of reproducing active engagement and influence from the public: information problems between the state and the public, the problem of "quiet politics," the weakness of existing democratic institutions, and, finally, resource constraints on state managers that might pressure them into return maximizing.

First, the problem of information. The public will likely confront informational disadvantages in a system of public finance run by state representatives. The public faces significant collective action problems with respect to both political participation and collecting relevant information on the issues, especially information as inaccessible to nonexperts as policy concerning investment and credit allocation. Given these information asymmetries, the public will likely be deeply disadvantaged in its efforts to assess adequately how well policymakers manage public finance. A simple state-centric solution like nationalization does not in itself circumvent this problem.

Second, and related, is the problem of visibility. Research in political sociology demonstrates that the practice of representative democracy is far less democratic than the theory; much happens without the public's knowledge or input. It is in those areas of "quiet politics" that elite and business group influence creeps back in and has leverage over the decisions of policymakers.[67] Even in a well-functioning representative democracy where people understand the issues and vote, if deliberation and decision making are left to state managers who act as trustees of the public interest, special interests will likely hold greater sway in policy arenas less subject to popular scrutiny between elections.

Third, these problems are compounded by the weakness in accountability of existing institutions of representative democracy. Although the disproportionate weight of elite interests cuts across the capitalist world, American democracy is particularly insulated from the preferences of average voters. Research suggests that even where the public has a strong preference in a policy area, where lack of information is not the concern, as discussed above, their preferences have at best a weak relationship to actual policy outcomes. Martin Gilens and Benjamin Page show that policy change in the United States is not at all responsive to the opinions of low- and middle-income voters; it responds instead to the members of the economic elite.[68] The opinion of ordinary voters appears “to have only a minuscule, near-zero, statistically non-significant impact upon public policy.”[69] Together, these problems cast significant doubt on any state-centric reform proposal that does not specifically include mechanisms to empower those disenfranchised. Therefore, the degree to which a government-run public finance project is democratized should, in significant ways, reflect the democratization of the state itself. Proposals that depend on implementation by the US Congress are at high risk of being commandeered by the special interests that *already* operate most successfully on the institutional terrain of the state.

Fourth, and finally, since the crash, federal, state, and local governments have faced ongoing and deepening fiscal crises that impose tough constraints on their budgets.[70] Left unchecked, public sector bureaucrats tasked with administering the sovereign wealth fund, the nonprofit franchise system, public investment banks, or a nationalized banking sector should be expected to favor modifications and criteria that push their operation and allocation of assets to prioritize accumulation over the social good in order to enrich the public purse. This potential for neoliberal tinkering with democratization plans so as to undermine their social objectives is a significant risk in a context of weak democratic accountability. In all likelihood, targeted investment strategies will show losses relative to more profit-oriented alternatives. Firms are bound by the law of competition, where cost cutting and generating negative externalities are crucial components of profitability. Capitalists fight vigorously against labor, environment, and work standards at every level because it cuts into their bottom line. Organizing investment around social goals *necessarily* subordinates profits to values that society agrees are more important. Bureaucrats and experts in charge of managing public pools of finance, more concerned with their own jobs and the survivability of their programs, will themselves likely favor investments that perform better economically. If the market imposes constraints on the public sector more generally, as the state manages public finance it will confront parallel constraints and challenges.

As stated in the beginning, this article poses more questions and concerns than it can adequately resolve. But my hope is that it is not simply a wet blanket; those concerns point us in the direction of thinking through the details of an adequately *democratic* financial system. To be democratically robust and durable, that system needs simultaneously to activate and reproduce popular engagement in governance decisions and to weaken the capacities of finance to engage in de-democratizing forms of political retrenchment. I have suggested that leaving dominant financial entities intact while developing democratic alternatives in the interstices of the financial system is an approach vulnerable to an antidemocratic business offensive. But nationalization is no silver bullet. If developed in a way that simply relies on representative democracy as the core mechanism of public engagement, it will also likely fail along democratic lines because of principal-agent problems between the state and society. Deliberative and mandatory forms of public participation are areas to explore more fully as both researchers and practitioners muddle through various institutional designs. The question for scholars and activists building alternatives is how might new institutions of democracy that can make public finance accountable to the popular will be installed and built to last.

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