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A World Where Finance is Democratic

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It’s the year 2043 and you’re running late for a meeting that will shape the future of the place you live.

You’re riding Los Angeles’ new electric speed rail instead of driving on congested freeways, because a new democratic process for allocating funds has completely reshaped the city in recent years. You step off the train in the Public Finance District, where the streets were converted into pedestrian zones after huge investments in transportation eliminated the need for cars downtown.

The cleanliness of the sidewalks would have come as a shock even 10 years ago. Gone are the days when people with nowhere else to go lived on them. Instead, the city has allocated finance into public housing and health projects that have gone a long way toward solving the problems of the city’s worst off.

Today, you have a chance to participate in the process that helped these changes come to be. You pull out your phone to check the message you received months ago: “Minipublic Duty Notification: You have been selected at random to participate in the citizen assembly for the People’s Bank of Los Angeles in its Green Futures division. The assembly will make decisions about financing that will determine what green public goods our city will invest in in the future. Your voice and judgement are essential.” So you pick up the pace, heading in the direction of the public bank.

This vision of the future can become a reality by democratizing finance. Finance capitalism has generated a litany of social ills: tremendous upward redistribution, stagnant growth, increased worker precarity, macroeconomic instability and the hastening of ecological demise. When we look to the failures of global coordination, finance seems to always be right there, holding the smoking gun — or financing its sale and the pulling of its trigger.

Small-scale deliberative bodies drawn from much larger-scale groups of stakeholders — known as deliberative minipublics — can help change that. These minipublics would bring together smaller groups of citizens through random selection or stratified sampling (to ensure demographic representativeness) who would learn about public investment and deliberate on key allocation questions. Yet today, many financial futurists advocate for the [decentralization of finance](https://qz.com/1690658/decentralized-finance-peer-to-peer-revolution-or-blockchain-fad/), which would only serve to reproduce its worst aspects.

# Why Decentralization Isn’t Enough To Democratize Finance

Since the Great Recession, the call to democratize finance has animated activists, planners, electeds and technologists to design alternative systems of credit and investment allocation. Many financial futurists see decentralization as key to a more desirable alternative. After all, global finance capitalism is concentrated largely in just a few locations — New York, London, Shanghai. In the U.S., just four financial institutions (JPMorgan Chase, Wells Fargo, Bank of America and Citibank) account [for nearly half](https://wallethub.com/edu/sa/bank-market-share-by-deposits/25587) of all deposits. This concentration has only deepened since the 2008 downturn, as asset managers like BlackRock and Vanguard are now the [dominant shareholders](https://www.common-wealth.co.uk/reports/under-new-management-share-ownership-and-the-growth-of-uk-asset-manager-capitalism) in the world economy. Finance is dominated by [titans](https://www.phenomenalworld.org/analysis/blackrock-asset-manager-capitalism/).

Some financial futurists see new technologies, like Bitcoin and Ethereum, as a means for ordinary people to bypass extractive financial and public institutions and take control of their own futures. But advocates for decentralized finance (DeFi) and [Web3](https://www.noemamag.com/a-to-do-list-for-web-3-visionaries/), a new iteration of the internet on the blockchain, largely leave the central problem of finance capitalism untouched: the fact that most decisions about the allocation of credit and investment are made by private financial institutions or investors — and are not subject to collective decision-making and public participation.

The popular notion of democratizing finance began to circulate in the wake of the Great Recession. Championed by Yale finance economist Robert Shiller’s trendsetting “[Finance and the Good Society](https://press.princeton.edu/books/paperback/9780691158099/finance-and-the-good-society),” democratizing finance entailed “the opening of financial opportunities to everyone.” For Shiller, increasing ordinary people’s access to financial instruments for wealth creation *is* the democratization of finance. The more people have access to opportunities to invest their own money, the more the democracy.

“Robust democracy with true equality of access requires a degree of centralization of power in democratically controlled institutions.”

But the picture of democratization as increased access alone isn’t very rosy. Some of the most toxic assets, such as subprime mortgages, have been so destructive precisely because they have been made more available. More of a bad thing isn’t a good thing.

Shiller’s view of access is now the standard narrative invoked by those with vested interests in seeing certain stocks go up and platforms used. One common explanation for the Reddit-fueled [short squeeze](https://www.latimes.com/business/story/2021-01-26/gamestop-short-squeeze-stupid) of the GameStop stock casts the new wave of retail investors in precisely this Shillerian framework. New users are empowered by the gamified investment app Robinhood, which, like voting booths for financial assets, creates a new infrastructure for financial democracy. Ironically, its creators were inspired to make the app after some soul-searching triggered by [Occupy Wall Street](https://www.forbes.com/sites/jeffkauflin/2020/08/19/the-inside-story-of-robinhoods-billionaire-founders-option-kid-cowboys-and-the-wall-street-sharks-that-feed-on-them/?sh=3ac1f2dd268d).

But when the “[stonk](https://www.theverge.com/22744728/money-fandom-cryptocurrency-retail-trades-stocks)” bubble — a bubble of overly speculative assets like AMC and GameStop — popped, many established investors and hedge funds [made out with fortunes](https://www.cnbc.com/2022/01/27/the-fund-that-made-700-million-on-gamestop-knew-it-was-time-to-sell-after-an-elon-musk-tweet.html). Citadel Securities, the market maker, pulled in billions of dollars executing the retail trades on Robinhood during the short squeeze. Retail investors, on the other hand, were left holding the bag, with suitcases packed for trips to the moon they never took.

# Access + Decentralization

Enter today’s finance [utopians](https://www.nytimes.com/2022/03/08/us/politics/cryptocurrency-dao.html), who put a critical twist on Shiller’s approach. In their view, democratizing finance = access + decentralization.

These technologists sing the praises of DeFi, an umbrella term for blockchain projects that promise to make traditional money and banking institutions obsolete. In this view, crypto-based assets such as Bitcoin or Ethereum have the potential to replace money, decoupling it completely from central governments and banks. They see blockchain as the new financial infrastructure to give individuals the ability to store and move money without banks, brokers or transaction costs. In such a view, “[smart contracts](https://www.investopedia.com/terms/s/smart-contracts.asp)” that use NFTs can become the digital infrastructure for a creator economy, which is not mediated by third party platforms that take their cut from the transaction. Hello Web3, goodbye Spotify.

But in practice, how different are assets attached to a blockchain from speculative stocks? While Bitcoin promises scarcity — a limited supply of no more than 21 million coins — and a public decentralized ledger, it and other blockchain assets, such as CryptoPunks and Bored Ape Yacht Club NFTs, have principally attracted speculators searching for the possibility of rapid wealth. The initial novelty of NFT art sales will likely make some of the more well-known pieces durably valuable, as they are now [recognized](https://www.newyorker.com/magazine/2014/12/08/art-conversation) by many art insiders as part of art history. But when it comes to the proliferation of copycat NFT launches, at a certain point you are no longer buying Duchamp’s readymade sculpture “[Fountain](https://www.tate.org.uk/art/artworks/duchamp-fountain-t07573),” you are just buying an overpriced urinal.

“Far from democratizing finance via decentralization, equality of access in principle is just concentration of ownership in practice.”

The speculative frenzy around blockchain assets has resulted in incredible financial volatility of the coins. Even Bitcoin, the established token on the block, is far more [volatile](https://www.cnbc.com/2021/05/19/why-is-bitcoin-so-volatile.html) than other commonly traded financial assets. We might expect the intensification of other forms of volatility as well. Crypto spread has also hastened [environmental](https://news.climate.columbia.edu/2021/09/20/bitcoins-impacts-on-climate-and-the-environment/) degradation due to the carbon intensity of crypto mining.

But another problem has often gone unremarked upon. Though projects for decentralizing finance are often advanced under the banner of democratization, the democracy they advance is an impoverished one. Far from democratizing finance via decentralization, equality of access in principle is just concentration of ownership in practice. A National Bureau of Economic Research [working paper](https://www.nber.org/papers/w29396) finds that just a fraction of the top 1% of Bitcoin holders hold about a third of all Bitcoin. Robust democracy with true equality of access, in fact, requires a degree of centralization of power in democratically controlled institutions.

# Democracy As Decision-Making

The core ambition of DeFi and Web3 advocates is to increase the scope of people who might make decisions about the allocation of credit and investment privately. But even if more people are drawn into the electronic herd, they would be doing so as individual investors, not as participants in a process of shared decision-making. And as individuals, they would be incentivized to allocate their own capital in ways that prioritize returns, not public goods. This would either reproduce or worsen the status quo, where public goods are battered and beleaguered.

This is the well documented coordination problem of [game theory](https://plato.stanford.edu/entries/game-theory/), which tech futurists and crypto evangelists explicitly say they are [solving for](https://slatestarcodex.com/2014/07/30/meditations-on-moloch/). Yet when pressed, the solutions are near universally technical and inward-looking, such as grants to work on one blockchain or another. And they are largely left to the goodwill of charitable donations from investor whales. This simply wishes away the problem of how public goods are produced and maintained.

How might we invest in projects that do not produce an immediate profit and may be costly in the short run, such as green tech and infrastructure, but that create social goods, such as a livable planet, that benefit us and future generations? How do we invest in projects that do not generate short-term profits for those who provide them, such as public education or social housing, but nonetheless lead to the positive social outcomes of having more educated citizens and less street suffering? Surely, in the long-term, this is economically beneficial, too. DeFi offers no solution to these real coordination problems, which markets are historically bad at solving.

Therefore, a key principle for subjecting circuits of finance to democratic processes is in creating centralized institutions of finance that are the subject of democratic deliberation, participation and decision-making. We might embrace a policy of state recapitalization and nationalize banks, or we might set up public banks that supplement the private banking industry. The former may be more democratic, but the latter are more feasible. Regardless of the path, the ownership model should be one in which stakeholders — the public — has a claim and is therefore privy to its governance so that allocation can be made in the public good.

# Mechanisms Of Participation

One relatively new solution proposed by Web3 advocates are DAOs — decentralized autonomous organizations. These are organizations that are governed by an open-source code that execute smart contracts to make the organization work. They are typically organized around a founding constitution, are member-controlled and governed by one coin, one vote. Normally, the more coins you have in a DAO, the more votes you get. Some even experiment (in theory, to my knowledge this has not been implemented) with [quadratic voting](https://www.noemamag.com/how-to-make-voting-more-truly-representative/), which allows members to save up their voting influence or have greater say on issues that are more meaningful to them.

[Vitalik Buterin](https://time.com/6158182/vitalik-buterin-ethereum-profile/), co-founder and de facto boss of Ethereum, has toyed with the idea of making governance rights in a city — say CityDAO, a nontransferable NTF — tied to the individual, much like a “[soulbound](https://vitalik.ca/general/2022/01/26/soulbound.html)” item in World of Warcraft, which once looted cannot be sold or given away to another player in the game. Yet as Buterin himself acknowledges, in the main, the current DAO model functions more like a [plutocracy](https://vitalik.ca/general/2018/03/28/plutocracy.html). As in the shareholder governance system for publicly traded corporations, those with the most shares rule the DAO.

“The critical missing ingredient in contemporary democracy is deliberation.”

Perhaps, then, it would be best to set up an institution of public finance, such as an investment bank, and allow it to be run by elected representatives. That would be in keeping with the dominant mode of participation in public decision-making, which is to vote for representatives that act on your behalf. But two major dilemmas have emerged with representative democracy that have only been deepened by the digital age: confirmation bias and principal-agent problems.

Scholars have amassed evidence showing how a person’s prior views shape their reaction to new information. Whether it be views associated with their identity, group status or party affiliation, people can be motivated to reason in ways that confirm their preexisting biases. This problem, known as confirmation bias, has worsened with more deeply held partisan divisions and party signaling, such as the use of racial dog whistles. As a result, sections of the electorate ignore facts and process information in ways that reinforce pre-held views rather than help to facilitate the discovery of more accurate views — thus weakening representative democracy.

Furthermore, politicians have access to more information than their constituencies and therefore often govern in ways that are not fully transparent. And by virtue of either their different social origins (typically, politicians are [wealthier](https://qz.com/1190595/the-typical-us-congress-member-is-12-times-richer-than-the-typical-american-household/) than their constituents) or their professional roles as state bureaucrats bombarded with lobbying and campaign contributions from interest groups, constituencies and their representatives will often come to have different goals — raising concerns that representatives in fact aren’t acting in their constituents’ best interests. Thus, even without confirmation biases, principal-agent problems would persist in a public bank governed by elected representatives.

For both reasons, voting alone does not work. The critical missing ingredient in contemporary democracy is deliberation. But how is deliberation on financing for public goods possible when the public is so large?

# Deliberative Finance Through Minipublics

Here’s where deliberative minipublics — smaller, representative groups of citizens brought together through random selection to discuss and decide on key questions — come in.

This practice of legislation by lot dates to ancient Greece. The Athenians even created a machine, the [kleroterion](https://research-bulletin.chs.harvard.edu/2011/02/16/athenian-kleroteria-and-hellenistic-sortition/), to generate random citizen samples. Much like juries, filled based on civic duty or voluntarily, the minipublic is a democratic institution that ensures ordinary people reason through deliberation about how finance be allocated.

Finance is extraordinarily complicated. It is unreasonable to expect that most people, if polled, would be able to produce a top-of-mind comprehensive account for how public financial institutions should allocate credit and investment. And because of issues of scale, it is impossible for everyone to deliberate.

Democratized finance requires, then, that some people make reasoned judgements on the behalf of others. Deliberative minipublics directly address this need for [cognitive divisions of labor](http://sites.psu.edu/citizensinitiativereview/wp-content/uploads/sites/23162/2015/01/Minipublics.pdf) in decision-making processes. Were public banks broken down into several divisions with clear mandates areas governed by minipublics, workers and ordinary citizens could, to quote Aristotle in “Politics,” “rule and be ruled in turns.”

“Democratized finance requires that some people make reasoned judgements on the behalf of others.”

And social scientific [evidence suggests](https://onlinelibrary.wiley.com/doi/abs/10.1111/pops.12591) that this mode of judgement creation can help the broader public overcome previous biases that would otherwise be confirmed by “messaging from experts, interest group organizations or political organizations.” Therefore, deliberative minipublics can be a better source of improved knowledge for the population than typical party signaling or interest group messaging. Not only do they create a space for thoughtful deliberation about investing for the public good, they both inform broader public opinion and operate with some legitimacy because they are composed not of interest groups, but of peers.

Around the world, governments are turning to deliberative minipublics with greater frequency to grapple with issue complexity and to find common solutions to problems. The Organization for Economic Cooperation and Development (OECD) has even described the batch of new experiments as a “[deliberative wave](https://www.oecd.org/gov/innovative-citizen-participation-and-new-democratic-institutions-339306da-en.htm).” These experiments empower ordinary citizens to make democratic decisions. They give hard decisions a degree of popular legitimacy that they wouldn’t otherwise have and democratize governance itself — making it more inclusive, helping to root out political corruption and enhancing social trust among citizens. As the OECD [has laid out](https://www.oecd.org/gov/open-government/eight-ways-to-institutionalise-deliberative-democracy.htm), they work because citizen participants are independent, they draw from a very diverse population of possible participants and they create good conditions for quality judgements — ensuring there is adequate information, time and bias-free facilitation. They focus on the common good and they engender a high degree of trust among the population at large.

A Democratic Future For Finance?  
Deciding how public finance might be allocated to further decarbonize the city might sound like a dry exercise in bureaucracy and a possible waste of time. But in the year 2043, you emerge from the People’s Bank of Los Angeles enlivened by a sense of civic duty that participation and deliberation on meaningful public decisions produced.

For several weeks, you and 98 others drawn by lot have discussed fact-based proposals for green projects for the city. Your task was a simple but important one: decide upon the decarbonization investment areas for the Green Futures division of the People’s Bank that would constitute its mandate until the next assembly in four years.

In Los Angeles, the deliberative minipublic follows the midterm election cycle, but it varies, at other levels of governance, how often assemblies meet and for how long. The People’s Bank has many divisions, including ones on housing, financial inclusion and cooperative development — each governed by an assembly process. In the city, public investment for the social good has come to crowd out private investment for personal gain.

Los Angeles has already eliminated its oil derricks and fields, retrofitted its buildings and connected itself to the North American public energy grid. A just transition off fossil fuels is well underway. But more work still has to be done for the Green Futures division. The last assembly to convene before yours commissioned an exploratory citizen jury. With organized labor now much stronger than it once was and the ecology of production moving away from private firms toward cooperatives and public utilities, ordinary Angelenos find themselves with more and more time for leisure as productivity gains have increased.

The exploratory citizen jury commissioned several studies to identify possible areas of green leisure investment. Your assembly reviewed their findings and considered options ranging from the wilding of the Los Angeles River to the creation of another energy-efficient sports arena. In the end, you settled on a plan to create housing units with green space incorporated between them.

With the disappearance of billionaires and the extreme energy inefficiency of their sprawling homes, it’s been unclear what to do with the mansions. Some have already been converted into spaces to host deliberative minipublics, others into schools. Yet several remain. Among the many decisions reached during your assembly’s deliberation process, one settled on public investment to convert several mansions in Beverly Hills into co-operative housing units. The development both increased the stock of housing and created gardens, parks and playing fields to use for worker leisure.

Public banks run by deliberative minipublics have fundamentally transformed finance. No longer is banking principally based on extraction and short-term gain. Instead, public banks now invest and lend credit for the social good. And your participation has made you all the more aware of the place you live and your responsibilities to it and the people that inhabit it. Such a future is no mere fantasy. With political will and public support, what seems like a utopia can be a reality.