Financial Citizenship

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In the last chapter we faced the problem: a cultural divide between experts and ordinary people has festered into a political conflict that threatens to become a political crisis. So what can we do about it? That is the question for the remainder of this book.

All of us—experts and publics alike—need to address this legitimacy crisis head on, for the sake of the health of both our economies and our democracies. And so the first thing that we need, if we are to turn this situation around, is a different vision of where we might be headed collectively.

This new vision has two important parts. The first part I will call financial citizenship—it is a vision of a new role for citizens in the stewardship and governance of the economy and a new partnership between experts and publics. The second part I will call a new legitimacy narrative for central banks: we need to agree together on a new explanation for why the work of central banks is important—something better than a statement from central bankers to the effect of “just trust us—we’re the experts and we know best.” This new shared understanding can emerge only from a dialogue
across our cultural differences, that is, from living out a new ideal of financial citizenship.

All this will not be easy. I know that many central bankers will react with skepticism about the possibility of engaging the public and even with outright hostility to the idea that we must open up and break down the boundaries between cultures. But if we do this, I believe, we can put our financial governance institutions back on legitimate political ground.

From Investor Education to Financial Citizenship

Central bankers think about how and why to engage with the broader public relatively rarely. But when they do, they usually think in terms of “investor education.” Many central banks have museums aimed at tourists and schoolchildren, for example. If you visit these museums you will see old coins, or portraits of founding fathers of the central bank, or perhaps a few bars of gold. Exhibitions and materials explaining the basics of the financial markets and how to save and invest are all part of most central banks’ investor education activities.

Investor education is clearly important for helping individual consumers to make good financial decisions. Yet investor education has a critical flaw: the purpose of this learning is simply to improve ordinary people’s personal financial decisions—to produce more informed and more rational participants in the financial markets. It is not to engage the public in a serious dialogue about the central bank’s political mandate.

Most recently, some central banks have made a very limited effort to go beyond investor education, with museum tours and speeches that explain more fully what central banks do and why it is important. Although the limited staff time devoted to such projects reflects the lack of appreciation in many central banks on how crucial this work is, this is of course a most important development. It needs to be radically expanded through dramatic increases in staffing and creative partnerships with educators at the K–12 and higher education levels, with NGOs, with employers, with local political authorities.

Yet as well intended as these introductions to central bank work may be, they still have a critical limitation. They assume that education is unidirectional—that the central bank experts will do the teaching about
what goes on in central banks, for the benefit of the ordinary public’s learning. These are not forums for discussion but forums for pedagogy.

If the central banks imagine no real forum for ordinary people to debate and engage them about their proper roles, other institutions have stepped in to fill the gap. In the United States, for example, online discussion boards and comment sections of fringe media on both the right and the left are filled with ordinary people expressing their views about the proper functions of the central bank. These spaces are rife with false information, and in cases may even become incubators of conspiracy theories. In these spaces, people unfortunately usually only encounter other people who already share their views, and often score points and capture attention by framing those views in terms of outrageous slogans and sound bites.

This balkanization of the public sphere is of course counterproductive and even dangerous. But it does demonstrate one important point: many people are interested in what central banks do, and willing to devote time to engaging in a dialogue of sorts about it. The question therefore is how to bring those people into a more constructive and transformative dialogue for all sides.

What Financial Citizenship Means

I want to propose a different goal. Rather than investor education, we need a new era of financial citizenship. By financial citizenship I mean the act of taking responsibility for the normative choices inherent in financial governance. In other words, I mean a role far beyond voting with one’s pocketbook or taking responsibility for one’s financial decisions. The economist Charles Goodhart has argued that choosing the appropriate balance between competing priorities is “an essential part of the democratic process, and should not be delegated.” Yet if the public should not delegate this important task, then it stands to reason that the public needs to take responsibility for making these choices. The alternative is a power vacuum in which powerful interest groups—especially the financial industry—become the only voice and come to dictate the policy choices of legislators.

Citizenship of course requires education too. From our youth, we learn a great deal about our government, our heritage, and the world beyond so that we can exercise our citizenship rights wisely and effectively. One cannot
be an effective citizen without a working understanding of the issues. In other spheres in which each of us exercises our citizenship rights, moreover, we understand well that education does not stop with the end of a person’s formal education in their youth. Public libraries, independent media, and journalistic ethics are all critical to our democracies because they give citizens an opportunity to educate themselves. These same institutions have a critical role to play in a new financial citizenship. I will say more about that in the next chapter.

In much the same way as in other areas of citizenship, financial citizenship requires the public to have a working understanding of how the national and global financial system operates, and about the important role state institutions such as central banks play in the stability of the financial markets and why this stability is crucial to the ordinary person’s livelihood. It also requires knowledge of more than the textbook nuts and bolts: people need some form of understanding of the lives and work of the experts, as intelligent, highly trained, and specialized professionals who for the most part are extremely dedicated to public service, and who work long hours on difficult tasks. This picture of what central bankers do, not just what central banks do, must also include a more unvarnished and subtle (and hence believable) picture of experts as people with limitations—people who by nature of their specialization do not always understand everything about the economy as it is experienced by people on the street, who may not even be fully aware of the biases that come with their membership in an expert culture. This complex view of the experts is the necessary starting point for a better collaborative relationship with the public.

Yet citizenship is not just about information. It is also about commitment. As citizens, all of us understand that making responsible and ethical choices about the future of our government is a responsibility as well as a privilege that defines the strength of our democracies. We understand that our democratic institutions are a commons, like a public park, whose present-day quality and future security turn on whether we each act individually to protect the common good. Citizenship is about duties, not just rights.

In the same way, financial citizenship is about commitment to participation—to doing what each of us can to further the strength of our collective national and international economic well-being.

In an earlier book, I have written about how each of us plays a critical role in the governance of the market in ways we may not understand. For
example, when a lawyer drafts a contract between two parties well and ensures that the parties are well informed about their bargain, she helps to bring stability to one small corner of the market. The U.S. experience with the subprime mortgage crisis taught us how important this kind of ordinary market governance can be by showing us what can happen when it is not there. Likewise, when ordinary consumers read and reflect on the small print in the contracts they sign, or take the time to complain to authorities about small incidents of fraud that can affect others, they are contributing to market stability.

But each of us also has a role to play in financial governance by engaging constructively with the experts and the policymakers. For example, how should the difficult trade-offs between the negative distributive consequences of interest rate policy and the positive benefits of financial stability be handled? There is no right answer to this question. It is a normative question, a question of value judgments. What to do about the trade-off depends on your vision of what the individual and common good looks like. We cannot just leave this question to experts and then complain when their choices do not conform to our desires. Even worse, we cannot pretend that there are no value judgments at stake in this question, and then accuse the experts of being ineffective or even corrupt for failing to make the value choice we might have wanted them to make.

Of course, being a good citizen does not mean agreeing with everything that one’s leaders do. On the contrary, there is a long and distinguished tradition of loyal political dissent in the name of citizenship. In much the same way, financial citizenship does not mean that one cannot criticize the central bank. It is not a tool of the central bank for ensuring popular buy-in for its policies. Yet there is a difference between critique and conspiracy theories, between a reasoned and principled criticism or a call for change, and an effort to score political points with one’s political base at the expense of experts. Sometimes the difference may be subtle, and the line between the two may be open to different interpretations, but there is a difference nonetheless. The point is that there must be a role for citizens in the governance of the economy.

Financial citizenship is a cause that demands a commitment from each of us. All of us have a stake in financial citizenship because the things we all value most, from the security of our retirements to the stability of our democratic process, depend on it. Think of financial citizenship as what Duvvuri
Subbarao, former governor of the Reserve Bank of India, has termed a “global public good”—something valuable that belongs to us all, just like our democratic process. The paradox of public goods is that we all enjoy them only to the extent that each of us is generous enough to maintain them. We understand how this is true of the democratic process: the vibrancy of our political institutions depends on each of us making the time and effort to participate, with care, in local, national, and global institutions. It depends on engaging others through the political process with honesty and empathy, and in acting with integrity for the greater good of all. The same is true of financial citizenship: it shapes all of our individual well-fares, and our individual well-being depends on our collective investment in the quality of the process. We have a citizenship duty to maintain and to strengthen our economic governance as we address the challenges to come. We need national—and indeed, given the global character of financial markets—global conversations about the rights and duties of citizens and of government officials and financial institutions. I will say more about how we can concretely begin to do this in the next chapter. But first, let us turn to the second prong of our vision for change, a new legitimacy narrative for central banking.

**A New Legitimacy Narrative**

As important as financial citizenship is, it is not enough. We also need a new agreement about why central banks exist, what they do, why it matters, and what the rights and obligations of respective political and economic actors are vis-à-vis central banks. Let’s call this new agreement a new legitimacy narrative for central banking.

As we have seen in the previous chapters, the old explanation or story about why central banks exist and why unelected experts within central banks have the authority that they do is no longer entirely convincing. It needs updating in light of political, cultural, and economic changes.

This new legitimacy narrative is critical because it will provide the foundation for collective action, as well as further conversation about choices and trade-offs, in moments of crisis. It is critical because it will give central bankers’ work value and provide a pathway for thinking through day-to-day policy choices in ordinary times. It is critical because in the absence of
a reasoned and principled legitimacy narrative, demagogues on all sides will fill the gap with self-serving and ultimately destructive narratives of their own.

This new shared understanding cannot be just government PR. It can only come from dialogue across the cultural differences we have been exploring in this book. The result must be something that seems authentic, and accurate, and actionable to all the relevant parties—bureaucrats, financiers, members of the public.

Therefore the new legitimacy narrative can only be the outcome of a process—a formal conversation. In the next chapter I will provide some suggestions as to how such a conversation could be staged. But what is crucial here is that neither side—neither the public nor the experts—holds all the pieces of the puzzle. We will have to put them together in a way that makes sense for both. And the pieces of that puzzle, as well as its ultimate contours, shades, and themes, will no doubt differ from one nation to the next: the story that fits best in Tokyo most likely will not be identical to the story that fits best in Canberra or Washington or Brussels.

However, if central bankers, members of the media, the academy, the NGO community, and the public at large embrace the challenge creatively and forcefully, we can set a new course. One European experience is instructive: In Denmark, successive central bank governors have understood the necessity of holding a dialogue with the public about the importance of the central bank in terms that resonate with the wider cultural orientation of the Danish people. Anders Sørensen describes how generations of Danish central bank governors have skillfully drawn upon themes in Danish national identity to engage the broader public in a discussion of the central bank’s policies and its political authority to act. He argues that they have succeeded because they had the right “narrative”—“a symbolic representation of events that is framed by a certain theme and linked in time.” For many Danes, the notion of consensus is a core feature of their national identity. It is what defines the polity. For this reason, central bankers have framed their policies in terms of appeals to social consensus and social solidarity. The result, Sørensen argues, is not simply that the central bank has gained political support for its policies, but that a healthy and independent central bank became “embedded in national identity.” As a result, support for the central bank became a part of the citizenry’s support for the nation. This enviable position was possible, Sørensen adds, only because the central
bank’s governors understood that “the language of science” was “insufficient to promote their monetary policies.”

Although there will be variation from country to country in this narrative, and although we cannot dictate at the outset exactly what it will be, we are nevertheless not completely in the dark about the direction in which we will go. We can already see the contours of what the new legitimacy narrative will be. So here are some key elements that we will want to include in a new understanding of why central banks are necessary and when their actions are legitimate.

**KEY ELEMENT #1: RESILIENCE**

Central banks are legitimate when they help build resilient economies and resilient nations. Resilience is a value we all share; it is about surviving and thriving in the face of cultural, political, and economic change. All of us have an interest in the resilience of our nation and of our national economy.

**KEY ELEMENT #2: INTERDEPENDENCE**

Resilience in turn is a relationship. It requires a partnership between all participants in the economy, across national and international political, cultural, and economic differences. And hence a second key element is recognition of our interdependence. For example, we cannot speak of national economic resilience without considering the health of the global economy in a world in which national economies are so interdependent. Likewise, thinking about the resilience of our national economy requires us to understand the interdependence of different sectors of the economy, and hence why risky behavior in one sector impacts all the rest, or why sometimes it may be necessary to bail out one sector, or provide government subsidies to another, for the benefit of the whole.

In particular, markets and states are independent. One of the reasons it is hard to see central banking for what it is has to do with our assumptions about the relationship between the market and the state. In the common understanding, states are political entities (governments), but markets are not political. This understanding is the legacy of neoliberalism, a philosophy that achieved remarkable global authority from the 1980s until, roughly, the
2008 financial crisis. In this understanding, states are suspect things. The best kind of political system is a system in which the state is ostensibly small and weak, while as much authority as possible devolves to the market. According to this theory, states and markets are quite distinct forms of social organization.

The claim that (good) markets were and should be something quite distinct from (bad) states always posed a special challenge for central banks: If markets are entirely self-sustaining, why should we need central banks—state banks—in the first place? Can’t the market correct itself without the need for the government to inject cash at certain times or restrict liquidity at other times? Can’t the markets police themselves without government monitoring and regulations? Indeed, one of the great fathers of neoliberalism, Friedrich Hayek, made just this claim—that central banks were a blight on capitalism and should be eliminated. In my own ethnographic research among central bankers I found a considerable amount of personal angst among them about this contradiction: central bankers are people who believe strongly in capitalism. So, if capitalism works so well, what justification is there for their own role?

Yet the fact is that markets and states are not independent—they are interdependent. In her history of money, Christine Desan has shown how this idea that central banks—and by extension states—are separate from markets is not just false now, but has been false since the very beginning of modern money.9 Desan shows how the production of money was, from its inception, a sovereign political project, not a private market affair simply bolstered or bounded by state law. She shows how the central bank was, at its inception, a hybrid of public and private interests, and how it has remained a kind of hinge between the state and the market, or rather a place where it becomes apparent that the two cannot be separated. Hayek’s fantasy of a world without central banks notwithstanding, most modern economists understand that financial markets are simply unsustainable without constant state intervention and regulation. For their part, nation-states are entirely reliant on private financial markets to finance all their public sovereign activities through government debt—as they have been, Desan shows, from the very start. It seems we are stuck with a messy world in which public and private are mixed up and interdependent.

Once we accept that central banks are both private and public, both state institutions and market institutions, and that markets and states are
inseparable conceptually and functionally, we can understand that markets and states both need central banks, just as each needs the other. In a market already mixed up with the sovereign’s interests, the central bank is a kind of hinge, a flash point of interconnection between public and private.

Focusing on interdependence requires a change in mind-set. As we saw in chapter 2, the old legitimacy narrative focused not on interdependence, but on independence. Legitimacy turned on explaining why experts should be independent of the political process, and the legitimacy of central banks was often defined in terms of how independent from the political process they actually were. In contrast, the new legitimacy narrative will explore all of the ways that good central banking is interdependent with the actions of others in society, politics, and markets.

**KEY ELEMENT #3: COLLABORATION AND TRUST**

The third key element flows from the second. If central banks cannot act alone, if one sector of the economy is interdependent with the next, if your political and economic interests are intertwined with mine, then there is no way forward except through collaboration. We need to define in broad terms and also in very concrete ones what kind of collaboration is necessary to govern the economy, and what kind of collaboration is necessary among different sectors of the economy.

For a long time, we thought we did not have to think about collaboration and trust in a market economy. The institution of price was supposed to take care of all of that. But the failures of many markets to price assets correctly have already led to a focus on collaboration as an alternative to, or enhancement of, price in many sectors of the economy. The so-called collaborative economy is already a force in most people’s lives. It remains for us to better understand how and why collaboration can also play a central role in the governance of the economy.

This is a more radical change to the old legitimacy narrative than meets the eye. Where the old narrative focused on carving out separate spheres of autonomy for citizens and experts, the new legitimacy narrative will focus on collaboration between these groups. As we saw in earlier chapters, the old reigning myth posited a distinction between technical and political issues, with the former delegated to experts and the latter delegated to the public
through its elected officials. But a focus on collaboration allows us to imagine the world very differently. Rather than a clear divide between technical and political issues, we now see the universe of market governance as a continuum between highly technical questions and highly political ones, with most issues involving some mix of both. This means that in most cases, in order for central bank actions to be legitimate, both experts and the public must be involved, because both have critical contributions to make. Each side must be open to the legitimate “interference” of the other in its decision making, for the benefit of all.

Obviously, collaboration is impossible without trust. There is already a great deal of economic and sociological literature on the significance of trust for markets. Many economists think of trust as a kind of public good—something that benefits us all. However, we need a much more concrete and detailed conversation about how to build trust among different sectors in the economy, and across political divides. We need a better understanding of how the public and the experts can come to trust one another, and how this trust can be built and maintained, as well as what the risks or impediments to trust might be.

As we have seen throughout this book, expertise alone no longer guarantees public trust. Another possible rationale for legitimacy is delegated political authority: the legislature, as the legitimate representative of the people, has delegated certain powers to the central bank, it can be said, and the exercise of those powers is therefore legitimate. Yet as we saw, in practice, delegated authority is also an incomplete foundation for public trust—because the public holds its elected officials in as much disregard as the experts, because that authority can always be revoked, and because delegation of authority does not resolve questions in the public mind about the motivations and social networks of the experts.

So why should the public trust the experts? Of course, expertise remains an important part of the answer. Of course, central banks must have properly delegated authority to act. Yet in addition to this, central bankers need to be able to say to the public: “Trust us also because we listen carefully and engage with you seriously. Trust us because we have internal mechanisms for processing what we learn from this engagement into policy. Trust us because we have mechanisms for reflecting critically on how well we engage the public. Trust us because we have mechanisms for reflecting critically on our own culturally determined blind spots.”
And why should the experts trust the public? We rarely asked this question because we assume a model of public service in which the public servant has no legitimate right to admit distrust in the public. But the fact is that without mutual trust there can be no collaboration, so we need to ask this question. How can the public gain the trust of the experts? In fact, the answer must be much the same. The community of NGOs, the media, and other organizations interested in financial governance need to demonstrate their commitment to financial citizenship in the way we have described it in the previous pages. They need to be able to say: “Trust us because we listen carefully. Trust us because when we criticize, it is a place of shared commitments to the resilience of our economy. Trust us because even when we disagree about policy directions, we respect your expertise, your judgment, and your commitment to your task.”

**KEY ELEMENT #4: HARD CHOICES**

Financial governance involves hard choices. Any policy entails trade-offs. Some people will benefit more than others. Some may actually be harmed. Often such hard choices take place in a context of significant unknowns. Too often, the conversation between the public and the experts has not acknowledged this simple fact. And yet the very reason the legitimacy of central banking turns on a collaborative relationship with the public is precisely the fact of hard choices.

We need to have a much more serious and detailed conversation about the hard choices involved in financial governance. Only with this conversation can the public voice views on those choices and trade-offs. At the same time, the public needs to understand that experts have no easy solutions, and they need to share with the experts the responsibility for intended and unintended outcomes of those hard choices.

**KEY ELEMENT #5: CULTURE CLASH**

Finally, a new legitimacy narrative must entail some recognition of the cultural problem we have been discussing throughout this book. That is, both sides—the experts and publics—need to recognize that their own view is the product of the culture that surrounds them. They also need to recognize that the views of others are a product of their own culture as well. In other
words, all of us have blind spots, and all of us have tastes in everything from who we spend time with to what ideas appeal to us. This does not mean that we cannot hold particular normative or scientific commitments. But it does mean that we should be open to considering, and maybe even exploring, their limitations by engaging with people outside our own cultural milieu.