

**KNOWLEDGE PRODUCTION IN GOVERNANCE OF FINANCIAL  
MARKETS**

*FINANCIAL GOVERNANCE WITHOUT WOMEN*

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**SGIR 7<sup>TH</sup> PAN-EUROPEAN CONFERENCE ON IR**

**SECTION 9: THE CRITICAL LIMITS TO THE FINANCIAL CRISIS: WORLD POLITICS,  
AESTHETICS, AND RE-POLITIZATION**

**STOCKHOLM 9-11 SEPTEMBER 2010**

## **Biases in Academic and Policy Knowledge**

Academic and policy knowledge is generally built on a very traditional understanding of the role of women and men in society. Feminists have eloquently challenged the scientific claim about knowledge being universal and objective. In reality, such knowledge is usually, partial, created by men, and based on men's lives (Tickner 2006). In a similar vein, feminist economists have argued that mainstream theories informing policy making in trade, finance, migration, and the environment are based on a very traditional understanding of gender roles. In contrast to the gender-insensitivity which underpins most of the policy discourse(s) and beliefs and normative assumptions of the policy community, we start from the premise that all knowledge is based upon a specific *gender knowledge*, which draws on the sociology of knowledge and focuses on the construction of gender and gender relations in the policy making process. The gender knowledge concept starts from the assumption that every form of knowledge – be it everyday knowledge, expert knowledge and popularized knowledge – is based upon a specific, often tacit and unconscious, form of gender knowledge. Thus it is not enough to inquire into how women are represented, but what is even more important is to understand what assumptions underpin scientific knowledge claims in policy processes (Young/Scherrer 2010). Increasingly there is a gap between gender-sensitive commitments, declarations, laws, actions, which are often subsumed under the umbrella of gender mainstreaming, and the translation of such gender knowledge into policy. The reason for this mismatch is that a traditional understanding of the role of women and men provides the basis for policy choices and is the practice of individuals in such organizations. These traditional views clash with the “reality” of women's multidimensional lives in a globalized economy.

Today, the struggle over ideas underpinning policy proposals is not restricted to academia or the state. It takes place via networks encompassing a range of actors. Knowledge and ideas are closely related to social and political

interests. Globalizing elites (mainly men) are at the forefront of funding and staffing think-tanks, foundations, and research institutions engaged in the production and dissemination of ideas. More importantly, these institutions impose a rationality that gives precedence to a particular conception of knowledge and are instrumental in restructuring the state market relationship on a global scale. These knowledge networks impact on generating knowledge, concepts and research results, since they deliver the conceptual understanding of policy problems. The nature of the policy process of knowledge networks present barriers not so much to the personal integration of women as experts or as policy practitioners but to the inclusion of alternative knowledge, ideas and discourses. Many networks of knowledge-based experts are exclusionary male clubs equipped with an authoritative claim to policy-relevant knowledge particularly in the fields of finance and trade (Stone 2010; Young/Scherrer 2010).

Financial market regulation, by far the most influential and important economic policy field having a sizeable impact on everyday life, is conducted largely behind closed doors, excluding those who are most affected by the spill-over effects of financial governance arrangements into other areas of the 'real' economy. Finance is shaped by private-state networks and webs incorporated into multi-level institutional processes and practices. Mechanisms of democratic accountability that typically apply to nation-states are largely missing. Far from assuming that financial governance is reducible to technical fine-tuning, the crisis has demonstrated that different financial governance arrangements have quite different distributional effects. The present market-based financial system has evolved through aggressively implementing regulatory changes that promote a shift to self-regulation and market-based supervision in the governance of global finance which is dominant in Anglo-Saxon countries. These changes have led to increased inequalities in income and wealth by weakening unionized industrial relations, privatizing pension schemes, and making the principle of social solidarity less acceptable in many societies (Mooslechner 2004). Furthermore, financial governance modes have a decisive impact on the degree of financial

stability: the Anglo-Saxon regulatory model, which was pushed to the fore by the financial industry with strong support from the vast majority of mainstream economists, has increased the frequency and intensity of financial crises (Rogoff and Reinhart 2009). A certain “groupthink” - a result of decision-making bodies drawn from a narrow social group - has been widely blamed for the financial crisis (Tsingou 2010; Young/Schuberth 2010). Financial crises are thus deeply rooted in a specific regulatory regime and are not the result of accidents, avoidable the next time around by adjusting some minor regulatory screws.

From the perspective of democratic legitimacy, decision-making in regard to policies that have distributional effects needs broad-based participation of those affected by it; as such, it requires input legitimacy (Scharpf 1999), the representation of a wider constituency in decision-making. One of the most striking features of the prevailing financial governance architecture is the increasingly mitigated role of the state and the shift of regulatory competence to private institutions what we have termed *Financial Governance Without Government*. The prevailing financial system is organized in such a manner as to provide private goods for the benefit of the few (Cerny 2005). But it is widely recognized that financial stability is a global public good (Kaul et al. 2003). As a result, the financial sector is thus of strategic public interest.

Given this context, this paper will be looking at one dimension which has not been given sufficient attention, namely the low representation of women in financial markets regulation which we refer to as *Financial Governance Without Women*. This issue has – apart from some media attention – met with little interest in academic research.<sup>i</sup> Yet, a gendered analysis of the nature of representation, risk, and regulation is important for a deeper understanding of the finance sector. Whether the crisis could have been avoided if more women had been at the helm of large investment banks is a hotly contested issue, and one that is not the focus of this paper. Nevertheless, this debate, and the crisis more generally, has turned a spot-light on the low or even non-existent female representation in top positions

of financial institutions, as well as decision making bodies in key regulatory institutions, central banks, and formal and informal financial networks.

Our interest is in the global regulatory reforms that exclude those who are affected most by the financial crisis: workers, minorities, women, and members of less developed countries. In addressing these exclusions, we call for regulatory reforms that are built on the normative premise that the task of finance is to serve society in terms of growth, efficiency, and equity. A gendered approach is important, since it focuses on factors such as rights, equitable outcomes, and an alternative order that values collective interests over the private. Thus the paper raises questions not just about who sits at the table of financial governance, but rather what are the confines of the reform debates, who benefits and why, what are the social benefits of the present financial system, what are the risks of financial innovations to systemic financial stability, and how could a more humane alternative, one that takes into account social needs of care and reproduction, be envisioned and implemented.

Mooslechner et al. (2006) propose an approach that looks at inclusion and exclusion from both a narrow (procedural) perspective and a broader (substantive) perspective. The narrow perspective examines questions of input legitimacy: Who is part of the decision-making bodies? Whose voice is heard? And what are the mechanisms by which female exclusion takes place? From a substantive perspective, these procedural aspects are linked to the economic, social, political, and cultural effects of the prevailing regulatory regime. They are often indirect and invisible, even though they are important. Linking the procedural with the substantive perspective is essential. Strengthening input legitimacy by increasing female representation in decision-making bodies is a necessary but not sufficient precondition for safeguarding specific women's interests. Membership in the notoriously exclusive male clubs of regulatory decision-making bodies often involves the subordination of women's interests to the standards and norms of these epistemic communities - which themselves adhere to rigid disciplinary boundaries (Tsingou 2010). Deviations from these norms are discredited as

unscientific, subjective, and irrational and are interpreted as an inappropriate digression from the model-based objective mode of thinking. With this caveat in mind, we argue that female representation only makes a difference if it comes with an alternative conception of financial order. .

We proceed as follows in the paper. In the next section we discuss the role of the economics profession in shaping current regulatory arrangements. We argue that the economic orthodoxy and its rules of financial governance carry a set of norms about men and women that in turn shape risk taking and risk sharing. In the third section, we demonstrate the mechanisms of female exclusion in the global financial architecture by highlighting the mechanisms (what we term *financial governance without women*) operating within the global financial architecture to block women from the top decision making positions in financial governance institutions and networks in the United States (Table 1) and the European Union (Table 2), in intergovernmental private and global regulatory institutions (Table 3), and in regulatory reform initiatives (Table 4). In the fourth section, we give an overview of the institutional arrangements and the main driving forces behind the evolution of the prevailing global financial architecture. In the fifth section, we explore the gender impacts of financial governance arrangements and argue that there are at least two channels through which the financial structure impacts on gender: The direct and most dominant channel is corporate governance modes that have an impact on resource allocation among stakeholders and shareholders. The other channel is the method through which financial governance shapes how risks are “down-loaded” and individualized. In the final section of this paper, we discuss the extent to which banking stabilization and stimulus packages disproportionately benefit males.

## **THE ROLE OF ECONOMICS IN FINANCIAL GOVERNANCE**

### **The Construction of the Rational Man in Finance**

Neoclassical economics in general – and financial economics in particular – assumes that markets are populated by disembodied rational actors pursuing profit maximization and contributing to efficiency and overall welfare. In the last decade, finance as an academic discipline and professional practice has increasingly come to be conceptualized as independent from arenas such as society, history, and politics. Efficient market hypothesis has been the key proposition of neoclassical finance for almost forty years which claims that financial markets price assets precisely at their intrinsic worth given all the publicly available information (Fama 1970). In this view, assets are valued rationally and prices are established on the basis of investors' immediate information. Even if irrational investors enter the market, rational arbitrageurs will be cognizant of the mispricing and bring prices back to equilibrium levels.<sup>ii</sup> This doctrine has been politically enforced by strong vested interests that were able to capture the state: Since the 1980s, states have increasingly formed alliances with private actors through financial liberalization (Lütz 2006) and thus have been able to steer global financial markets toward neoliberal outcomes. Accepting the efficient-market-hypothesis also meant a normative shift to “trust the market” promulgated by neoclassical economics turning a blind eye to the limitations of human rationality that can lead to sudden unpredictable boom-bust cycles (Krugman 2009). Understanding the historical evolution of the normative shift from Adam Smith to John Maynard Keynes to a return to neoclassicism is essential for comprehending the gendered nature of the conceptual apparatus of modern finance.

Marieka de Goede (2005) argues that the discourse on finance is based upon a distinctively masculine conception, through which financial crises are relegated to the territory of madness and delusion. With the widespread dissemination of credit and paper money in the 18<sup>th</sup> century, public discussions and literary representations of the new credit embodied negative and stereotypically female qualities such as loose morals, emotional instability, and hysteria. De Goede examines Daniel Defoe's satirical personification, Lady Credit. Lady Credit

symbolizes all the irrational and unpredictable aspects that had to be eliminated from financial discourse in order for the latter to be respected as rational, disinterested and scientific. Scientific respectability could only be achieved through the appropriation of both statistical practices and moral ascetics from the natural sciences. The financial discourse implies that in times of crisis *financial man* loses self-control and is prevented from seeing economic reality by the delusions that Lady Credit generates. The virile mastering of Lady Credit guarantees the smooth and neutral workings of the financial sphere. This conceptualization of a divide between feminine irrationality, on the one hand, which disturbs the smooth and stable functioning of financial markets, and masculine rationality, on the other hand, which generates efficient markets and benefits all, is implicitly inherent in the debates on financial crisis today. This distinction is maintained precisely because finance is male dominated, and the fact that mostly men have been in the driver's seat in the present financial meltdown.

Until autumn 2008, when the world economy came close to a systemic financial meltdown, several crisis explanations were put forward. They hold in common the belief that the crisis was a minor accident that can be avoided by adjusting some of the regulatory screws (i.e. by reforming rating agencies, improving cooperation among regulatory authorities, and increasing transparency). They further hold that the major explanatory factors behind financial bubbles and busts are collective greed and moral indecency that cannot be legislated away. Instead of calling for strict legislation that starts with the assumption that boom and bust cycles are a systemic phenomenon of unregulated markets (Semmler 2006), blame is placed on greedy and boundless human nature, on irrational and boisterous investment decisions.

During episodes of crisis, the conventional wisdom that efficient financial markets stabilize the economy is temporarily modified. Waves of optimistic and pessimistic sentiments come to the fore. All of a sudden, the characteristics of the economic man equipped with all the necessary formal skills of a rational finance investor deviate from virtuous and prudent behaviour – the separation of rational

man from irrational females is forcefully preserved by using female attributes like “hysteria” and “delusion” in the description of the financial crisis.

The ideological premise that women deviate from economic rationality, that they are inherently less rational, less proficient in mathematics, formal economics and science<sup>iii</sup> serves to justify women's exclusion. This gendered discourse, and the assumptions about gender differences which underpin it, interests us in two respects: first, the socially constructed notion that women are prone to irrationality, delusion, hysteria, etc. functions to legitimate women's exclusion from finance. But research that tests theories of behavioral finance has shown that male financial investors are generally more risk-prone than women and hence less rational (Barber and Odean 1999). Because of their over-confidence, investors will trade too frequently, thereby increasing risk and reducing returns. Moreover, female investors have been found to be more risk-averse and to avoid aggressive competition (Beckmann and Menkhoff 2008, Niederle and Vesterlund 2005). These studies show that women investors are quite rational in their trading practices.

### **Sociological Characteristics of Supervisory Authorities – Networks of Epistemic Communities**

Financial market regulation, a policy field bringing together the concerns of both financial economics and regulation, is significantly influenced by economic science. Regulators, for instance, rely on private sector risk models when defining banks' need for capital reserves (Redak 2006). But despite the sophisticated models, the current crisis took everybody by surprise. The risk models were and still are inherently incapable of identifying systemic risks (Hellwig 2008). Systemic risk is increased by the homogeneity of these models, and the extent to which they disregard both the complex interactions between financial actors and institutions as well as the counterparty risks of insurers to whom the credit risks

were transferred. Deregulation of financial markets, and the global move towards the Anglo-Saxon self-regulatory model, whereby “soft law” (i.e. voluntary rules and standards of good conduct) is applied, can be appropriately described as *Financial Governance without Government*. The main characteristics of the current regulatory regime include a multi-level system of governance, the strong involvement of private sector entities in regulation, and the exclusion of nation-states in favor of private sector entities, experts, and independent authorities. This governance model, based on groupthink, was forcefully advanced by proponents of the efficient market hypothesis (all of whom were white men). They viewed the emergence of new financial instruments and a shadow banking system that evolved outside the scope of existing regulation to be efficiency enhancing, (such as speculative investment vehicles<sup>iv</sup>, elements of the originate and distribute securitization process as well as new off-balance sheet financial vehicles established by banks (Tett 2009).

Liberalized regulatory rules have operated through international networks of state bureaucracies, independent regulatory agencies, representatives of the financial industry, and economic experts. This is part of a more general restructuring of the state-market relationship on a global scale, in which financial market regulation is far less legitimated through political processes of nation-states. Instead, expert knowledge and professional practices have become increasingly important. Parallel to the retreat of the state from financial regulation is the disappearance of political debate on such issues as the importance of regulation on systemic stability, and its relevance for corporate governance and for income and wealth distribution. The emergence of “epistemic communities” (Haas 1992) can be viewed as a characteristic feature of the new forms of global governance. These networks have in many ways facilitated the international diffusion of neoliberal regulatory practices and their coordination around the world.

The various networks of knowledge-based experts are basically exclusive men’s clubs, equipped with an authoritative claim to policy-relevant knowledge. Experts hold a common set of central beliefs and standards of validity that are expressed

in internally defined criteria for evaluation, common policy objectives, and shared normative commitments. The research and analysis of regulatory bodies and authorities are motivated by the internal logic of self-referential epistemic communities validated by mathematical models rather than by a desire to understand how the financial markets work and their implication for overall welfare, distribution, and security. Alternative approaches that include the insights of other social sciences and heterodox economics are mostly disregarded (Krugman 2009). In the rare cases when women were granted entrance to these clubs, they were compelled to subordinate themselves to the common set of beliefs defined by male economists. Those who try to intervene and offer alternatives to the reductionist understanding of finance are either unemployed, or marginalized and denied career opportunities. This observation is not just based on anecdotal evidence;<sup>v</sup> it is a major systemic characteristic of global financial governance.

In making this argument, we do not subscribe to an essentialist view of gender that regards the crisis as inherently male. Rather, we argue that the knowledge base underpinning the financial sector reinforces class hierarchy and the pursuit of wealth, and that social actors and their interests are denied representation in financial governance. We begin with the premise that there exists a gender order of norms, values, and hierarchies, which is reflected in the different approaches to risk and can be considered as one of primary factors of the financial crisis.

### **Delegation to Independent Agencies**

One influential view in economic policy circles and supervisory bodies considers financial governance to be an exclusive expert terrain, in which output legitimacy is achieved to the extent that clear statutory objectives (such as financial stability and transparency requirements) are fulfilled. This kind of legitimacy may suffice if the goal of policy is to find ways of improving the overall well-being of societies. But a policy with redistributive consequences can only be legitimated by voters and their elected representatives (Majone 1997). Hence, any policy with

implications for redistribution requires input legitimacy; the incorporation of all groups in the decision making process that are affected by financial governance. In reality, financial regulation has been increasingly conducted beyond the political sphere and governed by semi-state institutions (such as independent central banks and regulatory authorities) and the financial industry itself. The financial crisis has revealed significant problems of regulatory capture that emerge when regulatory bodies incorporate private interests while excluding the interest of the public. It follows that “state-anchored security is inseparable from democracy” (Dorn 2009). From this perspective, women’s lack of representation in financial market regulation is undemocratic, especially given the fact that they are disproportionately affected by financial crises - a truth we witnessed during the Asian Crisis (1997/98) and the Latin American Crisis (2000/2002) (Singh/Zammit 2000; Limm 2000; Young 2003). As these studies have shown, financial governance has a tremendous impact on the everyday life of women (see chapter 4).

## **FINANCIAL GOVERNANCE WITHOUT WOMEN**

Women are underrepresented in the top decision making positions of key regulatory institutions and networks (both formal and informal).<sup>vi</sup>

**[table 1 here]**

In the United States women are better represented than their European counterparts; in the Securities and Exchange Commission (SEC), women make up 60 percent of the five commissioners (one of whom is the first woman to serve as the agency’s permanent chair) (Table 1). But one has to bear in mind that women’s representation in US financial governance institutions improved only after the meltdown in the financial sector.<sup>vii</sup>

**[table 2 here]**

In contrast to the US, female representation in the supervisory structures of the European Union is low.<sup>viii</sup> Table 2 depicts selective committees of the Lamfalussy architecture, which are comprised of representatives of supervisory bodies of the EU-countries. This committee structure was implemented in 2001 to deal with security issues and was extended to banking and insurance in 2004. The Lamfalussy process is supposed to speed up legislation on harmonization, liberalization, and deregulation of financial services in the European Union (Financial Services Action Plan) through splitting decisions and implementation measures containing technical details. Legislation on framework principles (Level 1) is determined by the Council and the European Parliament on the basis of Commission proposals. The technical details are delegated to various committees at level 2. The committee's task at Level 3 is to ensure enhanced cooperation and networking during the transposition of EU measures into national law. Thus the process of rule-making has been Europeanized. This implies strictly limiting the role of the national policy processes, such as national parliaments, since the process is now in the hands of the European policy network. This supranationalization of financial integration is dominated by a very small circle of experts excluding stakeholders who are affected by the finance-led restructuring of the European financial sector. As a result, it is empowering expert committees at the expense of a more democratic legitimate decision-making process (Weber 2006).

**[table 3 here]**

Table 3 gives an overview of women's representation in select public as well as private global institutions with regulatory competencies. The lack of women in intergovernmental decision making bodies is well documented (Warnecke 2006), and representation in private-sector institutions is equally negligible. Among the latter is the International Accounting Standards Board (IASB), which has adopted fair value accounting in International Financial Reporting Standards (IFRS) (Novoa et al. 2009). Another influential global network included in this study is

the Basel Committee on Banking Supervision, an informal forum of supervisors and central bankers of G10 that formulates broad supervisory standards and guidelines, and recommends statements of best practice in banking supervision.

**[table 4 here]**

In a report on reforms of the international monetary and financial system, the Stiglitz Commission concludes that, “those who are affected by the failure of regulation [...] should have a large voice in any regulatory structure” (Stiglitz 2009). This principle was largely disregarded in all of the wise men and expert committees that were set up by the G20 to prepare proposals for regulatory reforms (Table 4). The De Larosière Group, which at the request of President Barroso prepared proposals for EU regulatory reforms and architecture, had only male members. Similarly, the Working Group on the reform of the IMF was exclusively comprised of men, and even the Stiglitz Commission had only two female members.

## **GLOBAL FINANCIAL ARCHITECTURE – EVOLUTION, LEGITIMACY, AND REPRESENTATION**

### **Development of the Current Regulatory Regime**

Conventional wisdom explains the globalization of finance as an inescapable process brought about by strong market forces. In search of the highest yields, global, fluid, and borderless money bypasses regulation and leaves little policy maneuverability than to lift restrictions on the mobility of capital. While this powerful narrative has been circulated ad nauseam, recent research has shown that financial integration was a deliberate political strategy - one among a set of viable alternatives - that was enforced with strong backing by legal, political, and intellectual elites. With the implementation of the European Financial Services Action Plan (FSAP) in 2000, the European Union endeavoured to construct a single market for financial services (Weber 2006). This process entailed the

integration of financial markets that had been geographically fragmented until then. In this way, the member states of the European Union were facilitators of global processes. They increasingly transformed themselves into agents of transnational neoliberalism (Cerny 2002). Countries that insisted on regulation were threatened with capital outflows. In order to pre-empt the ability of the financial sector to impose sanctions, many politicians often accepted the arguments of the financial sector in order to comply with its interests. As a result, the Anglo-Saxon self-regulation model, which was favoured by the financial sector, was accepted and diffused globally. The deregulation of financial markets and the further use of innovative financial instruments (such as credit derivatives or the technique of manufacturing safe bonds out of risky ones) were not superseded by efforts to globalize, harmonize and coordinate financial regulation and supervision. Financial market regulation within the realm of nation-states remained focused on national banking, while financial markets and institutions outside the banking system were subject to weak or no regulation (such as special purpose vehicles, and hedge or private equity funds). The result was a power vacuum in which the private regulatory institutions and networks, along with their self-defined sets of rules and forms of self- and co-regulation, have become dominant. The international diffusion of these regulatory models and practices has been facilitated by knowledge-based experts or groups in international arenas. The low representation of women in such decision-making bodies, regulatory groups, and private sector entities is a constant across time and space.

### **Multi-Level Governance of Finance**

In financial market regulation, competing and overlapping structures have emerged along with networks of formal and informal interrelationships between public and private bodies, which appear to be as complex as those in medieval times (Cerny 2005). Thus, the inherently multi-level nature of finance precipitates multi-level institutional processes and practices that are strongly influenced by private sector interests. This has been associated with a change in the logic of

democratic accountability, which historically has been restricted to the nation-state. In key areas of policymaking, multi-level governance by supranational, private, technical, and network sources of authority has undermined traditional nation-state mechanisms of democratic accountability (such as elections and legislation), while in procedural terms, the public sector still plays a key role in setting standards (Porter 2001). In global finance, the state has been actively complicit in shifting regulatory competence to private institutions, as indicated by the evolving mechanisms of self-regulation and co-regulation in financial governance.

### **Private Financial Market Regulation: Financial Governance Without Government**

The growth of private financial governance is one of the distinctive features of contemporary financial regulation (Mosley 2006). From an institutional perspective, two broad types of private actors can be identified. First, private autonomous authorities and institutions are involved in the establishment and enforcement of rules. For example, Private Credit Rating Agencies (CRA) played an important role at various stages in the subprime crisis (Hellwig 2008). They assigned credit ratings for issuers of certain types of debt obligations as well as for the debt instruments themselves, and developed guidelines to be enforced by portfolio investors or bond issuers (De Larosière 2009; Sinclair 2008). Under the Basel II agreement of the Basel Committee on Banking Supervision (BCBS), banking regulators are empowered to recommend credit ratings from certain approved CRAs (Redak 2006). Another important private institution with rule-setting authority is the International Accounting Standards Board (IASB), which develops the International Financial Reporting Standards and promotes the use and application of these standards. At a more informal level, the International Institute of Finance (IIF) (the world's only global association of financial institutions with important regulatory proficiencies) is also an important rule-

setter and rule-enforcer. The IIF regularly issues principles of conduct that are supposed to be implemented by its members.<sup>ix</sup>

Second, public or semi-state institutions such as independent central banks or supervisory authorities create rules with different degrees of binding. Private actors bear the enforcement responsibilities. The Basel II framework, in which self-regulation of banks is dominant, is a case in point (Redak 2006). In other areas, autonomous private actors are involved in the rule setting process. In the last decade this kind of governance has gained importance with the establishment of the Forum for Financial Stability (FSF), which was set up after the Asian crisis on Germany's initiative. This body is comprised of representatives of the Ministries of Finance, Central Banks, and supervisory bodies of the G7 countries, as well as five other major international finance centres. Private, semi-state, or public international standard-setting bodies and other groupings are also members of the FSF. An example is the International Accounting Standards Board, whose representatives sit alongside governments in the Financial Stability Forum session, and jointly develop accounting standards. The FSF develops indicators for early warning systems, conducts studies, and identifies potential dangers for financial market stability. However, the recommendations they make are not binding. In an effort to overhaul the international financial architecture, the 2009 G20 London summit agreed to establish a successor to the FSF, the Financial Stability Board, which will include all G20 countries, FSF members, Spain, and the European Commission.

While state-private arrangements are dominant in the development of financial governance rules, there is one rare example of public rule setting and public enforcement. In 1989 the Financial Action Task Force on Money Laundering (FATF) was founded by the G7 in order to combat money laundering and terrorism financing. It is currently made up of 32 countries and territories and two regional organizations. However, the FATF works only on the basis of recommendations; it has no legal means at its disposal to implement them (Vlcek 2007).

## **THE IMPACT OF FINANCIAL GOVERNANCE ARRANGEMENTS ON GENDER**

The gendered implications of the financial structure are two-fold. First, corporate governance modes impact resource allocation among stakeholders and shareholders; second, financial governance affects financial risk sharing in societies differently for men and women discussed later in this section. In regard to the first channel of influence, increased shareholder value restricts the capability to transfer resources from profitable to less profitable sectors. In an established market for corporate governance, the increased focus on short-termism is an attempt to increase returns on equity. This will distribute income from stakeholders to shareholders (De Jong 1997). The transfer of revenues to shareholders and to the growing financial sector has meant that in the United States the profit share of the financial sector has increased from 10 percent in the early 1980s to 40 percent in 2007 (Philippon 2008). In recent years the shareholder model has been challenged by the private equity industry. This industry differs in that it is exempt from many of the regulations applying to traditional collective investment schemes. More importantly, it has evolved from a relatively marginal investment class to an alternative stock exchange listing. Private equity firms are thus even more subject to short-termism with slower wage growth than is the private sector as a whole (Evans and Hubbard. 2008).

The shift to shareholder capitalism, together with global markets and the spread of information technology, has meant that standard employment relationships are on the decline and a dramatic increase in precarious work has occurred. Women are specifically affected by these tendencies, since they make up the majority in part-time employment, self-employment, fixed-term work, temporary work, on-call work and home work (Elson 2000; Bakker 1994). In 2008, 35.2 percent of working women in the EU held part-time jobs, compared with 7.5 percent of working men.<sup>x</sup>

In the long history of financial crises, the real economic effects have been long lasting and severe (Rogoff and Reinhart 2008, 2009). Studies analyzing the

gendered effects of financial crises, in particular the East Asian crisis in the later 1990s (Singh/Zammit 2000; Lim 2000; Young 2003), have shown that given the concentration of female jobs in exports and tourism in this region, women suffered from higher unemployment, which persisted after recovery (Buvinic 2009). The spill-over of the financial crisis to the real economy was sudden, and the recession reached an unprecedented scale compared with recent decades. In terms of the present financial and economic crisis, early job losses are mostly in sectors with a greater concentration of male workers (for example, in construction and manufacturing). But female unemployment can be expected to rise disproportionately with budgetary consolidation, since women workers are concentrated in education, health, and social services, areas where fiscal retrenchment sets in first. Furthermore, unemployed women face greater risks of immediate poverty, as they are more likely than men to have been employed in low-paid work and therefore do not have access to savings (or other forms of income, such as loans) (Trade Union Congress 2009). The degree of affectedness depends on the upcoming shape of the business cycle (whether it will be V-, U-, W- or L-shaped), the fiscal packages established to counter the crises (and the extent to which gender is a factor of consideration in their construction), as well the fiscal consolidation strategies. In developing countries, job losses for women will be greater, as they are concentrated in export manufacturing industries and in tourism (especially in Asia and Latin America) (Seguino 2009). Irrespective of the economic structure of particular countries, gender norms are often such that women bear the brunt of the crisis because of the male bread-winner paradigm, which prevails across cultures (Elson 2000). In times of rising unemployment, the tendency is to protect men's employment and to sacrifice women's jobs.

While the first channel of the gendered implications of the financial structure highlights the shift from a stakeholder corporate model to a shareholder model with its focus on short-term profits combined with the increase of non-standardized jobs, the second channel demonstrates how financial governance arrangements impact on how risk sharing is organized in society differently for men and women. Having little, if any, savings and limited ownership of financial

and real wealth (Deere and Doss 2006), women are particularly affected by the individualization of risk. The subprime crisis in the United States is a case in point; there is considerable evidence showing that subprime lending was disproportionately sold to women (particularly minority women) (Fishbein and Woodall 2006). These trends are reflected in mounting debt levels and the crippling costs of servicing these debts, compared to the relatively flat income growth of single-mothers throughout the 2000s. Focusing on single-mothers, Montgomerie/Young (2010) demonstrate the important gender dimension of the subprime market and the gendered lending techniques that shaped the processes of financial exclusion and inclusion. Single-mothers not only experience a gender-pay gap, but also are more likely to be part-time or flexible workers with commensurate wage-differentials. This is exacerbated by the fact that they are solely responsible for all social reproduction obligations. New access to credit for homeownership was supposed to expand homeownership levels among America's socially marginalized communities. By participating in the credit and housing boom, subprime borrowers could fulfil the American dream and join the asset price regime of residential capitalism (Schwartz 2008). Thus, poor women and minorities became integrated into the asset market through the availability of subprime loans. But the minimal gains in homeownership for single-mothers are not sufficient to justify the massive risk of indebtedness that they have incurred in the recent credit and housing booms. Rising household indebtedness is not incidental to America's financial implosion; rather it is indicative of how the individualization of risk affects those who can least afford it.

Moreover, the working poor and single mothers have disproportionately experienced a protracted period of rollbacks in government social services and income transfers, which serve only to compound their financial insecurity. Increased pressure from the financial industry has made fiscal restraint the dominant strategy of many governments. The liberalization policies that underpin global finance have had costly repercussions on public budgets at the national levels. These costs stem from additional spending requirements to adjust societies to fast economic change, and at the same time confront declining resources for

public budgets. The result is a “fiscal squeeze” (Grunberg 1998) that increases the pressure to downsize public expenditures through the reprivatization of what was once public (Brodie 1994; Fraser 1989). At the same time, pressure is placed on annual income to service the staggering debt levels. Through this process, financially insecure households are rendered more vulnerable. The intensification of financialization in the economy over the past decade has increased both the financial risk as well as the human insecurities experienced by low-income households. This is especially true for poor women and minority groups (Montgomerie/Young 2010).

### **BANKING STABILIZATION AND STIMULUS PACKAGES: THE IMPACT ON GENDER**

To counter the severe economic contraction, the developed and - to some extent - the middle income countries have engaged in banking stabilization measures, expansionary monetary policies (including non-standard measures), and fiscal stimulus. By the end of February 2009, the financial and banking rescue schemes, which include capital injections, guarantees of issuance of banking securities, bank asset purchases, swaps, and other guarantees amounted to a total government commitment of 22 percent of GDP for the European Union and 29 percent of GDP for the United States.<sup>xi</sup> The fact that banking stabilization is almost exclusively funded by the taxpayer - without contributions from shareholders, managers, or unsecured creditors - has attracted wide criticism from academics and non-governmental organizations. Even mainstream economists have warned that socialization of losses and privatization of profits have occurred at unprecedented levels and that both practices involve moral hazards and set the stage for another crisis (Zingales 2008). Banking packages have stabilized the financial sector, but they have also led to a rise in dividends and higher (executive) wages in the financial industries. These steps are disproportionately favouring men. With the exception of Iceland, which placed women in charge of its newly state-controlled banks, no country placed conditions on public funding in order for financial institutions to increase the female quota of the boards.

Gender equality, as a corporate goal, is not part of the political debate on conditionality, which focuses largely on manager compensation and credit availability.

In addition to financial rescue measures, substantial fiscal stimulus packages were enacted to stimulate demand in the economy. As a percentage of GDP, the fiscal stimulus packages for 2009 were predicted to reach a level of 1 percent in the European Union<sup>xii</sup> and 2.1% in the United States. In reaction to the malfunctioning of financial intermediation, central banks worldwide have adopted different kinds of quantitative and qualitative easing measures. Some of them - for example the Federal Reserve and the European Central Bank - strongly expanded their balance sheets in order to inject liquidity into the banking system. Some have directly purchased goods or less quality assets in selected distressed segments of private financial instruments. But as Sylvia Walby (2009) observed, the experience of consolidation measures, as a consequence of financial crises, shows a general retrenchment in expenditures for education, childcare, and health programmes.

## CONCLUSION

The conceptualization of women in economics - particularly financial economics - as less rational and less proficient in the formal sciences has contributed to their discrimination in global finance. The excessive reliance on expert knowledge – with its tendency to privilege quantitative modelling - and the delegation of regulatory functions to private actors has led, in the words of Dorn (2009), to a situation where “regulators are captured by their knowledge base”. The most striking aspect of the financial system that emerged after the break-down of the Bretton Woods system is the shift of the regulatory competence to mostly private institutions (*Financial Governance Without Government*) combined with the low female representation in financial market decision-making structures (*Financial Governance Without Women*). It is therefore not surprising that the ongoing analyses of the origin of the crisis and the discourse and decision-making on

regulatory reform is solely confined to financial insiders, mostly males, who were the culprits in the financial meltdown in the first place.

Despite the worst financial crisis since the Great Depression in the 1930s, the underlying principles of the efficient market hypothesis remain sacrosanct. As the proposals for the G20 in Pittsburgh (on 25 September 2009) so clearly demonstrated, mostly band-aid solutions in the form of reducing the bonus and manager salary culture, requiring banks to hold higher capital requirements, and establishing stronger supervisory authority over large banks (too big to fail) are advanced. There is little awareness among decision makers that financial crises are a systemic phenomenon of the unregulated markets created and facilitated by states. State actors in combination with private entities have, through legal and political means, reconstituted financial markets without democratic accountability. Financial integration that promotes the Anglo-Saxon governance mode of self-regulation was thus a deliberate political strategy among a set of viable alternatives, backed and supported by the economic, financial, and legal elites across the globe.

Whether the inclusion of women in the decision making process of financial market regulation would make a difference in terms of stricter regulation and categorical rejection of regulatory capture is a question that this paper cannot answer. However, the mere fact that women are largely absent in any of the top-levels of regulatory institutions or formal and informal networks raises democratic issues. *Bringing Women Into the Finance Sector* would signal a re-envisioning of finance as a global public good. The prevailing financial system is organized in a manner to provide private goods for the benefit of the few; indeed, while profits are privatized, losses are socialized. Given its systemic impact, financial stability as a global public good need to be more inclusive in order to create opportunities for all those affected by financial markets. This means to involve the public in decision making, and to make sure that the benefits are equally distributed around the globe (Kaul et al., 1999). As this paper has pointed out, the problem is not only that women are absent from financial governance structures, they are

nevertheless affected in many crucial ways. The mode of corporate governance has important gendered implications. Since the majority of women are stakeholders, they are impacted by recessions more dramatically than men (who are more likely than women to be shareholders). At the same time, women also seem to bear the brunt of budget consolidations and fiscal retrenchments following severe financial crisis. Moreover, as the present subprime crisis in the United States has shown, financial governance plays a crucial role in how risk sharing is organized in society. Low-income women were integrated into the asset-regime, but at the cost of mounting debt levels and crippling costs to service these debts.

Essentially the question of women's inclusion as full citizens in the financial arena rests on persistent gender norms. As long as economics is constructed as an abstract science removed from the experiences of people lives, and as long as women are seen as less rational, less knowledgeable in formal economics and science, the field of neoclassical economics in general, and finance in particular, will be unable to harness its full potential and provide benefits for all social groups globally.

## NOTES

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<sup>i</sup> Some of the studies are Lukas and Klatzer (2006), Warnecke (2006), Walby (2009), Antonopoulos (2009), Seguino (2009); Montgomerie/Young (2010); Young (2003; 2010); Bakker (2002); Elson (2002), van Staveren (2002).

<sup>ii</sup> In response to a growing number of contradictions that could not be explained by the efficient market hypotheses, a new approach to financial markets has emerged - behavioural finance (Thaler 2005). It investigates the impact of human behaviour and psychology on financial markets. But it is not a radical deviation from the efficient market hypothesis, but rather a supplement to it. It maintains the strict division of rational and irrational behaviour and the premise that human behaviour has a distorting influence on economic fundamentals.

<sup>iii</sup> At a conference convened by the National Bureau for Economic Research in 2005, Lawrence Summers, president of Harvard University at that time, suggested that "innate differences" between men and women help explain the lack of top-level female professionals in science and engineering. But studies show that discrimination against women in the academy is alarmingly widespread, if often unconscious. Paludi and Bauer (1983) conducted a study in which 180 men and 180 women were asked to grade a paper on a five-point scale. Results indicated that the articles were differentially perceived and evaluated according to the name of the author

<sup>iv</sup> The general economist's view of regulatory authorities on hedge funds expressed by the Banque de France, is mentioned here in place of many other examples: "In our view, most calls for the regulation of hedge funds are based on a misperception of the effectiveness of financial

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regulations, perhaps coupled with a lack of understanding of the positive contribution of hedge funds to the financial system.... Hedge funds provide considerable benefits, not only to their investors and advisors, but more importantly to the economy at large by facilitating price discovery, market efficiency, diversification, and by being potentially able to put a floor under a crisis, a function not easily implemented by regulated institutions due to a minimum capital ratio, relative to performance evaluation and other considerations” (Danielsson and Zigrand 2007, p.1).

<sup>v</sup> The most prominent example is the effort undertaken in the late 1990s by Brooksley Born (who was at the time head of the U.S. Commodity Futures Trading Commission) to regulate derivatives markets. She incited fierce opposition from Alan Greenspan and Robert Rubin (then Treasury Secretary). Michael Greenberger, who was a senior director at the commission, recalls, “Greenspan told Brooksley that she essentially didn’t know what she was doing and she’d cause a financial crisis.... Brooksley was this woman who was not playing tennis with these guys and not having lunch with these guys. There was a little bit of the feeling that this woman was not of Wall Street.” New York Times, October 8, 2008. Born’s recommendations were suppressed and she left government.

<sup>vi</sup> The bodies and committees from tables 1 to 4 are - due to informational constraints - selective and not comprehensive.

<sup>vii</sup> The chairwoman Mary Shapiro was inaugurated by early 2009, after the former SEC president faced strong criticism of regulatory failure. Elisse B. Walter was appointed in July 2008 as commissioner of the SEC.

<sup>viii</sup> The few women represented in the committees are often from the Nordic EU-countries or from EU-10.

<sup>ix</sup> See the latest Report of the IIF (2008).

<sup>x</sup> Eurostat.

<sup>xi</sup> ECB-Eurosystem: selected financial indicators, cut-off date February 19, 2009.

<sup>xii</sup> Including the 1.4% estimated impact of automatic stabilizers, the net deficit ratio will increase by 2.4%. In addition 0.3% of EU GDP will come from the EU’s own budget and the European Investment Bank. Source: European Commission Services.

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**Table 1: Female Representation in Financial Governance Institutions and Networks in the United States**

<b>US Institutions</b>	<b>Female</b>	<b>Number of Members</b>	<b>Chair</b>
Securities and Exchange Commission (SEC) <sup>xii</sup>	60%	5	F <sup>xii</sup>
The Federal Reserve System (FED) <sup>xii</sup>	20%	10	M
US Commodity Futures Trading Commission (CFTC) <sup>xii</sup>	25% <sup>xii</sup>	4	M
Federal Deposit Insurance Corporation (FDIC) <sup>xii</sup>	20%	5	F

***Table 2: Female Representation in Financial Governance Institutions and Networks in the European Union***

<b>European Committees and Institutions</b>	<b>Female</b>	<b>Number of Members</b>	<b>Chair</b>
The European Central Bank (ECB) <sup>xii</sup>	5%	22	M
<i><u>Lamfalussy Level I</u></i>			
Economic and Financial Affairs Council (ECOFIN)	11%	27	M
Economic and Financial Committee (EFC)	7%	67	M
European Commission, DG Internal Market & Services <sup>xii</sup>	17%	12	M
European Commission, DG Economic & Financial Affairs <sup>xii</sup>	18%	11	M
<i><u>Lamfalussy Level II</u></i>			
European Securities Committee (ESC) <sup>xii</sup>	28,5%	28	M
<i><u>Lamfalussy Level III</u></i>			

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Committee of European Banking Supervisors (CEBS) <sup>xii</sup>	11%	47	M
Committee of European Securities Regulators (CESR) <sup>xii</sup>	16,5%	30	M
Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) <sup>xii</sup>	0%	5 <sup>xii</sup>	M

**Table 3: Female Representation in Intergovernmental, Private and Global Regulatory Institutions**

<b>Institution</b>	<b>Female</b>	<b>Number of Members</b>	<b>Chair</b>
<b>Intergovernmental Institutions</b>			
IMF Board of Directors	4,5%	24	M
World Bank Board of Directors	12%	24	M
<b>Private Sector Entities</b>			
International Accounting Standards Board (IASB) <sup>xii</sup>	7%	13	M
International Institute of Finance (IIF) <sup>xii</sup>	0%	30	M
<b>Global Committees</b>			
The International Organization of Securities Commissions (IOSCO) <sup>xii</sup>	30%	20	F
Basel Committee on Banking Supervision <sup>xii</sup>	8%	25 <sup>xii</sup>	M
International Association of Insurance Supervisors (IAIS) <sup>xii</sup>	6%	17 <sup>xii</sup>	M

*Table 4: Female Representation in Regulatory Reform Initiatives*

<b>Wise Men and Expert Committees</b>	<b>Female</b>	<b>Number of Members</b>	<b>Chair</b>
High Level Expert Group on EU Financial Supervision Larosiere Group <sup>xii</sup>	0%	8	M
G20 Working Group 1 <sup>xii</sup> Enhancing Sound Regulation and Strengthening Transparency	7%	29	M
G20 Working Group 2 <sup>xii</sup> Reinforcing International Cooperation and Promoting Integrity in Financial Markets	4%	27	M
G20 Working Group 3 <sup>xii</sup> Reform of the IMF	0%	27	M

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Stiglitz Commission <sup>xii</sup>	9%	22	M
The Commission of Experts of the			
President of the UN General Assembly			
on Reforms of the International			
Monetary and Financial System			