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Fellow Brooke Harrington discusses her research into US investment clubs and examines whether they offer a successful participative model for civic society

If you have heard of investment clubs - the voluntary associations of 15-20 people who pool their money to invest in the stock market - chances are that you've heard about how they swept the US in the 1990s. Of course, investment clubs exist in the UK and elsewhere, but their popularity reached unprecedented heights in the US, with an estimated 11 percent of American adults participating by the middle of the last decade. These clubs were part of a major socio-economic change that transformed the US into a nation of investors: while only 21 percent of the population owned stocks in 1990, by 1999, the figure had more than doubled, to 53 percent. For the first time in history, the majority of registered voters owned shares, leading to numerous policy initiatives designed to appeal to investor-voters and the New York Times proclaiming a new era of 'shareholder democracy'.

But what was the social and political impact of these new investors? Did they really represent a new kind of democracy, or a new mode of civic engagement, as was so often speculated in the press and in policy circles? Those were among the questions I sought to explore in my book, Pop Finance: Investment Clubs and the New Investor Populism (Princeton University Press, 2008), based on research I conducted between 1998 and 2004, which encompassed dozens of interviews with amateur investors, a year of participant observation in seven investment clubs, and a mail survey which gathered data from 1245 clubs and 11,000 individual members from across the US.

Before much was known about this 'new investor class' - as the Bush administration called them - their very existence was used to justify several radical policy proposals, including the plan to 'privatise' social security: the combination old-age and disability pension program which embodies the collective good in American politics. The proposal was based on the assumption that becoming investors had transformed the interests of middle-class Americans, drawing them closer to the super-rich (the major donors to national political campaigns) who lobby consistently to reduce their tax obligations, particularly for social-welfare programs and public goods.

There was some evidence to support that such a change might have occurred. First, middle-class investors still had a vast amount of cash at stake in US capital markets. In 2003, well after the end of the bull market, a sample of just 2,000 investment clubs was found to own a total of $125 billion in US stocks, including significant stakes in Fortune 500 firms such as Intel and General Electric. President Clinton's capital gains tax cut in 1997 had been popular across socio-economic groups in the US, so it seemed sensible to continue appealing to voters through their role as investors. Second, public opinion polls indicated declining faith in public goods. As one respondent - a 37-year-old Hispanic male - put it in a New York Times poll, he favoured ending the social security program because: 'These decades to come are going to be more about what you do for yourself, as opposed to what you allow other people to do for you. It's not pro-government, it's not anti-government, it's just me, myself and I.' Statements like this seemed to affirm Robert Putnam's popular 'bowling alone' thesis, which argued that civic engagement was in steep decline throughout the US. In this light, the populist investing movement and investment clubs in particular could be interpreted as instantiations of a rugged economic individualism that was supplanting civic institutions and the provision of collective economic goods.

What I found, however, suggested quite different conclusions. Rather than hastening the end of American civic life, investment clubs seemed to be part of a renewal of collective engagement. We may be bowling alone, but many of us are still investing together, through good economic times and bad. In fact, the declining membership in bowling leagues and fraternal organisations that Putnam used as the foundation for his thesis may simply mean that there are fads and fashions in civil society, just as there are in other social realms. While we might not join the same kinds of clubs our grandparents favoured, that doesn't mean we have withdrawn from associational life overall.

Indeed, the evidence is compelling that investment clubs contribute to civic engagement in a number of positive ways. By bringing people together from different walks of life, and rewarding more diverse groups with higher profits, these clubs provide the very benefits Putnam cites as defining healthy civic life, to wit: 'trust, norms and networks that can improve the efficiency of society by facilitating coordinated action'. And investment clubs have certainly facilitated a number of significant forms of civic-minded collective action, including the wildly popular and economically influential movement for social responsibility in investing, which has had a tremendous impact on corporations worldwide in terms of fair trade, labour relations and 'green' environmental practices.

Moreover, investment clubs often bring people together across boundaries of gender, race, and class. Indeed, some of the most profitable groups I studied were the most mixed in demographic terms. This wasn't necessarily a pleasant experience. Several of the participants in my observational study expressed intense frustration at their interpersonal differences and one investment club member remarked to another after a particularly tense exchange with a third member, 'you know that in real life [e.g., outside the club meetings], you would never associate with him'. Yet membership in the investment club brought these individuals together under structural conditions - including a shared portfolio and group decision-making processes - that forced them to get beyond their differences and cooperate.

This is reminiscent of the work of German social theorist Jurgen Habermas, who argues that small groups are the building blocks of civil society because in teaching members to engage in constructive argumentation, they help individuals become 'more competent members of modern societies'. That is, investing as part of a club, as opposed to as an individual, has the secondary consequence of teaching the 'communicative ethics' and discursive rules on which Habermas argues that healthy civil societies are built. In this sense, investment clubs help build the skills and competencies necessary to participate in the public sphere; the clubs not only teach people how to invest, but how to be engaged citizens.

Of course, as the evidence reviewed in my book shows, there are threats to this ideal within the everyday practices of investment clubs. In particular, problems of power and ideology manifested themselves repeatedly in the form of members who rubber-stamped each others' investment proposals without any substantive discussions, or who withheld valuable information from the group to avoid disrupting socio-emotional relationships.

Therefore, investment clubs can contribute to civil society by providing financial incentives for the development of cooperation and respectful, fact-based argumentation. The micro-level interaction context they provide promotes civil society in ways that macro-level entities (such as states, complex organisations or large associations such as bowling leagues), cannot reproduce. When they attempt to do so, the costs are often prohibitive and the results often unsatisfactory in local contexts. As one legal theorist put it, small groups excel at providing 'order without law', which might serve equally well as a working definition of civil society itself.

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View a video of her RSA Thursday lecture, 'Pop Finance'

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