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SCENES FROM A POWER STRUGGLE: THE RISE OF RETAIL INVESTORS IN THE US STOCK MARKET

Brooke Harrington

ABSTRACT

This chapter examines the mass movement of Americans into investing during the 1990s as both a consequence and a cause of contested power between corporations and individuals. This movement was part of a larger historical pattern of economically marginalized people consolidating their power through associational strategies in the realm of finance. Using US investment clubs as a case study, the chapter draws on Foucault's theories to illuminate the bilateral power structure of modern capitalism, in which market institutions and small groups at the grassroots level mutually influence one another. While the investment club movement was in part a response to economic domination by corporate and political elites, it also catalyzed genuine shifts in the power dynamics between individuals and corporations.

Keywords: Power; investment clubs; stock market; groups

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INTRODUCTION

Power asymmetries between individuals and organizations under contemporary capitalism create ongoing struggles for social and economic control (Arrow, 1974; Stinchcombe, 1965). While individuals are at a significant disadvantage in these contests, small groups and collective action have been remarkably effective in consolidating power over against that of much larger, resource-rich entities, from corporations to states (Fine & Harrington, 2004). Research on 20th-century social movements has foregrounded small groups' ability to challenge the hegemony of complex organizations, through both formal and informal means in the private (Polletta, 2002) and public sectors (Opp & Gern, 1993).

Little has been written, however, about the ways in which this power struggle has played out in financial markets. This is surprising given the well-known Weberian perspective, which explicitly addresses the monetary manifestations of power (1978 [1922], p. 108). To the extent that social scientific research has addressed economic power struggles, its focus has been on realms like consumer movements (e.g., Schurman & Munro, 2009) or labor unions (Martin, 2008). But finance, arguably the "engine" of modern capitalist economies, has been almost completely neglected as a realm of contested power. Though some previous studies have looked at shareholder activism as a way to overcome the power asymmetry between individuals and corporations (e.g., Davis & Thompson, 1994), attention has generally been limited to internal conflicts among elites (e.g., Useem, 1986). The bigger picture of the contest for economic power across strata of capitalist societies remains under-researched.

This chapter addresses that gap in the literature with an empirical case study of American investment clubs: voluntary associations of 15–20 people who pool their money to invest in the stock market. At their height, these "do-it-yourself mutual funds" involved approximately 20 million Americans (National Association of Securities Dealers, 1997). *Newsweek* called it "one of the great social movements of the 1990s" (Samuelson, 1999). But who benefited from this mass culture of investing? The new investors who got their share of the profits from surging stock prices, or the corporate and financial elites who gained control of investors' capital?

That is, from the perspective of the sociology of power, should we interpret the investment club movement primarily as an adaptation to economic domination, or as a means of empowerment and resistance? There is evidence supporting both interpretations. On the one hand, the growth of investment clubs can be read as a direct outcome of constraints imposed by

business elites and the state, which led Americans to become investors when stock ownership became an inextricable feature of compensation and retirement packages. On the other hand, there is some evidence of genuine popular empowerment – like the end of brokers' monopoly on access to investments, and with it, elite control over *who* could invest – resulting in lasting shifts in the balance of economic power toward the grassroots level.

These shifts include the resilience of the contemporary small investor movement in the face of repeated financial crises. While amateur investors deserted the stock market for a generation after the Great Depression, the series of financial catastrophes that marked the early part of the 21st century – from the burst dot.com bubble, to corporate accounting scandals and the global economic collapse of 2008 – have not significantly lowered popular participation in investing. On the contrary, the nation's retail investors still own about $5.5 trillion of US corporate equities, contributing just over 25% of total market capitalization, dwarfing the ownership stakes of pension funds and equal to the holdings of all American mutual funds combined (Financial Services Roundtable, 2009, p. 12). Although the distribution of stock ownership among Americans remains highly stratified (Wolff, 2010), the 2009 figures still represent an increase of 20% over 2002 – meaning that the popular investing movement remained robust through the multiple crises that have struck financial markets since the beginning of the new millennium.

And yet, aside from two studies – Harrington (2008) and Barber and Odean (2000) – the scholarly literature has been nearly silent on the phenomenon. When investment clubs are acknowledged, they – along with retail investors generally – are treated as sources of unwelcome "noise" in the market (Chan & Fong, 2004; DeLong, Shleifer, Summers, & Waldmann, 1993), inconsequential compared to the power of institutional actors. In contrast, this chapter will proceed from the contention that investment clubs are not only financially significant, but also key actors in a power struggle played out at the macro-historical level. In addition, investment clubs are interesting from a theoretical point of view because they operate at the intersection of market institutions and individual economic action (Harrington & Fine, 2000), providing insight into a domain that is often overlooked in sociological research.

Though this chapter seeks primarily to present an empirical case study, its interpretive framework draws from the theories of Michel Foucault. The case will illustrate Foucault's (1982, 1980) insights on the relational and interactional aspects of power by focusing on the small group level of analysis – the setting in which individuals are both acted upon and develop their own "lines of action" (Goffman, 1959, p. 9) in response, creating a

matrix of moves and counter-moves of which complex social systems like the stock market are comprised. Most importantly, the case sheds light on several interacting "faces" of power, consistent with Foucault's observation that individuals are enmeshed in a "multiplicity of force relations" (1990, p. 92). On the one hand, investment clubs are subjects of a system that shifted unprecedented levels of risk and responsibility onto individuals; on the other hand, the clubs subversively appropriated financial knowledge/power through collective action, effecting lasting change for US corporations. Drawing from the findings of a long-term multi-method project (Harrington, 2008), this chapter will show how investment clubs illustrate both sides of what might be called an *empowerment-constraint duality*, showing how power can be "repressive and productive at the same time" (Göhler, 2009, p. 29).

POWER IN SOCIOLOGICAL THEORY: ENTERING THE STRUGGLE

In modern capitalist societies, Weber wrote, power struggles that were once enacted through physical means – as in feudal societies – are now played out symbolically, through economic action, often using money as a "weapon" (1978 [1922], p. 108). This suggests that many sorts of economic behavior, from consumption to investment, constitute meaningful action in the field of contested power. Indeed, it may be impossible for individuals to avoid engagement in this conflict, since their "life-worlds" have been "colonized" by the global commercial nexus (Habermas, 1985). In other words, the concepts, values, and modes of thought associated with the market have intruded into daily life to such an extent that individuals cannot think or act outside the hegemonic system.

This perspective would seem to suggest a pessimistic interpretation of the investment club movement, with participants acting in compliance with their conditions of domination, *faute de mieux*. But as the evidence presented below will show, adaptation to elite hegemony – while real – is only part of the story. Indeed, an accurate description of the popular investment movement, and investment club participation in particular, would require acknowledgement of the fluidity and multivalence of power. The conditions resemble those described by Emirbayer, who defines a power struggle as a setting in which "elite and non-elite actors improvise in the face of recurrent organizational problems – challenges centering around control over symbolic, positional or emotional resources" (2002, pp. 131–132).

In this sense, the case of investment clubs illustrates well-known limitations in classical sociological theories of power. Despite their many contributions to sociological research, such theories reduce their own explanatory value by treating power as dichotomous: either power *over* or power *to*; domination or empowerment (Pitkin, 1972). In the middle of the last century, Davis (1942), Mills (1956), and Dahl (1957) contributed to this binary view of power by emphasizing its overt exercise, and the conflict that often resulted. Later, Bachrach and Baratz (1962) showed that persuasion and keeping issues ''off the table'' should also be viewed as displays of dominance – power whose effectiveness was demonstrated by the *lack* of resistance to it. Lukes further expanded the theoretical domain to include the possibility of power without domination: power *to* produce ''a collective capacity or achievement'' (1978, p. 636). In a recent article summarizing the development of power theories in social science, Göhler distinguished the two classical perspectives as follows: ''power over'' is relational and ''narrows the field of action'' for the person subjected to it (2009, p. 28), while ''power to'' implies autonomy and expansiveness – a form of action that is ''constitutive for society'' (2009, p. 29).

These concepts were challenged, transformed, and synthesized in Foucault's (1980) well known formulation, ''knowledge/power.'' Writing that ''no power can be exercised without the extraction, appropriation, distribution or retention of knowledge'' (p. 129), Foucault shifted theoretical discourse away from the *outcomes* of power and toward the means through which it operates, freeing power from the domination/empowerment dichotomy. By releasing those constraints, Foucault created a multivalent concept that provided more explanatory power than the old models.

Of particular interest for sociologists, Foucault's ideas foregrounded an aspect of power that had remained underexamined in classical theories: the significance of small groups and organizations as sites for the enactment of power. His work underscored that power is not a property of individuals, but rather of certain social structures and interactions. As Bourdieu and Wacquant put it, Foucault's perspective makes us aware of

> the relations of force that obtain between the social positions which guarantee their occupants a quantum of social force, or of capital, such that they are able to enter into the struggle over the monopoly of power. (1992, p. 220)

This ability to ''enter into the struggle'' opens the possibility (though not the certainty) of changing relational patterns, rather than simply acquiescing or adapting to them.

The interaction setting, as Foucault observed, triggers self-vs.-other classification processes: ''Every relationship of power puts into operation differentiations which are at the same time its conditions and its results'' (1982, p. 223). This foregrounds the role of identity not as a property of individuals, but as an enactment and manifestation of power. One result might be domination – identity as an ''embodiment'' of power, aiding in the ''creation of obedient bodies'' as well as ''obedient wills'' (Clegg, 1998, pp. 36–39). Another result might be a catalyst for collective action, creating empowerment through resistance to domination (Simon & Oakes, 2006). In either case, Foucault argues that identity – like power, a property of group settings (Harrington & Fine, 2000) – makes individuals more ''calculable'' (1995 [1977], p. 193) and thus easier to mobilize for a variety of purposes.

In the ''power grid'' laid out by contemporary capitalist institutions, identity is enacted through symbolic means – often by consumer purchases. Thus, we speak of ''purchasing power,'' which signifies not just the value of a given unit of currency, but the putative authority of the purchaser to exercise control over the economic environment. These choices become a foundation for social identity, making actors ''calculable'' to each other and to organizations. Thus, when Marcuse (1964, p. 9) writes ''the people find themselves in their commodities; they find their souls in their automobile, hi-fi set, split-level home, kitchen equipment,'' that signifies not only a private identification between self and object, but a public identity, expressed symbolically through consumption.

The mediation of all interaction by means of economic signifiers is a defining characteristic of contemporary power relations, whether among individuals or between individuals and institutions; in such societies, action is constrained to take place only through ''various specialized mediations'' (Debord, 1983 [1967], p. 11). That is, power and identity are enacted through signs such as brands and stock ticker symbols – a symbolic language that ''consists of signs of the dominant system of production ... [which] is able to subject human beings to itself because the economy has already totally subjugated them'' (Debord, 1983 [1967], pp. 9–10). Through control of symbolic systems, the economy sets the terms of every other aspect of social life, including the enactment of power.

Investment clubs provide a social structure and a set of interaction mechanisms through which individuals can perform these complex but essential symbolic functions – using economic action to locate and identify themselves within the social cartography of capitalism. But are their actions manifestations of individual subjugation to capitalist hegemony? Or should we situate their activity in the realm of resistance, focusing on them as

amateurs appropriating the knowledge/power of economic elites through the technology of investing?

This is where the sophistication of Foucault's analysis pays off analytically, calling our attention to the suppleness of power, and its strategic uses in politics and interpersonal relations. While acknowledging the realities of "power over," Foucault's work also posits "strategic games of liberty" (Dixon, 2007, p. 290) as manifestations of power distinct from dominance and subjugation. In the context of neo-liberal capitalism, strategic games play an essential role in constituting economic subjects, since the liberal ideologies of economic rationality, civic participation and self-improvement can be used simultaneously to resist domination and to re-inscribe relations of dominance. In the case of investment clubs, this means that grassroots investing may pose a genuine economic challenge to the hegemony of corporate and financial elites, while at the same time neutralizing the political content of that challenge by framing the solution in terms of self-help and personal responsibility rather than institutional change (Jaeger, 2007). In this sense, the case study illustrates a fundamental insight of Foucault's theory, "the interplay of discipline and liberty [that] lies at the heart of our institutions," giving contemporary capitalism its distinctive combination of instability and durability (McKinlay, 2006, p. 88).

Investment Clubs as Products of Economic Domination

The 1990s made investment clubs a household word and a mass social phenomenon, involving an estimated 11% of American investors (National Association of Securities Dealers, 1997) at their peak. But the idea was actually much older, brought over with the waves of European immigration in the late 19th century. The first US investment club was founded in Texas in 1898 (O'Hara & Janke, 1998), although the movement remained little more than an obscure hobby for almost a century – as did investing generally. At the beginning of the 20th century, just 1% of Americans owned stocks; by mid-century, the figures had barely increased, reaching 4% in 1952 (Geist, 1999). Then, starting in the late 1980s, mass participation in the stock market exploded, rising to 43% in 1997; by the century's end, over 53% of Americans owned stocks. Even more remarkable, and suggestive of fundamental transformations in the American socio-economic landscape, those numbers have remained relatively stable, even after the collapse of the dot.com and real estate bubbles. Unlike previous generations, who fled the securities markets after major economic downturns, the participation of

contemporary retail investors has remained virtually unchanged through the end of the dot.com era and the collapse of the housing market, holding steady at 51.1% of households (Bucks, Kennickell, Mach, & Moore, 2009, p. 27).

Although investment clubs are not identical with the popular investment movement as a whole, they are among its most visible and best-documented actors; they also provide insight into the potential for collective exercise of power under conditions of capitalist domination. The economic power of investment clubs remains considerable: even in the post-Enron period of market stagnation, they collectively contributed $190 million to US financial markets each month (National Association of Investors Corporation, 2006). In addition, their $125 billion in total stock holdings included significant ownership stakes in Fortune 50 corporations, such as General Electric ($562 million), Intel ($423 million), and insurance giant AFLAC ($1.3 billion, equivalent to 7% of the company's market value).

The sudden popularity of investment clubs was catalyzed in part by economic necessity: specifically, a transfer of financial risk and responsibility from firms to workers, and legal changes that favored capital gains from stock investments over earnings from work. Three events in particular triggered lasting changes in financial market participation by altering the power dynamic between firms and workers:

- The number of workers participating in 401(k) and other defined-contribution retirement plans tripled
- Real wages declined[1]
- Corporate after-tax profits tripled

These changes – which occurred between the late 1980s and early 1990s – tightened the linkage between benefits and paychecks on the one hand, and the stock market on the other. As workers began receiving more of their earnings and pension benefits in the form of stock options or investment opportunities, they faced a growing imperative to become knowledgeable about the stock market. Thus, unlike other stock market booms in American economic history – none of which drew investors in such great numbers as that of the 1990s – this was not driven by get-rich-quick speculation, but *necessitated* by fundamental changes in the compensation structure that affected nearly all workers throughout the country.

Taken together, these three changes put a majority of Americans in the position of having to make up wages and benefits – particularly retirement benefits – through their own efforts. The stock market provided one of the few places to make up the shortfall. Thus, investment clubs – which are

designed to teach basic investment skills and allow individuals to get started in investing at relatively low cost – quickly became popular by addressing an urgent public need for financial education, and by lowering the startup costs for new investors.

The change in the provision of private (i.e., employer-sponsored) retirement benefits was particularly significant. While this change was presented as "empowering" to workers, by giving them more control over their pension investments, as well as a bigger stake in their employers' profits, it imposed significant demands on them in terms of financial literacy and planning – demands for which most had no preparation or training (Shiller, 1999). The norm for American workers until the late 1970s was the "defined benefit" pension, in which employers assumed all the responsibility for setting aside and managing the funds needed to provide a fixed monthly sum to retirees. But when US law tightened the rules governing "defined benefit" plans, the resulting cost increases meant that many firms stopped providing traditional pensions as part of their compensation packages for new employees. By the mid-1990s, 52% of U.S. workers had no corporate retirement benefits at all (U.S. General Accounting Office, 1996).

As an alternative, some organizations began offering "defined contribution" plans instead: a move that shifted the risks and responsibilities of retirement savings onto employees. Whereas "defined benefit" plans provided a predictable retirement income, a "defined contribution" pension – of which the 401(k) plan is the best-known example – provided no certain payout. Instead, individual employees had to choose how much to set aside from their paychecks (the "defined contribution"), and then select an investment vehicle for those funds from among a menu of options offered by their employer. By 1994, over 14 million Americans were participants in 401(k) plans,[2] representing a massive realignment of the labor-management contract.

This large-scale institutional change not only affected tens of millions of jobs, but came just at the time when the Baby Boom generation was entering middle age, making retirement planning an issue of real urgency for the nation's largest demographic group. Women were particularly affected, because benefits from both employer-sponsored and public pension systems (like Social Security) are determined by salary and years of continuous employment. Since women make less than men for the same jobs, tend to be employed in lower-wage industries, and often have interrupted work histories, they get fewer benefits from both types of retirement plans (Reskin & Roos, 1990). In light of the gender- and age-specific impact of these changes in retirement finance, it is not surprising to find that the

majority of investment club members were women, people in their 50s, and those with a household income close to the national average of $50,000 (National Association of Investors Corporation, 1999). Most importantly, a nationally representative survey ($N = 1245$ clubs and over 11,000 individual members), found that 80% of investment club members said that saving for retirement was their primary reason for participating in the stock market (Harrington, 2008).

The destabilization of retirement benefits was accompanied by a decline in real wages, with companies allocating an increasing share of their revenues to profits as opposed to labor costs. Furthermore, stock options became more widespread as a form of compensation, meaning that the share of corporate profits which employees once received in the form of salary increases or bonuses could be accessed only by accepting the risks of the stock market. As with the shift from defined-benefit to defined-contribution pension plans, stock options were presented as "empowering" to workers – giving them a personal stake in firms' profits – when in fact most of the benefits accrued to their employers. For example, compensation through stock options allowed firms to report larger "paper profits" by retaining cash that they would otherwise have had to pay out as salaries and wages; and by American accounting rules, stock options did not "count" as liabilities on the balance sheet, making them essentially cost- and risk-free for firms to offer employees. Further support for corporate profits at the expense of workers' financial stability came from the Clinton administration, which revised the tax code in 1997 to favor investment income over wages and salary: the capital gains tax (which applies to profits from investments) was lowered to 20%, while the income of most American workers remained taxable in the 28% bracket (Weisberg, 1998). In the year following this change in the tax code, investment club participation reached an historic high of 37,129 clubs.[3]

On the one hand, these changes in corporate practice and public policy exposed employees and retirees to more risk from the financial markets than ever before. On the other hand, the innovations were beneficial to some: because so much wealth was transferred from workers to shareholders, the stock market surged during the 1990s; shares in American firms returned about 18% annually, far above the historic 11% average annual growth observed since 1926 (Bogle, 1997; Ibbotson Associates, 2001). As a result, beneficiaries of stock options and 401(k) plans often did *better* in the 1990s than they did before such innovations. For the growing numbers of Americans whose finances depended on the stock market, the new risks that confronted them seemed to be well-compensated.

Historical Antecedents of the Stock Market Power Struggle

While some of the new investors may have been motivated by a desire to make a fortune, most simply had no choice but to participate in the stock market. This positioned them – often unwittingly and involuntarily – in a power struggle with economic elites. The same elites whose political activities (Useem, 1986) had brought about the changes forcing many Americans to become investors – by slashing the capital gains tax, and by releasing corporations from their historic obligations to provide secure pensions for employees – also held a near-monopoly on the arcane knowledge/power necessary to participate in the stock market. Like the 19th century Persian court accountants who "made a secret doctrine of their budgetary art and even use secret script" (Weber, 1946 [1922], p. 233), financial elites consolidated their position in the socio-economic power structure by using a "hegemonic shorthand" (Arntfield, 2008): a lexicon meaningful only to others within the dominant class, serving to demarcate that class symbolically. In this context, any investment activity by non-elites was bound to be interpreted as a threat to the status quo.

Indeed, *every* amateur investor movement in history has been interpreted this way: as a subversive appropriation of the technologies of dominance (Foucault, 1988). The seriousness of the threat can be gauged by the degree of retribution unleashed on the subversives. In this regard, the US amateur investment boom of the 1990s followed the same pattern as the earliest known financial manias, such as the British South Sea Bubble of 1720. In 18th century Britain, as in 20th century America, the impetus for popular involvement in investing came from elites themselves: while American corporate leaders were trying to maximize profits by unloading risks and responsibilities onto employees, the British elite of two centuries earlier were seeking to pay off the country's crippling war debts by raising money from the public. Instead of taking the unpopular step of raising taxes to pay that debt, Parliament authorized a public stock offering, purporting to sell shares in a government-backed trading enterprise known as the South Sea Company. The same elites who floated the idea of nationalizing the war debt later profited handsomely from insider information on this undertaking, selling their shares before the whole public offering collapsed in disgrace a year later – bankrupting many of the less privileged investors.

However, the lion's share of recrimination following the end of the South Sea Bubble was directed not at the elites responsible for it, but at the "upstarts" who dared to rise above their station by investing. Just prior to the crash, satirist Jonathan Swift lamented the upheaval in the status order

of 18th century Britain created by non-elites who profited from South Sea Company investments: "We have seen a great Part of the Nation's Money get into the hands of those, who by their Birth, Education and Merit, could pretend no higher than to wear our liveries" (cited in Chancellor, 1999, p. 81). During the 1990s, this "mingling of the classes" through stock market investing was initially depicted in a positive light – a new era of "shareholder democracy" (Weisberg, 1998), in which "Wall Street has become Main Street." But whenever a significant decline in share values occurred, elites (such as investment professionals and financial journalists) rushed to blame the newcomers for their "ignorance" and "high-flying expectations" (Roshco, 1999).

Elites' retributive impulses against amateur investors can be traced directly to the ways in which appropriation of financial technology subverts class and gender hierarchies. For example, 40% of the shareholders in the South Sea Company were women (Chancellor, 1999). Stocks were one of the few types of property women could own and trade during that period, representing a rare opportunity for economic independence among those who were otherwise legally the property of their fathers or husbands. In fact, several women became quite wealthy through their South Sea stock investments: Sarah Churchill, the Duchess of Marlborough, sold early for a profit of £100,000, becoming the largest stakeholder in the Bank of England (Ingrassia, 1995). Some of the Duchess' less-wealthy contemporaries pooled their money to buy South Sea stock as a group, much as in a modern investment club. Indeed, women and people of modest means have employed these group-based investment strategies throughout all the subsequent financial booms in Europe and the United States (Chancellor, 1999).

In light of this history, it is not surprising to learn that the 1990s witnessed another surge in group-based investing, as non-elites consolidated their power through associational strategies. The most famous of these groups during the last bull market was the Beardstown Ladies, an investment club composed of rural Illinois women in their 50s, 60s, and 70s who catalyzed Americans' interest in club investing by writing three *New York Times*-bestselling investment guides. The group was founded after several members discovered that brokers would not open individual accounts for them. As one of the Ladies wrote, "brokerage houses were not particularly friendly places for women. There were few female brokers, and women, particularly older ones, were not considered desirable clients" (Beardstown Ladies, 1994, p. 10). Brokers expected women to have less wealth available for investing compared to men, and less inclination to

trade their accounts; both factors meant lower commissions for the brokers. In addition, women clients were thought to make higher demands on brokers for investment education. Unfortunately, these expectations were well-founded: for many reasons, including labor market segregation and gender-based wage differentials, American women generally have less money to invest than their male counterparts, and even in the present day, ''financial illiteracy is widespread among women'' (Lusardi & Mitchell, 2008, p. 414).

Though the American investment club movement of the 1990s may have helped bridge that gender gap in financial knowledge, it also represented a daring challenge to the (mostly male) financial elite. By addressing the ''financial illiteracy'' which had kept so many women from investing, investment club participation ironically made them targets for the blame and public retribution following the bull market's crash in the early part of the new century. While some of the backlash was directed at figureheads like the late Enron CEO Ken Lay, the bulk was reserved for newcomers to the market – particularly those who breached the norms of class and gender to engage in financial activity ''above their station'' in the status order.

As financial history shows, it was ever thus. To an even greater extent than working- or middle-class male investors, economically empowered women have long been favored targets for backlash following a financial collapse. Degrading representations of women investors – showing them as golddiggers, harpies, and prostitutes (Ingrassia, 1995) – were common following South Sea Bubble, but the tradition can be traced back centuries earlier. For example, the concentration of wealth in the hands of women following the Black Plague of the Middle Ages has been cited as a catalyst for the European witch craze, in which hundreds of thousands of women – whose new financial independence challenged male socio-economic domination – were burned at the stake (Ben-Yehuda, 1980).

This precedent may help explain the extraordinary outpouring of *schadenfreude* which greeted the news that the Beardstown Ladies had overstated their portfolio returns.[4] Editorials in newspapers around the world announced their disgrace with headlines such as, ''Debacle in Beardstown'' (*Seattle Times*, March 21, 1998, p. A11), and more colorfully, ''Guru Grannies Caught Cooking the Books by the Money Men: Beardstown Ladies Exposed as Bumbling Amateurs'' (*The Guardian* [London], March 23, 1998, p. 3). Though the Beardstown Ladies were never accused of being prostitutes or gold-diggers, satirical digs about their virtue and intelligence appeared in forms strikingly similar to those of earlier centuries.

As an example, consider this fragment from "The Stock-Jobbing Ladies"[5] – a song composed just after the collapse of the South Sea Bubble in 1720:

With Jews and Gentiles, undismay'd,
Young, tender Virgins mix;
Of whiskers, nor of Beards afraid,
Nor of all their cousening Tricks.

Bright Jewels, polish'd once to deck
The fair one's rising breast,
Or sparkle round her Ivory Neck,
Lye pawn'd in Iron Chest.

The genuine Passions of the mind
How avarice controuls!
Even Love does now no longer find
A place in Female Souls.

Compare this to the following verses, which appeared in the op-ed pages of two different American newspapers as commentary upon the Beardstown Ladies' downfall:

Beardstown Ladies sing this song, bushwah, bushwah
Beardstown stock tips mostly wrong, but the books sure paid.
(Kroll, 1998)

…and…

Beardstown Ladies sing this song,
Doo-dah, doo-dah,
Ladies got their numbers wrong,
All the doo-dah day.
Thought they'd seen the light,
Thought they'd found the way,
Trust your money to the amateurs,
Somebody's going to pay.
(Horowitz, 1998)

From this perspective, the American "bull market" of the late 1990s bears a striking resemblance to Europe's speculative manias of the 17th and 18th centuries, up to and including the methods used to "discipline and punish" (Foucault, 1995 [1977]) those who threatened elite hegemony by

appropriating the technologies of domination: the power/knowledge associated with investing in financial markets.

Investment Clubs as Vehicles of Empowerment

In the history of populist investment movements, there is a continuous tension between the rhetoric and pragmatics of socio-economic empowerment. Many initiatives to attract mass investment in financial markets, particularly in recent years, have been accompanied by dubious claims about giving "power to the people." And as antagonistic as elites have been toward any efforts by lower-status actors to usurp the tools of financial domination, those elites' commercial undertakings – like the South Sea Company, or the high-tech revolution of the late 1990s – have always required massive capital infusions, far beyond the resources under their direct control. The shift from defined-benefit to defined-contribution plans, as well as the replacement of salary with stock options, can be read as efforts to make a broad swath of society foot the bill for elites' business ventures, without ceding control of the technologies of domination. In other words: economic exploitation sugar-coated with the rhetoric of economic empowerment.

As a result, talk of the "power *to*" participate in financial markets should be viewed with skepticism. At the same time, there is evidence that some popular investment movements can empower individuals by making them more informed about the world of finance. Investment clubs may not have made anyone rich – in fact, investment clubs routinely underperform the market indexes (Barber & Odean, 2000; Harrington, 2008) – but it may well have made them more financially savvy, giving them access to a knowledge/power nexus formerly reserved for elites and thereby reducing their vulnerability to exploitation and fraud (Harrington, forthcoming).

The empowerment narrative has been particularly common and compelling in the American context, due to a distinctive mix of legal, technical, and historical conditions. These include:

- Law and policy: the ease of forming independent investment associations under American law
- Technology: increased access to stock brokerage services and industry competition via the World Wide Web
- History and culture: long-standing association between patriotism and stock ownership in the United States

One crucial structural condition underlying Americans' broad-based participation in investment clubs was simply the ease of forming financial associations. While investment clubs were required to file joint tax returns, most US states imposed few other requirements – incorporation, for example, was often optional. This meant that an investment club could form simply through the agreement of the members and the creation of a brokerage account to trade stocks – a task that became routine with the advent of online brokerage services. The significance of this permissive legal context cannot be understated: in countries such as Japan, pooling of funds to buy stocks is forbidden without the purchase of a mutual fund license. The licenses are prohibitively expensive – in Japan, the cost is approximately US $10 million – effectively outlawing amateur financial associations (Steiner, 1996).

American innovation in the development and uses of technology – particularly electronic commerce on the World Wide Web – also played an important role in facilitating the popular investment boom. While the World Wide Web was theoretically accessible from anywhere in the world by the mid-1990s, the commercial uses of the medium grew most rapidly in the United States, where e-commerce was implemented and adopted at a much higher rate than in other countries (Beck, Wigand, & König, 2005). This has been attributed in part to cultural forces, such as the greater readiness of Americans to accept risk and uncertainty, and therefore to trust and engage in online transactions, compared to citizens of other countries (Chai & Pavlou, 2004). In any case, the rapid development of e-commerce made it possible for amateurs like investment club members to invest with much greater ease and economic efficiency, reducing to historic lows the transaction costs that used to make investment too costly for most Americans.

These efficiencies were achieved in part by reducing the gatekeeping role of full-service stock brokers, who prior to the 1980s controlled amateur investors' access to securities markets. Since a broker could simply refuse to work with anyone he judged unlikely to generate commissions through large purchases and frequent trades, it was difficult (if not impossible) for anyone but the wealthy to own stocks. As a result, women and people of color – who generally had small amounts to invest and little interest in trading – were effectively shut out of the stock market (Jianakoplos & Bernasek, 1998; Smith, 1997). The advent of discount brokerage services in the 1980s – in bricks-and-mortar form – created an opening in the opportunity structure by lowering minimum investment amounts along with commissions. But discount brokers were able to cut commissions in part because they did not

give investing advice like their full-service counterparts; this meant that the low-cost route was open only to relatively sophisticated investors, offering more attractive terms to elites without making the system more accessible to everyone else.

As is often the case, the rise of a new technology reorganized patterns of economic power (Sassen, 2002). The advent of the World Wide Web fundamentally altered elite control of the stock market by shrinking the role of expert authority (Weber, 1978 [1922]). Not only discount brokerage services, but a wealth of investment information and educational tools became available online, opening the stock market to a mass audience. By the mid-1990s, anyone with Internet access could download professional-quality data and execute trades on demand, eliminating the informational and economic gatekeeping function of the brokers.

These new possibilities, created by technological innovation within a permissive legal context, were catalyzed by a cultural environment that valorized economic risk-taking as a form of personal empowerment. These virtues, so prized in the United States and so much a part of its national creation myth, lent momentum and a sense of Manifest Destiny to the populist investment movement. In some ways, it can be seen as a path-dependent outcome of the ideologies and practices first observed among Americans by de Tocqueville in the early 19th century:

> In the United States, fortunes are gained and lost without difficulty … Boldness of enterprise is the foremost cause of its rapid progress, its strength and its greatness. Commercial business is there like a vast lottery … In this respect, the Americans differ, not only from the nations of Europe, but from all the commercial nations of our time. (1863 [1840], p. 289)

In de Tocqueville's time, these notions of American exceptionalism underwrote the mass speculation in land; 150 years later, similar language was employed to put a stamp of nationalism on participation in the stock market. As a 1998 *New York Times* article proclaimed,

> This may be the least appreciated economic, cultural and political development in recent years … we have developed a mass culture of investing, the first to exist anywhere in the world. American democratic capitalism has brought about the *democratization* of capitalism. (Weisberg, 1998, p. 30)

In fact, at several pivotal moments during the 20th century, American financial elites drew on this cultural history and ideology to present investing as a kind of patriotic imperative, as well as a form of economic empowerment. In the 1950s, for example, corporations, stock exchanges and brokerage firms launched a public relations campaign to encourage

investing among the generation scarred by the 1929 market crash. Playing on anticommunist sentiment, the "People's Capitalism" campaign proposed that buying stock represented a blow for democracy and the American Way (Ragsdale, 1997). Drawing on this rhetoric of empowerment-and-patriotism, the first national organization for investment clubs – the nonprofit National Association of Investors Corporation (NAIC, now known as Better Investing) – was established in 1952 with the slogan "Own Your Share of America" (O'Hara & Janke, 1998).

The message that this could be a profitable undertaking – that is, economically empowering – as well as a patriotic one, was the dominant motif of the popular investing literature that flourished starting in this period. Even before the Beardstown Ladies' trio of bestsellers, there was Adam Smith's 1969 *The Money Game*, and Peter Lynch's 1989 *One Up on Wall Street*. As a famous and successful mutual fund manager, Lynch provided a uniquely authoritative seal of approval to retail investing. His message, "buy what you know," became a kind of mantra for the populist investment movement, proposing that amateurs could do at least as well as finance professionals simply by drawing on their own experiences as consumers to inform their investment choices. In fact, as Lynch explained,

> Twenty years in this business convinces me that any normal person using the customary three percent of the brain can pick stocks just as well, if not better, than the average Wall Street expert … if you stay half-alert, you can pick the spectacular performers right from your place of business or out of the neighborhood shopping mall, and long before Wall Street discovers them. (1989, p. 32)

To illustrate his point, Lynch noted that one of his most profitable decisions – investing in the retail clothing chain The Limited – was prompted by his wife's recommendation after a visit to their local shopping mall.

What Kind of Empowerment?

These claims of economic self-help and empowerment sold millions of books, but were not borne out by amateur investors' financial returns. My findings – based on a sample of 1,245 NAIC investment clubs – show that 96% underperformed the stock market as a whole, as represented by the S&P 500 index, a standard benchmark of performance in the financial industry (Harrington, 2008). The average club underperformed the market by 20.8% – meaning that the members could have made 20.8% more money by investing in a broad market index fund rather than attempting to pick individual stocks. The only other study to examine financial returns in investment clubs – based on a much smaller sample of 166 clubs – was

slightly more optimistic, showing that 60% underperformed the S&P 500; profits in the average club in that study lagged the market by just 4% (Barber & Odean, 2000). As both studies suggest, investment clubs were not a path to quick and easy riches.

But there is more to economic empowerment than profit: access to knowledge and institutions are also significant to power relations. This "power *to*" model is exemplified by the world of micro finance – a grassroots form of economic development commonly employed in countries whose infrastructure of financial and social institutions are not sufficient to meet the needs of the population. Such organizations are popular among the poor, people of color, and women, for whom do-it-yourself financing is often the only way they can gain access to capital (Mansell-Carstens, 1995). To find essentially the same techniques in use by middle-class citizens of one of the world's most economically developed nations is a startling irony produced by a generation-long unraveling of institutions designed to provide collective economic goods (Krugman, 2003).

In both kinds of organizations, individuals band together to compensate for the absence of social and political institutions for collectivizing risk. In underdeveloped countries, micro-credit evolved because banks and other institutions were refusing credit to the poor; in the United States, the problem arose when corporate leaders (abetted by political elites) began "outsourcing" the financial risks of business to their employees. While the potential benefits of stock options and 401(k) plans were evident during the bull market of the late 1990s, the risks became apparent during the market's decline: in the first few years of the 21st century, Americans went from enjoying unprecedented prosperity to record-high levels of debt and the lowest-savings rates since the Great Depression (Leland, 2007). So just as micro-credit associations provide economic support and stability to the poor in developing countries, we find similar techniques of "frontier capitalism" used in the United States to stabilize Americans' increasingly precarious standard of living.

However, one additional aspect of the financial returns of investment clubs bears mentioning in evaluating the empowerment value of the movement: the "diversity premium" (Harrington, 2008). My research found that groups of men and women together consistently made more money than single-sex investment clubs, as measured over 12 years of national-level data. The 2% difference in annual returns, while seemingly small, was statistically significant and resulted in major differences in clubs' total profits when compounded over the course of years. As an example, assume that Club A has 15 members contributing $50 per month and earns an average of 10% annual returns, while Club B has the same number of

members and amount of monthly contributions, but earns an average of 12% annually. If the two clubs start at the same time, in 10 years the profits of Club B will outstrip those of Club A by $15,000; 5 years after that, the performance gap will widen to $50,000.

This "diversity premium" has an important, nonfinancial implication for the empowerment interpretation of the investment club phenomenon. By illustrating the value of diversity in terms of the dominant discourse – measuring its contribution to economic profits – investment clubs constitute a promising model for associational life in the United States. We may be "bowling alone" (Putnam, 2000), but under conditions of contemporary capitalist hegemony, it may be far more significant that we are *investing together*. Civic life thrives by bridging demographic boundaries, and investment clubs contribute to associational life by providing greater financial rewards to demographically diverse groups than to homogenous ones. This means that the more diverse the group, the more benefit they get from cooperating and working through their differences. In other words, investment clubs teach not only financial literacy, but skills like constructive argumentation, coordinated action and "communicative ethics" – the foundations of civil society (Habermas, 1983, 1985).

Among the most visible consequences of these skills has been the movement for corporate social responsibility (CSR), which has not only altered corporate practices but also the dominant discourse among financial elites. While investment clubs are not solely responsible for the CSR movement, they have been among the leaders in activism and economic clout (Harrington, 2008). With investor behavior increasingly linked to notions of citizenship and civic life, publicly traded firms have had to rethink their business and self-presentation strategies in relation to amateur investors.

Specifically, the populist investment movement has forced financial and corporate elites to re-evaluate the historically dominant view that "You can't be in stocks if you're going to ask moral questions" (Hakim, 2001, p. 26). By 2004, a former New York Stock Exchange official was arguing that

> The rules of the road for those who manage and steward large public companies *really are* different now … Shareholder activists are hailing some of the changes, believing now that after several decades of increasing activism, and the mounting challenges to nonresponsive companies, the scales are tipping in their favor … The players to watch from the boardroom and corporate suite especially include … individual and faith-based coalitions. (Boerner, 2004, p. 40, emphasis in original)

In support of these claims, activism by retail investors – individually and in groups – has had an increasing impact on firms. Through stock purchases

and participation in shareholder meetings, grassroots organizations have successfully lobbied large multinational firms like British Petroleum, which recently spent two years and $200 million to "re-brand" itself worldwide as an environmentally progressive firm, starting with its name change to "BP: Beyond Petroleum" (Murphy, 2002). Such activism has had a significant impact on firms' finances, in some cases causing single-day swings of 20–30% in share price (Unger, 1999).

More generally, American firms are now prospering financially to the extent that they acknowledge the economic power and preferences of retail investors. For example, in recent years, firms that earned high marks for corporate citizenship – in terms of labor relations, environmental impact, workplace safety, and litigation history – have significantly outperformed the stock market as a whole. In fiscal year 2004, stocks of companies rated highest in terms of responsiveness to retail shareholders outperformed the S&P 500 Index by an *average* of 11.13% (Morgenson, 2005). And between 2000 and 2003, the top 5 firms in retail investors' ranking of corporate citizenship and social responsibility saw their stock rise by 23.1% – though the market overall *declined* by 2.3% during the same period (Morgenson, 2003). Another study, which focused on the labor relations aspect of corporate social responsibility – specifically, the hiring and promotion of women in executive positions within Fortune 500 firms – found that companies with the highest representation of women in top management outperformed their competitors by approximately 35% in terms of both share price and return on equity (Catalyst, 2004). It may be that so many individual investors care about CSR – and the identity implications of corporate citizenship for themselves as stock owners – that they are creating a self-reinforcing cycle, in which more and more people buy stocks of firms with good records of social responsibility, which then pushes up the share prices and provides a financial incentive to continue investing in such firms.

This evidence of retail investors' power to shape corporate behavior suggests that, in the sense of building skills and competencies necessary for civic engagement, participation in investment clubs can be empowering. That is, investment clubs empower economically dominated individuals by offering an opportunity structure in which individuals have more to gain, or less to lose, by cooperating with others than by acting as free agents – a rarity under contemporary capitalism and its hyper-individualist norms. Macro-level entities such as states, complex organizations or large associations (like bowling leagues), cannot reproduce these structures and capabilities effectively. When they attempt to do so, the costs are often

prohibitive and the results often unsatisfactory in local contexts (Ostrom, 1991). 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 (Ellickson, 1991).

This is a distinct contribution of the small group format of investment clubs, and a testament to the ways in which defining power not by its outcomes but by its context – as a feature of relationships and interactions (Foucault, 1982, 1980) – can enhance the explanatory value of the concept. By providing financial incentives to reward the development of associational life, along with skills of persuasion and argumentation, investment clubs can genuinely empower individuals under conditions of broader socio-economic domination. Involvement in such organizations inevitably engages members with their environment – political, economic, and institutional (Habermas, 1985). This, in turn, creates opportunities for organized resistance, as in shareholder activism for corporate social responsibility – a movement driven by the economic clout and organizational skills of retail investors, including members of investment clubs (Harrington, 2008).

DISCUSSION: SITUATING RETAIL INVESTORS WITHIN THE SOCIO-ECONOMIC POWER STRUCTURE

This chapter began with a question: to what extent are investment clubs, and the populist investment movement they represent, adaptations to capitalist hegemony or tools of resistance? That is, should we view the rise of investment clubs as a form of economic empowerment for Americans, or as a symptom of their increasing disenfranchisement by financial and political elites? From a Foucauldian perspective, the answer seems to be: "both." That is, the investment clubs are simultaneously adaptations to domination and a means of resisting it. The power struggle is still in progress, but this chapter's observations on the current "state of play" (Gilding, 2005) in a contested arena of economic power suggest that investment clubs are winning and losing in different dimensions at the same time.

On the one hand, there is abundant reason for pessimism about the impact of investment clubs as agents of change in the field of capitalist hegemony, since much about the behavior of capitalist elites has *not* changed in the decades since the popular investing movement began. The

unloading of financial risk and responsibility onto workers – through changes in pension and compensation schemes, as well as through the tax code – has yet to be challenged successfully. There is still an institutional and economic vacuum where key elements of the social safety net, like dependable public or private retirement insurance, once provided a modicum of security. What were previously collective undertakings have devolved almost entirely upon individuals. This has been portrayed as ''empowerment'' – as corporations shifting power *to* employees by giving them more control over their earnings and pensions. Investment clubs have played into this: instead of launching a political response to the problems of economic inequality and inadequate pension coverage in the United States, the movement channeled participants' efforts into self-help, leaving major elements of the institutional *status quo* intact. In this sense, investment clubs illustrate Foucault's observations about the power of liberal governmentality to neutralize and de-politicize issues by framing the discourse around ideologies of personal responsibility and civic engagement (Foucault, 1997; see also Jaeger, 2007).

At the same time, collective action through investment clubs has afforded opportunities for individuals to challenge the terms of their subjugation in meaningful ways. As the history reviewed in this chapter attests, merely educating oneself about finance is a subversive political act, particularly for women. Even if retail investors did not make much money in the stock market, they appropriated at least some of the knowledge/power that once belonged *exclusively* to socio-economic elites (Foucault, 1980). While Americans were not alone in this effort to resist their conditions as passive subjects of capitalist domination, a unique constellation of legal, technological, and cultural conditions allowed the movement to achieve more significant changes in the United States than elsewhere.

Through small group interaction, American retail investors – many of whom belonged to investment clubs – changed the dominant discourse of corporate elites so that doing well economically was no longer reflexively assumed to be incompatible with doing good. On the contrary, corporate social responsibility and responsiveness to retail investors now has an established, consistent track record of profitability. This effort has larger implications for civic engagement and associational life in the United States, creating a template for collective action that could spread beyond the stock market to change the political and social power structure. It is a different kind of empowerment than the ''People's Capitalism'' touted by financial elites, but it offers the possibility of authentic transformation in lieu of the illusion of control.

NOTES

1. In constant 1982 dollars, hourly wages declined from $7.78 to $7.40 between 1985 and 1995, and weekly wages declined from $275 to $255; from 1996 Statistical Abstracts, Census Charts 868, 589, and 587.

2. According to the U.S. Pension and Welfare Benefits Administration, cited in *Fortune*, 18 August 1997, p. 114.

3. A major challenge in the empirical study of investment clubs is the lack of any centralized authority for registering and collecting data on the groups (see Harrington, 2008 for further discussion of this problem). Though all investment clubs must register as small businesses with the Internal Revenue Service, the agency's records do not distinguish between investment clubs and other financial organizations, such as accounting firms. Since the 1950s, only one organization in the United States has gathered any data on investment clubs – a nonprofit formerly known as the National Association for Investors Corporation, recently renamed Better Investing Inc. Since membership in NAIC/BI is voluntary, there is no way to know what proportion of total US investment clubs the organization represents; however, it is the only data source available, and the enrollment numbers cited in this chapter are drawn from NAIC/BI records.

4. The overstatement was explained by Beardstown treasurer Betty Sinnock as an accident occasioned by misunderstanding of the club's accounting software, but was generally interpreted as an attempt to perpetrate fraud upon the American public. See March 1998 articles from the *Guardian* and *Seattle Times*, cited on page 243.

5. Original document housed in the Bancroft Collection of Baker Library, Harvard Business School; cited in Harrington (2008).

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