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Discourse and regulation failures: The ambivalent influence of NGOs on political organizations

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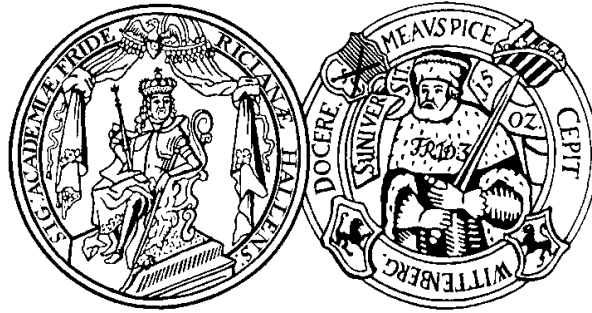
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Matthias Georg Will and Ingo Pies

Discourse and Regulation Failures: The Ambivalent Influence of NGOs on Political Organizations

Diskussionspapier Nr. 2014-2

des Lehrstuhls für Wirtschaftsethik
an der Martin-Luther-Universität Halle-Wittenberg,
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Abstract

In the last decades, NGOs have become an important participant in the work of political organizations (e.g., national authorities, the EU or the UN). This development brings many opportunities and also some challenges, including discourse failure which is one of the topics discussed in this paper. We present a case study that illustrates the interdependence of discourse failure and regulations failure. We conclude that discourse failure is frequently not merely an accidental by-product, but rather, a non-intended consequence of deliberate NGOs' campaigns. We make particular note of probable discourse failure when campaigns attempt to deal with complex issues in an environment rife with widespread prejudices and where the NGO's work is transparent. In this situation, regulation failure may be consequent upon discourse failure. We present collectively binding commitments for NGOs and binding services enforced by political organizations to prevent discourse failure. In conclusion, we argue that the field of political economy can benefit from this challenging environment if it systematically researches the interdependencies between discourses and regulations.

Key Words: Discourse Failure, Regulation Failure, NGO, Political Organizations, National Authorities, EU, UN, Self-Commitments, Political Economy.

Zusammenfassung

In den letzten Jahrzehnten kamen NGOs als wichtige Akteure im politischen Regelsetzungsprozess hinzu (z. B. in der EU, der UN und auch auf den nationalen Ebenen). Aus dieser Entwicklung ergeben sich für die Zivilgesellschaft vielfältige Chancen, allerdings auch einige Herausforderungen. Zu den Herausforderungen zählt unter anderem Diskursversagen, woraus häufig Regulierungsversagen resultiert. Der Beitrag präsentiert eine Fallstudie, die das Zusammenspiel aus Diskurs- und Regulierungsversagen aufzeigt. Das Beispiel illustriert, dass Diskursversagen nicht nur ein zufälliger Nebeneffekt von öffentlichen Diskursen ist, sondern eine nicht-intendierte Folge zielgerichteter Kampagnen von NGOs sein kann. Insbesondere Kampagnen, die sich mit komplexen Themen auseinandersetzen, über die es in der Öffentlichkeit weitverbreitete Vorurteile gibt, neigen zu Diskursversagen. Durch transparente Kampagnen seitens der NGOs wird dies sogar begünstigt. Zur Überwindung dieser Defizite stellt der Beitrag verschiedene Bindungsmechanismen für NGOs und Bindungsservices durch Behörden und Politik vor. Abschließend zeigt der Beitrag auf, dass die Politische Ökonomik davon profitieren kann, wenn sie systematisch das Zusammenspiel zwischen Diskurs und Regulierung erforscht.

Schlüsselbegriffe: Diskursversagen, Regulierungsversagen, NGO, Politische Organisationen, Behörden, EU, UN, Selbst-Bindung, Politische Ökonomik.

Discourse and Regulation Failures: The Ambivalent Influence of NGOs on Political Organizations

Matthias Georg Will and Ingo Pies

In the last decades, many political organizations (e.g., national authorities, the UN and the EU) have opened their doors to allow participation by NGOs. Two positive effects have arisen from this: the reforms, first, empower civil society and, second, improve the work of the political organizations through new forms of participation offered by the NGOs.

This paper is organized in three sections: Section 1 is a literature review of the reasons why political organizations are participating with NGOs. In brief, the organizations hope that this link will improve their work and empower civil society. Having said this, we support the strands in scientific literature which conclude that participation also causes challenges for the political process in these organizations. Political economy has a solid framework which can handle some of the problems (e. g., principal-agent issues, rent-seeking) that have arisen. However, we find few approaches that address the consequences of public discourse failure for the political process.

Section 2 presents a case study that illustrates the evolution and the consequences of discourse failure for regulatory processes. We show that in the example of the NGOs' campaigns against financial speculation, following the food crises of 2008 and 2011, it is highly probable that a discourse failure can lead to political failure. The limitations of public discourse often force NGOs to behave in a populist manner, ultimately causing systematic discourse failure. This is a big challenge for political organizations who require the support of the NGOs. We analyze the reasons why it is often rational that NGOs cause discourse failure as a non-intended consequence of their deliberate behavior. Additionally, we suggest some governance structures that can prevent discourse failure. Political organizations can contribute to NGOs through special commitment services. Such governance structures change the NGOs' strategy in a responsible and sustainable way to avoid campaigns that are likely to cause discourse failure.

Section 3 gives an overview of the practical and theoretical implications of our work. We argue that, from a practical perspective, collectively binding self-commitments established by the NGOs or commitment services enforced by the political organizations are an important contribution to preventing discourse failure. These governance structures can reduce regulation failure and empower society towards (self-)regulation and (self-)enlightenment. We maintain that from a theoretical perspective, it is beneficial to employ this political economy framework to assess the interdependencies between discourses and regulations.

1. NGOs: Important Participants in the Work of Political Organizations

Many new NGOs have emerged in the last decades, and are continuing to emerge on the local, national and international scenes.¹ NGOs are concentrating their efforts particularly

¹ Cf. Doh and Guay (2006; pp. 51-52), Whaites (2000; p. 126), Spiro (1994, pp 45-57).

in the areas of consumer protection, workers' rights, and environmental protection.² Additionally, NGOs have become essential in the field of developmental issues³ and are increasingly important for national, multinational or international political organizations (like national authorities, the UN or the EU).⁴ In this section, we analyze the role of the NGOs in international politics.

The reasons for the increasing number (and the rising power) of NGOs are manifold. They include private donations as well as public subsidies and grants: the latter have increased significantly.⁵ Numerous NGOs are also explicitly paid for implementing political decisions.⁶ The increase of financial resources available to NGOs helps to explain their ability to take on new roles. Another decisive factor is that people globally are more empowered and have established their own organizations to represent their particular interests.⁷ This ongoing development is greatly supported by political organizations who consider NGOs as important partners in finding solutions and implementing decisions.⁸ Political organizations, in this way, have opened their processes for NGOs.⁹

NGOs are concentrating on supporting political organizations, and are taking on important tasks in a rapidly-changing, global and pluralistic society. The emergence of strong NGOs can help to correct limited national policies that have failed globally in the arenas of environmental politics, development policy, and regulation of global finance markets, to name but a few.¹⁰ In regard to these deficiencies and the difficulties that political organizations have in solving them, we note that NGOs are already carrying out two important tasks: (1) linking the local with the international level and (2) linking the international with the local level.

(1) *Linking Local and Supra-Regional Levels through NGOs*: From the perspective of the national, multinational or international level, NGOs have two important functions. First, when NGOs are established in a certain region and represent particular local interests, they can inform international governments about local deficiencies.¹¹ Second, many NGOs have much expertise in developing solutions that are locally sustainable.¹² National, multinational and international organizations often use this expertise to change regulations or to implement special programs. In brief, NGOs' access to information and their expertise support political organizations in a complex world.

(2) *Linking Supra-Regional and Local Levels through NGOs*: In general, points raised in the last paragraph are also applicable to many NGOs who are able to link supra-regional politics with the local level in many ways. First, NGOs can inform locals about supra-regional political processes,¹³ and, from the perspective of political economy, can advise the public about principal-agent problems or rent-seeking behavior in national, multinational or international political organizations. Besides the media, NGOs have become an

² Cf. Bernauer and Caduff (2004; pp. 103-104), Bendell (2000; p. 241), Doh and Teegen (2002; p. 667-674).

³ Cf. Feldman (1997), Gugerty (2008), Zaidi (1999; pp. 260-263).

⁴ Cf. Doh and Guay (2006; pp. 49-51); Kelly (2007; pp. 82-83), Reimann (2006; p. 48), Spiro (1994; p. 51).

⁵ Cf. Reimann (2006; p. 48).

⁶ Cf. Reimann (2006; p. 48).

⁷ Cf. Bernauer and Caduff (2004; pp. 104-105).

⁸ Cf. Doh and Guay (2006; pp. 49-51).

⁹ Cf. Reimann (2006; p. 48). Kelly (2007; pp. 82-83).

¹⁰ Cf. Fisher (1997; pp. 439-440).

¹¹ Cf. Bernauer and Caduff (2004; p. 103-104).

¹² Cf. Bendell (2000; pp. 245-246), Doh and Teegen (2002; pp. 667-674), Spiro (1994; p. 48).

¹³ Cf. Nye (2001; pp. 4-5), Spiro (1994; p. 48).

important watchdog not just keeping an eye on big companies¹⁴ but also on politics. Second, NGOs also participate in developing more stringent regulations to improve these organizations (e. g., through codes of conduct, statutes, and constitutions).¹⁵ Third, NGOs are often experts in implementing or fulfilling the political organizations' decisions on the local level.¹⁶

By linking the local and the supra-regional levels, NGOs can be very effective in helping to overcome collective action problems within society, and especially within political organizations.¹⁷ However, NGOs also behave as lobbyists (e. g., for special-interest groups and/or the internal interests of the NGOs) and can thus cause specific problems:¹⁸ within the literature, we find comprehensive discussions of these policy problems.

(1) Zaid (1999; pp. 267-268) and Cooley and Ron (2002; pp. 36-37), for example, argue that NGOs frequently behave opportunistically because they require their supporters' donations and/or government subsidies. Thus, the increase in the number of NGOs will not necessarily solve global problems since this increase is partly supply-driven instead of demand-driven.

(2) If NGOs implement decisions on behalf of multinational or international organizations, they are likely to fail because they will be perceived as foreign agents by the locals. Reimann (2006; p. 65) also points out that many locals have prejudices because of the patronizing attitude of many external NGOs. This is an issue that particularly affects many projects in developing countries.

(3) If NGOs are focused on rule setting, they may be incapable of monitoring compliance because of a lack of expertise.¹⁹

(4) When multinational or international organizations open their doors to allow NGOs' participation, the political processes within the organizations typically become overloaded because of the additional participants.²⁰

(5) Finally, even if NGOs add information to the decision process of political organizations, this information may be biased and thus does not necessarily serve the common good.²¹

These are some well-known deficiencies of NGOs that limit their ability to support the self-regulation and self-enlightenment of society. Furthermore, these deficiencies also affect the functionality of political organizations. We argue that besides these deficiencies, another important challenge exists for society with respect to the behavior of NGOs; the latter regularly cause discourse failure as a non-intended consequence of their intentional behavior. As we show in our next section, discourse failure can cause political failure, and because of the growing participation of NGOs, political organizations are particularly affected. However, political economy has only just begun to investigate the interdependencies of discourses and regulations.²²

¹⁴ Cf. Waldron et al. (2013).

¹⁵ For example, for reforms of the World Bank, cf. Nielson and Tierney (2003; pp. 253-254).

¹⁶ Cf. Reimann (2006; p. 48). Development aid is a well-known practice, cf. Gugerty (2008), Feldman (1997).

¹⁷ Cf. Fisher (1997).

¹⁸ Cf. Bernauer and Laduff (2004; pp. 108-111), Lewis and Opoku-Mensah (2006; 1008-111), Pies and Hielscher (2008; S. 341).

¹⁹ Cf. King and Pearce (2010; p. 258).

²⁰ Cf. Raustiala (1997; p. 736-737).

²¹ Cf. Whaites (2000; p. 138).

²² Cf. Vanberg and Buchanan (1989), Caplan and Stringham (2005).

2. Discourse Failure: How Econometric Findings become a Mere Opinion within the Public Discourse

In our case study, we focus on the notion that discourse failure and policy failure are frequently interdependent. An analysis of this interdependence, both from a practical and a theoretical perspective, is beneficial for the purpose of reducing or even avoiding failure of political organizations which depend on NGOs' support. The first part of this section presents an overview of a joint NGO public campaign and its consequences for regulatory processes. The campaign started after the international food crisis in 2008 and was propelled by the ensuing crisis in 2011. It was run by many NGOs that focus on global food security. In the second part of this section, we show how the NGOs' campaign made policy suggestions to political organizations which contradicted the NGOs' own philanthropic interests. We suggest that this did not happen simply by chance. Instead, it was the systematic, albeit non-intended, consequence of NGOs' rational behavior in public discourses. Finally, we present different governance structures whose purpose is to reduce discourse failure and thus prevent regulation failure of multinational or international organizations.

2.1 How Well-intended Aims can Cause Discourse Failure: A Case Study among NGOs after the 2008 and 2011 Food Crises

In 2008 and 2011, the prices for agricultural commodities increased dramatically, causing riots in many developing countries (Figure 1).²³ Agricultural economists researched these developments and explain that the price increases were due to a complex interplay of factors in the real economy in combination with national political errors (Figure 2).

(1) The scientific literature argues that prior to 2008 the international demand for agricultural commodities had increased due to global population growth, a global increase in per capita income and thus a stronger demand for meat, and because of subsidies for bio fuels.

(2) In 2007 and 2010/2011, adverse meteorological events caused simultaneous crop failures in many regions of the world critical to the supply chain of global food production.²⁴

(3) Due to high demand, the stocks of agricultural commodities were historically quite low before the crises. As a consequence, bad harvests had an unusually strong impact. If stocks of agricultural commodities are filled, supply shocks have a small effect on prices. However, if stocks are low, even small supply shocks can cause extreme price surges.

²³ For an overview, cf. Pies et al. (2013) and the analyses by Trostle (2008), Headey and Fan (2010), Meijerink et al. (2011), Tangermann (2011) and Trostle et al. (2011).

²⁴ Cf. Trostle (2008; p. 21), Trostle et al. (2011; Table 2, p. 18).

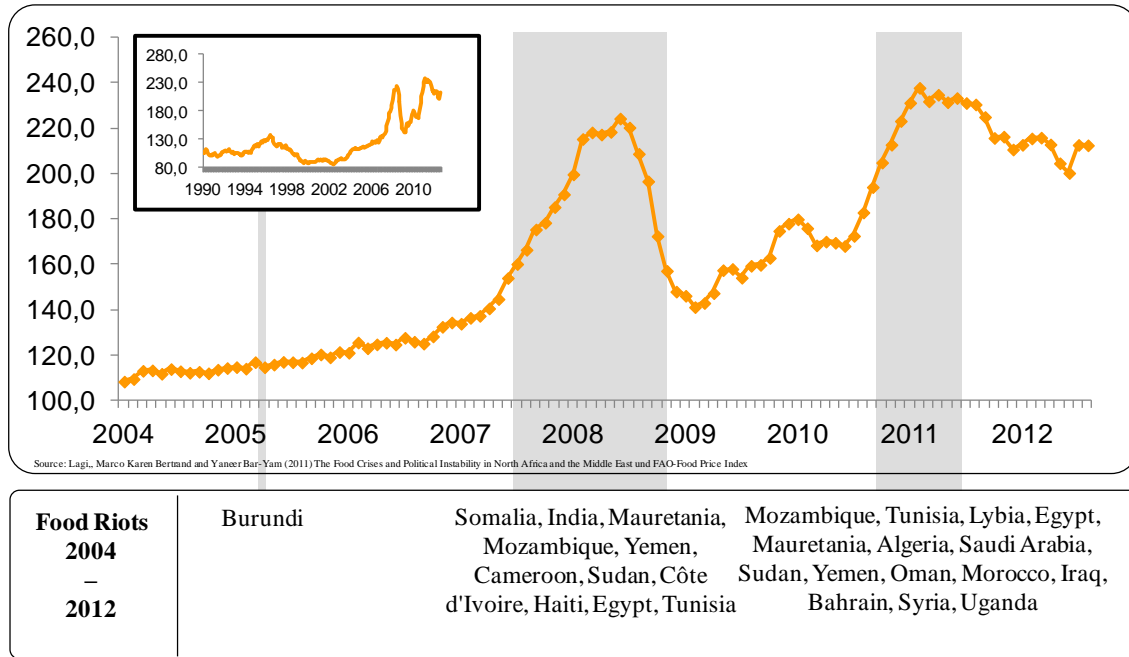


Figure 1: Food Price Developments with Dramatic Consequences, 2004-2012²⁵

(4) National governments in many developing, and even in some developed countries, initiated policies that had effects which flagrantly contravened the stated intention. Some examples of these policies include export bans, import subsidies or tax reductions, price ceilings and even prohibiting local merchants from building up stocks.²⁶

Price index for weighted prices according to the amount of traded wheat, rice, corn and soya

Index: January 2002=100

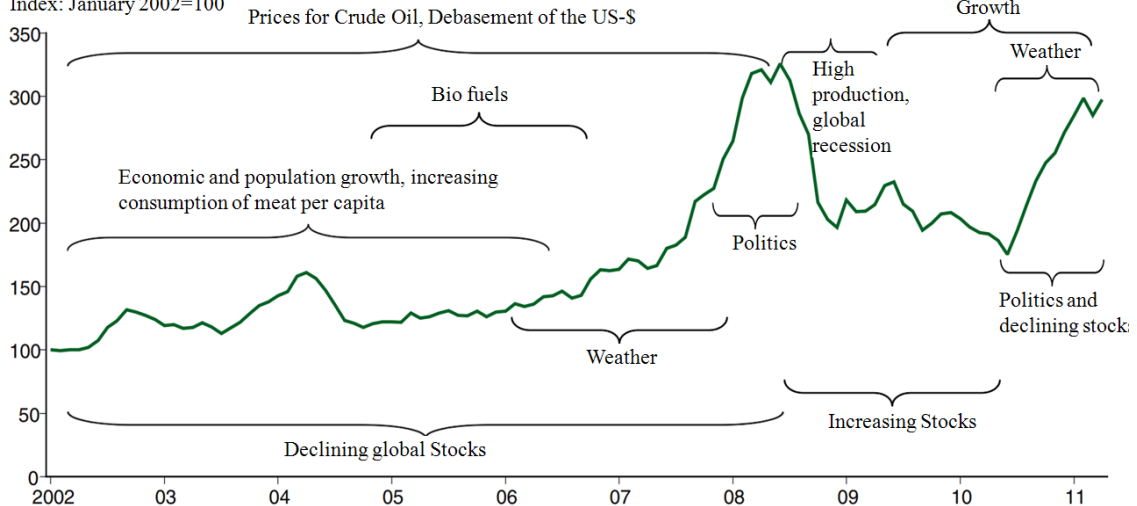


Figure 2: The Impact of the Real Economy on Agricultural Prices, 2002 to 2011²⁷

²⁵ Source: Own graph utilizing the FAO Food Price Index as well as data from Lagi et al. (2011).

²⁶ Cf. Götz et al. (2013), Pall et al. (2013), Demeke et al. (2009). For a general overview cf. Anderson (2013).

²⁷ Source: Trostle et al. (2011; Figure 5, p. 9).

We now analyze the public discourse during this time period, which was strongly dominated by some NGOs.²⁸ In our case study, which contains data from the US, the UN, the EU and Germany, we outline the interplay between different NGOs in the US and Germany. Furthermore, the study shows how the NGOs were trying to influence regulations on a national (within the US and Germany), multinational (the EU) and international level (the UN). Our study illustrates the discourse failure that occurred because of the persistence of the NGOs' campaign—despite many warnings by agricultural scientists. We argue that the campaign was in opposition to the NGOs' noble aims.

(1) One American NGO that had an early and decisive impact on the public discourse was "Better Markets". It was founded by the hedge fund manager Michael Masters, who advocates for a stricter regulation of financial markets. Masters has been using populist language and became famous for the so called "Masters Hypothesis", which he heavily promoted in many interviews, in NGO's publications and even in several congressional hearings in the United States. Masters hypothesized that passive index funds had caused the price peaks in 2008 and 2011 via financial speculation in futures markets for agricultural commodities.

At first glance, Masters' argument seems to be quite plausible. During the last ten years, passive index funds have appeared as new actors on the commodity futures markets and continue to be an important part of it, although behaving in a completely different manner when compared to traditional speculative funds. Passive index funds do not build up stocks themselves, they simply hedge inflation risks for big institutional investors by going long only and rolling over their contracts again and again. According to Masters' opinion, this massive increase of investments by passive index funds led to a rise in futures market prices, which in turn led to a rise in spot market prices and thus caused international food crises. Against this background, Masters argued for a total ban on passive index funds:

"Active and passive speculators are two very different animals, and to understand the distinctions between the two is to appreciate the extent of the threat posed by passive speculators. Active speculators add beneficial liquidity to the market by buying and selling futures contracts with the goal of turning a profit. In contrast, passive speculators drain liquidity by buying and holding large quantities of futures contracts – basically acting as consumers who never actually take delivery of goods. Passive speculators "invest" in a commodity or basket of commodities (such as an index), and continuously roll their position, as part of a long-term portfolio diversification strategy. This strategy is completely blind to the supply and demand realities in the market. As such, passive speculators not only undermine, but actually destroy the price discovery function of the market and make way for the formation of speculative bubbles.

Passive speculators are an invasive species that will continue to damage the markets until they are eradicated."²⁹

(2) We find this Masters Hypothesis repeated again and again in statements originating from organizations that are very close to the UN. Our first example is a statement from Olivier de Shutter, who is UN Special Rapporteur on the Right to Food. In his publications, the Masters Hypothesis is re-stated: "A significant contributory cause of the price spike was speculation by institutional investors who did not have any expertise or interest in agricultural commodities, and who invested in commodities index funds because other financial markets had dried up, or in order to hedge speculative bets

²⁸ The following observations are based on the comprehensive study by Pies (2013). A shorter English version is provided by Will et al. (2012; pp. 2-5).

²⁹ Masters (2010; p. 5) at a hearing of the "Commodities Future Trading Commission" in the United States.

made on those markets."³⁰ Our second example is a study, published by the UNCTAD and the Viennese Chamber of Labor (*Arbeiterkammer Wien*), whose main implications suggest a stricter regulation of futures markets with the explicit objective of banning passive index funds.³¹

(3) In June 2010, an OECD publication emerged that should have changed the previous discourse, but did not. In a discussion paper, the internationally renowned agricultural economists Scott Irwin and Dwight Sanders listed theoretical and empirical findings that, in summary, seriously argue against the Masters Hypothesis. Their paper provides the following conclusion:

"[T]he weight of evidence clearly suggests that increased index fund activity in 2006-08 did not cause a bubble in commodity futures prices."³²

(4) Just one week after the OECD publication, on June 30, 2010, David Frenk posted a reaction in the internet.³³ He works for the NGO "Better Markets", which was founded by Michael Masters. Frenk uploaded a commentary disputing the results of Irwin and Sanders. From his point of view, Irwin and Sanders' "study and its findings can be disregarded ... The overall analysis is superficial and easily refuted by looking at some basic facts."³⁴ Frenk did not investigate the arguments of the two scientists, and instead simply claimed that there are no challenges to the Masters Hypothesis.

(5) At the same time, a public campaign involving twelve very well-known NGOs started in Germany. The core of that campaign included posters on partition screens, ads placed in the newspapers, demonstrations, policy suggestions for German and European bureaucrats and politicians, and lists of signatures lobbying the political process. The German campaign had many similarities with the US campaign by "Better Markets". In particular, it shared the Masters Hypothesis, according to which passive index funds had indirectly caused extreme price peaks on spot markets for agricultural commodities, and that therefore index funds activities in futures markets should be strictly regulated or better still completely prohibited by law.

(a) The NGO "Oxfam Germany", a prominent member of the German campaign group, published a report on this subject that quotes "Better Markets" five times.³⁵ The report also argues for a "prohibition of index funds on the agricultural commodities markets or at least for an introduction of particularly strict position limits for this category of trader as a whole"³⁶.

(b) Another German NGO, called "Misereor", commissioned a report that does not directly quote "Better Markets", but nevertheless shares the Masters Hypothesis and concludes: "As the analysis below shows, the key influence of speculation on the price development of basic foodstuffs in developing countries can hardly be denied. Speculators, in particular, may repeatedly proclaim not only the »innocence«, but also the productive effect of speculation. However, a modicum of knowledge as regards the functioning of the financial markets is sufficient to demystify such claims."³⁷

³⁰ de Schutter (2010; p. 8, highlighted in the original).

³¹ Cf. UNCTAD and Arbeiterkammer Wien (2011; p. 52).

³² Irwin and Sanders (2010; p. 1, H.i.O.).

³³ Cf. Frenk (2010).

³⁴ Frenk (2010; p. 1).

³⁵ Cf. Hachfeld, Pohl and Wiggerthale's 77 entry strong bibliography (2012; p. 56 et seq.).

³⁶ Hachfeld, Pohl and Wiggerthale (2012; p. 10, own translation).

³⁷ Müller (2011; p. 3, own translation).

(c) Another report commissioned by the German NGO “foodwatch” is also very interesting. The author mainly interviewed people who criticized futures market speculation,³⁸ including David Frenk from “Better Markets”.³⁹ It is not surprising that the report adopts the Masters Hypothesis without question. Additionally, the work of Irwin and Sanders is evaluated as being irrelevant to the topic.⁴⁰ Furthermore, the report claims that the analysis and implications of the Masters Hypothesis are backed by “overwhelming evidence”⁴¹ and result from an “academic assessment”⁴².

(d) The report commissioned by the German NGO Agro Action (“Welthungerhilfe”) is the only one that was not written by a journalist or staff member, but by an independent academic. Nevertheless, the final result is the same. The report draws upon arguments by “Better Markets” and shares the Masters Hypothesis. Masters himself is extensively quoted.⁴³

(6) In Germany, several scholars published their scientific results highlighting the academic reconstruction of the food crises in 2008 and 2011. Our case study benefits from two public debates that took place.

(a) In 2012, no less than three German economic chairs debated with Thilo Bode, the head of the NGO foodwatch, who has effectively shaped the German public discourse by accusing banks (e. g., Deutsche Bank AG) and insurers (e.g., Allianz SE) as “hunger-makers”. Bode argues that passive index funds should be “prohibited”. When the professors pointed out that their academic conclusions are diametrically opposed to his call for prohibition, he (and also the other German NGOs) ignored these academic warnings.⁴⁴ Just like the OECD paper by Irwin and Sanders, the public intervention, three times in a row, by economic experts had no impact on the NGOs’ public campaigns and policy suggestions. Quite the contrary, the NGOs continued to claim that their arguments are based on academic evidence.⁴⁵

(b) In December 2012, some German scholars published a literature review summarizing the latest econometric studies on the effect of passive index funds on futures market prices of agricultural commodities.⁴⁶ The review concludes that the majority of empirical research articles cannot find a statistically significant interaction between the behavior of index funds and the price developments on futures markets of agricultural commodities (Figure 3). Furthermore, most studies state that an extensive regulation of futures markets (e. g., strict position limits, prohibitions) is not necessary, and could even be counterproductive in terms of policies for feeding the hungry (Figure 4). The review attracted a lot of attention. To date, it has been cited approximately 270 times in German newspapers.

³⁸ Cf. Schumann's acknowledgements (2011; p. 86).

³⁹ Cf. Schumann (2011; p. 42, p. 44 and particularly p. 52).

⁴⁰ Schumann (2011; p. 52, own translation): “After having read the [OECD] study, the economist David Frenk, who was himself a trader on the futures market in the past and is now a well-regarded analyst of the commodities markets, came to the conclusion that this study uses ‘a statistical method which is not at all suited to the data in question’ and that its findings can be ‘easily refuted by some simple facts’.”

⁴¹ Schumann (2011; Preface, p. 4, own translation).

⁴² Schumann (2011; Thesis 8, p. 8, own translation).

⁴³ Cf. Bass (2011; p. 46, endnote 38, p. 101, endnote 41, p. 101 and endnote 79, p. 104).

⁴⁴ Cf. FAZ (2012), Handelsblatt (2012) and Sueddeutsche Zeitung (2012). Cf. also the corresponding video announcement at: <http://www.sueddeutsche.de/wirtschaft/steigende-lebensmittelpreise-boesespekulanten-gute-spekulanten-1.1494851>

⁴⁵ Cf. attac et al. (2012; p. 1).

⁴⁶ Cf. Will et al. (2012).

(7) Despite this remarkable media attention, the academic review did not change the public campaigns of the German NGOs,⁴⁷ which are still using the same assertions as a basis for their policy proposals. Their list of signatures, together with their academically refuted arguments, remains online. Multinational (EU) and international committees are discussing the NGOs' claims and proposals in spite of the scholarly conclusions stated above.⁴⁸ Even worse, the NGOs' public campaign also promotes an existing regulatory deficiency in Europe. Unlike the US, the regulation of European futures markets has no framework for improving transparency and information,⁴⁹ and consequently, the NGOs' campaign has made it difficult to lobby for that kind of regulation. An increase of information and transparency would be a more effective way to foster the social benefits of futures markets, compared with implementing an overregulation which does not improve but impair the proper functioning of these markets.

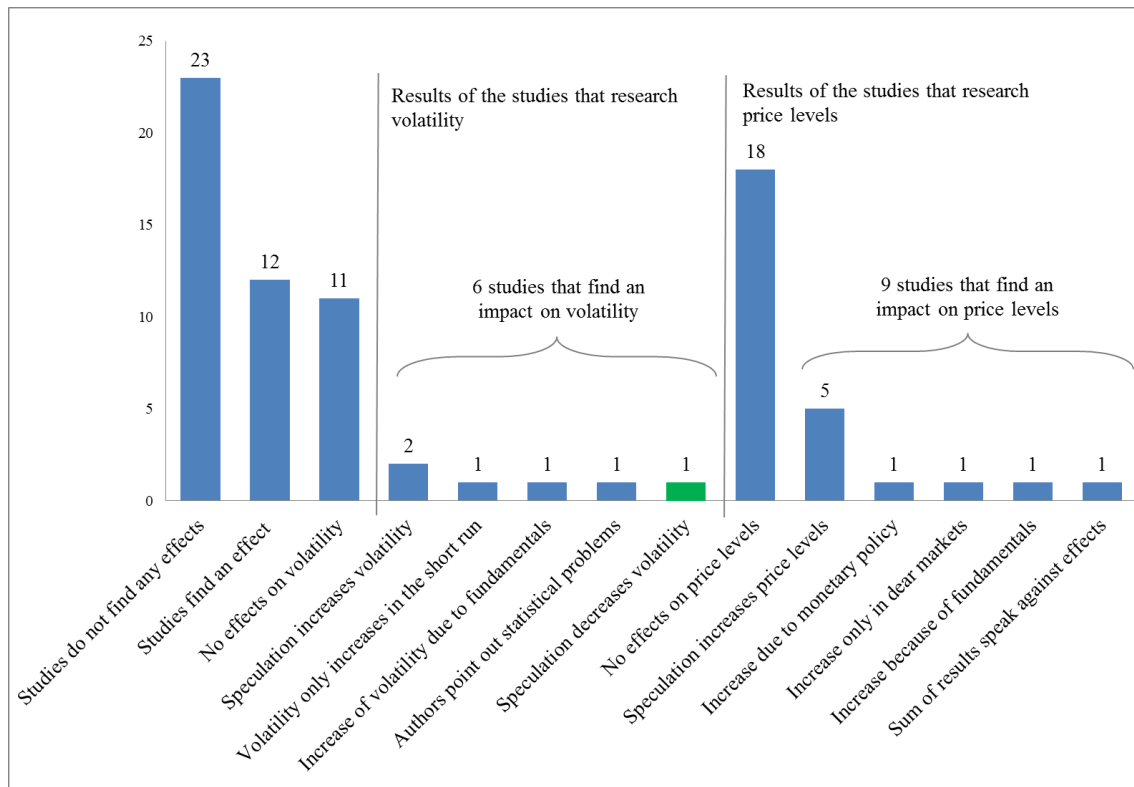


Figure 3: Empirical Evidence based on 35 Econometric Studies⁵⁰

(8) In sum, the NGOs' campaign – both in the US and in Germany – has been very persistent: despite academic state-of-the-art investigations that gave an all-clear signal, the campaigning NGOs were rather unimpressed and simply continued their public warning as well as their lobbying efforts. Faced with scientific counter-evidence, the NGOs chose to ignore or even negate these findings. This is an interesting fact

⁴⁷ The NGOs' campaigns and policy suggestions are still online: Cf. Foodwatch (2011), Misereor (2013), Oxfam (2013), Welthungerhilfe (2013).

⁴⁸ Cf. European Parliament (2013), United Nations (2012).

⁴⁹ Cf. Will et al., (2012; p. 19).

⁵⁰ Source: Own graph, utilizing data from Will et al., (2012; tables 1 and 2, p. 10 and p. 11).

that calls for explanation. Why do NGOs with a reputation for promoting the common good and a special interest in fighting global hunger keep on criticizing index funds as hunger-makers? Why do they keep on lobbying for index fund regulation, which is very unlikely to improve global food security? Why have they chosen to concentrate much less on criticizing the prohibitionist policies that without doubt aggravated the food crises or the subsidization programs for biofuels which provably have contributed to price surges for agricultural commodities?

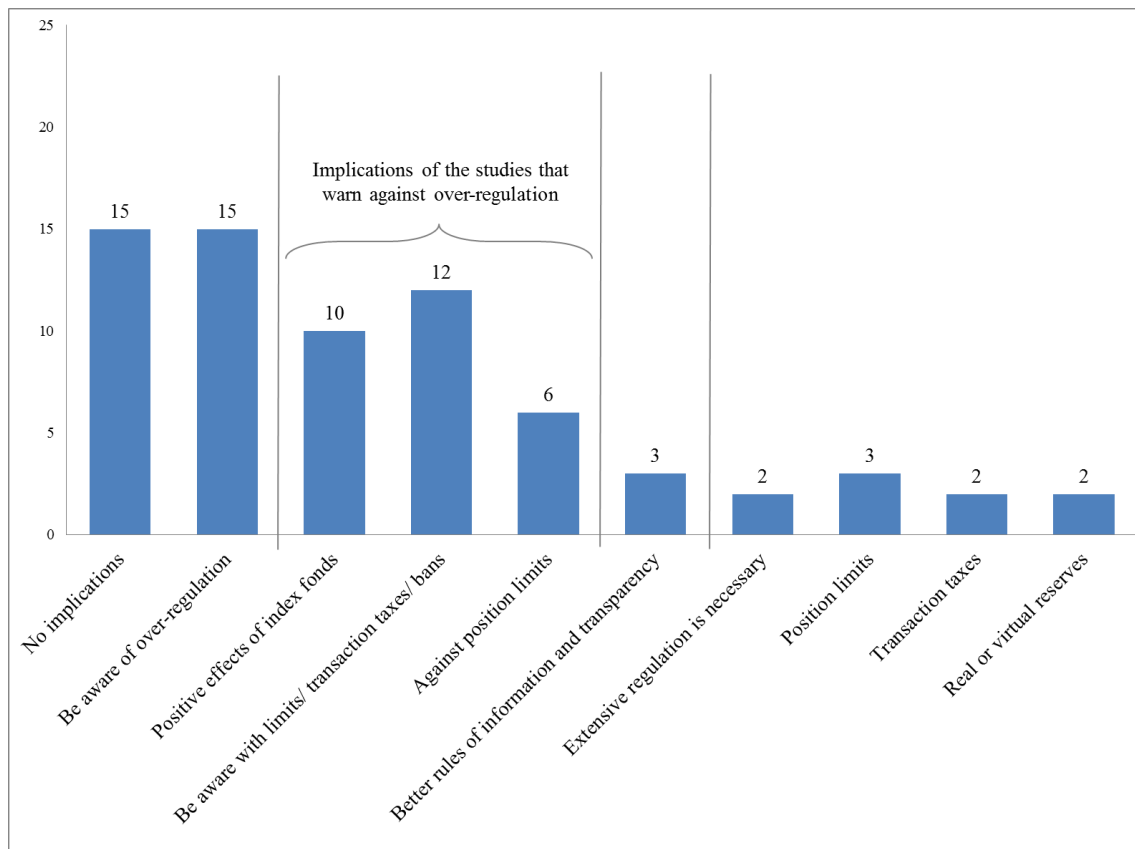


Figure 4: Policy Recommendations by 35 Econometric Studies⁵¹

In effect, the campaign counteracts the goals the NGOs claim to pursue. Their campaign demands regulations that, if implemented, would ultimately work against their own altruistic goals.⁵² In the following, we offer an explanation for this interesting phenomenon. But our explanation does not conclude bad results from bad intentions. Instead, we take for granted that the NGOs sincerely want to fight global hunger. Our explanation draws on the idea of a social dilemma that leads NGOs into a discourse failure.

⁵¹ Source: Own graph, utilizing data from Will et al., (2012; tables 1 and 2, p. 10 and p. 11).

⁵² Cf. Will et al., (2012; p. 23), Prehn et al., (2013; p. 18), Sanders et al., (2010; p. 92), Irwin and Sanders (2011; p. 25 et seq.), Irwin and Sanders (2012 p. 269).

2.2 Discourse Failure as a Systematic Consequence of a Social Dilemma among NGOs

Our case study helps to clarify four points in advance. (a) NGOs were very influential in raising public awareness of the food crises. Their campaigns sensitized citizens that were sympathetic to the problems of the poor. The relevance of NGOs' with respect to informing the public about the problem of high food prices for poor people in developing countries was quite high. (b) Nevertheless, the campaign rings the warning bell against financial speculation with agricultural commodities, while academic studies give the all-clear signal. This has two adverse effects. On the one hand, NGOs created a lot of pressure that led many bureaucrats and politicians to adopt their ideas for (over-)regulating capital markets. That holds for the US, the UN and also for the EU. On the other hand, the campaign against index funds distracts public attention from reform measures that would be very effective in improving global food security. Thus, the discourse that is so dominantly influenced by NGOs might lead to—or inhibit correcting—political failure. (c) We do not criticize the motivation of the NGOs. On the contrary, we greatly appreciate their aims. We consider the fact that millions of people are still starving to be a great disgrace. For us, it is a moral concern of the first order that rich societies take measures for an effective and sustainable fight against hunger. Therefore, it is encouraging to see that civil society is creating more NGOs to deal with that important topic. (d) Our main concern vis-à-vis the NGOs refers to the dynamics of their inter-action. We argue that under current circumstances the rational way to run a campaign may cause discourse failure, and ultimately, regulation failure. We present three reasons why NGOs' campaigns might systematically lead to systematic failure because of social dilemmas within the arena of public discourse, and we conclude that NGOs (should) have a strong interest in overcoming the social dilemmas that lead to discourse failure.

(1) *The rational way to run campaigns and exploit current events.* The implications of our case study have some in common with—but differ regarding the theoretical implications from—the findings of Swinnen et al. (2011; p. 421) who show that after the food crisis of 2008, NGOs changed their public communication but they did not change their policy suggestions. Before the crisis, in a time period marked by low food prices, NGOs criticized agricultural markets and Western agricultural policy for their detrimental effects on the *rural* population in developing countries. They rang the alarm bell because they claimed that food prices were too low for farmers, especially smallholders, to flourish. After the crisis, they rang the alarm bell due to high prices. NGOs continued to criticize agricultural markets and Western agricultural policy for their detrimental effects on the *urban* population in developing countries, especially on the poor who spend a substantial part of their budget on food. In order to explain this interesting phenomenon, Swinnen et al. point to a media bias. According to their “bad news hypothesis”, NGOs are forced to concentrate on those aspects of reality which can be scandalized. Good news are worthless in communication. What counts is bad news. Swinnen et al. (2011; p. 421) argue that under these circumstances NGOs have to conform to this media bias in order to gain public attention, attract members, generate donations and find supporters within the political sphere.

Considering the time frame covered in the study by Swinnen et al.—it ends immediately after the 2008 crisis—the bad news hypothesis is plausible as far as it goes.

However, the “bad news hypothesis” cannot explain why NGOs still try and manage to exert great pressure on bureaucrats and politicians within national governments, the EU, and also the UN. Why do they continue to claim the implementation of questionable policies? Against this background, we consider the “bad news hypothesis”, according to which NGOs are forced to biased communication, to be a valuable first step towards explaining the discourse failure, but from our point of view it is not sufficient to fully explain the discourse failure.⁵³

(2) *The rational method to address people’s prejudices.* The second part of our argument refers to Milton Friedman’s (1986; pp. 4-5) approach in which he shows how economists can advise politicians or the general public. The first of his three suggestions addresses the political failure that occurs when politicians have to deal with the self-interested policy proposals of lobbyists in a public discourse that is far from the ideal Habermasian discourse.⁵⁴ Friedman’s approach reminds us that economists’ theories are frequently too complex to be understood by the public at large. Additionally, many people are prejudiced against markets in general. These two limitations within the public discourse simplify the work of lobbyists, whose task it is to convince the public to support, for example, trade barriers that will eventually do harm to the common good. The complexity of many public policy issues and widespread prejudices make it possible for lobbyists to intentionally cause discourse failure. The consequent public pressure forces politicians and bureaucrats to satisfy the lobbyists’ interests by implementing unjust(ified) regulations.

The food crises occurred immediately after the major financial meltdown of 2008, which caused tremendous damage to the reputation of the whole financial sector.⁵⁵ At the same time, the so called “financialization” of the futures markets for commodities reached new heights because of fast-growing passive index funds. When the public’s many prejudices against banks and insurers are factored into this mélange of complex issues, the Masters Hypothesis offers a simple and plausible explanation for complex market interactions, and confirms wide-spread beliefs. Who among the public really knows the differences between a futures and a spot market? Moreover, who really knows how these markets are connected and what is the link between Western commodity markets and local food markets in developing countries? Who understands the business model of passive index funds that go long only?⁵⁶

To summarize, the complexity of the issues and people’s prejudices strongly influenced the design of the NGOs public campaign. NGOs’ moral high ground created a lot of credibility, particularly in the case of German NGOs who could build on a strong reputation for doing good by fighting hunger.

However, Friedman’s (1986) approach is not sufficient to explain the discourse failure shown in our case study. We argue that the discourse failure of the NGOs’ campaign was a non-intended consequence of intentional behaviour, in contrast to lobbyists who intentionally cause discourse and regulation failure. Therefore, some questions still remain open. Why did the NGOs choose passive index funds to be the decisive reason for the crises? Why did they make policy suggestions that, according

⁵³ For opportunist behavior of NGOs see also Zaidi (1999; pp. 267-268) as well as Cooley and Ron (2002, pp. 36-37).

⁵⁴ Cf. Habermas (1999).

⁵⁵ Cf. ARAG (2009) as well as Ernst & Young (2012).

⁵⁶ For a comprehensive explanation of this business model, cf. Greer et al. (2013) as well as Prehn et al. (2013).

to the academic assessment by agricultural economists, would exacerbate food insecurity? Why did they not correct their campaigns in light of the scientists' criticisms? The answers to these questions can be found in the limitations of public discourse, namely, complex policy issues, people's prejudices—or rather, rational ignorance in economic matters (Caplan 2007)—, and the dynamics that are set into motion by the interplay of these limitations.

(3) *The rationale behind persistent public campaigns and dysfunctional policy proposals.* The interplay of citizens' rational ignorance with highly complex policy issues tempts NGOs into a biased communication. This makes it understandable why the campaign members have chosen the financialization of commodity markets to be their foe. However, it does not explain why NGOs have not changed their stated policies to reflect the results of scientific studies on the real causes of the crises. We also note that NGOs persist in their behavior as described by the bad news hypothesis (adapting their communication according to the limitations of the public discourse, but giving policy guidance independent of that discourse). The reason for that persistence is another limitation of public discourse that has developed over the last number of years. In our current mass media society, NGOs risk losing credibility when donors and supporters find out that there is a discrepancy between the NGO's communication and its policies.⁵⁷ It is now very easy for supporters and donors to monitor the policies of most NGOs (e. g., by checking the NGO's homepage). Also, more and more meetings held by multinational and international organizations are public and available for viewing on the organizations' homepages. This makes it risky to correct mistakes.

Under given circumstances, it might be very difficult for NGOs to change their campaign once it has started, since the acknowledgement of a fault might irritate their main supporters and donors. As long as it remains highly popular in these relevant circles to accuse banks and insurers of being hunger-makers, NGOs will conform and continue exerting a corresponding lobbying pressure on bureaucrats and politicians⁵⁸—even if the claims are provenly wrong.

However, it is not in the long-run self-interest of NGOs to be trapped in such a discourse failure. It might be just a matter of time that large parts of the media detect the bias in their communication and the discrepancy between their version to explain critical events and the version favoured by academia. This may result in a loss of reputation and public acceptance that ultimately reaches the inner circle of supporters and donors.

Summarizing, the complexity of this policy issue, the public's rational ignorance on the topic as well as specific expectations by supporters and donors together with a media bias have tempted NGOs into campaigning against banks and insurers and into exerting a lot of pressure on bureaucrats and politicians of political organizations. Additionally, the transparency of NGOs' work and the extreme position they took early on made it extremely hard for them to alter their campaigns and to adapt to the academic point of view how to fight global hunger effectively. Despite their noble aims for improving food security in developing countries, the NGOs' campaign caused discourse failure and may additionally cause regulation failure. There is still

⁵⁷ Cf. Zaidi (1999; pp. 267-268) and Bendell (2000; p. 253).

⁵⁸ Cf. Bernauer and Caduff (2004; pp. 108-111).

great pressure on bureaucrats and politicians that increases the risk of over-regulating futures markets by national governments, the EU, and the UN.

We believe that these effects were not deliberately intended by the NGOs, but are the systemic, non-intended consequence of behaving in a rational way under the currently given circumstances of strong limitations for a discourse that serves public reason. We analysed three limitations that cause this social dilemma for NGOs: (1) complex topics, (2) wide-spread rational ignorance, and (3) strong expectations among supporters and donors that—surprisingly—force NGOs not to change their strategy mid-campaign, in order to retain their credibility in the short run, while exactly this puts their credibility at risk in the long term. This discourse failure involves a self-destroying tendency for the credibility of NGOs and thus endangers the potential in modern society for democratic self-enlightenment and self-determination.

Let us elaborate on this important point. As argued by most agricultural economists, implementing NGOs' policy proposals would cause more harm than good. When the public realizes that a more heavily-regulated market will intensify the problems, the credibility of NGOs—both individually and as a group—is likely to suffer. This is a major issue for NGOs, because once they lose public trust, they also lose their legitimacy to operate even in situations where the battle is honourable.

The following section highlights some institutional reforms that would support NGOs in overcoming the social dilemma of public discourse failure. Political organizations like the national authorities, but also the EU or the UN can be important facilitators of these reforms.

2.3 Governance Structures for Overcoming NGOs' Social Dilemma in Public Discourse

In an ideal world, the public would be interested in good and bad news alike, it would be well informed, be able to deal with complex topics, and even support NGOs that have to adjust their campaigns and policy suggestions because of new insights, scientific or otherwise. In that ideal world, it would not be rational for NGOs to run campaigns that ignore the state-of-the-art knowledge accumulated by scientific research. They would abstain from such practices because the long-run self-interest of these organizations would be best served by respecting high integrity standards.

However, our world is far from ideal. Therefore, it is possible to run into discourse failure, which then might lead to the political failure of mis-regulation. However, even in a non-ideal world it might be possible to find remedies for the shortcomings of public discourse. In the following, we discuss three governance structures that might be helpful in overcoming the social dilemma of NGOs.

(1) *Self-binding commitments of individual NGOs.* Screening the literature, we find studies which focus on the fact that many NGOs have deficiencies as accountable organizations:⁵⁹ doubts are frequently raised by the public about the internal use of funds raised by NGOs. Consequently, people donate less. Several forms of self-binding commitments are required to increase NGOs' credibility, including, for example, a code of conduct, and internal accountancy and auditing procedures. These self-binding procedures are highly effective in solving individual problems of credibility.

⁵⁹ Cf. Bendell (2000; p. 253).

However, important as such a strategy might be, it runs into difficulty when it comes to governing interaction among competing NGOs. If a high integrity standard is not appropriately acknowledged by supporters or donors, a NGO that binds itself might experience a competitive disadvantage. Furthermore, it might suffer collateral damage caused by NGOs with lower integrity standards who endanger the reputation of the whole sector. In sum, self-binding commitments are desirable and necessary in order to guarantee the integrity of the respective NGO, but they are not sufficient for helping NGOs to escape from collective self-damage in a social dilemma.

(2) *Collective commitments that bind all NGOs.* Gugerty (2008; p. 109, 117) describes a framework for NGOs that enables them to develop arrangements that are collectively binding, similar to industry standards. Her framework addresses NGOs' problems in developing countries, including deficiencies in the rule of law, ubiquitous corruption, or involvement in local conflicts. The important difference is that collective commitments enforce standards for socially desirable behaviour and monitoring for all NGOs, thereby overcoming social dilemmas between them. The standards change rational behaviour via incentives: socially undesirable behaviour becomes negatively sanctioned.

Such standards may determine how NGOs run a campaign. Therefore, they can help to overcome social dilemmas that cause discourse failure. A standard might describe how NGOs should seek advice from independent scientists before they run a campaign. Furthermore, if new research on topics of public discourse is published that is pertinent to the campaign, NGOs should have clear procedures how to adapt their campaigns and policy proposals appropriately. This is an example of a "responsible campaign standard". Another example of a collective commitment is a new NGO that operates as an NGO watch. Every year, it would publicly honour the most responsible campaign, and alert the public about populist campaigns that neglect scientific findings. Responsible NGOs would become more and more credible because of such a screening of best practice. At the same time, NGOs exploiting the public's rational ignorance would lose reputation and credibility. However, it might be difficult for NGOs to implement such binding arrangement among themselves, especially as long as free-riding is attractive. In such circumstances, political organizations might step in and encourage or even offer commitment services for overcoming social dilemmas.⁶⁰

(3) *Collective binding services for NGOs.* A third alternative are external commitment services that support NGOs collectively to overcome social dilemmas. Political organisations could offer such services.⁶¹ For example, the UN or the EU could implement rules that prescribe the conditions under which NGOs are allowed to participate in the political processes of these organizations. Conditions of admission, e.g., could regulate NGOs to accept standards of credibility and trustworthiness in "responsible campaigns". NGOs might have to accept that the content of their campaigns and suggestions are evaluated by scientists before or during running a campaign. Also, NGOs that want to participate have to accept that they have to change campaigns and policy suggestions if research reaches new insights that are pertinent to the campaign.

⁶⁰ The distinction between self-commitment and commitment service stems from Pies, Hielscher, Beckmann (2009).

⁶¹ For an early suggestion, cf. Spiro (1994; p. 54).

If implemented carefully, conditions of admission to lobbying would not affect freedom of choice. The collective binding services would only ensure that NGOs could increase the quality of their campaigns and proposals in a responsible way despite a deficit of public discourse. The commitment services would not limit the content or the agenda of the campaign. Furthermore, with regard to the EU, the Charter of Fundamental Rights of the European Union would limit the EU in its ability to establish “commitment devices” that would in effect censor some NGOs. In the case of the UN, the Universal Declaration of Human Rights would be a practical framework for restricting the UN from censoring NGOs. A credible threat that the UN or the EU are going to implement these commitment services could be sufficient for encouraging the NGOs to develop and implement an appropriate quality standard and the according procedures on their own. Additionally, it would not be necessary for political organizations to be directly engaged in auditing NGOs. This job could be done by organizations—probably NGOs themselves—that are specialized in scrutinizing the appropriateness of governance structures. A successful audit would send a strong signal to the public that an NGO is trustworthy and credible. The auditing of responsible campaigns would fundamentally change the dynamics of how NGOs operate: they would get a strong incentive to develop sustainable solutions for societal problems without getting caught in social dilemmas. Complex issues would need to be explained in a much more rational discourse than is currently available. Such standards would strengthen the role that NGOs may play in the democratic (self-)enlightenment and (self-)regulation of modern world society.

To reduce entry barriers for small NGOs, political organizations could refund the costs of admission. Furthermore, they could reward best practice among NGOs or punish those organizations which do not meet standards of integrity, e.g. by black-listing.

Another collectively binding commitment service for NGOs could be provided by the national academies of science.⁶² Faced with strong controversies in public discourse, the national academies of science could undertake research projects to clarify the basic facts. They might even organize tribunals of arbitration among competing views on politically important topics. As our case study highlights, a consequence of discourse failure might be that NGOs and other players systematically give a distorted view of the empirical findings of academic research. Therefore, expert assessments by the national academies of science could provide a credible overview of the relevant facts. Such studies could be the basis for a more productive (public) discussion about functional solutions. The reputation of the national academies of sciences might create a more credible basis for discussions about solution-orientated approaches and thus might help to correct populist claims that lead the democratic public astray.

Finally, it is of crucial importance to understand that such measures should be welcomed by all NGOs with a sincere interest in putting moral ideals into practice. They are prevented from doing so if the competitive process in which they find themselves is a social dilemma. NGOs need an enabling environment and therefore have a solid self-interest in improving their framework conditions, either via self-commitments or via commitment services that help them to overcome the dynamics of collective self-damage.

⁶² Cf. Pies (2012; pp. 19-21).

3. Implications

Our study illustrates the fact that public discourse may offer problematic incentives to NGOs that may ultimately lead to political failure via NGOs exerting lobbying pressure on political organizations towards mis-regulation.

3.1 Practical Implications

NGOs develop campaigns that respond to the public's rational ignorance. Today's mass media makes it easy for NGOs' supporters and donors to observe any differences between their public campaign and their lobbying activities. It thus becomes difficult for NGOs to run popular campaigns and at the same time make responsible policy proposals to bureaucrats. In turn regulators, under considerable populist pressure from NGOs, will find it more and more difficult to discriminate between responsible proposals and populist arguments. Therefore, there is a natural tendency that both campaign and lobbying activities serve widespread prejudices and hence become counterproductive. Thus, NGOs' participation with international organizations like the EU or UN issues several challenges: it reduces the speed of regulatory processes;⁶³ it can lead to regulation failure if bureaucrats and politicians are forced by the public to implement counterproductive regulation; and it might aggravate regulatory deficiencies like, e. g., the absence of transparency rules for European futures markets or inactivity in reforming the misguided subsidization of biofuels or the misguided practice of export bans in times of international food shortages.

As far as it is rational for NGOs to develop campaigns and suggestions according to the people's prejudices, discourse failure is the non-intended consequence of intentional NGOs' strategies. These social dilemmas can be overcome by means of collectively binding self-commitments or commitment services. Furthermore, such binding commitments would serve the interest of the NGOs themselves: NGOs would no longer be forced to behave in a socially questionable way simply because the issues are highly complex or because large parts of the public are rationally ignorant of the relevant facts. Instead, NGOs would remain credible and trustworthy. From our point of view, higher integrity standards would help NGOs to empower society in its quest for democratic (self-)regulation and (self-)enlightenment.

Standards for NGOs that are enforced and monitored by NGOs are one possible way to prevent social dilemmas and the resulting discourse failures. The approaches can be manifold: NGOs can develop standards and a monitoring policy that is mandatory in order to receive certification. NGOs that operate as NGO watchdogs can discipline NGOs which run campaigns in a highly populist way. Political organizations depend greatly on NGOs and can also help to prevent discourse failure. They need NGOs to provide them with up-to-date information from the local level. NGOs support bureaucrats and politicians with ideas for better regulations. Both of these tasks are susceptible to discourse failure. As argued above, political organizations can support the NGO scene with services for collectively binding commitments that overcome social dilemmas. By encouraging and rewarding NGOs to apply high standards of "responsible public campaign", the rationale behind public discourse

⁶³ Cf. Raustiala (1997; pp. 736-737).

fundamentally changes: instead of riding on a wave of populism, NGOs receive an incentive to behave responsibly despite complex issues and wide-spread ignorance.

These collectively binding self-commitments and commitment services should not limit NGOs' freedom of speech. Instead, they should create new possibilities for NGOs that have not been possible so far because of social dilemmas in public discourse. After all, NGOs would be freed from adjusting their public campaigns (and their policy proposals) to people's prejudices. Instead, they would be enabled to run more campaigns that really address important long-term goals of society. NGOs would be able to convey complex issues without resorting to populist opinion. At the same time, the quality of NGOs' support for political organizations would considerably increase. Politicians and bureaucrats would require less resources to screen out populist reform proposals that are in effect counterproductive. Thus, the work of political organizations would be strengthened. Even in the short run, discourse failure and regulation failure could be reduced despite complex topics and people's prejudices. In the long run, of course, functional self-commitments and commitment services may have a valuable impact on reducing prejudices (if NGOs refuse to acknowledge people's prejudices, this will help reduce those prejudices) and creating a society that is adept at solving complex issues.

3.2 Theoretical implications

Our study highlights the fact that the field of political economy can benefit from linking discourse analysis with the traditional approaches of economic analysis (e. g., principal-agent analysis, rent-seeking, etc.). We find many interdependencies between discourses and regulation. Discourse failure exerts a lot of pressure on regulators to implement policies that are ultimately counterproductive. A possible remedy for discourse failure and hence for regulation failure is to improve the institutional framework conditions for NGOs, either through self-commitments or through commitment services. From our perspective, the field of political economy would benefit greatly by considering regulation failure in two ways. The traditional approach focuses on principal-agent problems, rent-seeking, etc. within the regulatory process. An enhanced approach complements the traditional perspective with discourse analysis. That analysis reconstructs public discourses (or even discourses that occur within organizations) according to the discourses' limitations. By combining both levels, political economy becomes a richer framework for dealing with challenging issues of discourse failure and regulation failure.

For many economists, discourse analysis seems to be a kind of "fuzzy" analysis. However, as some economic approaches illustrate,⁶⁴ discourse analysis can be grounded on a rational-choice framework. For example, many discourses dealing with issues of public concern can be fruitfully approached by asking the question: do the participants in the discourse perceive the conflict at hand as a win-win or a win-lose situation? This kind of analysis should be familiar to economists because it can be translated into the framework of rational-choice theory by (methodologically)

⁶⁴ Cf. Coase (1937), Olson (1965), North (1990), Williamson (1973), Schelling (1960), Buchanan (1977). Furthermore, the following papers directly address that question: Beckmann et al. (2011), Hielscher (2011), Pies et al. (2010), Pies et al. (2009), Hielscher et al. (2012) und Pies et al. (forthcoming).

scrutinizing the situational logic of interactions in order to foster or even create mutual benefits via institutional reform. By applying such a framework to discourses, political economy could probably find new solutions for overcoming the situational logic of social dilemmas that otherwise lead to discourse failure. Put differently, political economy may contribute to designing improved constraints on public discourses that enhance the win-win potentials of modern societies.

Conclusion

The open door policy of political organizations for NGOs has given rise to many opportunities for finding improved solutions to urgent problems. From our point of view, allowing the participation of NGOs was a necessary step for the political organizations to better fulfill their own mission: to get sensitized for people's needs that otherwise tend to be overlooked; to get access to local knowledge and at the same time get help in implementing measures at the local level. In these respects, the participation of NGOs has proved to be highly functional. However, there are also some risks associated with this process.

If, under current circumstances, political organizations involve NGOs in their processes of regulation, they become much more vulnerable to public discourse failure and, as a consequence, to regulation failure. If a rationally ignorant public cannot comprehend complex policy issues and hence is open to populist oversimplification, such a pre-disposition to prejudice might lead even NGOs with the best of intentions into a social dilemma, simply because they have to compete for public support. NGOs then find themselves in a situation with perverse incentives: they are tempted to outbid each other with populism, while at the same time they cannot afford to abstain from such a behavior—even if they know that it does not contribute to the common good and may in the long run actually be detrimental to their own noble aims.

Our analysis shows that although discourse failure is a major challenge for society, this challenge can be managed. Collectively binding commitments established by the NGOs themselves or commitment services offered by political organizations can greatly improve the situation. These reforms would help NGOs to pursue their noble aims in a responsible and sustainable way. Moreover, NGOs' important role in the (self-)enlightenment and (self-)regulation of modern societies would be empowered.

Our core idea is that, similar to the business sector, the NGO sector needs an institutional framework that protects actors against the dangers of a race to the bottom. Like business organizations, NGOs need institutional support in keeping up high standards of integrity, especially since they have to compete for public attention, member support and financial donations. Like business organizations, NGOs could profit from improved reputation mechanisms, stricter liability rules, screening procedures, rewards for best practice and punishments for undermining the credibility and trustworthiness of the whole sector.

We perceive political economy as a powerful framework for reconstructing the interdependence between discourse and regulation. Political failure is not necessarily the consequence of rent-seeking or principal-agent problems. It can also be the consequence of public discourse failure. We hold that this is a promising path for further research to explicitly scrutinize the effect of discourse failure on the regulatory process.

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