



# The Price of Uncertainty

Recently, Europe seems to be stumbling from one crisis to the next. In addition to the debt crisis that has been plaguing the continent for years, a lack of solidarity and trust has now emerged. Some social scientists have identified the origins of this unstable situation in the market-stimulating focus of politics since the 1970s. At the **Max Planck Sciences Po Center** in Paris, the team headed by **Jenny Andersson** and **Olivier Godechot** is investigating the question of how societies deal with instability.

TEXT **MECHTHILD ZIMMERMANN**

**G**ermany in 2016 – rosy times for the country: Unemployment is at its lowest level in decades. Generous wage agreements are fostering wage growth, and pensions are rising noticeably, too. More money is available in public budgets than ever before. Crime is also at a low. Compared with the mid-1990s, the number of robberies and thefts has fallen by almost a third, and murders by almost half.

Germany in 2016 – the prevailing sentiment is pessimistic: Fear of economic decline, and jealousy and mistrust of those in control in politics, business and the media, are widespread across large sections of society. Conspiracy theories are circulated online, politicians are threatened. Sales of pepper spray and blank guns are skyrocketing. The *Alternative für Deutschland* right-wing populist party raked in more than 12 percent of the vote in three federal states.

Germany is not an exceptional case. Uncertainty and frustration are growing in many parts of Europe, and with them, the desire for simple political an-

swers like those provided by populist politicians of various allegiances. This is just as true for the economically fragile nations in eastern and southern Europe as it is for Austria, Switzerland and prosperous northern European nations. But where is this disappointment and uncertainty coming from?

Let's be clear from the outset – there is no simple answer to this question. Even the social sciences are unable to provide a comprehensive picture of all the various phenomena we are currently seeing. However, they are developing approaches that reveal the underlying causes and that go beyond the political thinking applied to date.

Historian and political scientist Jenny Andersson and economic sociologist Olivier Godechot focus primarily on the economic causes of social uncertainty. Both are directors at the Max Planck Sciences Po Center on Coping with Instability in Market Societies based in the heart of Paris. The Center, known as MaxPo for short, is a joint project between the Max Planck Institute for the Study of Societies in Co-





A deep divide: The gap between top earners, particularly those at banks, and people with precarious incomes has grown substantially.





Game over: After the financial crisis, there were major demonstrations in Frankfurt and around the globe against the wheeling and dealing of banks. Politicians responded, too – by increasing restrictions, raising controls and limiting bonus payments.

logne and the elite French university Sciences Po Paris, which has a strong social sciences orientation. The central question addressed by MaxPo is: How do societies influenced by the market react to instability? And how is the growing social inequality connected with this?

The researchers use the term “instability” to refer to several interconnected phenomena. The starting point for research in this area is economic instability, which manifests itself not only in economic cycles, but also in changes in the job market. After all, companies relocate jobs abroad or cut jobs even during upbeat periods. Employees

come to feel these changes in the form of increasing workloads, deadline pressure and rising expectations when it comes to their flexibility.

This pressure and the fear of job loss leads, in turn, to social instability – one’s hard-earned position in society is no longer secure. Even a good education doesn’t guarantee a job, as we are currently seeing in southern Europe. But the number of insecure employment relationships is growing in Germany, too, with a rise in fixed-term contracts, temporary work and so-called mini-jobs. Within society, instability goes hand in hand with uncertainty and fear of decline.

The new economic conditions have also resulted in an unstable situation for politicians in the period since the 1980s. Globalization is making parts of the economy more mobile, and the process of taxing them more difficult, as companies can threaten to relocate abroad. Many international groups now siphon their profits to countries with low tax rates. As a result, nations are going into debt to fulfill their obligations. Another source of political instability is the increasingly complex and rapidly changing party-political structure in almost all European countries.

“The starting point of instability was the oil crisis in the 1970s,” says Jenny Andersson. This was the first time “stagflation” was recorded in Western industrialized nations: stagnation of economic growth coupled with high inflation and high unemployment – a phenomenon that shouldn’t have been possible according to the then prevailing Keynesian economic theory.

In the 1930s, British economist John Maynard Keynes developed his “General Theory,” a groundbreaking approach that was able to explain for the first time why the economy didn’t recover after the Great Depression and unemployment remained dramatically high despite the fall in wages. Keynes viewed overall economic demand as the decisive factor in production and employment. In the decades that followed, Keynesians continued to develop the approach. This gave birth to theories that saw a connection between inflation and high demand, rising wages and low unemployment.

During the oil crisis, these explanations no longer applied. Unemployment figures rose dramatically, tax income collapsed, and states had to rein in their spending to get budget deficits under control. As a result, Keynes’ model lost its influence. Instead, liberal eco-

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economic ideas prevailed that were implemented in the public sector with such concepts as “new public management.” “These were economic theories that viewed, for example, nationally organized public services as an obstacle to dynamic market development,” says Jenny Andersson. “Economists became convinced that public institutions work inefficiently and that their costs could be reduced through competition and market price mechanisms.”

One example of this is the social housing sector. Over the past few decades, the German government first gradually withdrew from housing construction, and then also from financial support for residential construction. Recently, however, it has become clear that the market doesn’t cover the demand for affordable housing. According to the latest figures, the rent in 95 percent of privately built new residential buildings is too expensive for average earners. Deficits are also showing in health care and the pension system.

Overall, the stable social and economic situation of the post-war decade has revealed itself to be a historical exception. However, the standards of this period have remained the benchmark in the collective memory – one reason

why, since then, many people feel like the government has let them down.

In parallel with this, society entered a period of fundamental change that continues to this day. The traditional ties to family, as well as to such institutions as the church, political parties and unions, are disappearing. The options available for shaping one’s career path are more wide-ranging than ever before. Migration has led to a multitude of cultures and religions, particularly in cities. Overall, society has become more diverse, but also more complex.

#### **POLITICS IS DEPENDENT ON THE FINANCIAL MARKETS**

In addition, digitalization and the immeasurable opportunities the internet offers are fundamentally changing the world around us. The freedom of each individual has increased, which also means that everyone carries greater responsibility. This opens up countless new possibilities, yet at the same time, many people feel uncertain, overwhelmed or overtaxed.

The financial crisis of 2007/2008 destabilized the economic and political situation further. Triggered by the bursting of the real estate bubble in the

US, the crisis led to many nations bailing out banks and taking on additional debt. The problems ultimately spilled over into the real economy and still burden many countries today with struggling economies, high unemployment and a mountain of debt.

“The financial crisis showed how dependent politics is – how dependent we all are – on the financial markets,” says Andersson. We see this, for instance, when rating agencies assess nations’ credit ratings, thus helping to determine how much scope for action a government has. This dependence is part of a phenomenon that researchers call “financialization.” The main characteristics of this phenomenon are the growing importance of the financial industry and the influence of its interests on politics and the real economy. Stock corporations, for instance, are under pressure to maximize profits in order to distribute them to shareholders – leading, in turn, to headcount reductions and production relocations to low-wage countries.

Olivier Godechot, the second Director at the Center in Paris, is dedicated to investigating the effects of financialization on social inequality in society. In a broad comparison of 18 OECD countries – including Germany, France, the US, the UK and Denmark – he analyzed the role financial markets and their activities played in the rise in inequality across these nations over the period from 1970 to 2011. “The first thing you notice is that the financial sector has grown considerably,” says Godechot. “Its share of the gross domestic product has increased from an average of 4 percent to nearly 7 percent.”

According to the researcher’s analyses, the rise in financial market activity resulted in an increase in social inequality. “In particular, the extraordinarily high wages and bonus payments

#### **MAX PLANCK CENTER**

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in the financial sector led to a widening of the gap between rich and poor,” explains the economic sociologist.

Olivier Godechot has also proven the influence of financialization on a regional level. In particular, the large financial centers are drivers of social inequality within a country. A nation’s highest incomes are usually concentrated here, and the gap between top earners and people with precarious income is particularly wide in these centers.

In another area of research, Olivier Godechot is focusing on how employers and employees at different ends of the wage scale deal with the growing inequality. To this end, one of the questions Godechot investigated was how bonus payments at banks have developed since the financial crisis. In response to the crisis, the EU limited bonus payments for bankers to a maximum of double the annual base salary from 2014 onward.

Olivier Godechot explains that the first reaction of the banks was to increase salaries. “British banks found an additional way of getting around this rule: they give their top employees a monthly allowance in addition to their salary and the permitted bonus payments. And this is structured in such a way that, like the bonuses, it has to be renegotiated every year.”

On the other hand, he says that bonus payments are falling in the sector overall. “We’re still unable to judge whether this is due primarily to profits declining, or whether it is also a response to the social pressure that bonus payments at the previous levels are no longer socially acceptable,” says the scientist.

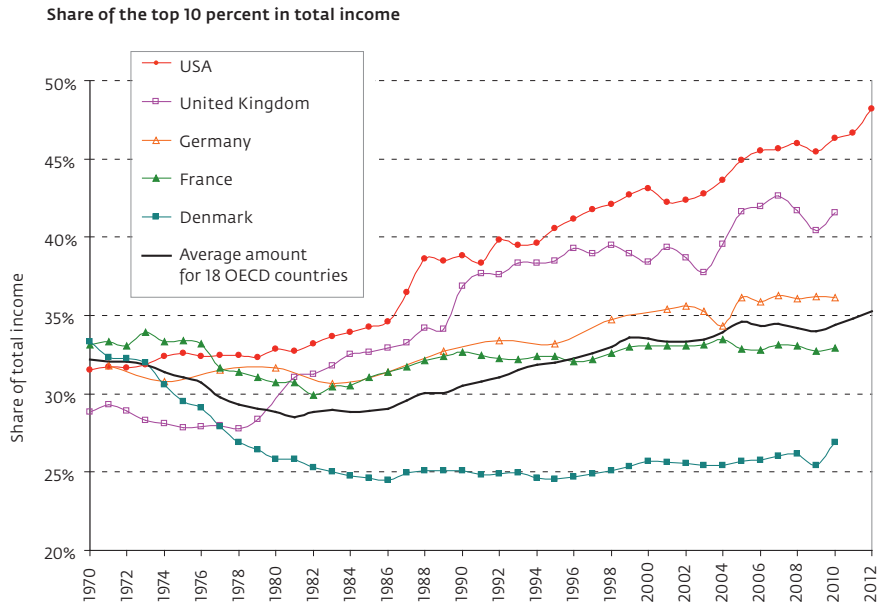
One hallmark of MaxPo is the wide range of approaches pooled here. These range from the micro-level – the question of how specific groups and individuals deal with the growing uncertainties – to the macro-level, analyzing the major social trends involved.

Jenny Andersson took up her post at the Center in November 2015. Her



**Above** Economic historian Jenny Andersson and economic sociologist Olivier Godechot head the Max Planck Sciences Po Center in Paris.

**Below** Inequality is growing. The top 10 percent of earners now receive an average of 35 percent of the total income from work – sometimes even more. Olivier Godechot analyzed data on this topic from 18 OECD countries.



main focus is forecasts in the political and business spheres. Forecasts, predictions and scenarios of this kind significantly influence political decision-making in areas ranging from budget planning, which is based on tax estimates, to law-making and regulatory issues.

“Forecasts are a paradoxical phenomenon,” says Jenny Andersson. “On the one hand, you never know whether predictions will really come true, so in a way, they also contribute to uncertainty. On the other hand, politicians – and particularly the financial industry – need predictions to channel expecta-

tions. In this way, they can also have a stabilizing effect – sometimes even becoming a self-fulfilling prophecy.”

This became particularly evident when the financial crisis became acute: “For financial market institutions, it had to be ensured that their solvency wouldn’t be put at risk,” explains Andersson. “That was why the first reaction to the financial crisis was to calm fears on the markets and prevent players from responding irrationally and thus further intensifying the crisis.” This included the announcement by ECB President Mario Draghi that the European Central Bank was willing to do “whatever it takes” to preserve the euro – including purchasing government bonds. The consequence has since become known as the “Draghi effect” – the financial markets settled down.

Jenny Andersson criticizes the fact that the actual causes of the crisis were left untouched. The power of financial market players, the dominance of the markets and the expectation of perpetual growth – all of these things remained intact. “The problem is that market logic has come to dominate how we can even think about the future,” she explains, and cites the example of austerity politics – the strict approach that national budgets have to be protected against further debt even in economically difficult times by cutting expenditure and increasing taxes.

“Citizens are told that the state has to save and make cuts to ensure stability for the future. In reality, this austerity policy delivers primarily on the expectations of the financial markets – they are stabilized. But this process makes it difficult to discuss socio-economic alternatives, and the future is disregarded,” says Andersson.

And that’s where we come full circle to the current political developments, particularly the resurgence of populist parties. “Especially in social and economic policy, the traditional mainstream parties don’t offer any alternative to austerity,” says Jenny An-

dersson. As a historian, she has extensively examined the history of social democracy in Europe.

### CRISES CAN CHANGE POLITICS FOR THE BETTER

The social democratic parties are said to have lost the trust of their electing classes in the 1990s by giving up principles like the redistribution of wealth and social security in favor of market-conforming goals – with tangible impacts for vast swaths of the population: “In the 1970s and 1980s, economic uncertainty was a phenomenon that affected particularly the working class. Now the middle class, too, has begun to feel threatened and is looking for answers in the form of populist parties,” says Andersson.

Many are now seeing parallels to the 1930s and the consequences that followed from that crisis and the growing inequality. As a historian, Jenny Andersson pleads for a more nuanced view

of history, and for us to learn from positive examples: “The Great Depression of the 1930s also led politicians in the US to develop strategies to curb negative impacts of market mechanisms – through active labor market policies and national social institutions that promoted solidarity between the different social classes.”

Olivier Godechot notes that the Center’s work is helping to uncover both the causes and the effects of increasing instability. The aim is to gain a clearer picture of economic, social and political correlations – a key prerequisite for developing new approaches and thus countering populist movements across all countries.

With regard to the last financial crisis, the Directors of the MaxPo agree that it remains to be seen which political responses will ultimately endure. “And we have to carefully analyze which political solutions and which social approaches were or are successful, and which are not.” ◀

#### TO THE POINT

- For people in Europe, the situation in the past few decades has become more unstable in many respects.
- Society has changed: institutions like the church, political parties and unions have lost authority, and the diversity of cultures and lifestyles has grown, as has financial inequality.
- Changes in business, such as globalization and the introduction of new technologies, and the growing pay gap between low and top earners are key contributors to instability.
- Politicians have granted business greater freedom since the 1970s. At the same time, politics has become more dependent on business – for example in that companies can threaten nations with relocation.
- Academics at the Max Planck Sciences Po Center in Paris are working to uncover the causes and effects of the increasing instability and develop approaches that go above and beyond the existing framework of political thinking.

#### GLOSSARY

**Austerity:** The concept that nations should also save during economically difficult periods and raise taxes in order to avoid increasing debt.

**Financialization:** The growing influence of the financial industry on politics and the real economy. This includes the rules of the financial sector – above all the short-term maximization of profits – gaining influence in other sectors.