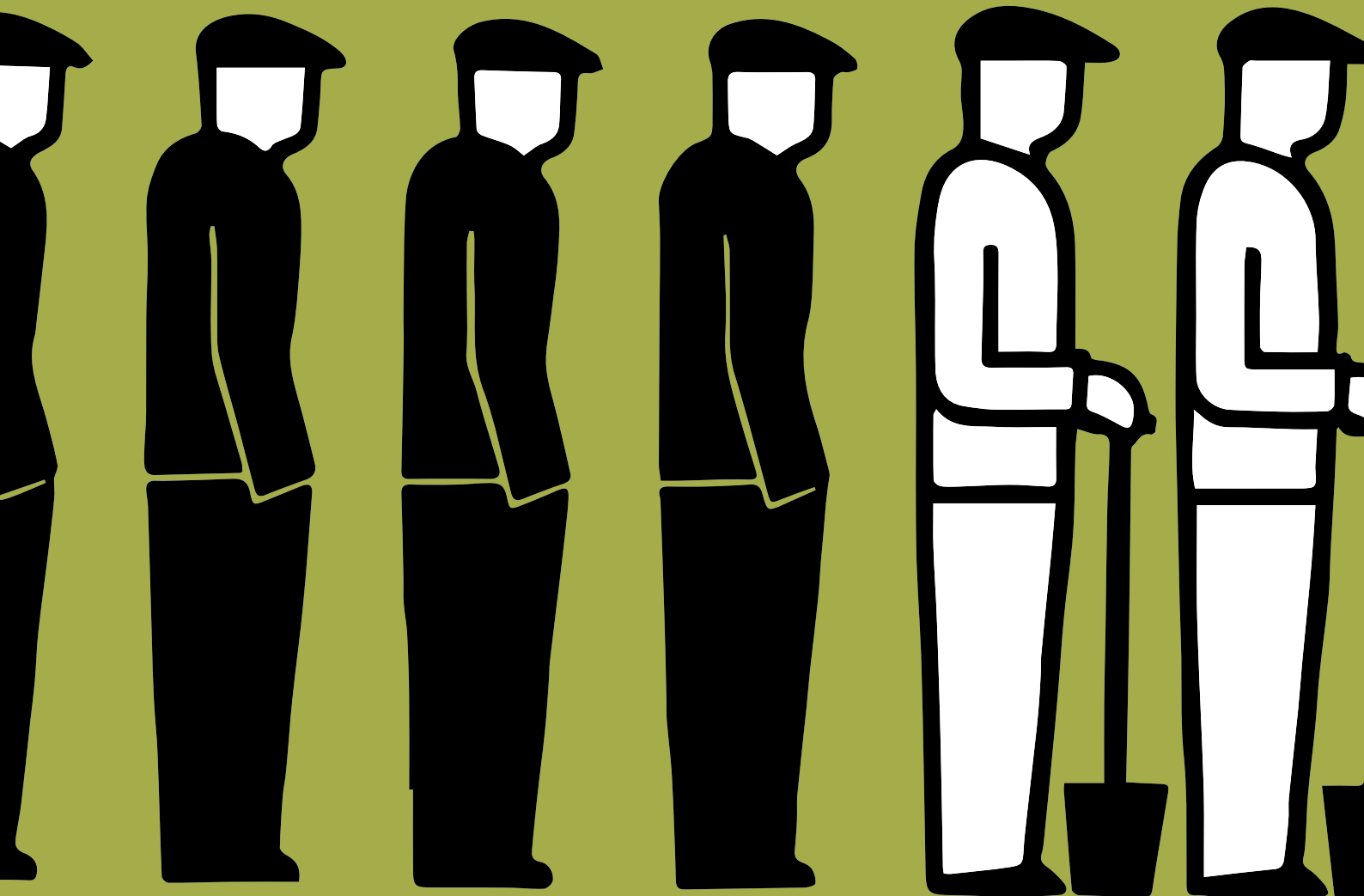


# Learning from crises

Data from the 2008 financial crisis shed light on the potential consequences of the pandemic

*By Markus Gangl*

Economic shocks have substantial consequences for society. High incidence of poverty, unemployment or divorce, lack of educational opportunities, crises of confidence – effective political management may mitigate these consequences and thus contribute to social resilience. What conclusions may be drawn from this for the consequences of the current pandemic?



Societal crises often provide fertile grounds for the social sciences. During the Great Depression of the 1930s, three young Viennese scientists, Marie Jahoda, Paul Lazarsfeld and Hans Zeisel, documented social life in the small town of Marienthal just outside Vienna, shortly after the local textile factory had closed down. Jahoda and her colleagues returned from this assignment with the awareness that work means far more to people than just securing their material livelihood – and founded, not least thanks to their groundbreaking study “Marienthal. The Sociography of an Unemployed Community”, modern empirical social research and social psychology in their later British and American exiles. Over the past years and thanks to generous project funding from the European Research Council, my team and I have had the opportunity to follow the tracks of the Marienthal Study and examine the social consequences of the financial crisis and the subsequent recession in greater detail in an internationally comparative study.

#### Multi-layered consequences of the crisis

To make the consequences of unemployment visible in people’s lives, we have drawn on representative European and American survey data collected in over 30 countries since the early 2000s. Not surprisingly, we were able to show that the financial crisis led to economic problems. Unemployment represents a major poverty risk for those affected, and even once back in work there is still a high risk of having to accept a job that is lower paid or offers poorer career opportunities. But we have also been able to show that unemployment influences family life, for example because the desire to start a family is put on hold when faced with economic insecurity and because the risk of separation increases. The next generation is also affected because, for instance, a lengthy education or university studies may no longer seem feasible with one or both parents unemployed. Unemployment also has a direct political impact because trust in democratic processes and institutions suffers – not only among those directly affected, but among the population overall.

Whether and to what extent unemployment leads to adverse consequences is much less of an empirical regularity than might be assumed, however. Rather, a lot depends on which resources can be mobilised to resolve an economic crisis. In our project, we have therefore used a broad comparison of European societies and the USA to trace the influence of societal conditions on the impacts of the financial crisis and thus, as it were, to document the societal



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prerequisites of resilience. And these can indeed be shown in quite different areas.

#### Societal instruments for handling crises

In terms of social policy, it is perhaps again least surprising that in the financial crisis, too, the risk of poverty due to unemployment is lower where social security systems are well-developed and offer sufficient income compensation. However, we also see other, partly indirect and secondary effects of labour market, social and education policies: For example, labour market regulation plays an important role in determining whether unemployment leads to longer term wage losses. This is because it influences whether and to what extent employers can adjust individual wages and thus, among others, respond with lower

Banking crisis with worldwide social implications: Many people lost their jobs and had to change their life plans.

Illustration based on a pictogram by Gerd Arntz (1900–1988). Arntz, a socio-critical artist and graphic designer, is regarded as the inventor and pioneer of the modern pictogram.

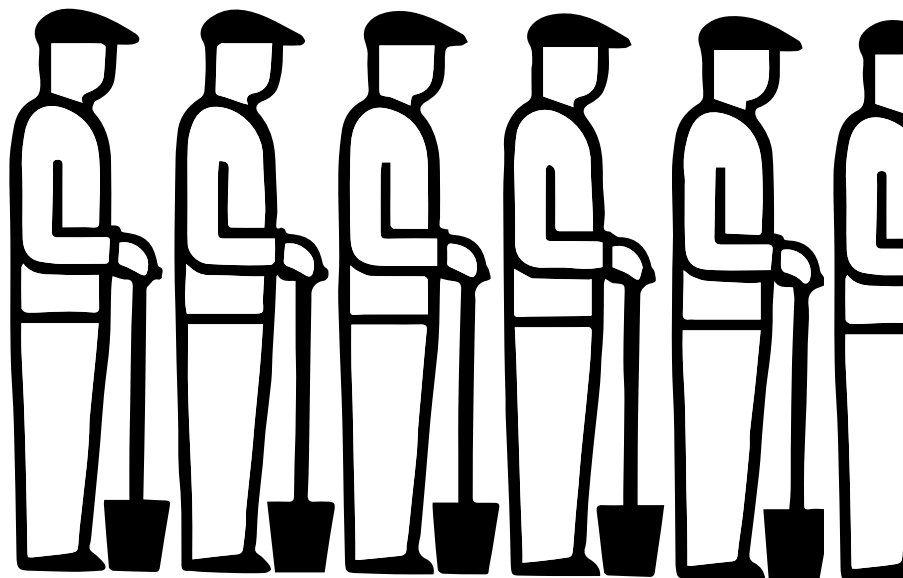




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**Painful learning process:**  
The Lehman Brothers bankruptcy triggered a global financial crisis, many companies had to give up. In the coronavirus pandemic, comparable unemployment figures did not materialise. A joint economic stimulus package and the European short-time work allowance cushioned many hardships.

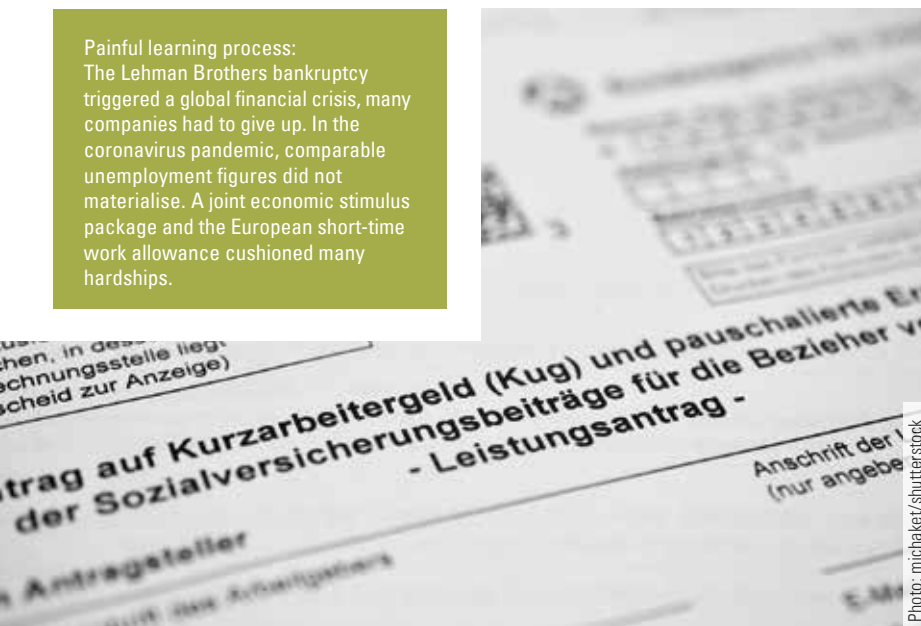


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wage offers when hiring back the unemployed. We were also able to demonstrate that education and social policies can reinforce each other in mitigating adverse consequences of parental unemployment regarding the next generation's educational opportunities: In our study on access to higher education, for example, it can be seen that parental unemployment does not materially affect the educational trajectory of children in precisely those countries where financial barriers to entering higher education are low and generous social security systems are in place.

However, it is by no means the case that all sources of resilience are institutional in nature. Our analyses of the risk of separation and divorce did not show any effect whatsoever from social or labour market policies. Rather, unemployment represents a separation risk especially in those societies where the idea of a male family breadwinner is dominant and much less so in societies with more egalitarian role conceptions. And some of our analyses even point to veritable political paradoxes: We can show, for example, that successful Keynesian macroeconomic management is generally able to prevent a loss of trust in politics. However, we also see that precisely in those countries where social security for the unemployed is particularly generous, their political dissatisfaction is more pronounced.

When attempting to distil a larger picture from our various studies, then the countries that exhibit the highest degree of societal resilience to economic crises are those whose labour market, education, social and public policies have been shaped by long periods of social democratic governance and which therefore are often characterised as social democratic welfare regimes in the social sciences. Germany, incidentally, tends to land in the upper middle ranges in international comparisons, often not far from our Nordic neighbours. On the other hand, in liberal Anglo-Saxon societies and also in Southern Europe, economic crises regularly trigger marked societal repercussions.

**Painful lessons from the financial crisis**

These results already suggest that although the COVID-19 pandemic is surely affecting everyone, how well the situation can be handled depends on conditions that are very unequally distributed – whether within society, for example between privileged academics who can work from home more or less without further ado and workers whose job at the supermarket checkout, in hospitals, schools or kindergartens, or as care workers inevitably consists of direct interaction with fellow human beings. On a much grander scale, inequalities between the

affluent Western countries and other regions of the world are equally obvious. The latter lack well-developed social security systems and thus the means, for example, to compensate companies and the self-employed for lost income through short-time work programmes and similar measures, to pursue anti-cyclical macroeconomic policies and at the same time to invest massively in vaccine development.

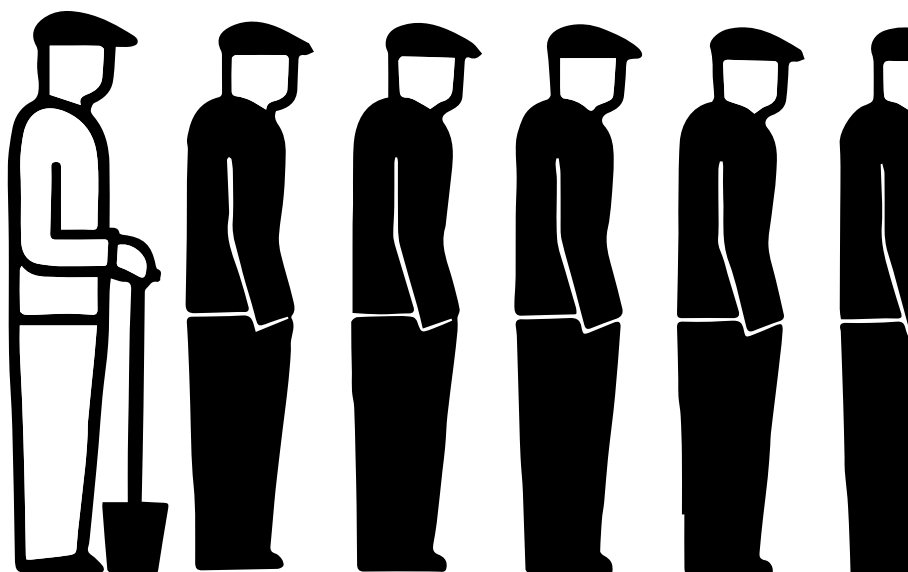
And it is precisely in affluent Western societies that governments are making use of existing institutions and all societal resources that may be marshalled to minimise the economic costs of the COVID-19 pandemic. The economic slump of the past year was at least twice as severe as the one that followed the 2008/2009 financial crisis, yet many countries have so far succeeded in largely decoupling the labour market from it. While the financial crisis had been leading to a labour market crisis that lasted for years in Southern Europe, and while unemployment rates had also significantly increased in many other countries for a long time, most Western societies have so far managed to avoid a similar development this time (see charts). The clear exception in this pattern is the United States, and it does not seem particularly far-fetched to presume that it was precisely this demonstration of political unwillingness that cost Donald Trump his re-election. But in Europe too, we should not underestimate that it is likely not least thanks to the experiences of the financial crisis – and the veritable political long-term crisis of the EU and the euro in view of the omission to a wide extent to take joint action at that time – that we are seeing much more resolute action in the realm of economic policy in the current pandemic than we saw ten years ago. Without the painful learning process from the financial crisis, it is difficult to imagine the shift in the German government's position, which was the game-changer at European level: It suddenly paved the way for a large-scale joint European economic stimulus package and, via the European short-time work allowance, for the first time initiated a substantive European social policy framework.

#### **A critical issue: the young generation**

The largely successful macroeconomic management in Germany and many other Western countries has so far brought significantly lower social costs during the current pandemic than earlier experiences from the financial crisis might have suggested. That a very large majority of the population still continues to go along with pandemic-related restrictions after one year speaks volumes about the resilience of society and the value attributed to solidarity and social cohesion.

### IN A NUTSHELL

- People who lost their jobs as a result of the 2008/2009 financial crisis were exposed to numerous risks. Many had to take on and remain in lower paid work, went through divorce or separation, children had poorer educational opportunities, trust in democratic processes dwindled.
- Poverty risks due to unemployment were lower where well-developed social security systems were in place.
- Those countries whose labour market, education, social and public policies were shaped by long phases with social democratic governments showed the highest degree of resilience in dealing with economic crises.
- European countries seem to have learned from the painful experiences of the financial crisis: In the current pandemic, they are acting much more resolutely as far as economic and social policy are concerned, and have agreed to fund a joint economic stimulus package and a European short-time work allowance.
- A key issue in economic crises was and is the minimisation of consequential damage for the young generation.



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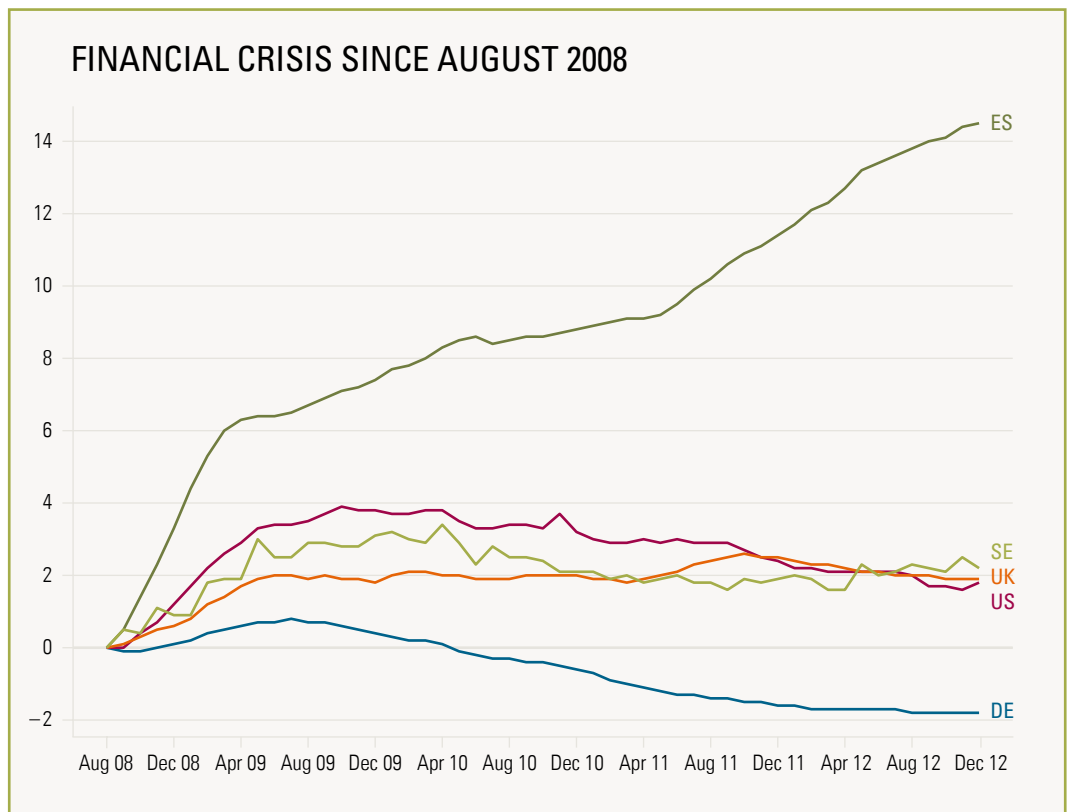
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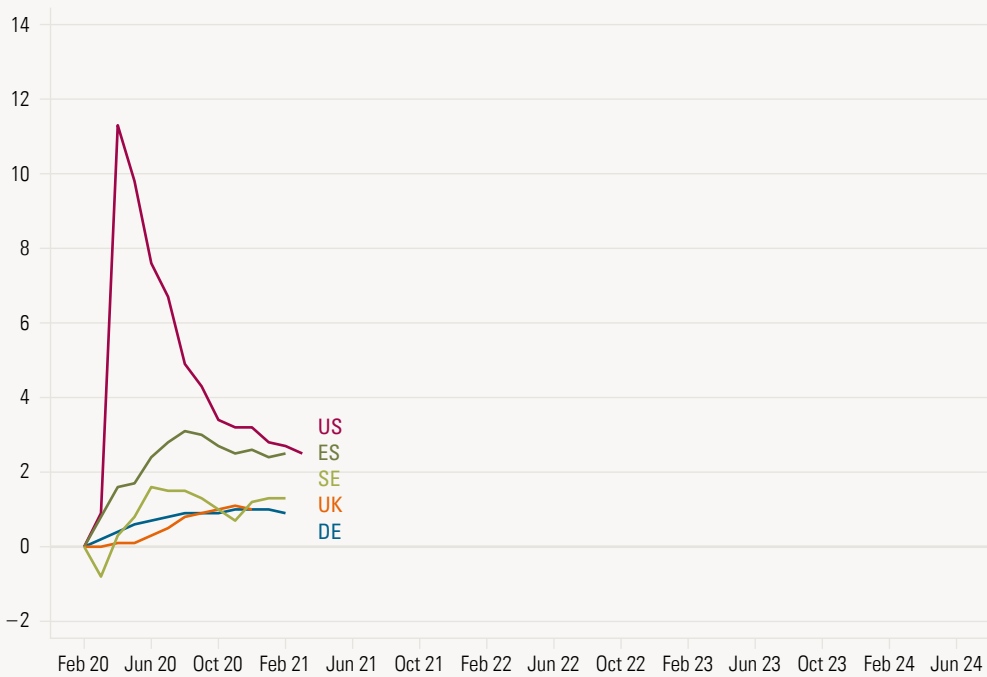
Source: OECD Main Economic Indicators, retrieved on 8 April 2021

Yet even if the accelerating speed of the vaccination rollout gives rise to hope that many restrictions will soon come to an end: But just as with the financial crisis, life will not simply return to a pre-crisis state. After any supply shock, rapid economic recovery is to be expected, including – and especially – in the domain of the cultural and leisure economy. However, the pandemic has laid bare existing inequalities within society because those with adequate social, material and non-material resources at their disposal have been in a better position to master it – as had to be expected. The considerable restrictions placed on school, university and life in other public arenas in order to protect the health of the elderly have demanded a high degree of practical solidarity from young people in particular – and this at a stage in their lives when they are acquiring skills as well as developing and trying out life plans to eventually help shape our society in the future. Focusing on and boosting young people’s confidence about their own prospects – both in terms of educational opportunities at schools and universities and with regard to their subsequent integration in the labour market, which is currently threatened by companies’ reluctance to recruit new staff and offer apprenticeships – will

perhaps be the most important socio-political challenge in coming years.

Incidentally, it is not only the results of our own study but also findings that are already 90 years old that emphasise damage to the younger generation as a critical issue during any economic crisis. One of the most poignant and at the same time most forceful episodes in the Marienthal study concerns the analysis of school essays that Marie Jahoda and her colleagues had asked children to write. The essays revealed that even primary school pupils in Marienthal expressed not only more modest wishes for Christmas but also had more modest career goals than their peers from other towns around Vienna. Jahoda, Lazarsfeld and Zeisel later condensed these and other observations into their much-acclaimed notion of the reduction of mental spaces – and in doing so have given us an important clue from almost a century ago as to why the effective and determined fight against the pandemic and its economic consequences will continue to have an impact for a long time. ●

## COVID-19 PANDEMIC SINCE FEBRUARY 2020



Increase in the unemployment rate (in percentage points) from the beginning of the financial crisis and the COVID-19 pandemic



### The author

**Markus Gangl**, born in 1972, has been professor for sociology with a focus on social stratification and social policy at Goethe University since January 2011. He earned his doctoral degree at the University of Mannheim then came to Frankfurt following a period as a post-doctoral researcher at the Berlin Social Science Center (WZB) and professorships at the University of Mannheim and the University of Wisconsin-Madison. At the Faculty of Social Sciences, he is in charge of the CORRODE project, which examines the social consequences of the financial crisis and has been funded by the European Research Council (ERC). In 2019 he secured another ERC project: POLAR is concerned with the significance of growing economic inequality for a liberal society and social cohesion. Gangl is also a member of the German National Academy of Sciences Leopoldina and current editor-in-chief of the European Sociological Review.

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