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Christoph Deutschmann

Paradoxes of Social Rise. The Expansion of Middle Classes and the Financial Crisis[1]

The article views the current financial crisis from the background of long term socio-economic changes in advanced industrial societies. Central points are the rise of middle classes, the accumulation of financial wealth in the upper strata of middle classes in combination with an increasing concentration of financial assets at the level of the top rich, and the advance of pension and investment funds as collective actors at financial markets. The paper analyses the interconnections between these developments in the framework of a multilevel model, culminating in the thesis of a collective "Buddenbrooks"-effect: a structural upward mobility of society will lead to an increasing imbalance at capital markets because a strongly rising volume of financial assets searching profitable investment opportunities will go parallel with a decline of the social reservoir of solvent entrepreneurial debtors. Therefore, advanced industrial economies are faced with chronic excess liquidity and export surpluses at capital markets, leading to the build-up of speculative bubbles and subsequent crashes. The author argues that the present crisis cannot be understood properly without taking account of these backgrounds.

I. Introduction

At the end of 2009, the financial crisis was still far from over and the discussion on the causes of the crisis continues. There is still much confusion about how all of this could happen. Apparently, the expertise of professional economics had largely failed, as the large majority of economists were unable to forecast the crisis and its dimension. The mainstream theory of "efficient financial markets" had even ruled out the possibility of such a collapse. Nevertheless, the present discussion on the explanation of the crisis is still being dominated largely by the economic profession. In a broad overview, two lines of arguments can be distinguished: orthodox and heterodox.

The orthodox position could perhaps be summarised by the keyword "human failure". This position attributes the main responsibility for the collapse of the international financial and capital markets to the actors, their "greed", irresponsibility and incredible carelessness. Mortgage credits had been granted at a large scale to debtors with no sufficient ability to pay. With the support of analysts and rating agencies, these credits were securitised and sold on the global market. Investment bank managers, driven by the prospect of astronomical bonuses, created and marketed an ever increasing variety of largely intransparent financial "products",. Further players in the game were the central bank authorities, who, for too long, kept up their policies of cheap money after the last crash in 2000/2001 and thus helped to create a new bubble (Taylor 2009). According to this widespread view, the problem does not lie in the system, but in the actors. If everybody had stuck to the rules, the collapse would not have happened. However, is it really possible to distinguish the "system" and the "actors" in such a neat way – in a system actually made up of human actions? Would a realistic theory of financial markets not have to take into account how the actors really are and not how they should be from the viewpoint of theory? And is it suffice to explain the persistence of low interest rates after 2001 (and likewise today) simply by "monetary excesses" by the Fed and other central banks, instead of considering the global excess liquidity on capital markets?[2]

Compared with this orthodox common sense view, the heterodox positions surely are more realistic. Two well-known heterodox approaches are Minsky's "financial instability" concept (Minsky 1982) and Kindleberger's and Aliber's (2005) historical analysis of manias, panics and crashes which is closely related to Minsky's work. According to these authors, financial crises are normal phenomena of capitalist development. In their historical overview covering the period between 1618 and 1998, they count no less than 38 such crises. Financial markets are different from other markets, as they are characterised by several particular mechanisms:

a.) On financial markets there is no built-in equilibrium mechanism. Rather, positive or negative disequilibria tend to reinforce themselves. A phase of "mania" may develop, if an exogenous incident gives rise to an optimistic mood among investors, inducing them to buy assets. As a consequence, the prices of the assets will rise, thereby motivating other investors to jump on board. The rise of prices will accelerate if some investors start to finance their purchases through credit, expecting that the increase of prices will exceed the interest rates which they have to pay. At some point,

1 A German version of this paper appeared under the title: "Die Finanzmärkte und die Mittelschichten: der kollektive Buddenbrooks-Effekt" in: Leviathan 2008, Vol. 36/4: 501-517

2 Taylor (2009, 6) rejects the excess liquidity thesis by pointing to IMF figures on the development of global saving and investment shares, showing a decline of the global saving rate. As empirical evidence this is clearly too thin (see the discussion of the development of financial assets below).

however, the optimistic mood will decline, and some investors will start to sell their assets in order to reduce their liabilities. The upward movement of the market comes to a halt and turns in the opposite direction, again reinforcing itself. The leverage effect of credit further accelerates the negative trend. Prices decline and bankruptcies increase, the crisis is followed by panic and crash. In short, financial markets are inherently instable.

b.) The build-up and subsequent annihilation of assets in financial crises is often connected with considerable redistribution effects between the investors. On the winning side we find the professional speculators, the "insiders" who manage to buy and sell in time, although they can, of course, fail, too. The losers are the amateurs, the outsiders, who buy and sell late: "The outsider amateurs who buy high and sell low are the victims of the euphoria that affects them late in the day. After they lose, they go back to their normal occupations to save for another splurge five or ten years later" (Kindleberger, Aliber 2005, 40).

c.) A third peculiarity of financial markets is the inability of actors to learn. Of course, everybody knows that crises can happen and, to be more precise, that they did happen in the past. However, during the build-up of a new mania the conviction prevails that this time everything is different: "The authorities recognize that something exceptional is happening in the economy and while they are mindful of earlier manias, 'this time is different', and they have extensive explanations for the difference" (Kindleberger, Aliber 2005, 24).

All these mechanisms can clearly be recognised in the development of the current crisis. In so far, the financial instability hypothesis has, without a doubt, proven its empirical validity. From this one could conclude that the present crisis is nothing but a repetition of the well-established historical pattern of financial crises described by Minsky and Kindleberger and, Aliber. However, such an interpretation would not be sufficient, as I am going to argue in this paper. What it neglects is not only the unprecedented depth and the global dimension of the crisis. Moreover, what should not be overlooked are certain long-term structural changes of mature industrial societies which have led to an accumulation of tensions and imbalances on the capital markets, thus enhancing the disruptive potential of financial market bubbles – at least in comparison with the era of the Bretton Woods arrangement from the end of the Second World War to 1973. Since the 1970s, the growth rate of global private financial assets had been around three times as high as that of the social product in 23 highly developed OECD-countries, and the trade volume on markets for foreign exchange, stocks and loans grew five times as fast (Sassen 2005, 19 f.). As a consequence, a latent or open mismatch has emerged between the growing volume of rent seeking financial assets on the one hand, and declining real investment opportunities on the other. After the burst of the New Economy bubble in 2001-2003, this mismatch now seems to have manifested itself again at a much larger scale.

My aim is thus to look beyond the concrete mechanisms of the actual crash and to analyse the long-term shifts of social class structures and financial asset distribution underlying the crisis. In the next section (II.) I will consider these trends in more detail. In the following section (III.) I will outline a macro-micro model of financial markets in order to clarify the interactions between shifts in the social class structure and the distribution of financial assets on the one hand, and individual investor behaviour on the other. A rigorous empirical test of the model is not intended here. Nevertheless, I will try to demonstrate the plausibility of the approach by using empirical data, referring mainly to the German case. A concluding discussion will follow (IV.).

II. Long-term structural changes

Since the end of the Second World War, the mature industrial societies of Europe, North America and Japan experienced a period of lasting economic prosperity. At least during the first three decades after the War, the level of real mass income rose considerably, the middle classes grew in relation to absolutely and relatively decreasing manual workers. The service sector expanded, and the level of mass education rose. These changes gave strong impulses to the development of financial markets and the penetration of society by the financial industry. Four trends appear particularly relevant from this point of view:

1. As already mentioned, the volume of private financial assets showed a strong and continuous rise which by far surpassed the growth of national income. In West Germany, private financial assets increased around twice as much as the net national income between 1960 and 1990 (Stein 2004, 35); the same trend continued, albeit slightly diminished, in united Germany between 1991 and 2004 (Deutsche Bundesbank 2005, 28). In 2006, the gross volume of financial assets in Germany amounted to 4.5 trillion Euros (net 2.9 trillion), around twice the gross national product, and the wealth to be bequeathed has risen accordingly (Szydlik 2004). Even in Germany, where the popularity of holding stocks has always been low in international comparison, in a population of 82 million in 2006, 10.3 million owned stocks and funds (Institut der deutschen Wirtschaft 2007, 66). Although there is still a remarkable wealth gap between East- and West Germany, East German proprietors are gradually catching up (Hauser 2009). With the rising value of financial assets, the stream of capital incomes (interest payments, dividends) flowing to the owners increased steadily, the estimated annual volume of capi-

tal incomes amounting to at least 300 billion Euros in Germany before the crisis. According to the World Wealth Report published annually by Capgemini and Merrill Lynch, there were 3.1 million "High Net Worth Individuals" (HNWIs = net ownership of financial assets of more than 1 million US Dollars) in Europe and 10.1 million in the world in 2007 with an aggregate capital of 40.7 trillion dollars; at the global level the number of HNWIs doubled between 1997 and 2007 (Lauterbach, Ströing 2009, 18). While there is a lively public debate on the level of taxes, social security contributions, wages, salaries and manager bonuses, the legitimacy of effortless capital incomes seems to be beyond any discussion – in spite of the increasing cost burden they create for the real economy.

2. As it is well known, ownership of financial assets is distributed very unevenly, the bulk of capital falling to the top 1 to 5 percent of the wealthiest; moreover, the concentration of financial wealth has increased since the 1990s. Nevertheless, even the upper middle classes (top three deciles of the income distribution) were able to accumulate considerable fortunes, as table 1 for Germany shows.

Table 1: Distribution of Private Financial Assets in Germany 1993-2003
Billions of € (v.H.)

Deciles	1993	1998	2003
1	-2.1 (-0.2)	-3.9 (-0.3)	-7.9 (-0.6)
2	2.4 (0.2)	1.3 (0.1)	0.8 (0.1)
3	6.3 (0.6)	5.9 (0.5)	6.1 (0.5)
4	12.5 (1.2)	13.4 (1.2)	16.2 (1.2)
5	23.9 (2.3)	27.3 (2.4)	34.9 (2.6)
6	50.7 (4.8)	58.5 (5.1)	70.5 (5.3)
7	105.7 (10.0)	112.1 (9.9)	123.6 (9.3)
8	160.3 (15.1)	171.2 (15.1)	190.0 (14.2)
9	227.3 (21.4)	247.0 (21.7)	275.8 (20.7)
10	474.7 (44.7)	504.3(44.4)	624.4 (46.8)

Source: 2. Armuts- und Reichtumsbericht der Bundesregierung (Federal Report on Poverty and Wealth); Lebenslagen in Deutschland 2005. Note: The figures are based on the "Einkommens- und Verbrauchsstichprobe" of the Statistisches Bundesamt (Federal Office of Statistics), which does not include very large incomes and fortunes. For this reason, they differ from the above mentioned figures of the "Deutsche Bundesbank".

Even in the 19th century the middle classes – Kindleberger and Aliber mention "spinsters, widows, retired naval and army officers, magistrates, retired merchants, parsons and orphanages" (Kindleberger, Aliber 2005, 268) as the typical clientele – actively engaged in financial speculation. However, the layer of middle class financial rentiers has meanwhile grown considerably. Likewise, the corresponding social interests seem to have become much more influential. Investing money in stocks, private and public bonds has become a mass phenomenon, as it becomes evident in the daily TV-news. The social profile of the investors is characterised by a preponderance of higher education and academic qualifications, a concentration on self-employed, professional, clerical and managerial occupations, a relative dominance of the male sex, of pensioners and higher age groups (Lebenslagen in Deutschland 2005, Tarvenkorn, Lauterbach 2009). In some of these aspects, the profile is remarkably different between European countries (de Bondt 2005). We encounter a social milieu that is very diverse, stretching from gamblers and social climbers on the one hand, to wealthy and saturated pensioners on the other.

3.) The increasing volume of financial assets and number of investors induced a strong expansion of the market demand for financial services. As a result, "institutional investors" (pension funds, hedge and investment funds) emerged on the financial market, first in the USA, later in Europe and other parts of the world. The term "institutional investors" is misleading in so far, as these firms do not invest their capital in real production. Rather, their business is a purely financial one and concentrates on the management of their customer's assets. In contrast to commercial banks, they do not depend on the credit business, but collect the capital of their customers and invest it in stocks, private and public bonds and other securities. What remains to the normal customer is only the choice between alternative package offers, differing along yield and risk. The volume of capital collected by the institutional investors around the world showed a spectacular increase since the 1990s; today it surpasses the volume of the GNP in some countries (OECD 2005). Institutional investors no longer confine their engagement to the stock markets, but have extended their business to the acquisition of small and middle sized firms ("Private equity") and to markets for raw materials and foreign exchange.

4.) The rise of the institutional investors would have been unthinkable without the globalisation of capital and financial markets after the collapse of the Bretton Woods-System after 1973, and the subsequent deregulation and liberalisation of the markets, which had been promoted in Europe mainly by the treaty of Maastricht. A further decisive factor was the spread of modern information technologies and the "digitalisation" of markets, which allowed a quantum leap in the volume and speed of transactions, and provided the technical basis for the emergence of a new global social space (Knorr-Cetina 2005). All this meant a spectacular enlargement of investment options for the financial industry. A global "market for corporate control" (Windolf 1994) emerged, and, moreover, markets for derivates and other secondary financial products developed. On these markets, the funds could move like fish in water, or, to be more precise, like pikes in a fish-pond: with the elimination of national capital market controls and the expansion of investment options, the opportunities for fraud and corruption likewise increased (Windolf 2005; Blomert 2005).

III. Financial markets and shifts of social class structure: A macro-micro-model

The changes outlined above are meeting increasingly critical comments in the public. Some observers warn that the rising power of institutional investors, cooperating with an influential consulting industry, may undermine the institutions of political democracy. Catchwords like "economic terror" are circulating in the media, the hedge funds are denounced as "locusts", and the financial crises have evoked "fears of falling" among the middle classes. Corrupt analysts, fraudulent bankers and analysts are denounced by politicians and the media, and many of the crash victims go to court in order to claim their apparent "right", like in the Lehman case.

There can be no doubt that fraud, deceitful practices and corruption are widespread phenomena on financial markets and that the existing regulatory structures and mechanisms give much room for such practices. Nevertheless, I cannot deny a certain uneasiness: do the investors, now claiming to be "victims", really deserve so much compassion? Without the often naive quest of millions of small investors for maximum profits the business of the investment funds, even their existence, would not have been possible. Without doubt, fund managers are no altruists, and the complaints about their greed are everything else but unjustified. However, who stimulated the competition between the funds, driving them into riskier and riskier operations? It seems that the "terror" of the economy, so vividly complained about in certain middle class milieus, goes back to a considerable degree to the well-developed financial instincts of the very middle class individuals themselves. In other words, it is not far-fetched to assume that the often complained negative phenomena of financial capitalism may be interpreted partly as the unintended collective result of individual investor action. Here we meet a constellation that appears to be a case for genuine sociological analysis, if we understand sociology as the inquiry of unintended collective consequences of individual action. Sociological explanations can contribute to clarifying the situation by carefully distinguishing between collective structures, their impact on individual actions and the aggregate effects of individual actions. A sociological explanation according to the well-established concepts of Coleman, Lindenberg and Esser is not yet a theory, but rather a kind of instruction how to build theories. Its worth depends on the use one makes of it. Here, I will try making use of the concept of sociological explanation by applying it to the actual processes on the financial markets.

A sociological explanation consists, as I will describe here only briefly, basically of three steps (Esser 1993, 1999): *First*, a reconstruction of the social situation of the actors ("logic of situation" according to Esser); *second,* a theoretically based explanation of individual action in the given situation ("logic of selection"); *third*, a deduction of the newly constituted collective situation from the aggregated effects of individual actions ("logic of aggregation"). How could an analysis of the development on the financial markets, which follows these three steps, look like? What I can offer in the following can obviously only be a very rough outline. The question I want to answer is: What are the collective consequences if a large number of individuals in a capitalist society succeed in moving socially upward, if they become wealthy and then invest their wealth in collective funds? Thus, in the first step we will have to deal with the social situation of the investors, with their objective social condition and their perception ("framing") of that condition. In the second step we will concentrate on the action process itself and on the motives and aims of the actors: why do they – for example – invest their money in securities, instead of real estate, or expanding their consumption? Finally, we will consider the question of the collective consequences: How will the structure of capital markets change, if the number of rentiers in a given population and the volume of their assets increase in absolute and relative terms? And what are the collective consequences, if the investors delegate the management of their assets to investment funds?

1. Logic of the situation

Some aspects of the objective situation of the investors have already been dealt with above, and I will not discuss this point extensively. The large majority of the investors belong to the privileged and socially successful. They earn superior or top incomes, many are academically qualified and have higher administrative, managerial, professional jobs, or are self-employed. However, many of them did not come from privileged origins but had to make their way up by their own. They succeeded in climbing to occupational and social positions often far superior to those of their parents. We should keep in mind that the social structure of Western Germany – albeit so far hardly Eastern Germany – is characterised by a strong trend towards intergenerational upward mobility. According to the figures of "Datenreport 2006" (Statistisches Bundesamt 2006, 603), even in the period 1991-2000 one descent of Western German men in the occupational status hierarchy fell to 2.4 social rises; in the period 2001-2004, the corresponding figure declined to 1.9. On the contrary, Western German women showed a positive balance of intergenerational social rises only since 1991 (1.3); the corresponding figure mounting to 1.9 in 2000-2004. Without this positive balance in intergenerational upward social mobility, it would hardly be possible to explain the high growth of private financial assets which, as already mentioned above, is mainly a Western German phenomenon, too. I am focussing here on intergenerational mobility, not on career mobility, where the situation nowadays has become different (more on this below). Social rises are reflected in above average increases of individual incomes. Social climbers receive an additional income bonus which they tend to interpret as a reward for their efforts.

We have arrived at the perception of the situation by the actors, and here we face a phenomenon which has been previously analysed by Georg Simmel (1989), and more recently in psychological studies on the use of money (for an overview, Haubl 2002). Money does not only "indicate" the social position of an individual, but constitutes it, as it embodies a universal private property right on social wealth. Simmel uses the German word "Vermoegen" which is normally translated as "asset" or "fortune"; the literal meaning, however, is "being able to". The owner of money is socially influential not due to his/her social reputation or ranking, but commands a private potential of generalised power which apparently works in a direct way without any intervention of society. The power embodied in money tempts the owner to forget the difference between his/her – more or less limited – personal capacities and the potential of money. As a consequence, money can become the vehicle for an egocentric self-aggrandisement of the owner, following the motto: what my money "can", I can and I am. The owner experiences his assets as a natural enlargement of his ego. This is the reason why he must feel attacked in his personal integrity if he is required to pay taxes, or if the stock market crashes. Social climbers seem to have a strong affinity to such types of self-enactment, as they tend to view their money as "hard earned by my own efforts".

2. Logic of selection

We now proceed to the second step: how will individuals act after becoming wealthy, what objectives and criteria will they follow in their decisions? From a purely theoretical viewpoint, one could assume that some will simply feel saturated after having reached a certain income level. They may donate surpluses for charitable purposes, saving only an emergency reserve for themselves and spending it later. However, such a hypothesis does not appear very plausible, although it may apply to certain special cases: Andrew Carnegie, for example, was extremely rich. Nevertheless, he felt obliged not to consume or to bequeath his wealth, but to return it to society via his foundations (Nasaw 2006). A more realistic assumption is that the wealthy will invest their money in a way that supports their further social rise. Status oriented symbolic consumption can be interpreted as a case of such a career-related investment of money: by buying a Mercedes or a prestigious Swiss clock I can signalise and anticipate my affiliation to higher social circles whom I am striving to without actually belonging to them yet.

However, our focus here is on the motives of investing money in securities and other financial assets. At this point, the instructions of Esser and Coleman suggest the introduction of a nomological hypothesis to explain individual action. However, no such hypothesis is within sight. Sociological research on consumption has delivered an impressive variety of findings on individual lifestyles and their dependence on socio-biographic conditions, milieu affiliations and personal capital endowment. The issue of money and investment of money, however, continued to be largely ignored. Like neoclassic economists, sociologists seem to consider money as "insignificant". The behaviour of investors received more attention from the side of psychology and behavioural finance (Fischer et al. 1999). However, the focus here is on relatively narrow issues like herd instincts or the choice between risky and conservative styles of investment and, first and foremost, it is not sociological but psychological.

One of the few recent sociological studies is the research report of Birenheide, Legnaro, Fischer (2005) which is based on qualitative interviews with 37 small stockholders in 2002. The results of this study allow to formulate some more specific hypotheses. One of the findings of the authors was that the saving behaviour of the interviewed did no longer conform to the classic "deferred gratification pattern". "Not saving as such has disappeared, but its primary significance for future consumption does no longer hold. Instead, a simultaneous presence of credit based consumption on the one hand, and speculatively oriented accumulation of financial resources on the other, are prevailing" (Birenheide et al. 2005, 31, translation C.D.). Financial investment and consumption are not considered to be alternatives, but complement one another. The motives for financial investment are closely related to societal processes of individualisation. The investors view themselves as "responsible" actors, disciplined just by their conformity to social values of individual autonomy and self-responsibility. On the one hand, this may lead to excessive control illusions, as the investors tend to view the performance of their stocks as the immediate outcome of their personal competence. On the other hand, a kind of frenzy may occur, where the ego of the investor loses all contact with reality and experiences itself as almighty. The first impulse to enter the business is often exhortations of friends or relatives not to "leave your money idle",

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or "secret tips" of trustworthy persons. Advertising actions, such as the campaign for "Telecom-people stocks", suggest undreamt-of prospects of profit, leaving behind all chances of normal gainful occupation. After having entered the game, moods like "greed" or "fever" emerge: "The result is a kind of "faustian pact" between an anomic self, determined to transgress all boundaries, and a rational ego, which remembers the risks and calculates long-term horizons" (Birenheide at al. 2005, 96, translation C.D.). Even long after the share prices started falling, the investor feels determined to keep the shares (which he had decided to bet on) for reasons of self-respect, often with the result of big losses. The investor faces the problem that his/her calculating ego mixes with the object of his calculations – money – in a diffuse way. There seem to be no more relevant social concerns for him/her except profit and the prospect of more profits.

Just because of its character as a "general means" – this having been already Simmel's (1989) central insight – money rises above its status as a means and becomes and end in itself which determines individual action in a voluntary or involuntary way. To clarify how this transgression of boundaries is reflected in individual practice – whether in the forms of avarice, greed or frenzy – and which social and biographic factors are relevant to explain these diverse forms surely needs further research. So far we can safely conclude that Coleman's hypothesis of rational choice and utility maximisation does not appear overly helpful in explaining individual investor action.

3. Logic of aggregation

We now approach the third step in the logic of sociological explanation: What are the macro-structural consequences for societies and capital markets, if large numbers of individuals succeed in moving socially upward and invest their newly acquired financial wealth in the capital market? The question can be divided into two sub-questions: first, the question regarding the macro-structural consequences of social rise (3a.); second, the question of what will happen if masses of individual investors delegate their investment decisions to new types of collective actors, the capital funds (3b).

3a.) Individual investors are normally not concerned about the problem of the collective preconditions and consequences of their own actions. Many believe that they have something like a "natural right" on a yield of their assets. If losses occur instead of the expected profits, everybody feels surprised and betrayed, and some go to court in order to pursue their claims. One does not think much about where the profit actually comes from or relies upon the expertise of trustworthy advisors or friends. The profit seems to flow from the portfolio like the current from the outlet. Money itself appears to "work" for the investor.

Against such popular views, a simple truth should be kept in mind: Financial assets are always based on contracts between debtors and creditors. The value of assets always depends on the availability of debtors being able and willing to borrow the capital and to repay it with interest. Debts must be redeemed, the money must flow back, and this can, in the final instance, be ensured only by work: either directly by the work of the debtor who has to earn and repay the credit granted to him by a bank, or indirectly by employees, whose work supports the profitability of the capital of the entrepreneur and enables the latter likewise to redeem the credit which he may have taken, or keeps the price of the company stocks high. Thus, the financial system is always – as indirectly as ever – coupled with the real economy, in spite of all speculative excesses.

Entrepreneurs in a dynamic capitalist economy, who plan to realise a profit on their capital by selling their products, always depend on a level of demand *higher* than the one they created themselves before by their own cost payments. Economic growth is possible only under the assumption of a permanent inflow of additional demand into the system which must come from the outside and needs to be financed by the creation of credit in the banking system (Binswanger 1996). "Openness and optimism towards the future" – what first appears as a mere ideological topic in the public rhetoric on economic growth points in fact to a strong imperative: private households and capitalist firms must be prepared to incur debts and to spend more money than they receive in order to keep the capitalist growth machine running. Without continuous incurrence of new debts and without the corresponding future oriented habits of work and lifestyles, capitalist growth would be impossible and the system would head into a permanent crisis. The inclination to incur debts will – as a rule – be high where the large majority of the population is still living under poor material conditions but aspires to move socially upward and to become wealthy. An ideal capital market might be conceptualised as a social pyramid with few rich proprietors at the top and a large, poor, juvenile, but at the same time, socially aspiring population at the basis. The prospect of social rise and financial wealth motivates an extraordinary work performance among those without property. The efforts of the poor, in turn, ensure a high demand for capital and the profitability of capital owned by the rich.

This game may work under several conditions which cannot be brought in line with each other easily. One the one hand, the existence of marked social inequality, of a class dichotomy between a small elite of capital owners and a large propertyless majority is required. Without this dichotomy there would be no tension and without tension there would be no dynamics. On the other hand, the class dichotomy should not be socially (i.e., ethnically or corporatively) closed. The propertyless must see a sufficient chance for themselves to get rewarded for their efforts, to *individually* move upward and to cross the class dichotomy, although the objective chance for success may be tiny and hardly higher than in a lottery. Third, however, not *too many* people should be successful in rising socially. To render this clear, one has to simply imagine the extreme case of all propertyless satisfying their aspirations and moving to the top. The result would be a reversed pyramid structure consisting entirely of capital rentiers with no net debtors redeeming the claims. Of course, such a constellation – which I propose to call the "Collective Buddenbrooks-Effect" (according to the famous novel by Thomas Mann) – would be untenable, as it would mean the immediate annihilation of all financial assets.

If we now go back to the above mentioned figures on collective upward mobility in Western Germany in order to consider the collective consequences of that mobility, the finding is clear: although German society is still far from the final stage of the collective Buddenbrooks-effect, it has nevertheless already covered a considerable distance toward that stage. The collective consequence of large scale social rises is a structural upward mobility of society. The middle and upper classes of society become larger, the lower classes smaller. Table 2 gives an overview over the amount of intergenerational upward mobility in Western German society during the last decades of the 20th century; only men (fathers and sons) are considered.

Table 2: Intergenerational Mobility in Western Germany (2000)
Percentages of adult male working population, N = 3.650

Social status	Fathers	Sons
1. Entrepreneurs (10 employees and more)	0.8	0.4
2. Professionals	1.8	3.1
3. Higher Service Occupations	10.1	22.2
4. Middle Service Occupations	8.4	25.5
5. Lower Service Occupations	14.5	3.0
6. Self Employed (less than 10 employees)	6.9	7.5
7. Farmers	4.6	3.1
8. Highly Skilled Manual Workers	4.6	3.1
9. Skilled Manual Workers	30.9	18.6
10. Semi- and Unskilled Manual Workers	17.4	15.5

Source: Geißler (2006: 260), based on SOEP

Table 2 compares the occupational status of Western German men in 2000 with that of their fathers. The four upper layers of the occupational hierarchy made up 21.1 percent of the father generation, it increased to 51.2 percent in the generation of the sons. The bulk of this increase fell on the higher and middle service occupations, whereas the layer of the professionals grew more moderately. The layer of entrepreneurs even showed a decline. The share of manual workers (high, medium and semi/unskilled) fell from 52.9 percent in the generation of fathers to 37.2 percent in the generation of sons; a spectacular decrease can also be observed in the lower service occupations.

If we interpret these figures from the viewpoint of capital markets, a first general statement can be made: the wealthier middle and upper layers of society have grown considerably. The descendants of these layers no longer have a stringent motive to move further upward. Many enjoy the additional income flowing from their capital and some may cultivate their hedonistic lifestyles. With the expansion of these well-situated classes and the rise of their wealth, the volume of private capital seeking profitable investment opportunities on the financial markets is likely to have grown as well. Conversely, the lower layers, being endowed with only little or no assets, have shrunk in relative and absolute terms. With them, the social reservoir for upward mobile, "entrepreneurially" oriented debtors has decreased. It is this shift alone, which may give rise to an imbalance on the capital markets. The possibility of such an imbalance, however, is supported by two additional factors: mounting blockades of upward career mobility and the ageing of the population.

In order to focus on the first factor, further analysis of the shifts of social structure is needed. If a large number of individuals in a cohort succeed in moving socially upward, what are the consequences for the following cohorts and generations? Do their chances improve or do they deteriorate? Recent research findings on social mobility and on the labour market conditions of the young generation seem to confirm the second hypothesis. In their international studies on the impact of globalisation on the life courses and employment chances of the young generation ("GLOBALIFE"-study), Hans-Peter Blossfeld and his collaborators concluded that young adults, and especially those with low qualifications and little social and financial resources, are the losers of the globalisation process. Since the end of the 20th century, their labour market situation has deteriorated markedly. They are exposed to high insecurity and burdened by precarious and flexible employment contracts without commanding resources to buffer the risks (Blossfeld et al. 2005, 2007). However, the phenomena observed by Blossfeld et al. may be attributed not only to the economic consequences of globalisation, but may also be explained

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as an after-effect of structural upward mobility of former cohorts and generations. On the one hand, the offspring of the social climbers are in a privileged position. They grow up in a warmly stuffed nest and do not need to fight for their rise and success. Economic and also – as it is well known – educational assets are being passed on from one generation to another. This guarantees a wide margin for the descendants of the well-situated, leaving hardly a chance for the others to catch up. With so many qualified positions already blocked by the privileged, it has become difficult for young men and women from the lower classes to enter occupational careers and to find access to qualified positions on the labour market. In Germany, the chances of lowly qualified youths (migrants as well as ethnic Germans) seem to have deteriorated to such a degree that many of them seem to have completely abandoned the hope for social rise (Neugebauer 2007). A vicious circle between the objective deterioration of social chances and individual resignation has developed, which is being discussed under the keyword "social exclusion" (Kronauer 2002; Byrne 2005; Bude 2008; Stichweh and Windolf 2009). Of course, in order to explain these phenomena, further factors need to be taken into account, such as ethnic segregation, disorganisation of families, conservatism and social selectivity of the educational system. I do not intend to discuss these issues in more detail, since my point here is only their relevance for the development of the capital and financial markets. It is not only the relative decrease of the social reservoir of promising entrepreneurial debtors, which gives rise to imbalances on the capital market, as I have argued above. These imbalances are reinforced by mounting barriers for upward social mobility and the corresponding discouragement of the advancement motive.

The other reinforcing factor is the ageing of the population. The motive for social advancement and entrepreneurial success tends to be strong in the juvenile stages of the individual life cycle, and tends to weaken in the more mature phases. The habitual orientation to the future which, as noted above, is such an important cultural precondition for capitalist growth, is the privilege of the young. With chronically low birth rates and the foreseeable ageing of the population, the economically active part of the population will diminish, as will the cultural orientation to the future. At the same time, the layer of wealthy pensioners will increase. Demographic change, thus, is a further factor that reinforces the social preponderance of capital rentiers over entrepreneurs.

On this background, nobody should be surprised that the mature industrial societies in Western Europe, North America and Japan are increasingly faced with the problem of chronic excess liquidity on capital markets. As profitable investment outlets are lacking in the domestic economy, the capital flows into the international markets. The investors try to find the debtors elsewhere. Until the crash in 2008, a large part of the capital, nevertheless, flowed to the United States, due to the political reputation of the dollar as an international reserve currency and a "safe haven". This helped the United States to finance their double deficit of international trade and public expenditures, and created a big bubble which eventually burst. Admittedly, countries like China, Russia, India, Brazil and other emerging economies have become increasingly attractive for investors during the last years. Although the demand for capital is still high in some of these countries, the political risks are, too. The crisis has shown that the globalisation of financial markets did not really provide a solution for the problem of chronic excess liquidity of capital, but actually has exacerbated it. The structural changes I described – structural upward mobility of societies, over-proportional growth of financial assets – could be observed more or less in all developed industrial countries during the last decades of the 20th century, and today in their beginnings also in China.

The global character of the crisis indicates that the excess liquidity of capital has indeed become a global problem. The financial industry reacted to the dilemma of lacking real investment opportunities by inventing artificial ones, and by pressing these derivative and speculative creations into the market. However, it is evident that this could not provide a solution for the underlying problem and could not prevent the final burst of the bubble. These are the contradictions which have led to the actual crisis. They cannot only be observed today, but have already been accumulating for a considerable time; the burst of the Dotcom-bubble in 2001 goes back to the same reasons. The Dotcom-crisis had triggered a period of feeble economic growth especially in Germany (between 2001 and 2005) which resulted in chronically high unemployment. The permanent net-outflow of capital had a depressive effect on the economy, leading to reductions of employment and a down-up-redistribution of incomes. As a consequence of the strong decrease of regular jobs in the German economy during the period 2001-2005, the middle class did no longer grow but shrunk, as many individuals became unemployed or had to accept a degradation of their terms of employment (Grabka and Frick 2008). These problems will become even more acute, if the US will no longer take their former role as a global debtor and promoter of growth in the future.

3b. Contrary to the common economic rhetoric, financial capital has ceased to be "scarce" since a long time, as I have emphasised. With the mounting overflow of capital, the claim of capital proprietors on a "yield" has actually lost its objective foundation. John Maynard Keynes noted this already seventy years ago and came to the conclusion that a "euthanasia of the rentier" (Keynes 1973, 376) would be desirable. As everybody knows, this did not happen. On the contrary, by entrusting their money to institutional investors and capital funds, the individual investors grew a new type of collective actors, who are committed to serve their customers, the rentiers (and, not least, the fund managers themselves), and to promote their interests throughout society.

The funds are influencing the political system in a manifold, indirect and direct way. Due to the sheer volume of the assets controlled by them – as already noted, it comes close to or surpasses the national product in some countries – the funds create facts by their decisions that cannot be ignored by any government. The consequences are felt in the arenas of tax, fiscal and monetary policies. By their exit threat, the funds managed to trigger a downward race of national governments in the field of taxes and social security contributions, particularly in Europe and, after the enlargement of the EU, in the East. Corporate taxes are showing a declining trend throughout the OECD-countries during the last 20 years (Ganssmann 2004; OECD 2005). Apart from these indirect effects, there are also many direct interventions of the funds in the political system, being put forward by an armada of consultants, lobbyists and professors, who often are under contract to the funds. These advisors pretend to deliver allegedly absent "economic expertise" to the governments (Rügemer 2004). They do their best to promote political decisions in favour of the funds, such as the abolition of the tax on sales of corporate shares under the red-green government in Germany in 2002. And, of course, they promote never ending campaigns in the public media on the economic necessity and inevitability of lowering taxes, cutting social expenditures, etc.

Beyond the political system and the public sphere, the influence of the funds is felt on the level of firms and management. Firms that are under control of the funds have to meet the profit targets agreed upon, otherwise they risk to be sold or closed. This is the main reason underlying the often cited "short-termism" of management strategies, resulting in a neglect of investments in innovative projects or in the substance of the firm which do not promise immediate profits. Profits are no longer defined as "residual income" according to conventional management textbooks. Rather, they are now taking on the character of a new type of "contractual income" according to the objectives agreed upon between the management and the owners. Conversely, wages and salaries are no longer "contractual incomes"; individual and collective bargaining agreements are no longer considered to be binding. The employees receive what is left after the owners have satisfied their claims. Capital market oriented governance aims at uncoupling profit from risk and transforming it into a calculable quantity. Even research and development departments are becoming "economised", as research engineers are required to comply with time and cost targets and to design their projects in close conformity with the requirements of the market and of the manufacturing process, thereby losing the necessary minimum of functional autonomy (Grewer et al. 2007).

However, if firms lose their capacity to innovate, while at the same time being required to distribute even more dividends to the shareholders, this means that profits will have to be financed by cuts in employment, wages, taxes, or in the capital substance of the firm. In this case, profits no longer come from successfully marketed innovations, allowing the firm and the economy to grow (Schumpeter's "creative destruction"), but from redistributing a given revenue in favour of the shareholders. The production of profits ceases to be a positive sum game, giving all stakeholders of the firm the chance to gain. It turns into a zero-sum game in favour of the shareholders, the employees, the state and the community being the losers. This is detrimental not only to economic growth, but also to the capacity of the economy to subsidise the non-economic subsystems of society – the institutions of science, education, health, art and culture – by taxes and transfer payments. As a consequence, these institutions become "economised", as they are forced either to close or to raise the funds they need by themselves. If possible, they may be privatised and transformed into an outlet for always drifting, profit seeking capital. In so far, the "economisation" of the institutions of education, science and health, which Schimank and Volkmann (2008) have analysed in their studies, can be interpreted as a result of the replacement of the entrepreneur by the rentier in the economy. Contrary to the common rhetoric, financial market capitalism did not promote the entrepreneurial forces in society. Rather, the rentiers seem to have erected a regime of domination *over* the entrepreneurs, paralysing the real growth of the economy, inflating speculative bubbles and turning firms, communities and states into victims of the financial industry.

IV. Concluding discussion

My conclusion is that we are facing a complex of highly self-contradictory actions, not only of the small elite of the extremely rich, but also of the large number of middle class investors. The investors believe in their "natural right" to gain. They commit themselves to the egocentric illusion of absolute wealth, while they are, in fact, undermining the conditions for the creation of real wealth by their actual practice and the collective consequences of this practice. Present day financial market capitalism has uncoupled property rights and entrepreneurial responsibility to a historically unprecedented degree. Millions of middle class shareholders are expecting "yields" on their as-

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sets, without wasting any thought on the question of where the required debtors could come from, and without taking any entrepreneurial risk by themselves. One prefers preaching the sermon of the entrepreneurial virtues to others, and one refuses to accept that there can be no profit where there is no entrepreneurial innovation and creative destruction. With excessively growing financial assets, correspondingly more hard working debtors would be required. However, such a scenario is far from any reality, although the consulting industry is doing its best to propagate and popularise it. Real societies first have to ensure their reproduction and continuity, for example by raising and educating children, by caring for the elderly and disabled, by maintaining the social and cultural infrastructure of society – activities which, even today, continue to be mostly unpaid or not profitable. Even if a considerable number of people may engage in entrepreneurial careers, society cannot devote its entire energy to the business of creative destruction simply to comply with the claims of the shareholders. Today, we face an escalation of these basic contradictions. The problem of capitalism underlying the present crisis lies in its own success. Capitalism has often proved to be successful in mobilising individual entrepreneurial energies by the promise of social rise and wealth for everybody. However, should this promise ever be redeemed – what happens then?

What is to be done? The value of the aggregate assets and, with them, of debts will have to be brought down to a level that can be mastered by the existing society, which does not consist only of top performers and Olympic athletes. Indeed, this necessary implosion of assets developed for some time, starting with the collapse of international stock markets in autumn 2008, and lasting until spring 2009. In order to counteract the collapse and to stabilise the markets, the governments intervened with voluminous parcels of credit, credit guarantees, subsidies and public expenditures. They exchanged "bad", defaulted private assets for "good" public bonds and thus tried to guarantee the profitability of private capital via tax money. This came down to the attempt to slow down the air leak of the bubble by pumping new air into it. As an immediate result, the downward movement indeed came to a halt, even more, share prices started to rise again and the investment banks are still paying high bonuses as if nothing had happened. It remains to be seen, however, how lasting the present stabilisation will be. Obviously, there is still a lot of air in the bubble, and the stabilisation may turn out to be only the prelude of a new, even deeper crisis. As a consequence of exploding public debts, the governments themselves may become targeted by the financial markets and become the focus of the next turmoil, as the present Euro crisis indicates.

For developing a more sustainable strategy, it is recommended to go back to the earlier analyses of Keynes and search for ways how to prevent the build-up of excessive financial assets from the outset by means of political regulation and intervention. The creation of speculative "products" by the financial industry should be curbed, investment and credit business separated clearly from each other, the public sector ought to be strengthened and enlarged. In order to overcome the public debt problem, capital incomes and financial market transactions should be taxed adequately and efficiently. In a global capitalist system, political interventions of such a kind need to be coordinated internationally and cannot work on a purely national basis. If the rise of non-redeemable capital claims were counteracted from the beginning, the risk of subsequent bubbles and crashes could be reduced. Economic sociology can contribute to uncover the paradox structures of action on financial markets, and thus can help the actors to accept the inevitable and to overcome their narrow focus on private financial gain.

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