Book reviews

Colin Crouch · 2019

Will the gig economy prevail?

Cambridge: Polity Press

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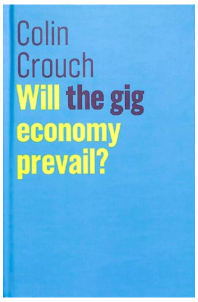

The rise of the gig economy, including among others digital platforms for taxi services (e.g., Uber, Lyft), food delivery (Foodora, Deliveroo, etc.) or online labour (e.g., Upwork, Freelancer), has attracted a great deal of attention in both scientific research and public debate. While the economic prospects of these internet start-ups are still uncertain, despite the hype about them, the precarious working conditions and the ambiguous employment status they offer workers have provoked considerable criticisms in recent research. In his new book, Colin Crouch, a leading economic sociologist and political economist, interprets the gig economy as an extreme form of weakening workers' rights in contemporary capitalism as it promises employers "workers who are completely subordinate to a firm's authority but for whom it has no responsibility" (p. 6). Crouch uses this initial diagnosis to start off a discussion of the general erosion of standard employment and of the changing forms of precariousness over the past decades. He aims to explore the extent and range of these changes in employment relationships and to make proposals for future labour market policies.

The theoretical basis of Crouch's analysis is the asymmetrical structure of the employment contract, putting employees in an inferior position (chapter 2). On the one hand, the enrichment of standard employment after 1945 in Western capitalist societies has improved their situation considerably. On the other hand, in the course of the neoliberal turn since the 1970s employment security for most workers has been reduced as a consequence of the financialisation of markets, the growth of the service economy, and advances in information technology. The rise of the platform economy is due to the convergence of these developments, allowing companies to dominate and even surveil workers, who are not their employees, but are treated in legal terms as self-employed, independent contractors.

In the two central chapters of the book Crouch discusses in which respects and to what extent the historical achievements of standard employment have been eroded over the past two decades (chapter 3), and how the forms of precarious employment have changed (chapter 4). Using up-to-date OECD-statistics, he demonstrates the overall decline in the quality of enriched standard employment in a comparative perspective. This decline becomes most obvious in the impairment of job protection laws, and in the decrease in union membership and the coverage of union activities. The various forms of precariousness show different trajectories in the OECD-countries with an increase in involuntary part-time work, temporary employment, and own-account workers in many cases. There is a growing dualism that divides a still quite secure workforce from workers in precarious jobs, and confronts unions and governments with the dilemma of maintaining protection for the former group of workers without excluding the latter one.

In the final chapter Crouch turns to labour market policy and presents a new approach to employment security under conditions of fragmented and precarious work. He seizes on the notion of 'flexicurity' that had been developed during labour market reforms in the 1990s in the Netherlands, and has attracted quite some interest in EU politics ever since. According to Crouch, this idea has been undermined by numerous neoliberal political interventions. To create incentives for employers "to follow the path of strong flexicurity" (p. 113) anew, he makes a sweeping proposal: extending the term employer to include all users of labour services, he suggests making all of them liable for considerable social insurance payments, irrespective of the nature of the contract or relationship between "labour users" and workers. Incentives for "good work" could be created, in Crouch's view, by substantially reducing these taxes for employers who guarantee high employment security in the contracts they offer.

Thus, Crouch takes workers' risks in the gig economy as grounds to make a fundamentally new proposition for a labour market policy that focusses on taxing the use of labour generally, instead of regulating various forms of employment separately. His basic assumption is that – with gig jobs as well as with other forms of precarious employment – companies try to reduce costs and neglect workers' interests. Consequentially, Crouch proposes a regulatory concept that stresses the responsible "use of labour" with respect to both employees and own-account workers, as well as encompassing temporary agencies and internet platforms. The reader should not expect an in-depth analysis of the gig economy in the course of his reasoning. The author does not refer to detailed empirical research on the various forms of gig employment (driving, delivery, online labour, etc.), and rather outlines the general characteristics of labour in the platform economy.

Colin Crouch puts this recent development into the context of a general decline of security in employment relations over the past decades. He does not detect a new paradigm for work relations in the platform economy and thus answers the question in the title of the book, "will the gig economy prevail", quite simply: "no" (p. 9). The growth of this field of employment may be limited, but even so it is an outright challenge to standard employment, "in which the very idea of employment and therefore of any rights at all is dissolved" (p. 42). Therefore, the author stresses the necessity of finding more consistent political solutions building on the notions of flexicurity and "use of labour." He uses the handy book format of the "Future of Capitalism" series from Polity Press for a clearly laid out analysis, which is comprehensible to a wide readership. Of course, this small volume does not leave enough room for thorough considerations of the more concrete details, variations and pitfalls of the proposed approach. It will be exciting to see how Crouch will elaborate this conception in analytical and political terms in future publications. Meanwhile, his urgent appeal to take serious account of the gig economy's risks for workers broadens the perspective and stimulates further debate.

Jens Beckert and Richard Bronk (eds.) · 2018

Uncertain Futures. Imaginaries, Narratives, and Calculation in the Economy

Oxford: Oxford University Press

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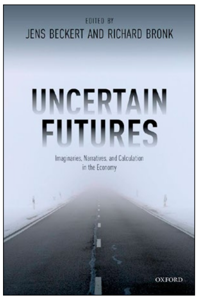

An edited volume is usually less than the sum of its parts. It is the other way round in the case of the volume edited by Jens Beckert and Richard Bronk. The intellectual heavyweight of an introduction frames the other, conceptual and empirical, chapters. It gives the reader an elaborate language for describing the phenomena that constitute uncertain futures and distils what the chapters find out about the ways agents deal with fundamental uncertainty. Analytically, the introduction suggests that we need to look for (bounded) plurality and diversity of models rather than for that nirvana of a consensus in the guise of a mainstream model.

The volume then practices what it preaches, namely pluralism. Robert Boyer, the doyen of the regulationist school, contributes a subversive chapter that can be seen as an antidote to parts of the introduction. In his view, uncertain futures and the need for stabilising narratives are not so much our destiny and an ontological given, but result from financialised capitalism with its trust in self-regulating markets. Financialisation generates uncertainty but then needs narratives to justify profit-seeking investments.

In the same vein, Jenny Andersson takes on Beckert's notion of narratives as strategic stabilising devices in an uncertain world. She is more interested in how narratives may trigger a destabilising dynamic. Her story documents how the environmental threat to the Arctic Circle is narrated inter alia by the Swedish government, which stresses the deep historical ties, conveniently downplaying the fact that they were established by colonialism. If successful, this narrative is likely to jeopardise the environmental viability of the Arctic, which is detrimental to the narrators themselves.

This leads me to the two grand themes of the book, on which it is highly instructive: first, the nature of uncertainty and, second, how social sciences can make progress in understanding how we cope with uncertainty.

Claims of Knightian uncertainty can be trivial: sure, the weather on a particular day next year is unknowable. Or they may be simplistic: uncertainty is not a salient social fact and, absent personal tragedies, we do not experience the world as uncertain on a daily basis. For instance, we plan open-air events for certain months of the year because the temperature in those months is predictably not around freezing.

The real point about uncertain futures is that what generates uncertainty is not 'out there' but generated inside the system to which it refers. Even the weather is no longer 'out there' – earth system researchers can tell us that climate change is an endogenous process of our use of the planet. By registering certain risks but not others, accounting rules inadvertently create incentives to invest in the not-accounted-for risks; credit rating agencies produce particular perceptions of risks and leave out others (Chapter 11 by Natalia Besedovsky). This, in turn, feeds back on business investments in forest management (Chapter 13 by Liliana Doganova), and policies to foster energy technology (Chapter 14 by Timur Ergen). Uncertainty is not like Knut Wicksell's rocking horse but more like 'taking a stick' to one horse in a herd of wild horses, as the Bank of England's chief economist, Andy Haldane, puts it. This may trigger utterly unpredictable moves because the behaviour of each is dependent on the other, but in unknowable ways.

What happens if we take this systemic endogeneity of uncertainty on board? The good news first: we can throw out practically all mainstream economic models and replace them with agency-based models, ecological rationality models (diverse rationalities depending on the environment of the agent), and much more. They are all real brain teasers that will engage bright young minds for years to come.

But there is also not so good news for those of us interested in certain deterministic relationships that improve our lives: What remains of policymaking if its signals are like hitting a wild horse's back? The book provides us with several empirical examples of how policymaking responds. The 'macroprudential turn' in financial stabilisation means to supervise and regulate single banks with a view to their contribution to systemic (in-) stability. This can narrow down the distribution of outcomes by making its fat tails leaner (Haldane). Since even the distribution may be unknown, macroprudential mandates for central banks ensure that their prudential interventions are backed up by the ability to produce liquidity in unknown quantities should the systemic uncertainty materialise. In a brilliant chapter, Benjamin Braun analyses how central bankers have become ready to be the pump-primers of the economy, replacing the fiscal authorities of the olden Keynesian days. This is in direct opposition to their paradoxical role as executors of the rational expectations equilibrium of recent decades. Hence policy solutions in a fundamentally uncertain world become apparent, and the book presents the reader with cutting-edge research on the various directions we can go in, theoretically and practically.

This brings me to the second grand theme. The book points in two directions to how social sciences can make progress in understanding how we cope with uncertainty: we can seek better microfoundations than the rational expectations school (Chapter 3 by David Tuckett on advising the BoE), or we can try to understand better how institutions can reduce, absorb, and divert uncertainty.

The first, microfoundations, is arguably a continuation of mainstream economics as social physics: an attempt to find out how agents 'really' make decisions that invoke certain responses. I fear that all we will find is that there are so many ways in which people can be rational and irrational, and even if we can narrow it down, we still do not know how they interact. As Haldane puts it on page 152: 'Aggregating from the microscopic to the macroscopic is very unlikely to give sensible insights into real-world behaviour, for the same reason that the behaviour of a single neutron is uninformative about the threat of nuclear winter'.

The second approach seems to be much more promising: institutions provide the heuristics that people regularly apply in dealing with uncertainty. For instance, Werner Reichmann describes how forecasts are a series of conversations among forecasters that use models as a consistency constraint. Olivier Pilmis analyses how professional standards for generating forecasts replace outcome-based standards in light of the predictable fact that even the best forecast is error-prone. This professional standardisation has striking analogies with magic practices.

Douglas Holmes describes in his chapter what central bankers apparently do most of the time: talk. Instead of studying numbers, they talk to each other so as to assure themselves of the uncertain economy; instead of simply issuing their interest rate decisions, they talk to market actors and the public. This is more like trying to be a horse whisperer and preparing the horse for the stick (if still necessary after the soothing talk). Central bank communication, to which most of us do not listen with bated breath, can be seen as an institution that deals with uncertainty and one that is self-conscious about doing so.

This research programme – to explain the enshrined wisdom of institutions that, by design and by default, give us more or less constructive guidance as we feel our ways into alternative futures – encourages social scientists to take a more humble approach to the world. Instead of self-righteously telling the world that it should behave according to our models, we try to learn from the world how it deals with the uncertainty that it creates for itself.

Ekaterina Svetlova · 2018

Financial Models and Society: Villains or Scapegoats?

Cheltenham, UK: Edward Elgar Publishing

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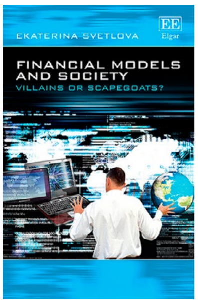

Financial models have altered today's financial market landscape tremendously. Since the 1960s, business finance has moved away from its once descriptive approach to become a highly mathematical and formal field and market participants can no longer imagine a world without sophisticated financial models. However, the new landscape comes with risks. At least since the financial crisis of 2007/08, scholars, market participants and regulators have criticised financial models for having contributed to market turmoil and for endangering the proper functioning of financial markets. Despite this accusation, how can it be that we still see 'normal and boring' market days without turmoil?

This question is the starting point of Ekaterina Svetlova's book *Financial Models and Society: Villains or Scapegoats?* To answer it, the author begins with an anecdote of her own experience as a portfolio manager in an investment bank in Frankfurt. While she felt well prepared to handle complicated formulas, her new colleagues advised her to "Forget those models. Now you should learn how to invest" (page 4). Her own experience thus taught her that financial models do not dictate how to invest but instead must play a different role within financial markets.

The book presents the findings of ten years of research. A total of nearly 50 semi-structured interviews with financial mathematicians, asset managers, and other financial market professionals were conducted, including a three-month participant observation in a Swiss investment bank. This vast empirical material not only provides the reader with insights into the 'actual' usage of financial market models, it also becomes the driving force behind the author's attempt to advance the social studies of finance.

After the introduction, in which the author lays out her motivation and the contributions of the book in general, the second chapter unfolds a first disagreement with the social studies of finance. While the social studies of finance considers financial models rather as knowledge-production tools, Svetlova stresses that models are decision-making tools. In a radically uncertain world, financial market participants use models to make investment decisions instead of producing formal knowledge. This understanding informs Chapter 3, in which the author critically engages with an essential concept of the social studies of finance: performativity. She claims that the social studies of finance has overemphasised the performative effects of models. While models represent one formal decision-making element when investing, market participants also take other non-formal elements, such as experience, into account. Market participants do not consider calculation and judgement separately; instead, they apply various *cultures of model use* which Svetlova defines as "specific styles of the interplay between formal and non-formal elements of decision-making in the practice of markets" (page 37). Therefore, financial market professionals do not follow models blindly and financial models do not make markets. While Chapter 4 then presents empirical case studies and explores the cultures of model use in the decision-making process further, Chapter 5 describes the models' role in the decision-selling process as a tool to stage objective knowledge. The last chapter summarises the main findings and offers avenues for further research.

While it is beyond the scope of this review to discuss the numerous empirical case studies and the different cultures of model use presented in the book, it is worth describing one example in order to 'answer' the question of whether financial models are villains or scapegoats. Active portfolio managers, for instance, use the discounted cash flow model (DCF) to invest and select undervalued assets. To identify such an undervalued asset, a portfolio manager uses the DCF to identify an arbitrage between an observable market price and a calculated fair value of an asset. To derive the fair value of a company, understood for the sake of simplicity as an estimated market price, the portfolio manager tries to value the company's future cash flows. Future cash flows are in turn determined by market data, such as estimated growth rates, and provide the input to calculate the fair value of a company. In theory, if a market price is lower than the calculated fair value of the company, the portfolio manager will buy the undervalued asset of the company to make a profit.

Since estimated growth rates are only predictions and far from certain, portfolio managers compare the model output with their qualitative judgement of the asset. The author describes this phenomenon as a *qualitative overlay* because portfolio managers assess their calculation and, if their judgement differs from the calculation, overlay the calculative value with their qualitative judgement. Financial models may thus be scapegoats rather than villains in the case of bad investments (or market turmoil) because the decision-making process is not fully determined by models. It also involves informal elements of qualitative judgement.

This book is a must-read for anyone interested in the role of models in financial markets. While scholars might value that the book consolidates the somewhat fragmented empirical cases and insights of the social studies of finance in one well-crafted volume, market practitioners or even regulators might appreciate it as a tool to raise awareness of the role of 'human' judgements in financial markets. Since the author designed the book to attract various readerships, it might itself trigger a debate between scholars and market professionals, pointing to a new role for the social studies of finance beyond academia.