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Jens Beckert and Wolfgang Streeck Economic Sociology and Political Economy A Programmatic Perspective

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Abstract

The paper presents some of the ideas underlying the current research program of the Max Planck Institute for the Study of Societies (MPIfG). It begins with a discussion of how the institute's programmatic orientation has evolved since it was founded in 1984. Programmatic change over the years involved (1) recognition of a secular decline in the capacity of the nation-state to organize and guarantee social order, and of the growing significance of self-regulating, "free" national and international markets for social life; (2) increased attention to issues of meaning and to "culture" and cultural symbolism, as well as to normative questions; (3) a gradual shift in emphasis from policy to politics; and (4) more explicit recognition of history and of the historicity of the questions posed and the observations analyzed in social science. The second part of the paper argues that Gesellschaftsforschung today is most appropriately conceived as the study of the economy and society of contemporary capitalism. It is suggested that the most promising approach is close cooperation between the scholarly traditions of political economy and economic sociology, with the former standing to benefit from a more explicit micro-foundation in a sociological theory of action and the latter from more systematic consideration of politics and the state. Third, the paper shows how the approach that has evolved at the MPIfG differs from mainstream economic sociology, from the so-called new institutional economics, and from behavioral economics. The paper concludes by enumerating four subject areas that are likely to be of particular importance for research at the MPIfG: (1) the nature of rational-economic action, (2) the constitution of markets, (3) the emergence and change of institutions, and (4) the relationship between capitalism and democracy.

Zusammenfassung

Dargestellt werden einige der dem gegenwärtigen Forschungsprogramm des MPIfG unterliegenden Überlegungen. Das Papier beginnt mit einer Diskussion der programmatischen Entwicklung des Instituts seit seiner Gründung im Jahre 1984. Seit damals eingetretene Veränderungen bestanden vor allem in (1) zunehmender Anerkennung eines langfristigen Rückgangs der Steuerungsfähigkeit des Nationalstaats, bei gleichzeitig wachsender Bedeutung selbstregulierender, "freier" nationaler und internationaler Märkte; (2) vermehrter Befassung mit kulturellen Sinndeutungen und Symbolen sowie mit normativen Fragen; (3) einer allmählichen Umorientierung von Policy zu Politics; und (4) expliziterer Einbeziehung von Geschichte und Berücksichtigung der Geschichtlichkeit der Probleme und Beobachtungen, die Gegenstand der Sozialwissenschaften sind. Der zweite Teil des Papiers argumentiert, dass Gesellschaftsforschung heute als Untersuchung von Wirtschaft und Gesellschaft des modernen Kapitalismus betrieben werden sollte. Der vielversprechendste Ansatz dazu besteht in einer engen Zusammenarbeit zwischen politischer Ökonomie und Wirtschaftssoziologie. Dabei können die politische Ökonomie von einer expliziteren Mikro-Fundierung in einer soziologischen Handlungstheorie und die Wirtschaftssoziologie von einer systematischeren Berücksichtigung der Politik und des Staates profitieren. Drittens wird dargelegt, wie sich der am MPIfG verfolgte Ansatz vom Mainstream der Wirtschaftssoziologie, von der sogenannten Neuen Institutionellen Ökonomie sowie von der Forschungsrichtung der Behavioral Economics unterscheidet. Das Papier endet mit einer Beschreibung von vier Forschungsthemen, die für die künftige Arbeit am MPIfG von besonderer Bedeutung sein werden: (1) die Natur rationalen wirtschaftlichen Handelns; (2) die Konstitution von Märkten; (3) Entstehung und Wandel von Institutionen; und (4) das Verhältnis von Kapitalismus und Demokratie.

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Introduction

The general research field of the Max Planck Institute for the Study of Societies is Gesellschaftsforschung. On an abstract level, Gesellschaftsforschung may be defined as research on the functioning and the dynamics of the structures through which contemporary societies organize. All societies organize in that different tasks, rights, and duties are assigned to different members of society, giving rise to functional differentiation as well as hierarchical order and social inequality. Differentiation, in turn, calls forth various efforts at integration, leading to the emergence of structures of social organization more or less capable of coordinating the different motives and interests of actors. Gesellschaftsforschung attempts to build theoretical knowledge on the functioning and historical development of these structures, the causes of their change, and the accompanying disruptions of social order. In its normative-prescriptive dimension, Gesellschaftsforschung assesses how socially legitimated goals can be accomplished through particular forms of social organization. Because contemporary societies are in constant change, the analytical and theoretical approach, the normative concerns, and the empirical subjects of Gesellschaftsforschung must be continually redefined in accordance with historical developments.

It is against this general background that the evolution of the research program of the Max-Planck-Institut für Gesellschaftsforschung (MPIfG) must be understood. Starting from a brief and inevitably incomplete reconstruction of its various stages since the institute was founded in 1984, we outline in this paper why we believe that today's research on contemporary societies should concern itself primarily with the operation of their economy and its interaction with politics and other social realms. We also argue that analyzing the economy from the perspective of Gesellschaftsforschung - or, more specifically, from the perspective of a particular combination of political economy and economic sociology - will greatly contribute to a better understanding not just of contemporary processes of societal change, but also of the economy in a narrower sense. While the paper will designate four general areas that will be central to research at the MPIfG - the nature of economic action, the constitution of markets, the emergence and change of institutions, and the relationship between capitalism and democracy - it is not our intention here to present an enumeration of specific projects or a description of concrete project areas. Rather, this paper outlines general perspectives and themes that will control the selection of projects and in coming years inform the way in which their results will be organized into a broader context of social-scientific inquiry.

How did we get where we are?

The institute's programmatic orientation has gradually evolved over more than two decades, and been continuously reviewed and revised in the process. Programmatic

concerns changed, not just with accumulating empirical and theoretical insights, but also with what turned out to be rapid and accelerating historical change. Program discussions took stock of unfolding tendencies in the selection of subjects, in research methods and theories, and in the real world. New programs tried to give definition to at first often imperceptible changes in the institute's research and theory, in particular where these seemed especially promising and to be posing particularly exciting challenges for the progress of social science.

In a necessarily brief and schematic presentation, we wish to emphasize four strands of continuous development in the MPIfG's programmatic orientation that, we believe, point to directions that deserve to be more explicitly pursued: (1) the increasing recognition of a slow but fundamental secular decline, for both internal and external reasons, in the capacity of the nation-state to organize and guarantee social order, and of the growing significance of self-regulating, "free" national and international markets for social life and non-state actors, as well as of multinational and transnational institutions regulating these markets; (2) the growing attention paid to issues of meaning, to the role of "culture" and cultural symbolism, to public discourse and collective ideas, not just of a cognitive but also of a normative kind, as well as to normative questions as such; (3) a gradual shift in emphasis from policy to politics, with more consideration given to conflicting objectives and unequal power relations, as opposed to the design and implementation of effective solutions, substantive or procedural, to collective problems consensually perceived as such; and (4) an increasingly explicit recognition of history and of the historicity of the questions posed and the observations analyzed in social science.

1. The MPIfG was founded in 1984, in the context of long-standing debates among both elite publics and social scientists in Germany and elsewhere on the "governability" – *Steuerbarkeit* – of modern societies. Beginning in the 1960s, large segments of the scientific communities in sociology, political science, organization theory, and administrative science had become involved in a search for ways to improve the administrative capacities of government, so as to enable it to perform its supposedly growing tasks in providing for the collective goods required by a "modern" industrial society. In countries like Germany, one major target had been what was regarded as an outdated system of public administration, run by officials trained in law rather than in empirical social science, organized in hierarchical ministerial departments instead of project groups, and functioning under nineteenth-century principles of yearly budget allocations.

However, by the mid-1970s, at the latest, it had become clear that etatist-technocratic concepts of *gesellschaftliche Steuerung* and of social problem-solving had been far too simple for the complexity of modern societies and the problems supposedly facing their governments. In the first wave of projects at the MPIfG, *Steuerbarkeit* was already treated as a sectoral rather than a societal phenomenon, to be studied sector by sector rather than at the level of society as a whole. It had also been redefined to include bargained compromises between the state and organized interest groups, as well as corporatist

self-government of the latter under, supposedly, a revocable public license - a model that emphasized the interplay between staatliche Steuerung (state governability) and gesellschaftliche Selbstregulierung (social self-organization). Work at the institute thus helped pave the way toward a more recent and now widespread concern, no longer with Steuerung in a hierarchical or semi-hierarchical sense, but with "governance" resulting from complex, sectorally diverse interactions between a wide variety of relevant actors, none of which can claim to be the sole or privileged representative of the common good. Although the new concept was much superior for its realism, it did involve a departure from the earlier vision of a society that realizes through public policy a freely determined collective future. Instead, the dominant image of the production of social order today - one to which work at the MPIfG has significantly contributed - is one of a process of societal self-organization through distributed intelligence, will, and power, whose result is not known beforehand and can be recognized only a posteriori. This notion, of course, is in remarkable parallel to the concept of a self-regulating market. Unlike economics with its "invisible hand," however, institutionalist analyses of governance still find it difficult to identify a mechanism that would allow them with sufficient confidence to expect that the result of spontaneous political self-organization will be order and not anarchy.

That Steuerungstheorie no longer can be a credible objective, however, is due not only to an accumulation of adverse empirical findings and theoretical insights but also to historical forces that have radically reframed the old controversies over the governability of modern society. Internationalization and liberalization, which began to accelerate at about the time the MPIfG was founded, have decentralized the production and maintenance of social order, not just to sectoral polities or organized classes, but most of all to markets and market participants. As a consequence, social science found itself increasingly challenged to explain the transformation, if not the demise, of the interventionist nation-state and to understand the new sources of order, or disorder, by which the latter was being pushed aside. It is true that, although the reach of national political institutions vis-à-vis an internationalizing economy has dramatically shrunk, the development of society is still patterned and involves in many ways an expansion of regulatory activities. The pattern that we now observe, however, is clearly not owed to the efforts of a governing state, and whether sectoral or multisectoral regimes of governance will emerge at the international level, and what they can and cannot achieve, is an open question. In any case, it appears that the emerging multiplicity of national and international institutions and organizations that undertake to produce social order in an expanding international economy operate very much under the influence, and perhaps the hegemony, of evolving markets that increasingly set the conditions under which social institutions can develop and function.

2. For a variety of reasons, not much attention was paid in the MPIfG's initial research agendas to the input side of political processes, that is, to the expectations of citizens in relation to the state and the political system, including prevailing attitudes toward politics and political parties, popular concepts of justice, and the content of public discourses.

Since the MPIfG's research program aimed at a systematic exploration of the logic of the institutions involved, especially in sectoral policymaking, it seemed sensible for the "actor-centered institutionalism" that had been developed for the purpose to stylize the orientations of decision-makers within institutional contexts in a modified and moderate "rational choice" manner, as directed toward the maximization of unproblematically identifiable particularistic advantage, whether economic or institutional. Similarly, given that institutions and their leaders were able to rely on a high degree of legitimacy based not on active member participation in deliberative decision-making but on effective performance (output as distinguished from input legitimacy), in the practice of both research and public policy, the values, attitudes, and needs to which policy was to respond could be assumed to be more or less constant and be taken for granted.

With accelerating political and cultural change, however, this position was bound to become problematic. In the 1990s, at the latest, questions of justice that had been considered settled once and for all returned, for example in policy-related discussions on the "activation" of the unemployed, or when the rhetoric of neoliberalism challenged the postwar welfare state consensus. As entrenched attitudes changed and presumably constant orientations turned out in fact to be variable, it became increasingly necessary to pay more attention to the demand side of the political system, and to the cultural processes by which collective demands and objectives are generated and justified. Indeed, with the benefit of hindsight, it would seem that the input side of politics was always contingent and contested, and that collective preferences can be taken for granted only for a limited span of time and for pragmatic purposes, in both theory and policy. Whereas governments for a long time after the Second World War were probably justified in assuming that they knew what their citizens wanted – which allowed them to focus their attention on the efficient production of public goods and services, rather than on the question of what goods and services the public powers should provide contemporary politics is to an important extent about symbolic issues of individual and collective dignity, about cultural recognition under conditions of social heterogeneity, and about value conflicts over different ways of life. Such issues are not only highly volatile, contested in the public sphere, and hard to predict; they are also impossible to subsume under one common denominator, especially today in the face of more individualized ways of life and at a time of weakening national institutions and rapidly expanding international horizons of action.

3. Over time, research at the MPIfG had to pay increasing attention not just to the conditions under which satisfactory solutions to problems of social order and collective goods could best be realized, but also to politics: in other words, to the conflicts between different problem definitions and the interests and values informing them, as well as the differences in power of different social groups. Empirical observation of the liberalization of the German political economy in the 1990s suggested a battle between competing concepts of a good society, roughly described as dynamism and flexibility on the one side and stability and solidarity on the other. Older concepts of a constitutive tension between capitalist development and the human life-world re-emerged in

theoretical work, in particular in the reception of a once half-forgotten author like Karl Polanyi. Projects began to trace emerging conflicts between different and competing "value rationalities," for example in the controversies over the rebuilding of the welfare state. Research on the liberalization of the postwar order also drew attention to the non-institutionalized and impersonal power that comes with property and the ability to move resources across national borders, from one political jurisdiction to the next. Uncertainty came to be recognized not just as a complication in the search for the right solution to a given problem, to be resolved by more sophisticated reasoning or better bargaining, but as a fundamental condition facing human actors and as a source of conflict between values and ideas, as well as between actors with different capacities to establish certainty for themselves by adding to the uncertainty of others.

4. As the period break of the 1980s slowly came to be recognized as such, projects at the MPIfG began to cover longer stretches of time, turning more than in the past to diachronic comparison, which in some cases went as far back as the 1920s or even the Reformation. History and historicity had by no means been unknown to the first wave of MPIfG research. Moreover, the possibility that what was found in research and established in theory could have been valid only for a historical period, and that what was perceived as theoretical progress could be due not to improved research methods and accumulated knowledge but to historical change in the real world, soon became an explicit subject of theoretical reflection. Today many of the research projects at the MPIfG are framed in historical terms and conceived against the background of a past that, although it has slowly but effectively been left behind, still informs the concepts and propositions of current theories, making it necessary to understand their historical nature. Moreover, institutional change became an even more central issue than before, displacing "path dependence" as a key concept, or at least opening it up to accommodate the possibility of profound innovation. Special attention is now paid to forms of gradual institutional change whose profound effects on social organization are at first hardly visible to the actors but can slowly set institutional development on new trajectories. Similarly, German unification drew attention to the central importance in social life and, as a consequence, in social theory of singular events and historical contingency. Thus the gulf widened between research at the MPIfG and the traditional ambition in much of the social sciences to develop general models of social order that presume a constant property space in which all possible observations and causal interrelations between variables can be accommodated, or might one day be accommodated, due to scientific progress. Instead, much of the work at the MPIfG now consists of process analyses aimed at identifying the concrete mechanisms operating in institutional change, rather than trying to establish ahistorical and presumably universal principles of social structure and institutional development.

Studying the economy and society of contemporary capitalism

Research at the MPIfG has from the beginning been a version of what is called "political economy" in that it studied the capacities and possibilities of politics and policy to influence economic performance and economic outcomes, as well as the way in which economic conditions affected policy and, to a growing extent, politics. This approach applied to early research on large technical infrastructures or the health-care system, as well as to later work on labor markets and the welfare state. Research and theory focused on social domains of economic significance, and included actors with strong economic interests that had to be brought in line with the collective interest of the community by means of political intervention. At the center of attention was the state or other political actors and the institutions that governed their behavior. Economic interests appeared in the form of politically organized groups, either cooperating with the state or to be domesticated by it. By and large, "the economy" was treated as "nature": as an exogenous complex of fixed relations of cause and effect that political actors had to take into account so they could use them to their advantage.

Research in political economy at the MPIfG won wide recognition nationally and internationally, in particular in disciplines such as political science, political sociology, and industrial relations, as well as in the emerging research community working on "socioeconomics." Its general perspective was historically justified by the fact that the postwar economies of the Western world (and even more so those of the Communist East) could be seen as controlled by the political system of the nation-state, which effectively limited the reach of free markets by, among other things, state ownership; by curtailing the commodification of labor through labor law, strong unions, and an expanding welfare state; and, importantly, by limiting the mobility of production factors, keeping in check the integration of economic activities across national borders. Generally, policy was thought to enjoy a considerable range of discretion in relation to the economy, provided that it did not try to interfere with basic "economic laws." Unlike in orthodox Marxism, where political choices were fundamentally prestructured or even determined by economic forces, different political histories, more or less freely chosen in national politics, were assumed to congeal into different national "varieties of capitalism" sufficiently different to justify making them the principal subject of scientific inquiry.

Beginning in the 1980s, however, the vision of the economy as a politically controllable wealth-creation machine became increasingly dubious. Rapid expansion of markets in the course of economic liberalization went together with fundamental change in the social institutions that license, sustain, and control voluntary and self-interested economic exchange. In particular, market expansion was accompanied by a broad erosion of many of the institutional safeguards that once helped to contain the uncertainties emanating from relative prices being set by a free play of market forces. In the process, the idea of political control over the economy gradually gave way to a suspicion that in fact it had increasingly become the economy rather than the polity that determined the fate of society. One indication was the rapid development of economic forms of orga-

nization and methods of management into what had hitherto been regarded as a public sphere subject to its own, distinctive principles. Thus the recent past has seen, among other things, the privatization of formerly state-run industries; the growth of regulatory policies and of a regulatory state; a reorganization of public services on the model of private business (the so-called new public management); social policies aimed at encouraging labor market participation ("from welfare to workfare"); and, in the field of law, a substantial replacement of normative notions of justice by criteria of economic efficiency originally developed for the competitive production of goods and services under the conditions of free markets. As the reach of self-regulating competitive markets expanded, other social realms came under growing pressure to subject themselves to the functional imperatives of a market economy.

Economic liberalization not only undermined established ways of embedding the economy in society, but also led to and indeed calls for a profound rethinking of the relationship between the two. During the postwar period the dominant strands of social theory conceived of the economy as a specific segment of a larger social order, a segment constituted by particular social norms that had developed in the process of modernization. Talcott Parsons, but also modernization theory in general, considered what he referred to as a society's economic subsystem to be the primary domain of selfinterested rational action, where it was licensed, governed, and, as it were, domesticated by institutionalized social values. Other social realms were supposed to be governed by different values, providing space for alternative action orientations, such as solidarity. This dividing line has broken down, not just in practice but also in theory. In much of social science we find today a tendency to conceive of social institutions and of society generally in economic - efficiency-oriented and utility-maximizing - terms. While this reconceptualization began before the new wave of liberalization, the recent broad advance of markets certainly contributed to rendering questionable the established treatment of the economy, in both economics and sociology, as a social domain differentiated from the surrounding society and subject to its own rules. The most visible upshot of this development is the disciplinary imperialism of modern economics, as embodied, for example, in the so-called new institutional economics, which treats institutions and social order in general as rationally constructed devices for the maximization of efficiency. The corresponding development in political science and, to a lesser extent, in sociology is the advance of "rational choice," an approach that treats the society as an economy - that is, as governed by the same utility-maximizing principles as what in the social theory of the 1950s and 1960s was no more than the economic subsystem of a larger, encompassing social system.

We suggest that the critical role of the expansion of competitive markets for the development of contemporary societies makes it necessary for *Gesellschaftsforschung* to move beyond received pragmatic distinctions between the social and the economic – as in Parsons's program of "economy and society," Luhmann's notion of self-referentiality, or traditional research on "political economy." To us, these have become as untenable as, indeed, the established disciplinary division of labor between economics and sociology, or between economics and political economy. In the face of the rapid reorganization of the social world under the impact of a new wave of capitalist expansion, and in light of the increasing difficulty of conceiving of rational utility-maximizing action as contained in an "economy" conceived, in turn, as a functionally specific machinery for the creation of wealth under the control of society at large, we believe that the next broad objective of research at the MPIfG must be to explore the social logic and the social nature of the economy - of economic institutions and economic action - taking a new look at the foundations of the relationship between economy and society. In many ways this objective involves a return to classical traditions of sociology and political economy, as represented by Émile Durkheim, Max Weber, and the institutional economics of the early twentieth century. Their principal problem was how to fit theoretically and practically the rational-egoistic pursuit of material advantage as a characteristic of modern capitalism into a stable social order. In line with these traditions, we are convinced that understanding the economy and its relationship with society by stylizing social action in general as rational-egoistic utility maximization is as impossible as it is to explain social order as the result of the maximization of economic efficiency. Instead, we believe it to be high time for turning the table on imperialist attempts to generalize a theoretical paradigm to society at large that cannot in fact even account for the limited social domain for which it was originally invented.

In direct opposition to and in competition with the economistic project to treat society as an economy, research at the MPIfG in its third program period will proceed from the assumption that markets and economic action can only be understood if they are conceived as social structures and social action, respectively – that is, embedded in social relations not originally created for economic purposes, and connected to a regime of collective values and interests of which economic efficiency is just one among others. How exactly economic action relates to social action - or what sort of social action the rational-egoistic pursuit of material advantage represents - seems to us the central point of interest for Gesellschaftsforschung that seeks to clarify the status of the economy in the governance of contemporary societies. We consider the development of a theory of the economy as a social system, or as a system of social action, to be a new and promising research frontier. Such a theory leaves behind previous treatments of the economy as a nature-like environment of politics, just as it refrains from reducing social structures and public policies to efficiency-enhancing supports of economic transactions. Instead, it explicitly questions the assumed self-sufficiency of economic action and its identification with the rational-egoistic pursuit of material advantage, at the individual as well as the collective level, and deals with it as a specific form of social action dependent on political and social conditions which it in turn affects, in intended as well as unintended ways.

More specifically, what we are proposing to explore is what we call the *social and political constitution of the economy*. "Constitution" here refers to both structure and process: it suggests that any economy, of whatever society, is socially and politically constructed, and that such construction, and reconstruction, takes place continuously in the course of social and political development. To study in detail the way in which economies are constituted as social orders within societies, we are investing and in coming years will continue to invest in two complementary lines of research: one aimed at the elaboration of a new *economic sociology*, and the other at the further development of a specific sort of historical-institutionalist *political economy*.

In particular, economic sociology claims, and undertakes to show empirically, that what economics treats as principles governing not only economic action and economic systems but all social action and social life, cannot even account for the functioning of the economy. The complexity of the social world within which economic action is bound precludes perfect rational calculation and requires that inevitable uncertainties be bridged by social networks, cultural norms, and social obligations. Due to the incalculable contingencies facing actors and the distributive consequences of competitive markets, a market economy can never be based on rational-calculative action orientations alone; it is constituted by and integrated into continuing social relations, institutionalized rules, shared meanings, and corrective political intervention. Economic action, like social action in general, takes place and is bound to take place within collectively constituted social macrostructures of social order, and it depends on their integrity. The interests that economic actors pursue and the rules that they follow must be culturally sanctioned; not being naturally given, they are also in need of discursive reflection whenever they become problematic. For this reason alone, uncertainty can never be overcome entirely, and in particular not in a capitalist economy where all existing structures are continuously challenged by entrepreneurs of all sorts searching for profit opportunities, and where innovation through "creative destruction" is the most important source of economic growth and a central condition for the creation of wealth. The social embeddedness of economic action not only provides for mechanisms by which the coordination problems facing market actors may be resolved; it also denotes a collectively backed social order that protects important non-economic interests, such as social integration and recognition. In sum, the way an economy is socially embedded reflects both prevailing systems of meaning and the results of political "market struggles" over social regulation, for example of market access, motivated by both material and ideal interests.

Second, political economy, as pursued at the MPIfG, aims at reviving an older institutionalist approach looking not at "the economy" in the abstract, but at the historically concrete and continuously changing ways in which the particularistic pursuit of material advantage is relied upon in a given society to drive the production and exchange of scarce goods, and how this relationship is shaped by individual and collective political interests. Today, a perspective like this calls for a rediscovery of the subject and concept of *capitalism* as a social and not merely economic formation. Whereas speaking of "the economy" suggests a differentiated domain of action within societies that functions according to rules that are the same everywhere and at all times, capitalism refers to a historically specific constellation of rational and social action, or of economic interest and social obligation, and to a particular way in which social and economic relations are connected by social institutions. Whereas economic sociology investigates and insists on the general "embeddedness" of economic action in social structures, the political economy of capitalism explores the concrete ways in which a dynamic market economy with private ownership in the means of production unfolds within modern society, using, transforming, and perhaps undermining the social relations on which its functioning depends. Importantly, political economy concerns itself also with social resistance against the advance of market relations, and with the non-economic goals and interests defended by what Polanyi has called the "countermovement" against capitalist forms of economic and social organization. It is this contradictory – or dialectical – dynamic of the different logics of the economic and the social – between the advancement of commodification and the forces opposing it – that unfolds in the social conflicts over the regulation of the economy and that is at the center of the study of political economy.

To sum up so far, contemporary capitalist societies are organized in ways that lead to dynamic change driven by processes of "creative destruction" originating in their economies. Due to competition, capitalist agents must continuously seek new profit opportunities through innovations in existing markets, the geographical expansion of these markets, or the commodification of spheres of life hitherto untouched by market exchange. The resulting dynamic is not, however, limited to the economic realm but affects society as a whole. Society gains from the conduct of economic activities through competitive markets in that it may achieve unprecedented levels of productivity and of choice available to its members. But it is also affected by the continuous destruction of existing life-forms, heightened levels of uncertainty, and the threat of increasing subordination of non-economic areas of life to the logics of capital accumulation. It is from such contradictions between value spheres and material interests, and between the values sanctioning the pursuit of material advantage and those curtailing it, that social conflicts over the organization of the economy develop. While their concrete outcomes are indeterminate, these contradictions must – if a capitalist social order is to be maintained – strike a balance between the requirements of continued accumulation of capital and of the reproduction of social order.

A similar logic prevails within the economy itself. While institutionalized rules, stable network relations, and commonly shared cultural frameworks are a precondition for the calculability of economic decisions, it is often precisely through their violation that new profit opportunities emerge. Stability and productivity of institutions may thus stand in a conflictual relationship to each other, which includes the possibility that economic actors may undermine the very conditions needed for markets to operate. This is another reason why neither economic sociology nor political economy can conceive of society, including the economy itself, as structured by economic rationality and pressures for institutional efficiency alone. Whereas economic sociology shows how economic social relations are shaped at the micro-level of social action by social macrostructures not reducible to an economic logic, political economy analyzes from a macro-perspective the collective interests and collective actions shaping the operation of the economy and

explores the way in which the economic system and other realms of social organization interact in concrete historical conditions. Both approaches meet in the crucial role they assign to institutions, networks, and cultural meanings in patterning economic action and the conflictual dynamic to which it gives rise in the organization of social life.

A distinctive approach

Economic sociology and political economy, as envisaged at the MPIfG, are not to be confused with three other streams of research and theory in contemporary social science: (1) an attempt to demonstrate the economic usefulness of social integration, sometimes also referred to as, and confused with, economic sociology; (2) the so-called new institutional economics, which tries to understand social institutions as more or less efficient solutions to economic problems; and (3) behavioral economics, which undertakes to accommodate abnormal observations in conflict with rational actor models through the biological, evolution-theoretical "hard-wiring" of actor dispositions.

1. To conceive of markets and economic action as social structures and social action draws attention to the role of non-economic value orientations and political conflict in economic relations. An important insight of economic sociology is that the efficient pursuit of economic objectives depends on a variety of institutional, social-structural, and cultural preconditions. A sociological perspective on the economy, however, goes beyond a concern with economic efficiency. Its reference point is rather the relationship between economic and social integration. While economic theory, using the metaphor of the invisible hand, identifies an efficient economy with a harmonious social order, this optimism is not shared by sociological analysis. Many social interests cannot be reduced to efficiency concerns and manifest themselves in the economy through political rather than market action. Examples are redistributive policies to reduce social inequality and the regulation of markets to restrict the commodification of specific goods, for ethical reasons or for the protection of political values such as democracy. Research at the MPIfG on the social and political constitution of the economy does not stop at demonstrating the positive efficiency effects of social embeddedness. It also examines the heterogeneity of ideal, social, and material interests as well as the conflicts and contradictions in the organization of the economy that result from it. This approach gives rise to a stronger concern with social macrostructures of the economy that are not primarily concerned with the economy's efficient functioning but rather with the realization of non-economic values through the organization, or the containment rather than the facilitation, of markets and exchange relations.

2. While economic institutions have been and continue to be an important subject of research and theory at the MPIfG, they are conceived in ways different from what is found in the literature of institutional economics. The latter is defined by its pursuit

of an efficiency-theoretical approach, which explains the emergence and dynamics of institutions either as outcomes of rational action or by means of their contribution to economic efficiency. We suggest, however, that social order cannot ultimately be explained as the result of an agreement between rational actors maximizing their utility, that is, in contract-theoretical terms. Nor does or indeed could the evolution of institutions follow a logic of increasing efficiency. Instead, we believe, institutions and their evolution must be conceived as contingent outcomes of social and political conflict taking place against the background of culturally infused understandings by actors of their interests and the means available to them in their pursuit. Given the close relationship between economic and social organization, we consider institutional regulations, including those applying to the economy, to be simultaneous expressions of functional, normative, and cognitive concerns. Our understanding of institutions differs further from institutional economics in that it emphasizes the dialectical relationship between rules and their enactment in social interactions. While institutional economics and some strands of comparative political economy regard action as determined by prevailing institutional rules together with an exogenously fixed disposition for "rational choice," we find it more productive to investigate what actors make of social rules through their interpretations of them. This approach, we believe, enables us to understand the macro-level dynamics of social systems much better than one can in terms of strategic games between self-interested actors more or less fully cognizant and in control of the consequences of their decisions.

3. Finally, our approach to studying the social and political constitution of the economy differs profoundly from the emerging discipline of behavioral economics. Although we fully share the critique of the behavioral assumptions of standard neoclassical economics, in particular of the rational actor or homo oeconomicus model, we consider the response proposed by behavioral economists to be severely misleading, for both methodological and substantive reasons. Most of behavioral economics is based on experimental research, which inevitably detaches the subjects from the social context in which action takes place in real life. Moreover, we believe the attempt to trace regularities in social action to psychological universals or even neurological endowments to be fundamentally mistaken, as individualistic or biologistic explanations cannot do justice to the crucial role of social structures, socialization, and cultural evolution in coordinating human activities. As social scientists we proceed from the assumption that human action is importantly controlled by cultural values, institutionalized rules, socially interpreted interests, social systems of classification, and positions within social networks whose development and effects are subject to their own logic. It is these structures - what we refer to as the macro-foundations of individual action – that we believe must be at the center of any realistic theory not just of social but also of economic action.

Subjects of inquiry

Understanding economic structures as social structures and economic action as social action requires empirical and theoretical consideration of four major themes that will figure prominently in the work of the MPIfG. They are (a) the nature of economic action, (b) the constitution of markets, (c) the emergence and change of institutions, and (d) capitalism and its relationship to democracy.

1. *Economic action*. How self-interested, utility-maximizing action in the realm of the economy is integrated – that is, both sanctioned and contained – in the social order is one of the central issues in economic sociology and political economy, and one that is of particular relevance in modern capitalism. At a very general level, the answer is that economic action is not self-defined and self-sufficient but shaped by social, political, and cultural conditions in the society at large. Although economic action is conditioned by the social contexts in which it takes place, it is not determined by these contexts but rather depends on how they are interpreted by economic actors.

1a. The economy as a social system is far from self-contained, unlike what is implied in the notion of a self-regulating market. Rather, it is embedded in an array of social contexts that were not and cannot be created for economic purposes, and which perform not just economic but also other functions. Embeddedness plays both a regulative and a constitutive role for economic action. It exercises regulative influence by defining opportunity structures for actors and limiting their choice sets. Regulation is at the same time constitutive in that it makes possible the resolution of coordination problems that would be unsolvable without the support of non-economic values and institutions. Economic coordination, like the coordination of social action in general, depends on institutional frameworks, cultural meanings, and social networks. It is only through macrostructures of this sort that stable exchange relations can be established. Moreover, strategic choices, even if aimed at the maximization of utility, are rooted in collective cognitive and moral frameworks, given that means-ends relationships cannot be unequivocally determined in complex situations. Limitations in cognitive capacity force actors to have recourse to cultural and institutional resources when making economic decisions, and what actors define as their goals and select as rational strategies reflects complex cultural understandings of the situation they confront. Moreover, the distributive consequences of institutional regulations lead to their contestation between actors with diverging interests. This is why their structure is shaped not just by considerations of economic efficiency but also by political struggles.

Analyzing economic action and the economy as contextualized in social macrostructures provides a non-individualistic starting point for a theory of the economy that rejects both the contractarian assumptions of economic institutionalism and the naturalistic approach of behavioral economics. The regulative effects on economic action through the contextualization of the economy are not guaranteed, however, nor do standard economic theories share the idea that the embeddedness of economic action is a precondition for economic coordination. A well-known figure of thought is that a capitalist economy may over time undermine and consume the social supports on which it depends, unless society takes measures for their protection. In contrast, liberal economic theory posits that the economy and economic action perform best if released from social control and left to function on their own. From our perspective, the rhetoric of setting the economy "free" from social interference – in other words, liberalizing it – only means to embed it in a different, equally politically defined institutional context, one with distinctively different social consequences. The implication is that a liberal economy is a result of political and economic struggle, not a natural condition or a selfreproducing equilibrium of rational choices. This point does not preclude, however, that once a liberalized economy has been established, it may develop a dynamic that increasingly escapes political control. A liberal economy, in other words, may be de-politicized, but only through politics, and economic self-regulation through free markets is but another version of political regulation, albeit one that pretends not to be one.

1b. If economic action is to be analyzed as social action, it must be understood on the basis of the meanings it has for the actors involved. Rational actor models which are at the bottom of both mainstream economics and "new institutional economics," and which also occupy a prominent position in social network analysis and political economy, proceed from definitions of rationality that are independent of the cultural interpretation of the relevant situation by the actors. This tactic, however, can be justified not by its empirical validity, but only because of the usefulness of generalized assumptions of rational action for formal modeling. As definitions of rationality depend on social, historical, and cultural contexts, however, rational economic action must be accounted for in the same way as all social action. In other words, understanding economic action requires that the responses of actors and their assessment of the risks and opportunities inherent in a given situation be explained with reference to the *meaning* that the situation has for them. (Even where a social situation is defined as one of legitimate utility maximization in relation to a social environment conceived as "nature," this remains a cultural meaning that may be contested by other, conflicting meanings.) Since the responses of actors to institutions and social networks reflect the meaning they attach to them, causal predictions made without understanding actors' interpretations of their situation must be misleading. Thus, the action model to be used in theoretical accounts must be rooted in verstehende Soziologie (Weber's concept of "interpretive sociology"). In the analysis of markets, for example, the emergence and change of preferences among consumers can be understood only in terms of the cultural and symbolic meaning that products have for them. By recognizing the importance of meaning for the understanding of economic action, we acknowledge that the struggle over the interpretation of economic institutions is a research topic in its own right.

Making meaning a focus of analysis of economic behavior is directed not just against rational choice modeling, but also against any form of structural determinism, be it institutional, cultural, or network-theoretical. Although social macrostructures influence behavior, they do not and cannot determine it. The non-calculability of responses and

the creativity of action are relevant not only for understanding economic coordination at the micro-level, but also for the analysis of institutions at the macro-level of society as a whole. For example, as Schumpeter among others has pointed out, the dynamic of capitalism rests on the ability of actors to behave in ways that deviate from established routines. New interpretations of economic constraints and opportunities that are adopted by a sufficient number of actors lead to changes in macroeconomic configurations. Methodologically, the emphasis on verstehen encourages more inductive research designs and demands that developments at the macro-level are explained with reference to their micro-foundations in social action. Instead of universally valid causal laws, verstehende Soziologie aims at developing general typologies that remain historically contextualized. In addition, the close connection between micro- and macro-level phenomena requires research projects that investigate in detail how social macrostructures influence action and how coordination problems are resolved by agents in the context of social macrostructures. An especially promising starting point for conceptualizing the relationship between economic structures and economic action can be found in the tradition of American pragmatism, as developed in the works of John Dewey, William James, and George Herbert Mead. Pragmatism emphasizes both the role of routines in action and the creativity of the responses of actors to the demands they encounter in their social environment.

2. Markets. The second general research issue is the operation of markets as the privileged place of utility-maximizing action in capitalist economies. Markets have preconditions in technologies and knowledge. Their integration, however, like that of any other social system, depends on the successful coordination of the interaction of actors that may have highly diverse interests. Market sociology studies how coordination problems are resolved in processes of market exchange and how the specific solutions that are found affect economic outcomes in terms of efficiency and distribution. Three coordination problems are distinguished: the valuation of goods, the structuration of competition, and the achievement of cooperation between actors with partly conflicting interests. While coordination problems are ignored by standard economics, due to its assumptions of perfect information and rational action, they are at the center of more recent approaches in game theory, information economics, and institutional economics. Although these differ with regard to the extent to which they depart from the assumptions of standard economics, some of them display close affinities to economic sociology and political economy. In the structuring of markets, firms and regulatory organizations play a crucial role, which makes the investigation of organizations an important part of market sociology.

Focusing on coordination problems in markets draws attention to the need to bring together supply and demand for economic exchange to be possible. Market exchange can take place only if the two sides of the market, sellers and buyers, or producers and consumers, come together in an agreement to transfer ownership rights from the former to the latter. Economic sociology and political economy, however, mostly deal with the supply side of the economy and the coordination problems that must be resolved along the production chain between producers. Demand is assumed and not further investigated. By contrast, independent from economic sociology and political economy, the sociological study of consumption has developed into a subdiscipline of its own, which is connected primarily to cultural sociology. Consumption is also treated in management studies, in the specialized field of marketing.

We argue that in the tight and functionally saturated markets of today, product demand cannot be taken for granted in a realistic theory of the contemporary economy, and indeed of political economy. In fact, finding or generating demand for their products is probably the most difficult challenge facing producers today, and it is to a large extent on their success in meeting this challenge that continued economic growth, and with it the continued progress of capitalist accumulation, depends. How can people be motivated to consume – and pay for – products that often have little or no additional use value in comparison to products they already have? Another, equally intriguing question is how potential customers can be assured, under conditions of asymmetrically distributed information, that the product they are to buy has the qualities they expect. If the principal-agent problems that arise here are not resolved, markets fail. As a mass phenomenon this would lead to an implosion of economic activity. Continued economic growth and capital accumulation depend more than ever on the resolution of complex coordination problems that, while they are endemic to markets, can be resolved only in processes of social integration.

The attachment of value to goods and the establishment of trust in products are essentially social processes that can be accounted for only in terms of a theory of social action. For example, valuation is not an individual act but requires social agreement on quality standards and the legitimacy of products; essentially, it consists of the infusion of products with intersubjectively shared meanings. The more detached products are from functional needs, the greater the communicative efforts of producers must be. The symbolic value attributed to a product is permanently at risk of faltering, as in the case of people who resist consumption beyond what they consider functionally necessary. Again, whether or not value and trust can be established in social processes – in other words, whether the creation of demand is successful – is of central, if underestimated, significance for capitalist growth today. In effect, this circumstance makes the latter as much a cultural as a material or "economic" phenomenon, drawing attention to its fundamentally precarious nature and to the extent to which the functioning of the advanced capitalist economy depends on contingent processes of socialization and social integration that might conceivably go into quite different directions.

Markets, however, are not simply devices for the coordination of economic exchange. The specific social contextualization of markets has distributive consequences as well. This gives rise to conflicts over the regulation of markets and to demands for markets, commodification, and the rational-egoistic pursuit of individual advantage to be institutionally limited. Max Weber's notion of "market struggles" alludes to the conflictual character of institutional regulations established in the economy. The same is true for Polanyi's analysis of the three "fictitious commodities" of labor, money, and nature, all of which require collective protection from commercialization. Generally, the sociology of markets raises the issue of a "social commons" of collectivistic attitudes and moral obligations - in other words, of a society's "moral economy"- and their necessary insulation against a possible spread of utility-maximizing strategic behavior. Historical experience shows that market expansion tends to be followed by countermovements for the protection of social stability and the integrity of market-containing institutions. There is also a good deal of literature suggesting that social resistance to a full subsumption of society under the logic of markets supports rather than undermines the functioning of markets, as it defends essential non-economic preconditions of it. The limitation of market-generated inequalities and the protection of market actors, especially workers, from the incalculable and often sudden effects of the risks to which they are exposed are seen as conditions of social and economic stability. A question frequently posed, in research and public debate, is whether in an age of "globalization" such limitation is still possible and whether societies can still muster the political will and the political power to prevent a reduction of social life to the pursuit of economic self-interest, potentially threatening not just social order in general but also the social underpinnings of the economy as such.

3. The emergence and change of institutions. An approach to political economy and economic sociology which sees economic action as institutionally embedded must prominently address the question of how the institutions that regulate markets and self-interested behavior emerge and change. Studying the economy as a social order requires an approach that investigates the creation and evolution of the collectively sanctioned social norms that govern economic action in its capacity as social and political action. Institutional analysis has a long and well-established tradition in political economy and economic sociology, where it has always been assumed that "institutions matter," as both constraints on and opportunities for economic action. While this view is shared with the "neo-institutionalism" of neoclassical economics, a social-action perspective on institutions refers not to stipulated pressures or ideal conditions for maximal "efficiency," but to the full range of objectives and struggles of real historical actors, individual and collective, acting on economic outcomes within economic, social, and political contexts.

Historical-institutional analysis views the emergence of economically relevant institutions as a process shaped by politics and political intervention in the economy. It tended to rely heavily on the state as the collective actor commanding the necessary power and legitimacy to impose and enforce social rules for economic behavior. This tendency reflected to a large extent the postwar situation of nominally sovereign nation-states with apparently well-developed capacities for social regulation and social engineering. Sociologists, by comparison, have emphasized more informal, bottom-up processes of institution-building, resulting in informal institutions, or conventions, which may or may not eventually develop into formal institutions. Institutionalist approaches to the economy today recognize that only a synoptic perspective that takes into account both top-down processes of formal and bottom-up processes of informal institutionalization can do justice to the functioning of modern economies conceived as social systems.

One especially well-suited empirical field for the investigation of the emergence of institutions is the newly arising regulatory structures accompanying the transnational expansion of markets in processes of internationalization, or "globalization." A defining element in contemporary capitalist development is the rapid and universal expansion of markets across national borders. Institution-building across borders has become a fundamental concern in national societies trying to adjust to the constraints and opportunities inherent in economic internationalization. Institutions regulating transnational markets emerge sometimes through negotiations between sovereign nation-states. Often, however, they are the result of coordination between non-state actors engaging in institution-building from below. Even more than in the past, research at the MPIfG on institution-building and institutional change will consider the evolving relationship between international market expansion on the one hand and an institutional order that is still largely national. Such consideration includes exploring observed and potential differences in the governing capacities of national institutions designed with and backed by the authority of a nation-state, and of institutions built in the private sphere by interested parties acting under the pressure of competitive markets.

A useful analytical distinction in this respect is between contracted ("Williamsonian") institutions facilitating economic exchange by lowering transaction costs, and imposed ("Durkheimian") institutions creating social obligations for economic actors to behave in ways they would not voluntarily choose in the pursuit of their rational self-interest. One core question of contemporary institutional analysis would seem to be whether the mix of institutions in modern capitalist economies-cum-societies might be shifting in the course of liberalization and transnationalization from imposed to contracted institutions, and what this might imply for the social regulation and the efficient conduct of economic activities. A more specific question would be whether institution-building from below, in the absence of formal state power, as in the often transnational regulation of international markets, may be capable of creating not just efficient support for voluntary exchange, but also social obligations to which powerful actors may be bound outside and beyond their own rational egoism.

Institutional analysis at the MPIfG, especially in the political economy tradition, has increasingly tended to be *historical institutionalism*. While much of contemporary research on institutions studies these in a static-comparative perspective, the challenge today is to understand not just the causes of differences between national institutions, but also the historical processes through which institutions change. Understanding institutional change has turned out to be essential for studies at the micro-level of the emergence of stable exchange structures. Taking account of the changing ways in which markets are integrated in patterns of social action is indispensable also for understanding the functioning of the economy and the society as a whole. A historical-institutionalist approach recognizes the importance of historical legacies for the "paths" along which institutions and social orders move. It also allows for the possibility of different principles governing economic life in different historical periods ("periodicity"), points to the endogenous mechanisms through which political economies depart from their established paths, and attempts to explain fundamental transformations in political economy with reference to mechanisms of gradual institutional change.

4. *Capitalism and democracy.* Conceiving of the economy as embedded in social institutions opens up a historical and comparative perspective, as the social structures underlying economic action vary in time and between countries. Today's economy is institutionalized in the historical form of a globally expanding capitalism. Investigating the institutional structure of capitalism as the contemporary incorporation of what in more general terms may be referred to as the "economic subsystem" of society, including its variations across space and time, has in recent years become central to research at the MPIfG. Historical and comparative work has helped identify the specificities of capitalism in its contemporary form, as well as its different institutionalizations across countries. Moreover, the study of institutional change has shed light on dominant trends in capitalist development and on the mechanisms driving them. Future work will more than in the past explore also the commonalities of capitalism, in addition to the varieties, about which a broad and impressive literature already exists.

Contemporary capitalism is characterized by a progressive expansion of markets and rational utility-maximizing action, which serve as mechanisms for the governance of production and exchange. As mentioned earlier, it thus becomes necessary to gain a more precise understanding of the functioning of markets. At the same time, the historical nature of what is a general trend toward liberalization allows for a critical perspective that identifies the social actors who gain and lose from capitalist development in its present form. A historical and comparative perspective on capitalism requires insights into ongoing changes in the embeddedness of the economy and the mechanisms associated with it. These adjustments may include a reconfiguration of the relationship of markets to states, changes in the mechanisms by which the risks entailed in market exchange are contained, or a re-drawing of social boundaries with regard to the commodification and decommodification of specific "goods."

Of special interest for research in the tradition of the MPIfG are various new forms of market regulation that are currently developing. Whereas the regulation of the economy through the nation-state has lost much of its effect due to transnationalization and, perhaps, changing cognitive orientations in economic policy, new actors and institutions are emerging in response to new coordination problems in an ever more complex economy. They include transnational organizations, professional associations, firms that are themselves market participants, and organized groups from civil society. Very often these actors are part of governance structures that are located on multiple levels, giving rise to multilayered institutional orders as an increasingly common form of economic regulation.

An important question is to what extent these new forms of regulation can substitute for the ones they replace. This question, in turn, raises the issue of what this development means for democracy, given that the legitimation of the new rule-setting agents is often highly questionable. There is also the issue of an effective performance of economic coordination functions in a narrower sense, which may depend on market actors overcoming fundamental collective action problems in order to take responsibility, without the assistance of state intervention, for the design of regulatory institutions. This need holds especially true for the capacity of rules effectively to commit firms to internalize costs that it would be beneficial for them to externalize, a debate that is currently taking place with regard to "corporate social responsibility."

Research at the MPIfG on political economy has extensively dealt with issues such as the decline of corporatism, the decentralization of industrial relations, and the reorganization of the welfare state. Democracy as such and democratic theory, however, have received less attention; one example is the debate on the changing position in capitalist political economies of territorial representation in relation to functional representation. The same holds for the role of law, and of courts of law, in the governance of modern capitalism, which seems to be increasing in competition with institutions of democratic representation. There are reasons to believe that capitalist internationalization, in particular, has a variety of direct and indirect effects on territorial representation and electoral participation. Exploring this issue will require a longer-term historical perspective, going back to the 1970s when the promise began to dissipate that democratic politics, either through improvements in the governing capacities of the state or through corporatist self-regulation, would be able to determine the development of society and the economy in line with collectively defined preferences. One question will be how Western democracies managed to cut back the expectations of their citizens, apparently still so firmly established in the mid-1970s, for full employment, continuously rising wages, and progressive decommodification of labor and work. How is it to be explained that the end of the "Golden Age" was not, as many at the time believed, also the end of liberal democracy? In view of more current developments, why is it that declining satisfaction with democracy, which today seems to accompany the liberalization of the political economy and the cutback of the welfare state in almost all advanced capitalist societies, seems to coincide with growing political apathy among citizens, as expressed among other things in declining electoral participation rather than political radicalization?

Conclusion

Studying economic action as social action, and the economy as a social system, suggests at least five different though closely interrelated and indeed mutually complementary perspectives. First, economic action in contemporary capitalist societies is to be treated as a special sort of social action, one with generically and historically distinctive values,

norms, and internalized actor dispositions toward self-interested, rational-egoistic utility maximization. Second, economic action as a type of social action is embedded in and connected to a broader context of other, non-economic types and structures of action on whose functional integrity it depends for its success. Third, the surrounding non-economic contexts of the economic type of social action keep utility-maximizing, rational-egoistic economic behavior in check, for example by putting historically changing and politically contested limits to the commodification of social values. Fourth, rational-egoistic economic action may undermine the social context in which it is embedded by spreading into and commodifying social relations that are, and need to be, based on trust, reciprocity, redistributive equity, and the like. Rational-economic action may thus undermine its own viability, just as social countermovements against advancing commodification and the expansion of markets may in effect ensure that rational utility-maximization, where it is socially licensed, remains socially and technically viable. Fifth and finally, by overly constraining the domain of rational-economic action in an attempt to protect their established structures, societies may forgo opportunities for dynamic economic development as well as for individual liberty and choice. Economic sociology and political economy need, and are also well-positioned, to develop their conceptual toolkit so that they can tackle these central issues of contemporary social science in their full complexity.

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