THE MPIfG RESEARCH PROGRAM

Since its foundation in 1985, the Max Planck Institute for the Study of Societies has gone through four program periods, each concerned with the governance of contemporary societies from a different perspective. Shifts in the program have reflected real-world changes in economic and political organization that led to new research questions, as well as the arrival of new directors with new research interests.

The first program period, from 1986 to 1995, featured historically and internationally comparative studies of the interaction between political-administrative intervention and societal self-organization in selected sectors "close to the state" *(staatsnahe Sektoren)*. Special attention was paid to health care systems, organized research and science, and large technical infrastructures, in particular telecommunications. The objective was to develop a realistic, practically useful social science-based theory of the governance of modern societies by an interventionist state in cooperation with an organized society.

The second period, from 1996 to 2005, responded to the growing importance of markets and competition even in sectors that had formerly been protected and controlled by state authority. Telecommunications, for instance, which until the mid-1990s had been a state monopoly, was privatized and deregulated. That markets played a growing role in the 1990s may in part have been due to changes in ideologies and in public perceptions of reality. But it was also a result of new constraints on the regulative capacities of the nation-state caused by internationalization, including European integration, and international regime competition. Subsequently, newly developing forms of multi-level governance and the consequences of economic liberalization for states and governments became main subjects of research at the MPIfG.

The third period, from 2006 to 2016, analyzed the shift from state regulation to market-driven forms of social order, paying attention to the social, cultural, and political preconditions for the operation of markets. Projects explored how markets and business organizations are embedded in historical, institutional, political, and cultural frameworks, as well as the social and political processes that shape economic relations over time. The objective was an empirically based understanding of the social and political foundations, or the "constitution," of modern economies and of the interrelations between social, political, and economic action. Particular attention was devoted to studying the process of liberalization that various spheres in advanced societies were undergoing, and the resulting "disembedding" of the capitalist economy from the tutelage of politics and the state.

The current program continues to put the economy at the center of the Institute's research agenda. We are convinced that understanding the operation of the economy is a precondition for understanding other areas of social life, including politics. Rather than applying the tool bag of economics to the analysis of social and political phenomena, the Institute's approach consists of deploying sociology and political science theories and methods to understand economic phenomena in their relationship to society and politics. The emphasis will be on capitalism as a historically determined sociopolitical order, and specifically on the instability of capitalism as manifested by its growing difficulty to generate the material and ideational resources necessary for its reproduction, and conversely on the multiple challenges that capitalist instability poses for society and democratic politics. It is through investigation of the interrelations between economy, politics, and society that economic dynamics and societal developments writ large become accessible.

In pursuing this broad direction, the Institute will continue to rely on the close integration of economic sociology and political economy. While political economy primarily seeks to explain macro-level phenomena, economic sociology has a distinct strength in its attention to the micro-level of social interactions in the economy. We see bringing these two traditions into close dialogue and using them to inform each other as an important goal for research at the Institute. This implies paying detailed attention to preference formation as it is influenced by cognitive frames, social relations, and institutions. It also entails taking expectations seriously, rejecting any pretense of rational or even adaptive expectations, and investigating the concrete historical processes of their emergence and diffusion. Additionally, it involves acknowledging the role of collective actors, new digital technologies, and the media, which contribute to shaping preferences and value orientations. Finally, it requires understanding actors' interactions as being embedded in fields of social and political forces, in which some actors have the power not just to come to mutually beneficial exchanges, but also to impose, directly or indirectly, their preferences on others.

__1 The starting point is a *disequilibrium* approach to the analysis of capitalism, seen as an intrinsically dynamic system, which may sometimes go through extended phases of stability but remains internally conflictual even in these periods of stability, with actors working to alter the terms of the status quo to their advantage. Ultimately, any temporary stability is undone by endogenous forces and externally induced change, which may usher in a new period of apparent stability. For the MPIfG, which has contributed to establishing the academic field of comparative capitalism, the notion that there are different types of capitalism and that these types cannot be rank-ordered in terms of efficiency, nor arrayed in an evolutionary trajectory from less to more mature, is part of the Institute's shared understanding. Past research at the MPIfG has demonstrated that the different "varieties of capitalism" are not to be conceived as institutional equilibria, and are subject to common trends such as liberalization, financialization, and increased social inequality.

The past two decades have vindicated this disequilibrium approach to studying the economy in its relations to society. The global financial crisis of 2007 has demonstrated that the idea of a "great moderation," in which cyclical fluctuations can be controlled by allowing central banks to hit their inflation targets free of political intervention, markets work efficiently with minimal regulation, and unemployment can be durably brought down by flexibilizing labor market institutions, was a pious illusion, and perhaps an ideological veil. Growth turned out to be highly dependent on an oversized financial sector and was highly unequally distributed, with most of the returns going to the now infamous "top 1 percent." In retrospect, the jolt imparted by the financial crisis has turned out to be a partial and temporary one. The massive intervention of central banks, including through unorthodox policies, contributed to temporarily stabilizing the economy, giving the impression that a return to normality could be achieved, but led simultaneously to new risks, inequalities, and instabilities.

The onset of the coronavirus crisis in 2020 – another "black swan" that was anticipated by some but not seriously considered as a possibility by policy-makers – has shown once again the role of uncertain futures and the vulnerability of liberalized capitalism. It has exposed the shortfalls of a regulatory regime that entrusts private markets with the solution to social problems. Reliance on private providers for essential services, the global organization of supply chains, and calls for health and social expenditure cuts, will likely meet with greater resistance in the future. Globalization, already on the defensive before this crisis, may once more be at a historical turning point. This also underlines the main starting point of research at the MPIfG, which is that economic phenomena can only be understood in their interaction with politics and society. To investigate the societal consequences and policy responses to this crisis will be of prime importance for scholars in the field of economic sociology and political economy.

2 How will these trends affect the governance of advanced societies? Democratic capitalism requires growth. A capitalist economy is subject to a democratic constraint, the need to periodically secure a viable electoral majority. For the past 100 years, social and political integration has been based on the pacification of distributional conflicts through economic growth and the validation of citizens' expectations of material improvements. However, even long before the Great Recession, growth rates in all mature capitalist economies were declining and the living standards of the majority of the population stagnating. As highlighted by the literature on "secular stagnation," only by recurring to stimulants, such as periodically riding asset bubbles, ever looser monetary policy, or easier access to private debt, could growth be maintained, though at lower levels than during the post-war period.

Institute research on the political economy of growth models takes secular stagnation as a point of departure. Post-war growth was based on a model in which aggregate demand grew in lockstep with aggregate supply thanks to institutions that ensured the transfer of productivity increases to real incomes. This "fordist" or "wage-led" model of growth was undermined by internal and external changes. Due to a distributional shift away from labor income towards capital income, starting in the 1970s, advanced countries were confronted with a problem of excessive savings and demand shortfall, to which they have responded by activating a set of alternative demand drivers. In some cases, growth has been kept up by relying mostly on credit-financed domestic consumption, made possible by easier access to household debt or the wealth effects of asset appreciation (including housing assets). In other cases, growth has relied heavily on external demand, giving rise to export-led growth models. Other countries have been able to combine multiple growth drivers, while still others have been unable to find any alternative to the wage-led growth model. Different growth models rest on distinct key sectors and associated coalitions of "core" producer groups.

Research in the political economy cluster will continue to develop the "growth model perspective," paying attention to the effects of crises on national-level trajectories, in particular in terms of a conceivably greater role of the state in economic management in the future. A particular emphasis will be put on the politics of growth models. We will try to chart a middle course between the "producer group coalition" and "electoral turn" perspectives in political economy. The former emphasizes the influence that economic actors and interest groups have on key policy decisions. The latter underscores the preferences of voters as ultimate determinants of policy choice. Both have strengths and weaknesses. The producer group coalition perspective is often able to provide persuasive explanations of why certain key policy decisions are adopted, but it takes the problem of building democratic majorities largely for granted. The democratic turn approach has the opposite problem: it neglects that some interests are weightier than others.

Our approach will distinguish between policy formation and consensus mobilization. In line with the producer group approach, key policy decisions are seen as being shaped by "dominant growth coalitions," which are held together by common interests possibly cutting across class lines. However, borrowing from the democratic turn perspective, consensus mobilization in democratic capitalism cannot be taken for granted or ignored. The dominant growth coalition will have to build an electoral majority willing to support its key policies. This will be easier to achieve if the growth model produces an adequate rate of growth that can be partly used to compensate those who lose from it – something that is only possible if this compensation does not conflict with the structural foundations of the growth model. We also hypothesize, and intend to test, that a dominant growth coalition exerts hegemony, in the sense that it is able to shape the views of a broader coalition than the growth model core. In order to chart the size and composition of supporting coalitions in different countries, various methods will be used, including large surveys.

Future research will investigate not just the comparative political economy dimension of growth models but also the international political economy dimension. Growth models depend on each other and are embedded in a highly structured international financial hierarchy. Furthermore, in the past two decades production has been reorganized in global value chains. Export-led and consumption-led growth models require each other because the export surpluses in one country contribute to financing the credit-based consumption in another. By recycling their export surpluses in dollars, export-led economies buttress the dollar's role as international currency. An international political economy perspective helps to distinguish between "core" and "peripheral" growth models. Core consumption-led growth models are able to accumulate foreign debt with little need for a correction because the rest of the world is willing to lend to them. In other words, they do not face a binding current account constraint. Instead, peripheral consumption-led growth models are fully exposed to the vagaries of cross-border financial flows. A core export-led growth model has key national firms at the top of global value chains, while a peripheral export-led growth model is one in which the ownership of export companies is in foreign hands, or, alternatively, domestic companies are suppliers to supply chains with foreign companies at the helm. This may limit the domestic firms' ability to appropriate rents and their opportunities for upgrading, and may force the host state into subservience vis-à-vis foreign capital.

Understanding growth models as being embedded in a hierarchically structured international political economy requires engaging with the "knowledge economy" as well. In important strands of social science research, the knowledge economy is being presented as the result of long-term trends taking place on the supply side of the economy: a generalized increase in educational qualifications combined with skill-biased technical change and new forms of complementarity between high skills and capital (colocation). It is argued that this combination causes an attitudinal shift in the electorate and a withering away of the old fordist alliance between skilled and semi-skilled workers. As a consequence, the "decisive" voter moves away from supporting traditional redistributive policies and is more willing to embrace policies of "social investment." Managing the knowledge economy is seen as a matter of competent management of supply-side policies, particularly with regard to human capital development and R&D.

Yet the knowledge economy is one side of a broader shift towards "intellectual monopoly capitalism." There has been a change in the hierarchy of top firms internationally. Capital-intensive firms such as General Motors have been replaced by intangible capital-intensive firms such as Google and Facebook. These firms' key capital is their intellectual property rights, whose economic value depends on an international regulatory regime that protects them. These firms reap a disproportionate share of global profits, which they only partly share with their core workers but, more importantly, use to prevent entry by new challengers, for example through preventive acquisitions. This shift to intangible capital and intellectual property rights has important implications for the demand side and contributes to secular stagnation, since firms relying on intangible capital are much less investment-prone and employment-generating than previous top firms, and more likely to retain their earnings or return them to their shareholders.

3 The mostly macro-oriented research perspective on growth models finds a more micro-oriented counterpart in the Institute with the research in the sociology of markets cluster. The endemic instability of capitalism emerges also from capitalists' continuous drive into uncharted territory, a drive institutionalized through the mechanisms of economic and social competition, and the profit orientation of economic decision-making. Furthermore, motivated by social status competition and the marketing efforts of companies, consumers strive for new consumer experiences, thus opening the space and the demand for a seemingly unending stream of new products. The fundamental uncertainty underlying capitalist economies moves increasingly into the focus of research as a driver and underlying condition of destabilization.

In recent years, the MPIfG has contributed to the understanding of the role of perceptions of the future, focusing on the expectations of actors as a crucial driver and coping mechanism of capitalist dynamics. Contrary to the dominant understanding in macroeconomics, expectations are not seen as determined by information from the past, but rather as based on contingent imaginaries of future outcomes. "Fictional expectations" shape capitalist dynamics if actors assign credibility to particular perceptions of the future and base their decisions on these perceptions. Given the uncertainty of the future and its malleability, fictional expectations can at the same time provide orientation for decisions and thus reduce uncertainty, as they can increase uncertainty through the enlargement of the realm of imagined possible outcomes. Looked at from this perspective, the instability of capitalism emerges from its inherent future orientation combined with the indeterminacy of that future.

When investigated in detail, the importance of imagined futures can be detected in any realm of economic decision-making and policy-making.

It holds for investments that need to be based on assessments of future profitability, for innovations where R&D departments and investors must envision the technological and market feasibility of projected new products, and even for the use of fiat money whose value depends on the expectation that it can be used in future purchases to obtain valuable products for it. Decisions on human capital formation depend in part on imaginaries of future career opportunities. The value of financial products – be they bonds, stocks, or derivatives – depends on assessments of future performance, including the assessment of expectations of other market participants. Understanding the processes of formation of expectations and the change in expectations is highly relevant to understanding macroeconomic processes of innovation, economic growth, consumer demand, speculative bubbles, monetary stability, and economic crises. Research on future expectations also connects to studies on technology, since expected technological advances feature prominently among the imagined futures of economic actors.

In addition, technologies of prospection like forecasting, scenario analysis, or capital budgeting are important anchors for the formation of the narratives on which expectations are based. The perspective is equally relevant for the understanding of policy processes, where political decisions find legitimacy in promised outcomes of policy decisions and stumble into crisis if the expectations raised become disappointed. The current political situation can be interpreted as one in which the imagined futures of neoliberal reforms have been exhausted, not least because of the social inequalities they produced. Putting expectations front and center of an analysis of capitalist dynamics contributes to understanding the eternal processes of change that are experienced as instability but also underwrite the great stability of the system itself. Capitalism can incorporate any imaginary that promises future profits. It is in normative and in substantive terms unassuming and thus particularly flexible.

While the cornerstones of this theory of expectations and its relevance for capitalist dynamics have been laid out, future research at the Institute will continue to engage this perspective in the investigation of important empirical phenomena of contemporary capitalism and strive to make further theoretical enhancements. This holds, for instance, for the question of the sources and conditions of credibility of particular expectations, the relationship between expectations and past experiences and between expectations and institutions, as well as the change in expectations in crisis situations. Empirically, research projects investigate, for instance, the role of future expectations in economic policy decisions and the significance of calculative tools designed to create images of the future used in the decision-making of businesses. The Institute will also direct its efforts towards making the work on expectations fruitful for the understanding of dominant growth models and their stability and change.

In addition, the Institute will develop a new research field on wealth and wealth inequality that connects to work already done on bequests and estate taxation. The flip side of the demand deficit due to the distributional shift away from labor income towards capital income is a condition of capital abundance. This finds expression in the large increases in investable savings at the top of the wealth distribution and swelling levels of wealth inequality. The accumulation of wealth and the growing disconnect between saving (which increases) and investment (which becomes rarer) is one of the determinants of secular stagnation and of the instability of growth.

One way to look at this development is through the lens of the owners of private wealth. The expanding capital stock is highly concentrated in the hands of a very small group of wealth owners at the top of the distribution. While capitalism is dynamic and instable, ownership of wealth often shows long-term continuities, with wealth being passed on dynastically within families over generations. This raises questions of social mobility and social inequality, topics that stand at the center of much current research in the social sciences. Research at the Institute on this topic will empirically and historically investigate the continuities of large fortunes as well as their ruptures due to external shocks or intrinsic failures. Research will foreground the family, rather than the corporation, as the entity ensuring continuity, not only of nineteenth-century family capitalism but also of today's asset management capitalism. We will investigate wealth owners rather than their managers as the dominant economic actors in society. Our interest relates to the mechanisms used for the perpetuation of great fortunes, including the employment of legal devices to secure wealth from the state or to curb family conflict, wealth preservation through asset management, inducing economically beneficial legal stipulations through lobbying, or the creation of societal goodwill through philanthropic engagement. How are privileged positions preserved in practice? What causes ruptures in these positions? Research projects will also address the question of how super-wealthy individuals think about society and their position in it, thus contributing to the understanding of the ideational configuration of the economic elite. In terms of social theory, projects will contribute to the understanding of the central features of contemporary societies. While mid-twentieth-century social theory emphasized the pluralistic character of democratic capitalism, the shifts in wealth and power distribution over recent decades led to the surfacing of notions like re-feudalization or oligarchic capitalism, notions that indicate a profound shift but seem to be hampered by their terminological reliance on former social formations.

4 Another area of research the Institute intends to strengthen is the study of social transformations brought about by technological change. This area will be an additional pillar of investigating the instability of capitalism, since disruption through technological development is a chief source of this instability. New digital technologies change the distribution of labor market risks. This trend will affect preferences for social programs, taxation, redistribution, and partisan choice. Technological change and the enhancement of the ability to monitor work performance ever more precisely may turn labor markets into markets for labor services, which, in the absence of regulatory change, may have enormous consequences for worker protection and economic inequality.

In the sphere of politics and democracy, technological change generates contrasting expectations about future developments. On the one hand, digital technology removes the "scale" constraint, making direct democracy a concrete possibility. On the other, digitalization enables governments (including foreign ones) and special interest groups to manipulate the democratic process, thus potentially destabilizing the political order. It is crucial to understand how these contradictory trends shape the evolution of democracy.

Another implication of new digital technologies is a complete loss of privacy, with data-collecting companies and the state being able to observe the behavior of citizens in great detail. Technologies for predicting future behavior allow for new levels of consumer manipulation, but also for predictive policing and the tailoring of credit decisions and insurance contracts to ever more refined scoring systems. As existing research shows, this can easily lead to new forms of inequality and discrimination. In addition, digital platforms like Facebook, YouTube, or dating sites profoundly shape the structure of social interactions in society. Finally, urban landscapes too may shift dramatically with the development of the "smart city," a city in which every interaction with the social and physical environment is a source of data that can be recorded and stored. This allows for more efficient coordination, but it also offers ample opportunities for surveillance and nudging, with negative consequences for individual freedom and privacy.

The role of technological change for social dynamics is to some extent already reflected in research at the Institute. New technologies develop from expectations, i. e., projections, of technological trajectories. Such processes are currently investigated in projects that are informed by a science and technology perspective. From a political economy viewpoint, new technologies affect the organization of production, the distribution of risks, and the level and composition of aggregate demand.

5 Connected with the theme of capitalist instability, the study of the eurozone has historically been a key axis of research at the Institute. Researchers analyzed early on the problems of a monetary union that brought together countries with very different institutional capacities, and they anticipated the competitiveness and current account imbalances that led to the sovereign debt crisis that started in 2010. Later, they criticized the governance measures that were introduced to stem the emergency (enhanced fiscal supervision and strong conditionality for access to bailout funds) for reducing both output and input legitimacy.

Other research on the European Union at the Institute investigates the social and cultural processes underlying support for or disapproval of European integration. With the coronavirus, the European crisis may enter a new phase. The crisis response will produce further public deficits and debt, which may lead to renewed tensions in international financial markets and between European governments. Research on the European Union at the Institute will closely follow these developments. Will the mandate of the ECB be further extended, will there be moves towards collectivizing sovereign debt in Eurobonds or similar financial products, will there be further austerity measures, and will political forces that demand to exit from the common currency become stronger? Whichever direction European integration takes, it is clear that the European Union is facing a period of unprecedented instability and uncertainty to be investigated by economic sociologists and political economists alike.

6 Given the dominant role of financial markets in contemporary capitalism and its instability, the realm of finance will continue to play an important part in the Institute's research agenda. Research at the MPIfG on financial markets and the monetary system has many facets but finds two focus areas in the investigation of public finances and debt regimes, and the monetary policy of central banks. One of the central shifts in the relationship between state, economy, and polity during the last forty years is that states have tended to step back from their role in mitigating inequality through their tax system and public spending policies. States have also renounced addressing the instabilities emerging from excessive financialization. Why this is the case is a vital question for political economy and economic sociology. A further important development to be observed is the increasingly important role of central banks in the steering of private and public investments and debt. In the course of this development, the shaping of expectations of financial market actors, investors, and consumers has become a dominant tool of monetary policy. Research at the MPIfG addresses the transformation of central bank policy and investigates closely the instruments central banks use and how they legitimate their actions vis-à-vis politics and the public.

7 The Institute's research will continue to investigate formal and informal institutions in a historical and comparative perspective. Institutions play a crucial role in ensuring the integration, stability, and functionality of any social order. Furthermore, a comparative historical perspective allows a privileged viewpoint for understanding how societies change. At the same time, the study of institutions will be part of a broader focus that also includes key policies – both macroeconomic and structural – and the social coalitions underpinning them, as well as the role of ideas, cognitive frames, and expectations. Institutions, politics, and cognitive frames stand in a mutual relationship where any one supports or undermines the others, thus contributing to the dynamics of the social order. Institutions are important in shaping policies (an example is the relationship between central bank independence and monetary policy), but so too are electoral politics and the culturally specific understanding of situations as perceived by the actors.

Methodologically, the Institute's research will combine historical, ethnographic, qualitative, and quantitative methods. The Institute continues to understand methods as a tool whose application depends on the research question and not vice versa. Research will span the micro-, meso-, and macro-levels of analysis. More than in the past, large surveys will be used to study attitudes vis-à-vis various aspects of macroeconomic and other policies. Other methods may be used if the research questions require them, such as survey experiments. In studying public opinion, the intent is not to reify it, or pretend that individuals are fully informed or rational or consistent, but to understand how individual and group preferences and expectations change in response to new information or new discursive frames. The focus on preference and expectation formation should also enable fruitful exchanges between the different research clusters of the MPIfG.

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