

Rational Cooperation or Morality? The Welfare State from the point of view of the Economic Theory of Institutions

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Abstract

Recent research in welfare state theory has been stressing that welfare states are based on values and themselves in their turn structure social relationships among citizens according to value patterns. This article does not call into question the relevance of values or ideas that order social exchange relationships. However, it proposes a different theoretical approach which is based on *economic theories of rational cooperation* and *institutions*. It is shown how these approaches, derived from economic social theory, conceive institutions as emerging from the limits and dilemma of rational action in situations where there is an individual interest in collective goods. The hypothesis is that social insurance and redistribution, the main functions of the social state, throw up different problems of cooperation and a different 'need for morality'. We discuss different concepts like coordinative institutions, re-individualisation, insecurity and the exchange of constraints as social mechanisms that give rise to cooperation for individual social security interests and redistribution to the benefit of third parties.

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1. The Problem

For a considerable time political sociologists have been stressing that welfare state programmes and benefits are based on values and themselves in their turn structure social relationships among citizens according to certain value patterns. The ‘demands’ of the welfare state, they argue, like compulsory contributions and taxes, and redistribution for the benefit of third parties, have to be supported by robust solidarity. The concept of ‘moral economy’ stands for the thesis that the formal organizations of the social state are based on cultural values that are largely shared by the citizens. Furthermore, social state institutions embody values such as justice, equality or organized reciprocity and solidarity (Offe 1987; Bode 2008; Rothstein 1998; Leitner/Lessenich 1999; Mau 2003, 2004). These ideals embodied by institutions in turn influence the citizens’ norms.

This perspective in international comparative research into the welfare state accords a strong position to common values and culture – a position which, at the risk of exaggeration, could almost be said to demonstrate communitarian features (Streeck 2000). The argument that the welfare state embodies moral values and is supported by a moral consensus positions itself alongside classical sociology with regard to the role of collective values, which are said to stabilize dynamic and precarious market relationships. It also, however, faces the same problems as classical sociology when it accepts a value consensus. In this new debate there has been a revival of Durkheim’s classic thesis (one which is still influential in modern sociology), according to which the ‘contractual’ rules for exchange relationships, i.e. those rules which are set by the actors themselves, must still be grounded in collective values. Very much in the spirit of Parsons, the welfare state is assumed to rest upon a community with a common identity, shared values and reciprocal responsibility. To some extent, this tendency within comparative social policy research connects with neo-institutionalism and represents the view that institutions structure humans’ scope for options and bring values to the fore. It thus leans towards a normativism for which sociological neo-institutionalism in general has already been criticized. The actors are made to disappear from view (Beckert 1999), which comes worryingly close to the notion of the *homo sociologicus*. Scepticism is justified, especially as there is doubt about the availability of the collective moral standards that create social order. More appropriate to these conditions would be an explanation of cooperation in the welfare state that is *less* normatively demanding.

This article does not call into question the relevance of values or other ‘prescriptions’ that order social exchange relationships. It does, however, propose a different theoretical ap-

proach. It brings into play *theories of rational cooperation* and *economic theories of the institution*, as explanations of the social foundations of the welfare state. These approaches, derived from economic social theory, far from excluding values and institutions, rather conceive them as emerging from the limits and dilemma of rational action.¹ Approaches from within the institutionalistic economic social theory show that it is possible for rational individuals, acting in their own interest, to cooperate and share control of individual resources in a manner that favours collective goods – and that this is due to constraints on the action of rational actors imposed by institutions.² Such approaches owe much to methodological individualism, but also take account of the limits of individuals' rational calculation in situations of collective action. Cooperation situations are themselves regarded as sources of norms. This makes them suitable for the conditions of a pluralized modern society, which lacks a 'common centre' (Luhmann 1998, p.248), in which actors are not already attuned to the same internalized morality, and in which differing (value) interests must be assumed. Individualization and pluralization of values suggest the appropriateness of approaches which maintain that institutions and rules originate in *initially* free actors, among which regulative institutions nevertheless emerge (Wiesenthal 1997).

The concept of social state institutions in the present article is based on theories of *rational cooperation* as mechanisms that 'solve' social dilemmas and thus enable cooperation to take place between rational actors with divergent (value) interests. In order to create the collective goods of the welfare state, actors must agree on common rules for financing, the re-allocation of resources, and methods of procedure or programme design, and in particular they must ensure that *free riding* does not cause contribution problems. Welfare state institutions avoid cooperation problems by re-individualizing contributions (Baurmann 1997). However, contribution problems affect the institutions enabling cooperation as well because rational actors always cheat. This objection represents a central problem to economic institution theories. Therefore the present essay discusses those approaches that explain how institutions come about despite this 'secondary contribution problem' and relates them to the welfare state.

The article argues that theories of rational cooperation chiefly can explain social insurances which are not so morally demanding. Redistribution, however, which is an *asymmetric* cooperation has to be understood as an addition to rational cooperation. This type of cooperation integrating elements of solidarity, however, requires a normative basis. The higher the uncer-

¹ This does not mean that institutions directly coincide with individual interests, nor that institutions are rational.

² Norms, law and reputation are also treated as constraints.

tainty regarding the individual's own future position, the more likely it is that an expansion of group cooperation to include elements of solidarity will occur. A 'veil of ignorance' makes such redistributive components acceptable. The hypothesis of this article is, therefore, that social insurance and redistribution throw up different problems of cooperation and a different 'need for morality'. On this basis we can also state that welfare states represent a *mixture of cooperation mechanisms*.³

If a certain plurality of (value) interests is realistic, the question is: "How do political communities aggregate divergent individual preferences to form collectively consensual institutions?" We shall show, using the example of James Buchanan's economic *theory of social contracts*, that economic explanations of institutions provide for supra-individual, social mechanisms of agreement and do not naively explain institutions as deriving from individual interests. The essay goes on to argue, in accordance with Buchanan's contract theory, that economic approaches also take account of the negotiating power of actors and of *uncertainty*, which makes it impossible to calculate individual benefits and enforces a generalized standpoint based on self-interest. Both are central to an explanation of social state cooperation.

Below, we begin by reconstructing concepts of a grounding of the welfare state in the moral economy or in socio-political culture and consider its deficiencies (2). After this, the grounding of institutions in social dilemmas is shown and the welfare state is analysed in the context of a 'social dilemma approach' (3). Since the usefulness of institutions in the case of problems of cooperation insufficiently explains their existence, we investigate secondary contribution problems in the light of the theory of collective goods, and discuss approaches to a solution (4). Following on from Hechter's concept of 'cooperative institutions', insurance and redistribution are discussed as differing problems of cooperation with different morality requirements. Even if redistribution necessitates values, there is a problem of agreement to collective rules, which is analysed with the aid of Buchanan's contract theory. With uncertainty, this too expands its scope beyond rational cooperation (5). A conclusion (6) summarizes the results of the investigation.

2. The 'Moral' Welfare State

For a long time the sociology of the social state assumed that a welfare state was supported by the interests of the client group that was dependent on it. With the introduction of universal suffrage, so the argument ran, working people's interest in social security gained political

³ See Mau (2004), Leitner/Lessenich (2003).

weight and won through by a majority of votes. The view of a welfare state grounded in the interests of working people was modified as the interest groups were, and are, evidently more multi-layered than at first thought. It became clear that a welfare state was by no means based solely on the interests of those who were economically deprived, but was only achieved in coalition with other groups in society (Esping-Andersen/Korpi 1986; Goodin/LeGrand 1987; Baldwin 1990). Social policy can equally well be grounded in middle-class interests (Rothstein 1998). The social insurance principle, it was argued, blurred class interests and turned all the insured into an amorphous class (Baldwin 1990). In the debates surrounding the crisis of the social state, too, interest groups are central: through the shrinking of the working class in the process of the changes in the social structure it is argued that an important foundation is falling away, whilst the increasingly well-off middle class turns to private insurance (Wilensky 1975; Habermas 1973).

Since the 1990s, however, research into the welfare state has more and more focused on its cultural foundations. A '*cultural turn*' occurred, driven partly by comparative welfare state research, which attributed differences between social states to divergent political cultures, and partly by a number of neo-institutionalist approaches which called attention to ideas that were grounded in formal institutions. The assumption that the welfare state depends on loyalty to a common culture has a long tradition in social state theory. *Richard Titmuss* (1963, 1970) was already arguing that social values expressed themselves in institutions of the social state. For him, a technological, organized society no longer leaves reciprocity to the family or private charity, but creates altruism-promoting *institutions*, which themselves embody a 'moral' content. They structure reciprocal obligations that are acceptable to a society. Today, the thinking on the normative content of the social state divides into two main variants. a) Values and norms secure the participation of the citizens in the welfare state. b) Social state institutions embody values and ideas concerning the formation of social relationships and structure the relationships of the citizens.

a) Critics of the political economy of the welfare state have laid emphasis on the common fund of knowledge and 'social background beliefs' that, they say, underlie even formal exchange relationships (Offe 1987). Welfare state arrangements are based on more than interests; they need '*good reasons*' to persuade people to accept the burdens of social policy. It is argued that since the interests of the underprivileged can hardly be said to be the backbone of a broad social state, a 'moral majority' has to be assumed (Schmidt 2000).⁴ Common identi-

⁴ This argument is easily refuted, for social programmes create a broad interest basis for themselves by serving the interests of the broad masses of the middle class.

ties and interpretation patterns are fundamental for the ‘cooperation’ (practised through elections and the payment of contributions) of the citizens in the welfare state. This is only possible on the basis of “trust in the validity of such norms as reciprocity, solidarity, or justice.” (Offe 1987, 515) Legitimizing values deter citizens from refusing to make contributions to the collective good of the ‘welfare state’. The readiness to help with the financing of the collective goods of the social state prove that citizens do not rely solely on rational calculation, with the aim of maximizing utility (ibid., 519f.). Social interpretation patterns define whether benefit recipients deserve the contributions and whether anonymous others should be accepted as “one of us”. Moral economy is the foundation of action in the social state (Hinrichs 1997; Mau 2003), and is characterized above all by differing reciprocity models. “Talking about a moral economy implies that social transactions are grounded upon a socially constituted and subjectively validated set of social norms and shared moral assumptions.” (Mau 2004, p.58).

The particular morality requirement of the welfare state, the argument continues, is derived from its position *against* the market. Contrary to the order of distribution that arose through the *invisible hand*, it brings into play its own ideas-based, normative criteria of rationality. In particular, the idea, based on natural law, of the equality of all people (Marshall 1949) has also brought into being – alongside legal and political civil rights – social claims, which politically ‘trump’ the principles of the capitalist market economy (Rieger/Leibfried 2003, p.42; Bode 2008). These ideas of provision of needs in the social state, which sit uneasily with market principles, render the welfare state particularly in need of legitimation. Social policy, with its commitment to cultural values such as equality or justice, faces the reality of the market. Since social policy also privileges recipients in an asymmetrical fashion, making some to be financers and others beneficiaries, it is dependent on moral sources of legitimacy. (Schmidt 2000, p.230)

b) Another school of thought regards institutions of the social state themselves as an expression of values and guiding ideas, which in turn shape the values of the citizens. According to this line of thinking, the social state is a politically mediated mutuality and security complex, which organizes not only material benefits but also ideas of mutuality, justice or solidarity. In modern society, solidarity potentials have moved into formal social state institutions (Prisching 1996, p.118). The welfare state forms ‘communities of solidarity’, which support individuals at risk in society with the contributions of the many. The social state should be understood

“as established normative arrangements as well. According to this view, political conditions result in more than just rules (such as those specifying the mechanisms of political decision making). They also affect what values

are established in a society, that is, what we regard as a common culture, collective identity, belonging, trust, and solidarity.” (Rothstein 1998, p.17)

A ‘normative infrastructure’ is therefore inserted into the welfare state. The social state embodies principles such as mutual dependency and reciprocal support (Lessenich 1999a, p.154f.). The social state, therefore, stands not for the decline of solidarity but for new reciprocal patterns of exchange in modern societies. The welfare state is understood as an institutional formalization of the obligation of *mutuality* (Bode 2008). A community of partners in solidarity designed to last, if it is to go beyond the limited confines of the group, calls for institutions that organize reciprocity, in other words, the welfare state. With social insurance, the proto-institutions of the conservative social state, the integration of the moral idea of mutuality with the interest in one’s own security is possible. Empirical analyses are able to extract from socio-political programmes and institutions the ideas of justice, types of solidarity and arrangements for reciprocity that they contain (Mau 2003, 2004; Leitner/Lessenich 2003).

Problems with Research into the Welfare State

a) Research into welfare state culture or moral economy presupposes values that are rooted in the population and in institutions. Common values, however, are a matter of controversy in the social sciences. Individualization, it is said, has eroded and pluralized the obligations imposed by such values (Beck 1986). *Recognized procedures*, rather than consensual values, now achieve social unity (Luhmann 1969). Against the background of these doubts the concept of a welfare culture seems too strong. It conceals the dissent regarding values and ideas that in reality make individual socio-political programmes matters of dispute, even if shared core norms regarding the shaping of the political community in general continue to exist in modern western societies (Etzioni 1993; Gerhards 2005). These norms, however, exist on a more general level than those on which socio-political questions of distribution are played out. Focusing on the moral logic embodied in institutions risks overlooking ‘agency’ (Beckert 1999). Concepts such as moral economy etc. miss the point that institutions are not only acceptable on account of their ‘appropriateness’ but also on account of the benefits they afford.

b) Concepts of welfare culture create a close relationship between the value preferences of citizens and socio-political institutions. Direct conclusions about collectively binding social state institutions can be drawn from the values of individuals. There is a lack of mediating social or political mechanisms by means of which the socio-political ideas and value preferences of millions of people are aggregated. But socio-political institutions pass through processes of agreement, and cooperation problems have to be overcome. Both are better comprehended by approaches which take autonomous individuals as their starting point and see the

rise of institutions out of the aggregation of the preferences of many individuals.

c) Studies of welfare culture usually single out *one single* value as the dominant one. Welfare state institutions, however, do not embody exclusively solidarity, reciprocity or equivalence but a bundle of different, and sometimes contradictory, principles. The present article makes the assumption that in the social state different normative principles are relevant, if only because in the areas of social insurance and redistribution the need for cooperation makes different demands on the citizens (as we shall elucidate below).

Moral economy and similar concepts assume a relationship of the citizens to the social state that is characterized by values. It is, however, unlikely that citizens would have no awareness of the individual advantages and disadvantages connected with different socio-political solutions. All the same, judgements about advantages and disadvantages are associated with uncertainty and the cost of information, with the result that citizens can seldom be objectively rational – they can only have the intention to be rational. In sociology, limited cognitive rationality and the cost of information are often the reason why the rational choice decision model of neo-classical economics and explanations linked with it are totally rejected, as the presuppositions required for a rational decision are empirically unrealistic. We shall not go down that path here, however. Instead, we shall make the assumption that individual judgements regarding the social state are indeed influenced by ideas of justice or (in)equality etc, but that this scepticism about rational decision making on account of cognitive limitations does not affect the social theory of institutions, which, after all, also puts limits on individual rationality where social cooperation or collective action is concerned.⁵

3. Institutions in Economic Social Theory

For economic social theory, institutions represent *stabilizing devices*, which exist because of the social dilemmas that rational, utility-maximizing actors in exchange situations cause, and because of the difficulty of choosing the best possible option in a complex and insecure environment. In view of the twin problems of action – cooperation on the one hand, and cognition and/or rational decision on the other – institutions,⁶ according to the theory, help to form reli-

⁵ We should distinguish between, on the one hand, the cognitive complexity of individual decision making, which makes the rational act of choosing difficult and makes cultural limitations that mediate orientation meaningful, and on the other, the rational actor's uncertainty in social exchange relationships about the action of the other, which is avoided by social constraints.

⁶ Institutions are defined as rule systems and the accompanying sanctions, which structure or limit action and in various social fields enable it. (Korpi 2001).

able expectations, reduce the multiplicity of options, and define situations and transaction costs (Raub/Voss 1990; Kollock 1998; Zintl 2008). Just as the acceptance of rational action has been criticized as too demanding of pre-conditions, so too critics have refused to accept the claim that a spontaneous reconciliation of the aims and interests of rational actors is possible (Hirshleifer 1985; Beckert 2002).

This brief introduction to the concept of the institution makes it clear how broad and ambiguous its use is. What is meant is anything that generates foreseeable, stable behaviours, i.e. constraints on behaviour not only through rules, such as law, morality, values, norms or organizations, but also through knowledge patterns, ideas and *mental maps*. In what follows we shall revert to a concept of the institution that was developed by means of a consideration of game theory and problems of collective action. This concept understands institutions as behavioural constraints⁷ on otherwise completely open options of action that in social exchange among rational egoists lead to social dilemma situations. This grounding of institutions in the ‘suboptimal’ results that a ‘homo economicus’ achieves in the social exchange, and the argument that there is a ‘need’ for institutions on account of the collective and individual benefits they bring, will first be introduced with the construct of a ‘*state of nature*’ and the game theory model of the ‘*prisoners’ dilemma*’.

In the ‘state of nature’, which is characterized by the absence of any constraint on actors, a person’s unbridled striving for the greatest possible satisfaction of individual needs leads to conflict over desired scarce goods (Hobbes 1651). All the actors are forced to arm themselves and to direct their resources into unproductive activities, instead of producing and exchanging peacefully. This negative situation of an unrestrained conflict of interests, in which anything that betters one’s own position is permitted, gives rise to the insight that the imposition of behavioural constraints on everyone can bring about a better state of society. The problem of the lack of restraints to curb the greed of others is solved by the ‘social contract’.

The prisoners’ dilemma also deals with the negative consequences of the exchange between rational actors. The structure of the situation reproduces the problems of cooperation of rational actors who, though otherwise independent of each other, depend on each other with regard to individually achieved results, yet still opportunistically pursue their preferences. It makes it clear that in view of the risk that the other partners will behave uncooperatively, their own non-cooperation is always the most rational behaviour. Cooperation could indeed be bet-

⁷ It should be emphasized that we are talking about institutions as constraints on action, not as a means to bring about the reduction of cognitive complexity and information costs – a commonly held view in sociology.

ter for everyone, but never develops into becoming the dominant strategy from the logic of action of rational egotists (Esser 2000). The choice of the option ‘to defect’ is dominant, i.e. the uncooperative action, which makes no contributions, because it produces the best payoff if the other one cooperates. It is still the best choice if the other one also chooses ‘defect’, which is highly likely as the other one is also acting as a rational opportunist. Even the expectation of the defection of the other causes the game to lead to a suboptimal situation. On the other hand, certainty about the options chosen by ‘alter’ and his or her decision to refrain from ‘free riding’ is the pre-condition for cooperating oneself and making contributions to collective goods (Scharpf 1997). This certainty is generated by ‘stabilizing devices’ (Ullmann-Margalit 1977), i.e. by means designed to determine an otherwise contingent action. Basically, certainty of expectation could also be calculated from the interest of the other in continued exchange (Axelrod 1991). In large groups, however, where the action of others is hard to control, and the ‘shadow of the future’ does not exert discipline because sufficient alternative partners are available, a more reliable strategy is to restrict exchange partners through rules and institutions.⁸

Both ‘state of nature’ and ‘the prisoners’ dilemma’ are models that illustrate how a desired cooperation can be undermined by ‘problematical situations’ in which there is a conflict between the result of the strategic individual action and the optimal desired results (peaceful exchange, collaboration in favour of collective goods) (Raub/Voss 1990; Kollock 1998).⁹ The fact that individually rational decisions rarely lead to the most advantageous outcomes is not merely due to ego’s utility-maximizing decision making. Rather, the mere expectation that alter is a rational opportunist generates the *uncertainty* of knowing that one could potentially be taken advantage of – which is why ego, as a precautionary measure, also chooses defection. Social dilemma situations are, however, avoided through ‘restricting’ the choice of options through behavioural constraints. In the literature, there is discussion of various constraints designed to prevent any undesirable consequences of individual utility calculation, including norms, iterated cooperation, reputation and moral preferences, but especially *institu-*

⁸ The concept of *contingent cooperation* in iterated games on the basis of reciprocal moves in the game only works in smaller groups (Axelrod 1991 and many others). The tit-for-tat strategy whereby cooperation is answered by cooperation and defection by defection, and by means of reciprocal reactions a cooperating group is formed through repeated moves in the game, is dependent on the visibility of other people’s contributions and the sanctioning of those who make no contributions. In large groups there are different structures of incentives.

⁹ Further cooperation and coordination models are available within game theory. These also show that institutions facilitate the solution of problems of rational actors in social situations of interdependence. The tension between individual and collective rationality is not, however, always as great as it is in the PD. The logic of the situation in the insurance game makes the development of behavioural constraints like institutions, law or morality considerably less problematical, which is also true for the social state.

tions (Kollock 1998).

We shall now concern ourselves solely with institutions. From the economic viewpoint our contention is that actors have an *interest* in institutional limitations, as the advantages of cooperation and collective goods are only achievable through them.¹⁰ This, however, is an oversimplification and emphasizes merely the compatibility of an individual approach with institutions. The genesis of institutions themselves calls for a more complex explanation and is attributable to evolutionary developments or collective processes of institution formation (see chap. 4, 5).

From the perspective of economic social theory, *welfare state institutions* are more or less successful solutions to those problems to which individually rational action leads where there is cooperation in large groups. They empower rational actors to take collective action (Olson 1960; Hechter 1987, 1990; Ostrom 1990). In the welfare state rational actors cooperate in favour of the creation of *collective goods* such as monetary transfers designed to provide security in the case of loss of earnings (through age, unemployment etc.), or in favour of the provision of social services. Collective goods are individually worth striving for because they have an ‘added value’, which in the case of the collective goods of the social state consists in the fact that they make social security or services more easily accessible than individual provision through private insurance or savings.¹¹ Since they are generated through collective control of individual resources, the danger for the individual is that collective decisions may result in aims being pursued that conflict with the individual’s original motivation to cooperate (Baurmann 2000: 189; also section 4). In other words, the argument runs, since the individual’s own social security and a more even distribution of individual income throughout one’s life is as the motivation for participation in socio-political collective goods, redistribution is beyond the scope of rational cooperation. We shall suggest below that this is too narrow a view; from the economic perspective, too, it is plausible that under certain conditions social redistribution is possible.

Rothstein, too, grounds social state institutions in the ‘social dilemma approach’ (2001). The readiness to make contributions is based, he says, on ‘contingent consent’. But whereas the

¹⁰ According to the classical sociological tradition, on the other hand, behavioural constraints must be withdrawn from individual interests and must work as unconditional ‘moral coercion’ (Durkheim), exerted through binding values, as otherwise no obligation exists and rules do not perform the very thing they are supposed to perform, namely, restrain individual interests.

¹¹ The added value of social insurance compared with private strategies like saving consists in the broader spread of risk and in the more effective way they deal with uncertainty regarding the volume of security that is needed. The added value of social security is not the same for everyone.

concept of ‘contingent cooperation’ normally means that individual contributions depend on the assurance that others too are making their contribution to the collective good (here, that of social insurance), Rothstein interprets ‘contingent consent’ to mean that the readiness to cooperate depends on whether social state organizations are in conformity with the principles of justice. In the view of the author of the present paper this is a premature judgement. Self-interest and the assurance that other people are making their contributions are sufficient to guarantee readiness to contribute; it is only outside this framework that motives derived from justice or equality come into play.

Against the justification of institutions on the grounds of the advantages they confer, the objection is often raised that the ‘need’ for institutions does not explain their existence. In view of rational opportunists’ logic of action, so the argument goes, the genesis of regulative institutions is rather improbable. In the next section we shall therefore turn to the ‘secondary contribution problems’ and to models for overcoming them. To do this we shall consider such proposals that can be applied to the collective goods of the social state and that are appropriate to both the morally undemanding production of collective goods and also the more morally demanding redistribution.

4. Collective Goods and Beyond – Various Forms of Cooperation in the Welfare State

Ever since *Mancur Olson’s* theory of public goods (1965), there has been a debate about the incentives that exist in *large* groups and make collective action and cooperation in favour of ‘public goods’¹² more difficult, if not impossible. Olson showed that there was no direct route from individual interests to collective agreement on action, as the market model assumes. The dilemma of the production of public goods, such as clean air, public order, minimum social insurance, as well as social state institutions, here consists in the fact that rational actors, although they desire collective goods, because their common acquisition confers greater benefits than individual production or because the goods could not be achieved at all without contributions, nevertheless as a group cannot provide themselves with these goods because individuals will always be tempted to enjoy a ‘free ride’ (have the use of goods without making any contribution of their own). Indeed, the mere knowledge of the possibility that the system can be exploited by ‘free riders’ undermines cooperation and the desired public good, as eve-

¹² The concept of public goods refers to those goods whose use is freely accessible. This concept is often confused with collective goods. Collective goods are goods that are regulated and no longer free, but which are nevertheless created by means of collective action.

ryone – anticipating the attraction for other people of ‘free riding’ – similarly withholds their contribution. Only control of individual contributions and access to public goods through a ‘superordinate authority’ can remedy the situation.

This superordinate authority could be an organization (or law) that establishes mandatory contributions. These would remove the incentive for others to exploit the system and so prevent a situation arising in which the collective good never comes into existence. An organization that is authorized to impose sanctions must enforce contributions from everyone and oversee payments from the common pool. Compulsory contribution, too, collected by, for example, *obligatory* social insurance or *taxation*, creates the certainty that “everyone” is participating. Institutional limitations convey what might be described as confidence in the distant “neighbour”, for state controls will ensure that this neighbour cannot defect (Offe 1999). Rational cooperation is therefore only possible where everyone knows that control of the behaviour of the cooperating partner is effective.

But the organizations required for the success of cooperation are themselves collective goods and therefore have their own ‘contribution problem’. For many sociologists, secondary contribution problems prove that the economic programme fails to explain collective phenomena (f.e. Miller 1994). Instead, sociologists have cited normative bonds or the discursive creation of a collective will. However, there is no need to abandon the idea of an individualist programme of explanation because of secondary contribution problems. Proponents of economic social theory offer some suggestions of how the genesis of institutions is explicable even among ‘rational egotists’.¹³ Observing that there is empirically more cooperation and pro-social behaviour than the rational choice theory predicted, they point to the fact that contribution problems evidently can be overcome (Hirshleifer 1985; Cook/Levi 1990). Other commentators, such as *Daniel Hechter*, justify the genesis of institutions by the *interests of those involved* themselves. Like other authors he mentions a cost criterion: If the expense for the creation of an organization is less than the benefits of the good that is then achieved, then ‘*self-generation*’ succeeds (Opp 1986). Since it is organizations, norms or values that ensure that rational utilitarians can benefit from the advantages of collective goods jointly produced in the first place, the secondary cooperation costs for control and supervision will be borne.

¹³ Amongst these is Ostrom (1990) with empirical analyses of long-term processes of self-organization of formal institutions, which enable the use of common pool resources (exhaustible natural resources that are appropriated individually). Here he shows that the genesis of institutions can sometimes be unsuccessful. He goes on to explain the genesis of institutions by arguing that actors will bear the costs of organizations if they can shape the organization for their own benefit or if they are rewarded for their specific role. On principal agent approaches cf. Richter/Furubotn (1999). An evolutionary approach to the genesis of institutions, represented by Hayek and

“... rational choice theory offers the prospect of a better solution to the solidarity problem. It conceives of groups as the producers of various types of joint goods. As such, their survival depends upon the enactment and enforcement of rules governing the production and allocation of these goods.” (Hechter 1987, p.39)

It is further argued that typical problems of cooperation do not appear if public goods are transformed into *collective* goods with a *contingent* right of use for contributing individuals. Contribution-dependent access to goods and services excludes ‘free riders’ and *re-individualizes* the collective good (Baurmann 2000, p.196). People participate in the organized pooling of individual resources – in our case organized by the social state –, because the organization convinces them that benefits will not be made available without pre-payment, and that ‘equivalent’ contributions will flow back to them. In addition, the contributions of individuals and the re-allocation of the collected pool of resources must be made controllable: “Solidarity can be achieved only by the combined effects of dependence and control.” (Hechter 1987, p.53) ‘Cooperative institutions’ arise without any secondary contribution problem if the supervision problem is solved and if we are talking about goods that can be produced more economically in a collective way than individually, or that can only be created at all in a collective manner with contributions from everyone, such as norms, social order, public safety or – Hechter’s empirical subject – credit cooperatives.

For economic social theory, cooperation situations contain a potential for the genesis of rules. If we consider rational cooperation (as outlined above) in favour of (social state) collective goods from the point of view of the social rules that it produces, we recognize the principle of equivalence and reciprocity. Their moral logic is that the collective goods distributed are equivalent to individual contributions. If contingent cooperation depends on the certainty, firstly, of equivalent returns, and secondly on the certainty of contributions by the other users of the collective good, this is the expression of close reciprocity.¹⁴ Contingent cooperation (I

Vanberg, is also worthy of mention.

¹⁴ More recent research treats reciprocity as the principle that ensures contingent cooperation (Mau 2002; McKenzie 2005; Fehr/Gintis 2007). Fehr and Gintis, in particular, emphasize that reciprocity works like an internalized norm: a certain number of ‘strong reciprocators’, which sanction rational egotists, is sufficient to initiate cooperation. Fairness, too, they claim, is a result of internalized norms. On the other hand, it must be stressed that contingent cooperation works because of the situative framework conditions with repeated interaction among interdependent actors, and punishment (which in our context means contributions to cooperative, controlling institutions) also succeeds, even without internalized norms, owing to the interest that exists in a collective good and the consequent necessary defence against ‘free riders’. Fairness, too, is ‘enforced’ by situative conditions. The two perspectives, however, are not mutually exclusive. Norms of reciprocity and fairness make cooperation easier and are the outcome of evolutionary learning processes among actors in situations of strategic interdependence.

will contribute if you contribute) has little moral latitude and even Hechter's view that groups *choose* a constitution through the coordination of contributions and their allocation, is not conclusive. After all, the only rules that would be compatible with one's interests would be those requiring that everyone should contribute *equally* and receive equivalent payments. Unequal contributions must result in correspondingly unequal benefits. Even 'strong reciprocity' is not adequate. A group that produces collective goods would hardly be likely to make rules of distribution that granted transfers or services *without* prepayments. Contributions to *redistributive* socio-political programmes are scarcely conceivable, as redistribution, according to the logic of collective goods, means 'free riding'. In a world of rational 'group solidarity', this would mean the exclusion of those who needed them most from collective goods.¹⁵ A social state would be (and in part in fact is) a 'club of paying members' (Baurmann 2000, p.197).

Large areas of the welfare state, *social insurances*, can be described as rational cooperation (Korpi 2001).¹⁶ To a great extent they correspond to a collective good with mandatory and controlled contributions, access after prepayment only, and payments that correspond to the previous input (e.g. pensions equivalent to the contributions, or unemployment benefit). Social insurance is a form of cooperation that makes few moral demands, because it limits benefits to what has been earned by previous contributions and tends to be distribution neutral. This restriction to equivalence makes them acceptable to 'rational egoists' also. Empirically, however, we find programmes in the welfare state in which the reciprocal contribution/benefit relationship has become weakened. There are some welfare state programmes in which benefits depend on need (social assistance, minimum support, health service benefits) or in which, although some prepayment in the form of a contribution or tax payment is demanded, the payout is not equivalent to the payments that have been made. Such programmes depart from the principle of equivalence in very many ways, and redistribution takes place whenever when rights to social state transfers and services are not matched by individualized prepayments.

The elements of redistribution that exist alongside social insurance either as self-standing programmes and benefit systems (minimum support, progressive taxes) or within social insurance arise, according to Hechter, because groups that successfully manage the production of collective goods and learn to act collectively (de Swaan 1988) can also *affiliate* redistribution. When groups agree on constitutional rules regarding financing and re-allocation, they have

¹⁵ Hechter's use of the term 'solidarity' is unusual; terms such as 'reciprocity' or 'contingent cooperation' would, in my view, be more appropriate.

¹⁶ Institutional variations found in different welfare states can be explained as the result of struggles between interest groups (Korpi 2001).

some leeway that they can use for the redistribution of public goods. The robust and morally relatively undemanding forms of cooperation are joined by morally more demanding forms of distribution, which, however, are based on socio-politically relevant ideas of justice, (in)equality etc., not on rational cooperation.¹⁷ Models that integrate economic and sociological models of action show that, alongside individual calculation of utility, ethical preferences can also be relevant (Margolis 1982; Raub/Voss 1990).¹⁸ The possibility of moral preferences alongside what seems advantageous for the individual is decisive for the possibility to attach redistribution. However, normative distribution preferences may diverge between individuals and are bundled together in ‘processes of agreement’ in which preferences become transformed into a public will and collective social state action (see next chapter).

The affiliated areas, which are resistant to the model of a collective good, are, admittedly, the financially less comprehensive programmes such as needs-based social assistance. The majority of finance streams are carried out in social insurances of the collective good variety. Yet even these contain redistributive components, which deviate from a strict relationship to contributions and put into effect criteria like need, equality or justice. The redistributive, value-dependent aspects of the social state are controversial and are subject to constant efforts to exclude them. A welfare state does not rest on one or other of either rational cooperation or collective beliefs about values, but on a combination of both. Firstly, individuals trust to the ability of institutions effectively to prevent ‘free riding’ and redistribution. Secondly, they hold on to normative ideas on, for example, ‘fair’ compensation for material inequality or the importance of taking the ‘right’ degree of responsibility for oneself. Both rational cooperation and a willingness, underpinned by norms, to accept redistribution, achieve something specific. The former permits cooperation among ‘strangers’ with divergent (value) interests; the latter permits social state solidarity. Here we can only suggest the relationship in which the two forms stand to each other. Solidarities and common value patterns make cooperation easier; they are the starting capital¹⁹ or social capital, which flows into the formation of institutions (Ostrom 1990). We would therefore agree with Walter Korpi when he says: “it is fruitful to

¹⁷ Admittedly, in the political economy of the welfare state there are also rational explanations for redistribution. There is no space to discuss this here.

¹⁸ Raub/Voss 1990, p. 83-86 provide an overview of the integration of moral and egotistical preferences. Margolis (1982) assumes a dual orientation of action aimed at both private and collective goals; also Etzioni (1993) and Fehr/Gintis (2007).

¹⁹ In his study on the ‘invention’ of collectivization, De Swaan (1988) shows that the production of collective goods (such as drainage, alleviation of poverty or social insurance) was easier to initiate where groups with common ideas and mutual trust were already present. These groups were often Christian communities, which functioned as ‘moral enterprises’.

draw on more than one ‘school’ among the new institutionalisms” (2001, p.237) when seeking an explanation for the rise of welfare state institutions.

It ought to be clear that regulative institutions also develop under interdependent, subjectively rational actors (Ullmann-Margalit 1977). These are limited in their moral reach, but they are a realistic model of anonymous society-wide cooperation in the welfare state. When societies ‘afford’ more, this is underpinned by values of justice, fairness or solidarity. As no consensus can be presumed regarding these values, we have to ask how the problem of the aggregation of the multiple value ideas and self interests of many people to form collectively acceptable rules is solved. In the following section we shall therefore discuss James Buchanan’s contract theory. According to his model of a social contract, a *rational consensus formation* on the ‘rules’ of social relationships takes place – including norms of social law and social state organizations. Buchanan’s approach shows how divergences are overridden in non-normative ways and how an individualistic concept, through uncertainty, moves to a generalized interest position where the interests of others are given consideration.

5. The Agreement Problem: the View of Constitutional Political Economy

James *Buchanan’s* constitutional political economy (1975) is also concerned with the possibility of collective rules, even under antagonistic actors with divergent interests.²⁰ Here too, institutions – in this instance they appear rather in the form of constitutions and legal norms – are understood as social means by which social dilemma situations are resolved and beneficial cooperation is established (Brennan/Buchanan 1987: 5ff.). Buchanan does not explain the existence of institutions by speaking of the *benefits* of a situation in which rules exist (as other economic approaches that therefore become functionalistic). Instead, economic contractualism explains how, despite the individual rejection of any limitation by institutions, ‘constraints’ can still be acceptable.²¹ The problem of the genesis of institutions is tackled in a contractual approach like that of Buchanan under the concept of ‘constitutional choice’. This cannot, however, in any way be described as a free choice,²² for collective behavioural con-

²⁰ Buchanan’s approach is also known as the theory of liberal democracy. His thinking on contract theory, however, also contains a theory of the genesis of institutions that claim to be collective rules.

²¹ In this way Buchanan’s contractual thinking provides an answer to the ‘paradox of voluntary limitation’ by rational actors. Sociologists since Durkheim have constantly made this criticism of the economic explanation of rules.

²² Korpi (2001) is mistaken in thinking that contracts are voluntary associations of equal persons and in interpreting only the ‘Friendly Societies’ as such associations. On the contrary: for Buchanan, contracts are a means of leading differing interests toward unstable compromises that have to be repeatedly renegotiated. From the con-

straints arise firstly out of the enforced realization that behavioural limitations can only be achieved by an exchange with one's own constraints. Secondly, the consensus is preceded by complex social mechanisms of compromise, as shown below. Thirdly, Buchanan's concept of contract includes an awareness that collective rules involve the risk of facing pressures that conflict with one's own preferences. If the question is asked, from the perspective of contractual theory, how rational individuals arrive at laws, rules or institutions to which *everyone voluntarily* agrees, then these complications on the path to consensus are part of what is meant. The figure of consensus serves as a test of the hypothetical consent to constitutional rules that 'proves' their legitimacy (Pies 1996).

An approach from the perspective of contract theory, then, in a similar way to the debate on the cultural foundations of the welfare state, deals with the problem of how a recognized institutional order comes about. Whereas collectively valid social norms are presupposed in the political sociology of the welfare state, *Buchanan's* contract theory aims to manage without normative commonalities that existed *before* agreement on rules, and aims to set out how even rational, utility-maximizing individuals can "agree" on rules governing social relationships.²³ His initial assumption is that even without common goals of action there would still be a minimum of rules among actors with *unequal* power and *unequal* resources, because the defining of rights is beneficial per se. Defined rights (constitutions or institutions) reduce *uncertainty* about the behaviour of other people. Rights, says the theory, provide information about the other person's behaviour options and so enable one to orientate one's own behaviour. (Buchanan/Tullock 1962, p.37f.; Brennan/Buchanan 1993, S.29). Even rational egotists prefer the protection of the constitution and the collective goods that a collective makes available, as uncertainty about one's own future awakens an interest in fundamental certainties.²⁴ For constitutional political economy there is scarcely any doubt about the desirability of rules; a minimum level of interest in agreement is presupposed. Let us now consider how a society arrives at defined rights.

Buchanan explains the fact that utility-maximizing individuals accept social rules that severely restrict their liberty by a two-stage agreement on a *social contract* and a *post-*

tractual point of view, socio-political institutions mean an agreement which has become necessary and which is forced to take account of the interests of others.

²³ The word 'agree' ought to be put in quotation marks, as it encourages the voluntarist misunderstanding of the concept of a contract.

²⁴ Sociological criticism of contract models asserts that they assume a congruence of interest in a regulated contractual state, which, however, is not derivable from a utilitarian model of action (Parsons 1937). Classical sociology therefore argues in favour of common interests produced by values.

constitutional contract (1984). This division of the definition of rules into two steps has a systematic background. The first constitutional contractual agreement ends the ‘state of nature’ (in the ideal type sense), in which everyone is allowed to do whatever satisfies their own appetites – even – to the extent of appropriating the goods of productive actors by theft. The absolute absence of rules, however, is so harmful to everyone that behavioural restrictions find favour. Pacification of the conflictual, uncertain state of nature²⁵ is possible through reciprocal recognition of *rights*. In general, property rights are the prototype of what a right is. (Property) rights determine what may happen with a person’s goods and what behaviour can be expected from others in this regard. The essential thing about all rights is that two parties assure each other *mutually* that they will cease to perpetrate arbitrary individual acts (including acts of violence) against each other, and that they will establish permissible behaviour towards things and persons. Restrictions on one’s own liberty are only acceptable in return for a restriction on the actions of another. Ego gives up his or her own behavioural rights and in exchange may demand that ‘alter’ similarly restricts his or her behaviour (Buchanan 1984, p.85, 152; also Baumann 2000).

The image of agreement to rules, without coercion, based on “everyone’s” preference for the constitutional situation with defined rights and expected ways of behaving needs to be explained, for Buchanan concedes that not all actors see a regulated state as beneficial. In the first place, the ‘powerful’ can protect themselves and their property even in the ‘state of nature’; and in the second place, the ‘have nots’, who have no property to protect in any case, have few constitutional interests. They do, of course, control the threat potential to destabilize the order that has been achieved. Both groups are won over by *compensation* for the foundational first stage social contract. Such *compensations* through the transfer of goods or rights are made in the second, *postconstitutional* stage (Buchanan 1984, p.89ff.), for in this stage regulations concerning the kind and extent of collective goods are decided, as well as the distribution of the work load required to make them available and the rights to their use (ibid.: 103). The creation of post-constitutional ‘transfers’ in such a way that groups who did not voluntarily agree to the basic contract, but see benefits in it and accept the contract, is a further *social mechanism* by which to achieve consensus despite divergence of interests. *Compensation* in the form of transfers or access to rights and services is offered to individuals for the restrictions demanded by a social contract, and to even out the burdens that many are obliged to accept in the process of producing collective goods.

²⁵ We recall Hobbes’ description of the state of nature as life that is solitary, brutish and short, where everyone covets other people’s goods and violence is the order of the day.

Although unanimity is the only acceptable rule for constitutional decisions, a majority principle is introduced on account of the high cost of decision making. The greater the deviation from unanimity, the greater is the danger that the decision-makers and those bearing the burdens resulting from the decision will not agree. According to the model, the tendency to heap the costs of collective decisions on to the ‘minorities’ is likewise prevented by compensation through transfer payments or access to collective goods, as the decision-makers then have to take account of the costs.²⁶ The *consensus*, which has come about thanks to the various compensation awards, is for Buchanan the quality criterion for rules of society, as it marks the (pareto-) optimal state, where burdens on particular groups are compensated for, with the result that the *total welfare*, not merely the welfare of individuals, is given due consideration. Consensus is reached in bargaining processes in which each party aims to further its own aims in exchange for certain balancing concessions. This is why reforms often come in the form of ‘package deals’ (Brennan/Buchanan 1993, p.186).

According to the contract model, a social state emerges from a negotiated consensus. Programmes are the result of agreements between conflicting parties, which are interdependent, and exchange rights, payments or threat potential. The public and collective goods of the welfare state themselves represent a form of compensation, which evens out burdens in other places through the provision of benefits. If, then, the welfare state, when producing collective goods, redistributes, and places specially heavy burdens on particular groups, consent to this must be gained through side payments and/or compensation. The set of rules of financing and distribution institutionalized in the social state ought not to be a programme implemented by majority vote that brings benefits only to the majority, but a compromise with the high-income financiers.²⁷ Buchanan therefore criticizes redistribution without compensation, but, in a rather normative way, advocates a liberal state model. After all, from the perspective of contract theory it is logical that powerful groups will mould the contract in their favour. A specific feature of Buchanan’s contract model is that the powerful will impose their conditions and that inequalities are explicitly allowed.

From the contractualist perspective, the grass roots of a social state appear decidedly pragmatic and conform with the evidence that the financiers of the social state do not necessarily

²⁶ This set of circumstances corresponds to what Rieger and Leibfried term the ‘asymmetric relation’ in the social state between financiers and beneficiaries (2003). According to the authors, asymmetric relation is the reason for the special need for norms; here, however, we demonstrate that there are other ways of solving the problem.

²⁷ The threat potential manifests itself, for example, in the threat to vote out certain parties in the centre of the political spectrum that stand for peace and fairness, and to disrupt the social peace. The question is: Who are the majorities? And are financiers a minority?

consent to redistribution out of altruism and normative conviction, but because of the compensations they receive or because they have been overruled.²⁸ In the absence of an exit option, they have to accept a poor deal for themselves.²⁹ It is also evident that socio-political programmes often arouse conflicting views surrounding values and interests, which can only be resolved by *package deals* and compromises – both involving concessions on both sides.³⁰

According to Buchanan, agreements on a collective social state constitution are the result of bargaining among more or less *powerful* groups with divergent aims and value interests. So contract theory by no means forgets about inequalities of power (as suggested by Korpi 2001) and dynamizes political sociology's static view of values that are incorporated in social state institutions. The consensus criterion can, however, be 'tricky'. The idea of consensus arrived at through compensations and bargaining for a favourable position in the social contract offers a soft explanation for rules that are capable of acceptance. With suitable side payments 'anything' is possible. As long as the political collective can give sufficient compensation in other areas to those who disagree or who are suffering disproportionate burdens, the social contract succeeds. Even the concept of compensation can be stretched, and can extend from concrete payments to the general belief that a social contract, even with unwelcome post-constitutional burdens, can still offer advantages over a 'state of nature'. The compensations and benefits that make the burden tolerable could take the form of tax relief, but they could equally well be the high income earner's realization that despite a disproportionately high tax burden he or she is still comparatively well off (Priddat 2005: 161ff.).

Uncertainty and Generalized Position

In the contract model uncertainty about the behaviour of others is a central reason why agreements on social constraints that create certainty of expectation are desired and are established. "When uncertainty exists due to the impossibility of reciprocal behaviour prediction among individuals, it may be reduced only by agreement among these individuals. When the interests of the *individuals* are mutually conflicting, agreements can be attained only through some form of exchange or trade." (Buchanan/Tullock 1962: 37). However, over and above this,

²⁸ For instance, a majority of those questioned in a survey in the Netherlands stated that they paid social contributions and taxes for the social state because they had no choice (van Oorschot 1999).

²⁹ There are, of course, exit options by means of tax havens or through the much talked about capital mobility that exists under globalization.

³⁰ So, for example, in wage negotiations the trade union's normative concept – solidarity with the lower wage group, i.e. a wage rise for this group – is set off against other demands as part of a deal (Elster 1989). Or an increase in pension contributions may be accepted in a deal that includes some tax reductions.

with the genesis of the institution (by means of a social contract) uncertainty brings about a *generalized interest position*, for uncertainty influences the conditions governing the choice of constitutional rules. It works like a ‘shadow of the future’, which prompts actors to make decisions about a constitution with a far less narrowly self-interested orientation than the rational choice models intends.³¹ As the individual must be uncertain about his or her future (social) position in the chain of collective decisions, he or she will be wise not to make his or her present interests the only criterion, but to judge from a generalized interest position regarding the ‘best’ constitutional rules (Buchanan/Tullock 1962, S.78f.). “The self-interest of the individual participant at this level leads him to take a position as a ‘representative’ or ‘randomly distributed’ participant in the succession of collective choices anticipated. Therefore, he may tend to act, from self-interest, as if he were choosing the best set of rules for the social group.” (ibid., p.96) Furthermore, when they do not know whether they are on the side of the majority or the minority in the context of future constitutional agreement processes, or if they expect their position to fluctuate, actors will consent to compensations which Buchanan considers to be redistribution without compensation and therefore unacceptable (ibid., p.129).³² Potentially, anyone can find themselves in a minority position in which their concerns need not be considered. Buchanan's argument bears a resemblance to the ‘veil of ignorance’ in an ‘original position’, which Rawls (1971) believes to be the engine that generates just rules of society.

By stressing the importance of uncertainty, he opens up his contractualist approach, which normally emphasizes the importance of strict compatibility of interests, to a ‘choice of rules’ that deviates from narrow individual calculations of self-interest. This extension is relevant for the welfare state and its ‘moral’ reach. In areas with a high degree of uncertainty, redistributive aspects of social state programmes will be easier to implement.³³

³¹ In arguing that uncertainty causes people to hold back from defending their own particular interests, Buchanan's contract model picks up factors which, as economic social theory has shown, place constraints on the rational choice model. Here, firstly, the possibility of rational decision making is questioned because of uncertainty about future benefits – uncertainty which could only be avoided by the expenditure of high search and information costs (North 1992; Beckert 1997). Secondly, by referring to the uncertainty about a person's own social position, the model indicates that the desire for effective behavioural constraints is ‘rational’ (Baurmann 1997: 365-391).

³² Evidence for this is that citizens in countries with high unemployment advocate higher spending for the unemployed than citizens in countries with low unemployment (Stjerno/Johannessen 2004). The increased risk of becoming unemployed oneself in this situation creates a certain generosity.

³³ This is confirmed by the high level of tolerance toward sickness insurance available in case of need, and conversely by the closely equivalent provision for old age, where (because of today's longer life expectancy) individuals feel confident that they will benefit from making regular payments.

6. Conclusion

This article has taken a critical look at concepts that have come to the fore in the political sociology of the social state in recent years which see a ‘moral economy’ or a ‘welfare culture’ as the basis of the social policy, or for which welfare state institutions represent shared values and cultural patterns. This article has taken issue with these concepts by setting out an approach to social state institutions from the perspective of an economic social theory which understands institutions as solutions for problems of collective action.

Whereas the concepts of the political sociology of the social state do not take account of the frequently diagnosed pluralization and individualization of values and ignore the actor, economic theories of the institution are better adapted to the new situation. This is because they assume the existence of autonomous actors – admittedly interdependent in their options and in the results they achieve – and focus their attention on the problems of cooperation or collective action that these actors experience. Even though political sociology speaks of values embodied in the institutions of the social state, it ignores differing value preferences. By contrast, economic approaches explicitly take as their starting point divergent value preferences, but go on to explain the necessity for institutions to exercise constraint on individual utility calculations, which lead to suboptimal cooperation outcomes. In this they offer an appropriate means of access to an understanding of social state institutions in a context in which ‘homo sociologicus’ is regarded as an endangered species. An economic theory of institutions conceives of the welfare state not as a complex that is pre-established through common values, but as the result of ‘social dilemma situations’. All the same, rational cooperation does occur in the social state if there is a high level of interest in, or dependence on, collective goods, and if societies develop suitable organisational solutions for ‘free riding’ and contribution problems. However, institutions that enable cooperation and are therefore seen, both collectively and individually, as desirable, have secondary contribution problems. This classic objection to the economic theory of institutions must serve as a caution to the author of this article not to look for a functional explanation of institutions to their utility in dilemma situations.

The secondary problem is central, as an institutional solution of the problems that rational actors have when they want to produce collective goods would scarcely be realistic if precisely those institutions necessary for cooperation were beyond the reach of rational opportunists. The article has shown that the secondary contribution problem can be solved by the introduction of a ‘cost criterion’, by which contributions to institutions are made if the benefits of collective goods are greater than the cost of the contribution and the supervising institu-

tions. This organizational solution is extremely plausible for large parts of the social state: by enforcing the participation of *everyone* in the collective good of social insurance, organizations create the trust that *everyone* will make a contribution – a certainty that is the condition of cooperation for rational egotists. Welfare states create the *institution framework* for collective actions by rational, utility-maximizing actors in N-person groups. Monetary contributions to the social state are relatively easy to control, likewise the outflows in the form of rights of access to transfers and services. The *individualization* of collective goods by an allocation measured by individual contributions ensures acceptance even among rational opportunists. Since, however, only part of the social state is thereby explained, and its redistributing components are not, the article has argued that groups that have learnt to cooperate rationally can affiliate additional redistributive elements. Benefits (money and services) in favour of a ‘third party’ lack the equivalent relationship between contribution and payoff; rather the relationship is not reciprocal. This form of cooperation, as we have shown, is dependent on values that make it legitimate for welfare states to redistribute and whose existence has been justified with reference to dual standards that economic social theory recognizes. A core of morally undemanding collective goods production might be the more lasting form of the “agreement” regarding collective rules of cooperation, rather than affiliated components of welfare state programmes that rely on solidarity. This is because their strength consists in the fact that they can explain cooperation even where there is little moral common ground and might even be dissent. As the world gets more globalized, this is likely to become increasingly important.

Whereas the concepts of the political economy of the social state discussed in this article link individual values directly with collective social state institutions of a political community, *the theory of social contracts* understands the collective character of institutional rules as being more reflected. Contracts, after all, do not come about through individual choice but through collective processes of choice and through political aggregation mechanisms. It takes account that differing (value) interests exist. *Buchanan’s constitutional political economy* finds non-normative mechanisms of agreement on commonly recognized institutions among actors who are not united by a value consensus. It finds that with the reciprocal *exchange of constraints* and *compensations* a consensus is created, even though a social contract does represent a constraint of individual preferences. Even cooperation in the welfare state is capable of general acceptance because burdens imposed on a group through ‘constraints’ are balanced out with other groups. A social consensus regarding a particular distribution of rights – and a social state contains this – is a network of ‘benefits’ conceded (through rights of action and rights to collective goods) on the one hand, and burdens (through fixed obligations) on the other. The

definition of a balancing benefit is imprecise and given the lack of exit options it is scarcely relevant for many. There is a limit to the degree to which a consensus arrived at with the help of compensations can be expected to produce *generalizable* constitutional rules; it can only ever be a factual consensus.

According to economic contractualism, the social state is also the result of power differences and distribution conflicts, which relevant socio-political thinking can engage with (Korpi 1980), as contractual agreements, according to Buchanan, are characterized by power positions. On the other hand, uncertainty about one's own future social position leads to a generalized interest position, whereby redistributive elements are acceptable even for rational utility-maximizers. The contractual model understands that social state cooperation is an asymmetrical relationship, which embraces conflicting interests. It leads to a more realistic model and away from premises of consensus. We do not deny that there are values about which in western, (post-)industrial societies there is broad consensus, such as the separation of state and religion, the principle of secularization, or liberty and the protection of the individual (institutionalized individualism). But beyond fundamental liberal, democratic principles it is probably true to say that apart from social insurances, with their promises of re-individualization of collective goods, there is no agreement about the principles of distribution.

Basically, concepts such as moral economy and welfare culture, values grounded in welfare state institutions, mean something different when they refer to institutions, than approaches from economic social theory. The latter are directed toward rules that come about when interdependent actors are *coerced into agreement*. A 'just proportion' of collectively produced goods, as well as non-violent conflict resolution or equal sharing of the political process, are rules that can be derived from the interests of everyone. Thus in the contractual model we are talking about rules that people *choose*, even if they have normative ideas that differ in content. By contrast, what political sociology understands by behaviour-constraining institutions is seasoned certainties that are embedded in the culture and meaningful knowledge patterns, scriptures or rules for the interpretation of the world about us (DiMaggio/Powell 1991; March/Olsen 1989). We do not here wish to deny the role of cultural beliefs that are largely 'taken for granted' and are not accessible to rational calculation. Closer attention to the difference between cultural ideas and/or a moral basis on the one hand and collective rules that arise from rational cooperation on the other hand, would create more clarity in the debate surrounding the foundations of the welfare state. But it is a feature of the (social) policy sphere that cultural ideas of justice, equality etc. are controversial and that on many occasions non-normative cooperation has to be organized.

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