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The Bonds of Democratic Politics – An Economic Perspective

Abstract:

This paper is an attempt to analyze bonds and their relevance within the confines of economics. They are discussed as both exogenous and endogenous variables. More specifically, the bonds of democratic politics are compared with those of non-democratic politics. It is argued that only those societies that have at their disposition certain kinds of bonds will be able to sustain democracy. It is further argued that the differential effects of democratic vs. non-democratic regimes on the respective bonds are rather weak. But then again, different kinds of democratic institutions might well have an effect on the prevalent bonds found in a society.

Introduction

The welfare state that co-emerged with industrialization and democratization can be interpreted as an attempt to make the fate of the worst off independent of their personal bonds, i.e. the ability and the willingness of their personal environment to help in times of need. Majoritarian – democratic – politics tend to be redistributive. Thereby, they reduce the potential value of personal bonds. Economists could thus argue that democratic politics can be expected to lead – at least in the long run – to a loosening of personal bonds. On the other hand, an extended welfare state seems only sustainable if those who are net-payers feel some sort of general solidarity for those they are supporting. In other words, majoritarian decision-making seems to drive out personal bonds but depends on the existence of more general anonymous ones.

It has become fashionable to criticize economic thinking for being too individualist. Some communitarians claim that the individualist approach of economics drives out civic virtue (e.g. Etzioni 1988). Among public choice scholars, a new trend to criticize the simplistic behavioral assumptions of *homo oeconomicus* seems to emerge: Frey (1997) states that a constitution for knaves crowds out civic virtue and Brennan and Hamlin (2000) argue in favor of a

* This paper was written while the author was fellow at the Institute for Advanced Study in Berlin (Wissenschaftskolleg zu Berlin) and member of its AGORA-group. He thanks all his co-fellows for numerous discussions on this and related topics. Thanks are also due to Roger Congleton, Andrea Eisenberg, Allan Hamlin, and Margaret Levi for helpful suggestions.

behavioral model that allows for motivational heterogeneity. In their arguments, the possibility to be interested in the public good plays a central role. Within the confines of this paper, this could be a bond toward the community.

On the one hand, economists usually do not deal with concepts such as “bonds”. On the other, over the last couple of years, quite a voluminous literature concerning values and norms, trust, the relevance of communication and civil society has emerged, sometimes by scholars at the edge of the discipline, sometimes by scholars considered to belong to the core. In this paper, it will be attempted to make the term “bonds” tractable within the logic of economics. Bonds can be analyzed both as exogenous variables that determine other variables such as transaction costs, distribution or growth and as endogenous variables determined by other variables that would have to be identified. We will look at bonds from both angles. Bonds can be directly relevant in that they reduce transaction costs to be incurred to secure voluntary exchange on a private law basis. Our main concern here is, however, with issues of collective choice, i.e. issues that are relevant for a large group of people, possibly the entire community. If bonds influence the valid political institutions – and are possibly also influenced by them – then this will have indirect effects on the costs of transacting if we assume that the political institutions constitute a framework for economic transactions. More specifically, we will set out to compare the bonds of democratic politics with those of non-democratic politics. Here, a chicken-egg problem almost suggests itself: are bonds – of whatever sort – a precondition for establishing sustainable democracy or is democracy a precondition for certain bonds to evolve? On a methodological level: are bonds subject to deliberate choice? If not, how do they emerge and – even more importantly – how are they transferred?

Hayek's insight that "... a group of men can form a society capable of making laws because they already share common beliefs which make discussion and persuasion possible and to which the articulated rules must conform in order to be accepted as legitimate" (1960, 181) points to various aspects involved. Building on that insight, it is hypothesized here that – on top of making laws – only some groups who have at their disposition certain bonds will be able to establish democratic regimes.

The remainder of the paper is organized as follows: In the next section, the basic concepts, i.e. “bonds” as well as “democratic politics” will be delineated. Section three is used to present some conjectures on the relationship between bonds and democratic politics. In its first part, the focus is on the preconditions that have to

be fulfilled in order for a group of people to establish sustainable democracy. In the second part, bonds will be assumed as endogenous to the political (democratic) process. Section four concludes with open questions.

2 Concepts

2.1 Bonds

Homo oeconomicus does not know any bonds. He is modeled as neither benevolent nor malevolent but as completely uninterested in the well-being of others. In his most simple version, he is furthermore modeled as trying to maximize his individual utility in every single instance. It is well known that these attempts can be futile and that such a (myopic) utility maximizer might end up being worse off than somebody who adopts a more long-term stance or follows a rule of thumb (Sen 1977, Heiner 1983). It can therefore be in the rational self-interest of a utility maximizer to bind himself against short-term temptations. The ability to credibly commit can make oneself better off and can therefore be rationally striven for. This consideration has often been transferred on the collective level: an entire group – in a sane moment – tries to bind itself against short-term temptations that might occur in less sane moments. This can, e.g., be done by restricting the domain to which majoritarian decision-making can be applied. This alternative interpretation of the topic of the bonds of democratic politics will, however, not be pursued here.

Instead, we will name three categories of observable behavior that is difficult or impossible to reconcile with the assumption of *homo oeconomicus*. Before proposing a delineation of bonds, some methodological issues involved with a modification of *homo oeconomicus* and rational choice theory will be shortly touched upon.

3 Categories Difficult to Reconcile with Homo Oeconomicus

(1.) *To help somebody out.* Three subcategories are suggested: (a) To help somebody who is part of the family, (b) to help somebody who is known to the person helping, (c) to help somebody who is not known to the person helping.

With regard to the first two subcategories, it could be argued that an infinitely repeated game is being played. Helping others can be perfectly rational if one calculates to have a positive chance of being in need in later periods. If reciprocity is enforced – if I can only expect to be helped if I have helped others in previous

rounds – then it might be perfectly rational to help over a number of periods without any short-term compensation. If actors expect to find themselves in repeated interactions, reputation and reciprocity might be very powerful constraints. It is no problem to incorporate them into traditional rational choice models (see, e.g., Axelrod 1984). But it is difficult to explain the behavior placed into the third subcategory. Why should anybody rescue someone who is about to drown in an icy river without knowing her and with low odds of ever seeing that person again? Yet, behavior like this can be observed daily on a large scale (Frank 1988).

(2.) *To make a point.* Whereas the category "to help somebody out" aims at an identifiable person, the category "to make a point" includes deviations from rationality attributed to some anonymous concept or attitude. Again, a subcategorization is offered: (a) Deviations due to a concept of fairness, (b) deviations due to a concept of decency, and (c) deviations due to a concept of civic loyalty.

There is vast evidence from experimental game theory as well as from descriptive decision theory that actors are ready to incur some costs if they perceive others of offending their concept of fairness. The ultimatum game introduced by Güth, Schmittberger, and Schwarze (1982) has been played dozens of times. It has been observed (a) that very often, splits close to 50:50 are proposed and (b) that proposals that give less than a third to the respondent are often rejected. This is even the case with very substantial stakes as, e.g., in Cameron (1999) who has played the game in Indonesia with stakes that constituted approximately three times the average monthly expenditures of the participants. These observations are often explained by drawing on notions of fairness although this interpretation is everything but generally accepted.¹

Following Frank (1988), the concept of fairness generally refers to a transaction between people. A transaction is said to be fair, if the difference between the buyer's and the seller's reservation prices is split approximately equally (ibid., 164ff.). If would-be buyers reject a transaction in which the surplus is split unequally although the offered price is below their reservation price, they are assumed to be willing to make a point. An example can frequently be observed at gas stations when the major brands are trying to increase the price for fuel: Long queues will build up quickly at so-called "unaffiliated stations", with consumers

¹ In a "personal review", Güth (1995) warns his fellow game theorists of modifying an assumption here and there because that would lead to a "neoclassical repair shop".

waiting a long time just to save a couple of cents. Decency, on the contrary, is referred to by Frank to cover a variety of circumstances, including such different acts as returning lost wallets, helping people who have fallen ill in the subway and responding favorably to requests like 'tell me how to get to Times Square' on the street (ibid., 212ff.). An example for the subcategory 'civic loyalty' would be the "voter's paradox". Economists in general and public choice scholars in particular have trouble explaining why people bother to vote. The chance that a citizen will cast a decisive vote at an election is obviously very low. We claim that citizens want to make a point and do incur some costs to do so.²

(3.) *To further the 'common good'*. The category is conceptually not always clearly separable from the "to make a point"-category. It includes voluntary contributions of both time and money to non-profit organizations. They constitute voluntary contributions to the production of public goods, an observation that must be stunning for representatives of the narrow view of rationality since they would predict that everybody had an incentive to free ride, the private provision of public goods would therefore fail in most cases.³

After having presented these categories which served to question the universal adequacy of the *homo oeconomicus*-assumption, an extension of the narrow model seems warranted. Before dealing closer with just one – but very broad - aspect, namely the possibility that bonds can play a role in individual decision-making and can thereby also influence the collective level because they are the result of individual interaction, we will shortly deal with some methodological issues involved.

Some methodological issues

If economists observe that values and norms, trust and the like do play a role in decision-making, they will usually try to explain their emergence, maintenance,

² See also Brennan and Lomasky (1993) who describe voting behavior that does not only aim at the improvement of one's own position but that has the common good in mind as "expressive voting."

³ Two additional aspects in which people can be interpreted as deviating from their rational choices are firstly their *limits of computational capacity*. Economic actors might err in calculating expected values, might misperceive or forget information, remember or re-interpret it wrongly etc. They might also use some rule of thumb in decision-making, based e.g. on previous experience, thus not using their computational capacity because the opportunity costs are perceived as being too high. And secondly: *Weakness of will*. Economic actors might deviate from their rational choice due to some short-term temptation. It will not be treated further here because people are taken to have made a rational decision but just do not have the willpower to stick to it.

and modification over time as a consequence of rational choices. Then, even seemingly irrational behavior can be made plausible as rational on a more abstract level. Yet, the “super-rationalization” of seemingly irrational behavior is subject to leading into an infinite regress.⁴ Choice can only be rational within a given structure. If that structure is itself analyzed within the confines of rational choice theory, at a certain point it is difficult to see how it could be rational itself. Denzau and North (1994) propose to take the mental models upon which people act explicitly into account. Thus, they do not part with the concept of rationality but propose that there is more than one single version of it. The interesting question then is how one can explain the diversity of mental models that people hold.⁵

Others seem to argue that the weight of bonds are partially hard-wired: Robert Frank's (1988) "commitment model" can be read as an approach to solve the commitment problem by recurring on emotions. He argues that emotions like anger or guilt can serve as signals as to what type of person one is. If they are costly to fake, they can become a valuable clue in predicting other people's behavior. The benefit of being a cooperator would lie in being able to selectively interact with other cooperators.

But are hard-wired commitment-mechanisms subject to deliberate choice? If not, are we genetically determined to become cooperators or defectors? We enter into similar problems once we adopt a Humean stance on norms, as, e.g., Robert Sugden (1986, 152) does: "Our desire to keep the good will of others ... is more than a means to some other end. It seems to be a basic human desire. That we have such a desire is presumably the product of biological evolution." One could criticize the assumption that individuals dispose of an inherent desire to keep the good will of others as a dogmatic and unjustifiable break off of the causal chain. This procedure can, however, be justified by using conjectural history and some

⁴ Trivers (1971, 35) notes: “Models that attempt to explain altruistic behavior in terms of natural selection are models designed to take the altruism out of altruism.”

⁵ As far as I can see, no economist is willing to give up the notion of rationality in its entirety. Heiner (1983) and the subsequent literature, e.g., proposes rule rationality in which not every single choice is rational but rather the choice of a rule that is applied to a sequence of choices later on. But notice that arguing in favor of rule-rationality is not as innocent as it might appear at first sight: if actors are assumed to be boundedly rational, why should they be sufficiently rational to select utility-maximizing rules given that the complexities connected with the decision are very high? Vanberg (1994, ch.2) points towards learning, trial-and-error, and adaptive behavior as a possible alternative. Giving up the notion of rationality would be equivalent to giving up the entire project of economics.

group-selection mechanism. One can conjecture that biological evolution has negatively selected those groups of persons that were not endowed with genes striving for the approval of others. This argument is prone to lead directly into an impasse though: The differences in the bonds shared among the members of different groups are too large to be explained exclusively as the result of genetic disposition. Moreover, it should be recognized that the human disposal to gain the respect of others works within groups of variable size. It seems that the composition and thus the relevant size of the group within which the approval of others is striven for depends on cultural factors, i.e. factors not based on biological evolution.

We have thus identified a fundamental problem: if (the theory of) rational choice is confined to deliberate choice, mechanisms based on hard-wired constraints or biological evolution could not possibly be part of the theory because they are not chosen by individuals but by “nature”. With regard to the evolution of norms, Boyd and Richerson (1994) try to take a mediating position by drawing on three forces of evolution, namely biased transmission which is based on explicit choices by the actors, unbiased transmission which takes place during a person's childhood and natural selection which functions just as genetic variation. Biased transmission is described in analogy to the diffusion of innovations. Just as a person has the choice to adopt an innovation, a person has the choice to adopt those memes (Dawkins 1989) for which it has preferences. In our view, the assumption that norms are subject to deliberate choice is mistaken. Norms structure our interactions even if we explicitly refuse to accept them individually - or we do not perceive of the necessity to choose at all. The analogy is mistaken because the adoption of an innovation is subject to deliberate choice while norms are not. Due to the systems perspective prevalent in evolutionary approaches, the social interactions by which norms get diffused remain unspecified. This, however, should be the very essence of an explanation if norms are to structure social interaction.

Evolutionary game theory is the analytical tool used by many representatives of an evolutionary approach. Compared to standard game theory it has the advantage of not making such demanding assumptions concerning the computational capacity of the players. A bird or a rat who structures its behavior using trial and error will do. This, however, can also be seen as a disadvantage: It remains unclear what role the human capacity to reason, to conjecture, or to hypothesize is to play in such models. Majeski (1990, p. 277f.) notes that most empirical work on the evolution of strategies rests on a biological birth-death mechanism. "This is not surprising since it is the only approach that can be formalized and tested

without developing a model of individual cognition. It is, however, the least persuasive approach for explaining the effects of norms on social behavior.... A rejection of a biological perspective leaves only approaches that have some form of human cognition."

If we are able to identify instances (or circumstances) in which bonds do influence behavior systematically, then the quality of predictions (and/ or explanations) that economists can make will improve, if they are taken into account explicitly. This improvement of predictive quality does, however, has its price, namely the increased complexity of the models. In their recent book, Brennan and Hamlin (2000, 23) argue that it is an old methodological principle to choose a weak – instead of a strong - assumption if that will do. With this argument they hope to make a plea in favor of the possibility of motivational heterogeneity. Until now, motivational homogeneity was presumed: people were supposed to be atomistic and rational utility-maximizers. Now, Brennan and Hamlin claim that the actions of many people might be modeled within such a model correctly many a time, but that some individuals might be motivated by other dispositions – at least some of the time. But allowing for motivational heterogeneity surely reduces parsimony – another hailed principle of modeling. One could possibly respond that "parsimony" has been overvalued, especially when compared to another principle, namely "congruence of theory and facts", and such a re-evaluation should take place.

Delineating Bonds

Instead of trying to come up with arguments for more elaborated trade offs, we propose a pragmatic position here: if we – repeatedly and consistently – observe behavior that is hard or even impossible to reconcile with the assumptions of *homo oeconomicus*, it might be appropriate to modify or broaden the concept. We propose to begin with the following utility function:

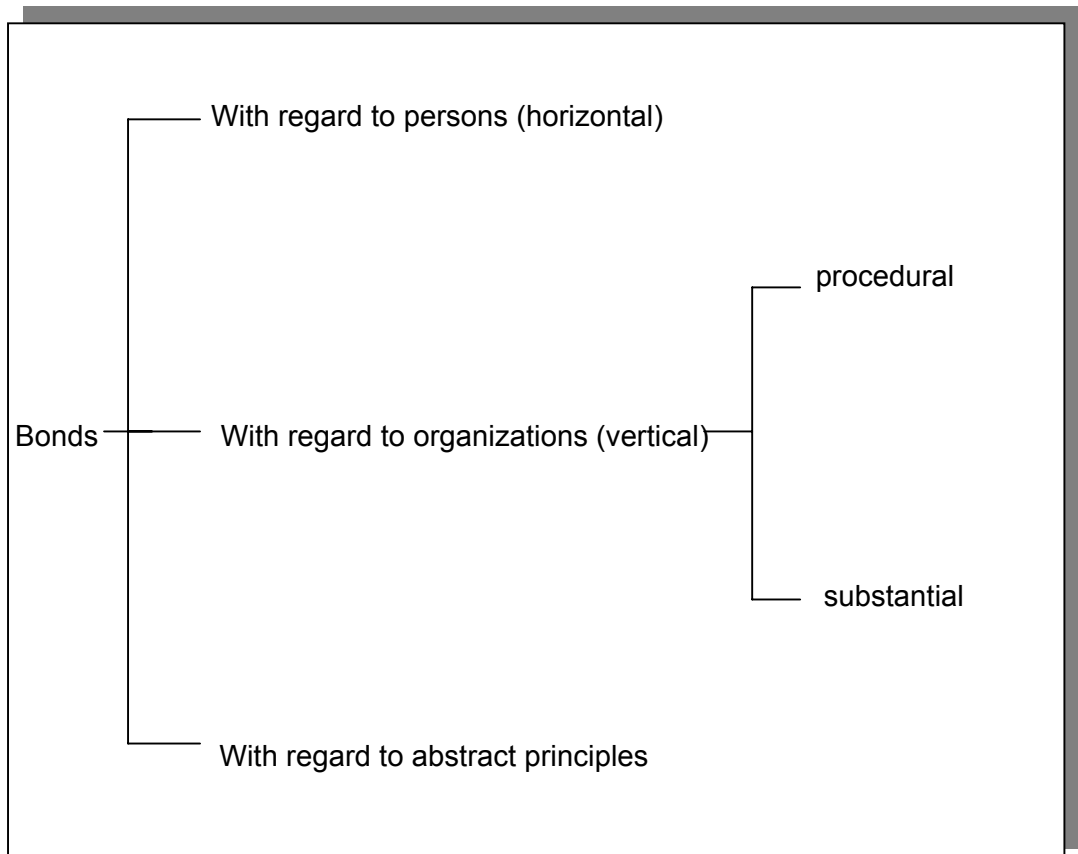
$$U_i = f(\alpha p_i + \beta p_j) \tag{1}$$

Actor *i*'s utility does not only depend on his bundle of private goods p_i , but also on the goods bundle of some other actor *j*. Traditionally, β is assumed to be zero, i.e. the utility somebody else draws from having at her disposal some goods does not influence my utility – neither positively nor negatively. Theoretically, β might well be negative. We propose to talk of bonds only when β takes on a positive value.

This first approximation of what we mean by bonds leads to a host of new questions. As it stands, the equation only seems to hold for a two-person setting. It might, however, be the case that the fate of more than one person is important to i:

$$U_i = f(\alpha p_i + \beta p_j + \chi p_k + \delta p_l + \dots) \quad (2)$$

It would seem plausible that the coefficients become smaller, the farther away a person is: a member of the family, a friend or acquaintance, and finally an unknown person. But it might also be possible that positive coefficients not only exist with regard to (known or unknown) individuals but also with regard to groups of people or even with regard to abstract principles such as one's polis, the state, a certain regime etc. The state is often described as the sole organization endowed with the legitimacy to use violence (Max Weber). Since we are especially interested in the role of bonds with regard to democratic politics, i.e. a specific form of running the state, it is here proposed to distinguish between horizontal and vertical bonds: bonds are horizontal if the entity whose utility increases my own utility is on the same level as I am, i.e. if we deal with each other on the basis of private law. We will talk of vertical bonds in case the entity has the potential to use violence, i.e., if it is (a representative of) the state. To make things even worse, we propose to distinguish between procedural and substantive bonds with regard to vertical entities.



Another aspect is whether there are additional limits as to what size the individual coefficients can take. This might be especially relevant with respect to the relative sizes of horizontal and vertical coefficients: one can conceive of complementary as well as of competing relationships between these two kinds of bonds. It seems obvious that the size of the coefficients will influence the weight of transaction costs in both their vertical as well as their horizontal variants: horizontally, exchanges will be less costly because one does not have to secure against all possible contingency simply because one can count on the other side acting within the “spirit” of the agreement.⁶ On the vertical level, positive coefficients lower the costs of governing: if taxes are paid more or less voluntarily, the costs for tax collection will be lower, if citizens voluntarily comply with most of the regulations, enforcement costs will be lower etc.⁷ Translated into game theoretic language, actors who are connected by bonds – no matter whether horizontally or vertically – might be able to reduce the conflictual element in mixed motive games, at the limit so far as to transform the structure of the game.⁸

⁶ Supposing, of course, that the persons one transacts with have a similar utility-function. The question then becomes how one can know the structure of the utility-function of others. If at least some arguments of the utility-function are subject to deliberate choice – a question to be discussed in a minute – one could conceive of “networks” of utility-functions: over a number of years, actors learn by experience to evaluate the weight their own utility takes in the utility-functions of others – and correspondingly modify their own one.

Depending on the value of the coefficients, it is, of course, also conceivable that the prices agreed upon – and not only the costs that have to be incurred to exchange goods successfully – will be influenced.

Actually, large positive coefficients may even constitute a problem: if actors are known to be benevolent towards others, these others might exploit that benevolence (Samaritan’s Dilemma, see, e.g., Buchanan 1975a). Rational benefactors can therefore have an incentive to delegate the provision of social security to the state in order to protect themselves against their exploitability.

⁷ Behind a veil of ignorance or uncertainty (i.e. *ex ante*), rational individuals of the standard *homo oeconomicus* type might very well be ready to agree to a system of state-provided social security. *Ex post*, however, at least those individuals that do not expect to ever profit from such a system would have incentives not to pay their share. In such a case, positive coefficients with regard to some abstract entity such as “the common good” can help to decrease enforcement costs.

⁸ An example could be a Prisoners’ Dilemma that is transformed into the game of stag hunt. Suppose the following matrix:

	C	D
C	3 3	1 4
D	4 1	2 2

A second group of questions that comes to mind when looking at the proposed utility function is concerned with the determinants of the coefficients. It almost suggests itself to assume that closeness translates into higher values in the coefficients (only chosen, or also given closeness?). The frequency of interaction (exchange of goods) or communication (exchange of opinions) seems to be highly relevant. In Prisoners' Dilemma experiments, it has been shown time and again that (cheap) preplay communication considerably increases the likelihood of the players to cooperate (Bohnet 1997). This could be interpreted as a form of bonds: After having talked cheaply, one knows that one's opponent expects one to cooperate. Of course, it can be argued that the disappointment that the opponent displays after one's own defection decreases one's own utility. But why should one care about the good will of others? We are thus back to Hume's point already alluded to above. Furthermore, the implicit hypothesis of the topic seems to be that the coefficient in democracies could systematically be different from that in non-democratic regimes.

A third group of questions is concerned with the question of whether the size of the coefficient is subject to deliberate choice. Recently, some economists have argued as if it were: Buchanan (1994) in a paper on meta-preferences seems to assume that one is able to "choose what to choose." Likewise, Brennan and Hamlin (2000) assume that one can choose one's "disposition", i.e. one can choose if one wants to be a stubborn egoist, a naïve altruist or somewhere in between. In order to make the notion of bonds empirically relevant, we are in need of hypotheses that tell us exactly under what circumstances we can expect actors to have substantial bonds either with regard to other persons or with regard to organizations or abstract concepts. We will have to deal with this issue later on.

Further assume that α is 1 and β is .6 for both players. This leads to a transformation of the game which is now described by the following matrix (for simplicity, we assume that β is independent of the strategy chosen by one's opponent although this seems to be a highly unlikely assumption):

	C	D
C	4.8 4.8	2.4 4.6
D	4.6 2.4	3.2 3.2

The game has been transformed from a PD to a game of stag hunt and now has two equilibria. It is by no means certain that (C,C) will emerge as the outcome of the game but (D,D) is not a certain outcome either.

On Bonds and Related Concepts

After having described our concept of bonds, it might make sense to demarcate this concept from related ones. In doing so, we might overemphasize commonalities – and correspondingly undervalue differences. Granovetter (1992) has introduced the notion of “embeddedness” into economics. His aim is to find a middleground between the undersocialized actors of economics and the oversocialized ones of sociology. The notion of a generalized morality that some economists have started to use is too broad for him. Instead, he argues that “the role of concrete personal relations and structures (or “networks”) of such relations in generating trust and discouraging malfeasance” would have to be taken into account (ibid., 60). Translated into our equations, he seems to argue against a constant positive coefficient that would hold for each and everybody one deals with, but in favor of various coefficients depending on the history of a concrete personal relationship.⁹ In that sense, his concept seems to be completely compatible with the concept of bonds proposed here.

Over the past few years, quite a few papers on trust have appeared (see, e.g., Zak and Knack 1998). Often, a trust game of the following kind is the starting point of the analysis:

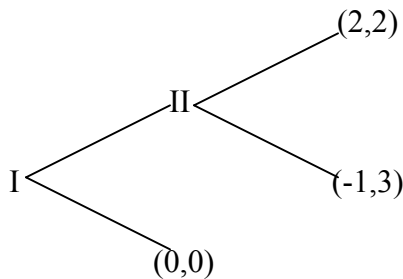


Fig. 1 The trust game

When deciding whether to enter the game, player I will conclude that if player II gets to choose he will defect which means that player I will realize a payoff of -1 . If he does not enter the game in the first place, he can be certain to reach a better payoff, namely 0 which is why we would not expect player I ever to enter the game. Yet, if player I could trust player II to cooperate, both players would be better off, both realizing a payoff of 2 . This simple two person game can easily be translated into our notation introduced above. In order to cooperate, player II

⁹ The difficulties of ever achieving a general theory following this procedure seem so obvious that they need not to be spelled out in detail here.

needs to weigh the disutility that he would cause to player I so heavily that it will make him better off to cooperate.¹⁰ Trust and bonds are not identical, but complementary concepts: trust is concerned with the expected behavior of another person, bonds are concerned with the utility function of just one person. Yet, a specific structure of the utility-function, i.e. a specific form of bonds, is a precondition for trust to yield better payoffs. Bonds of a specific kind are therefore a precondition for trust to emerge.

In his seminal “Exit, Voice, and Loyalty”, Albert Hirschman (1970) defines loyalty as “considerable attachment to a product or an organization” (77). In case the quality of a product decreases (Hirschman’s paradigmatic case), the presence of loyalty can make voice more likely in comparison to exit. Loyalty thus means that an actor is somehow bound not only to the product or organization as it is currently available or as it currently stands, but that he has developed some bonds referring to the product as it used to be or the principles of the organization that he still endorses. Without overstressing the case, it could probably be said that the utility function of a loyal person contains an argument that puts some positive weight to the utility of those producing the good. It is worth noting, however, that exit and voice are described as very different kinds of action by Hirschman: Whereas exit is neat, impersonal, and indirect, voice is described as messy, involving the articulation of critical opinions, and direct and straightforward. If loyalty increases the chances of voice, i.e. political action, then loyalty might be a precondition – but also a consequence – of democratic politics in which critical opinions can be freely expressed.

Values have been defined as “... conceptions of the desirable, influencing selective behavior” (International Encyclopedia of the Social Sciences, entry values). Norms for conduct are sometimes differentiated from values: “Values are not the same as norms for conduct. ... Values are standards of desirability that are more nearly independent of specific situations. The same value may be a point of reference for a great many specific norms, a particular norm may represent the simultaneous application of several separable values” (ibid). If values – and norms - influence behavior, they must somehow enter into a person’s utility function. Similarly, breaking a norm must somehow reduce the actor’s utility. Two questions arise: how can norm-conforming behavior be explained and secondly,

¹⁰ In the example, this will be the case if the coefficient is at least one. As soon as the game is played repeatedly, externalities between games – e.g. reputation – might lead to different equilibria.

how can one explain that – in case a norm has been broken – some people are willing to incur costs in order to sanction deviating behavior?

Norm-deviating can be costly if one has internalized following values and norms as “the right thing to do”, i.e. – in the words of Max Weber – if not only purpose-oriented rationality but also value-oriented rationality is admitted. Recognizing the possibility of internalization means to break with the notion of traditional instrumental rationality. If actors dispose of a capacity to learn, it makes sense to model them not only as forward- but also as backward-looking. They take into account the experiences they have made in previous rounds. Dennis Mueller (1986, 9) writes: "More generally, an effort to model human behavior based on realistic assumptions about 'how men think' as opposed to 'how they would think if they were rational' would place more emphasis on the experience of the individual in relationship to the context in which the decision is posed, and less on the consequences of the decision." Mueller thus pleads for a model of "adaptive egoism" (instead of rational egoism) which takes path-dependence explicitly into account.¹¹

Let us now turn to the question why costly sanctioning of norm-deviating behavior should ever occur. If interdependent utility-functions are introduced, it can be made plausible. If the utility of my little brother enters as a positive argument into my utility function, I could increase my utility by sanctioning my

¹¹ Mueller (ibid.) proposes an orientation of economics towards behavioral psychology. He argues that actors who have been educated to cooperate in many situations, can be predicted to cooperate even if they do not get the immediate reward anymore that they got when they were children. If this is taken into account, it almost suggests itself to model human behavior in a two-step-procedure: The first step consists of a decision rule that tells the actor how to classify the problem: if a cooperation norm is involved and the monetary stakes are rather low, the actor will supposedly stick to the behavior he or she was taught, i.e. instrumental rationality in the economic sense of a cost-benefit calculus will not come into play. As monetary stakes are gradually increased, more and more actors will at least begin to classify the problem in which costs and benefits have to be weighted in a rational, future-oriented manner. Supposedly, only a small number of decision problems are totally immune from ever becoming subject to an explicit cost-benefit calculus. As long as this switch in the treatment of a specific decision problem does not exhibit any regularities, this model is of little help for the economist. The research task would thus consist of developing hypotheses concerning the "switch" (see also Kliemt 1991, 199). Lindenberg (1992) is a first step in that direction. He claims three instrumental goals to exist universally: gain, norm-conformity, and loss avoidance. Depending on the framing of the situation, one of them will be more important to the actor than the other two without them vanishing, however. If one is able to influence the way people structure various interaction situations, one can influence the way they behave.

little brother's playing partner. My decision to sanction will depend on the costs involved, i.e., on the available sanctioning technology.¹²

Bonds can be the outcome of deliberate choice. But they can also be the outcome of “human action but not of human design” (Ferguson 1988/1767). Norms belong to the latter category. The influence of any individual on their content and the way they are enforced is marginal. Yet, an individual can still choose whether to comply with the norms or to renege. It has been argued that beginning with industrialization and accelerating with globalization, the dominant forms of bonds would have changed: norms would have become relatively less important in comparison to freely chosen bonds (such as friends).

Closely related to values and norms is the topic of shared cognition or beliefs. Shared values imply shared conceptions of the desirable. In order to share conceptions of the desirable, i.e. of the 'ought', the group that is sharing those conceptions must have achieved some shared perception of the 'is' as well. This might not seem to follow straightforwardly but since values are supposed to influence a person's selective behavior, it follows that in a certain situation a person that has internalized some value will only consider so many different possible ways to act in this situation and will exclude other theoretically possible ways from closer consideration right at the outset. If a second person who shares the same value will act in one of the ways excluded by the first person, then she must have perceived a different situation. We will therefore assume that shared values imply not only shared normative conceptions but also shared cognitive perceptions. This is so because we do not consider it as useful to assume that two persons sharing the same value act differently in a situation apparently identical. A society that is “bound” together by a set of shared norms can therefore be assumed also to be “bound” together by shared cognition.

To sum up: The concept of “bonds” as here presented is very broad indeed. Aspects of networks, ties, trust, loyalty, norms and even cognitive beliefs can all be subsumed under the concept or at least closely connected to it. It will be our task in section three of this paper to enquire whether certain institutional arrangements – democratic ones – are affected by bonds or have an effect on

¹² Suppose I have two little twin brothers whose utilities enter my utility-function with equal weights. If I sanction one of them, I therefore increase and decrease my utility simultaneously. Within the logic of economics, I would sanction only if I will be better off afterwards. The example shows that it might make sense to introduce conditional arguments into the utility-function. Another person's utility might only increase mine given that he acts within the valid behavioral norms.

them. Our delineation of bonds has been very broad. They can apply to persons and to concepts, to neighbors and the state. In order to test the relevance of the concept empirically, not only does one need hypotheses concerning the effects that various kinds of bonds will have on social outcomes, one also needs tools to ascertain them. As economists, we are not interested in knowing the exact weights of a utility-function of a specific person but rather in knowing whether – on average – a group of persons has a utility-function different from another group, possibly as the consequence of facing a different set of restrictions.

Surveys are one possible instrument. The World Values Survey has been conducted repeatedly, and it does not only contain information on the general level of trust that citizens display vis-à-vis each other, but it also shows that systematic differences exist between members of different societies (Inglehart 1997 contains a good introduction into the survey, La-Porta et al. 1997 is one example for economists making use of it).

Another instrument to ascertain the weights attributed to other persons, organizations, or concepts would be to count membership in civil associations as, e.g., done by Putnam (1993) in his study on democracy in Italy. Similarly, one could count time and effort spent on contributions to the voluntary production of public goods.

2.2 Constitutional Democracy

When we use the term “democratic politics” here, we want to confine ourselves exclusively to constitutional democratic politics, i.e. democracies in which the domain to which majoritarian procedures can be applied are limited. A constitution can be defined as the rules based on which a society makes its decisions concerning the provision and financing of public goods. Stated in more simple terms: the choice of a constitution is a choice of how to choose subsequently. A democratic constitution contains specific procedures concerning the choice (and the substitution) of those who are to make decisions concerning the provision of public goods and who have the power to tax even those who are not in favor of a specific bundle of public goods being provided.

Two implications might be worth noting: theoretically, one can think of a rule-of-law state that is not democratic (and vice versa). One would then distinguish four cases:

	Democracy	Non-Democracy
Rule of Law	1	2
Non-rule of law	3	4

In our assessment concerning the role and effects of bonds, we will constrain ourselves to cases one and four. A second implication that we will have to deal with more explicitly later on is that the criteria used here refer to organizational aspects of the state. Bonds might, however, well exceed the borders of states.

3 Conjectures

3.1 On the Preconditions for Establishing Sustainable Democracy: Bonds as Exogenous Variables

Hayek's insight that "... a group of men can form a society capable of making laws because they already share common beliefs which make discussion and persuasion possible and to which the articulated rules must conform in order to be accepted as legitimate" (1960, 181) was already quoted above. It is hypothesized here that certain kinds of bonds are prerequisite for a specific procedure of making laws, namely a democratic one. In other words: it might very well be the case that sustained democracy depends on preconditions which it is not capable of producing or bringing about itself.

It has often been observed that behavior is not only channeled by formal institutions (where rule-breaking is sanctioned – or its sanctioning at least threatened – by the state) but also by informal ones (where rule-breaking is sanctioned informally by other members of society). It has been argued (e.g. Kiwit and Voigt 1995) that many informal institutions are very stable and not subject to deliberate change. Since incompatibilities between formal and informal institutions will greatly increase the cost of governing, it can be concluded that the formal institutions which can be set and modified at will should not be completely at odds with the prevalent informal institutions. If this conjecture is correct, then the prevalent informal institutions should be by and large compatible with those characteristic of constitutional democracy. In the following paragraphs, it will be

attempted to make this general claim more concrete with regard to the concept of bonds as delineated above.¹³

Elsewhere (Voigt 1998), I have attempted to identify the preconditions for a viable rule-of-law constitution, namely (1) individual attitudes compatible with it¹⁴, (2) the possible relevance of organized interest groups, and (3) the possible relevance of "constitutional culture" (referring to the perception of the constitution either as merely a "book of hopes" or as a legally enforceable document). Since we are here only interested in constitutional democracies (i.e. those conforming with the rule of law), all those preconditions should be relevant for our case of interest. However, it is possible that we have to prolong our list, since we are here interested in a *democratic* rule-of-law state. We are, however, not interested in preconditions in general, but only in those that can be expressed in terms of bonds.

Democracy is an unlikely form of state organization. At least historically, autocracy has been much more relevant. Some economists argue (Barzel 2000) that democratic institutions have been set up by autocrats as a consequence of their strength: handing over some competences to a state organ different from themselves could make their own announcements more credible and thereby make themselves better off. Granting a bit more power to other organs, however, always entails the danger of kicking loose a dynamic process that cannot be controlled by the autocrat anymore (Przeworski 1991). We therefore propose the opposite hypothesis, namely that participatory (democratic) rights will only be granted as a consequence of changes in the bargaining power of various groups. Groups whose cooperation is not needed for a regime to remain in power will not be granted any

¹³ Cooter (2000, 20) argues that two cases through which law can become especially effective should be distinguished: (1) if it is in alignment with pre-existing morality – this is the case we have just described as the congruence between formal and informal institutions. (2) If some citizens regard lawmakers as moral authorities, or citizens believe that law as such deserves respect. Here, the relationship between formal and informal institutions would be turned on its head: citizens modify at least part of their moral convictions because the law is changed or the lawmakers are seen as representing some higher form of moral authority. The empirical relevance of this second case seems doubtful. Were it to exist on a broad scale, it would constitute incentives for lawmakers to misuse the trust that many citizens have with regard to them. Democracy does seem sustainable, however, if a major part of the citizenry believes the law to deserve respect *as long as it was passed using procedures deemed to be fair or just.*

¹⁴ Subjects believe that it is not fate determining their lot, but – at least to a certain degree – their individual action. Further, they should not hold an organicist concept of the state which attributes the state goals such as the determination of truth etc.

rights, whereas groups whose cooperation is crucial will have a better chance of being granted democratic rights. Democracy as a “negotiated universal” is thus only likely to emerge if a multitude of groups is organized and they have at their disposal some bargaining power in the sense that their non-cooperation will make life worse for those who are already cooperating with the regime.

If we observe that democracy has been brought about as the result of domestic interest groups fighting for participatory rights against the existing autocrat, we can infer that some bonds within these groups – and possibly also amongst them – must exist. From this, we infer the hypothesis that democracy will prove more sustainable if it has resulted from a domestic struggle than if it was introduced by an outside force or if it was unilaterally imposed by an autocrat (Weber again).¹⁵

Suppose a society has given itself not only a constitution compatible with the rule of law but also one that previews periodic elections of those who are to determine the exact composition of the public goods bundle to be provided. Under what conditions will such a constitution become effective? We propose to distinguish two levels here in both of which bonds play a crucial role. The first is concerned with the candidates and parties competing for office or, in short, the elite. Assume that the hitherto governing party has just lost the elections. Why should its members leave office and hand the government over to the winning party instead of simply holding on to it? Economically speaking, one would expect the losing party to leave office only if the expected utility of that action is higher than the expected utility of not leaving office. If the losing party expects that the representatives of the (now) winning party would never leave their offices after a

¹⁵ With regard to Central and Eastern Europe, Offe (1997, 65) observes the following: “Instead of an incremental growth of free economic and political institutions which, in the West, were promoted over an extended period of time by various social and political forces that typically valued these institutions for their own sake, the method of introduction of these institutions in the East was elite-dictated and instrumental.” Although we do not agree with Offe’s presumption that these institutions were fought for in the West primarily due to their intrinsic value, it is certainly true that they emerged organically over an extended period of time. Offe (*ibid.*, 66) continues by conjecturing that a “civic ethos” is needed “generating among the participants in political and economic life the confidence that ‘all others’ ... is not to be suspected as ‘enemies’, and which beyond that, also leads sufficiently large parts of the political community to take collective concerns into consideration and to develop some measure of ‘positive external preferences’.” Translated into our lingo, he identifies bonds as a necessary precondition for sustained democracy. With regard to the question whether anything can be done in order to speed up this emergence of bonds – possibly even from the outside – Offe arrives at pessimistic conclusions very similar to the ones developed here (*ibid.*, 67): “The rise of a robust ‘civil society’ cannot be initiated from the outside.”

(future) defeat, the representatives of the (now) losing party would not have a good reason to leave.¹⁶ Trust that the opposing party will play according to the rules in the future is therefore a prerequisite for a functioning democracy. Coined differently: if some of the crucial actors are bound to the functioning of democracy *per se* – and attribute some utility to its preservation even if it is not them who hold office at that time – the likelihood that democracy will be sustainable is higher (on this, see Przeworski 1991).¹⁷

A second level on which bonds play a role is concerned with the population at large or, mass participation. It is here conjectured that horizontal bonds are a necessary condition for vertical bonds which are a prerequisite for sustainable democracy.¹⁸ Suppose there are no vertical bonds, i.e. the voters do not feel bound to the governing at all. In that case, we would expect them to act according to the traditional *homo oeconomicus* model: if given the chance to cheat the state, they do, if given the chance to act opportunistically, they do and so forth. It now seems extremely unlikely that vertical bonds exist while horizontal ones do not. It seems, rather, plausible to assume that a group that has developed a high degree of trust on a horizontal level will be more likely to attribute trust even to those who have the power to tax and to threaten the use of force.¹⁹

Suppose a government has just lost elections and considers to stay in office nevertheless, thus breaking the rules of democracy. As already mentioned, it is less likely to do so if that does not promise a utility exceeding that of leaving office in an orderly way. Now, the expected utility will not only depend on the actions of the winners of the elections but also on the reaction of the media, of

¹⁶ Inglehart (1997, 172) advances a similar argument: a government losing elections must moreover trust the former opposition that it will not imprison or execute the former government once the former opposition takes over office.

¹⁷ It would be interesting to deal with the question whether it is possible to induce such bonds by creating respective institutional arrangements (for example, by exchanging hostages and the like). This does, however, not belong here.

¹⁸ But notice that horizontal bonds are by no means a sufficient condition for vertical bonds. It is very well conceivable that citizens trust each other, whereas they do not trust their government. In 1958, 24% of the U.S. American public expressed distrust in the federal government, until 1992, that figure had risen to 80%. Yet, levels of interpersonal trust (horizontal bonds in this paper's language) have remained stable (Inglehart 1997, 207).

¹⁹ This relationship has recently been observed by pollsters with regard to surveys carried out in Latin America. Those describing the results of "Latinobarómetro 2000" write: "Those who do not trust their neighbors are unlikely to trust their political leaders and state institutions in general" (Frankfurter Allgemeine Zeitung, May-23-00).

organized interest groups, and the public in general. If serious opposition against the move is expected because the media heavily criticize government, crucial interest groups announce not to cooperate with government any more, then the expected utility of leaving office now (and hoping to regain it subsequent to the next elections) might be higher than that of breaking with the rules of the game. We are here dealing with the capacity to produce the public good opposition spontaneously. This capacity will be greatly enhanced if horizontal bonds are present: before opposing government, there must be consensus that government is indeed trying to break the rules. A shared perception of what is going on will greatly enhance this possibility. We are thus referring to bonds and their connection to shared beliefs. But agreeing on the evaluation that government is breaking the rules of the game does not suffice to stop it from doing so. Opposition really needs to be produced. We hypothesize that the spontaneous production of opposition will be more likely if a number of latent interest groups have managed to overcome the problems of collective action described by Olson (1965).

Bonds are here doubly relevant: between the members of factually organized interest groups, some kind of bonds must be present, otherwise they would not have been able to get factually organized in the first place. But suppose that the opposition of one single interest group will not impress the governing and only some sort of common action between a number of groups will. In that case, the interest groups face the free rider problem on a higher plane: it is not the question whether to get organized (or become member of an organization), but rather, whether to make a – possibly risky – move against government. If bonds between the members of the various groups exist, then it will presumably be easier to produce opposition.

Traditionally, organized interest groups have been met with skepticism by economists, they were always suspected to be rent seeking which is, in turn, suspected to decrease general welfare. In two other papers, I have tried to establish a more favorable view of organized interest groups: In Voigt (1998), it is argued that – by way of the working of an invisible hand – organized interest groups can become the unintended watchdogs of the rule of law, in Voigt (1999), it is argued that the rule of law itself can be reconceptualized as the unintended consequence of – competing – interest groups seeking rents. Here, it is argued that the way democracy was brought about in a given group will influence its sustainability.

Again referring to Hayek's conjecture quoted above and taking into account our reflections on collective action, the question of the size of the group to which most individuals feel close bonds to becomes relevant. A society that consists of a plurality of groups who feel strong intragroup bonds but no overarching intergroup ones, will have more difficulties in setting up and sustaining democratic institutions. Communication between the groups will be costly, the readiness to incur costs out of solidarity with other groups might not be sufficient etc. From this, we can infer that a society with bonds consistent with democratic institutions is more likely to make them stay if strong intergroup bonds exist or if it is made up of just one homogenous group.²⁰ John Rawls (1993) has observed that the "factum of pluralism" is here to stay. Now, if that is interpreted to mean that people have different values –and that heterogeneity in societies has increased on the long run – and that their substantive bonds have become less important than they used to be, this means that the sustainability of democracy in modern societies depends on procedural bonds, i.e. that a large majority accepts the outcome of democratic decision-making not because they necessarily like the substantive results but because they believe that they have been brought about by a fair procedure.

To sum up: Bonds that can be expressed in terms of interpersonal trust are primordial not only for the development of vertical bonds but also for sustainable democracy. The level of interpersonal trust seems also crucial for the emergence of organized groups which are another important precondition. Democracy will be more easily sustainable in homogenous societies. Lastly, it will be more easily sustainable the larger the portion of the citizenry that values democracy for the underlying decision-making mechanisms rather than the substantive outcomes brought about by drawing on them.

²⁰ This is surely a politically incorrect statement but its relevance might be grasped looking at former Yugoslavia, Northern Ireland etc.

With regard to Central and Eastern Europe, it has been observed that: "A high degree of social cohesion early in the transition – that is, a consensus within society on the broader goals of transition – eased the implementations of reforms and weakened any subsequent pressures for reversal or backlash. Lack of cohesion, demonstrated by a polarization of the political preferences of the electorate, created significant obstacles in the reform process. Politicians in polarized systems were often forced to make greater compromises to win support from their opponents for a reform package" (EBRD Transition Report 1999, 107).

3.2 On the Repercussions of Democracy: Bonds as Endogenous Variables

In the last section, it has been hypothesized that there might be certain bonds that are crucial for a (formally) democratic constitution to become effective. Now, if that was the end of the story, little could be done in order to speed up the development towards democracy. If the bonds are not supportive of democracy, little could be done to implement it. This seems to be, e.g., Putnam's (1993, 183) position: "The civic community has deep historical roots. This is a depressing observation for those who view institutional reform as a strategy for political change."

Yet, few scholars would dispute the claim that bonds are also subject to change, at least in the long run. If one understands the mechanisms that cause them to change, one could use this knowledge to foster the spread of democracy.²¹ Looking for such possibilities is not identical to what has been dubbed "institutional determinism" by Inglehart (1997, 206f.), namely the position that the level of interpersonal trust (bonds) is determined by the prevailing institutions. Institutional determinism is rejected by Inglehart.

In this section, we want to ask whether institutions that are assumed to be given can have effects on the prevailing bonds displayed by the members of a society toward each other, their government, and certain general principles. Special emphasis will be on the potential differences in bonds that could be caused by democratic as opposed to non-democratic institutions.

It has often been mentioned that the willingness to help one's neighbors was substantial in East Germany under the socialist regime and that this willingness has rapidly decreased since 1989. These changes are supposedly one of the major reasons for the apparent nostalgia many East Germans display with regard to the former regime. It seems thus clear that political institutions can induce certain forms of behavior and that changes in these institutions will induce changes in behavior. But it seems doubtful whether this behavior can be explained by the incentives set by non-democratic, non-rule-of-law institutions. Rather, it seems to be a consequence of the general shortage economy. If one family somehow

²¹ Traditionally, economists have been rather agnostic with regard to democracy. Democracy was perceived to be of instrumental value – namely as a collective decision rule – but not of value in and of itself. There are, of course, exceptions, the most noteworthy probably being Sen (1999). But notice that most questions that economists who are critical towards the functioning of democracy would ask are not being dealt with by Sen. What should be the scope of collectiv decision-making – and what areas should be restricted to private decision-making? Etc.

received a dozen oranges, it was willing to share on the assumption that those it was sharing with would be willing to share in return later on. It is thus not even clear that one needs to recur on the concept of bonds at all in order to explain the behavior observed: for actors who expect to be part of an infinitely repeated game, it can be in their narrow self-interest to establish reciprocal links with a number of other actors. As soon as one could count on always being able to buy oranges, bananas and so on, those loose exchange networks broke down. This shows that actors rationally adapted their behavior to the changed circumstances.

But it could be argued that not only the shortage economy but also the unpredictability of state action induced solidarity amongst the subjects: if anybody could be the target of discretionary state action, the emergence of solidarity amongst potential targets seems plausible. Yet, if such solidarity meant complaining with state authorities, it could have a very high price. State action with regard to potential opposition was quite rational: on the one hand, the state was interested in giving its subjects the impression of being left undisturbed as long as they behaved reasonably (i.e. the state was interested in adhering to certain rules in order to make its own behavior predictable), and on the other, it had to create the impression that it was omnipresent, that it would immediately get knowledge of any behavior not in line with that expected, this, it did by the extensive *Staatssicherheit*. Thereby, it was able to induce what Kuran (1995) calls preference falsification consisting of publicly lying about the preferences one really holds.

At the beginning of this paper, it was hypothesized that an extensive welfare state could lead to a loosening of personal bonds. This hypothesis is exactly in line with the observation on solidaric networks observed in the shortage economies of the formerly socialist countries. There, the accidental availability of goods led to a sharing of those goods among small circles. An extensive welfare state can be interpreted as going one step further: here, even if I am unable to earn my own income, the state will secure that I will not starve. Being a member of a voluntary network of people who help each other will therefore be less crucial. Over time, we can expect membership to decrease and networks to dissolve. Again, this is a rational response to changed circumstances. Yet, the welfare state is not necessarily based on a set of democratic institutions. Majoritarian – democratic – institutions tend to favor redistribution, but redistribution is not confined to democratic states. The changes in bonds induced through the institutions of the welfare state are therefore not necessarily connected with the bonds of democratic politics.

Above, the distinction between horizontal bonds – to other persons – and vertical ones – to the state and its representatives - was introduced. Now suppose a democratic constitution is passed and many individuals consider the process by which it was brought about as “fair” (or the rules of the document itself as fair), then it might generate vertical bonds to the document (“*Verfassungspatriotismus*”, “Civil Religion”) in the sense that actors are willing to accept substantial outcomes that are not in accordance with their own preferences because they have been generated using procedures with which they agree. It is thus argued that a congruence between values and norms on the one hand, and formal rules on the other can induce bonds that make governing less costly. It might be worth noting that, at least in principle, this sort of bonds does not depend on democratic institutions either. Here, we focus on the rule of law and constitutionalism. It is, however, conceivable to have a rule of law-constitution, yet not a democracy.

So far, we have identified a couple of institutional arrangements that could possibly influence the kinds of bonds between subjects, but we have not identified any differences in bonds depending on whether democratic or non-democratic institutions prevail. In other words, we are led to hypothesize that the causal chain does not go from (democratic/non-democratic) institutions to bonds but rather the other way round as argued in 3.1.²² Nevertheless, we want to go one step further and ask whether the kind of democratic institutions in place could have any effects on the prevalent bonds that can be found in a society.

From experimental games we know that communication increases the likelihood of cooperation even in games in which defection is the dominant strategy. It seems therefore reasonable to assume that communication broadly understood increases bonds. If that is the case, then “communication intensive” institutions will *c.p.* lead to closer bonds than “communication non-intensive” institutions. If we assume that geographical proximity makes communication easier (with the secular decrease in communication costs, this assumption could well be challenged) and further that the number of actors involved in communication

²² This observation does, however, in no way exclude the possibility that the state (no matter whether democratic or not) can have substantial effects on the bonds prevalent in a society. In games with multiple equilibria, the state surely has the capacity to make one of the possible outcomes more salient and thus create a bias in favor of it. Drawing on Hume again, the induced behavior will create expectations that the same behavior will also be displayed in the future. In that sense, induced conventions can lead to the emergence of norms (Schelling 1960, Hardin 1989, Ordeshook 1992, Ullmann-Margalit 1977, Sugden 1986, Voigt 1999).

processes is negatively correlated with the influence any individual expects to command, then some hypotheses can easily be derived:

- (1) *Bonds should, c.p., be more relevant in federal than in unitary states.*

With the size of the territory and the size of the population given, there are more collective decision-making units in federal than in unitary states. This might lead to greater satisfaction with the bundle of collective goods provided because it allows a more fine-grained supply which takes the specific situations, e.g. of geography, into account. But it might also be the case, and this is the argument put forward here, that it will be much easier to have a public discourse concerning the exact composition of the public goods bundle. This will not only make individual citizens more influential but will also increase their propensity to take their fellow citizens' utility explicitly into account.

- (2) *Bonds should be more relevant in regimes that have direct-democratic elements than in those who rely exclusively on representative choice-mechanisms.*

This is basically an extension of the first hypothesis. The case of Switzerland in which announced referenda regularly lead to society-wide discussions concerning the implications of the decision seems to be a good example.

- (3) *Bonds should be more relevant in regimes with proportional representation than in those with plurality rule.*

We know that plurality rule will regularly lead to a two party system (Duverger's Law). Parties in such systems will be more heterogeneous than parties in a system of proportional representation. The interests of many citizens will therefore only be represented in a loose fashion. As Breton and Galeotti (1985) observe, the plurality rule is the institutional foundation for the view that representation primarily serves to choose the government, whereas proportional representation provides the foundation for the view of representative government. If this leads to a

more intensive public discourse, bonds might become more important than in plurality rule systems.²³

Hence, we come to the somewhat paradoxical conclusion that the prevalent bonds are not influenced by whether the formal institutions of a society are democratic or not, but that the kind of democratic institutions in place might very well have an impact on the bonds to be found.²⁴

4 Open Questions

This paper has been between the anecdotal and the conceptual. Nevertheless, a host of possibly relevant questions has not even been mentioned. Here, we want to allude to at least some of them.

How does the concept of legitimacy enter into the picture? Economists have drawn on it when trying to legitimize certain rules or organizations (Buchanan 1975b) but have seldom used it with regard to positive or explanatory theory. Can we observe that the legitimacy of democratic regimes is regularly higher than that of non-democratic ones? Is legitimacy a relative concept in the sense that the legitimacy of non-democratic regimes is lower the lower the higher the number of democratic regimes (a) in its neighborhood or (b) on a world wide scale? What does that mean with regard to bonds? Does a high degree of legitimacy increase the probability of a closely bound community? A closer look at these questions seems promising.

²³ For this hypothesis to hold we have to assume that discussions within parties (which will probably be more intensive with plurality rule) have less effects on the development of bonds than discussions between parties.

²⁴ The next logical step of inquiry is to ask where the propensity to cooperate comes from, i.e., to endogenize trust. Putnam (1993) conjectures that hierarchical organizations - especially the Catholic Church - are obstructive to the emergence of trust and reciprocal cooperation. La Porta *et al.* (1997) operationalize the importance of hierarchical religion by measuring the percentage of the population belonging to a hierarchical religion defined as Catholic, Eastern Orthodox, or Muslim. They find (*ibid.*, 336f.) that "holding per capita income constant, countries with more dominant hierarchical religions have less efficient judiciaries, greater corruption, lower-quality bureaucracies, higher rates of tax evasion, lower rates of participation in civic activities and professional associations, a lower level of importance of large firms in the economy, inferior infrastructures, and higher inflation."

What relevance does the nation state have for bonds? Above, we noted that our approach of dealing with bonds heavily depended on the nation state. Yet, the nation state has not always existed – and it will probably not exist *ad infinitum*. Loyalty to the nation state – i.e. a specific kind of bonds – has been deliberately created. What does that mean with regard to democracy? Are bonds to democratic regimes deliberately creatable in an analogous way? If the nation state is indeed to lose some of its importance as many observers claim, does that also mean that the bonds to the nation state will become less tight? If so, would that imply that the amount of bonds is simply decreasing or would it mean that some other concept could attract bonds towards itself?

These questions – and the ones dealt with in a little more depth in the last section of the paper – promise to be highly relevant on two levels: on the theoretical level and on the policy level. On the theoretical level, they go to the very core of the discipline, namely the behavioral model used by economists, including the rationality assumptions. The standard assumption of constant preferences is touched upon likewise. If preferences might be subject to change because they are discussed in open debate, this touches the core of economics.

But these questions are also relevant on the policy level: it is often argued that the European Union would not be ready for more directly established democratic choice procedures because functioning democracy would depend on the existing of a united public in which debates of common interest could be had. The multitude of various “European publics” is then seen as an argument against further democratization of the European Union. We do not intend to make any evaluations on the adequacy of such statements, but would simply like to stress that this is an area hitherto largely neglected by economists.

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