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**Liberalism Reconsidered:
Is There a Broader Scientific Base?**

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1. Introduction

Governments in Western societies seem to be at a loss about what to do with the welfare state. In terms of poverty in the developed world, the situation is most bleak in the United States. But European countries have slipped as well, with market-generated poverty increasing in many of them (see McFate et al, 1995). In the Netherlands, problems are comparatively less drastic, but here unemployment is high and rising, as is the number of people who are officially unfit to work. The labor participation of older people is declining and the welfare position of the young is worsening faster than anybody else's welfare position. The welfare state has become too expensive. That shows up among other things in the decline of social benefits relative to modal incomes.¹

Freedom from want has been seen as a basic achievement of Western societies, but the welfare state has also been blamed for slough, the reduction of individual effort, growth of irresponsibility and a general danger to the work ethic that made Western societies able to become welfare states in the first place. A related concern is the seemingly radical individualization with a decrease in civic virtues and care for the common good, a decay of family values and erosion of solidarity between generations. The press speaks of "the elbow society".

In this light, welfare policy is also confronted with a population more eager and ready to exploit the welfare provisions, irrespective of need, and at the same time, more reluctant to support the use of taxes for welfare provisions for any other group than their own.

What can social science offer to politicians in this bleak situation? Why hasn't there been a much stronger scientific basis for social policy programs of any political party in the Netherlands and, I dare say, other Western countries as well? Is there such a scientific base?

2. Liberalism

In order to understand the present confusion and muddle with regard to social policy programs, one has to go back and look at the driving forces behind institution building in Western societies. I submit that this institution building began to be broadly based on scientific argument and analysis in the 18th century. Political institutions (such as representation, division and limitation of powers) and economic institutions (such as custom, banking, tax and contract institutions) were by and large designed on the basis of a model of man that was vastly superior for this purpose than previous models of man. I talk about a model of man as being purposeful, being endowed with a keen responsiveness to changes in relative scarcities, but also being very limited in his generosity. Today one would call it a model of rational choice. It represents a powerful theory of action which allowed the institutional designer to anticipate the behavioral consequences of changes in rules. Think for example of the institutional design work by authors like Adam Smith, David Ricardo and Jeremy Bentham. Often, the family of policy programs that has grown on this basis is referred to as "liberalism" (in the United States "libertarianism" would be the more fitting term). Smith's influence in Great Britain and Bentham's influence in France, and France's influence in Europe and United States greatly enhanced the position of liberalism as a force for institution building in the Western world. But its success was nonetheless mainly attributable to its superior theory of action. Importantly, as was already argued by North and Thomas (1973, p.1), the liberal model of man allowed a criterion for the evaluation of institutions: the degree to which they create an incentive to channel individual effort into activities that bring the private rate of return close to the social rate of return.

There was a peculiar puzzle connected to liberalism as the major force behind institution building: in every Western country, institutions were developed that did not fit the liberal mold. Why was liberalism in this sense so incomplete as a basis for institution building?

True to the best philosophical traditions of the 18th century, liberalism conceived of man as constitutive of society. For the design of political and economic institutions this seemed to be the best way: autonomous individuals jointly and purposefully creating the institutional preconditions for free trade and free disposition of gains from trade. However, this successful model of man had no room for incorporating the social preconditions of individual action and interaction. In liberalism, people are so autonomous that if they don't do well, it is most likely that they don't want to do well. Redistribution from the rich to the poor only reduces the incentive to do well and thus increases rather than alleviates the social problems created by destitution. Today one might speak of a problem of moral hazard. The programmatic position based on this view has been called "welfare capitalism", the notion that needs should be met by competition, economic growth, private corporate benefits and, in emergencies, by voluntary local efforts.

Still, all Western societies with market economies have created welfare institutions, basically against this liberal insight.² How was that possible? What were these welfare institutions based on? I submit that there was no serious scientific counter position against the model of man used by liberalism. Rather, welfare institutions were pushed through on the basis of pragmatic exceptions to liberal principles or certain value positions, articulated through the political process. Exceptions to liberal principles occurred mainly where need was obvious, moral hazard unlikely and state responsibility uncontested. For example,

injured war veterans were not likely to have inflicted the injuries on themselves purposefully in order to receive state support afterwards. By contrast, need due to old age, ill health and unemployment can be a person's own doing. It can thus be attributed to moral hazard, and there is no clear state responsibility. Not much did happen on this front until value positions from the church or from socialist sources found their way into the political process, be that part of the competition among parties or capital-labor influential groups. Such value positions are concerned with the fact that even morally "respectable" people can be confronted with adverse circumstances.

We thus have a serious asymmetry: liberalism did have a fairly sound scientific basis for institutional design. But that basis was restricted to political and economic institutions. Welfare institutions, by contrast, were designed mainly on the basis of pragmatic exceptions and politically articulated value positions.

3. Sociology

Sociology has played an important part here. In the late nineteenth century, evolutionary theory seemed to enter into the budding debate on welfare provisions. Evolutionism provided yet another seemingly scientific argument against welfare provisions and for hands-off welfare capitalism. Interference with the process of natural selection would only lead to the preservation of undesirable personality traits and health conditions. One can say that sociology as a discipline arose against the view that the major source of inequality among people is biological. The instrument used by sociologists in this battle was a model of man that stressed the very opposite of biological determinism: role playing man. Human beings are different from animals. They are not driven by instinct but are formed by others in a process of socialization. What they become is therefore entirely due to their environment. There were clear successes in support for this view, such a Durkheim's study on suicide.

Did the model of man of liberalism finally meet its challenge in the sociological model of man? The answer is yes and no, but it is more no than yes. Sociology definitely did provide a big boost for those who argued value positions in favor of welfare provisions, and the view that humans are different from animals also allowed some link to the Christian position that man was created in the image of God and therefore worthy of being treated with dignity no matter how desolate his circumstances. Yet, the theory of action connected to the sociological model of man was too weak to provide any scientifically serious counter weight to liberalism. Role playing man can be made to follow any rule, it does not exert constraints on the kind of rule to be designed. This model of man thus does not yield any criterion for the evaluation of institutions. Different and quite incompatible arrangements can be erected on its basis. For example, conservatives can base on it legitimation of paternalistic institutions, whereas socialists can claim that man's limited generosity is due to the very institutions that were built by liberalism, and that a new kind of society with common property would free man from the capitalist yoke of egotism.³ For the liberal, the conundrum has not become any smaller. As a member of Western civilization, he cannot deny the intrinsic value of human dignity, but it is also obvious that since role playing man is a complete victim of society, this model of man can be used to bolster any self-seeking argument for redistribution. Thus the sociological model of man has left the generation of welfare institutions in the realm of value judgments which are used to correct the excess of liberalism rather than change liberalism itself.

A particularly striking example is Germany after the World War II. German institutions had to be rebuilt almost from scratch, and again it was liberalism that formed the basis for this renewal, the so-called German ordoliberalism. For example, Müller-Armack, one of the founding fathers of the ordoliberalism, clearly states that

"The more liberalism openly acknowledges the special nature of its own doctrine and fully accepts the social criticism of socialism as its own concern, and the more it appreciates the need for diagnosing the problems of our time within the full gambit of the Christian view of the world, the more it will see itself obliged to adapt the instrument of social policy based on the free-market system to the other standpoints and to identify the available opportunities in a mutual dialogue."
(Müller-Armack, 1950,p.358).

The double-edged nature of this combination of liberalism with values based on a different model of man can be gleaned from the work of Röpke, an economist and important spokesman for a social market order after World War II. In a treatise on ethics and economic life, he criticizes collectivist economies for their need for heroes and saints in order to function properly.

"Any attempt to establish an economic order on a moral code considerably more demanding than the average human approach must eventually lead to coercion and organized intoxication of the masses by lies and propaganda....freedom in the State presupposes freedom in the economy."

But later in that same treatise, he observes that

"qualities like self-discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity, reliable ethical standards - all these are things which people must already possess when they enter the market...Institutions which endow them with these qualities are the family, the Church, genuine communities, and traditions." (Röpke, 1955, pp.373ff)

Is the sum of these great qualities people must possess before entering the market the "average human approach" Röpke referred to earlier? And if freedom of the State presupposes freedom of the economy, where do institutions like family, church and community come in? What instruments does liberalism have to analyze such institutions with respect to the production of all these qualities? The answer must be: none. And thus either forced into adopting value positions that are scientifically alien, or rejecting these value positions although they are culturally justified, liberalism becomes isolated from two sides. Already in 1950, Röpke stated that "today everywhere people have come into the habit of associating the word 'liberalism' with an image of egoistic tightfistedness, of satiated bourgeoisness, of social insensitivity, of blindness to duties of community.." (Röpke, 1950, p.10, my translation). And he sums it all up by the claim that "*the crisis of our society is the crisis of liberalism.*" (p.13, italics in the original).

Today, the situation has not changed, only the players have. The church and socialism have lost some legitimacy as sources of value positions in the political process. Instead more academic philosophical movements, sometimes lumped under the heading of *communitarianism*, are on the rise, variously pushing for the revival of "genuine" community, of family values, of civic virtues, and battling atomistic individualism, rampant egotism, and lack of a sense of duty. The tenor is quite the same as before: the discussion is mainly about value positions, and virtually all communitarians see themselves as corrections of liberalism, not as alternatives to it⁴. A few years ago a book on Durkheim nicely summed up this situation in its title: *A Communitarian Defense of*

Liberalism (by Marc Cladis, 1992). Yet all these so-called corrections operate on the basis of a different model of man and can thus not be integrated with liberal institution building.

4. What can be done?

What is wrong with the liberal model of man that it cannot serve as a basis for the design of welfare institutions? One thing is quite obvious: There is nothing wrong with the liberal model of man that can easily be fixed. Still, unless it is fixed, it will not be possible to establish a scientific base for welfare institutions and, as existing welfare provisions come under increasing political pressure, the problem is getting worse rather than better.

Before I present my own list of gripes with a model of the pure logic of choice, let me be quite clear that I believe that for any model of man to be useful for institutional design, it must *retain* a number of core features of rational choice, prominently among them human resourcefulness, human goal-directedness and the sensitivity to changes in relative prices. Let me now present my list of what I consider to be basically wrong with the standard model and subsequently explicate some consequences for institutional design.

First, the model is not linked to a theory of preferences or human goals. As I will argue later, without a theory of goals, an assessment of human deprivation must remain within the realm of sheer value judgements.

Second, the model does not deal with the difference between short-term and long-term rationality. People are simply assumed to be farsighted. For this very reason, the standard model cannot even generate questions about the link between welfare and long-term rationality.

Third, the standard model can accommodate differences in the sensitivity to changes in relative prices only as empirical parameters of elasticities. There are no theoretical instruments to deal with such differences. As we will discuss in a moment, this has the most far-reaching consequences for questions of institutional design.

With regard to all three shortcomings of the standard model, there is a considerable amount of work done at the ICS. Let me briefly indicate the direction of this work.

Human Goals

On the basis of work done by Gary Becker, a theory of preferences has been worked out and applied in a considerable number of ICS projects. It is called the theory of social production functions.⁵ The major shifts away from the standard model are the following. Man is taken to be primarily a producer rather than a consumer. Ultimate goals are the same for mankind, namely physical well-being and social approval. There are a number of universal means for achieving these ultimate goals: stimulation and comfort for physical well-being, and status, behavioral confirmation and affection for social approval. The individual can substitute among these means, depending on relative prices. This will look like a preference change but it is only an adjustment to changing relative prices. For example, as the achievement of status becomes more difficult for retired people, behavioral confirmation and affection become relatively more important. If asked, people will find the race for more status quite unimportant and may assign this insight to the growing wisdom that comes with old age. Yet, theoretically at least, there is no preference change involved. If new opportunities for the achievement of status open up, say through the

establishment of committees of wise men to arbitrate on conflicts in the community, then the relative importance of status would increase again. If standards for right and wrong in the behavioral repertoire become less clear, it is also more difficult to know what kind of behavior is socially approved and by whom, and that increases the relative importance of affection, again without a preference change. The theory of social production functions thus shifts most of what used to be considered to belong to the realm of individual tastes into the realm of constraints and thereby into the realm of structural analysis of changes in relative prices. This, in turn allows us to work out a theory-guided criterion for quality of life in which the production of social approval plays an important role⁶. Armed with such a theory-guided criterion for the quality of life, we can also correct the incomplete contribution from the social sciences so far. For example, stratification research has been only concerned with status, mainly occupational status, completely ignoring other forms of social approval and the possibility of substituting among these different ^{to plus} ~~from~~ of social approval. Similarly, on the basis of traditional sociological story-lines, we have been accustomed to associate a climate of affection and behavioral confirmation with the image of a small village. Such an image then comes to the fore again in many communitarian writings. However, the production of behavioral confirmation and affection may take on forms that are very different from village life, and they change in response to changing shadow prices for status. In the Netherlands, living in one's own rather than a rented home in constantly increasing, as do hobbies, vacations with others, and sports with others⁷. All this does not look like traditional community life but it may be a way to produce some forms of social approval together with some forms of physical well-being. Such multi-functional activities are more efficient than separate activities and thus allow a higher level of well-being with the same resources. Sociology as a discipline has not even begun to investigate the possible forms of the production of social approval and physical well-being, let alone their various combinations.

The upshot of this section is, that we need a standard measurement of the allocation of different forms of social approval (not just occupational status) and of different forms of physical well-being (not just health) throughout the various groups in society. We need a standard national account in this respect. Without it, the government does not only have no clear picture of who is needy, but has also has no clear picture of what needs to be provided other than a modicum of financial security.

Myopia and Self-Command

There is strong evidence that people are not the farsighted maximizers assumed by the standard model⁸. One can safely say that, although people differ in this respect, people are rather short-term oriented than long-term oriented. There are two important points to be made here, one about self-command and the other about systems of short-sighted decisions. Let me begin with self-command. Given the right kind of circumstances in early childhood, it is possible to learn to govern one's own short-sighted proclivities. In this way one can get a little closer to long-term rationality built on self-command. For example, one knows about oneself, that if one goes to a particular kind of party one will drink too much and have a bad headache the next day. It is easier not to go at all than to resist the temptation once one is there. For this knowledge to govern one's behavior, certain skills are necessary. For example, the ability to imagine vividly the headache to come, the ability to play self-rewarding games for not giving in to the smaller temptation. If you don't have this skill, you may kid yourself and believe that you can resist the temptation, only to find

out afterwards, that once again you were too optimistic about that. It also takes some skill and sacrifice on the part of the parent to instill this skill, mainly because the most important ingredient is to be a living example of self-command (see Lindenberg, 1993a). The point here is not that poverty by itself would make it more likely that parents do not instill self-command into their children. Rather, the point is that parents low on physical well-being and low in the combined effect of status, behavioral confirmation and affection are not likely to be living examples of self-command to their children. With very little self-command, the children are likely to have a more difficult time to produce a fair level of physical well-being and social approval for themselves. Problems with aggression, alcoholism, excessive debts etc. are thus often socially inherited. Any welfare system that neglects the possible deprivations in social approval and only concentrates on financial security will miss this aspect, and liberal policy that concentrates mainly on the dangers of moral hazard will miss it altogether.

Institutionally Produced Farsightedness

Self-command has its limits. Real farsightedness can probably not be achieved even with good training. Much of what the standard model assumes as farsightedness is more likely a system effect rather than a behavioral capacity. For example, the choice to have children can be and has been analyzed in terms of the standard model that assumed farsightedness. Yet, it is very likely that when people make consequential and irreversible decisions, they cannot calculate the consequences and generally, they like to avoid such decision situations (see Birg et al., 1989). However, some choice situations that involve these long-term commitments have positive externalities (public good aspects). If people will not choose to take on these commitments, the public good will not be produced; for example, society will have a shortage of children, to stay within our example. When there are strong externalities within a group then there will be a demand for norms and given the right conditions, norm-entrepreneurs (say, a government, or writers, religious leaders, pressure groups etc., as the case may be) will try to establish norms for certain categories of people to choose the long-term commitment alternatives. Given that a norm for long-term commitment decisions has been established, the situation changes from one of uncertainty to one of conformity (see Lindenberg, 1983) which means that the long-term commitment and the uncertainty surrounding it do not enter the decision in any prominent way. We can predict that virtually in every society, long-term commitments with high uncertainty but strong positive externalities will be normatively expected from certain categories of people in that society. Such norms will have entered the social production functions of these people.

Ought implies can, and that means that norms for long-term commitments exert pressure for system provisions. If a person is expected to have a child without being able to see through all the consequences, then society has to see to it that the successive situations that ensue from the decision to follow the norm, can be handled; that there are health provisions for children, educational provisions, creche provisions etc. and that there will be understanding and social support for the kinds of problems that come up in carrying through with the decision. For the individual, it will look like a quick mental run-through into the future and therefore involve farsightedness. In fact though, we are dealing with a system that at least partially removes the need to be individually farsighted. Seen in this light, real farsightedness is the result of the systematic concatenation of short-sighted decisions. Farsightedness is thus a social result, and that can go wrong. Teenage-

motherhood in the United States has been calculated to be very costly to society, because none of the subsequent outcomes are aligned. Merton's analysis of anomie as a misalignment of culturally prescribed goals and legitimate means goes in the same direction. The conclusion from all this is that institutional design has to include this aligned concatenation of short-term decisions rather than the cognitive assumption of farsightedness.

Framing Effects

In the standard model, there is no room for situational changes in the weight in which factors influence the decision. In the traditional sociological literature, the definition of the situation played an important part for the determination which aspects of the situation were prominent and relevant. However, that insight was not linked to a theory of goal-directed behavior under constraints. What we need is a change in the standard model so that it can accommodate the sociological insight. This has been done and the result is called framing (see Lindenberg, 1993b). The most important feature of framing is that certain costs and benefits are pushed into the background and lose much of their influence on the decision. For example, if a friend of yours comes and asks for help then the friend's need is very prominent and the value of your time or your money is considerably lower than when you are, say, in the super market. This mechanism is crucial for the understanding how rule conformity works. For legitimate rules, the cost of conformity and the benefit of non-conformity are both pushed into the background. Writers have long referred to the goal of governments to transform a rule of might into a rule of right, implying that in a rule of might the costs of conformity and benefits of non-conformity are keenly calculated and thereby create much higher enforcement costs than when these aspects are pushed into the background. In fact, institutions would not work very well in the first place, if this were not the case. Institutional analysis that negates framing effects are thus very incomplete in the sense that they miss the point that for institutions to work, frames have to be established and maintained (see Lindenberg, 1992). This insight also applies to a quick transfer of institutions from the West to the East. What do governments do to establish and maintain frames for the workings of institutions? I will single out one aspect: solidarity.

Solidarity

In this regard, it is quite wrong to speak of solidarity as if it was something that holds society together. The crucial question is not whether we need solidarity but what kind of solidarity. There are two important distinctions with regard to solidarity: strong/weak, and horizontal/vertical. Let me briefly say something about both, in that order. Strong solidarity is linked to the importance of the group and one's duty to contribute to the common good. Within the clear group boundaries, costs of contributions, individual differences in the amount of contribution and gains from others in the group are pushed into the background. Equality is important unless there is a strong inequality in need. Weber has already pointed to the fact that strong solidarity within groups creates strong opportunistic behavior between groups (see Lindenberg and De Vos, 1985). Thus everything that reinforces strong solidarity within, also reinforces opportunism without. In market societies with complex contracting, strong solidarity within and opportunism without will be simply bad for business. Solidarity among groups must be accompanied by a weakening of internal cohesion. What is especially important is that gain and relative contributions are not pushed into the background. Equity, not equality is then the important distributional

principle. Institutions must be screened for their impact on the frames of strong versus weak solidarity. If a government cannot produce justice for certain groups, then it will unwittingly encourage strongly solidarity and thereby also opportunistic behavior (see Lindenberg, 1992). Liberals, afraid of the exploitation of welfare institutions at the expense of the tax payer, often push for privatization of charity and for local self-help initiatives. By so doing, they, probably unwittingly, push for a strengthening of solidarity within and opportunism between groups. Weak solidarity frames are basically gain frames in which gain seeking at the expense of others is kept in check by relational concerns. Weak solidarity thus encourages potentially profitable contracts extended in time and it can only be established if conditions making for strong solidarity in subgroups can be removed. This means that income differences must be constrained and there must be a fairly secure government-provided safety net⁹, both in terms of justice and in terms of material provisions, including some entitlements¹⁰.

There always must be horizontal solidarity. But we must also give attention to the importance of vertical solidarity between age groups, between hierarchical levels, between income groups. Without vertical solidarity, institutions that are supposed to govern organizations will not work properly and other institutions which imply redistribution from one group to another, such as old age provisions, may be in danger of being broken down. It has been observed that as the size of organizations increases the chance that even the craziest guy will find somebody similar to gang up with increases quickly (see Lindenberg, 1977). Large organizations will thus reduce ~~horizontal~~ ^{vertical} solidarity. Probably the most damaging effect of this kind is produced in schools because it is here most of all that ~~horizontal~~ ^{vertical} solidarity can be established as a useful pattern. The Netherlands has followed the American example of merging smaller schools into larger ones for cost effectiveness. It is expected that by the end of 1996, the Netherlands will have 1150 schools less than five years ago. This is a tremendous rate of scale increase. How do we know that money is saved? The effects of scale increase in schools is normally only measured in writing and math skills. There is little concern for the production of vertical solidarity in schools and as of now, there is also no way of measuring this effect. However, one major reason that research is so backward in this regard is that the liberal political and economic institutions have fostered a model of man for which these aspects are only marginally important.

5. Conclusion

Let me conclude and make it short. Institutions building has been split. Political and economic institutions have been built on a fairly sound scientific basis whereas welfare institutions have been built on the basis of value positions which are articulated in the political process. This way it is impossible to formulate trade-off relations in times of scarcity between adjustments in the various realms of institutions. The reason for this is that the liberal model of man, the standard model of rational choice, is incapable of yielding useful insights about welfare provision. This model needs to be adapted in order to create a scientific base for welfare institutions. I have tried to show some directions in which this might happen. If one follows this way, then two conclusions stick out. First, institutional design should be much more integrated. We should be able to estimate, even roughly, the welfare implications of, say, increasing the size of schools. Second, we need to change the national accounting to include prominently the various forms of physical well-being and social approval. Without such an account, we cannot even hope to come to an integrated approach to institutional design and to an end to the crisis of liberalism.

NOTES

1. See Sociale en Culturele Verkenningen, 1995 and 1996.
2. Of course, there are important differences between countries (and especially between Europe and the United States) how this happened (see for example Leibfried and Person, 1995; Skocpol, 1995). Nonetheless, the confrontation of "moralistic" arguments with "scientific" arguments about the functioning of human beings (moral hazard) and the market can be found in all Western societies.
3. Marx and Engels effort to establish a "scientific" socialism can be seen as the attempt to offer an alternative for the strong link between liberalism and economics. In the West, it never succeeded in this role, but it strongly invigorated anti-liberal value positions.
4. See the Etzioni's useful selection of communitarian arguments (Etzioni (1995)).
5. See Lindenberg 1986, 1991, 1996.
6. See Ormel et al. 1996.
7. See Sociale en Culturele Verkenningen 1995 and 1996.
8. See for example Loewenstein and Elster, 1992.
9. This establishes an argument of a strong political component for economic functioning (see Leftwich, 1996; Lindenberg, 1992; March and Olsen, 1995).
10. Notice that this argument for some level of entitlements is functional, not moralistic (see Goodin (1988) for a contrasting argument).

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