

Kritikos, Alexander S.; Bolle, Friedel; Tan, Jonathan H. W.

**Working Paper**

## The Economics of Solidarity: A Conceptual Framework

Discussion Paper, No. 233

**Provided in Cooperation with:**

European University Viadrina Frankfurt (Oder), Department of Business Administration and Economics

*Suggested Citation:* Kritikos, Alexander S.; Bolle, Friedel; Tan, Jonathan H. W. (2005) : The Economics of Solidarity: A Conceptual Framework, Discussion Paper, No. 233, European University Viadrina, Department of Business Administration and Economics, Frankfurt (Oder)

This Version is available at:

<https://hdl.handle.net/10419/23805>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

## The Economics of Solidarity: A Conceptual FrameworkTitle

Alexander Kritikos  
Friedel Bolle  
Jonathan Tan

---

European University Viadrina Frankfurt (Oder)  
Department of Business Administration and Economics  
Discussion Paper No. 233  
2005  
ISSN 1860 0921

---

## The Economics of Solidarity: A Conceptual Framework

Alexander S. Kritikos§, Friedel Bolle, and Jonathan H.W. Tan\*

Lehrstuhl für Volkswirtschaftstheorie, insb. Mikroökonomie  
Europa-Universität Viadrina, Frankfurt (Oder)

**Version: January 2005**

### Abstract

For many people “solidarity” has become a meaningless word used in slogans – too often used without leading to any economic consequences. We show in this paper conditions under which solidarity can be a powerful instrument. In a solidary action, an individual in a group contributes to a series of actions that aims for a reallocation of scarce resources. The willingness to contribute is mainly influenced by the efficiency of the objective of the solidary action, and is enhanced by feelings of mutual exchange (solidarity) within a group.

*JEL classification:* D60, D71, H40

*Keywords:* solidarity, altruism, dynamic, mutual.

---

§ Correspondence: Lehrstuhl für Volkswirtschaftstheorie, Große Scharrnstr. 59, Europa-Universität Viadrina, 15230 Frankfurt (Oder), Germany. Tel./Fax: +49.335.5534-2231/-2390. Email: kritikos@euv-ffo.de.

\* Acknowledgements: We are thankful for the invaluable comments of an anonymous referee. We also gratefully acknowledge the financial support of the Deutsche Forschungsgemeinschaft.

## I Introduction

Calls to “behave in solidarity” are often ignored. However, commitments to solidarity have drastically changed societies – in many instances a matter of life or death. Gide (1987) records: to contend with the Nile floods, Egypt’s inhabitants mutually cooperated in labor and cultivation. The struggle against the uncontrollable power of nature led individuals into solidarity.

What is “solidarity”? By lay definitions, it is an “implicit agreement of many individuals as of a group. [It calls for] complete unity as of opinion, purpose and interest” (Webster’s (1980)). St. Paul suggests, “We are all members of one body”. In this stride, the School of Solidarity’s doctrine states: this growing *interdependence* of commitment between individuals and peoples is a harmonic law<sup>1</sup>; the solution of the social question must be sought in the continual development of solidarity, especially in *cooperation* in all its forms.<sup>2</sup>

Hechter (1987), amongst other sociologists, asserts that individuals’ actions are decisively affected by the groups to which they belong. Several *different* approaches to group solidarity are provided in the sociological literature – many of which focus on groups rather than individuals. According to Hechter (1987, p. 39), “[a] group is solidary to the degree that its members comply with corporate rules in the absence of compensation.” Hechter further argues that “each of the principal sociological approaches to the problem of group solidarity is inadequate”, since they “fail to explain how public goods (like social order) are produced” when potential contributors have the chance to free ride.

On the other hand, in economic literature, “solidarity” is used in an *ad hoc* fashion with no agreement on a clear definition. Compare and contrast the following two cases, both from experimental studies. Selten and Ockenfels (1998) claim that “subjects can show solidarity in the sense that they are willing to help *others* who by chance came to a much worse position than they themselves”. Orbell, van de Kragt, and Dawes (1988), however, measure “solidarity” as the difference between contributions to a social good benefiting the *own* group (of contributors), and contributions to a (different) social good benefiting others.

Arnsperger and Varoufakis (2003) provide a restrictive but insightful definition of solidarity. They define “ $\sigma$ -solidarity” as an act directed towards a “target group”, when the following four conditions apply. I: (personality-invariance) the personality of target group members cannot influence the solidary act. II: (condition-specificity) the target group is identified solely on the basis of an unfavorable condition. III: (belief-irrelevance) such acts cannot be motivated by the desire to impress others or conform to their expectations. IV: (non-instrumentality) it must not be

<sup>1</sup> Tan and Zizzo (2003) reviews experimental evidence on how such harmony may be measured based on the interdependence of payoffs, and how payoff transformations may be explained by an inducement of common fate.

<sup>2</sup> Typical objections of individualistic approaches to this doctrine are that ‘the only solidarity discoverable in the world is that of mutual exploitation’ and that this doctrine is in opposition to competition - the basis of economic development in capitalist economies.

performed in expectation of reaping future personal benefits. They further define “radical  $\rho$ -solidarity” as a consistent *or* an evolutionary consequence of a series of interactions between benefactor and beneficiary, when the beneficiary is subject to the social power of the benefactor.

These definitions are intuitively appealing. But, they are not by themselves instructive as to what solidarity can do. When is it a powerful instrument? What process implements it? What conditions influence solidary actions? What results from it? It is therefore useful to develop a framework of solidarity. Nevertheless, our analysis essentially considers these definitions.

This paper is motivated by anecdotal evidence. We infer, from a set of historical facts, a substantively significant relationship between socio-economic conditions, observed actions and outcomes. These observations are neither a collection of unexplainable phenomena, nor are their explanations based on disjoint concepts. History teaches us that solidarity: i) is motivated by emotions; ii) requires collective action; iii) must have consistent objectives and outcomes; iv) evolves and disappears; v) differs when voluntary or involuntary, and; vi) depends on who benefits from it. A typology of economic concepts organizes the salient features of each historical account. In turn, these economic concepts may be comprehended in unison as “solidarity”.

Our analysis adopts a decision theoretic approach. Here, solidarity is a dynamic concept. It is a *process* of mutual exchange, powered by emotion (in particular, altruism). Put simply, solidarity is a series of *collective actions*<sup>3</sup>. For collective action to be taken, individuals must be sufficiently motivated to depart from selfishness. Collective action is a necessary condition for “solidarity”. By no means is it a sufficient condition.

Other conditions are required to sustain<sup>4</sup> and/or promote solidarity. First, the consequence of a solidarity movement must be consistent with its intended target (e.g., social efficiency). Next, it makes a difference if solidary actions are induced voluntarily or involuntarily. Solidarity depends also on whether its benefits accrue to those within or outside of the group, and the relations between them. Solidarity can vary with group sizes. We expound on this below, by first describing these concepts, and then linking them using a formal model.

The explanation we offer in this paper is derived from the statement of solidarity as “a matter of life or death”. It explains any rise and fall of solidarity actions. If we interpret “life and death” in today’s context, the closest approximation might be social efficiency. We show that, under certain conditions, the probability of a solidary action increases with its efficiency. In turn, as soon as the efficacy of the action decreases, the solidarity movement loses support. In addition,

<sup>3</sup> That is, acting on decisions made as a collective unit (c.f. Etzioni, 1988). Our paper therefore investigates the robustness of collective decisions, as manifested in the actions of the members of the collective.

<sup>4</sup> See for e.g. Hechter (1987) who offers a new theory on the question how to sustain solidarity.

we will show that solidarity vanishes in a world where people are no longer dependent on one another, i.e. where fewer socially efficient actions are possible. Our approach departs from earlier approaches taking solidary behavior as a given necessity – sustained by different kind of coercive policies. Instead, we *endogenize* the reason to behave in solidarity.

Section II presents the anecdotal evidence. We discuss its relevance, and motivate a clarified theme of solidarity. Section III translates the connotations from the anecdotal evidence into economic concepts. They serve as building blocks for an economic model of solidarity. Section IV presents a dynamic utility function for a general class of solidarity games. It allows us to explain the conditions for an individual to contribute to a solidarity action. Section V concludes.

## II Evidence and Motivation

### A. Evidence from solidarity movements

*Communism and Liberalism.* History shows that due to its necessity, solidarity gradually becomes institutionalized. Examples include co-operatives built over the last centuries to share common properties or tools amongst members. Such institutions culminated in the 20th century to the enlarged civil, public and social order of a society. Within these social rules, modern liberalism promotes “everyone for himself” as a central behavioral concept. At the turn of the 21st century there was, therefore, an increasing number of “pop-liberals” who doubted the necessity to pay any attention to a word on which the entire doctrine of their strongest antagonist, the communist society, was based on.

Solidarity, in the sense of “one for all and all for one”, is a conflicting precept. In communist societies, solidarity was desired between the communist party and the working class. The target of this unity was to realize the “historic mission” of “outrunning without overtaking the capitalist society”. Leading ideologists proposed that solidarity would be the strongest existing motivating power of the working class, due to its social position, its historic task, and its intellectual power. They also stressed a class division of solidarity, due to this particular motive in the working class<sup>5</sup> (cf. Hechter (1987)). In practice, however, the working class displayed no willingness to realize the communist targets. This failure led to the artificial substitution for solidarity by obligatory cooperation – to which the working class fatalistically resigned itself and with all the known consequences for the communist economies.

<sup>5</sup> In order to ensure solidarity from the working class, workers were taxed less than others, given equal gross wages.

*Polish Solidarnosz.* It is a historical irony that one important voluntary social movement among the communist societies – the Polish trade union “*Solidarnosz*” – struggled *against* the communist doctrine of solidarity, the unity of state, party and working class. This movement showed that communist parties were not successful in representing the interests of the working class, and that solidarity may be target-dependent, rather than class-dependent (closely agreeing with Arnspenger and Varoufakis’s (2003) definition of condition-specificity).<sup>6</sup> The actions of *Solidarnosz* are, moreover, central in explaining the roots of the systemic transformation of socialist into pluralist societies.

*Solidarnosz* showed that the principle power resource of the weak was their collective mobilization into social movements. Movements based on solidarity motives have tremendous economic consequences: the transition of the communist into capitalist economies is nothing else than the dramatic switch from one set of social rules to another. It induced one of the most important economic changes in the world of the 20th Century – and the social order of an economic system that was based on coercive solidarity.

*Solidarity Wage Policy.* Solidarity was also a central motivation for trade unions in capitalist countries (in particular Sweden, and also in Central Europe and the United States). The “Solidarity Wage Policy” of the 1960’s and 1970’s was the attempt of major unions to reduce wage dispersion (inequality), using the economic power of well-organized strikes<sup>7</sup>. Wage inequalities were narrowed, especially in Sweden (c.f. Edin et.al. (1993)).

The declining trend in wage inequality was broken in the mid-1980s. Wage differentials were widened again when right-winged governments came into legislative power in most of these countries. Nevertheless, the solidarity wage bargaining lasted for more than 20 years, driven by the egalitarian ambitions of strong and coordinated trade unions. Ultimately, however, they were confronted with the reproach that their wage policy was counterproductive in general to the whole economy, and in particular to the less educated workers – those who should profit from the Solidarity Wage Policy. Many of these workers are presumed to have lost their jobs because their productivity increase was more than overcompensated by their wage increase.

The success of solidarity relies on the plausibility of its objectives and its consistency with the consequence it yields.

<sup>6</sup> Solidarnosz closed the gap between the narrowly defined classes, since the unity was built between the working class and professionals like e.g. engineers, cf. Kennedy (1991). For a historical introduction into the early years of this movement, c.f. Touraine et.al. (1983).

<sup>7</sup> For a detailed discussion on “strikes and solidarity”, esp. in England, cf. Church and Outram (1998).

**The Harrisburg and Chernobyl Incidents.** Solidarity caused another dramatic change in the German economy. Following the Harrisburg and Chernobyl incidents, weekly demonstrations and riots, at places where nuclear waste should be deposited, brought about the question of an optimal energy policy mix to the attention of the broad public. This successfully stopped the building of a reprocessing plant in Wackersdorf, lower Bavaria, and also prevented the further construction of nuclear power plants.

An institutionalization of this movement was realized when the Green Party was founded; twenty years later it achieved governmental power. It is quite ironic that once elected, the party had much more difficulties carrying out its goal, i.e. the exit from the nuclear energy production.

One reason may be that supporters deemed solidarity on the streets to be unnecessary, after the electoral success of their party in parliament. The shift of solidarity from a *voluntary* to *involuntary* movement led to a decrease in solidary action.

**Reunified Germany.** Solidary feelings are challenged when people are obliged to co-operate through coercive tax payments or insurance in order to finance the Welfare State. Examples include England, France, Germany, and Scandinavia.<sup>8</sup> After the Iron Curtain's fall, taxpayers in Germany are forced to pay a Solidarity Tax, for financing the reconstruction of East German infrastructure. Solidarity is even used in attempts to justify why poorer countries should receive monetary compensation from the richer countries (e.g. within the European Community). Meanwhile, these welfare states face economic problems arising from such coercive payments. Those obliged to pay would rather call this solidarity "exploitation".

**Pledge of supports.** One may question the concept of solidarity in situations where it has neither economic nor political – not even personal – consequences. Innumerable solidarity addresses were sent to extorted workers in third world countries who even did not get to know that there were some fellows somewhere in Europe whose minds were full of solidarity feelings towards them.<sup>9</sup> However, people who did not contribute to these solidarity addresses because they thought them as meaningless were often attacked as uncompassionate or cynical.<sup>10</sup>

## B. Motivation: organizing the evidence

When the pieces of mosaic are put together, we have a dazzling image of what solidarity could be. First and foremost, collective action is required for the success of a solidarity movement.

<sup>8</sup> For an overview, cf. Baldwin (1990).

<sup>9</sup> Sometimes the evoked international solidarity was nothing else than a euphemism for the financial support of terrorist alliances that was organized at the same time.

<sup>10</sup> Hechter (1987) provides further evidence based on historical facts.

Collective action is, however, not found in *any* (attempted) solidarity movement. A successful solidarity movement must motivate *a continual series of* collective actions, as a means to an end. In other words, collective action is a necessary condition for solidarity, but it is certainly not a sufficient condition. A collective action must contribute to an outcome that fulfills its objective. Such are successful solidarity movements that bear consequences on individual and society, as history shows. In contrast to the *Solidarnosz* case, in Western countries, strikes and wage policies based on solidarity failed because they led to wages disadvantageous to those who were supposed to benefit from this specific wage-level. Thus, volunteered solidarity sometimes has no consequence either, at least for those who were *supposed* to benefit from the solidary action. Also, solidarity movements that gained administrative power lost their influence after their institutionalization. If solidarity is connected with a system of coercive payments, those who have to pay often *feel* exploited – highlighting the role of *emotions* in solidarity movements. It matters "to whom the benefit accrues to". We delve deeper into the interaction of these elements, the process, and its consequences below.

## III Elements of Solidarity

### A. Objectives and outcomes

**Emotions as motivations: objective and subjective utility.** What induces one to perform a solidary action? Consider the following utility function,

$$(1) \quad U_i = \sum_j a_{ij} E_j, \quad i = 1, 2, \dots, n, \quad j = 1, 2, \dots, n.$$

*Egoists* have *objective* utility functions, i.e., with weights  $a_{ii} = 1$  and  $a_{ij} = 0$ , for  $j \neq i$ : they maximize only individual income  $E_i$ . *Altruists* have *subjective (other-regarding)* utility functions<sup>11</sup>, in the symmetric case with weights  $a_{ii} = x$  and  $a_{i-i} = 1 - x$ , for  $j \neq i$ ; they aim to maximize  $E_j$ : in addition to individual income, other individuals' incomes matter.

The public good situation is a classical case of social dilemmas. Here, a costly individual contribution yields a non-excludable return to every member of the group.<sup>12</sup> The total utility of such individuals may increase when they make an altruistic or a reciprocal choice, even if their

<sup>11</sup> Of course it is always worthwhile to discuss if decision-makers consciously rely on their utility functions in making choices. If so, then one may argue that the altruistic act is no less than a self-serving instrument. Instead, one may see it metaphorically, as a tractable modeling tool, one that perhaps captures preferences as revealed by actions. We do so below.

<sup>12</sup> In the classical paradigm of the homo oeconomicus, self-interested individuals prefer to enjoy the benefits of the public good while others, not themselves, incur the costs of provision. We restrict this to cases where the worth of the public good to an individual is less than the cost of provision, and the returns to the public good summed over all individuals is worth more than the cost of provision. If all individuals reason alike, this being common knowledge, no contributions are made (Palfrey and Rosenthal (1983)). This free-rider problem results in inefficiency, and arises from the (intra-group) conflict between individual and collective objectives.

monetary payoff is reduced by such action. With a sufficient extent of similar motivations and decisions of others, monetary payoffs will also increase for all.<sup>13</sup> In social dilemmas, altruism (egoism) leads to (non-)cooperation and (in-)efficiency.

*Reciprocity*-motivated individuals are *not* described by (1), or at least not by (1) alone. They face an impact of another individual's *previous* action on their utility function. Similar to *reciprocal* exchanges between two persons, there is also a mutual relationship between potential contributors to a solidarity action. While a reciprocal relationship between two persons usually concerns the mutual exchange of a *private good* against another, group cooperation can be characterized either as a contribution to a *social (public) good* to which some (all) potential contributors have access. Reciprocal feelings may arise to the extent that the decision of a person to contribute may depend on the contribution of others.

Treating solidarity as a mutual exchange follows Macneil's (1986) anthropological discourse. He argues that although there is a tension between individual and collective, exchange enhances individual utility and social solidarity. In this paper, we depart by emphasizing on the dynamic nature of solidarity. With this, we show the conditions under which such a process is stable and viable. Macneil further provides a categorization of different "types of reciprocity" in different classes of "primitive societies". The mathematical argument we present allows a generalization of such conditions. It further offers predictions of when solidarity can be expected, varying under different conditions.

An isolated solidarity action can hardly be distinguished from *altruism*: for donation this is more apparent than for cooperation because the temporal distance between giving and (possibly) receiving is larger. Altruism between all members of a group supports solidarity actions. Altruism between two members supports reciprocity.<sup>14</sup> Nevertheless, altruism and solidarity are not necessarily *the same*. While altruism can be one-sided (e.g. from parents to children), solidarity requires mutuality. In section IV we describe, by means of a dynamic process, what patterns of mutuality are required for solidarity.

**Voluntary versus involuntary contribution.** Our anecdotal evidence stressed on the importance of distinguishing between voluntary and involuntary (i.e., coercively, or under obligation) movements.<sup>15</sup> Institutionalizing a solidarity movement, when its initial objectives have already been achieved at time  $t$ , ceases to provide an intrinsic motivation at time  $t + 1$ , i.e.  $a_{ij}^{t+1} = 0$ . On

13 A complementary explanation is team-reasoning: individuals who identify with the group act as a profile optimal for the collective's objective, instead of individual objectives (Bacharach, 1999).

14 Kritikos and Bolle (2001) analyze and show the importance of altruism as well as reciprocity in two-person games.

15 There are also hybrid forms like peer group lending where the solidarity action is connected with an incentive compatible contract. For more details, cf. Morduch (1999) or Kritikos and Vigenina (2005). For a distinction between co-operatives and peer group lending, cf. Krahnen and Schmidt (1994).

the other hand, if the objective has not yet been achieved, or continual action is required to maintain the movement's success, at least a proportion of individuals might remain "voluntarily" committed to the movement. The effect of (de-)institutionalization can be modeled simply as a shift of the altruistic payoff transformation, denoted by  $\psi$ . With

$$(2) \quad a_{ij}^{t+1} = \psi(a_{ij}^t),$$

(de-)institutionalization bears a negative (positive) effect if  $\psi' < 0$  ( $> 0$ ). Frey (1997) calls this the "crowding out (in) effect". "Solidarity" is "a meaningless word in a slogan" when  $a_{ij} = 0$ .

Nevertheless, voluntary and involuntary contributions are strongly connected, at least fundamentally. By sufficient education, the obedience to certain collective rules may turn into spontaneous cooperation because educated individuals may feel morally committed to this kind of cooperation (c.f. Etzioni (1988) for moralistically driven action).<sup>16</sup> Our formal analysis therefore presents the more general case of voluntary contributions to a solidarity movement.

**Three orders of social goods.** The *aim* of the solidary action itself, i.e. the *social good*, must be analyzed. The social good can be one of three types.

When the group aims to collect contributions in order to produce a productive social good it is called a *first order social good* (e.g. building a road). It should be provided if, by sufficient contribution, its production directly increases the utility of its users. Willingness to contribute increases with its efficiency. Assume that the marginal return from the social good is constant with increasing contributions.<sup>17</sup> Efficiency increases with the number of contributors, and the amount each contributes. This can be measured in terms of utility or even monetary increase. Formally, let  $T_{ij}$ , the increase of  $j$ 's income caused by  $i$ , be  $E_j = \bar{E}_j + \sum_i T_{ij}$ . Contributing to a social good means  $T_{ii} < 0$ ,  $T_{ij} > 0$ . The contribution is efficient if  $\sum_j T_{ij} > 0$ .

When the group aims to redistribute scarce resources to achieve an equitable distribution, it is called a *second order social good* (e.g. social health insurance). The objective is therefore to decrease

$$(3) \quad |E_i - E_j|,$$

where  $E_i$  and  $E_j$  is the income of individual  $i$  and  $j$ , respectively. A second order social good might or might not improve efficiency. Consider the following. Let the initial incomes of  $i$  and  $j$

16 For a model discussing possible influences of education on social norms, solidarity behavior and the voluntary adherence to collective rules, cf. Kritikos and Meran (1998) who describe how the compliance to social norms (which ought to correspond to the basic laws of a society) generates utility.

17 As assumed in all experiments conducted on the private provision of a public good. For an excellent overview over the experiments on public goods, cf. Ledyard (1995).

be  $\bar{E}_i$  and  $\bar{E}_j$ , respectively. Now let  $T_{ij} = \tau(T_{ii})$ , and  $T_{ik} = 0$ ,  $k \neq i, j$ , where  $\tau$  is the transfer rate, i.e. each unit  $j$  receives from  $i$  is worth  $\tau$  units of income. Then  $E_i = \bar{E}_i + T_{ii}$  and  $E_j = \bar{E}_j + T_{ij}$  are the final incomes of  $i$  and  $j$ , respectively. Contribution to a second order social good is efficient when  $\tau > 1$ , so  $T_{ij} > T_{ii}$ , i.e. welfare improves if the beneficiary's benefit outweighs the benefactor's cost. When  $\tau < 1$  ( $= 1$ ), there is a deterioration of (no change in) welfare. This links first and second order social goods.<sup>18</sup> As an example, assume that  $i$ , a computer expert, helps  $j$  who is a layman. One hours help of  $i$  may save  $j$  an amount of  $\tau = 5$  hours of  $j$ 's working time. Also,  $j$  may help  $i$ , even with computer work, namely if  $i$  has a small income and is overloaded with work. In such a case,  $E_j - E_i$  as well as  $E_j + E_i$  decrease. Note that the aim to decrease  $|E_j - E_i|$  does not suit very well to (1): it requires a nonlinear approach such as found in Bolton and Ockenfels (2000) or Fehr and Schmidt (1999).

When the group aims to change a third party's uncooperative behavior into cooperative behavior, by punishment (or threats), it is called a *third order social good* (e.g. a strike against unfair employers). For this, the utility function of contributors may contain two components. The first component is utility derived from a successful punishment of a third party. This leads to an increase of the subjective utility of its members. The second component is the expected utility increase when the third party's behavior changes.<sup>19</sup> The latter motivation results in a violation of Arnsperger and Varoufakis's (2003) non-instrumentality condition, *unless* the utility increase accrues to those other than the punishers, or punishment is conducted under anonymity. Fehr and Gaechter (2002) call this "altruistic punishment".

A third order social good further distinguishes itself from the first and second order social goods with the risks involved in attaining it. In the long run, credibility requires that threats, if necessary, be carried out (see also Bolle (1995)). It is important that actions are coordinated, for a successful provision of a second order public good. Moreover, political movements against governments, regimes or tyrants face an additional risk that is negatively correlated to the degree of solidarity existing among the population of a society. The less successful the movement is, and the less democratic the regime is, the higher the probability that members of a movement will be punished by the executive power of the regime. Thus, the subjective utility of solidarity-behaving persons is increased only with a certain probability. It is, therefore, reasonable to conclude that a solidarity movement is riskier if it is pointed against a third party.

<sup>18</sup> This approach requires caution when altruism and fairness are separable motivations (c.f. Tan and Bolle, 2004).

<sup>19</sup> Employers may raise the wages or give employment guarantees. Governments may change their policies in favour of the demonstrators. Regimes may resign. Monopolists may decrease their selling prices. Producers may change their production methods.

## B. Actions: cooperation and donation

We derive two different types of solidary *actions*, implicit in the normative descriptions from the existing economic literature.

*Cooperation.* Solidarity may exist *within* a group. In social dilemmas, a group member  $i$  may reduce his own income (i.e.  $T_{ii} < 0$ ) in order to increase the income of group members  $j \neq i$  by  $T_{ij} > 0$ . A *superior state* is reached when all group members contribute, and  $\sum_j T_{ij} > 0$ .<sup>20</sup> We call

this action "cooperation".<sup>21</sup> An example is participating in a strike.

*Donation.* Solidarity may also exist *between* groups. When a member  $i$  of one (sub-)group reduces his own income in order to increase the income of members  $k$  of *another* (sub-)group by  $T_{ik} > 0$  (perhaps because they were disadvantaged by Nature's choice). We call this act "donation". An example is contributing to earthquake victims. Donations need no counter-action or joint attempt to increase everybody's welfare. The counter case is "spite", where  $a_{ik} < 0$  and the effect is a decrease in  $k$ 's income  $T_{ik} < 0$ .

In the long run, or if we assume decisions under the veil of ignorance of one's position in the world, donation is simply an aspect of cooperation (similar to Macneil's (1986) notion of a *gift*). As we will see in section IV, donation is from the contributor's point of view (at least for those who think in terms of efficiency) the limiting case of cooperation. For generality, the analysis in section IV defines an action simply as: a *choice* between taking an "action" or to "do nothing". A solidary action is, after all, one that contributes to the desired net effect on social welfare.

## C. Group sizes, strategic and non-strategic behavior

What are the differences between mutual exchange *within a group* and reciprocal one-to-one relations? In order to discuss this we first distinguish between small and large groups. We then distinguish between strategic and non-strategic behavior.

*Small groups* characterized by individual knowledge of one's co-members, and perfect observability of the source of income transfers does not seem to be very different to one-to-one relations. This is *not true* if actions are anonymous, and/or have consequences for all members of a group. An example is the distribution of non-durable food, of which some members have an

<sup>20</sup> This means at the same time that we do not have in mind aspects of solidarity which are explained as 'multiple-win-situation' for all participants where contributions are or seem to be individually rational where  $T_{ii} > 0$ , like within clans (cf. Ouchi, 1980). Typical examples are xenophobia (cf. Kulczycki, 1994), quotas, or public contracts with a loyal party (and not with the lowest cost offer) which is usually called corruption. Although we do not explicitly exclude in our approach all group formations which aim to restrict economic competition at the cost of third parties, we will not discuss this topic any further.

<sup>21</sup> Lindenberg (1988) asserts that poorer groups in a society are more ready to make use of the mobilization of solidarity movements because they have less access to public goods.

oversupply. Small groups can be viewed as an intermediate case between a large group and a one-to-one relation.

Anonymous relations typically characterize *large groups*. One might know the consequences of his action for the group as a whole, but one does not know how much an individual member gains or loses. Similarly, he might know how much he gains or loses by the action of the group as a whole, but he does not know the influence of an individual member.<sup>22</sup>

If the members of a group do not consider the behavior of others, but decide on the basis of the present or expected state of the world, they act *non-strategically*. Otherwise they behave *strategically*. Non-strategic behavior is more likely as group sizes increases and observability decreases. For completeness, we consider both cases in section IV. The typological distinction is made clearer there.

## IV Solidarity: A Model on Group Exchange

### A. Non-strategic behavior

#### 1. A small group

If we assume that individuals behave non-strategically, solidarity is modeled as an individual choice problem. In all periods  $t = 0, 1, \dots, \Omega$ , individual  $i = 1, \dots, N$  of a group chooses between two decisions: “do nothing” or “action”. The decisions determine his own income  $E_i$  as well as the income of others  $E_j$ ; here  $j \neq i$ .  $i$ 's behavior is motivated by the objective to maximize an interdependent utility function  $U_i^t = \sum_j a_{ij}^t E_j^t$  as defined in (1).  $a_{ij}$  can be interpreted as an

altruistic payoff transformation coefficient.  $a_{ii}^t = 1$  is a normalization. This implies the assumption that non-normalized  $a_{ii}^t$  are positive.  $a_{ij}^t \geq 0$ , depending on whether  $i$  feels altruistic, neutral, or spiteful, respectively.

If Individual  $i$  decides to “do nothing”, the income of all individuals stay unchanged. If he decides to take an “action”, constant transfers  $T_i = (T_{ij})_{j=1, \dots, n}$  are added to the income vector of the individuals  $j = 1, 2, \dots, n$ . In general,  $T_i$  is determined *ex ante* by a random process. Individuals decide under the knowledge of  $T_i$ . In case of small groups, we assume that  $T_i$  is constant, i.e.  $T_i^t$  is the same for all  $t$ .  $T_{ij} \geq 0$ . In other words, positive as well as negative consequences are possible for all individuals. If  $T_{ii} < 0$  and  $T_{ij} > 0$ , we would call this action – if taken – an altruistic act. (1) implies that  $i$  decides based on the value of

<sup>22</sup> An important experiment on this kind of public good provision was conducted by Isaac et.a. (1994) who tested the willingness to contribute in large groups and found that this willingness increases as the number of participants in a group is increased.

$$(4) \quad \tilde{U}_i^t = \sum_j a_{ij}^t T_{ij}^t,$$

If  $\tilde{U}_i^t < 0$ ,  $i$  will “do nothing”, otherwise he takes “action” with consequences  $T_i^t$ , by the condition of (subjective, other-regarding) individual rationality.<sup>23</sup> We indicate  $i$ 's *decision rule* as

$$(5) \quad 1_i^t = \begin{cases} 0, & \text{"do nothing" if } \tilde{U}_i^t < 0 \\ 1, & \text{"action" if } \tilde{U}_i^t \geq 0 \end{cases}$$

A non-strategic kind of reciprocity is introduced as a dynamic process which changes the coefficients  $a_{ij}$ ,  $j \neq i$ , with respect to the behavior of the other individuals. Let

$$(6) \quad a_{ij}^{t+1} = \delta_i a_{ij}^t + \gamma_i T_{ji}^t 1_j^t, \quad j \neq i$$

with  $0 < \delta_i < 1$  and  $\gamma_i > 0$ . Here, the coefficient  $a_{ij}$  also accounts for depreciation and updating. The may be positive or negative, depending on the transfer  $T_{ji}$  of group member  $j$  to  $i$ . Action made in a current time period is thus modeled as a consequence of altruistic preferences, and, by (6), the consequence of everybody else's actions –in the previous periods.  $a_{ij}$  is therefore an endogenous variable governed by the dynamic process. Solidarity is described by (1), (4) – (6) as a mutual exchange within a group. The motive underlying this mutual exchange is dynamic altruism.

What should we expect from this process of mutual exchange, given time? Rearranging (6), we get

$$(7) \quad a_{ij}^t - \delta_i a_{ij}^{t-1} = \gamma_i T_{ji}^{t-1} 1_j^{t-1}.$$

The homogeneous equation is

$$(8) \quad a_{ij}^t - \delta_i a_{ij}^{t-1} = 0,$$

with the general solution

$$(9) \quad a_{ij}^t = a_{ij}^0 \delta_i^t,$$

which is converging, since  $|\delta_i| < 1$ , and monotonic, since  $\delta_i > 0$ .<sup>24</sup>

If, in a *steady state*, the sum from (4) is not equal to 0 for any  $i$ , then the same is true for a “small enough” neighborhood of the steady state. Within this neighborhood, (5) will not change while  $a_{ij}$  is approaching the steady state via (6). Thus, we can be sure that in a sufficiently narrow neighborhood of a steady state, (6) converges. For  $T_{ii} < 0$ ,  $a_{ij} = 0$  for all  $i, j$  is always a stable

<sup>23</sup> Note that in the case of indifference, the action is chosen.

<sup>24</sup> Note that in (9), superscript  $t$  in the right hand term is a power of time, and not a time notation as usually denoted.



steady state. Let us now have a closer look at steady states. Taking  $\gamma T_{ji} 1_j$  as a constant, and setting  $a_{ij}^{t+1} = a_{ij}^t = a_{ij}$  in (6), we get the particular solution

$$(10) \quad a_{ij} = \frac{\gamma_i}{1 - \delta_i} T_{ji} 1_j, \text{ for } j \neq i.$$

Positive transfers *evoke* positive emotions of mutual exchange or altruism, and vice versa. Substituting (10) into (4) yields the steady state result. Hence, from (5),  $1_i = 1$  requires

$$(11) \quad T_{ii} + \frac{\gamma_i}{1 - \delta_i} \sum_{j \neq i} T_{ji} T_{ij} 1_j \geq 0.$$

(11) implies that, in the steady state, if  $T_{ij}$  and  $T_{ji}$  have the same sign, i.e.  $\text{sgn } T_{ij} = \text{sgn } T_{ji}$ , then the likelihood of  $1_i = 1$  and  $1_j = 1$ , i.e., “action” chosen by oneself and others, respectively, is increased; the converse holds true. More importantly, for “action” to be taken, the sum of transfer cost  $T_{ii}$ , and the interaction between total inflows  $T_{ji}$  and total outflows  $T_{ij}$ , considering depreciation and updating, must not result in a net negative state. For positive transfers, this is advantageous from the point-of-view of  $i$  and  $j$ ; for negative transfers,  $1_i = 1_j = 0$  would be socially preferred. With a lot of negative  $T_{ij}$ , the interaction may result in a “revenge-state”, even if the  $T_{ii}$  are negative (costly revenge).

With  $T_{ii} > 0$  and  $T_{ij} < 0$  this is more like a Prisoner's Dilemma equilibrium. In the presence of a third party  $k$ , for example if  $\text{sgn } T_{ij} = \text{sgn } T_{ji}$ , when  $\text{sgn } T_{ij} \neq \text{sgn } T_{ik}$  and  $\text{sgn } T_{ji} \neq \text{sgn } T_{ki}$ ; we then expect  $a_{ij} > 0$  and  $a_{ik} < 0$ . With  $1_i = 1$ , this results in favoritism (and discrimination) towards  $j$  (and  $k$ ).

In the *public good situation*,  $T_{ii} < 0$  and  $T_{ij} > 0$ . On the whole it is more likely that “action” will be chosen the more efficient it is. In this case, we may reach a solidarity-state where everybody sacrifices income for the improvement of the group income. However, this leads to the crucial question of whether the realized state is always an improvement? From an *individual point-of-view* based only on one's own income, the inclusion of other's income in the individual utility function guides behavior but is not an appropriate measure of “success”. From a *social point-of-view*, the sum of incomes may be the appropriate valuation; or, we may take the discounted sum of incomes over all future periods in order to evaluate different situations. If

$$(12) \quad \beta_i = \frac{\gamma_i}{1 - \delta_i}$$

is too large, then it may happen that some or all members of the group choose “action” even when this is inefficient, i.e.  $\sum_j T_{ij} < 0$ . On the other hand,  $\beta_i$  should not be too small because, in

that case, we may be caught in a (socially inefficient) state with no “action” even when  $\sum_j T_{ij} > 0$ . It is impossible, however, to determine an optimal value  $\beta_i$  *ex ante* and without any further information. For this, we consider the following example.

#### Example A: Public goods in a small group

Let us regard a very simple structure, namely

$$(13) \quad T = (T_{ij}) = \begin{pmatrix} -1 & \alpha & \alpha & \cdots & \alpha \\ \alpha & -1 & \cdots & \cdots & \alpha \\ \vdots & \cdots & \ddots & \cdots & \vdots \\ \vdots & \cdots & \cdots & \ddots & \vdots \\ \alpha & \cdots & \cdots & \cdots & -1 \end{pmatrix}.$$

This situation may be interpreted as the private supply of a public good. Efficiency requires that “action” is chosen *if and only if*

$$(14) \quad \alpha \geq \frac{1}{n-1},$$

$\alpha = \frac{1}{n-1}$  is the limiting case. On the other hand, (11) requires

$$(15) \quad -1 + \beta_i (n-1) \alpha^2 \geq 0.$$

Thus “action” and “efficiency” coincide if

$$(16) \quad \beta_i = \frac{1}{(n-1) \alpha^2} = n-1.$$

In this example, the *ex ante* (without knowledge of the parameter  $\alpha$ ) optimal  $\beta_i$  depends on the group size. In more complex examples it will depend on the structure of the  $T_{ij}$  and it will be different for different individuals  $i$ .

The question is completely different, if we do not only regard steady states but also the question of stability in the face of “mistakes” (made in individual decisions). It is then apparent that  $\beta_i$  (in the case of generally positive  $T_{ij}$ ) should probably be larger than a static optimum such as (16), since a single “mistake” (in the presence of a small  $\delta_i$ ) could induce the system to converge to  $a_{ij} = 0$ , a state where there is no preference for altruism and, in this sense, no solidarity emotions, even with  $\sum_j T_{ij} > 0$ .

Let us now proceed to a more general model where  $T_{ij}$  differs from period to period according to a random process. For the sake of simplicity, let us assume the structure of the  $T_{ij}$  to be (13) and, in addition, that

$$(17) \quad \alpha = \begin{cases} \bar{\alpha} \geq \frac{1}{n-1}, \Pr = \frac{1}{2} \\ \underline{\alpha} < \frac{1}{n-1}, \Pr = \frac{1}{2}, \end{cases}$$

If we could choose  $\beta_i$ , it may again be wise to take  $\beta_i > n - 1$ . Why? Consider the case that the state-of-the-world  $\alpha = \underline{\alpha}$  occurred just once or several times in a row. It could lead to an  $a_{ij}$  so small that even in the case  $\alpha = \bar{\alpha}$ , all individuals in the group will choose to “do nothing”. The system then converges, inevitably, to the state with  $a_{ij} = 0$  for all  $i, j$ , i.e., a world without solidarity.

Such a “disaster” is avoided if  $\beta_i$  (and, therefore,  $a_{ij}$ ) is large enough so that even if  $\alpha = \underline{\alpha}$  permanently occurs the “action” will be chosen. The minimal requirement for the optimality of such a  $\beta_i$  is that the expected social reward is larger than 0, i.e.,  $\frac{\underline{\alpha} + \bar{\alpha}}{2}(n-1) - 1 > 0$ .

## 2. A large group

In a large group, an individual cannot distinguish between different sources of income. So, in order to use the above model as a description of a large group we take

$$(18) \quad a_{ij} = a_i \text{ for } j = 1, \dots, n$$

$$(19) \quad a_i^{t+1} = \delta_i a_i^t + \gamma_i \sum_{j \neq i} T_{ji} 1_j^t.$$

Steady states are now

$$(20) \quad a_i = \beta_i \sum_{j \neq i} T_{ji} 1_j'.$$

In such a steady state,  $1_j' = 1$  is connected with

$$(21) \quad T_{ii} + \beta_i \left( \sum_{j \neq i} T_{ji} \right) \left( \sum_{j \neq i} T_{ij} \right) \geq 0.$$

It is even clearer and simpler than in the case of a small group that the mutual exchange offers tremendous social advantages but is also connected with the danger of a “revenge-state”. If, for e.g., everybody else litters (i.e.,  $\sum_{j \neq i} T_{ji} < 0$ ) then I litter, too (i.e.,  $\sum_{j \neq i} T_{ij} < 0$ ). And I make

this decision not only because I do not care but also because I aim to reduce other people's utility. So, even if there is a bin box in the reach of my arm I throw my waste on the street.

However, we should usually expect  $T_{ij}$  to be positive ( $T_{ii}$  negative) and, thus, reach (nearly) efficient behavior. Although these are all simple structures, we can also get extremely diverse developments and interesting stories, if we allow  $T_{ij}$  to vary stochastically in every period.

## B. Strategic behavior

The first question is whether it is necessary to base decisions on interdependent utility functions when behavior is strategic. Can the members of a group simply not coordinate on efficient behavior? The problem then is that we might be caught in a Prisoners' Dilemma. One advantage of non-zero  $a_{ij}$  is the commitment that is incorporated in such a valuation.

There is another even more important question. Above we described short-term preferences. What are the long-term preferences that guide behavior in such a situation? We easily enter discussions about second order preferences (Sen (1977), Bolle (1983, 1991)).

For the sake of simplicity, we therefore adopt the “doer-planner” model of Thaler and Shefrin (1981). In this model, the doer decides on “action” or “do nothing” on the basis of short-term preferences such as (4). The planner can shape preferences described by  $a_{ij}$  and desires to maximize the discounted income of the individual. He has only internal means at his disposal, for example, he may be able to increase or decrease  $a_{ij}$  in every period by an arbitrary amount  $\Delta a_{ij}$  with

$$(22) \quad -\varepsilon < \Delta a_{ij} < \varepsilon.$$

Such a device gives Frank's [1987] hypothetical question, “if *homo oeconomicus* could choose his own utility function, would he want one with a conscience?” a concrete meaning.

An instrument like this might make it possible to leave a sub-optimal steady state of  $a_{ij}$  by the joint decision of some of the group members to increase their  $a_{ij}$ . Then the rest of the group may be forced into altruism or reciprocity by process (7). And if all contribute we may arrive at a socially advantageous state that no member can leave, even if he chooses  $\Delta a_{ij} = -\varepsilon$ .

## V Conclusion

We distinguished between voluntary and coercive contribution to a solidarity movement as well as between donation and cooperation. As we saw in section II and III, the most puzzling piece of solidarity movements is when *cooperation* is to be “organized” *voluntarily*. It is basically this kind of solidarity action that provokes deeper thought. With respect to voluntary cooperation we

showed that there are different orders of social goods, which may be (aimed to be) provided by a “coordinated” solidarity movement. They influence the willingness to contribute to a solidarity action. Each order of social good is connected with different risks and utility assessments that basically influence the decision of whether or not to contribute to a solidarity action.

In section IV we analyzed how a process of mutual beneficial actions is enhanced, for example when a public good is supposed to be provided by a group that is tied together by solidarity feelings. We assumed that these feelings are expressed in a dynamic utility function by an additional term proportional to the income of others. In the long run, the average income transfers due to the (beneficial) actions of others determines the strength of this term. These are captured in the following two quotes,

“... the larger part of the great inventions tend to increase these relations of mutual dependence which exist between men, and make them vibrate throughout the universe in the community of the same emotions.” Gide (1987), and

“It compels to our attention to all that happens to our fellow-creatures, whether fortunate or not, since all that concerns them concerns us.” Gide (1987)

One “dark side” of this usually beneficial process is that, under unfortunate circumstances, it may result in an inefficient revenge state. But under many (or most) scenarios, we can expect that the dynamic process can enhance efficiency. In certain situations, it even implies punishment for socially unwarranted behavior.

We certainly have not touched all aspects of solidarity in our paper. Based on our discussion, a number of further issues – as puzzling as those mentioned in section II – can be raised. Let us mention only two examples, namely the normative aspect of solidarity, and a dangerous measure to develop solidarity feelings. The normative point of view of solidarity movements touches the conflict of why a certain target of a movement is a “good” target which is here implicitly set equal to an efficiency increase and why the present situation is “bad”. This brings into attention that there are sometimes subjectively good targets which tie together a group to a solidarity movement, against a subjectively badly-behaving third party; it then depends on one’s own point-of-view of whether a movement increases welfare.

There are more problems. Coordination is important, in particular in fighting a third party. One solution to the problem of coordination is that leadership, however, also has an ugly face. The producers of the film *On the Waterfront* launched the film as a story that shows how ‘self-appointed tyrants can be defeated by right-thinking people in a vital democracy’. Anderson [1955, 71f.] asserts that

“The conception ... seems to be implicitly (if unconsciously) Fascist: Friendly’s [the old master’s] hold is broken. The dockers have it in their power to be their own masters. Yet, instead of rising to the occasion, they turn like leaderless sheep in

search of a new master. ‘If Terry walks in, we walk in with him’. If there is any principle expounded here, it is surely not that of Democracy. The people collectively are shown as incapable of either self-government or mutual aid.”

There are not only solidarity movements which turned the set of social rules from hierarchic to democratic rules but also the other way round. This shows that the third party is not always an autocratic regime (as mentioned in the introduction) but has historically often been wealthier but weaker minorities (like the Jews in pre-war Germany or the Armenians in Turkey).<sup>25</sup>

It is a well-established fact that an action against a common enemy (which we neutrally called the third party) can strengthen the ties of a solidarity movement.<sup>26</sup> Thus the invention of enemies may become a political instrument. This is a paradoxical measure: solidarity towards part of the society is sacrificed in order to strengthen the solidarity feelings of the rest.<sup>27</sup>

Above all, the State can be regarded as the highest form of social solidarity. Within the social contract between the State and its citizens,

“Solidarity will gain a high moral value when it is understood, accepted, and desired by men, when it becomes the basis of duty, and when men endeavor to realize freely that moral good will be the desire to be and behave as members of a common humanity” (Gide (1987)).

In the course of evolution, the adherence to the collective rules of a society by the vast majority of its citizens has become a spontaneous order.<sup>28</sup> It is the main prerequisite for building effective market and non-market institutions allowing societies to realize a high level of economic development.

25 Of course also these movements were able to realize an increase of their objective utility by illegally redistributing the property of the persecuted wealthy minority.

26 Tan and Zizzo (2003) discuss mechanisms that induce in-group favoritism and out-group discrimination.

27 With that we would enter the discussion on the psychology of the masses which contains more aspects than raised here. For an excellent introduction into this theme cf. Le Bon (1895) who claimed that such movements adhere to the law of the mental unit of the masses (loi de l’unité mentale des foules) so that from a certain point the mere participation in such a group may already lead to an increase of utility.

28 For an explanation of this central hypothesis of human behavior, cf. Sugden (1986) and Hechter (1987).

## References

- Anderson, L., 1955. The last sequence of 'on the waterfront', *Sight and Sound*, 70-76.
- Arnsperger, C., Varoufakis, Y., 2003. Toward a theory of solidarity. *Erkenntnis* 59, 157-88.
- Bacharach, M., 1999. Interactive team reasoning: a contribution to the theory of co-operation. *Research in Economics* 53, 117-147.
- Baldwin, P., 1990. *The Politics of Social Solidarity*. Cambridge University Press.
- Bolle, F., 1983. On Sen's second order preferences, morals, and decision theory. *Erkenntnis* 20, 195-205.
- Bolle, F. 1991. On love and altruism. *Rationality and Society* 3, 197-214.
- Bolle, F., 1995. Emotionen und Vernunft - keine Gegensätze. *Homo Oeconomicus* 12, 125-154.
- Bolton, G.E., Ockenfels, A., 2000. ERC: equity, reciprocity and cooperation. *American Economic Review* 90, 166-193.
- Church, R., Outram, Q., 1998. *Strikes and Solidarity*. Cambridge: Cambridge University Press.
- Edin, P.A., Holmlund, B., 1993. The swedish wage structure: the rise and fall of solidarity wage policy. NBER Working Paper 4257.
- Etzioni, A., 1988. *The Moral Dimension: Towards a New Economics*. New York: The Free Press.
- Fehr, E., Gächter, S., 2002. Cooperation and punishment in public goods experiments. *American Economic Review* 90, 980-994.
- Fehr, E., Schmidt, K., 1999. A theory of fairness, competition and cooperation. *Quarterly Journal of Economics* 114, 817-868.
- Frank, R., 1987. If homo economicus could choose his own utility function, would he want one with a conscience? *American Economic Review* 77, 593-604.
- Frey, B. (1997) *Not Just For the Money: An Economic Theory of Personal Motivation*. Cheltenham: Edward Elgar Publishing.
- Gide, C., 1987. Solidarity. pp. 421 in J. Eatwell, M. Milgate, P. Newan (eds.): *The New Palgrave - A Dictionary of Economics*, Vol. III. London: Macmillan.
- Guralnik, D.B., (ed.), 1980. *Webster's New World Dictionary*. New York: Simon and Schuster.
- Hechter, M., 1987. *Principles of Group Solidarity*, University of California, Berkeley.
- Isaac, R.M., Walker, J.M., Williams, A.W., 1994. Group size and the voluntary provision of public goods: experimental evidence utilizing large groups. *Journal of Public Economics* 54, 1-36.
- Kennedy, M.D., 1991. *Professionals, Power and Solidarity in Poland*. Cambridge: Cambridge University Press.
- Krahn, J.P., Schmidt, R.H., 1994. *Development Finance as Institution Building*, Oxford: Westview Press.
- Kritikos, A.S., Bolle, F., 2001. Distributional concerns, efficiency or equity oriented. *Economics Letters* 73, 333-338.
- Kritikos, A.S., Meran, G. 1998. Social norms, moral commitment and cooperation. *Homo Oeconomicus* 15, 71-92.
- Kritikos, A.S.; Vigenina, D. 2005. Key Factors of Joint-Liability Loan Contracts, an Empirical Analysis. *Kyklos* (forthcoming).

- Kulczycki, J.J., 1994. *The Foreign Worker and the German Labour Movement. Xenophobia and Solidarity in the Coal Fields of the Ruhr, 1871-1914*. Oxford/Providence: Berg.
- Le Bon, G., 1895. *The Crowd: A Study of the popular Mind*. New York: Viking (republished 1960).
- Ledyard, J.O., 1995. Public goods: a survey of experimental research. pp. 111-194 in: J. Kagel, A.E. Roth (eds.): *Handbook of Experimental Economics*.
- Lindenberg, S., 1988. Contractual relations and weak solidarity: the behavioral basis of restraints on gain-maximization. *Journal of Institutional and Theoretical Economics* 144, 39-58.
- Macneil, I. R., 1986. Exchange revisited: individual utility and social solidarity. *Ethics* 96, 567-593.
- Morduch, J., 1999. The microfinance promise. *Journal of Economic Literature* 37, 1569-1614.
- Orbell, J., van de Kragt, A., Dawes, R., 1988. Explaining discussion-induced cooperation. *Journal of Personality and Social Psychology* 54, 811-819.
- Ouchi, W.G., 1980. Markets, bureaucracies, and clans. *Administrative Science Quarterly* 25, 129-141.
- Palfrey, T.R., Rosenthal, H., 1983. A strategic calculus of voting. *Public Choice* 41, 7-53.
- Selten, R., Ockenfels, A., 1998. An experimental solidarity game. *Journal of Economic Behavior and Organization* 34, 517-539.
- Sen, A., 1977. Rational fools: a critique of the behavioral foundations of economic theory. *Philosophy and Public Affairs* 6, 317-344.
- Sugden, R., 1986. *The Economics of Rights, Co-operation and Welfare*. Oxford: Oxford University Press.
- Tan, J.H.W., and Bolle, F., 2004. On the relative strengths of altruism and fairness. Working Paper, Institute of Microeconomics, European University Viadrina, Frankfurt (Oder).
- Tan, J.H.W., and Zizzo, D. J., 2003. Groups, cooperation and conflict in games. Working Paper, Institute of Microeconomics, European University Viadrina, Frankfurt (Oder).
- Thaler, R.H. and H.M. Shefrin, 1981. An economic theory of self-control. *Journal of Political Economy* 89, 392 - 406.
- Touraine, A., Dubet, F., Wieviorka, M., Strzelecki, J., 1983. *Solidarity*. Cambridge: Cambridge University Press.