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The importance of socio-economic and political losses and gains in welfare state reform

Barbara Vis*,

VU University Amsterdam, The Netherlands

Summary When do governments pursue unpopular reform, such as cutting benefits? And when do they engage in not-unpopular reform, such as activation? Current approaches in welfare state research cannot systematically explain the cross-government variation in the two types of reform. Based on insights from prospect theory, a psychological theory of choice under risk, this article complements existing theories by arguing that losses and gains matter crucially for welfare state reform. A fs/QCA analysis of labour market reforms pursued by 23 Danish, German, Dutch and British Cabinets between 1979 and 2005 corroborates this hypothesis. Specifically, it shows that an improving political position (a gain) is the necessary condition for not-unpopular reform while for unpopular reform it is a deteriorating socio-economic situation (a loss). This finding helps account for the puzzling cross-government variation in different types of welfare state reform.

Key words ALMPs, fuzzy-set analysis, prospect theory, reform, unemployment benefits, welfare state retrenchment

Introduction

Under which conditions (i.e. when) do governments pursue different types of welfare state reforms? What, for example, triggered Schlüter I in Denmark to cut back unemployment insurance replacement rates and then Schlüter IV to increase these rates? And which conditions prompted Kohl I and II in Germany to increase expenditures on active labour market policies (ALMPs) and Kohl III and IV to lower them? A substantial body of literature addresses the ‘when’ of welfare state reform (for an overview of timing in politics, see Pierson, 2004).¹ Notwithstanding these studies’ many important insights, they have two lacunas. First, some findings hold for specific countries only, such as corporatist (Anderson, 2001) or social democratic nations (Klitgaard, 2007). Second, important questions are left unanswered, such as when blame avoidance strategies can be used and how to account for the variation over time. Specifically, Pierson (1994) argues

that governments pursue unpopular reform if they can use blame avoidance strategies. So far so good, but *when* is using such strategies possible? Pierson, as does Kitschelt (2001), correctly notes that institutional characteristics influence the opportunities for unpopular reform. However, given such characteristics’ remarkable stability over time (Armingeon et al., 2008), they cannot account for the variation over time. Overall, existing approaches cannot systematically explain the variation in reform across governments.

This article argues and empirically demonstrates that such a systematic account arrives if existing approaches are complemented with insights from *prospect theory* – a context-sensitive, behavioural theory of choice under risk (Kahneman and Tversky, 1979; 2000; see Levy, 2003; Mercer, 2005). Particularly valuable is prospect theory’s key empirical finding: individuals are risk averse in their decision making when facing favourable prospects (i.e. gains), but risk-accepting when confronting threats to their

*Author to whom correspondence should be sent: Barbara Vis, Department of Political Science, VU University Amsterdam, de Boelelaan 1081, 1081 HV Amsterdam, The Netherlands. [email: b.vis@fsw.vu.nl]

well-being (i.e. losses). This finding suggests that *gains* and *losses* matter crucially for welfare state reform by triggering governments' pursuit of – respectively – unpopular and not-unpopular (NUP) reforms (see Vis and Van Kersbergen, 2007).² Unpopular reforms are those changes which affect the median voter negatively,³ such as benefit cutbacks, thereby potentially leading to a loss of votes in the next election. Conversely, NUP reforms are those changes which affect the median voter neither negatively nor positively. As I elaborate below, activation constitutes such reform. Although NUP measures are not politically risky, they hardly provide avenues for reaping electoral gains.⁴

The empirical analysis focuses on reforms in labour market policy pursued by 23 German, Dutch, Danish and British Cabinets between 1979 and 2005.⁵ If findings hold in such different contexts – electoral system, type of party competition and type of welfare state (Esping-Andersen, 1990; Kitschelt, 2001; Green-Pedersen, 2002) – they are robust. To control for the influence of institutional characteristics, I also conduct intranational comparisons. Since the argument outlined above involves statements about necessity, I use fuzzy-set Qualitative Comparative Analysis (fs/QCA). This approach is particularly suited to identifying necessary or sufficient (combinations of) conditions (Ragin, 2000; 2008).⁶

The fs/QCA analysis shows that socio-economic and political losses and gains indeed matter for welfare state reform. Specifically, the necessary condition for unpopular reform is a deteriorating socio-economic situation (a loss) while for NUP reform it is an improving political position (a gain). Both necessary conditions are only sufficient in combination with one or two other factors. While a deteriorating socio-economic situation combined with a solid political position or a Rightist government induces governments to accept the possible electoral penalties of unpopular reform, NUP reform is triggered by a strong political position combined with an improving socio-economic situation or a Leftist government.

The article's structure is as follows. First, I argue that existing approaches cannot systematically explain the cross-government variation in reform. Next, I propose prospect theory as a complement to these approaches and present the hypotheses. Third, I discuss the measurement of the outcomes (dependent variables) and causal conditions (independent variables). Subsequently, I discuss the fs/QCA

procedure and present the results. Finally, I offer some concluding remarks.

Existing studies

Which approaches can identify the conditions under which governments pursue different types of welfare state reform, thereby explaining the cross-government variation in reform? I contend that existing theories focusing on the influence of partisanship, socio-economic difficulties (including crises) and ideas go a long way in accounting for the cross-national variation in reform. They have greater difficulty, though, systematically explaining the variation in reform across governments. As I argue below, complementing existing approaches with insights from prospect theory produces a systematic explanation of cross-government variation. Due to space limitations, this discussion focuses on selected readings only. A list with extended references is published in a web appendix on the author's website.⁷

A first approach argues that the colour of the government (i.e. *partisanship*) affects reform. Since the seminal article of Hibbs (1977), most scholars have agreed that the objectives of Leftist and Rightist parties vary with respect to socio-economic policies. Specifically, Rightist parties have a preference for welfare state cutbacks and are hardly interested in active labour market policies, while Leftist parties have a preference for expanding such policies and hardly care for enacting cutbacks (e.g. Korpi and Palme, 2003; Huo et al., 2008). However, in the current context of 'permanent austerity' (Pierson, 2001), Leftist governments cannot simply increase spending. Moreover, all governments face the dilemma of managing the economy and dismantling the welfare state (Green-Pedersen, 2002). Governments may lose votes when cutting back the welfare state because of its broad popularity and the consequent unpopularity of cutbacks (Boeri et al., 2001) and may lose votes for economic mismanagement since voters, at least partially, blame their government for weak economic performance (Tufte, 1978).

The inconclusive findings on partisanship in the empirical literature reveal this dilemma. While some scholars posit that Rightist governments enact harsher cutbacks (Korpi and Palme, 2003; Allan and Scruggs, 2004), others conclude that Leftist governments are better at pursuing cuts (Ross, 2000). What is unclear, though, is under which conditions – other than

invariant institutional characteristics – governments are willing to pursue the risk of unpopular reform. For ALMPs, some scholars find the expected positive relationship with Leftist partisanship (e.g. Huo et al., 2008). Others, conversely, find such a relationship only under specific conditions, in particular increasing unemployment (e.g. Elmeskov et al., 1998; Rueda, 2007). In sum, existing studies argue that political parties' preferences regarding welfare state reform vary. The evidence about how these preferences translate into policies is conflicting though.

The second, *socio-economic* account posits that socio-economic changes such as slower economic growth, population ageing and the slowdown of de-industrialization result in problem load, causing reform (e.g. Pierson, 2001; Iversen, 2005). This argument makes intuitive sense because it is plausible that a government acts when, say, the unemployment level is skyrocketing. Moreover, it explains why some countries display more reform than others (see Bonoli, 2007). What we do not know is 'how exactly socio-economic variables matter for the timing and extent of cutbacks' (Starke, 2006: 107). Why do some governments accept a certain level of unemployment and refrain from action, while the same level pushes other governments to engage in reform? The socio-economic account identifies, so to speak, what loads the gun for reform (socio-economic problems), but fails to pinpoint what triggers this gun to go off. Consequently, it cannot explain the cross-government variation.

The same lacuna is present in the *crisis* literature arguing that crises – i.e. socio-economic problems large enough to be a window of opportunity (Kingdon, 1984) – lead to reform (Rodrik, 1996; Kuipers, 2006). But when will a crisis lead to political action (Elmeskov et al., 1998; Weyland, 2002)? When will the costs of waiting to implement a reform outweigh the benefits (Alesina et al., 2006)?

The literature examining the influence of *ideas or discourse* is a useful addition to the socio-economic account because it focuses on why people act as they do (e.g. Cox, 2001; Kuipers, 2006; for an extensive overview see Schmidt, 2008). Still, ideas alone do not create the incentives or opportunities for action, 'nor do all holders of alternative political ideas act on them' (Lieberman, 2002: 698). Moreover, how ideas causally influence policy making is often specified poorly (Campbell, 2002: 29; but see Jacobs, 2009). All in all, the theoretical foothold as regards *when*

ideas are taken up, and consequently on how they can explain cross-government variation, is limited.

So far, none of the accounts can systematically explain when governments pursue reform. Are scholars addressing precisely this when-question more successfully? Anderson (2001), for example, argues that retrenchment (in Sweden) occurs only when both the social democrats and the labour movement support retrenchment. Moreover, Klitgaard (2007) contends that social democratic parties in social democratic welfare states engage in (market-oriented) reform when the party elite thinks policy problems threaten the welfare state's legitimacy. Although both accounts hold explanatory power, the findings cannot be extended to countries in which labour movements are of less relevance or to other types of parties or welfare regimes. Also studies focusing explicitly on the timing of reform thus fail to systematically account for the cross-government variation in reform.

Prospect theory and hypotheses

Insights from prospect theory offer precisely the theoretical footing that existing approaches lack. Adding these insights leads to hypotheses on the conditions under which governments pursue different types of welfare state reform. Let me first briefly discuss prospect theory and subsequently elaborate how prospect theory complements existing accounts.⁸

Prospect theory is a theory of individuals' decision making under risk which offers a correct presentation of individuals' behaviour. Kahneman and Tversky (1979; see 2000) developed this theory as an alternative to expected utility theory, which theoretical predictions were often violated empirically. Prospect theory's central finding is that people are unwilling to take risks when facing favourable prospects (gains), but tend towards risk-accepting behaviour when confronting threats to their well-being (losses). This finding is based on experimental research and rooted in several heuristics and biases in decision making, such as people's aversion to losses, their tendency to hold on to the status quo, and their preference for certainty over uncertainty (Kahneman and Tversky, 2000; Gilovich et al., 2002). McDermott et al. (2008) argue that individuals possess hardwired, cognitive tendencies to make decisions consistent with prospect theory's main finding.

Does prospect theory, originally designed for individuals' decision-making, apply to governments – a collective actor? The answer is *yes*. Experimental evidence demonstrates that pairs of individuals' decision making follow prospect theory's main finding (Bone et al., 1999). Group decisions are even more consistent with prospect theory than individual ones (Whyte, 1993). Moreover, Kühberger's (1998) meta-analysis shows that individual and group analyses have similar effect sizes, indicating a high degree of correspondence between those studies in which the individual is the unit of analysis, and those in which a group is. These findings indicate that prospect theory's central result extends to situations of collective decision making.

When applied to governments' decision-making in welfare reform, insights from prospect theory suggest that governments are only willing to accept the risk of electoral losses involved in unpopular reform when confronting losses (cf. Vis and Van Kersbergen, 2007); only then are they willing to take risk in an attempt to recoup (some of) the losses. Conversely, governments pursue NUP reform only when facing gains. Because NUP reforms, such as ALMPs, are expensive while simultaneously offering few avenues for reaping electoral gains, such reforms will only be undertaken under (socio-economic) gains. Only then can governments afford such 'luxurious' social spending (Armingeon, 2007).

Which factors determine if a government faces losses or gains? Following Mercer (2005), and building on existing approaches, I focus on the government's situation, especially its socio-economic and political situation (cf. Vis, 2009). The *socio-economic situation* is the first factor. Recall that the socio-economic account identifies problem load as such as inducing governments to pursue unpopular reforms. Prospect theory, conversely, indicates that it is a *worsening* socio-economic performance (e.g. increasing levels of unemployment) that puts a government in a situation of losses, thereby triggering unpopular reform. Conversely, socio-economic gains induce governments to engage in NUP measures. Socio-economic changes such as de-industrialization and demographic change produce the 'need' for such reforms (Armingeon and Bonoli, 2006). Hence, socio-economic change is likely to induce governments to pursue NUP reforms such as increasing spending on ALMPs. Since such measures cost money and the electoral reward for introducing

them is likely to be small, governments will pursue NUP measures only when the socio-economic situation is improving (Armingeon, 2007; Huo et al., 2008, but see Rueda, 2007; Gaston and Rajaguru, 2008). Moreover, only in a tight labour market can a government legitimately demand the unemployed participate in ALMPs. Under deteriorating socio-economic conditions, it is harder to blame the beneficiary's employability for unemployment.⁹

The second factor is the government's *political position*. Usually the argument is that the better this position (e.g. the larger the parliamentary majority), the better the prospects for enacting changes (Keeler, 1993; Alesina et al., 2006). For NUP reform, this hypothesis seems plausible. A stronger political position gives political parties leeway to introduce their preferred policies, even if these may neither lose nor win them votes. However, prospect theory's key finding suggests that a weakening – instead of an excellent or improving – political position (e.g. a meagre electoral victory) puts governments in a losses domain, prompting unpopular reform. Also an improving political position of the main opposition party may put governments in a losses domain. Conversely, prospect theory's central result suggests that governments view their own improving political position as a gain, impeding unpopular reform. Based on these two conditions, we can derive the following two hypotheses.

Hypothesis 1: A deteriorating socio-economic situation or a deteriorating Cabinet's political position is a necessary condition for governments' pursuit of unpopular reform.

Hypothesis 2: An improving socio-economic situation or a deteriorating Cabinet's political position is a necessary condition for governments' pursuit of NUP reform.

Finally, in general, the prospect-theoretical finding of varying risk propensities across domains holds for all political actors alike, suggesting that the *political colour* of the Cabinet does not influence governments' pursuit of reform. Still, given political parties' different preferences for unpopular and NUP reform, it is likely that these preferences mediate the relationship between partisanship and reform. Stated differently, although Leftist and Rightist governments both act risk-accepting when facing losses, the latter need less of a push to pursue

cutbacks. Similarly, Leftist governments need fewer gains before turning to activation. Therefore, I expect Rightist and Leftist partisanship to be an INUS condition; that is, ‘an *insufficient* but *nonredundant* part of an *unnecessary* but *sufficient* [combination of conditions]’ (Mahoney and Goertz, 2006: 232, n.4, italics in original), for respectively unpopular and NUP reform.

Hypothesis 3a: Rightist partisanship is an INUS condition for unpopular reform.

Hypothesis 3b: Leftist partisanship is an INUS condition for NUP reform.

Measurement of outcomes and causal conditions

Outcomes

This study includes two outcomes (dependent variables): unpopular and NUP reform. Recall that unpopular reforms are those changes that negatively affect the median voter. My indicator of unpopular reform is the reduction in unemployment benefits, labelled *benefit cutbacks*. Benefit cutbacks qualify as unpopular because they negatively affect a substantial group of voters, which probably includes the median one. Moreover, Blekesaune and Quadagno (2003) find in a cross-national study of public opinion data that public attitudes towards the unemployed are generally positive; suggesting that cutting back benefits is unpopular. The extent to which cutbacks are unpopular varies across welfare regimes. Specifically, Larsen (2008) shows that unemployed people fulfil deservingness criteria most easily in the social democratic regime, least easily in the liberal regime, and moderately easily in the conservative regime.¹⁰

I measure benefit cutbacks by the *net replacement rate of unemployment insurance*; the after-tax unemployment insurance benefit averaged for two groups: a single, fully insured 40-year old earning average production worker (APW) wage; and a married APW with a non-employed spouse and two children (Allan and Scruggs, 2004). The advantage of this measurement is that a change in the replacement rate requires a political decision. Spending on say unemployment schemes, conversely, can be the outcome of both decision making and the state of the economy.

The second outcome is NUP reform, which I study by changes in spending on active labour market policies (ALMPs), labelled *activation*. As an idea, activation receives widespread support since most people prefer active programmes to passive ones (OECD, 2006). This suggests that ALMPs may be popular. Public opinion data from the Eurobarometer 56.1 (2001) partly supports this conclusion. These data show that the median voter ‘slightly agrees’ with the statement that ‘the unemployed should be given the time and opportunity to improve their education and skills’. However, the median voter also ‘slightly agrees’ with the statement that ‘the unemployed should be forced to take a job quickly, even if it is not as good as their previous job’, suggesting a less favourable stance towards ALMPs. Therefore, I assume that the median voter is neither in favour nor opposed to ALMPs in general, making activation an NUP reform.¹¹

My measure of ALMPs is *active spending per unemployed*; that is, the percentage of GDP spend on ALMPs per 1 percent standardized unemployment. This is a better measure of activation than the often used active spending as a share of GDP because spending on labour market policies usually increases with the level of unemployment (Armingeon, 2007: 915–16). Active spending per unemployed corrects for the state of the labour market.

To capture the degree to which governments pursue unpopular and NUP reform, I use *fuzzy-sets* – ‘fine-grained, [pseudo] continuous measures ... carefully calibrated using substantive and theoretical knowledge relevant to set membership’ (Ragin, 2000: 7). A fuzzy-set has two qualitative breakpoints, 1 and 0, signifying the situations that a government is ‘fully in’ and ‘fully out’ of the set. Because in fuzzy-set applications establishing these breakpoints and the in-between scores is important (Ragin, 2000; 2008: ch. 4), let me discuss the procedure for both outcomes.

For benefit cutbacks, I calculate the percentage point change per Cabinet in the average net unemployment insurance replacement rate,¹² which Table 1 displays. Then, I use these data to assign the fuzzy-set scores. I place the qualitative breakpoints 0 and 1 respectively at –10 and +10 because a reduction (increase) of 10 percentage points in the replacement rate indicates a substantial decline (improvement) in the income situation of unemployed people and their eventual families. For example, if the replacement

Table 1 The development of active spending and UI replacement rates

<i>Cabinet</i>	<i>Period in office</i>	<i>Δ UI replacement rates</i>	<i>Δ Active spending per unemployed</i>
Schlüter I	09.82–05.86	–6.6	0.5
Schlüter II	05.86–09.87	–7.9	–0.6
Schlüter IV	05.88–12.90	3.7	–3.4
Schlüter V	12.90–01.93	–0.3	0.6
Nyrup Rasmussen I	01.93–09.94	1.2	4.2
Nyrup Rasmussen II & III	09.94–03.98	–1.5	4.2
Nyrup Rasmussen IV	03.98–11.01	–0.4	4.1
Kohl I	03.83–01.87	0.2	5.1 ^c
Kohl II	01.87–12.90	–2.6	5.7
Kohl III	12.90–10.94	–0.1	–17.9
Kohl IV	10.94–09.98	–0.1	–2.5
Schröder I	09.98–09.02	1.0	–0.7
Lubbers I	09.82–05.86	–9.0 ^a	–0.5
Lubbers II	05.86–09.89	1.1	2.8
Lubbers III	09.89–05.94	–0.8	2.9
Kok I	05.94–05.98	–0.9	5.5
Kok II	05.98–05.02	2.1	26.4
Thatcher I	05.79–06.83	–22.7	–3.9 ^d
Thatcher II	06.83–06.87	–4.2	2.0
Thatcher III	06.87–04.92	–2.1	–2.4
Major I	04.92–05.97	–0.4	–0.7
Blair I	05.97–06.01	–0.7	1.2
Blair II	06.01–05.05	0.5 ^b	–0.2 ^c

Notes: ^a1983–86; ^b2001–03; ^c1985–86; ^d1980–82.

Sources: ALMP – Armingeon et al. (2008); UI – Scruggs (2004); changes – own calculations.

rate is reduced from 80 to 70 percent – and all else remains the same – someone whose previous income was €3,000 sees his or her benefit shrunk from €2,400 to €2,100 per month (minus 12.5%). Such a cutback means that the individual cannot maintain the same standard of living. I place the third qualitative breakpoint .5, where a case is neither in nor out of the set, at 0. The in-between scores (.83,.67,.33,.17) are based on the data in Table 1, whereby I use secondary material for coding the cases (especially Bertelsmann-foundation, various years; Huber and Stephens, 2001; Green-Pedersen, 2002). Table 2 displays the coding scheme for the outcomes; the resulting scores can be found in Table 4.

The fuzzy-set scores for activation are established similarly. I place the qualitative breakpoints 0 and 1 at -25 and +25. Such a reduction (increase) means a change of 0.25 percent of GDP per percent standardized unemployment. If the unemployment rate is 4 percent, the share of GDP spent on activation reduces (increases) by 1 percent (4 times .25) during

Table 2 Coding scheme outcomes

<i>Fuzzy-set score</i>	<i>Benefit cutbacks</i>	<i>Activation</i>
1.00	$X \leq -10$	> 25
.83	$-10 < X \leq -3.7$	$5 < X \leq 25$
.67	$-3.7 < X < 0$	$0 < X \leq 5$
.50	0	0
.33	$0 < X < 3.7$	$-5 < X < 0$
.17	$3.7 \leq X < 10$	$-25 < X \leq -5$
0	$X \geq 10$	$X \leq -25$

Sources: see Table 1.

the Cabinet period – a lot given that total social expenditure generally hardly exceeds 30 percent. I set the qualitative breakpoint .5 again at 0 and base the in-between scores on Table 1, whereby I also draw on secondary material for coding the cases (especially Bertelsmann-foundation, various years; Huber and Stephens, 2001; Clasen, 2005).

However, for a ‘truly’ active orientation, ALMP expenditures as a share of total labour market expenditures, i.e. the combination of spending on

ALMPs and passive labour market policies should be high as well (Armingeon, 2007: 916). Therefore, I adjust the fuzzy-set score of activation if the signs of active spending per unemployed and active spending as a share of total spending do not correspond (only Major I). Table 4 displays the resulting scores; the web appendix (see Note 7) includes figures of the fuzzy-set scores for activation and benefit cutbacks per government per country.

The data in Table 4 show that all countries display substantial cross-government variation in the pursuit of activation (outcome ACT) and benefit cutbacks (outcome BEN), often by similar governments in different Cabinet periods. Moreover, the number of Cabinets pursuing activation and curtailing benefits (i.e. scoring $>.5$) is larger than the number of Cabinets refraining from doing so: respectively 13 vs 10 and 16 vs 7. Interestingly, and perhaps contrary to what is commonly assumed, the pursuit of activation is not limited to a certain period: such reforms are taken in the 1980s, 1990s and 2000s alike. The same holds for benefits cutbacks.

Causal conditions

The three causal conditions (independent variables) are the socio-economic situation, the government's political position, and partisanship. I construct fuzzy-sets for these conditions, labelled *weak socio-economic situation* (WSE), *weak political position* (WPP), and *Rightist government* (RIGHT).

For establishing the fuzzy-set WSE, I use the development of the level of economic growth and unemployment during the Cabinet period. Both economic growth and unemployment are key indicators of a country's socio-economic performance, so that a falling growth rate or an increasing level of unemployment probably puts a government in a losses domain. As an additional source, I include information on the extent to which the specific socio-economic situation is perceived as detrimental from 'Notes on Recent Elections' in *Electoral Studies* and 'Political Data' in the *European Journal of Political Research*. Table A1 in the web appendix displays the raw data and the resulting fuzzy-set score.

For the fuzzy-set WPP, the main source of information is the percentage of votes for the government party or parties and the percentage of votes for the main Opposition party. The combination of these two factors determines the strength of Government's

political position. For example, if the governing parties won the election but so did the main rival, the Government's position is less strong than when the main opponent lost the elections. Additionally, I use the 'Notes on recent elections' and 'Political data' to assess: (a) the public's perception of the Cabinet; (b) the effect of political crises; (c) the election results in the *Länder* elections (Germany); (d) intraparty problems (especially Germany and Britain); and (e) the vote distribution between the bourgeois and social democratic block (Denmark). Let me illustrate the coding procedure using Lubbers I as an example. The web appendix includes the coding for all cases.

The Lubbers I Cabinet has a fairly strong political position (fuzzy-set score .67). On the positive side, the conservative liberals had entered the coalition after having won 5.8 percent of the votes. The government's position was not very strong as the coalition partner, the Christian democrats, had incurred a 1.5 percent loss of the votes and were no longer the largest party in the Netherlands. Both coalition parties did well in the polls in their first year in office. By autumn 1983, both parties started losing votes to the social democrats. By mid-1985, the popularity of the Christian democrats increased again, while the social democrats' popularity dropped slightly (Van der Eijk et al., 1986).

For the final fuzzy-set, RIGHT, I focus on Leftist Cabinet composition, calculated as social democratic and other Leftist parties as a percentage of total Cabinet posts, weighted by days. Measuring the complexion of a Cabinet by means of the share of Leftist parties is conventional in the literature (Huber and Stephens, 2001; Allan and Scruggs, 2004). Table 3 displays the scoring procedure and Table A1 in the web appendix the scores. Note that both governments including Christian democrats (such as Kohl I–IV) and secular-conservative Cabinets (such as Thatcher I–III) are coded as Rightist. Cross-validation with manifesto data (Budge et al., 2001) indicates that this is correct. Based on the Left–Right score, the secular-conservative Thatcher Governments and the German and Dutch Cabinets, including the Christian democrats (Kohl and Lubbers), are not far apart ideologically. For example, Thatcher II and Lubbers I hardly differ, with both scoring well in the Rightist part of the scale (29.0 vs. 28.33). Moreover, the Kohl Cabinets are overwhelmingly Rightist, with Kohl I even scoring higher than Thatcher I (26.76 vs. 24.4).

Table 3 Coding scheme RIGHT

Fuzzy-set score		
1.00	Hegemony of Right-wing parties	(gov_left = 0)
.75	Right-wing (and Centre) parties dominate	(0 < gov_left < 33.3)
.60	Parity between Left and Right parties, with the Right party/ies receiving most of the votes	(33.3 ≤ gov_left < 66.6)
.40	Parity between Left and Right parties, with the Left party/ies receiving most of the votes	(33.3 ≤ gov_left < 66.6)
.25	Dominance of social-democratic and other Left parties	(66.6 ≤ gov_left < 100)
0	Hegemony of social-democratic and other Left parties	(gov_left = 100)

Source: Armingeon et al. (2008).

Procedure and results

The fs/QCA procedure involves two stages that the fs/QCA software can conduct.¹³ The first stage employs the so-called truth table algorithm to transform the fuzzy-set membership scores into a truth table, which lists all logically possible combinations of causal conditions and each configuration's empirical outcome (Ragin, 2008: ch. 7). The algorithm uses the direct link between the rows of the truth table and the corners of the multidimensional vector space defined by the fuzzy-set conditions (Rihoux and Ragin, 2009: 183). Table A2 in the web appendix displays the resulting truth table.

The second stage of the fs/QCA procedure uses Boolean algebra for minimizing the truth table to identify the combinations of causal conditions that are sufficient for producing the outcome (Ragin, 2000). I use no simplifying assumptions (i.e. statements about the hypothetical outcome of the logical remainders) because this is the most conservative approach (Schneider and Wagemann, 2006). Footnotes report the results with simplifying assumptions.

The fs/QCA analysis finds that activation is the product of the absence of a weak political position (a strong political position) *and* the absence of a Rightist Government (a Leftist Government) *or* the

absence of a weak political position *and* the absence of a weak socio-economic situation (a strong socio-economic situation).¹⁴ In fuzzy-set notation, in which uppercase refer to the presence of a condition and lowercase to the absence of it and in which '*' indicates logical *and* and '+' indicates logical *or*, the analysis' result is:

$$\text{wpp} * (\text{right} + \text{wse}) \rightarrow \text{ACT} \quad (\text{coverage}:.88; \text{consistency}:.86).^{15}$$

Coverage measures the proportion of membership in the outcome explained by the solution; consistency addresses the degree to which the fuzzy-set membership scores of all cases in a combination are sufficient for the outcome. This result thus covers 88 percent of the cases and in 86 percent suffices to bring about activation.

The fs/QCA analysis reveals that benefit cutbacks are the product of the absence of a weak political position (a strong political position) *and* the presence of a weak socio-economic situation *or* the presence of a weak socio-economic situation *and* a Rightist Government *or* the absence of a weak political position *and* a Rightist Government. In fuzzy-set notation, the result of the analysis is

$$\text{WSE} * (\text{wpp} + \text{RIGHT}) + \text{wpp} * \text{RIGHT} \rightarrow \text{BEN} \quad (\text{coverage}:.88; \text{consistency}:.88).^{16}$$

These findings indicate that, as hypothesized, the paths towards NUP reform (activation) and unpopular reform (benefit cutbacks) are distinct and that gains and losses matter in this respect. Governments pursue activation when their political position is strong (a gain) and either the socio-economic situation is solid too (another gain) or the Cabinet is of Leftist composition. Each of the paths is sufficient, but not necessary, for producing the outcome. Still, a strong political position is necessary for activation since both paths include this condition. A strong political position does not by itself induce the pursuit of activation but works in conjunction with the conditions Leftist Government and strong socio-economic situation. The fs/QCA analysis shows that Governments curtail benefits when the socio-economic situation is deteriorating (a loss) and either their political position is solid or they are of Rightist composition. Additionally, there are four Governments

that pursue benefit cutbacks but do not face losses as they have membership only to the path combining a solid political position and a Rightist Government. The losses evidence for benefit cutbacks is remarkably stronger since all three Cabinets having membership to a path and not displaying the cutbacks have membership to precisely this path. This suggests that this path is the least robust one. Ignoring the third path, a weak socio-economic condition is necessary for benefit cutbacks but only results in such a reduction when combined with a solid political position or a Rightist Government.

Do the sufficient paths capture the governments pursuing activation or cutting back benefits? Table 4 presents the governments' membership scores of the two outcomes and the sufficient paths (wpp^*right and wpp^*wse for ACT; WSE^*wpp , WSE^*RIGHT and wpp^*RIGHT for BEN). In 11 (of the 13) Governments pursuing activation, at least one of these two paths is present. For two cases, however,

these combinations cannot explain its occurrence. Specifically, the Cabinets Lubbers III and Schlüter V pursued activation but had no membership to either of the sufficient paths.¹⁷ The same holds for Kok I, Nyrop Rasmussen IV and Blair I in case of benefit cutbacks. These findings indicate that although there are clear paths towards activation and benefit cutbacks, these are not the only ones.¹⁸ Moreover, Table 4 reveals that three Governments should have pursued activation, because of their membership to one or more path(s), but did not (Kohl III, Schröder I and Blair II). In this situation one or more unobserved factors hinder reform from coming about. Similarly, three Governments should have cut benefits because of their membership of one or more path(s) but did not (Lubbers II, Kohl I, Schlüter IV).

The findings that (a) the combination of strong political position and a Leftist Government induces governments to pursue activation and (b) the conjunction of a deteriorating socio-economic situation

Table 4 Membership scores of cases in sufficient paths

	<i>Outcome ACT</i>	<i>Path I wpp*right</i>	<i>Path II wpp*wse</i>	<i>Outcome BEN</i>	<i>Path I WSE*wpp</i>	<i>Path II WSE*RIGHT</i>	<i>Path III wpp*RIGHT</i>
Lubbers I	.33	0	.17	.83	.67	.83	.67
Lubbers II	.67	0	.67	.33	.33	.33	.83
Lubbers III	.67	.40	.33	.67	.67	.60	.60
Kok I	.83	.60	.60	.67	.40	.40	.40
Kok II	1.00	.60	.67	.33	.33	.33	.40
Kohl I	.83	0	.67	.33	.33	.33	.83
Kohl II	.83	0	.67	.67	.17	.17	.67
Kohl III	.17	0	.67	.67	.33	.33	.67
Kohl IV	.33	0	.33	.67	.33	.67	.33
Schröder I	.33	.67	.60	.33	.40	0	0
Schlüter I	.67	.67	.67	.83	.33	.33	.67
Schlüter II	.33	0	.40	.83	.60	.60	.67
Schlüter IV	.33	0	.33	.17	.67	.67	.67
Schlüter V	.67	0	.33	.67	.40	.67	.40
N.Rasm. I	.67	.60	.83	.33	.17	.17	.40
N.Rasm. II & III	.67	.60	.40	.67	.60	.25	.25
N.Rasm. IV	.67	.67	.60	.67	.33	.25	.25
Thatcher I	.33	0	.17	1.00	.83	.83	.83
Thatcher II	.67	0	.67	.83	.33	.33	.67
Thatcher III	.33	0	.33	.67	.67	.67	.67
Major I	.45	0	.40	.67	.60	.60	.67
Blair I	.67	.83	.67	.67	.33	0	0
Blair II	.33	.67	.67	.33	.33	0	0
Consistency		.38	.88		.94	.95	.86
Coverage		.85	.83		.69	.64	.72

Notes: Cases with membership > .5 are indicated in **bold**; N.Rasm. is Nyrop Rasmussen.

and a Rightist Government triggers benefit reduction suggest that, as hypothesized, Rightist partisanship is indeed an INUS condition for unpopular reform and Leftist partisanship for NUP reform. Partisanship thus does matter, but differently than usually argued. In contrast with for example Allan and Scruggs (2004), Rightist Governments do not pursue more or harsher benefit reductions than Leftist ones. Instead, Rightist governments are *more likely* to pursue them. Precisely, for Rightist Governments, a weak socio-economic situation is enough to trigger such measures, while Leftist ones only curtail benefits when the socio-economic condition is poor and the political position strong. Likewise, Leftist Governments are *more likely* to pursue activation. For Leftist Cabinets, a strong political position is enough for reforms in the area of activation, while Rightist ones only pursue such measures when their political position and the socio-economic situation are both strong. The latter result conflicts for instance with Rueda's (2007) finding that there is a positive relationship between Leftist partisanship and increased spending on ALMPs under increasing unemployment.

Conclusions

This study's main finding is that socio-economic and political losses and gains matter for welfare state reform. The fs/QCA analysis of the reform activities of 23 German, Dutch, Danish and British Governments between 1979 and 2005 demonstrated that a deteriorating socio-economic situation (a loss) is necessary for benefit cutbacks or, more precisely, for a losses domain that triggers risk-accepting behaviour among the Government and thereby induces it to pursue unpopular measures. A falling socio-economic situation had this impact only in conjunction with one or two other conditions: an improving political position or a Rightist Government. Conversely, the fs/QCA analysis of reform in the area of activation indicated that a strong political position (a gain) is necessary for the occurrence of NUP reform. This condition, however, is only sufficient for triggering reform if the socio-economic situation is improving or the Cabinet is of Leftist composition. These findings are in line with prospect theory.

Prospect theory offers a complementary, not rival, account as existing theories help to establish the political actors' domain. Additionally, 'prospect theory explains which one of the available options

is chosen, [but] does not account for the *range of options* that a decision-maker considers' (Weyland, 2002: 70, italics added). For instance, ideational arguments provide a useful addition here (see Jacobs, 2009). Likewise, we need other theories to explain the deviating cases (Vis, 2009).

This study has contributed to a key puzzle in the literature on welfare state reform: under which conditions (when) do different types of reform occur? The article advanced the discussion by focusing both on measures that are unpopular and those that are not-unpopular – something which, despite the increased attention for changes other than retrenchment, is seldom done (but see e.g. Clasen, 2005). Additionally, the analysis demonstrated the value of a prospect-theoretical account for the analysis of welfare state reform. Losses proved vital for curtailing even the programme that is perhaps the most likely candidate for cutbacks: unemployment benefits. As argued by Pierson (1994) and Green-Pedersen (2002) among others, unemployment benefits are less difficult to retrench than for instance pensions, as cutbacks in unemployment benefits can be justified more easily or (and related) because the blame associated with the cutbacks can be avoided more easily (see Jensen, 2007). Summing up, using a relatively new methodological approach (fs/QCA), this article showed that a prospect-theoretical account that stresses the importance of losses and gains can explain the puzzling cross-government variation in different types of welfare state reform.

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Notes

- 1 For an overview of the literature on economic policy reform, see Rodrik (1996).
- 2 Note that NUP reforms are not neutral. Although NUP reforms are not politically risky, they are not without costs either. The term not-unpopularity captures precisely this distinction; neither unpopular nor popular. To circumvent the use of a double negation, I abbreviate the term to NUP reform.
- 3 Concentrating on governments justifies this focus on the median voter as mainstream parties, generally making up a government, cater to the median voter. Specially, a change in the median voter's position causes a corresponding shift in mainstream parties' policy position (Ezrow et al., 2008).
- 4 Unpopular reforms qualify as welfare state retrenchment and can either be cost containment or recommodification (Pierson, 1994; 2001). Not-unpopular reforms qualify as welfare state restructuring, specifically as recalibration, i.e. the attempt to 'make contemporary welfare states more consistent with contemporary goals and demands for social provision' (Pierson, 2001: 425). For a discussion of retrenchment versus restructuring see Clasen (2005: Chapter 2).
- 5 Included are the German Cabinets from Kohl I to Schröder I, the Dutch Cabinets from Lubbers I to Kok II, the Danish Cabinets from Schlüter I to Nyrup Rasmussen IV (incorporating Nyrup Rasmussen III in Nyrup Rasmussen II because the former began when the Centre Democrats left the coalition) and the British Cabinets from Thatcher I to Blair II. I exclude Cabinets that governed less than a year.
- 6 Rihoux and Ragin (2009) offer a good overview of QCA and fuzzy-set approaches.
- 7 Address: [www.barbaravis.nl].
- 8 For a more extensive discussion of prospect theory see Levy (2003), Mercer (2005) and Vis (2008: Chapter 1).
- 9 Thanks to an anonymous referee for suggesting this.
- 10 Additionally, reforms other than benefit cutbacks may be more unpopular in general, for instance by hitting a larger group of voters more severely. Pension reform would be a case in point (Blekesaune and Quadagno, 2003). However, pension reforms are often implemented in the (sometimes distant) future, while benefit reductions are implemented usually immediately. The latter allows for examining systematically the variation in these reforms across governments.
- 11 The political logic of ALMPs differs from that of welfare state expansion; the politics of credit claiming (Pierson, 1994) do not apply (see Rueda, 2007). Consequently, an increase in ALMPs is no popular reform. In fact, reforms that are popular as they positively affect the median voter are rare in the current era of retrenchment. A popular reform from the expansion phase is the Dutch public pension system introduced in the 1950s. This law constitutes a popular reform since all voters benefit from it because everyone who reaches the age of 65 receives a public pension, irrespective of means or income.
- 12 Including only the years in which the government reigned for at least 6 months. The raw data are available upon request.

- 13 The software is available at www.compass.org.
- 14 The analysis also finds the combination of WSE*WPP*RIGHT → ACT, but that path covers Schlüter V only and is therefore not included as part of the solution.
- 15 The most parsimonious solution is: right + wse + WPP → ACT (coverage:.90; consistency:.80).
- 16 The most parsimonious solution is: WSE + RIGHT → BEN (coverage:.93; consistency:.72).
- 17 See Note 14.
- 18 This finding implies that the paths are more aptly described as 'almost always sufficient'. In-depth case studies can help one to understand better the cases deviating from the dominant patterns.

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