

Barbara Vis

Politics of Risk-taking

CHANGING WELFARE STATES

WELFARE STATE REFORM IN ADVANCED
DEMOCRACIES



AMSTERDAM UNIVERSITY PRESS

POLITICS OF RISK-TAKING

CHANGING WELFARE STATES

Advanced welfare states seem remarkably stable at first glance. Although most member states of the European Union (EU) have undertaken comprehensive welfare reform, especially since the 1990s, much comparative welfare state analysis portrays a 'frozen welfare landscape'. Social spending is stable. However, if we interpret the welfare state as more than aggregate social spending and look at long-term trends, we can see profound transformations across several policy areas, ranging from labour market policy and regulation, industrial relations, social protection, social services like child care and education, pensions, and long-term care. This series is about trajectories of change. Have there been path-breaking welfare innovations or simply attempts at political reconsolidation? What new policies have been added, and with what consequences for competitiveness, employment, income equality and poverty, gender relations, human capital formation, and fiscal sustainability? What is the role of the European Union in shaping national welfare state reform? Are advanced welfare states moving in a similar or even convergent direction, or are they embarking on ever more divergent trajectories of change? These issues raise fundamental questions about the politics of reform. If policy-makers *do* engage in major reforms (despite the numerous institutional, political and policy obstacles), what factors enable them to do so? While the overriding objective of the series is to trace trajectories of contemporary welfare state reform, the editors also invite the submission of manuscripts which focus on theorizing institutional change in the social policy arena.

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**Welfare State Reform
in Advanced Democracies**

Barbara Vis

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Amsterdam, December 2009
Barbara Vis

1 The puzzle and its pieces

1.1 Welfare state reform: Politics of risk-taking?

Reforming the welfare state, or proposing to do so, involves a substantial electoral risk. Many parties and governments have experienced this first hand over the last two decades. Examples include the German Christian Democrats in 1998, the Dutch Social Democrats and Christian Democrats in 1994, and the New Zealand Labour party in 1990. A recent example of just how risky announcing a reform can be, comes from the Dutch Social Democratic party, the PvdA (*Partij van de Arbeid*). By the end of April 2006, Wouter Bos, the party leader, suggested the so-called fiscalization of the public pension scheme (AOW, *Algemene Ouderdomswet*). This scheme is a universal pension that all individuals of 65 years or older receive. In the Dutch case, fiscalization of the AOW would mean paying pensions out of general revenues – to which all taxpayers, including the pensioners, contribute – instead of out of a fund to which only workers contribute. Consequently, fiscalization would imply a lower public pension for almost all pensioners. The proposal was highly unpopular among the public, especially among the pensioners and those individuals in their late forties and fifties. A former member of the Social Democratic party dubbed the proposed fiscalization an ‘elderly tax’ (*bejaardenbelasting*), augmenting the negative connotation of the proposal and increasing its unpopularity. Given this backdrop, it comes as no surprise that the repercussions for the PvdA were huge. While the party had polled no less than 40 per cent of the votes late March 2006, this share had decreased to 29 per cent by June and at the ‘only poll that counts’, the general elections in November, it received only 22 per cent of the votes.

Because of the political risk that political actors face when pursuing welfare state reform, this study argues that the current politics of the welfare state is most aptly described as the *politics of risk-taking*. Ever since the publication of Pierson’s (1994) seminal study, *Dismantling the Welfare State?* we know that the politics of welfare state retrenchment differs

from the politics of welfare state expansion. Political actors can no longer claim credit for improving the programmes of the welfare state. Instead, they are potentially blamed for cutting back popular ones. Rightist parties are in no position anymore to simply pursue their preferred agenda of rolling back the welfare state because they also face a constituency that has grown attached to the welfare state's programmes. Leftist parties are in no easier position because they have to retrench in order to display economically sound behaviour – something voters appreciate widely – as well as having to stay close to their own ideological roots of extensive welfare state support to not to detach their party's voters. This context implies that political actors are continuously facing a choice between reforming the welfare state and abstaining from doing so. In quite some cases, reform may be a necessity because of socio-economic changes and pressures. It does, however, entail a political risk in the form of a loss of votes. Governments, as the main political actor in welfare state reform and the only institutions that have a clear mandate for taking binding decisions (cf. Baccaro & Simoni 2008), thus always confront the question of whether to bite the bullet and take the risk or to steer clear and refrain from it (Vis 2009a; 2009b).

The popularity of reform relates to the perspective of voters. This study assumes that governments consider the possible electoral consequences of their policies because a failure to do so jeopardizes their longer-run chances of implementing their preferred policies (Downs 1957; Pierson 1994: 17).¹ The variety of possible reforms governments have at their disposal involve varying amounts of electoral risk and possess different degrees of possibilities for reaping electoral gains and remedying socio-economic problems. *Unpopular reforms* are those policy changes that do not favour the median voter, which is the voter holding the median policy position (Kitschelt 2001). Such reforms usually mean the imposition of losses without clear, identifiable and present winners (Ross 2000a: 157). Examples include the tightening of eligibility and benefit levels, the freezing of inflationary increments, and the indexation of benefits based on inflation rather than wages. *Not-unpopular reforms*, conversely, are those policy changes that affect the median voter neither positively nor negatively. An example includes increased spending on active labour market policies (ALMPs). Increased spending on ALMPs taps the degree of not-unpopular reform because it affects the median voter neither positively nor negatively. Active labour market policies have only a direct effect on a relatively small group of voters (especially the unemployed), probably therefore hardly influencing the median voter. Moreover, as an idea *an*

sich, activation receives widespread support since most people prefer active programmes to passive ones, for instance because of the former's reciprocal nature (that is receiving benefits in return for participation in an activation scheme, see OECD 2006a).² Consequently, participants in such schemes meet deservingness criteria more easily (Van Oorschot 2000; 2006; Larsen 2008). This may suggest that ALMPs are popular; a conclusion that public opinion data from the Eurobarometer 56.1 (2001) partly supports. 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'. This latter statement suggests a less favourable stance towards ALMPs. Therefore, this book assumes that the median voter is neither in favour nor opposed to ALMPs in general, which makes increased spending on ALMPs a not-unpopular reform.

Unpopular welfare state reforms and not-unpopular ones

The literature is replete with terms that try to capture welfare state reform. As Powell (2004: 1) sums up, 'the welfare state has been in crisis, under threat, in transition, resilient or robust, reshaped, refashioned, restructured, residualised, rolled back, recast, recalibrated, transformed, and even dismantled'. The fact that different authors adopt different theoretical conceptualizations and, hence, different empirical operationalizations is one of the key causes of a so-called *dependent variable problem* in comparative welfare state research (Green-Pedersen 2004; see also Esping-Andersen 1990; Clayton & Pontusson 1998; Sainsbury 2001; Castles 2002; Rothgang et al. 2006; Clasen & Siegel 2007a; Kühner 2007). This problem concerns how to conceptualize welfare state reform theoretically, how to operationalize it empirically and, finally, how to measure it. Such questions have received remarkably little attention in the comparative literature on the welfare state until recently (Clasen & Siegel 2007b: 4). Since different authors adopt different definitions, their operationalizations differ and, consequently, their findings do too.

Results that contradict one another are not a problem *per se*. However, lack of clarity with regard to the definitions and operationalizations employed is. The latter pertains particularly to qualitative (small-n) studies. Often, scholars in the qualitative tradition present only a theoretical definition of reform, not an operational one. The – otherwise outstand-

ing – work of Paul Pierson is a case in point in this respect. Pierson (1996: 158) focuses on ‘reforms that indicate structural shifts in the welfare state’, including among others ‘(...) dramatic changes in benefit and eligibility rules that signal a qualitative reform of a particular program’. But when are changes in benefit and eligibility rules *dramatic* enough to indicate qualitative reform (cf. Green-Pedersen 2007: 16)? Lacking or unclear operationalization makes replication, one of the cornerstones of empirical research (cf. King et al. 1994: 26-27), impossible. Quantitative (large-n) studies – scoring high on the possibility for replication – face a different problem. They may fail to capture qualitative welfare state changes. Unpopular reform, cannot be captured simply by cutbacks in, for example, social expenditure. Because of the variation across welfare state regimes in voters’ support for welfare policy (Larsen 2008), a reduction in social expenditures of, say, 10 per cent is likely to be more unpopular in social democratic countries than in liberal ones.

This study adds another two terms to the comparative welfare state research’s box of concepts: unpopular reform and not-unpopular reform. It introduces these terms because of how they fit in with the idea of welfare state reform as the politics of risk-taking. Per definition, unpopular reforms involve higher electoral risks than reforms that are not-unpopular. The latter, then, are interesting because we have only scant knowledge of why some, but not other, political actors pursue policies that are not politically risky in that they could lead to a loss of votes but which offer also no avenue for reaping electoral gains.

Let me stress that not-unpopular reforms are not the same as popular reforms. Reforms that are popular in that they positively affect a large group of voters – including the median one – are rare in the current era of welfare state retrenchment. An example of a reform enacted recently that could have constituted a popular reform is the so-called Life Course Arrangement (*Levensloopregeling*) introduced in the Netherlands in 2006. This arrangement allows employees to save in a fiscally attractive way to take up unpaid leave. These savings can thus lower individuals’ burdens during the rush hour of life (caring for children and/or elderly parents). Perhaps due to its complexity and long-term orientation, the arrangement’s actual popularity is low. Staying with the Netherlands, an example of a popular reform introduced during the welfare state’s expansion phase is the universal public pension system, discussed above, in the 1950s. This law constituted a popular reform since all voters who reach the age of 65 would benefit from it; they would all receive a public pension, irrespective of means or income.

To what extent is the expansion of family policy also an example of a popular reform? Lambert's (2008) maternal employment index, which measures the degree of childcare provisions, maternity leave and parental leave, indicates that these policies have indeed increased since the mid-1980s in all OECD countries. However, it is questionable if this expansion is a popular reform in the terminology of this book, that is to say, a measure that the median voter supports. There is evidence suggesting that it is not. For example, no less than 61 per cent of the Swiss electorate voted down a proposal for 14 weeks of paid maternity leave (at 80% of the last income) in the late 1990s (Kuebler 2007: 226-227). Also the population pyramids of Western democracies leave room to question family policy's overall popularity (OECD 2007). The percentage of the population between age 25 and 44 – the group benefiting directly from family policy – is somewhere between 26 (Finland) and 31 (Canada) and thus far from a majority. Perhaps even more importantly, the share of population over 45 years of age – typically not benefiting from family policy – is substantially higher. This proportion ranges from an exceptional low of 33 per cent in Ireland to 46 per cent in Italy.³ These figures indicate that the median voter does not benefit from family policy. Bonoli & Häusermann (2009) show that this observation likely matters. Based on an analysis of the actual voting behaviour on referendum issues in Switzerland, Bonoli & Häusermann find that the youngest generation (in their case between 18 and 39 years of age) was two or three times (depending on the referendum) more likely to support maternity insurance than the oldest generation of people (65 years or older). Although not examining family policy, also Busemeyer et al. (2009) find an age cleavage, with retired people being less supportive of policies that do not benefit them directly, such as education. These findings suggest that the expansion of policies does not automatically make it a popular reform. Instead, it is more likely that reforms that are popular are indeed rare nowadays.

1.2 The risk involved in welfare state reform

The current literature on welfare state reform focuses mainly on reforms that are unpopular, which are commonly subsumed under the heading of welfare state retrenchment (for overviews and reviews see e.g. Scharpf & Schmidt 2000; Pierson 2000a; Green-Pedersen & Haverland 2002; Mylles & Quadagno 2002; Taylor-Gooby 2002; Van Kersbergen 2002; Starke 2006; Ferrera 2008). Governments find themselves in a difficult position

when it comes to such unpopular reform in the current era of ‘permanent austerity’ (Pierson 2001a), being trapped between the ‘(...) Scylla of economic mismanagement and the Charybdis of dismantling the welfare state’ (Hemerijck & Schludi 2000: 129; see also Green-Pedersen 2001a). Governments may lose votes if they curtail the welfare state because of the welfare state’s broad electoral popularity and the consequent unpopularity of cutbacks (Esping-Andersen 1996a; Boeri, Börsch-Supan & Tabellini 2001; Becker 2005; Brooks & Manza 2006; see Pierson 1996; Kitschelt 2001).⁴ However, governments may also lose votes as a consequence of economic mismanagement as the economic voting literature shows that citizens (at least partially) blame their government for a weak economic performance (see e.g. Tufte 1978; Hibbs 1979; Lewis-Beck & Paldam 2000; Van der Brug, Van der Eijck & Franklin 2007).

The assumption implicit in most studies on unpopular welfare reform is that governments will pick economic prudence (that is reform) whenever the circumstances (e.g. the institutional configuration) allow it. This assumption is problematic because it underestimates the degree of risk involved in unpopular reform, which is actually higher than the degree of risk involved in abstaining from reform. Let me define *risk* as the probability of an event occurring (here loss of votes in an election) times its impact if it did (here loss of power, removal from government). Since both the probability and the impact are high, reform is highly risky. The high probability stems from reform’s likely (severe) negative electoral consequences, caused by the welfare state’s popularity. The impact is high too given that governments have lost power or have been removed from office after having implemented unpopular reforms. Note that the risks this book focuses on are thus the risks involved in politics such as vote loss or removal from office, not social risks like losing one’s job or falling ill or becoming disabled.

In a recent study, Armingeon & Giger (2008) show that many governing parties were not punished at the next election for having curtailed benefit entitlements. Voters punished the governing parties only when the issue was highly salient in the election campaign. Of the 30 governments that cut entitlements by minimally 5 per cent, most (16) were not punished for it (by losing minimally 5% of the votes). Some governments (7) did lose minimally 5 per cent of the votes, but not because of the cutbacks. However, and crucial for the argument presented here, some governments (7) *did* lose because of the enacted cutbacks. Since governing parties do not know beforehand whether the welfare state will emerge as a top issue in the election campaign, which happened in 23 per cent of the time for the

cases under review by Armingeon & Giger, the risk involved in pursuing unpopular measures is high nonetheless.

Two factors amplify the degree of risk involved in pursuing unpopular reform. First, the reform may fail to enhance a country's socio-economic performance. Economists, for example, doubt whether governments can control capitalist countries' economic performance (Scharpf 1991, chapter 2). If governments pursue unpopular measures that fail to result in the desired outcome (e.g. a lower level of unemployment), they may be punished not only for having implemented the unpopular measures, but also for not having reversed the country's poor socio-economic situation. Second, people display a *negativity bias* (Lau 1985; Hood 2002). Consequently, voters will be '(...) more sensitive to what has been done *to* them than what has been done *for* them' (Weaver 1988: 21, italics in original). This negativity bias indicates that even if reform leads to the preferred socio-economic outcome, the government might still suffer electorally for having enacted the unpopular measures in the first place. Conversely, the electoral reward for the successful socio-economic performance is likely to be small.

The corollary of the riskiness of reform is that political actors aspiring to be re-elected should either refrain from enacting unpopular welfare state reform or learn how to excel in the art of blame avoidance (Weaver 1986; Pierson 1994; 1996; Vis & Van Kersbergen 2007). Some of the blame avoidance strategies that political actors have at their disposal are passing the buck, that is delegating the blame by making for instance municipalities responsible for a particular social policy (such as social assistance), and finding a scapegoat (for example by blaming the need for an unpopular reform on Europe). Even when political actors succeed in deflecting the blame generated by unpopular measures, they still need to overcome the institutional hindrances to reform. Most political systems have at least a number of veto points '(...) i.e. instances in the policy making process at which a (...) coalition of actors can prevent the adoption of a given piece of legislation' (Bonoli 2001: 238). Additionally, there is the process of path dependence, that is a self-reinforcing process exhibiting increasing returns (Pierson 2000b; 2004, chapter 1). Increasing returns imply that with each move down a path, the probability of further steps along that same path rises, because the costs of reversal are high (see Swank 2001). As Jochem (2007: 262) explains, the point is that political institutions introduced earlier in history 'have specific effects on policy making processes at later points in time, even if the political basis which led to the introduction of these institutions years ago [is] no longer in place'. Because of the

presence of institutional and political hindrances, reforming the welfare state is thus not only highly risky electorally but also very difficult.

How many unpopular reforms and not-unpopular ones have been pursued by governments in spite of these institutional impediments and political hurdles? Have these reforms affected the shape of the welfare state and, if so, in which direction? The current literature provides no conclusive answer to these questions. Different theoretical traditions agree that major forces push for welfare state reform, such as the transformation of the labour market, the process of de-industrialization, the effects of Europeanization and globalization, the low level of economic growth, and the high level of unemployment. However, there is widespread disagreement among various bodies of literature about the resulting extent and shape of welfare state reform. The same applies to the question of the conditions under which unpopular and not-unpopular reform occur (Scharpf & Schmidt 2000; Pierson 2001b; Gilbert 2002; Green-Pedersen & Haverland 2002; Myles & Quadagno 2002; Van Kersbergen 2002; Castles 2004; Starke 2006; Ferrera 2008; Starke, Obinger & Castles 2008).

This book ties in with these discussions. Part I sets the scene by examining the direction and scope of welfare state reform in a large number of advanced capitalist democracies as well as by studying the degree to which a selection of these countries' governments have pursued unpopular and not-unpopular welfare state reform. The central question in this part of the book is the extent and type of welfare state reform. As indicated, the literature is inconclusive on these issues, with some scholars finding or predicting major welfare state overhaul and others finding none. This question thus lies at the heart of the current scholarly debate in comparative welfare state research. Part II of this book tackles the question of how to explain the occurring changes. The literature is also inconclusive on this topic. Not only are there many, sometimes conflicting, hypotheses and results, we also hardly know why a government interested in votes or office would pursue electorally dangerous measures at all.

1.3 Arguments in a nutshell

In a nutshell, this study demonstrates that the degree to which governments have pursued unpopular welfare state reforms and not-unpopular ones over the past two decades is quite substantial. As regards unpopular reform, many governments have implemented policies entailing an electoral risk. With respect to not-unpopular reform, many governments

have increased spending on active labour market policies. Interestingly, the degree to which governments did *not* pursue unpopular as well as not-unpopular reform is also quite substantial. The study shows that the changes that occur have not transformed the character of welfare states radically. That is to say, most reforms are regime specific (that is, remain within one ideal type welfare state regime, such as the liberal one) and only a few are radical (that is, change a country's correspondence from one ideal type to another).

The book's main argument is that due to governments' varying risk-attitudes, the conditions under which different types of reform occur vary. As elaborated above, the electoral risk involved in unpopular reform is (much) higher than the electoral risk involved in maintaining the status quo. Therefore, we need a theory that can account for political actors' attitudes towards risk to understand better the politics of welfare state reform. This study shows that *prospect theory*, a context sensitive, behavioural theory of choice under risk (Kahneman & Tversky 1979; 2000), offers such a theory. Drawing on insights from prospect theory, I argue and empirically show that governments accept the risk of electoral punishment involved in unpopular reform only when they find themselves confronted with losses in the form of a deteriorating socio-economic situation and/or a deteriorating political position. Only then are they willing to face up to the electoral risk involved in unpopular reform in a, so to speak, desperate attempt to try and recoup (some of) the losses incurred. A worsening socio-economic situation is only sufficient for triggering reform when combined with one or two other conditions: a deteriorating political position or a rightist government composition. Conversely, governments pursue not-unpopular reforms only in a situation of political gains. The political gains need to be combined with an improving socio-economic situation or a leftist cabinet composition in order to bring about not-unpopular reform. The conditions under which governments pursue unpopular and not-unpopular reform thus vary. A condition of loss is necessary for governments to engage in the former, while a condition of gain is necessary for the latter. Hence, this study demonstrates the asymmetric influence of gains and losses as central to prospect theory to be crucial for understanding the politics of welfare state reform. The importance of gains and losses in welfare state reform suggests that the current politics of welfare state reform is indeed politics of risk-taking.

This argument builds among others on the work of Pierson (1994). Drawing on Weaver's (1986) notion of the politics of blame avoidance, Pierson proposes that one of the reasons for the difficulty of cutting back

core welfare state programmes is these programmes' popularity. Adding the stronger response to losses than to gains that is central to prospect theory leads Pierson to propose that the concentrated groups that are hit 'are more likely to be cognizant of the change, are easier to mobilize, and because they are experiencing losses rather than gains will be more likely to consider the change in their voting calculations' (Pierson 1994: 18). Pierson thus draws on the central finding of prospect theory to explain the difficulty of reform. My approach differs from his in that I not only use prospect theory to account for the difficulty of reform but also to explain why some governments, but not others, are willing to accept the risk involved in unpopular reform. The advantage of this approach over Pierson's is that it can account for the variation in reform across similar governments. That is to say, it can both explain the absence of reform and its occurrence.

1.4 Empirical approach

Empirically, this book focuses on the area of work and welfare. This policy field of the welfare state is particularly apt for studying the politics of contemporary welfare state reform as both unpopular reforms (e.g. benefit cutbacks) and not-unpopular ones (e.g. increased spending on ALMPs) occur here. Although most studies focus only on the scaling back of the welfare state, in my terminology unpopular reform, an increasing number of scholars acknowledge the importance of concentrating also on instances of recalibration or expansion (e.g. Clayton & Pontusson 1998; Hinrichs & Kangas 2003; Meier Jæger & Kvist 2003; Clasen 2005; Armingeon & Bonoli 2006). By combining the two in one analysis, this study adds to this body of literature.

The empirical analysis begins in Part I with an examination of the variation across countries and over time. Therefore, as many countries as possible are included for as long a period of time as possible (chapter 3): 16 advanced capitalist democracies – Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom (UK), and the United States (US) – between 1985 and 2002. Since these cases are all advanced capitalist and long established democracies, they have enough in common to be sufficiently comparable (Berg-Schlosser & De Meur 2009: 20). I focus on the time-period 1985-2002 for two reasons. First, the literature informs us that the pressures on the welfare state were mounting in the 1990s, suggesting that if one wants to study the politics of welfare state

reform, this is the decade to focus on. In order to assess what caused the changes in the 1990s, one needs information on the preceding period too. Second, for all cases under review, the earliest and latest year for which comparable data are available are 1985 and 2002.⁵

Subsequently, the study moves its attention to the variation across governments within four of these advanced democracies (chapter 4). Specifically, it zooms in on the reform activities of governments from Denmark, Germany, the Netherlands, and the UK between 1979 and 2005. Such a focus on governments, instead of the country-year, is still rare in comparative welfare state research. This is surprising given that most of the arguments put forward relate to what governments do. To unravel the conditions under which governments pursue unpopular and not-unpopular welfare state reform, this study thus combines intra-national and cross-national comparisons. As Lijphart (1971: 689) explained almost four decades ago, the advantage of such a design is twofold. First, the intra-national comparisons, that is between the governments within a country (e.g. Lubbers I-III, Kok I & II in the Netherlands), holds constant various context factors such as institutional characteristics. This maximizes homogeneity across the cases, which makes sure that the findings are not distorted by one or more factors that differ across the countries. Second, the cross-national comparisons, those between the governments of the four countries, allow for the heterogeneity across the cases to be as high as possible (cf. Berg-Schlosser & De Meur 2009: 21). This heterogeneity helps one to reveal the robustness of the findings. The governments of Denmark, Germany, the Netherlands, and the UK are prime candidates in this respect. First, as discussed in more detail in chapter 4, the countries vary with respect to a number of characteristics that might influence governments' pursuit of unpopular and not-unpopular welfare state reform. For example, the *type of welfare state* (UK: liberal; Germany: conservative; Denmark: social democratic; Netherlands: variously considered conservative or social democratic, but in this study viewed as conservative, see chapter 3), and the *type of party competition* (UK: united Market-Liberals vs. united Social Democrats; Germany: weak Liberals, strong Centre, and strong Social Democrats; Denmark: divided Market-Liberals and Centrists vs. united Social Democrats; Netherlands: a three-way divide between Liberals, Centre, and Social Democrats; see Kitschelt 2001). If despite these institutional differences the empirical analysis reveals similarities in the factor(s) that account for governments' take up of welfare state reform, it is likely that the applicability of the findings is broader than these four countries only. Paraphrasing Weyland (2006: 16),

this study gets analytical leverage by seeking points of agreement among diverse countries. Second, all countries (save the UK in case of unpopular reform) had rightist governments as well as leftist ones that pursued unpopular or not-unpopular reform in one cabinet period and abstained from it in another (see chapter 4). This feature allows me to control for the influence of partisanship. Third, the four countries are often said to vary as regards the extent of welfare state reform that has taken place (e.g. Cox 1998a; 2001; Green-Pedersen 2002; Clasen 2005; Kuipers 2006).

1.5 Structure of the book

The structure of the rest of the book is as follows. Chapter 2 presents the study's methodological approach: fuzzy-set analysis. This technique is still relatively uncommon in comparative political economy, of which comparative welfare state research is a sub-field. Therefore, I first discuss why I employ this approach and not a more traditional one like pooled time series cross-section analysis. Elaborating on what fuzzy-set analysis is and what it can do further clarifies the value of this approach for this study.

Chapter 3 offers a first application of fuzzy-set analysis. Specifically, this chapter examines if reform of social policies has resulted in radical welfare state reform or whether such a claim is much ado about nothing. These views relate to the perspectives of two bodies of literature that are usually not contrasted: the regulation approach to political economy and what this study labels 'mainstream' welfare state analysis. In addition to solving this puzzle of conflicting predictions and findings by means of fuzzy-set ideal type analysis, this chapter maps the extent and shape of unpopular and not-unpopular welfare state reform. It does so by examining whether there have been reductions in benefit rates or if benefit conditions have become stricter (both unpopular reform) and whether spending on ALMPs has increased or employment protection has become stricter (both not-unpopular reform). The analysis shows that despite the occurring changes, the welfare state's character has remained largely intact. Most of the changes are regime specific, that is to say, take place within a particular ideal type (such as conservative welfare). These results correspond best with the theoretical predictions and findings of the mainstream welfare state literature.

Chapter 4 continues with the mapping of unpopular and not-unpopular reform, but now zooming in on the government level of four selected countries (Denmark, Germany, the Netherlands and the UK). The large-

ly descriptive analysis focuses on the cross-government variation in the different types of reform, revealing substantial and puzzling variation in the reforms pursued by similar governments in different cabinet periods. This raises the question why some governments pursue reform whereas others do not. Why are some, but not other, governments willing to take the risk involved in reform?

Chapter 5 offers an overview of the literature on welfare state reform. The overview shows that existing approaches that focus on institutions, politics, socio-economic changes, and ideas certainly have their merits but fail to explain systematically the variation in unpopular and not-unpopular reform across governments identified in chapter 4.

To fill this lacuna in welfare state studies, chapter 6 presents a theoretical framework that can account for the cross-government variation in different types of reform. Given that the politics of welfare state reform is the politics of risk-taking, we need a theory that focuses on risk-attitudes. Prospect theory is precisely such a theory. Whilst expected utility theory, to which prospect theory is a reaction, draws on the unrealistic assumption of risk-aversion across all situations, prospect theory based on experimental evidence posits that individuals' risk-attitudes vary across the situation, or domain, in which they find themselves. The theory's main finding is that when confronting gains, people are averse to take risks; when confronting losses, conversely, people accept risks in order to recoup (some of) the losses incurred. After an extensive discussion of prospect theory the chapter presents the theoretical model of welfare state reform.

Chapter 7 is the empirical core of this study as it tests the theoretical model outlined in chapter 6. The fuzzy-set Qualitative Comparative Analysis (fsQCA) conducted here demonstrates that, as hypothesized, the conditions under which governments pursue unpopular and not-unpopular reform differ greatly. Specifically, the necessary condition for the former is a deteriorating socio-economic situation, whilst for the latter it is an improving political position. Both necessary conditions are only sufficient when combined with at least one other factor, which also differs across the two types of reform.

Finally, chapter 8 summarizes the book, discusses the study's methodological and theoretical contributions, and probes the implications for scholarship on the welfare state.

2 Fuzzy-set analysis

2.1 Introduction

The aim of this chapter is to introduce this study's methodological approach: fuzzy-set analysis. Since using this technique is still relatively rare in the social sciences in general and in comparative political economy (of which comparative welfare state research is a sub-field) in particular, I will first explain why I do not use a more common approach: pooled time series cross-section analysis. Subsequently, I will discuss fuzzy-set analysis and elaborate two of its techniques: 1) fuzzy-set qualitative comparative analysis, or fsQCA and 2) fuzzy-set ideal type analysis.

2.2 Why not use a traditional approach?

Comparative political economy uses various techniques of comparative research. The techniques that are employed most often, and which hence could be labelled traditional, are in-depth studies of a small number of cases and quantitative analyses of a (relatively) large number of cases, such as time series cross-sectional analysis (Janoski & Hicks 1994; Kittel & Obinger 2003; Kittel & Winner 2005; Podestà 2006). A discussion of why not to use time series cross-section analysis, or panel data, is warranted as – although the tides are perhaps changing slightly – it is still '(...) difficult to defend not using panel data in the analysis of comparative political economy' (Kittel & Winner 2005: 269). Why do many scholars use this technique? And what are its problems?

Time series cross-sectional data have two advantages that made researchers use this type of data *en masse*. First, pooling cross-section and time series data reduces the so-called small-n problem. This problem, which often emerges in comparative political economy, pertains to the situation of having a too small number of observations to make only rel-

evant inferences, whereby an inference ‘is the process of using facts we know to learn something about facts we do not know’ (King, Keohane & Verba 1994: 119). The rule is that one observable implication can only give independent information about one other fact, that is, each observation allows for one inference at the most. If the observations are not independent, as often is the case in comparative political economy, we need (many) more than n observations to make n inferences (King et al. 1994: 119). This small- n problem of more inferences than observations arises often in qualitative case studies, because the number of cases is per definition limited there, but also in cross-national research that focuses on for instance 18 developed democracies. Including both cross-sectional and time series data reduces this problem by increasing the number of observations. For example, adding time series data for 10 years to 18 OECD countries increases the number of observations from 18 to 180. Having more observations allows for more fully specified models to be estimated and thus for more inferences to be drawn (but see Shalev 2007: 278-288). A second advantage of pooling is that it enables one to control for exogenous shocks that all units of observation share (such as an oil crisis) by controlling for time effects and limits omitted variable bias by controlling for unit effects (Halaby 2004; Plümper, Troeger & Manow 2005: 329; see Baltagi 2005: 4-7).

Unfortunately, pooling data introduces a wide range of, sometimes new, problems too. Specifically, the potential problems of the time series dimension, such as autocorrelation (error terms that are not independent from one time period to another) and non-stationarity (the persistency of variables over time), as well as of the cross-sectional dimension like heteroskedasticity (the variance of the error terms varies across units) are often present and regularly reinforce one another. Because of the way these problems are (not) handled, the results of panel analyses are regularly not very reliable (Kittel 1999; 2008; Kittel & Winner 2005; Plümper et al. 2005; Podestà 2006). Wilson & Butler’s (2007) review of 195 published articles in political science nicely illustrates the problems involved. Specifically, Wilson & Butler show that crucial specification issues are usually not discussed or considered and that sensitivity analyses are even rarer (see also Beck 2007). Technically, it is possible to test for all potential problems in time series cross-sectional data and to remedy the occurring ones in order to arrive at an econometrically sound model. However, because fixing problems usually means that the model is re-specified, the regression model to be estimated changes too. The result may be that the findings of the estimated model do not provide an answer

to the research question posed (Plümper et al. 2005; Podestà 2006: 349; Kittel 2008).

2.3 The alternative: Fuzzy-set analysis

Why use fuzzy-set analysis?

Instead of conducting time series cross-sectional analyses, this study employs innovative configurational comparative techniques based on fuzzy-set theory (Ragin 2000; 2008; Rihoux & Ragin 2009). This choice is rooted in the observation that social phenomena – like welfare state reform – are complex. Complexity can lead to *equifinality*, the situation in which there is more than one way in which a specific outcome can come about. Welfare state reform can, for example, occur when the government is of rightist composition in combination with a poor socio-economic situation *or* when the government is of leftist composition, the socio-economic situation is poor and the government is weak politically (see chapter 7). In this example, there are two distinct routes towards welfare state reform: 1) rightist government *and* a poor socio-economic situation; 2) leftist government *and* a poor socio-economic situation *and* a politically weak government.

Additionally, complexity often results in the same condition producing different outcomes depending on the specific context. For example, democracy is sometimes conducive to stability in Third World countries, like in Costa Rica, but in other contexts causes instability, such as in sub-Saharan Africa (Ragin 1987: 24). Furthermore, an outcome is often the product of one or more *combinations* of conditions (as in the example above). The latter two situations – same condition, different outcome and the combination of conditions – are usually labelled *multiple and conjunctural causation* (cf. Ragin 1987). Statistical techniques, such as time series cross-sectional analysis, have generally great difficulty to deal with this complexity as they are attuned to finding the model with the best fit (Ragin 2000; Braumoeller 2003: 211; Mahoney & Goertz 2006: 235-236; Shalev 2007; but see Clark, Gilligan & Golder 2006). An example is the linear fit in ordinary least square (OLS) regression, whereby cases far from the regression line are considered outliers. However, it may very well be that these outliers, in fact, simply display a different combination of conditions leading to the outcome. While regression approaches generally hide this complexity, set-theoretical approaches such as fuzzy-set analysis are designed to pick it up (Ragin 1987, 2000, 2008,

see also Epstein, Duerr, Kenworthy & Ragin 2008; Schneider & Wagemann 2006: 753ff.). They can do so because they relax several of the assumptions common to standard quantitative approaches. The assumption of the absence of equifinality has already been mentioned. A second relaxed assumption is the uniformity of causal effects. A given condition may sometimes act in favour of an outcome, when combined with particular conditions, but may act against it when combined with others. Note that this goes against the assumption in standard quantitative (statistical) techniques that a factor's effect on the outcome is the same across all cases, irrespective of the values of the other causally relevant factors (Berg-Schlosser, De Meur, Rihoux & Ragin 2009: 8). Third, causation is not assumed to be symmetrical. Conversely, different (combinations of) conditions may explain the presence and absence of an outcome (Berg-Schlosser et al. 2009: 9).

In-depth case studies can also deal with the complexity of phenomena, among other things because these studies also relax the assumptions of quantitative approaches. However, their drawback is the difficulty of generalization of findings (see e.g. Bennett & Elman 2006; Mahoney & Goertz 2006). Although the possibility to generalize findings when using configurational approaches is more modest than when using quantitative statistical approaches, it is possible to extend the results of the former to comparable cases (that is, cases of which a substantial number of characteristics is similar to the characteristics of the cases included in the original analysis) (Berg-Schlosser et al. 2009: 12). Another argument against using case studies is that in some research contexts in-depth case analysis is practically impossible. This study is a good example hereof, as it examines 16 countries over a period of 20 years as well as the reform activities of over 20 governments. This brings me to a related advantage of set-theoretical approaches, which is that they allow for the systematic comparison of an intermediate number of cases (between, say, 10 and 50).¹ Although in quite a few research areas the number of (possible) cases may either be very large (e.g. public opinion research) or very small (e.g. social revolutions), comparative welfare state research is *par excellence* an area in which the number of (possible) cases is intermediate. Finally, set-theoretical approaches combine the best of qualitative and quantitative techniques as they allow for the replication of findings as well as for capturing qualitative changes in addition to quantitative ones (Berg-Schlosser et al. 2009: 13). In fact, fuzzy-sets are simultaneously quantitative and qualitative. They 'incorporate both kinds of distinctions in the calibration of degree of set

membership. Thus fuzzy-sets have many of the virtues of conventional interval-scale variables, especially their ability to make fine-grained distinctions, but at the same time they permit set theoretic operations. Such operations are outside the scope of conventional variable-oriented analysis' (Ragin 2009: 89). Because of these features, I employ these approaches here.²

What is fuzzy-set theory?

After having discussed some of the features and advantages of set-theoretical approaches, let me now explain what fuzzy-set theory is. A fuzzy-set is a '(...) a fine-grained, [pseudo] continuous measure that has been carefully calibrated using substantive and theoretical knowledge relevant to set membership' (Ragin 2000: 7). Fuzzy-set theory originates from Artificial Intelligence (Zadeh 1965) and is applied in different fields (e.g. Cioffi-Revilla 1981; Sanjian 1988; Casario & Dadkhah 1998). Ragin (2000; see also 2008) really put fuzzy-set theory on the agenda of the social sciences (for recent applications see Pennings 2003; Koenig-Archibugi 2004; Badredine 2005; Pennings 2005; Veugelers & Magnan 2005; Schneider & Wagemann 2006; Vis 2009a). But what is fuzzy-set theory?

An important feature of fuzzy-set theory is that cases' membership in different sets of concepts can vary: anything between full and none membership is possible. The researcher establishes two qualitative breakpoints, 1 and 0, to determine when a case is 'fully in' or 'fully out' of a set. A replacement rate of 90 per cent or more might, for example, be considered to be fully generous and a replacement rate of less than 20 per cent fully not-generous. The variation above 90 per cent and below 20 per cent is then meaningless since logically it makes no sense to differentiate between 'fully generous' and 'more than fully generous.' Fuzzy-set theory thus challenges the assumption implicit in a lot of conventional work that all variation is meaningful (Ragin 2000: 163). The researcher also selects the so-called cross-over point (0.5) when a case is 'neither in nor out of the set.'

The use of these qualitative breakpoints means that – different from conventional variables – fuzzy-sets are calibrated.³ While it is still uncommon in the social sciences to use calibrated measures, the use of such measures is routine practice in fields such as chemistry, astronomy, and physics (Ragin 2008, chapter 4). In many applications, uncalibrated measures are inferior to calibrated ones (cf. Ragin 2008: 72). An uncalibrated

measure for temperature, for instance, only indicates if an object has a higher temperature than another or than the average object; it does not tell us if the object is hot or cold. Similarly, an uncalibrated measure of democracy reports to us that a particular country is more democratic than another or than the average country, but does not inform us whether a country is in fact democratic. Calibration is particularly relevant when one condition shapes the context for other conditions. Knowledge of the phase shifts can help the calibration process. For example, water changes form at 0°C (from liquid into solid) and at 100°C (from liquid and quiet into liquid and bubbly). Although form changes occur less frequently in the social sciences, phase shifts are abound. One finds them, for instance, in scope conditions. Only when a particular threshold is achieved, for instance a particular level of per capita income, does a relationship hold. Because of the practice of calibrating in fuzzy-set logic, this approach's measurement practice fits both qualitative researchers' interest in interpreting variation (that is, identifying relevant and irrelevant variation) and quantitative researchers' interest in precisely placing cases relative to one another (Ragin 2008: 74ff). It allows for combining the best of both worlds.

For calibrating fuzzy-sets, the researcher establishes when a case is 'fully in' a set, 'fully out' of it and when it is 'neither in nor out' of the set (the so-called cross-over point) using external criteria, in particular theoretical and substantive knowledge (Ragin 2000: 169; 2008: chapter 4 and 5). Before doing so, the researcher decides on the type of fuzzy-set: continuous or with a limited number of values. Because limited value fuzzy-sets, per definition, allow only for a limited number of fuzzy membership scores, analyses across countries or over time cannot be very precise when using such a fuzzy-set.

Let me now discuss the basics of fuzzy-set theory. Ragin's Boolean (1987) and fuzzy-set (2000; 2008) techniques make use of the concepts *necessity* and *sufficiency*. If a cause is necessary, it must be present for an outcome to occur: without condition x , outcome y does not come about. If a cause is sufficient, it can produce an outcome by itself: if condition z is present, y occurs, but y can also come about if z is not present (Ragin 1987: 99, see Braumoeller & Goertz 2000). Statements of necessity and sufficiency can be expressed by the 'if ... then' structure, which make them set-theoretical relationships. Hence, the notation systems, operations, and forms of representation of set-theoretical approaches such as Boolean and fuzzy-set algebra are suited for representing and thinking about necessity and sufficiency.

A 19th century British mathematician and logician, George Boole, developed algebra that could deal with variables that have only two possible values (e.g. true or false, 0 or 1). This algebra has been vital for the development of electronic circuits, computer science, and computer engineering – which are all based on binary language – and has been much used in experimental and applied research (Rihoux & De Meur 2009: 34). In Boolean algebra ‘*’ (multiplication) refers to logical AND, which indicates that both factors must be present simultaneously. For example, both a case scoring .2 on activation (A) and .8 on generosity (G) and a case scoring low on A (.2) as well as G (.2) have .2 membership of the configuration A*G. Due to the minimum principle, and different from standard quantitative techniques, the outcome – that is, a case’s membership of a combination of conditions – is determined by the weakest link. Intuitively, this approach might seem plainly wrong. Logically, however, it is correct. Both a case scoring low on A (.2) and high on G (.8) and a case scoring low on A (.2) as well as G (.2) hardly correspond to the configuration (A*G). Actually, the two situations are equivalent in Boolean (and fuzzy-set) logic. In a conventional quantitative approach, the situations vary because the averages and standard deviations vary. The symbol ‘+’ refers to logical OR, which indicates that either of the factors (or both) lead to the outcome. Another useful fuzzy-set principle is *negation*, which is 1 minus membership in X_i , algebraically: $\sim X_i = 1 - X_i$. For example, a case scoring .2 on activation (A) scores .8 on not-activation ($\sim A$).

Boolean and fuzzy-set algebra can easily deal with intricate situations such as conjunctural causation and equifinality. To see how, consider the following fictitious example of three conditions: L = strong leftist parties, I = industrialization, and G = globalization, which are all hypothesized to be related to the outcome welfare state development (W). Table 2.1 sums up some of the possible solution formulae and describes what these solutions mean in terms of necessity or sufficiency. The solutions 3, 4 and 5 are examples of equifinality as there is more than one path towards the outcome. The solutions 4 and 5 also display conjunctural causation as the combination of factors leads to the outcome. Solution 5, finally, is also an example of a factor that has a different effect depending on the setting: strong leftist parties have a positive effect on welfare state development if they are combined with globalization, but in the presence of industrialization, strong leftist parties are counter-productive for the development of the welfare state.

Table 2.1 Set-theoretical relationships and necessity and sufficiency

	Conditions	Outcome	
1	L	W	A strong leftist party (L) is necessary and sufficient for welfare state development (W)
2	L*I	W	Both a strong leftist party (L) and industrialization (I) are necessary, but not sufficient, for welfare state development (W)
3	L+I	W	Both a strong leftist party (L) and industrialization (I) are sufficient, but not necessary, for welfare state development (W)
4	I+(G*L)	W	Both a strong leftist party (L) and globalization (G) are neither necessary nor sufficient for welfare state development (W), but the combination of the two is sufficient. Additionally, industrialization (I) is sufficient, but not necessary, for welfare state development (W)
5	(I*I)+(G*L)	W	None of the terms is sufficient or necessary for welfare state development (W). However, the combination of industrialization (I) and the absence of a strong leftist party (I) is sufficient, but not necessary, for welfare state development (W), as is the combination of globalization (G) and the presence of a strong leftist party (L)

Source: Based on Schneider & Wagemann (2006: 754).

Truth table analysis

How does one arrive at results such as the fictitious ones presented in table 2.1? For this, the truth table needs to be minimized. The truth table lists all logically possible combinations of causal conditions and each configuration's empirical outcome (Ragin 2008: chapter 7), whereby all conditions are coded binary (that is as 0s and 1s). A truth table is not the same as a data matrix. In the latter, each row presents information on one case; in a truth table, each row presents information about one of the logically possible combinations, called configurations (Schneider & Grofman 2006). Truth tables are very useful for getting to know the data because they 1) reveal the analytical differences and similarities between cases, 2) display contradictory rows, that is, cases that have the same combination of conditions but different outcomes, and 3) indicate the extent of diversity in the data, that is, reveal which logically possible combinations of conditions are not observed empirically (Schneider & Grofman 2006: 13).

Central to configurational approaches, a truth table can be subject to *Boolean minimization*, that is, the reduction of a longer Boolean expression into a shorter, more parsimonious one. The latter presents the necessary and/or sufficient (combinations of) condition(s) for the outcome. Boolean minimization can be expressed verbally as follows: ‘if two Boolean expressions differ in only one causal condition yet produce the same outcome, then the causal condition that distinguishes the two expressions can be considered irrelevant and can be removed to create a simpler, combined expression’ (Ragin 1987: 93, see Rihoux & De Meur 2009: 35-39). Let us again use the fictitious example of table 2 with three conditions (L, I and G) and one outcome (W). Suppose that a (fictitious) Boolean expression is $L*I*G + L*I*g \rightarrow W$, whereby \rightarrow indicates the (causal) link between the conditions and the outcome. Note that irrespective of the G (either present G, or absent g), W comes about. This means that condition G is superfluous and can be removed, resulting in the more parsimonious expression $L*I \rightarrow W$. In this example, both the presence of strong leftist parties (L) and industrialization (I) are necessary, but not sufficient, for the outcome W (see table 2).

In a so-called crisp-set qualitative comparative analysis (csQCA), the data are already coded binary and can be subjected to Boolean minimization immediately. In fuzzy-set qualitative comparative analysis (fsQCA), conversely, the data are fuzzy, that is cases display varying degrees of membership to each combination of conditions. Fortunately, Ragin has developed the so-called *truth table algorithm* (Ragin 2008: chapter 7) to transform the fuzzy-set membership scores into a truth table. The algorithm uses the direct link between the rows of the truth table and the corners of the property or vector space, the multidimensional space that includes all logically possible combinations of causal conditions or configurations (Barton 1955). The property space of table 2, for example, has $2^3^{(L, I, G)}$ (=8) corners (the configurations) (see also Ragin 2009: 103-111). Once this truth table is constructed, Boolean minimization can be applied. Note that the original variation in the data is maintained, which means that one cannot simply transform all fuzzy-set scores above .5 in a 1 and all below .5 in a 0. This also means that this type of analysis needs to be performed with the software that can deal with – and is especially designed for – fuzzy-set data. Chapter 7 demonstrates how this procedure works when applied in empirical research.

Fuzzy-set ideal type analysis

Fuzzy-set qualitative comparative analysis such as conducted in chapter 7 is not the only type of fuzzy-set analysis available. Another is *fuzzy-set ideal type analysis*, which I apply in the next chapter. Like fsQCA, also fuzzy-set ideal type analysis makes use of fuzzy-set theory, to which ideal type analysis is added. An ideal type in the Weberian sense refers '(...) to the construction of certain elements of reality into a logically precise conception' (Gerth & Wright Mills 1970: 59). It is an analytical construct that cannot be found anywhere in reality, which can be used as a yardstick to establish the extent to which real empirical phenomena are similar to or different from some predefined measure (Weber 1949). The sets that constitute the ideal type come from concepts. The possible combinations of the sets shape the so-called multi-dimensional property or vector space. With k being the number of aspects or sets, there are 2^k possible combinations in this property space: the ideal-typical locations or ideal types. Note that this is similar to the rows in the truth table analysis in fsQCA. Combining a configurational view of cases, which arrives from qualitative case-oriented research in which different aspects (sets) of cases are viewed holistically, with fuzzy-set theory allows for the investigation of the property space. Precisely, it reveals which corner, or ideal type, a case belongs to and what its degree of membership to the possible combinations is (Kvist 2003: 16-19). An advantage of fuzzy-set ideal type analysis as a typology building tool over classification techniques such as multi-dimensional scaling is that the corners of the multidimensional vector space have no meaning. Since 'the scaling of fuzzy-set scores on each factor is justified theoretically, (...) any set of values for a case not only depicts the observed empirical measures of the case along the selected factors but also has a theoretical relationship to the ideal-typical corner of the vector space' (Yamasaki & Rihoux 2009: 144). This is useful, because it allows for capturing changes in degree (higher or lower membership of a particular ideal type) as well as changes in kind (when a case shifts from having membership of a particular ideal type to membership of another ideal type'. Chapter 3 further clarifies the working of fuzzy-set ideal type analysis by showing how it is applied empirically.

2.4 Concluding remarks

To sum up, this study applies set-theoretical approaches because they can deal with equifinality and causal complexity in intermediate-n studies, have the ability to identify necessary and/or sufficient (combinations of) conditions, and allow for integrating qualitative and quantitative information. By conducting set-theoretical approaches, this study contributes to the debate about methodology in political science in general and in comparative welfare state research in particular, given that despite their promise, the use of these approaches is still relatively uncommon (for exceptions see e.g. Kangas 1994; Pennings 2005; Epstein et al. 2008). The next chapter offers a first illustration of the strengths of employing fuzzy-set analysis to assess the degree and type of welfare state reform across countries and over time; chapter 7 does the same for the conditions under which governments pursue different types of welfare state reform.

Part I

The degree and shape of
welfare state reform

3 Radical change or much ado about nothing?

3.1 Introduction

How much has the welfare state actually changed over the last two decades or so? And in which direction? That is to say, which programmes were cut back, dismantled, or expanded? Were the occurring changes regime specific and path dependent, as the so-called mainstream welfare state analysts such as Esping-Andersen (1990; 1999), Pierson (1994; 2001) and Castles (2004) concur? Or did these changes transform the character of welfare states radically, as scholars within the regulation approach to political economy such as Jessop (2002) and Peck (2001) posit?

This chapter tackles these questions by assessing which of two literature's predictions and findings regarding the extent and shape of welfare reform is correct. The mainstream welfare state analysts arguing that welfare state change is regime specific and path dependent and that radical change has been absent? Or the regulationists positing that irrespective of the type of welfare state, a radical shift from welfare towards workfare has come about? I will argue and empirically show that neither of these literatures is spot on, but that the mainstream analysts' findings are corroborated most closely. Furthermore, I will argue that the developments discussed here indeed warrant labelling welfare state reform as the politics of risk-taking.

The mainstream analysts versus the regulationists

The view as regards how much welfare state reform has taken place and which shape it has varies substantially across two bodies of literature that hardly speak to one another: the regulation approach to political economy and the mainstream welfare state approach. Let me discuss each streams' predictions and findings in more detail.

A key hypothesis of the mainstream welfare state scholars is that the direction and scope of welfare state change depend on the type of wel-

fare state regime, that is to say, the cluster of countries with a distinct political and policy configuration that produces a trajectory that is difficult to abandon (liberal, conservative, or social democratic, cf. Esping-Andersen 1990; 1999). The trajectory is difficult to abandon because each step on the specific path of a welfare state regime makes likelier further steps along the same path. This path dependence suggests that change is bounded (see Pierson 2001a; Streeck & Thelen 2005), which is not the same as impossible as some critics have claimed. Theoretically, the mainstream's literature argument of regime specific and path dependent change draws on insights from institutionalism. It is a country's institutional make-up that affects the specific challenges it has to cope with. Liberal countries are, for example, plagued by poverty and conservative countries by welfare without work; the situation that many individuals depend (partly) on the welfare state for their livelihood while the degree of employment is comparatively low (Esping-Andersen 1996b; see Stephens 1996; Scharpf & Schmidt 2000). Moreover, this body of work suggests that the institutional configuration shapes or 'refracts' (Kitschelt, Lange, Marks & Stephens 1999) the pressures a country faces. Partly as a consequence, the stickiness of institutions precludes radical change. Radical change is change that overhauls a country's institutional layout, like the transformation of a pay-as-you-go pension system into a fully funded system. Let me stress that the term mainstream is void of any normative judgment. I label this the mainstream hypothesis because, usually, it provides the yardstick against which scholars assess their findings. This also means that researchers arguing against the path dependency and regime specificity of welfare state change regularly take these hypotheses as their starting point (e.g. Cox 1998b; Lødemel & Trickey 2001; Gilbert 2002; Bannink & Hoogenboom 2007; but see Béland & Hansen 2000). Bannink & Hoogenboom (2007), for example, argue that institutionalist and neo-institutionalist approaches, which pose that welfare states are doomed to path dependency, fail to account for innovative change, that is 'change which affects the institutional factors that have contributed to structure debates, political preferences and policy choices in the past' (Bonoli & Palier 1998: 321 referenced in Bannink & Hoogenboom 2007: 19). Hence, and notwithstanding scholars fitting this mainstream tradition who acknowledge that welfare state programmes have changed in important respects such as being more severely subjected to the whims of the labour market (e.g. Stephens 1996; Swank 2001), the absence of radical change and the path dependent trajectory of change constitute key hypotheses of mainstream welfare state analysis.

The expectation in the second body of research is diametrically opposed to the mainstream one. Specifically, the regulationists posit that due to predominantly economic but also political and social pressures there has been a shift from *welfare* towards *workfare* (Jessop 1999; 2002; Torfing 1999; Peck & Theodore 2000; 2001; Peck 2001). This welfare-workfare claim is a sub hypothesis of this literature's proposition of a transformation from Keynesian welfare states (KWS) towards Schumpeterian workfare regimes (SWR). Both the KWS and the SWR are regulatory structures for managing the capital-labour relationship. The former aims at full employment and the generalization of mass consumption and mass production, maintaining therefore a large social security programme. Conversely, the SWR attempts to boost innovation and flexibility and make social policy subordinate to the demands spurred by the new post industrialist system (such as the necessity to improve competitiveness). Since the SWR is almost the exact opposite of the KWS (Jessop 2002, tables 2.1 and 7.1), a shift from one to the other constitutes a radical change. Despite the different types of workfare regimes that most regulationists consider (Torfing 1999: 7; Peck 2001: 75-76; Jessop 2002: 260-267), these scholars hypothesize a welfare-workfare shift on the level of social policy in all regimes. For example, Jessop's (2002) neoliberal, neocorporatist, neostatist, and neocommunitarian SWRs are all *workfare* regimes.

Although focusing on the same research question, namely the degree and shape of welfare state reform, these two literatures' predictions and findings have not yet been assessed empirically in one analysis (but see Vis 2007a; 2008). Comparative projects and large-n studies have corroborated the mainstream welfare state analysts' proposition (Esping-Andersen 1996a; Scharpf & Schmidt 2000; Huber & Stephens 2001; Pierson 2001b; Castles 2004). However, the findings with regard to the exact extent and shape of welfare state change remain inconclusive (e.g. Taylor-Gooby, Larsen & Kananen 2004; Bruttel & Sol 2006; Starke et al. 2008; Van Gerven 2008). The regulation literature, conversely, has neither tested its welfare-workfare hypothesis empirically nor conducted systematic comparative analyses. Peck's (2001) informative analysis of the political economy of workfare in the UK, Canada, and the US is, for example, no 'formal and symmetrical piece of comparative analysis per se' since he does not undertake 'comprehensively structured comparisons' – as Peck (2001: 7) states himself.

To test comparatively which of these traditions is right, I conduct a two-stage analysis. In the first stage, I examine the percentage change in the indicators of workfare for 16 advanced capitalist democracies between 1985 and 2002. This simple technique is justified because both the

mainstream welfare state analysts and the regulationists hold that these countries were *welfare* states in 1985. In 2002, however, this was still the case according to the former, whilst the countries had transformed into *workfare* regimes according to the latter. That is to say, if a radical change from welfare to workfare has occurred, it should show up between 1985 and 2002. Furthermore, if the welfare state has developed in a path dependent trajectory, we should find such a pattern between the two years. In the second stage, I cross-validate the findings from the first stage by applying an innovative method, fuzzy-set ideal type analysis. This technique builds on fuzzy-set theory (Ragin 2000; 2008) and is increasingly – but still rarely – used (Kvist 1999; 2003; 2007; Vis 2007a; Vis, Woldendorp & Keman 2007; Hudson & Kühner 2009). As indicated in chapter 2, fuzzy-set ideal type analysis allows for the simultaneous assessment of quantitative changes and qualitative ones. A change from a welfare ideal type to a workfare one qualifies as a radical, qualitative change because the two are near perfect opposites. A change in the degree of membership of an ideal type constitutes a quantitative change (see below). This feature makes this technique particularly apt for solving the puzzle of conflicting predictions and findings outlined above. The findings of the two stages of the analysis prove similar, though not identical.

3.2 Conceptualization and operationalization of workfare

What is workfare?

In the early 1970s, the term workfare arose in the US to refer to programmes in which participants were required to ‘work off’ their welfare checks. Nowadays, the variety of workfare measures is wide and the meaning of workfare is broad and quite elastic. Consequently, there is substantial conceptual confusion around the term, mainly concerning how it should be defined exactly (see Grover & Stewart 1999: 76-77; Lødemel & Trickey 2001: 3-12; Peck 2001: 9-16; Barbier 2004: 49-51). From its inception onwards, and notwithstanding the often substantial support among the public for replacing unconditional benefits with ones including requirements to work, the term workfare has been politically charged. For example, in many European countries the term is used to characterize what newly developed social policies are *not* (on the different usage of the term workfare across countries, see Enjolras, Laville, Fraisse & Trickey 2001; Barbier 2004). Also with regard to their target groups and purpose workfare policies are not fully clear, especially when compared to policies such as pensions.

This indistinctness translates to the definitions of workfare employed by our two research traditions. For one, the regulationists use mostly a broad aims-based definition of workfare, characterizing it as the subordination of social policy to the demands of labour market flexibility and to the competitiveness of business. In Jessop's (2002: 258) words, workfare involves 'a major reorientation of social policy: away from redistributive concerns based on expanding welfare rights in a national state towards more productivists and cost-saving concerns' (see also Torfing 1999: 8). More narrowly, Peck (2001: 10) holds that workfare essentially involves 'the imposition of a range of compulsory programmes and mandatory requirements for recipients with a view to *enforcing work while residualizing welfare*' (italics in original). Instead of a programme, so the regulationists argue, workfare has become 'the institutional codification of work-oriented welfare reform' (Peck 2001: 342).

Mainstream welfare state researchers, conversely, usually view workfare as a programme. Instead of adopting an aims-based definition, they focus on the form of the policy. Specifically, these scholars define workfare narrowly as mandatory supply side social policies that intend to increase labour force participation, enhance the flexibility of the labour market, and lower public social expenditures (see Scharpf & Schmidt 2000: 332; Kildal 2001: 3; Gray 2004: 160-161). Lødemel & Trickey (2001: 6) define workfare as 'programmes or schemes that require people to work in return for social assistance benefits'. For them, the compulsion requirement is the key distinguishing feature of workfare. While scholars studying workfare widely accept the compulsion requirement, Lødemel & Trickey's (2001) focus on work and, especially, social assistance is more controversial. Focusing on *work* means that ALMP measures such as job training are excluded and these are measures that many researchers consider as possibly qualifying as workfare (Grover & Stewart 1999; Jessop 1999; Torfing 1999; Gray 2004; Bruttel & Sol 2006). Moreover, for quite a few researchers programmes related to social insurance – instead of social assistance – also fall under the label of workfare (Peck & Theodore 2000; Peck 2001; Gray 2004; Bruttel & Sol 2006; see Lødemel & Trickey 2001: 7-9). For a number of reasons, I adopt a broader conceptualization and operationalization of workfare that is not exclusively linked to social assistance. First, the importance of social assistance within social security is relatively modest in the conservative and social democratic regimes. Whilst in the liberal regime on average almost a fifth (17.2%) of the population receives (means-tested) social assistance, this share is substantially lower (4.0% and 7.1%) in the conservative and social democratic regimes.

Besides, whilst the liberal regime spends on average more than half (53.9%) of its total social security expenditure on social assistance, this is only 7.1 and 6.4 per cent in the conservative and social democratic regimes (Gough, Bradshaw, Ditch, Eardley & Whiteford 1997: 24). Moreover, in some countries (such as Ireland, the UK, Australia and New Zealand) social assistance benefits that are subject to the availability-for-work criterion, hence fitting the compulsion requirement of workfare, are called unemployment benefits (OECD 2003: 215, fn.1). Such programmes would thus be excluded by concentrating on social assistance only. Finally, and related, for example the Netherlands stopped distinguishing between recipients of social assistance and unemployment assistance in its official statistics from 1995 onwards (OECD 2003: 217, fn.2; see also Cox 1998a: 408-409); also in other countries (such as Denmark and Germany) recent reforms have diminished the distinction between unemployment assistance and social assistance (Cox 1998a: 405; Kemmerling & Bruttel 2006).¹

Conceptualizing workfare

How to bring these two literatures' definitions together? How to conceptualize workfare so as to be able to test the hypothesis of a radical change from welfare towards workfare? For this, we need concepts that relate (strongly) to workfare and that the two bodies of literatures share. It would be impossible simply to classify every country with a workfare programme as a workfare regime as this would undermine the regulationists' idea of a Schumpeterian Workfare Regime. Australia, Denmark, Germany, Finland, France, the Netherlands, New Zealand, Norway, Sweden, the UK and the US all have workfare *programmes* (Kildal 2001; Lødemel & Trickey 2001; Peck 2001; Waddan 2003; Gray 2004: 167-181; Aust & Arriba 2005; Bruttel & Sol 2006), but that does not automatically mean they are workfare *regimes*.

Notwithstanding the varying broadness in the definitions used, three characteristics of workfare show up in both bodies of literatures:

1. the *obligation to work*, that is the need for benefit recipients to seek work actively, accept every job offer and participate in eventual job chances enhancing activities;
2. to strive for *maximal labour participation*; and
3. *minimal income protection provisions*.

Characteristic for a welfare-workfare shift are an increased obligation to work, a rise in measures that enhance labour participation and lower income protection provisions. Of course, these concepts are still abstract and

need to be measured with other, more concrete, indicators. Spending on active labour market policies (ALMPs), benefit generosity, benefit conditionality and employment protection are particularly apt for this purpose. The workfare characteristic of changes in the obligation to work show up in expenditures on ALMPs, that is spending on public employment services and administration, labour market training, youth measures, subsidized employment and measures for the disabled (OECD 2001: 22), because often – though not always – ALMP participants are forced to work (OECD 2003, chapter 4; Bruttel & Sol 2006). Three categories can affect the second workfare characteristic: changes in labour participation. First, spending on ALMPs because one of the primary goals of ALMPs is to increase labour participation. Second, benefit generosity because lower benefits offer an incentive to take on a job instead of staying on welfare, consequently increasing labour participation. Third and finally, employment protection, that is the regulations concerning hiring and firing, especially regular procedural inconveniences, difficulty of dismissal, and notice and severance pay (OECD 1999: 50; 2004: 110-111), as lower protection reduces the employers' costs for hiring workers and may tune down the duration of unemployment spells by positively affecting the unemployment exit rates (OECD 2004: 99).² Changes in the final workfare characteristic – minimal income protection provisions – can develop from two categories: benefit generosity and benefit conditionality. Lower benefits denote *ceteris paribus* a drop in the importance of income protection provisions such as unemployment benefits. Similarly, stricter benefit conditionality means that the hurdle for getting such provisions rises.³

Operationalization workfare

For the degree of spending on ALMPs, labelled *activation*, I focus on active spending per person unemployed. Active spending per unemployed is the percentage of GDP spent on ALMPs per 1 per cent 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 increases with the level of unemployment (OECD 2003: 193-194; see Armingeon 2007: 915-916). An example illustrates the problem involved (Armingeon 2007: 915). Ireland (in 1985) and Sweden (in 1989) both spent 1.5% of GDP on ALMPs. However, Sweden paid 11 times the Irish amount per unemployed, indicating that these two countries' labour market structures differ fundamentally despite the same percentage of GDP spent on ALMPs. Not controlling for unemployment hides these

differences. Active spending per unemployed controls for the state of the economy. A truly active orientation, however, only arises if, in addition, active spending as a percentage of active and passive spending on labour market policies combined is relatively high (OECD 2003: 193-194; Arminjeon 2007), with passive spending being expenditures on unemployment benefits and early retirement schemes (OECD 2001: 22). As I discussed in chapter 1, activation is a typical not-unpopular reform because it affects the median voter neither positively nor negatively. The occurrence of activation therefore indicates the occurrence of such a reform.

For measuring *benefit generosity*, I use two components of Esping-Andersen's (1990) decommodification index, recalculated for recent years by Scruggs (2004, see Scruggs & Allan 2006b). The decommodification index, which Scruggs & Allan call the generosity index, establishes the degree to which an individual can maintain a livelihood independent of the market. The first component I employ is the average net replacement rate for unemployment insurance (UI) and sick pay. The net programme replacement rate is the after-tax benefit, in this case averaged for two groups (a single, fully insured 40-year old individual earning average production worker wage and a married APW with a non-employed spouse and two children, see Scruggs & Allan 2006b). Replacement rates are important as they indicate the likely impact of programmes on individual life chances (e.g. Esping-Andersen 1990; Kitschelt 2001; Allan & Scruggs 2004: 501). Using net rates and centring on the APW to measure benefit generosity has two drawbacks. First, because the social security system works differently for various socio-economic groups, the APW often is not an adequate focus point. Second, the development of net rates is at least partially determined by factors outside the social security system, especially the tax system (Green-Pedersen 2004). Using gross replacement rates would lessen the second disadvantage but would generate an even bigger problem because of the large discrepancies in these rates. Moreover, since I am interested in the decision-making of governments as regards welfare reform, the second drawback is less problematic because also changes in the tax system result from political decision-making.

The second component of benefit generosity is benefit duration, which is also included in the decommodification (generosity) index. Benefit duration is the number of weeks a benefit is payable for a fully insured 40 year old in unemployment or sickness. Both the net replacement rate data and the benefit duration data come from Scruggs' (2004) Comparative Welfare Entitlement Dataset (CWED, see Scruggs & Allan 2006b). Reducing benefit generosity, either in the form of cutting back replacement

rates or limiting benefit duration, is a typical example of an unpopular reform. Reduced benefit generosity negatively affects a substantial group of voters, which likely includes the median one. Moreover, Blekesaune & Quadagno (2003) find in a cross-national study of public opinion data that public attitudes towards the unemployed – who receive benefits – are generally positive, further suggesting that cutting back benefit generosity is unpopular. Eurobarometer data (2001, version 56.1) supports this finding, as almost 70 per cent of all individuals strongly or slightly agrees with the statement that ‘the government should provide a decent standard of living for the unemployed’. The extent to which such cutbacks are unpopular varies across the different welfare regimes. Drawing on the literature on deservingness criteria and welfare regime theory, Larsen (2008) argues and empirically demonstrates that because of differences in the degree of selectivity, differences in resources, and the extent of job opportunities, the unemployed fulfil deservingness criteria most easily in a social democratic regime, least easily in a liberal regime, and moderately easy in the conservative regime. However, in no advanced democracy, the median voter is actually in favour of reducing benefit generosity.

Benefit conditionality is measured by two other components of the de-commodification index, again taken from the CWED. The first component is the number of qualifying weeks, that is, the number of weeks of insurance or employment required to qualify for a benefit. The second is the number of waiting days, that is, the number of days before the benefit starts. These are excellent indicators for tapping the conditions attached to a benefit because they indicate how long an individual has to contribute to the benefit scheme to be eligible for a benefit (the number of qualifying weeks) and how long the individual has to wait – once eligible – for the benefit to be given. Stricter benefit conditionality is also seen as an unpopular reform because it increases individuals’ reliance on the market for the livelihood, which most people – including the median voter – would generally consider unattractive.

Finally, I measure *employment protection* by an index of the strictness of employment protection legislation for temporary as well as for regular employment. The index derives from 14 items of employment protection legislation and ranges from 0 to 6, with a higher score indicating stronger protection, and reflects principally the legislative rules but incorporates some aspects of contractual provisions and judicial practices as well (OECD 1999, Annex 2B; 2004, Annex 2.A1). Changes in employment protection, conversely, would typically be a not-unpopular reform. Although over 50 per cent of all individuals consider job security an important factor when choosing a job (Rueda

2007), it seems plausible to assume that the median voter neither supports nor opposes a change in the degree of employment protection.

3.3 Stage one: Comparative analysis

Activation

Did the 16 countries under study increase spending on ALMPs? Did they undertake not-unpopular reform? If so, how much reform has taken place? And is there a distinct pattern across the different welfare state regimes?⁴

Before turning to the analysis, let me say a few words about the use of the threefold regime typology. As is well known, both the existence of three welfare regimes (liberal, conservative and social democratic) and the categorization of countries in these regimes have been heavily criticized (for recent critiques, see Goodin & Smitsman 2000; Bambra 2006; Scruggs & Allan 2006b). Although agreeing with the critics of Esping-Andersen that the regime classification as originally formulated lacks a good foundation, a recent contribution of Van Kersbergen & Manow (2009) offers a solid theoretical and historical substantiation. Van Kersbergen & Manow agree with the power resources approach that political class coalitions drive the welfare state's history. Two issues are crucial for the welfare state's development: 1) the inclusion (or exclusion) of the middle class in the pro-welfare state coalition and 2) if the middle class is included, how this came about and was arranged politically. Combining a political sociology approach to social cleavages and an institutional perspective on electoral systems, Van Kersbergen & Manow's argument is that the middle class' inclusion is likelier and easier under conditions of multiple cleavages and a proportional electoral system than under a majoritarian system that allows for one cleavage only (the capital-labour one). Consequently, liberal welfare states are present in countries with a majoritarian electoral system in which only one political cleavage dimension is present and in which the centre-right governs more often than the centre-left (such as the UK). The social democratic welfare states, conversely, result from a coalition between the (agrarian) centre and the (labour) left, that is, Social Democratic parties and parties defending the agrarian middle class. Finally, conservative or Christian democratic welfare states develop in those countries in which the religious cleavage is translated into the political system and which have a proportional representation system. These welfare states are the product of a coalition between social democracy and Christian democracy, whereby it is the latter that is responsible for integrating also the religious middle class voters. In addition to making

sense theoretically, a recent study suggests that the threefold typology makes sense empirically as well (Vis 2007a). Focusing on indicators similar to the ones concentrated on here (activation, generosity and employment protection), Vis shows that most developed democracies have membership to the expected welfare state regime in at least one of the two years (1985 or 2002), and half of them even in both years.

Table 3.1, which displays the percentage point change between 1985 and 2002 in active spending per unemployed and active spending as a share of total spending on labour market policies, demonstrates that the cross-national and cross-regime variation in both measures is substantial. Let me examine the changes in more detail. The conservative regime displays a clear pattern of increasing activation that is in harmony with a trend towards workfare. On average, active spending per unemployed increases by 4.7 percentage points and active spending as a share of total spending increases by 6.6 percentage points. In fact, Switzerland is the only conservative country where we see clear de-activation, meaning a lowering of both measures. Furthermore, there are two countries (Belgium and Germany) that increase active spending per unemployed but reduce active spending in total spending. The trend in the social democratic regime is also unmistakable. Here activation diminishes, which is in dissonance with a shift towards workfare. More precisely, average active spending per unemployed decreases by 10.7 percentage points and active spending in total spending falls by 4.8 percentage points. Looking at the individual countries, we see that only Denmark moves towards higher activation – and thus workfare – by increasing active spending per unemployed as well as active spending as a share of total spending. The other three cases (Finland, Norway and Sweden) display de-activation as both types of active spending fall. The liberal regime's pattern regarding activation is less apparent. On average, the trend is mostly towards activation with active spending in total increasing by 6.5 percentage points and active spending per unemployed falling by 0.8 percentage points only. Three liberal countries evidently display activation (UK, Ireland and Australia), one de-activation (New Zealand), and the other two (the US and Canada) display an increase in one indicator and a reduction in the other. In terms of individual countries, Sweden displays with a reduction of minus 49.4 percentage point the largest change in active spending per unemployed and is trailed by Denmark (plus 17.3), the Netherlands (plus 16.4) and New Zealand (minus 15.4). Another five countries have increased (Ireland, Austria and France) or decreased (Finland and Norway) active spending per unemployed by at least 5 percentage points. The other seven countries (UK, US, Canada, Australia, Bel-

gium, Germany and Switzerland) display changes of less than 5 percentage points. The variation across countries in the degree of reform is thus substantial as well. A similar, but not identical, pattern emerges when focusing on ALMP spending in total spending (see table 3.1).

Table 3.1 Spending on active labour market policies

	ALMP spending per unemployed			ALMP spending in total spending		
	1985	2003	Increase	1985	2003	Increase
<i>Liberal regime</i>						
UK	6.5	10.4	3.9	29.0	66.2	37.2
Ireland	8.6	14.5	5.9	30.2	41.1	10.9
US	1.7	2.3	0.6	23.2	20.7	-2.5
Canada	6.1	4.9	-1.2	25.8	32.1	6.3
Australia	4.8	6.4	1.6	24.7	34.5	9.8
New Zealand	25.0	9.6	-15.4	59.1	36.5	-22.6
<i>Average</i>	8.8	8.0	-0.8	32.0	38.5	6.5
<i>Conservative regime</i>						
Austria	7.5	14.4	6.9	22.7	38.0	35.3
Belgium	12.6	14.8	2.2	28.0	26.6	-1.4
France	6.7	11.9	5.2	21.8	36.6	14.8
Germany	9.7	12.0	2.3	41.9	38.4	-3.5
Netherlands	12.3	28.7	16.4	23.3	40.0	16.7
Switzerland	21.3	16.7	-4.6	43.4	41.1	-2.3
<i>Average</i>	11.7	16.4	4.7	30.2	36.8	6.6
<i>Social democratic regime</i>						
Denmark	12.7	30.0	17.3	16.5	32.7	16.2
Finland	15.0	10.0	-5.0	41.1	29.9	-11.2
Norway	23.5	17.8	-5.7	55.8	51.7	-4.1
Sweden	72.1	22.7	-49.4	70.7	50.5	-20.2
<i>Average</i>	30.8	20.1	-10.7	46.0	41.2	-4.8

Notes: Increase in percentage points. Active spending per unemployed is expenditures on ALMP \times 100 divided by the standardized unemployment rate (cf. Armingeon 2007). Active spending in total spending is ALMP expenditure as a percentage of total expenditures on labour market policies. For Austria and Switzerland, 1985 unstandardized unemployment rate. *Source:* Armingeon et al. (2008); increase and averages, author's calculations.

All in all, a pattern of (further) activation emerges in all the countries of the conservative welfare regime (except Switzerland), in Denmark, Australia, Ireland and the UK. Conversely, Switzerland, Finland, Norway, Sweden and New Zealand display de-activation. Furthermore, Canada, the US, Belgium and Germany show an increase in one of the indicators and a reduction in the other. As activation should increase for a welfare-workfare shift, these findings provide preliminary evidence for the inaccuracy of the regulationists' hypothesis. Moreover, these findings indicate that the variation across countries and regimes in this type of not-unpopular welfare state reform is remarkably large.

Benefit generosity

Do we find a similar pattern for the second indicator, benefit generosity, a typical unpopular reform? The answer in brief is *no*. Instead of variation across welfare regimes, on average all regimes reduce benefit generosity, thereby pursuing unpopular reform. As we shall see, the variation across the individual countries in the extent of reform is substantial though.

Table 3.2 presents data on the first benefit generosity-indicator, the average net replacement rate of unemployment insurance (UI) and sick pay, which show a downward pattern. The table indicates that the average replacement rate falls in all regimes. The same applies to most individual countries. Five countries deviate from this pattern: Australia, Austria and Belgium, in which the sick pay rate increases somewhat; France, in which the unemployment insurance replacement rate rises; and Norway, where the sick pay replacement rate does not change. On average, the liberal regime's replacement rates display the largest change: minus 7 percentage points for UI and minus 8.8 percentage points for sick pay. The social democratic regime average change is almost identical with minus 7 percentage points for UI and minus 7 percentage points for sick pay. The average change is smallest in the conservative regime. The average conservative UI rate falls by 2.7 percentage point and the sick pay rate by 3 percentage points. The degree of reform varies across the individual countries, with Ireland displaying the largest change (minus 18.7 percentage points for both UI and sick pay). New Zealand, the US, the Netherlands and Denmark follow with a reduction of around at least 10 percentage points for both UI and sick pay. The rest of the countries show a reduction of at least 5 percentage points on UI or sick pay (Finland, Sweden, Germany), hardly any cutback at all, or even expansion (Canada, Australia, Austria, France, Switzerland and Norway). Also here the variation across individual countries is thus substantial. Given the

downward trend in the replacement rate data, and different from the data on activation, the changes in benefit generosity support the regulationists' hypothesis of a welfare-workfare shift for most countries. And despite the differences in the extent of changes in the three regimes, these changes do take place irrespective of the type of welfare regime – corroborating also the second part of the regulationists' thesis.

Table 3.2 Average net replacement rates UI and sick pay

	Unemployment insurance			Sick pay		
	1985	2002	Increase	1985	2002	Increase
<i>Liberal regime</i>						
UK	34.9	37.0	-2.1	36.0	23.9	-12.1
Ireland	62.0	43.3	-18.7	62.0	43.3	-18.7
US ^a	67.0	56.6	-10.4			
Canada	67.8	66.4	-1.4	67.8	66.4	-1.4
Australia	45.6	42.6	-3.0	44.4	45.6	1.2
New Zealand	52.2	41.5	-10.7	54.5	41.5	-13.0
<i>Average</i>	<i>54.9</i>	<i>47.9</i>	<i>-7.0</i>	<i>53.0</i>	<i>44.1</i>	<i>-8.8</i>
<i>Conservative regime</i>						
Austria	65.0	61.2	-3.8	81.6	82.4	0.8
Belgium	68.6	63.2	-5.4	86.3	86.4	0.1
France	67.6	71.7	4.1	63.0	62.3	-0.7
Germany	66.5	65.8	-0.7	100 ^b	92.8	-7.2
Netherlands	86.9	77.4	-9.5	85.4	77.4	-8.0
Switzerland	78.0	77.2	-0.8	81.9	79.2	-2.7
<i>Average</i>	<i>72.1</i>	<i>69.4</i>	<i>-2.7</i>	<i>83.0</i>	<i>80.1</i>	<i>-3.0</i>
<i>Social democratic regime</i>						
Denmark	75.7	61.9	-13.8	78.3	61.8	-16.5
Finland	69.2	62.4	-6.8	89.8	73.7	-16.1
Norway	69.5	68.1	-1.4	100	100	0
Sweden	82.2	76.3	-5.9	92.9	83.0	-9.9
<i>Average</i>	<i>74.2</i>	<i>67.2</i>	<i>-7.0</i>	<i>90.1</i>	<i>80.0</i>	<i>-7.0</i>

^a The US has no sickness programme. ^b Actually, the score is 103.4.

Notes: Increase in percentage points. The replacement rate is the after-tax benefit, averaged for two groups: a single average production worker (APW) and a married APW with a nonemployed spouse and two children (Scruggs 2004; see Scruggs & Allan 2006b); Denmark, 1984 instead of 1985.

Source: Scruggs (2004); increase and averages, author's calculations.

Benefit duration, the second benefit generosity-indicator, displays no downward trend as would be needed for a welfare-workfare shift. Specifically, seven countries do not change their benefit duration at all between 1985 and 2002 (Ireland, the US, Australia, New Zealand, Germany and Sweden). Four countries at least double the duration of their unemployment benefits (Belgium, Finland, the Netherlands and Norway). One country increases its sick pay duration (the UK). Four countries tune down their unemployment benefit duration somewhat or substantially (Canada, Denmark, Switzerland and the UK). The same goes for three countries in case of sick pay duration (Austria, Denmark and France).

Combining the two benefit generosity-indicators, the pattern in most countries is towards lower benefit generosity, supporting the presence of a welfare-workfare shift (all countries of the liberal regime, Austria, France, Germany, Switzerland, Denmark and Sweden, that is if we include those countries that exhibit a lowering of one indicator and no change on the other). Conversely, four countries show a rise on one indicator and a fall on the other, conflicting with a welfare-workfare shift. Despite some exceptions, most countries thus display unpopular reform over this period. Chapter 4 will show, however, that the absence of substantial variation at the country level disappears when we focus on the variation across governments.

Benefit conditionality

For benefit conditionality, the third workfare indicator, we find more variation across the regimes than we did for benefit generosity. The variation is still limited though. It is an absence of change – specifically in the form of unpopular reform – that characterizes most countries. Only three countries tighten their benefit conditions as they increase the qualifying period (Belgium, the Netherlands and Finland; all for unemployment insurance [UI]). Four countries, conversely, loosen the benefit conditions as they lower the qualifying period for UI (Ireland, Canada, Germany and Switzerland). The UK increases the qualifying period of UI and lowers it for sick pay. Most countries display no change at all (the US, Australia, New Zealand, Austria, France, Denmark, Norway and Sweden). Nonetheless, the regime averages suggest some patterns. The changes in the liberal regime are towards fewer conditions, that is, lower qualifying periods. The only change in the social democratic regime, conversely, is an increase in the qualifying period. Finally, the changes in the conservative regime entail both increasing qualifying periods and decreasing ones.

For the number of waiting days, the second benefit conditionality-indicator, only a few countries display any change between 1985 and 2002. Two countries show a trend towards stricter conditions in this category: Switzerland, increasing the number of waiting days for UI, and New Zealand, increasing sick pay waiting days. In six countries, conditions become less strict (Finland lowers its UI waiting days; Denmark, the Netherlands and the UK lower their sick pay waiting days, and Ireland lowers both). Most countries, however, do not change their waiting days (the US, Canada, Australia, Austria, Belgium, France, Germany, Norway and Sweden).

All in all, most countries do not display a trend towards stricter benefit conditions and thus fail to pursue unpopular reform. Specifically, the qualifying period increases in four countries only and the number of waiting days in two. Some countries lower their qualifying period and number of waiting days, meaning fewer conditions. Most countries, however, do not change the qualifying period and the number of waiting days between 1985 and 2002. This latter finding fails to corroborate the regulationists' hypothesis.

Employment protection

Finally, for a welfare-workfare shift, employment protection (the fourth workfare indicator) should relax. Such a change would be a not-unpopular reform. Table 3.3 presents data on employment protection both for regular and temporary employment for the late 1980s and 2003,⁵ which display a distinct cross-regime pattern. On average, the liberal regime's employment protection becomes stricter for both regular and, especially, temporary employment (respectively plus .3 and .2 on the 6 point index). All the liberal countries demonstrating any change (the UK, Ireland, Canada, Australia and New Zealand) show this increase. The social democratic regime, conversely, on average relaxes employment protection for both regular and, particularly, temporary employment (respectively minus .2 and minus 1.0). Also the conservative regime lowers average employment protection for temporary employment (minus .8 on the index), whilst the average employment protection for regular employment remains the same. Here, however, some countries increase protection between the late 1980s and 2003 (France and Germany for regular employment; Switzerland for temporary employment). Interestingly, in (especially) the conservative and social democratic countries, the largest changes in the strictness of employment protection take place for temporary employment. Table 3.3 demonstrates that the variation across individual countries is large, with

changes ranging from minus 2.5 on the index for temporary employment in Sweden (which substantively means a transformation from a strict system to a lean one) to an increase of .9 on the index for temporary employment in New Zealand (implying that this system has been transformed from one in which there is almost no protection to a system with somewhat – but still low – protection).

Table 3.3 Strictness of employment protection

	Regular employment			Temporary employment		
	Late 1980s	2003	Increase	Late 1980s	2003	Increase
<i>Liberal regime</i>						
UK	0.9	1.2	.3	0.3	0.4	.1
Ireland	1.6	1.6	0	0.3	0.6	.3
US	0.2	0.2	0	0.3	0.3	0
Canada	0.9	1.3	.4	0.3	0.3	0
Australia	1	1.5	.5	0.9	0.9	0
New Zealand	1.4	1.7	.3	0.4	1.3	.9
<i>Average</i>	<i>1</i>	<i>1.3</i>	<i>.3</i>	<i>0.4</i>	<i>0.6</i>	<i>.2</i>
<i>Conservative regime</i>						
Austria	2.9	2.4	-.5	1.8	1.5	-.3
Belgium	1.7	1.7	0	4.6	2.6	-2
France	2.3	2.5	.2	3.1	3.6	.5
Germany	2.6	2.7	.1	3.8	1.8	-2
Netherlands	3.1	3.1	0	2.4	1.2	-1.2
Switzerland	1.2	1.2	0	0.9	1.1	.2
<i>Average</i>	<i>2.3</i>	<i>2.3</i>	<i>0</i>	<i>2.8</i>	<i>2</i>	<i>-.8</i>
<i>Social democratic regime</i>						
Denmark	1.5	1.5	0	2.6	1.4	-1.2
Finland	2.8	2.2	-.6	1.9	1.9	0
Norway	2.3	2.3	0	3.5	2.9	-.6
Sweden	2.9	2.9	0	4.1	1.6	-2.5
<i>Average</i>	<i>2.4</i>	<i>2.2</i>	<i>-.2</i>	<i>3</i>	<i>2</i>	<i>-1</i>

Notes: The scores rank from 0 to 6, a higher score indicating stricter regulation. For calculation of these scores, see OECD (1999: Annex 2B; 2004: Annex 2.A1). Data for New Zealand, late 1990s instead of late 1980s.

Source: OECD (2004, Table 2.A2.4); increase and averages, author's calculations.

Overall, and in line with a welfare-workfare shift, employment protection relaxes in all countries of the social democratic and conservative regimes (except Switzerland). In the liberal regime, conversely, employment protection increases. There is thus substantial not-unpopular reform when focusing on this indicator.

Discussion of results

So who is right? The mainstream welfare state analysts arguing that radical welfare state change is absent and that the changes that do take place are regime specific? Or the regulationists positing that there is a radical shift from welfare towards workfare, taking place irrespective of the type of welfare state regime? The findings indicate that the situation is most aptly described as a tie.

If we take the predictions from the mainstream welfare state literature and regulation literature in the strictest sense, both are off beam. The welfare state scholars' predictions are inadequate because substantial changes occur that, certainly when combined, are radical as they break with the established trajectory. A good example hereof is the trend towards higher employment protection in the liberal regime. The regulationists' predictions are correct because no single country meets all four criteria for a radical change towards workfare (higher activation, lower benefit generosity, stricter benefit conditionality and relaxed employment protection). Since all criteria are essential for such a change, this finding denotes that such a welfare-workfare shift failed to come about.

However, adopting a leaner criterion might be justifiable as for all welfare regimes findings are incongruous for the indicator benefit conditionality. In the social democratic regime, for example, the average qualifying period increases – in line with a welfare-workfare shift – but the number of waiting days decreases – contrary to a welfare-workfare shift. Does a shift towards workfare come about if the conditionality category is disregarded? Yes, to a certain extent it does. The conservative regime on average displays a welfare-workfare shift as activation, generosity and employment protection all have the 'correct' sign. In addition, in all conservative countries save Switzerland all criteria but one at the most are in the right direction, suggesting the presence of a welfare-workfare shift in this regime. This conclusion does not apply to the liberal and social democratic regimes. Here, one indicator exhibits an 'incorrect' sign, respectively employment protection and activation. The within-regime variation in these regimes is larger than in the conservative regime. In the social democratic

regime, Denmark displays a welfare-workfare shift, Sweden would have if it were not for the lower activation, and Finland and Norway are not shifting as they have the wrong sign on two categories. Half of the countries of the liberal regime (the UK, Ireland and Australia) have one category with an incorrect sign and the other half (the US, Canada and New Zealand) have two. These findings provide a weak basis to speak of an *overall* trend towards workfare. Do these findings also arise when using a different technique? The fuzzy-set ideal type analysis conducted next suggests that the answer is – a qualified – *yes*.

3.4 Stage two: Fuzzy-set ideal type analysis

Identifying the ideal types and conceptualizing the sets

How does one conduct fuzzy-set ideal type analysis? The first step is to construct the ideal types. To test the claims of the two literatures, we need ‘workfare’ and ‘welfare’ ideal types. For constructing these ideal types, I use the same indicators as used in stage one to allow for comparability. I exclude the indicator benefit conditionality, however, because its incongruent findings make transforming this variable into a fuzzy-set problematic. Let us first see what the relationship between the indicators activation, benefit generosity and employment protection and the characteristics of the welfare state regimes is.

The liberal welfare regime is epitomized by residual social policy covering only the most basic risks (low benefit generosity), by low levels of activation, and by strongly deregulated labour markets (low protection). The conservative welfare regime is characterized by relatively generous income protection schemes (relatively high benefit generosity), by relatively low levels of activation, and by strongly regulated labour markets (high protection). The social democratic regime, finally, is characterized by a very generous social policy (high benefit generosity), by high levels of activation, and by relatively strongly regulated labour markets (high protection).⁶ In ideal typical terms, the ideal type *liberal welfare* has low activation ($\sim A$), low benefit generosity ($\sim G$), and low protection ($\sim P$); *conservative welfare* has low activation as well ($\sim A$) but high benefit generosity (G), and protection (P); *social democratic welfare* has high activation (A), benefit generosity (G), and protection (P).

Since activation corresponds to all three characteristics of workfare (the obligation to work, maximal labour participation and minimal income protection), a case should be in the set of activation (A) to have

membership to ideal-typical *workfare*. In addition, a case should be in the set of not-protection ($\sim P$) because higher employment protection negatively affects the flexibility of the labour market and influences firms' aptitude to cope with the rapidly changing economic environment. Given the importance of firms' competitiveness in a workfare regime, a shift towards workfare is impossible or at least very difficult under high levels of protection. To have membership to ideal-typical workfare, a case can have either a high or a low level of benefit generosity. In everyday usage, workfare is associated with lower public expenditures (Jessop 2002: 251). This, however, does not imply necessarily lower benefit generosity if this aspect is measured by net replacement rates, as done here, because public expenditures comprise many categories. Therefore, I construct two workfare ideal types: a lean one with low benefit generosity ($\sim G$) and a generous one with high benefit generosity (G). Table 3.4 depicts the property space that is constructed from the three aspects. Of the eight possible combinations, five are considered theoretically relevant: generous workfare, lean workfare, liberal welfare, conservative welfare and social democratic welfare. Table 3.4 also displays the three 'a-theoretical' ideal types, which are the models that are not labelled under ideal type in table 3.4.

Table 3.4 Property space for shifts in welfare and workfare

Ideal type	Activation (A)	Generosity (G)	Protection (P)	Model
Generous Workfare	A (high)	G (high)	$\sim P$ (weak)	(A*G* $\sim P$)
Lean Workfare	A (high)	$\sim G$ (low)	$\sim P$ (weak)	(A* $\sim G$ * $\sim P$)
Liberal Welfare	$\sim A$ (low)	$\sim G$ (low)	$\sim P$ (weak)	($\sim A$ * $\sim G$ * $\sim P$)
Conservative Welfare	$\sim A$ (low)	G (high)	P (strong)	($\sim A$ *G*P)
Social Democratic Welfare	A (high)	G (high)	P (strong)	(A*G*P)
	A (high)	$\sim G$ (low)	P (strong)	(A* $\sim G$ *P)
	$\sim A$ (low)	$\sim G$ (low)	P (strong)	($\sim A$ * $\sim G$ *P)
	$\sim A$ (low)	G (high)	$\sim P$ (weak)	($\sim A$ *G* $\sim P$)

Calibrating fuzzy-sets

Recall from chapter 2 that fuzzy-sets need to be calibrated. How to do so for the sets activation, benefit generosity and protection? The first step is to decide on the type of fuzzy-set (continuous or with a limited number

of values). To assess better the radical change and regime specific change claims, and because the data permit it, I use continuous fuzzy-sets (Ragin 2000: 158-160; 2006b; 2008, chapter 5; for applications, see Casario & Dadkhah 1998; Koenig-Archibugi 2004; Vis 2009a). The next step is to select and justify the fuzzy-sets' qualitative breakpoints 0 (fully out of the set) and 1 (fully in the set). It is important always to offer an explicit rationale for these breakpoints, including for the crossover point at .5. The exact operationalization of each set is the final step in the calibration process. Let me discuss each set in turn.

For the degree of *activation*, the first set, I use active spending per person unemployed like I did in stage one. The first qualitative breakpoint 0, fully out of the set of activation, is set at ≤ 5 . The rationale is that if a country spends less than .05 per cent of GDP per 1 per cent standardized unemployment on active labour market policies, its intention to activate is so low that it should be classified as fully out of the set of activation. The second qualitative breakpoint 1, fully in the set of activation, is set at ≤ 25 . The justification is that if a country spends more than .25 per cent of GDP per 1 per cent standardized unemployment on ALMPs, its dedication to activate is so high that the country should be classified as fully in the set of activation. Since in continuous sets, the upper and lower limits that the researcher establishes, that is where he or she assigns the fuzzy-scores 1 and 0, should be justifiable as the point of maximum ambiguity (Ragin 2006b), I assign the score in the middle of this upper and lower limit as the crossover point. In formula: upper limit plus lower limit divided by two; here this is $(25+5)/2=15$. When having established the three qualitative breakpoints, the raw data can be calibrated using the calibration function integrated into the fuzzy-set software (fsQCA, available at www.compass.org). This procedure is called the *direct method of calibration* and is a new technique for calibrating interval-scale variables into fuzzy-sets developed by Ragin (2008, chapter 5).⁷ The technicalities of the technique can be found in Ragin (2008: 86-94); the practicalities in Ragin (2008: 104-105).

Recall that for a 'truly' active orientation, ALMP expenditures as a share of total labour market expenditures should be high as well. Based on substantive knowledge of the cases, active spending as a share of total spending is considered high if it exceeds 34. For countries that were in the set of activation (received a fuzzy-score $>.5$) but that scored low on the total spending variable, the fuzzy membership score for activation is placed at .5 (the point of maximum ambiguity). This was only the case for Denmark in 1985 and 1995 and for the Netherlands in 1995.

Table A1 in the Appendix displays the resulting fuzzy-set scores of all three sets.

The *benefit level*, the second set, is measured by an index of the net replacement rates of unemployment insurance (UI) benefits and sick pay. The incorporation of both UI and sick pay replacement rates in the index is theoretically driven: both affect job-seeking behaviour. Because individuals probably have more influence over their state of employment than over their state of health, the effect of the UI replacement rate on job seeking behaviour is likely stronger. Therefore, the UI rate is weighted double, resulting in the following index: [UI replacement rate \times 2] + sick pay rate divided by 3. I do not include benefit duration in this second stage of the analysis because the comparative analysis has shown that in almost half of the countries under study, benefit duration of UI and/or sick pay rates do not change.

In accordance with Kvist (2003: 11), I place the first qualitative breakpoint 0, fully out of the set of benefit levels, at 20 per cent since national income studies show that individuals cannot maintain any attained standard of living if their income is reduced to a fifth. The second qualitative breakpoint 1, fully in the set of generosity, is put at 90 per cent, again in accordance with Kvist. The reasoning behind this is that in most countries there are tax allowances for job-related expenses and ALMP participants often are allowed to earn something extra before their unemployment benefit is lowered. In Denmark, for example, both the tax-exempt earnings and the tax allowances amount to about 10 per cent of the APW, which makes a net replacement rate of 90 per cent fully generous (Kvist 2003: 11). The crossover point is consequently set at 55 ($[(90+20)/2]$). The fuzzy-scores in between 0 and 1 are calculated similarly as the activation scores, using Ragin's direct method of calibration.

Employment protection, the third and final set, is again measured by an index of the strictness of employment protection legislation for temporary as well as for regular employment. The first qualitative breakpoint 0, fully out of the set protection, is set at .5. The rationale is that a score of .5 on the index can be interpreted as a high score on one of the 14 indicators only – although the actual scoring procedure is more complex. A score of 1 out of 14 indicates that it is very easy or cheap to fire employees, as a result of which the country should be classified as fully out of the set protection. The second qualitative breakpoint 1, fully in the set of protection, is put at 3.0. The reasoning is similar. If a country scores at least 3 on the index, indicating that it received a high score on at least half of the 14 indicators, this means that it is hard or ex-

pensive – though not impossible – for firms to fire employees. Therefore, such a country should be classified as fully in the set protection. The crossover point (.5) is again set at the mid score between these two breakpoints, which in this case amounts to 1.75 ($([3+.5])/2$). The transformation of the raw data into the fuzzy-set is done using the direct method of calibration.

Fuzzy-set ideal type analysis

Using principles from fuzzy-set theory, particularly negation and the minimum principle (see chapter 2), the cases' membership of the ideal types can be calculated. Table 3.5 displays the countries' fuzzy membership scores in the five theoretically relevant ideal types in 1985, 1995 and 2002. The membership scores of the a-theoretical ideal types can be found in table A2 in the appendix. Scores in bold designate membership of a particular ideal type (fuzzy membership $>.5$). Using these scores, the quantitative changes and qualitative changes can be assessed. Fuzzy-set ideal type analysis allows one to do this simultaneously, which gives the approach an advantage over conventional techniques such as regression analysis and case study research in which such assessment is more difficult. The incorporation of both types of reform is particularly useful for studying welfare state reform as a full account of reform needs to take into account both quantitative changes such as cutbacks in people's entitlements (Swank 2002; Korpi & Palme 2003) and qualitative or institutional changes (Esping-Andersen 1990; Pierson 1996; 2001a). A *quantitative change* is here defined as a change in a case's membership of an ideal type over time, for example when Germany shifts from .8 to .5 membership of conservative welfare. This is *regime specific change* too because membership remains of the same ideal type. *Qualitative change* is when a case's membership shifts from one ideal type to another, for example when Denmark shifts from having .8 membership of social democratic welfare to .7 membership of liberal welfare. *Radical change*, then, is a subset of qualitative change and occurs if a case shifts from having membership of one of the welfare ideal types to one of the workfare ideal types (or vice versa), for example when Ireland shifts from .6 membership of liberal welfare to .7 membership of lean workfare. Table 3.6 sums up the changes in the periods 1985-1995, 1995-2002 and 1985-2002.

Table 3.5 Fuzzy membership scores for shifts in welfare and workfare

Country	Model	1985	1995	2002
UK	Lean Workfare	.08	.05	.09
	Generous Workfare	.08	.05	.05
	Social Democratic Welfare	.06	.05	.05
	Conservative Welfare	.06	.06	.05
	Liberal Welfare	.92	.94	.91
Ireland	Lean Workfare	.13	.37	.83
	Generous Workfare	.13	.18	.10
	Social Democratic Welfare	.12	.12	.10
	Conservative Welfare	.12	.12	.01
	Liberal Welfare	.63	.63	.01
US	Lean Workfare	.03	.03	.02
	Generous Workfare	.03	.03	.02
	Social Democratic Welfare	.02	.02	.02
	Conservative Welfare	.02	.02	.02
	Liberal Welfare	.74	.80	.80
Canada	Lean Workfare	.06	.06	.06
	Generous Workfare	.06	.06	.06
	Social Democratic Welfare	.06	.06	.06
	Conservative Welfare	.09	.09	.09
	Liberal Welfare	.28	.32	.39
Australia	Lean Workfare	.05	.19	.08
	Generous Workfare	.05	.11	.08
	Social Democratic Welfare	.05	.11	.08
	Conservative Welfare	.09	.11	.08
	Liberal Welfare	.88	.79	.79
New Zealand ^a	Lean Workfare	.82	.26	.20
	Generous Workfare	.18	.10	.08
	Social Democratic Welfare	.18	.10	.08
	Conservative Welfare	.14	.10	.08
	Liberal Welfare	.14	.74	.65

Table 3.5 Fuzzy membership scores for shifts in welfare and workfare

Country	Model	1985	1995	2002
Austria	Lean Workfare	.07	.18	.33
	Generous Workfare	.07	.18	.33
	Social Democratic Welfare	.07	.18	.33
	Conservative Welfare	.68	.69	.59
	Liberal Welfare	.25	.25	.33
Belgium	Lean Workfare	.03	.18	.18
	Generous Workfare	.03	.25	.25
	Social Democratic Welfare	.26	.48	.72
	Conservative Welfare	.74	.52	.28
	Liberal Welfare	.03	.18	.18
France	Lean Workfare	.07	.05	.05
	Generous Workfare	.07	.05	.05
	Social Democratic Welfare	.07	.24	.40
	Conservative Welfare	.75	.76	.60
	Liberal Welfare	.09	.05	.05
Germany	Lean Workfare	.03	.14	.21
	Generous Workfare	.03	.14	.25
	Social Democratic Welfare	.12	.60	.41
	Conservative Welfare	.85	.40	.59
	Liberal Welfare	.03	.14	.21
Netherlands	Lean Workfare	.07	.16	.12
	Generous Workfare	.09	.30	.30
	Social Democratic Welfare	.18	.50	.70
	Conservative Welfare	.82	.50	0
	Liberal Welfare	.07	.16	0
Switzerland	Lean Workfare	.14	.14	.16
	Generous Workfare	.77	.44	.71
	Social Democratic Welfare	.17	.17	.17
	Conservative Welfare	.17	.17	.17
	Liberal Welfare	.14	.14	.16

Table 3.5 Fuzzy membership scores for shifts in welfare and workfare

Country	Model	1985	1995	2002
Denmark	Lean Workfare	.16	.30	.42
	Generous Workfare	.21	.50	.58
	Social Democratic Welfare	.50	.30	.30
	Conservative Welfare	.50	.30	0
	Liberal Welfare	.16	.30	0
Finland	Lean Workfare	.19	.18	.24
	Generous Workfare	.21	.18	.24
	Social Democratic Welfare	.70	.18	.24
	Conservative Welfare	.30	.70	.65
	Liberal Welfare	.19	.25	.35
Norway	Lean Workfare	.06	.09	.12
	Generous Workfare	.06	.09	.12
	Social Democratic Welfare	.88	.87	.86
	Conservative Welfare	.08	.03	.10
	Liberal Welfare	.06	.03	.10
Sweden	Lean Workfare	.01	.09	.18
	Generous Workfare	.01	.25	.25
	Social Democratic Welfare	.93	.75	.75
	Conservative Welfare	0	.03	.03
	Liberal Welfare	0	.03	.03

^a There are no employment protection data for New Zealand over the late 1980s, therefore data over the late 1990s are used.

Note: Due to data-availability, employment protection is measured over the late 1980s, the late 1990s and 2003.

Sources: Data on activation: Armingeon et al. (2008); data on generosity: Scruggs (2004); data on protection: OECD (1999; 2004).

Like the analysis in the first stage, the findings of the fuzzy-set ideal type analysis – presented in tables 3.5 and 3.6 – provide mixed evidence for the two literatures’ predictions on the extent and shape of welfare state reform. There is only one country, Ireland, which clearly fits the ‘radical change from welfare towards workfare’ hypothesis of the regulation literature. The majority of countries match the absence of radical change

Table 3.6 Summary of changes 1985-1995, 1995-2002 and 1985-2002

	Change1985-1995	Change1995-2002	Change1985-2002
UK	Regime specific	Regime specific	Regime specific
Ireland	None	Radical	Radical
US	Regime specific	None	Regime specific
Canada	Regime specific	Regime specific	Regime specific
Australia	Regime specific	None	Regime specific
New Zealand	Radical	Regime specific	Radical
Austria	None	Regime specific	Regime specific
Belgium	Regime specific	Qualitative	Qualitative
France	Regime specific	Regime specific	Regime specific
Germany	Qualitative	Qualitative	Regime specific
Netherlands	Regime specific	Qualitative	Regime specific
Switzerland	Radical	Radical	Regime specific
Denmark	Radical	Regime specific	Radical
Finland	Qualitative	Regime specific	Qualitative
Norway	Regime specific	Regime specific	Regime specific
Sweden	Regime specific	None	Regime specific

Notes: Radical change is a shift from one of the welfare or a-theoretical ideal types to one of the workfare ideal types, or vice versa; *Qualitative change* is a shift from membership to one of the welfare ideal types to another; *Regime specific change* is a shift to lower or higher membership within an ideal type

and the presence of regime specific change hypothesis of the mainstream welfare state literature. For other countries, neither of the literatures' predictions holds in one or more periods.

When we inspect the findings in more detail, we find that radical change is present in four countries in at least one period (Ireland, New Zealand, Switzerland and Denmark). The exact changes support the regulationists' hypothesis hardly though. In fact, only Ireland supports the prediction as it has shifted from membership of ideal-typical liberal welfare to lean workfare after 1995. This shift, caused by higher active spending per unemployed, fits uneasily with the literature on Irish welfare state changes. Daly (2005: 152), for example, identified no significant welfare reform in Ireland. However, she also argued that the Irish social insurance payments are comparatively low and that income assistance is usually means-tested. These latter features match the low-income protection characteristic of workfare. There was also radical change in New Zealand but from ideal-

typical lean workfare in 1985 to liberal welfare after 1995. Thus, instead of a welfare-workfare shift, and contrary to hypothesized by the regulationists, New Zealand has thus displayed a workfare-welfare shift. Also the radical change in Switzerland fails to uphold the regulation hypothesis as this country had membership of generous workfare already in 1985. Between 1985 and 1995, active spending per unemployed dropped, resulting in membership of an 'a-theoretical' ideal type ($\sim A^*G^*\sim P$). Between 1995 and 2002, active spending per unemployed increased, yielding membership of generous workfare again. This means that over the period 1985-2002 Switzerland has displayed regime specific change. Denmark, finally, supports the welfare-workfare hypothesis moderately. Due to high spending per unemployed but low active spending in total labour market spending, this country received a score of .5 on activation in 1985 and 1995. Consequently, Denmark was neither in nor out of both conservative welfare and social democratic welfare in 1985. Between 1985 and 1995, there was a radical change towards neither in nor out generous workfare and an 'a-theoretical' ideal type ($\sim A^*G^*\sim P$) produced by relaxed employment protection. By 2002, Denmark had membership of generous workfare. This shift towards workfare is in harmony with the literature on Danish welfare state changes. Lean employment protection and generous social security have long been features of the Danish welfare state and activation was added from 1994 onwards (Benner & Bundgaard 2000).

The findings of the fuzzy-set ideal type analysis better corroborate the mainstream welfare state researchers' hypothesis of no radical change and regime specific changes than the regulationists' prediction. All liberal countries save Ireland and New Zealand displayed no change or regime specific change. The membership of ideal-typical liberal welfare was highest in the UK (around .9), the US' membership increased somewhat between 1985 and 1995, and both Canada's and Australia's membership decreased whereby the latter stabilized after 1995. In Austria and France, membership of conservative welfare was (almost) stable between 1985 and 1995 and decreased (somewhat) between 1995 and 2002. In Norway, membership of social democratic welfare was high (around .8) and stable. In Sweden, on the contrary, membership was very high in 1985 (.92) but dropped substantially between 1985 and 1995 due to relaxed employment protection.

This leaves us with four countries that displayed neither radical change nor regime specific or no change. Belgium has shifted from membership of conservative welfare to social democratic welfare between 1995 and 2002 because of increased active spending per unemployed. Germany has

displayed the same change between 1995 and 2002. For both countries, membership of social democratic welfare is in dissonance with the literature (Esping-Andersen 1999: 81-86). In the Netherlands, there has been a shift from ideal-typical conservative welfare to social democratic welfare between 1985 and 2002, with membership of both these ideal types being neither fully in nor out in 1995 due to active spending per unemployed. These changes match the literature on Dutch welfare changes (Hemerijck, Unger & Visser 2000: 218-230). Finally, because of lower active spending per unemployed, Finland has shifted from membership of social democratic welfare to conservative welfare between 1985 and 1995. This change is not in accordance with the literature on the Finnish welfare state (Kjander 2005).

In sum, the fuzzy-set ideal type analysis substantiates the mainstream welfare state literature's prediction of no radical change and regime specific change for most countries (the UK, the US, Canada, Australia, Austria, France, Norway and Sweden). The regulation literature's prediction of radical change from welfare towards workfare is supported fully in Ireland only and moderately in Denmark. Finally, there are six countries (New Zealand, Switzerland, Belgium, Germany, the Netherlands and Finland) that support in at least one period neither of the hypotheses.

3.5 Concluding remarks

The findings of the two-stage analysis presented in this chapter teach us a number of things about the politics of unpopular and not-unpopular welfare state reform, particularly about its degree and form. First, the changes in activation, benefit generosity, benefit conditionality and employment protection have left the character of welfare states of advanced capitalist democracies largely intact. Especially the results of the fuzzy-set ideal type analysis reveal that most of the occurring changes did not lead to countries having membership of a different model (be it a welfare or workfare one). Most of the shifts were regime specific, that is resulted in higher or lower membership of a particular ideal type (such as liberal welfare or generous workfare). For only some countries, the occurring changes have amounted in membership of another ideal type in one or two of the periods analyzed (1985-1995, 1995-2002 and 1985-2002). These findings indicate that welfare state reform has led more to regime specific change than to radical change, in line with the theoretical predictions and findings of the mainstream welfare state literature. Although workfare

programmes emerged almost everywhere, workfare regimes did not. This latter result conflicts with the regulationists' hypothesis.

Second, the fuzzy-set ideal type analysis using models based on the different workfare indicators informs us that the politics of welfare state reform can indeed be viewed as the politics of risk-taking. For one, the models themselves are helpful for assessing if in general as well as over time countries have displayed risk-taking behaviour. For example, when a country moves from membership of social democratic welfare to liberal welfare this means it changes from being in the sets of activation, generosity and protection to out of the sets of activation, generosity and protection, that is deteriorating on all three indicators. Although the precise conclusion depends on the country in question, such a shift usually indicates risk-taking behaviour. A shift from social democratic welfare to conservative welfare (in the sets of generosity and protection; out of the set of activation), conversely, is much less risky since it includes only one reform which is also not-unpopular (from in the set of activation to out of it). Moreover, the models' separate indicators are useful because they are either unpopular (lower generosity or stricter conditions) or not-unpopular (leaner employment protection or increased activation).

Related, the results help one to reveal the cross-national and cross-regime pattern in different types of reform. Table 3.7 sums up the resulting pattern. Regarding not-unpopular reform, the cross-national and, especially, the cross-regime variation is substantial. Interestingly, the changes in the liberal regime are the largest, with all but one country displaying stricter employment protection and half of the countries activating. Also remarkably, the social democratic regime shows the least not-unpopular reforms, with only Denmark demonstrating activation and no country increasing the strictness of employment protection. The conservative regime holds the middle position, with about half of the countries demonstrating activation and/or stricter employment protection. The precise not-unpopular reforms taken vary across countries, whereby the cross-national variation is lowest in the social democratic regime. The cross-national and cross-regime variation in unpopular reform is substantially lower, though not absent. The former holds particularly true for lower generosity, as in terms of stricter conditionality there is quite a lot of variation. These findings suggest that radical change in many indicators simultaneously hardly occurs, while quantitative changes do. While speaking of overall radical change would thus not be appropriate, the changes enacted are more than much ado about nothing.

Table 3.7 Summary of not-unpopular and unpopular reform

	Not-unpopular reform		Unpopular reform	
	<i>Activation</i>	<i>Stricter employment protection</i>	<i>Lower generosity</i>	<i>Stricter conditionality</i>
<i>Liberal regime</i>				
UK	√	√	√	
Ireland	√	√	√	
US			√	
Canada		√	√	
Australia	√	√	√	
New Zealand		√	√	√ ^c
<i>Conservative regime</i>				
Austria	√		√	
Belgium				√ ^d
France	√	√ ^a	√	
Germany		√ ^a	√	
Italy	√			
Netherlands	√			√ ^d
Switzerland		√ ^b	√	√ ^e
<i>Social democratic regime</i>				
Denmark	√		√	
Finland				√ ^d
Norway			√ ^f	
Sweden			√	

^a Regular employment only; ^b Temporary employment only; ^c Sick pay waiting days only; ^d UI qualifying period only; ^e UI waiting days only; ^f Unemployment insurance only.

This chapter's analysis has demonstrated that the extent and shape of welfare state reform varies across welfare regimes and across countries. To unravel under which conditions governments have pursued the reforms amounting in these changes, we need to move away from the country as the unit of analysis and towards the government. The next chapter takes a first step in this endeavour by examining the degree and type of reform pursued by over 20 British, Danish, Dutch and German governments. In addition to the institutional variation across these countries discussed in

chapter 1, this chapter has demonstrated that these countries also differ substantially in the extent and shape of reform that has taken place. Specifically, Denmark displayed radical change from welfare towards workfare; the UK showed regime specific change; Germany changed qualitatively from conservative welfare to social democratic welfare; and the Netherlands displayed almost the same pattern as Germany did. If under these varying circumstances, combined with the different institutional characteristics, the conditions under which the different types of reform occur are similar, those findings are likely more broadly applicable.

4 Which governments pursue reform and how much?

4.1 Introduction

This chapter continues the discussion on the degree and shape of welfare state reform by zooming in on the unpopular and not-unpopular reforms pursued by the British, Danish, Dutch and German governments between 1979 and 2005. Recall that unpopular reforms are those changes that do not include the median voter, while not-unpopular reforms are those changes that do not entail imposing losses on a certain group of voters but which are also not 'popular' in the sense that the median voter is (highly) favourable towards it. Before discussing the degree of unpopular and not-unpopular reform pursued by the governments, let me first elaborate why I focus on these countries' governments.

4.2 Case selection

Why study the reforms pursued by Danish, German, Dutch and British governments? Chapter 1 has argued that the countries are perfect candidates for the intra-national and cross-national comparisons conducted in this study because they differ substantially in the institutional features that could influence the governments' pursuit of unpopular and not-unpopular welfare state reform. Let me discuss the differences in more detail, beginning with Pierson's (2001a) argument that the different welfare state regimes entail a distinct politics of welfare state reform because of differences in the need for reform, the political opportunities of reform, and the agenda of reform. In the conservative regime, Pierson expects reform to be difficult. The adjustment pressures are high and push for cost containment, that is the attempt to keep balanced budgets through austerity policies (including deficit reduction and tax moderation), and for recalibration, that is 'reforms which seek to make contemporary welfare states more consistent with contemporary goals and demands for social

provision' (Pierson 2001a: 425). However, these pressures confront a high political support for the welfare state, making reform in this regime difficult. The social democratic regime is in a somewhat better position to reform with moderate adjustment pressures gearing towards cost containment and recalibration and high support for the welfare state. The liberal regime's agenda of recommodification, which is the attempt 'to restrict the alternatives to participation in the labor market, either by tightening eligibility or cutting benefits' (Pierson 2001a: 422), and cost containment is less pressing given the moderate adjustment pressures. The implementation may however be easier because of the moderate support for the welfare state – although also here it is not the case that the majority of citizens opposes the welfare state. The four countries selected are taken from each of the three welfare state regimes (UK: liberal; Germany; conservative; Denmark: social democratic; Netherlands: variously considered conservative or social democratic, but in this study viewed as conservative, see chapter 3). The degree and type of reform as well as the way reform comes about are expected to vary accordingly.

In addition to the type of welfare state, the type of party competition has been argued to affect the shape and degree of welfare state reform (Kitschelt 2001: 273ff.). Denmark, Germany, the Netherlands and the UK differ substantially in their party competition and should, consequently, display varying degrees of welfare state reform. The UK fits the configuration labelled united Market-Liberals versus united Social Democrats, in which two main parties – one market-liberal (in the UK the Conservatives), the other more redistributive (New Labour) – disagree about the appropriate size of the welfare state and about wage equality and in which competition centres around economics. In this configuration, there could be radical blackmail parties on the left and right, but their influence is only weak. Consequently, the market-liberal party can pursue unpopular reform when it can blame the poor socio-economic performance of the competitor on the left. The likeliness of this being successful is largest when the socio-economic difficulties are large (e.g. in the UK in the 1970s and 1980s). The leftist party, conversely, may when in office pre-emptively strike against its competitor by pursuing unpopular reform. Given the absence of another welfare state defending party, the electoral losses of such a strike are likely to be small. Based on Kitschelt's account, unpopular welfare state reform is thus expected to occur in the UK under 1) deteriorating socio-economic circumstances that are combined with a Conservative government or 2) under a New Labour government.

In the configuration to which Denmark belongs, divided Market-Liberals and Centrists versus united Social Democrats, unpopular reform is also possible but somewhat more difficult. Here, the critical dimension is still economics but libertarian-authoritarian issues matter too. In addition to Social Democratic, centre-right Liberal, and Conservative parties, this configuration also includes left-libertarian and right-authoritarian parties. While market-liberal parties will – when in office – pursue unpopular reform, Social Democrats have to weight their potential electoral losses against the potential gains. While enacting reform can steal away voters from the right, it leads to losses on the left. It depends on the internal party organization whether office-seeking or vote-seeking ambitions will be dominant (Schumacher & Vis 2009). Strong leadership and limited external influence will push towards office-seeking and thereby unpopular reform; weaker leadership and substantial organizational entrenchment will push towards vote-seeking and thereby no or limited unpopular reform.

The Netherlands belongs to the configuration of a three-way divide between Liberals, Centre and Social Democrats. Here the competition centres strongly around libertarian-authoritarian issues although economic issues also play a role. Both Social Democratic and Christian Democratic (centre) parties in this configuration are known for having developed the welfare state and for continuing to support it. These parties may move towards unpopular reform to stress their capacity to steer the economy successfully or to move closer to the market-liberals in an attempt to increase their potential for office. Reform is unlikely when the Christian Democrats (CDA) – or the Social Democrats (PvdA) for that matter – gain office with the market-liberal party (VVD) because there is still another welfare state defender voters can turn to. Reform becomes likelier when Christian Democrats and Social Democrats govern together, although here the existence of, or possible arising of, left-libertarian parties or social policy protest parties (e.g. the Socialist Party) may produce a future loss of votes.

Germany, finally, fits the configuration Weak Liberals, Strong Centre and Strong Social Democrats. In this configuration, the libertarian-authoritarian divide is dominant. The two major parties – Christian Democrats (CDU/CSU) and Social Democrats (SPD) – face more extreme libertarian or authoritarian parties (Greens). Market-liberal parties (FPD), conversely, remain weak in this configuration. Because of the latter feature, only the centrist, Christian Democratic party can push for unpopular reform but doing so would mean losing votes to the Social

Democrats. For the Social Democrats, there is no strategic advantage in pursuing unpopular reform. Therefore, Kitschelt (2001) argues, unpopular reform occurs only when Christian Democrats and Social Democrats govern together in a grand coalition, like under the Merkel I government. Such a coalition, however, is not attractive electorally because of the more radical parties (like the Democratic Socialist party the Left, *die Linke*) that are waiting to reap votes from the coalition parties. In sum, unpopular reform in this configuration and thus in Germany is expected to be limited.

This overview indicates that the degree of welfare state reform is expected to vary across the four countries. Given the type of welfare state regime and accompanying need for reform, the largest change would be expected in the Netherlands and Germany, if it were not for the lack of the political opportunity for reform. In the UK, on the contrary, the political opportunity for reform is substantial but the need for reform is moderate only. Yet, given the strong support for the welfare state in Denmark, and hence the low political opportunity for reform, the degree of reform is likely to be the largest in the UK (see Swank 2001: 214), followed by Denmark and with the Netherlands and Germany closing the line. The party competition argument of Kitschelt (2001) arrives at a similar ordering of countries, yet in addition allows for variation within a country in the degree of reform. In the British case, unpopular reform is expected under deteriorating socio-economic conditions combined with a Conservative government or when New Labour governs. In the Danish case, it is hypothesized that Market-Liberal parties will always pursue unpopular reform when in office. The Social Democrats, on the other hand, will pursue unpopular reform only when the party leadership is strong and the external influence on the party is low. In the Dutch case, unpopular reform is expected to be most likely when the Christian Democrats and Social Democrats govern together. Finally, in the German case, unpopular reform is hypothesized to occur only when the Christian Democrats and Social Democrats govern together. As I will show below, the actual reform record of the governments under study bears out some of these expectations. For one, there is cross-national variation in the degree of reform that has taken place. As expected, Germany ranks – at least until recently – among the least reforming countries; the Netherlands and Denmark score substantially higher in terms of reform; and the UK has undergone radical change (e.g. Cox 1998a; 2001; Green-Pedersen 2002; Clasen 2005; Kuipers 2006). However the above hypotheses cannot explain the existing variation in the degree of

reform across similar governments, suggesting that a different explanation is necessary.

Focusing on the type of welfare state and type of party competition, Denmark, Germany, the Netherlands and the UK are thus clearly different. As explained in chapter 1, if despite these institutional differences this study reveals similarities in the factor(s) explaining governments' pursuit of welfare state reform – such as the importance of socio-economic and political losses and gains – its findings' applicability are likely broader than these four countries only.

4.3 Operationalization of unpopular and not-unpopular reform

How to establish the degree to which cabinets pursue electorally risky measures or abstain from doing so? In light of the dependent variable problem discussed in chapter 1, let me elaborate the operationalization of unpopular reform as well as not-unpopular reform adopted here. For unpopular reform, I use two operationalizations. In brief, the first operationalization is broad and includes many aspects ranging from radical changes overhauling the welfare state to (minor) cutbacks in unemployment benefits. This allows for unravelling the conditions that foster unpopular reform in general. The second operationalization is narrower, focusing on changes in unemployment replacement rates only. To avoid confusion, I label the former 'broad measure of unpopular reform' and the second measurement 'benefit cutbacks'. The latter operationalization is particularly apt for comparing the (different) conditions under which unpopular and not-unpopular reform occur. With not-unpopular reform measured by active spending per unemployed, using benefit cutbacks as indicator of unpopular reform allows for controlling for the variation in actors and institutional structures across welfare state programmes: both activation and changes in benefit levels occur in the same policy domain: employment (cf. Clasen 2005: 2).

Broad measure of unpopular reform

For the *broad measure of unpopular reform* the degree of reform is a combination of the extent of reform and its unpopularity. To establish the *extent of reform*, I draw on quantitative and qualitative sources. I use two quantitative sources. First, the percentage point change during the cabinet period in the net unemployment insurance (UI) replacement rate,

averaged for two groups: a single average production worker (APW) and a married APW with a nonemployed spouse and two children (Scruggs 2004; see Scruggs & Allan 2006b, see chapter 3). Table 4.1 displays the changes in the UI and sick pay replacement rates per government. The second quantitative source of information is the percentage change during the cabinet period in the generosity index. As explained in chapter 3, this index is a revised version of Esping-Andersen's (1990) decommodification index that taps the degree to which citizens are independent from the market for their livelihood.

Focusing on replacement rates and the generosity index to capture the degree to which governments have pursued unpopular reform has several advantages over using social spending data. For one, socio-economic changes lead automatically to increasing or decreasing social expenditure, without a government having taken a decision. For example, when the number of individuals that is eligible for pensions rises because of population ageing, the expenditures on pensions increase too and so do social expenditures. This increase does not mean that the welfare state has become more generous; it just means that more people draw from it. Similarly, when the level of unemployment increases the expenditures on unemployment benefits increase too, leading to higher social expenditures. Again, the generosity of the system is unaffected. The reverse is also true. When the level of unemployment falls and expenditures on unemployment benefits fall accordingly, the welfare state has not been retrenched. In order to identify the degree to which welfare states become more generous as a result of the decisions of the government, we need a measure of welfare state generosity that changes only when the government takes a decision and which does not change automatically when the socio-economic circumstances improve or deteriorate (Siegel 2007; Schumacher & Vis 2009). The decommodification or generosity index includes the components that offer precisely such a measure.

With respect to the qualitative material employed for coding the broad measure of unpopular reform, the most important sources of information are case studies of the countries under review,¹ the information on reforms available in the International Reform Monitors of the Bertelsmann-foundation (Bertelsmann-foundation, various years),² and the Social Security Worldwide dataset of the International Social Security Association (ISSA 2006).³ Fuzzy-sets are particularly apt for incorporating qualitative as well as quantitative data since they comprise a quantitative as well as a quantitative state. Recall from chapter 2 that a

Table 4.1 The development of active spending and replacement rates

Cabinet	Period in office	Δ UI replacement rates	Δ sick pay replacement rates	Δ active spending per unemployed
Schlüter I	09.82-05.86	- 6.6	- 3.9	+ 0.5
Schlüter II	05.86-09.87	- 7.9	-9.1	- 0.6
Schlüter IV	05.88-12.90	+ 3.7	+ 3.8	- 3.4
Schlüter V	12.90-01.93	- 0.3	- 0.3	+ 0.6
N. Rasmussen I	01.93-09.94	+ 1.2	+ 1.1	+ 4.2
N. Rasmussen II (& III)	09.94-03.98	- 1.5	- 0.3	+ 4.2
N. Rasmussen IV	03.98-11.01	- 0.4	- 0.4	+ 4.1
Kohl I	03.83-01.87	+ 0.2	0	+ 5.1 ^c
Kohl II	01.87-12.90	- 2.6	0	+ 5.7
Kohl III	12.90-10.94	- 0.1	0	- 17.9
Kohl IV	10.94-09.98	- 0.1	- 7.3	- 2.5
Schröder I	09.98-09.02	+ 1.0	0	- 0.7
Lubbers I	09.82-05.86	- 9.0 ^a	- 1.8	- 0.5
Lubbers II	05.86-09.89	+ 1.1	+ 1.1	+ 2.8
Lubbers III	09.89-05.94	- 0.8	- 0.8	+ 2.9
Kok I	05.94-05.98	- 0.9	- 0.9	+ 5.5
Kok II	05.98-05.02	+ 2.1 ^e	+ 0.5	+ 26.4
Thatcher I	05.79-06.83	- 22.7	- 22.6	- 3.9 ^d
Thatcher II	06.83-06.87	- 4.2	- 4.2	+ 2.0
Thatcher III	06.87-04.92	- 2.1	- 2.1	- 2.4
Major I	04.92-05.97	- 0.4	- 3.1	- 0.7
Blair I	05.97-06.01	- 0.7	- 2.0	+ 1.2
Blair II	06.01-05.05	+ 0.5 ^c	..	- 0.2 ^c

^a 1983-1986; ^b 2001-2003; ^c 1985-1986; ^d 1980-1982.

Notes: N. Rasmussen is Nyrup Rasmussen; Δ active spending per unemployed is the percentage point change per cabinet period in spending on ALMPs divided by the standardized unemployment rate; Δ UI replacement rates is the percentage point change per cabinet period in the average net unemployment insurance replacement rate averaged for a single average production worker (APW) and a married APW with a nonemployed spouse and two children. Δ sick pay replacement rates, idem for the average net sick pay replacement rate. Following Armingeon & Giger (2008), I include only the year of the election if the election took place in the second half of the year. Schlüter III is excluded because it was in office less than a year.

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

fuzzy-set is '(...) a fine-grained, [pseudo] continuous measure that has been carefully calibrated using substantive and theoretical knowledge relevant to set membership' (Ragin 2000: 7). An important feature of fuzzy-set theory is that cases' membership in different sets (variables) can vary. Thus, instead of government's reform-activities being either unpopular or not-unpopular, anything between these two poles is possible. The qualitative feature of a fuzzy-set lies in the two qualitative breakpoints, 1 and 0, that are selected by the researcher and correspond to these poles. Specifically, the breakpoints signify, respectively, the situations that all government's reform-activities are unpopular and that none is (in fuzzy-set terminology: fully in and fully out of the set of Unpopular Reform). The degree of membership between 0 and 1 provides the quantitative aspect. To assign the fuzzy-set membership scores of (here) unpopular reform, the researcher uses both substantive and theoretical knowledge (Ragin 2000: 155-159; 2006b: 22-26). Scores above .5 indicate that a government engages in unpopular reform (in the set of Unpopular Reform); scores below .5 suggest that a government refrains from unpopular reform (out of the set of Unpopular Reform).

To establish the *unpopularity of the reform*, I use mainly the qualitative sources listed above. Still, it is plausible to assume that cutbacks in benefit levels are usually unpopular as voters often react negatively to them (see chapter 3). The context affects how negative the voters' response is. Therefore, I take into account the cross-regime variation in the support for welfare policy, with support being highest in Denmark and the Netherlands, moderate in Germany, and lowest in the UK (Larsen 2008). Note that whereas the quantitative material used is the same across the cases, the qualitative material employed varies across the four countries. Therefore, the quantitative material provides the primary source of information, with the qualitative sources used as secondary material. Appendix B displays the reasoning behind the fuzzy-set scores of the outcome Unpopular Reform for all cases.

An example illustrates how I construct the fuzzy-set scores for Unpopular Reform. The first Kohl cabinet receives a fuzzy-set score of .33, suggesting that Kohl I hardly engaged in unpopular reform. Although Kohl I curbed the unemployment replacement rates by 7 per cent, the changes enacted left the generosity index unaltered (Scruggs 2004). Moreover, despite the promises Kohl made upon taking office, no consistent pattern of reform materialized (Leibfried & Obinger 2003: 209; Schmidt 2005: 101). Some benefit cuts occurred and eligibility criteria

for several programmes were tightened (Leibfried & Obinger 2003: 209; Schmidt 2005: 99-100). However, these measures were not unpopular *per se*. Public opinion surveys demonstrate that the public accepted limited cuts in welfare state benefits in 1982. From the mid-1980s onwards, Kohl I started to combine retrenchment initiatives with selective expansion (Aust, Bönker & Wiollmann 2002: 8-9, 28-29; Leibfried & Obinger 2003; Schmidt 2005: 100-101, 105-106). This trend nicely followed public opinion as surveys show that further cuts would have received the disapproval of voters from 1984 onwards (Alber 1986, referenced in Zohlnhöfer 2003: 136).

Benefit cutbacks

For the second measure of unpopular reform, labelled *benefit cutbacks*, I focus on the average net replacement rate of unemployment insurance (note that this is one of the indicators to measure benefit generosity in chapter 3). To capture the degree to which governments pursued benefit cutbacks, I again use fuzzy-sets. The fuzzy-set membership scores for the outcome Benefit Cutbacks are established as follows. First, I calculate the percentage change per cabinet in the average net unemployment insurance replacement rate. Table 4.1 displays these scores; the data per year can be found in table 4.2. Then, I use these data to assign the fuzzy-set scores for the outcome Benefit Cutbacks. The qualitative breakpoints 0 and 1, fully out of and fully in the set, are placed respectively at -10 and +10. The underlying reasoning is that a reduction (increase) of 10 percentage points in the average net unemployment insurance replacement rate indicates a clear decline (improvement) in the income situation of unemployed and their eventual families. For example, if the replacement rate is reduced from 80 to 70 per cent – and all else remains the same – someone whose previous income was € 3,000 sees his or her benefit shrink from € 2,400 to € 2,100 per month (that is, minus 12.5%). Such a cutback means that the individual cannot maintain the same standard of living. The in-between scores (.8, .6, .4 and .2) are based on the data in table 4.1, whereby substantive knowledge of the cases is used for coding the cases. Table 4.3 displays the coding scheme.

Table 4.2 Development of UI replacement rates, 1979-2002

	Denmark	Germany	Netherlands	UK
1979	79.2	69.2	86.5	59.0
1980	79.1	69.1	87.5	54.6
1981	78.6	69.2	92.3	51.7
1982	..	69.1	87.4	36.3
1983	82.2	69.0	87.2	36.4
1984	78.5	66.5	85.5	35.6
1985	75.7	66.5	86.9	34.9
1986	74.5	66.4	78.2	34.6
1987	66.6	66.4	79.1	32.2
1988	66.5	66.4	79.3	30.1
1989	70.4	66.4	79.3	28.6
1990	70.2	66.4	76.0	27.9
1991	69.6	66.4	77.2	28.0
1992	69.3	66.5	74.9	29.2
1993	68.8	66.5	75.2	29.7
1994	69.9	64.5	76.1	30.3
1995	66.7	64.4	76.0	29.6
1996	66.4	65.3	77.4	28.8
1997	65.2	65.4	75.2	37.3
1998	63.4	65.4	75.3	37.0
1999	64.4	65.6	75.2	37.0
2000	63.8	65.6	75.8	36.6
2001	63.1	65.6	..	36.2
2002	61.9	65.8	77.4	37.0

Notes and sources: see table 4.1.

Table 4.3 Establishing the fuzzy-sets Benefit Cutbacks and Activation

Fuzzy-set score	Benefit Cutbacks	Activation
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	$X \geq 10$	$X \leq -25$

Activation

My measure for not-unpopular reform is *activation*. As discussed in chapter 1, increased spending on active labour market policies taps the degree of not-unpopular reform because activation affects the median voter neither positively nor negatively. Activation only has an effect on a relatively small group of voters (especially the unemployed), because of which activation measures probably hardly influence the median voter. Like in the previous chapter, I measure activation as *active spending per unemployed*, which is the percentage of GDP spent on ALMPs per 1 per cent standardized unemployment. The fuzzy-set scores for the outcome Activation are established similar as the ones for Benefit Cutbacks. First, I calculate the percentage point change during the cabinet period in active spending per unemployed. Table 4.1 displays these scores; the raw data can be found in table 4.4. For example, the Kok I cabinet increased active spending per unemployed from 21.9 to 32.5, which means that the percentage of GDP that is spent on active measures per per cent standardized unemployment rose by 10.5 percentage point. Next, I use the data in table 4.1 to assign fuzzy-set membership scores. The qualitative breakpoints 0 and 1, fully out of and fully in the set, are respectively placed at -25 and $+25$ because a reduction (increase) of 25 percentage points in spending per unemployed suggests a clear decline (improvement) in the importance of activation for the government. Such a reduction (increase) means a change of .25 per cent of GDP per per cent standardized unemployment. That is to say, if the unemployment rate is 4 per cent, the share of GDP spend on activation reduces (increases) by 1 per cent during the cabinet period; which is a lot given that total social expenditure as a percentage of GDP generally does not, or hardly, exceed 30 per cent. The third qualitative breakpoint, .5, is set is at 0 because at this point the government is neither in nor out of the set of Activation. I assign the in-between scores (.83, .67, .33 and .17) also on the basis of the data in table 4.1, whereby I draw on substantive knowledge of the cases for coding them. Table 4.3 displays the coding scheme.

Still, for a 'truly' active orientation, ALMP expenditures as a share of total labour market expenditures, that is the combination of spending on ALMP and passive labour market policies (unemployment compensation and early retirement for labour market reasons), should be high as well (OECD 2003: 193-194). 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. This was only the case for the cabinet Major I (see table 4.4).

Table 4.4 Development of ALMP spending, 1980-2003

	Denmark		Germany		Netherlands		UK	
	<i>Per unem.</i>	<i>Share total</i>	<i>Per unem.</i>	<i>Share total</i>	<i>Per unem.</i>	<i>Share total</i>	<i>Per unem.</i>	<i>Share total</i>
1980	..	8.3	..	..	12.8	25.8	9.7	34.4
1981	..	10.7	..	..	9.8	20.4	6.8	29.0
1982	9.5	12.7	..	..	8.2	16.9	5.7	24.9
1983	12.3	16.5	..	..	7.6	15.8	6.3	27.6
1984	12.7	17.2	..	..	7.3	15.3	6.5	28.1
1985	12.7	16.5	9.7	41.9	12.3	23.2	6.5	29.0
1986	21.8	22.6	14.8	51.7	13.1	25.6	7.6	33.9
1987	21.2	22.1	17.0	53.5	13.8	26.5	8.3	39.5
1988	18.2	20.7	18.2	55.4	14.9	27.7	8.7	46.2
1989	16.3	20.6	19.1	57.0	15.9	28.9	9.1	51.1
1990	14.9	20.4	22.7	55.6	17.6	30.1	8.6	44.8
1991	15.7	21.7	32.6	50.5	20.0	31.8	6.3	33.1
1992	16.3	22.9	28.9	55.9	23.2	33.1	5.7	30.7
1993	18.1	24.6	18.8	43.5	20.5	31.5	5.4	30.8
1994	22.3	26.0	14.8	39.7	17.2	29.1	5.6	33.8
1995	27.5	30.0	15.4	42.6	15.9	27.7	5.2	33.3
1996	28.1	30.0	14.7	42.1	17.8	28.4	5.1	35.9
1997	31.7	30.7	11.8	38.7	22.7	32.1	5.4	42.0
1998	34.1	33.0	12.9	41.5	29.2	37.9	5.4	42.6
1999	34.9	36.2	14.9	43.9	35.6	43.3	5.9	47.3
2000	36.5	34.3	15.2	42.6	40.0	47.1	6.7	52.1
2001	38.2	37.0	14.3	41.8	55.7	51.0	10.6	51.0
2002	38.3	37.2	14.2	41.6	37.9	44.1	10.4	65.0
2003	30.0	32.7	12.0	38.4	28.6	40.0	10.4	66.2

Notes: Per unem. is ALMP spending per unemployed (see table 4.1); share total is ALMP spending as share of total spending on labour market policies, that is total spending on ALMPs (% GDP) × 100 divided by the sum of total ALMP spending and total spending on passive labour market policies.

Sources: Armington et al. (2008); author's calculations.

4.4 The pattern of reform

To what degree did governments pursue unpopular reform, broadly defined? Moreover, to what extent did governments curtail benefit levels, a more narrow measurement of unpopular reform? Finally, to what extent did governments increase their use of activation measures, indicating not-unpopular reform? Table 4.5 displays the fuzzy-set scores for the outcomes Unpopular Reform, Benefit Cutbacks, and Activation. Figure

Table 4.5 Fuzzy-set scores for Unpopular Reform, Benefit Cutbacks and Activation

	Unpopular Reform	Benefit Cutbacks	Activation
Lubbers I	.83	.83	.33
Lubbers II	.33	.33	.67
Lubbers III	.67	.67	.67
Kok I	.67	.67	.83
Kok II	.17	.33	1.00
Balkenende II	.83	..	..
Kohl I	.33	.33	.83
Kohl II	.17	.67	.83
Kohl III	.33	.67	.17
Kohl IV	.67	.67	.33
Schröder I	.17	.33	.33
Schröder II	.83	..	..
Schlüter I	.33	.83	.67
Schlüter II	.67	.83	.33
Schlüter IV	.17	.17	.33
Schlüter V	.33	.67	.67
Nyrup Rasmussen I	.17	.33	.67
Nyrup Rasmussen II (& III)	.83	.67	.67
Nyrup Rasmussen IV	.67	.67	.67
Thatcher I	.83	1.00	.33
Thatcher II	.67	.83	.67
Thatcher III	.67	.67	.33
Major I	.67	.67	.45
Blair I	.40	.67	.67
Blair II	.33	.33	.33

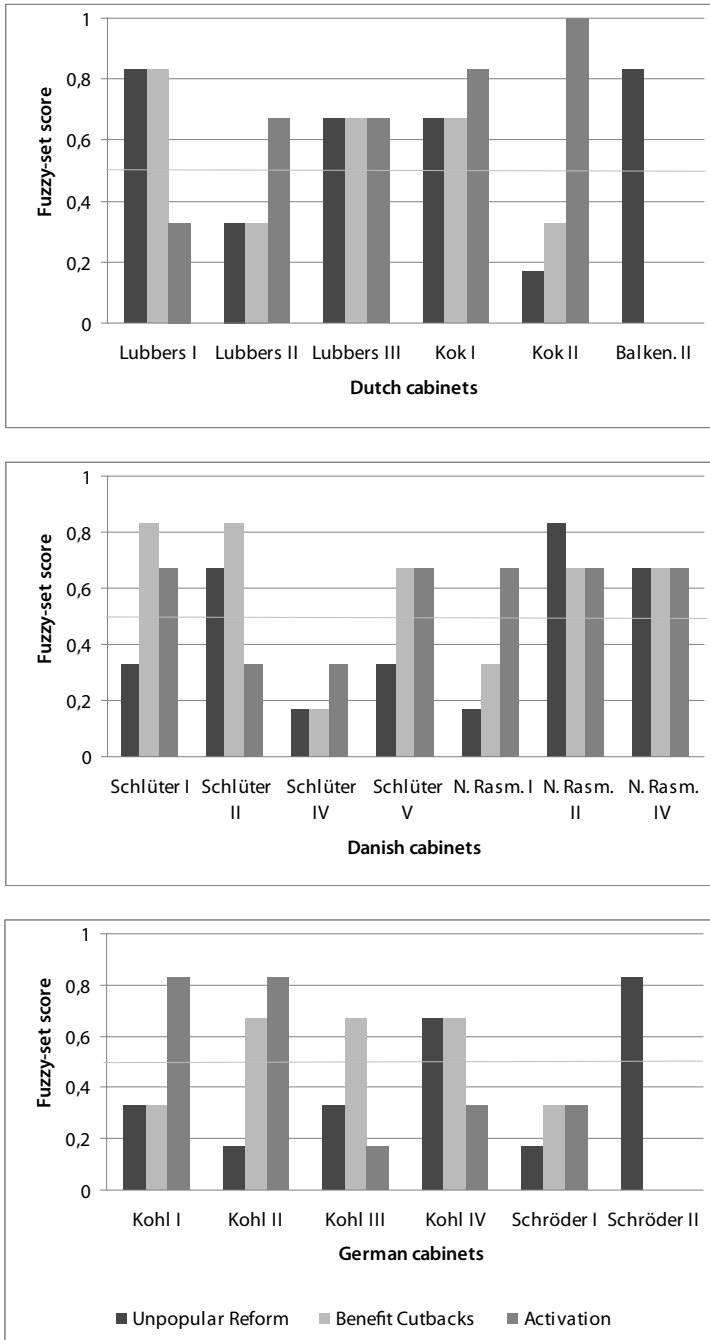
Notes: Cases that are 'in' a specific set (> .5) are indicated in bold. Balkenende I and Schlüter III are excluded because they were in office less than a year.

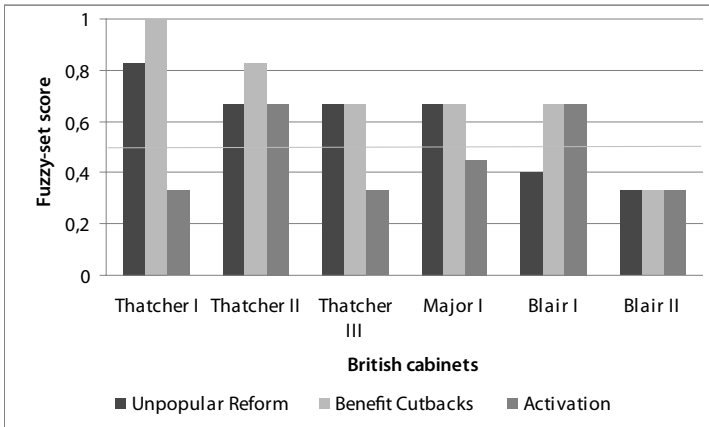
4.1 offers a visual presentation of the pattern of reform per cabinet per country. The scores in the columns in figure 4.1 are the fuzzy-set scores from table 4.5. The longer the column, the more in the particular set a government is. The line at .5 indicates the crossover point. All cabinets whose column is above this line display that particular type of reform. For example, Thatcher I pursues unpopular reform and benefit cutbacks, yet no – or stated more correctly, hardly – activation.

Figure 4.1 and table 4.5 reveal that the number of cabinets pursuing Unpopular Reform is somewhat larger than the number of cabinets refraining from doing so: 13 versus 12. The same applies to governments pursuing Activation or Benefit Cutbacks: respectively 13 versus 10 and 16 versus 7. Figure 4.1 also indicates that – perhaps contrary to common assumptions – the pursuit of activation is not limited to a certain period: such reforms were taken in the 1980s, 1990s and 2000s alike. The same holds for unpopular reform (both broadly defined and as benefit cutbacks). Moreover, again in both measures, there is a puzzling variation in the pursuit of activation and unpopular reforms by similar governments in different cabinet periods. Let me discuss the cross-government variation in Denmark to illustrate this finding. The cabinets Nyrup Rasmussen II & IV as well as Schlüter II are in the set of unpopular reform, broadly defined, meaning that they proved willing to accept the great risk of reform and enacted unpopular measures. The cabinets Nyrup Rasmussen I and Schlüter I, IV & V, conversely, acted cautiously and refrained from pursuing unpopular policies broadly defined. This is a first indication of the variation across similar governments in the pursuit of unpopular welfare state reform. Looking at the narrower measure of unpopular reform, benefit cutbacks, we see a similar pattern emerging. Here the same Nyrup Rasmussen cabinets, II & IV, accepted the electoral risk involved in the cutbacks, as did the Schlüter cabinets I, II & V. Note that the Schlüter I & V did not pursue unpopular reform broadly defined but did cut back benefit levels. Similar governments, namely Nyrup Rasmussen I and Schlüter IV, contrarily, proved unwilling to accept the electoral risk involved in benefit cutbacks and shied away from reform. Moreover, with regard to activation, we also see cross-government variation. Specifically, Schlüter I & V pursue activation while Schlüter II & IV refrain from doing so.

Finally, as I already touched upon, figure 4.1 reveals some interesting differences between unpopular reform measured broadly and unpopular reform measured as benefit cutbacks. Specifically, Schlüter I & V, Kohl II & III and Blair I display no unpopular reform broadly defined yet do show unpopular reform measured as benefit cutbacks.

Figure 4.1 The pattern of reform





4.5 Concluding remarks

This chapter has shown that there is a remarkable variation across similar governments in different types of welfare state reform. How to explain this variation? That is to say, under which conditions do – sometimes similar – governments pursue different types of welfare state reform? The expectations based on institutional differences across the countries cannot fully account for this variation. In the British case, unpopular reform was hypothesized to occur when New Labour governs. Yet, neither Blair I nor Blair II pursue unpopular reform measured broadly and only the former conducts benefit cutbacks. Moreover, not all Danish Market-Liberal governments pursue unpopular reform; both Schlüter I and IV do not display unpopular reform measured broadly and Schlüter IV implements neither unpopular reform measured broadly nor benefit cutbacks. Furthermore, in line with Kitschelt’s hypothesis, the Dutch government in which the Christian Democrats and Social Democrats govern together (Lubbers III) displays unpopular reform. Yet, contrary to hypothesized, the degree of reform is just as high or even higher under the centre-right Lubbers I government and the ‘purple’ Kok I government. Finally, and different than expected, the two German governments pursuing unpopular reform were no grand coalitions (Kohl IV and Schröder II). These findings indicate that the variation across governments in the degree and type of reform identified above is puzzling indeed.

The next chapter discusses existing theories of welfare state reform and demonstrates that these theories cannot explain this puzzling variation in reform. As chapter 6 will show, insights from prospect theory offer precisely the theoretical footing that current theories lack, thereby complementing them perfectly.

Part II

Explaining welfare state reform

5 What existing theories have to offer and why they fail

5.1 Introduction

How to explain the puzzling cross-government variation in different types of welfare state reform that chapter 4 revealed? What triggers some governments, such as Lubbers I, Schröder II and Nyrup Rasmussen II, to accept the possible electoral penalties and pursue unpopular reform, whilst other governments, such as Lubbers II, Schröder I and Nyrup Rasmussen I, shy away from this risk? Moreover, why do some governments, such as Thatcher II and Kohl I, engage in not-unpopular reform – which does not include a substantial political risk but which also does not present an avenue for reaping electoral gains – whilst others, such as Thatcher I and Kohl III, do not? These questions are particularly intriguing since *all* governments confront challenges such as population ageing or changing labour markets that push for (unpopular) reform. Similarly, since the mid-1990s, *all* governments are pressured by organizations such as the Organization for Economic Co-operation and Development (OECD) and the European Union (EU) to boost the emphasis on active labour market policies. Apparently, these similar pressures result in diverse outcomes. Why is this so? Why do some governments engage in welfare state reform, yet others do not?

The following quote from Esping-Andersen (2002) represents the dominant view regarding why unpopular and not-unpopular reform occur.

For two reasons, the continued viability of the existing welfare state edifice is being questioned across all of Europe. The first is simply that the status quo will be difficult to sustain given adverse demographic or financial conditions. The second is that the same status quo appears increasingly out-of-date and ill suited to meet the great challenges ahead. Our existing systems of social protection may hinder rather than promote employment growth and competitive knowledge-intensive econ-

omies. They may also be inadequate in the face of evolving and possibly far more intense social risks and needs. It is on this backdrop that new political entrepreneurs and welfare architects are coming to the fore with calls for major regime change. (Esping-Andersen 2002: 4)

Stated simply, according to the prevailing perspective, reform happens because it needs to happen. Sure, there are political impediments and institutional hindrances to reform but if political actors get the chance, for instance because the party configuration allows it (see chapter 4), they go for it. At least partly because of this assumption, most current theories of welfare state reform focus on the *how*-question – how can political actors overcome the obstacles to reform and successfully implement it? – and ignore the question under which conditions, or when, they do it in the first place.

The studies that do focus on the question of when reform occurs, cannot explain systematically the variation in reform across similar governments and independent from institutional characteristics. Anderson (2001), for example, argues that retrenchment (in Sweden) occurs only when both the Social Democrats and the labour movement support retrenchment. Although this is a plausible explanation for unpopular reform in countries in which labour movements matter, it cannot account for such reform in all countries since labour movements may not be of much influence (as in the British case). Moreover, Klitgaard (2007) argues that Social Democratic parties in universal (Social Democratic) welfare states engage in market-oriented reform when the party elite considers the policy problems to be a threat to the welfare state's legitimacy. Legitimacy problems develop for example when the welfare state fails to comply with the voters' demands for individual social services. Whilst this argument answers the 'why are *social democrats* doing it' question, it is not fully satisfactory. So, as Klitgaard (2007: 190) notes himself, the argument holds better for qualitative changes in the welfare state (such as a shift in the underlying institutional principles) than for quantitative ones. Klitgaard's explanation also cannot be generalized to other types of parties or types of welfare regimes because it premises on the assumption that the universal welfare state is a power resource for Social Democratic parties. Hence, the account cannot explain what induces political actors, irrespective of their political colour or the welfare state regime in which they operate, to pursue electorally risky reform. On a more general level, Starke (2008) presents an insightful literature review of the theories of welfare state retrenchment whereby he differentiates causes explaining the *timing* of

cutbacks (e.g. economic crises) and *structuring* causes accounting for the degree or type of retrenchment (e.g. political institutions). When comparing his extreme case's findings (New Zealand) to the German, Swedish and British retrenchment experiences, Starke shows that although retrenchment happened in all four countries, radical retrenchment did not.¹ Only in New Zealand in the early 1990s and in the UK in the early 1980s were there 'deep across-the-board cuts in social programmes' (Starke 2008: 186). Based on this comparison, Starke identifies problem pressure to be 'almost certainly' a necessary condition for retrenchment (p.191). Partisan ideology and, to a certain extent changing ideas about the welfare state, explain the size and speed of retrenchment. In Starke's view, radical retrenchment cannot come about without the conjunction of a deep economic crisis, an anti-welfare government and a Westminster polity. Although intriguing, it is questionable whether Starke's theoretical framework is widely applicable. The framework can, for instance, not account for the wide-ranging cutbacks in the Netherlands (Starke 2008: 222, n.36), as that is no Westminster system. Moreover, if the German Hartz reforms had been qualified as radical retrenchment – as some scholars would argue they are – Germany would pose problems for the explanatory account. Furthermore, Starke offers no systematic explanation of why radical retrenchment does *not* occur. He, for instance, states that the 'moderate cuts' made in the Muldoon era were 'made under the pressure of economic crisis and mounting moral criticism of the welfare state's effects on society' (p.73), but does not indicate why these factors did not produce radical retrenchment. It seems that the ideological position of key actors is crucial here, but the question is: what affects this position? If retrenchment, and certainly radical retrenchment, is an electorally dangerous endeavour, why then do politicians want to pursue it (see Vis 2009c)?

Next to largely disregarding the when-question, most of the contemporary literature focuses especially on the variation in the degree and shape of reform across nations or over time. Chapter 4 has shown that such variation is indeed substantial, suggesting that studying it is important for understanding the politics of unpopular and not-unpopular reform. But it is not enough. To understand *when* reform happens, it is crucial to know under which conditions governments engage in it. This chapter demonstrates that current approaches focusing on institutions, politics, socio-economic change (including crises) and ideas come a long way in accounting for the cross-national variation of reform. Moreover, especially the socio-economic and ideational account helps one to understand

which factors push reform onto the political agenda. Conversely, the approaches cannot explain systematically the variation in reform by similar governments across cabinet periods, nor can they pinpoint under which conditions reform occurs precisely. As chapter 6 will show, prospect theory amends these deficiencies. But first let me discuss each perspective in turn.

5.2 Institutions

Revealing the opportunities and constraints of reform, but how to deal with variation over time?

The first perspective on welfare state reform focuses on the influence of institutions. Regarding formal political institutions, the usual argument is that countries with the least institutional hurdles, and therefore the highest degree of power concentration, should display the highest degree of welfare state reform. In this vein, welfare state reform in Westminster countries with high levels of power concentration like the UK should be higher than change in political systems with a high level of power fragmentation (a low level of power concentration) such as Switzerland and the US. There are empirical studies supporting this hypothesis (e.g. Swank 2001; see Van Kersbergen 2006: 390-391). However, some authors note that the reverse relationship is also plausible; the higher the level of power concentration, the lower the degree of welfare reform (Ross 1997). The argument here is that political systems concentrating political power also concentrate political accountability. Consequently, '(...) voters know very well who they may blame for unpopular cutbacks, which may lead politicians who want to be re-elected to shy away from welfare state retrenchment' (Starke 2006: 109). In political systems where power is fragmented, conversely, avoiding blame for unpopular measures is easier (Weaver 1986; Pierson 1994), which may result in more – not less – retrenchment. According to Bonoli (2001: 244-245), the second, accountability effect is likely stronger in 1) highly competitive systems, as these have a credible opposition party that can step up as an alternative for the government, and in 2) single-member constituencies, as the losses due to electoral punishment have a larger effect on the number of seats in parliament than in proportional representation systems. Furthermore, the accountability effect would also be stronger close to an election because politicians are then more focused on public opinion. The so-called power concentration effect, conversely, would be stronger

when the electoral term has just commenced. Consequently, Bonoli argues that the accountability effect is stronger in the US than in most European countries. In the latter, the accountability effect varies over time due to the combination of the different conditions identified above. By focusing on the interaction between institutions and electoral dynamics (electoral results and the position in the electoral cycle), Bonoli offers an account that allows for studying the variation in reform over time. Still, given that institutional characteristics, which hardly change over time, are the starting point of this approach, it is better suited for accounting for the cross-national variation in reform than the cross-government one.

Another hypothesis relates to the institutions of the welfare state. Also here, the argument can be summed up as ‘institutions matter’. For example, Esping-Andersen (1996b) posits that the structure of provisions makes ‘bigger’ welfare states less prone to cuts. Similarly, Pierson (1996; 2001a) argues that the more rigid welfare institutions and the resulting process of path dependence, the more unlikely welfare reform. Moreover, Korpi & Palme (2003) hypothesize that the major welfare state institutions affect the formation of values, attitudes, and interests among citizens. Consequently, they argue that the institutional context, which is shaped by the welfare state, influences the degree of support and resistance by citizens to governments’ attempts to cut back social rights (see also Larsen 2008). The risk for cuts is hypothesized to differ across four different institutional contexts, or social insurance models, that Korpi and Palme identify based on the structure of old age pensions and sickness insurance (see also Korpi & Palme 1998). The first, *targeted* type normally offers only minimum benefits after a needs test and is found in Australia only. The second, *basic security* type is the Beveridge model, with universal coverage to all insured in the same programme, whereby the benefit level is typically low. This type comes in two flavours: one universal and one insurance-based. Denmark and the Netherlands, with their universal, flat rate and relatively low universal pensions fall in the first group; the UK with its relationship between previous earnings and the level of pensions in the second.² The third, *state corporatist* type is the Bismarckian model, in which the economically active population is required to be a member of an occupationally segmented insurance organization and in which benefits relate strongly to previous earnings. Germany is the prototypical example of this type. Finally, there is the *encompassing* type that so to speak combines Beveridge and Bismarck; universalism and earnings-relatedness. This is the model we

find in Sweden, Norway and Finland. Korpi & Palme find support for their argument that the different social insurance models involve varying degrees of risk for cuts. Specifically, they find that the basic security institutions involve the highest degree of cutbacks, followed by the encompassing institutions. The targeted institutions rank third and the state corporatist institutions end up in the final position. This would mean that Germany should display fewer reforms than the other three countries under study here. Again, we have an explanatory account that works quite well when it comes to accounting for the variation in reform across countries. The cross-government variation in reform poses problems, though. Why, for example, did Schröder II implement unpopular reform? This approach cannot systematically explain the variation in reform across governments.

We find a similar problem in the work of Swank (2001). Swank argues that democratic institutions – interest representational systems, the formal decision-making structure, and the welfare state structure – affect the degree and type of welfare state reform by directly or indirectly influencing the way in which domestic or international pressures for change are translated into actual policy reform. The effect of institutions is hypothesized to be threefold. First, institutions offer (or restrict) avenues where those opposed to the policy change can resist the proposed policy reform. Second, institutions directly and indirectly affect the political strength (or weakness) of the groups affected by the policy reform, for example by determining how votes translate into seats, as well as by influencing the relative strength (or weakness) of the welfare state constituencies and coalitions. Third and finally, institutions foster (or limit) values that are important for welfare state reform: cooperation and consensus and support in welfare state institutions versus competition and conflict and pro-market values. Consequently, Swank expects less or slower reform in social corporatist systems (such as the Denmark and the Netherlands) than in pluralist systems (such as Germany and the UK); less or slower reform in countries with inclusive systems of electoral institutions (such as Denmark, Germany and the Netherlands) than those with exclusive systems (like the UK); less reform in countries with institutional veto points (such as Germany) than those countries without them (Denmark, the Netherlands and the UK); less opportunities for resisting adverse policy reform – and thus more or quicker reform – in universal and liberal welfare state programmes (such as in Denmark and the UK) than in conservative-corporatist welfare state programmes (like in Germany and the Netherlands), although the mass political support that universal programmes generate

and the related moral logic of the welfare state should limit the degree of reform. Notwithstanding that the ranking of countries in terms of the ease and extent of reform varies somewhat across the different hypotheses, it is again possible to use these insights to arrive at hypotheses to account for the cross-national variation in reform. Faced with largely invariant institutional features, Swank's approach has however great difficulty to account for the cross-government variation in reform that chapter 4 has revealed.

To sum up, the institutionalist approach has been very helpful for explaining the cross-national variation in welfare state reform, to explain why *overall* reform in some countries has been higher than in others – even though it does not have the exact ranking of countries right in all cases. This approach has much more difficulty with accounting for the variation in reform over time. Given that the institutional constraints and opportunities are (almost fully) invariant over time (Armingeon et al. 2008), how to explain the variation in reform across governments within a country (cf. Peters, Pierre & King 2005)?

5.3 Politics

Revealing the motives for reform, but how to deal with the variation across similar governments?

The second perspective on welfare state reform focuses on political struggles, sometimes integrating socio-economic variables too. The background of this line of research is Pierson's (1996; 2001b) 'new politics' argument that partisan differences *ceased* to be important (see also Castles 2001; Huber & Stephens 2001; Kittel & Obinger 2003). Because the constituencies of both leftist parties and rightist ones have developed into protagonists of the welfare state, (unpopular) reform is electorally risky for either side of the electoral arena. If a rightist party's preference is to reduce, say, the level of unemployment benefits, the party may lose votes when it actually implements the proposed reform. Additionally, and affecting leftist parties most severely, in the era of permanent austerity all parties are under constant pressure to keep their budgets balanced. This means that if a leftist party's preference is to increase the level of unemployment benefits, the party may be unable to square its budget when it actually implements the proposed reform – which could lead to a loss of votes when voters start distrusting the capacity of the party to steer the economy successfully.

Whilst according to Pierson (2001a) partisanship is no longer a factor that can explain the variation in welfare state development, other scholars do find empirical evidence for the 'politics matter' hypothesis also in the current era (e.g. Korpi & Palme 2003; Allan & Scruggs 2004; Amable, Gatti & Schumacher 2006). These latter authors conclude that leftist governments are associated with fewer cutbacks in the welfare state than rightist ones and that partisanship thus still matters for explaining the variation across countries and over time. This finding is in line with the well-known power resources approach (see e.g. Korpi 1983; 1989; Esping-Andersen 1985). This body of work assumes that a society's class structure leaves a large imprint on political cleavages, affecting the electoral results and thereby which (type of) party or parties govern. This in turn influences the type of welfare state arrangements adopted and, later, the degree to which these arrangements are being dismantled when facing pressures for cutbacks. The larger the share of the electorate organized as wage earners and part of the Social Democratic movement, the higher the degree of universalism, solidarity, and redistribution of the welfare state. The same forces that have resulted in a generous welfare state during the welfare state's expansion phase hold back possible retrenchment in the current era. Stated differently, according to the power resources approach, partisan differences in government translate into differences in social policy output as well as in differences in the degree to which social policy is subjected to reform. Taking issue with the central role given to Social Democracy in the power resources approach, Van Kersbergen (1995) argues that Christian Democracy entails a functional equivalent to Social Democracy in welfare state development. Also in countries in which Social Democratic parties never gained much ground, or a strong labour movement has been absent, generous welfare states have developed (such as in the Netherlands). Although offering useful insights into parties' different preferences for welfare state development and reform, that is, revealing the motives for reform (or the absence thereof), this approach has difficulty to explain why *both* rightist governments and leftist ones have pursued unpopular measures in Germany, Denmark and the Netherlands (see chapter 4).

A different line of reasoning, but also corroborating the politics matter hypothesis, comes from scholars who argue that partisanship still makes a difference, but in a different way than before. Ross (2000a), for example, posits that leftist parties are better capable of enacting painful measures since the public trusts these parties to conduct reform carefully and only when (really) necessary. This is labelled the 'Nixon goes

to China' argument. Just as it took a passionate anti-Communist such as President Nixon to engage in diplomatic relations with China – because a Democratic president would have been accused of 'going soft on communism' –, leftist governments face fewer accountability problems when scaling back the welfare state. Related, Levy (1999) argues that leftist governments in Christian democratic welfare states such as Italy and the Netherlands have turned 'vices into virtue'. This means that these governments have targeted vices, such as 'inequities within the welfare system that are simultaneously a source of either economic inefficiency or substantial public spending' (Levy 1999: 240). A typical example of such a vice are generous disability pensions paid to large numbers of people who are neither sick nor disabled. Settling these vices allowed for freeing up resources that could be used, for example, to facilitate (through side payments) the negotiation of tripartite social pacts aimed at redesigning the labour market (a virtue). Different from leftist governments, rightist ones have not pursued this vice into virtue approach. The problem here resembles the power resources approach. Whilst being able to account for the reforms pursued by some leftist governments, this body of work does not systematically explain the conditions under which leftist governments and rightist ones pursue different types of welfare state reform.

Another argument about the influence of partisanship is Kitschelt's (2001) hypothesis that differences in the system of party competition affect the opportunities governments have for pursuing unpopular reform, discussed in chapter 4. In a similar vein, Green-Pedersen (2001b; 2002) identifies party competition and party consensus as decisive factors for the extent of cutbacks in the welfare state. Specifically, Green-Pedersen argues that unpopular reform comes about only when there is a party consensus about retrenchment. When this consensus emerges depends on the system of party competition (bloc or pivot). In a bloc system of party competition, a party consensus about retrenchment arises only when the left-wing bloc governs. In a pivot system, conversely, a consensus regarding retrenchment emerges when the centre party decides on retrenchment. Consequently, Green-Pedersen expects more retrenchment in pivot systems (such as the Netherlands) than in bloc systems (like Denmark), except when a purely left-wing bloc governs in the latter. But if the dynamic of party competition affects the extent of unpopular reform, why then have governments facing the same party competition dynamic engaged in varying degrees of reform?

Overall, the politics line of research offers useful insights into the motives of reform. It cannot, however, systematically explain the variation

in reform across similar governments. Insights from prospect theory will prove to provide the missing theoretical footing. Prospect theory explains that notwithstanding some differences related to the government's political colour, it is the domain in which a government finds itself that shapes the government's attitude towards risk, and hence its willingness to pursue unpopular initiatives.

5.4 Socio-economic change

Revealing the trigger for reform, but when does reform occur?

The third perspective on welfare state reform is present in a body of work that adopts a logic that could be called (neo) functionalist (cf. Starke 2006: 106). This literature's argument is that the main cause for pressure on the welfare state – and thereby for welfare state reform – is socio-economic change and the ensuing problem load (see Schwartz 2001). Political-institutional variables are, conversely, intervening variables at most. Different authors emphasize different factors, whereby the key variable identified is (usually) either an external or a domestic one.

In the external factor camp, Adelantado & Calderón Cuevas (2006) find that pressures arising from globalization (that is, increased economic openness) wrought a 'convergence to the middle' among 14 European welfare states in terms of public expenditure, social protection expenditure, income inequality, and the risk of poverty. In general, though, there is no consensus regarding the relationship between external socio-economic change – especially resulting from the process of globalization – and welfare state reform (see Vis 2005; Koster 2007). There are scholars who argue that globalization positively affects welfare effort such as higher spending levels, as governments provide the compensation that society demands for the larger risks in an (more) open economy (e.g. Cameron 1978; Katzenstein 1985; Garrett 1998; Rodrik 1998; Adserà & Boix 2002; Swank 2002; Ha 2008). Other researchers find a negative relationship between globalization and welfare effort (e.g. Kapstein 1996; Strange 1996; Rodrik 1997; 1998; Garrett & Mitchell 2001). Their argument is that the aggregate gains from trade are offset by micro-level losses (e.g. increased insecurity, volatility and dislocation) whilst the political and economic constraints (such as the reduced fiscal and monetary autonomy) inhibit governments to accommodate the prompted political demands. There are also authors who argue that the effect of globalization is small, at most, because the threats of globalization are

exaggerated (e.g. Iversen & Cusack 2000; Mosley 2003), or because the effect of globalization on the welfare state is mediated or refracted by domestic institutions (e.g. Kitschelt et al. 1999; Swank 2002; Ha 2008). Finally, there are researchers who posit that it depends on the ‘type’ of globalization (e.g. trade or capital) and on the ‘type’ of welfare (e.g. passive labour market policy or health care) whether there is tension, harmony, or no relation at all between globalization and welfare effort (e.g. Burgoon 2001).

Within the domestic factor camp, Pierson (2001c) argues that even if there would have been no globalization over the last decades, internal socio-economic changes such as slower economic growth, population ageing and the restructuring of households would ‘(...) by themselves, have generated much of the current turmoil around the welfare state’ (Pierson 2001c: 83). Related, Iversen (2001) argues that the slowdown of de-industrialization exacerbates conflicts over the distributive aspects of the welfare state – especially between those enjoying a secure labour market position and those facing an insecure position – which threatens the welfare state (see also Iversen 2005). Castles (2004), contrarily, finds no effect of population ageing on social policy expenditures and instead identifies declining fertility rates as a possible (future) cause of welfare state retrenchment. A final example is the work of Huber & Stephens (2001, chapter 6) who find that increases in unemployment correlate with cutbacks.

In a somewhat different contribution, Bonoli (2007) argues that the timing of postindustrial social transformations (e.g. de-industrialization) can explain the development of new social risks’ policies such as active labour market programmes. Specifically, Bonoli finds that the Nordic and Anglo-Saxon countries were in a better position to develop such policies because postindustrial transformations took place already in the 1970s, when there were hardly any competing claims resulting from population ageing. These transformations occurred in continental and southern European countries 20 to 30 years later, when competing claims were high. Consequently, it was hardly possible to develop new social risks’ policies in the latter (see also Huber & Stephens 2006: 144).

Theoretically, the argument that socio-economic changes, and the problem load these bring about, relate to welfare state reform makes sense. For example, if the budgetary stress associated with population ageing is expected to spiral out of control, it is plausible that the government will take measures to try to cope with the issue. However, the socio-economic account provides little theoretical footing with regard to when

and how exactly such measures are taken. Under which conditions are governments willing to pursue cutbacks that may be necessary but which are also electorally risky? Moreover, given the variation across types of welfare states, when do governments in each type increase spending on active labour market policies? Why do certain governments apparently accept a certain level of unemployment, as they do not take action, whilst the same level pushes other governments to engage in risky, unpopular reform? The socio-economic account identifies, so to speak, what loads the gun for reform (socio-economic problems or changes), but fails to pinpoint what triggers this gun to go off.

The same lacuna is present in the literature arguing that crises lead to reform, be it welfare state reform or macroeconomic reform (for overviews see Rodrik 1996; Kuipers 2006). A crisis is a such a large socio-economic problem that it offers a window of opportunity for reform (e.g., Kingdon 1984; Baumgartner & Jones 1993). A crisis can bring the government's ideas, and consequent policies, in discredit and thereby induce voters to 'throw the rascals out' and give the opposition a chance. Still, crises do not automatically lead to reform; political action is required (Elmeskov, Martin & Scarpetta 1998). But when do political actors act (Weyland 2002; Kuipers 2006)? The analytical political economy literature could offer some clues here. Alesina & Drazen's (1991) war of attrition model, for example, shows that a heterogeneous population, that is, a population in which socio-economic groups have conflicting distributional objectives, leads to a political stalemate and hence delay of stabilization (reform). Stabilization occurs when the distributional conflict is settled by political consolidation. Reform takes place when the marginal cost of waiting outweighs the marginal benefits of waiting for one of the groups (see also Alesina, Ardagna & Trebbi 2006). Although providing some theoretical footing to the question when reform occurs, this model leaves unanswered the question of how to account for the cross-government variation in reform. When will the costs of waiting outweigh the benefits? Moreover, this model assumes that delay of stabilization, that is the absence of reform, involves economic costs (e.g. large deficits) for all actors. Since this assumption does not hold for the reforms this study focuses on, this model cannot be used here. Instead, complementing the insights from the literature on socio-economic change with those of prospect theory seems promising.

5.5 Ideas

Revealing what makes decision-makers act, but when are ideas taken up?

Whilst the socio-economic account lacks information on when political actors act, clues on what make governments act are abundant in the literature on the influence of *ideas* (Cox 2001; Schmidt 2002; Taylor-Gooby 2005; Stiller 2007; see also Campbell 2002; Béland 2005). The expectation here is that ideas or discourse matter for welfare state change. Usually, but not always, scholars in this tradition adopt a constructivist approach. This means that they conceive of the problem load not as some external given but as something that is socially constructed. The way in which an 'objectively' similar problem (e.g. economic crisis) is defined in different countries, for example, depends on the set of ideas or paradigm of that country. By invoking a specific discourse or imperative, political actors may overcome the hindrances to change and successfully implement reform (Cox 2001; Schmidt 2002; Kuipers 2006; Stiller 2007; see also Campbell 2002; Béland 2005; Schmidt 2008).³

Schmidt (2002: 170), for example, argues that discourse matters because it demonstrates '(...) that welfare reform is not only necessary, by giving good reasons for new policy initiatives based on sound empirical arguments, but also appropriate, through the appeal to values.' Moreover, Cox (2001) posits that focusing on the social construction of the need for reform helps one to explain why welfare state reform has happened in the Netherlands and Denmark, but not in Germany. Béland (2007) argues that the idea of social exclusion, as mobilized in the centre-left and Third Way political discourse, has shifted the policy attention away from different types of inequality, such as income inequality. The idea of social exclusion has done so, Béland argues, by serving as a 'cognitive lock' that reproduces institutions and policies over time, by operating as a policy blueprint that offers political actors a model of reform, and by constituting an ideological weapon that helps actors to confront existing institutions and patterns of distribution – the 'need to reform' (see also Blyth 2001: 2-5). Peters et al. (2005: 1284) argue that policy change occurs when political actors can '(...) overcome a dominant perception (frame) and to substitute an alternative construction of the reality being confronted with policy'. But when will such substitution be possible? According to Ross (2000b: 173), this is most likely when the '(...) underlying ideas, frames and policy structures are not wildly incongruous with new initiatives'. Similarly, Clasen & Clegg (2003: 363) find that 'policy initiatives that go against the expectations and beliefs of large sections of voters, even if they are not materially det-

perimental to them and perhaps even if they are beneficial, logically risk being sources of electoral unpopularity'. Béland (2005) agrees that a policy programme should be framed in a politically and culturally acceptable as well as desirable way. Furthermore, and related, Armingeon and Beyeler (2003) find that the 14 European welfare states under study only take up the recommendations of the OECD when these '(...) correspond with national policies, institutions and broadly held values (...)'. (Beyeler 2003: 10; see also Armingeon 2003). Marier (2008), finally, argues that including politicians in epistemic communities can help to transform knowledge (ideas) into policy. Focusing on the Swedish pension reform in the 1990s, Marier shows that the five person pension working group constitutes an epistemic community that was able to tackle both the 'programmatic' complexities of pension reform and the 'political' complexities of it.

In a recent contribution to this literature, Jacobs (2009) proposes a theory based on mental models and attention that explains how pre-existing ideas influence the decisions of motivated decision-makers who deliberately seek information. Jacobs argues and empirically demonstrates by three key episodes in German pension politics from the 1880s to the 1950s that ideas direct actors' attention to specific options. The actors' mental models, that is 'a simplified representation of a domain or situation with moving parts that allow reasoning about cause and effect' (Jacobs 2009: 257), direct their attention towards certain causal logics and away from others. For example, in the mid-1880s under Bismarck, when Germany was the first country to erect a pension scheme, decision-makers operated under a so-called insurance mental model. With this mental model in place, even the actors opposed to the system of funding proposed by the legislators did not refer to potential dangers outside this dominant way of thinking, such as inflationary pressures (Jacobs 2009: 266). Ideas come to shape actors' preferences among options, with those options fitting the mental model weighting more heavily and those outside the mental model being discounted or even ignored altogether – as in the Bismarck example.

Similarly, Blyth (2002) suggests that the Social Democrats in Sweden had clear political ideas in the 1920s, but no economic ideas. Since there were no alternatives to classical economics yet, in the words of Jacobs (2009) no alternative mental model, Social Democrats behaved like Conservatives when in power. By the end of the 1920s, new economic ideas had developed within the Social Democratic party that could act as the 'weapons' by which classical economics could be challenged (Blyth 2002: 101ff.). Blyth's analysis makes clear that individual politicians are crucially

important for new ideas to gain ground, combined with supportive socio-economic circumstances (in the mid-1920s, high unemployment despite the recovery in exports). For Blyth (2002: 270), 'it is only in those moments when uncertainty abounds [that is so-called Knightian uncertainty in which agents' interests are structurally underdetermined by nature] and institutions fail that ideas have this truly transformative effect on interests'. But if one is not in a situation of Knightian uncertainty, a situation that applies to most if not all governments focused upon here, when then do ideas matter?

Next to the role of ideas, studies in this tradition pay attention to the degree to which political actors learn (e.g. Visser & Hemerijck 1997; Fleckenstein 2008). For example, Hemerijck & Schludi (2000: 162) identify a lengthy and painful learning process as underlying the transformation of the Dutch welfare state from one of the least sustainable in the early 1980s to one of the most sustainable in the late 1990s. Moreover, Fleckenstein (2008) argues that for the content and development of the Hartz IV law implemented in Germany in 2004, policy learning was decisive. Specifically, an expert forum directed by the Bertelsmann Foundation learned from other countries' experiences with means-tested basic social security for the long-term unemployed and with administrative systems for the unemployed. According to Fleckenstein, it was the policy learning in this forum, and thus not the Hartz Commission itself, that was responsible for the content of the Hartz IV law. Casey & Gold (2005), conversely, conclude from their analysis of peer review of active labour market programmes in the EU in the Open Method of Coordination (OMC) that whilst a 'learning process has been established, its impact is limited' (p. 36). Casey & Gold show that even when the peer reviewers were enthusiastic about a particular labour market programme of another country, from which they hence would want to learn, such learning often did not take place. Partly, this resulted from 'interruptions in the learning process' (pp.33-34), meaning that the conclusions of the peer reviewers were not picked up at the higher, organizational level. Specifically, the reviewers' reports often ended up somewhere on the Internet and were not circulated within national labour ministries or among other relevant actors. As a result, the learning done by the individual peer reviewer simply got lost. Casey & Gold (2005) also stress that learning is difficult because of psychological, cultural, and institutional hindrances. Regarding the former two, interviews and the peer review reports indicate that some actors simply did not want to learn, as 'even if they were not always convinced of their own policy approaches, they did not feel that others had much to teach

them' (Casey & Gold 2005: 34). With respect to the latter, there are indications that centralized institutions such as ministries often display largely routine behaviour, in which peer review or policy learning in general fits poorly.

Studies focusing on the importance of ideas and learning have added to the knowledge of the process of welfare state reform. However, the body of literature offers little theoretical foothold as regards when ideas are picked up or when learning occurs. With respect to the latter, why are some countries often considered to be good learners (such as Denmark and the Netherlands), whilst other countries are usually viewed as poor ones (such as Germany; cf. Starke 2006: 112)? What, for example, turned the experts in the Bertelsmann Foundation's forum into the excellent policy learners they were not before? Fleckenstein (2008: 181-182) discusses that policy failure may be a necessary but not sufficient condition for learning. For learning to occur, the policy failure needs to be perceived to be a problem. In the process, actors can use 'learning tools' which increase the effectiveness of learning. What these tools are remains unclear though. Moreover, the 'learning culture', another concept that is not defined, affects the significance of learning (Fleckenstein 2008: 181-182). All in all, when and how learning occurs remains at least somewhat unclear. As regards the influence of ideas, these alone do not create the incentives or opportunities for action '(...) nor do all holders of alternative political ideas act on them' (Lieberman 2002: 698). Often, the mechanisms with which different types of ideas affect policy-making are specified poorly (Campbell 2002). How to explain what political actors actually do? Insights from prospect theory will prove useful for filling these voids in the literature.

5.6 Concluding remarks

To sum up, existing accounts of welfare state reform, which focus on the importance of institutions, politics, socio-economic change and ideas, are helpful for revealing the opportunities and constraints of reform, its motives, its trigger and what makes decision-makers act, thereby being able to account for the cross-national variation in reform. However, the accounts lack a micro-foundation that explains systematically under which conditions, that is to say when, political actors pursue different types of reform in the first place. This question is especially pressing because of the variation across (similar) governments in the pursuit of reform initia-

tives, which indicates that governments have indeed a choice to make as regards welfare reform. The following two chapters outline and empirically assess a theoretical account of welfare state reform that is based on prospect theory. Not only can this account explain the puzzling behaviour of governments, it also complements current theories by offering a behaviourally correct micro-foundation of politics.

6 Bringing in prospect theory

6.1 Introduction

Chapter 5 has shown that existing studies cannot explain well under which conditions political actors are willing to take the risk involved in pursuing unpopular measures. Consequently, they cannot systematically explain the variation in different types of welfare state reform across governments. In this chapter, I develop the theoretical argument that governments' attitude towards risk, and hence their willingness to pursue unpopular reform or not-unpopular reform, is shaped by the context or domain in which the government finds itself. This argument draws on insights from *prospect theory*. Three decades ago, Kahneman & Tversky (1979) developed this psychological theory of choice under risk as a behavioural alternative to expected utility theory (see also Kahneman & Tversky 2000). It is intriguing to note that prospect theory, 'the most influential behavioural theory of choice in the social sciences' (Mercer 2005a: 3), has hardly had any influence in political science in general and in comparative politics in particular (for overviews and reviews of prospect theory in political science, see Boettcher 1995; 2004; Levy 1997; 2003; McDermott 2004; Mercer 2005a). This is surprising because prospect theory seems particularly apt to deal with situations in which decisions have to be made under conditions of uncertainty and risk, which are the situations in which political actors typically find themselves. Particularly helpful is prospect theory's key finding that individuals are cautious in their decision-making (risk averse) when facing favourable prospects (gains), but tend towards bold decision-making (risk acceptance) 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 (see Kahneman & Tversky 2000; Jones 2001; Gilovich, Triffen & Kahneman 2002; Weyland 2006). Contrarily, expected utility theory, as commonly

used in economics and in political science schools that employ economic theories such as rational choice (institutionalism), makes predictions that do not adequately describe how people actually make choices under conditions of risk and uncertainty.

This chapter introduces the theoretical framework based on prospect theory. First, I outline the main features of prospect theory. Subsequently, I contrast this theory and its rival (expected utility theory) by identifying the commonalities and differences between the two theories. Then, I argue why prospect theory is the preferred one of the two. Next, I provide a concise overview of applications of prospect theory in political science. Finally, I develop the theoretical framework for studying the politics of welfare state reform.

6.2 Features of prospect theory

A brief history of theories of choice

Theories of choice under risk, such as prospect theory, have a long history. In the 18th century, normative theories of choice – positing the choices individuals *should* make –, became increasingly popular because of the interest of (especially) French noblemen in how to gamble most efficiently, that is how to generate the highest winnings (McDermott 1998: 12). One of such theories was Bernoulli's theory of subjective value on which the current theory of expected utility builds. Bernoulli's work (1738, translation of 1954) was revolutionary because it solved the main problem in the by then dominant theory of choice: expected value. The theory of expected value poses that individuals should and do choose the option with the highest expected value, which is the option's payoff times its probability. For example, if the payoff is € 100 and the probability that the event occurs is 0.5, the expected value is € 100 × 0.5 = € 50. The problem with the theory of expected value is that it does not take into account the usual discrepancy between the value of a payoff to an individual (the *subjective* value) and its related money value (the *objective* value). Bernoulli's solution lies in acknowledging exactly this. The subjective value, or *utility*, of a payoff to an individual is not always directly related to its money (or expected) value. As Bernoulli states:

The price of the item is dependent only on the thing itself and is equal for everyone; the utility, however, is dependent on the particular circumstances of the person making the estimate. There is thus no doubt that

a gain of one thousands ducats is more significant to a pauper than to a rich man though both gain the same amount (Bernoulli 1954[1738]: 24).

Bernoulli's utility function therefore maps individuals' utility instead of expected value. Moreover, by making the curve concave (that is bowl-shaped), Bernoulli introduces the notion of *decreasing marginal utility*. Intuitively, decreasing marginal utility makes sense: € 1 is a lot compared to nothing, so people will likely hold on to this € 1. Conversely, € 101 is to most people not so different from € 100, so that most people probably give up this euro easily. Like the expected value model, Bernoulli's theory combines normative elements and descriptive ones. Normatively, people should choose the option that maximizes utility; descriptively, the model seemed to make sense as '(...) caution constituted the better part of prudence' (McDermott 1998: 16).

It was only in the 20th century that scholars turned Bernoulli's suppositions upside down and that the contours of contemporary expected utility theory arose. Specifically, whereas Bernoulli uses utility to define preferences – since individuals were assumed to choose the option with the highest utility –, in the work of Samuelson (1938) and Von Neumann and Morgenstern (1955 [1944]) preferences are used to derive utility (through the notion of revealed preference). The advantage of focusing on revealed preferences is that it allows individuals to have different preference orderings. Like in Bernoulli's theory, in Von Neumann and Morgenstern's model there is no difference between normative elements and descriptive ones. Axiomatic expected utility is assumed to be not only the way rational individuals should behave, but also how they do behave: each individual is maximizing his or her utility curve. According to Mercer (2005b: 84), the notion of revealed preference solved the 'psychological problem' of the necessity to use introspection to assign numerical values to utility.

Contrary to expected utility theory, which is also a normative theory of choice,¹ prospect theory is 'only' a descriptive one. In fact, Kahneman & Tversky do not question expected utility theory's possible value as a normative theory of choice; their critique aims only at its descriptive element. They argue that normative analyses of choice and descriptive ones should not be mixed because they are separate enterprises (Tversky & Kahneman 2000[1986]). Experiments disclosed that in the descriptive realm, expected utility theory falls short as key axioms of the theory, such as transitivity, dominance and invariance, are violated systematically (Kahneman & Tversky 2000). Transitivity implies that if option A is preferred to option B, and B is preferred to C, then A is preferred to C too. This is

a central assumption among rational choice scholars that is generally accepted among them (Green & Shapiro 1994: 14-15). Dominance posits that if an option is better on at least one aspect, and at least as good on the other aspects, it will be preferred to lesser options (see McDermott 1998: 17, Kahneman & Tversky 2000[1984]: 4ff). A well known experimental example illustrates the violation of invariance – the axiom that a preference order should remain the same irrespective of how options are presented – and suggests the importance of framing (Tversky & Kahneman 1981). In this experiment, subjects had to select one of two programmes intended to combat the outbreak of an Asian disease expected to kill 600 people. The subjects were divided in two groups. The options presented to the two groups are as follows.

Group 1

Programme A

Save 200 people

Programme B

1/3 probability to save 600 people

2/3 probability to save none

Group 2

Programme C

Let 400 people die

Programme D

1/3 probability that nobody dies

2/3 probability that all 600 die

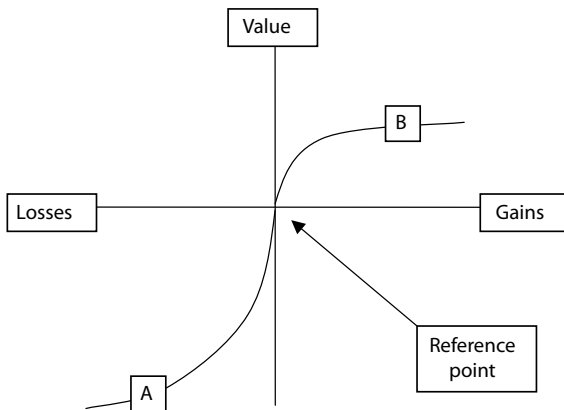
Note that the options presented to groups 1 and 2 are identical but for how the outcomes are described (framed); the expected death of 600 people means that saving 200 equals letting 400 people die. For invariance to hold, the percentage of people choosing programme A and C should thus be similar, as should the percentage choosing B and D. This was not the case. In group 1, where the outcomes were presented in positive terms, a large majority (72%) selected programme A. In group 2, where the outcomes were presented in negative terms, a large majority (78%) chose programme D. In this experiment, framing thus influenced the decisions made.

The value function, heuristics and biases

Prospect theory's main features are perhaps best illustrated by the so-called (hypothetical) *value function*, which figure 6.1 displays. The value function is concave above the reference point, *B* in figure 6.1 (implying risk averse behaviour), and convex below the reference point, *A* (suggesting risk acceptant behaviour). Theoretically, the S-shaped curve means

that people are risk averse in the domain of gains and risk acceptant in the domain of losses – prospect theory’s central finding. Individuals determine whether they find themselves in the domain of losses or of gains using a *reference point*. Because of the varying risk propensity of individuals across domains, the choices made in a gains domain differ radically from those made in a losses domain. ‘[P]eople will engage in more risk, exert more effort, and persist over longer periods of time to avoid losses than to secure gains’ (Masters 2004: 705).

Figure 6.1 A hypothetical value function



Source: Vis & Van Kersbergen (2007, Figure 1), adapted from Kahneman & Tversky (1979: 279).

In prospect theory, the propensity to take risks is thus not a stable personality trait of an individual shaping his or her behaviour across situations and over time. Instead, ‘(...) risk is understood as a function of the situation, seen in terms of losses (costs or fears) and gains (opportunities or greed) (...)’ (McDermott 1998: 2). Another feature of prospect theory is that the value function is asymmetric: steeper for losses than for gains, implying relative *loss aversion*.

Loss aversion has to do with the fact that ‘losses loom larger than gains’ (Kahneman & Tversky 1979: 279) and that ‘losses hurt more than equal gains please’ (McDermott 2004: 298). Individuals adapt more rapidly to *positive* changes in their situation (such as a pay rise) than to *negative* ones (such as a pay cut), and losing € 20 hurts more than finding € 20 pleases. In general, loss aversion favours stability over change. Imagine two hedonically identical twins who find two alternatives equally attrac-

tive. Imagine further that by force of circumstances the twins are separated and placed in two environments. As soon as they adopt their new states as reference points and evaluate the advantages and disadvantages of each other's environments accordingly, the twins will no longer be indifferent between the two states, and both will prefer where they happen to be. Thus, the instability of preferences produces a preference for stability (Kahneman & Tversky 2000[1984]: 14).

An implication of loss aversion '(...) is that individuals have a strong tendency to remain at the status quo, because the disadvantages of leaving it loom larger than advantages' (Kahneman, Knetsch & Thaler 2000[1991]: 163; see also Samuelson & Zeckhauser 1988; Camerer 2005). Actually, this *status quo bias* is a reference point bias.² This bias 'subsumes the status quo bias whenever the reference point is defined as the status quo, and under those conditions it will be stabilizing and reinforce the status quo. If the reference point is preferred to the status quo, however, the reference point bias is destabilizing because it induces risky behavior to avoid the losses inherent in the status quo (...)' (Levy 2003: 223). Loewenstein & Adler (2000[1995]) show that people are unaware of the status quo or reference point bias. Because the status quo is imbued with special legitimacy (see Kahneman, Knetsch & Thaler 1990), individuals '(...) defend it more fiercely against threats of losses than they seek further improvements' (Weyland 2002: 40-41). The hypothesis to be derived from this is that voters are more likely to *punish* incumbent governments when they are dissatisfied than to *reward* them when they are satisfied. Or, to repeat Weaver's statement (1988: 21), voters '(...) are more sensitive to what has been done *to* them than what has been done *for* them' (italics in original).

The so-called *negativity effect*, which sums up the 'losses loom larger than gains' proposition, aggravates the status quo bias. As mentioned in chapter 1, the negativity effect refers to 'the greater weight given to negative information relative to equally extreme and equally likely positive information (...)' (Lau 1985: 119). Consequently, public responses to *negative* (economic) information are substantially larger than are public responses to *positive* (economic) information (Soroka 2006). Some authors question the existence of a negativity effect at the aggregate, although it may exist at the individual level. Radcliff (1994), for example, concludes this from his finding that unhappy voters tend to abstain from voting rather than vote against the president's party in the US, which causes this party to be more consistently rewarded for economic achievements than punished for economic failures. However, as Radcliff (1994: 723) notes

himself, the finding that the state of the economy shapes incumbent party's electoral fortunes is tested on the presidential level only. It may very well be that the effect on different levels or in different political systems differs.

Another heuristic at work is the *certainty effect*, which means that 'people overweight outcomes that are considered certain, relative to outcomes which are merely probable' (Kahneman & Tversky 1979: 265). If there is a chance of 50 per cent that one wins € 300 and certainty that one wins € 75, expected utility theory predicts that people choose the first option (expected utility of option 1 = $0.5 \times € 300 + 0.5 \times € 0 = € 150$, which is higher than the expected utility of option 2 = $1.0 \times € 75 = € 75$). However, laboratory experiments show that a theoretically unexpected but statistically significant high number of people chose the second option.

The origin of prospect theory preferences

The deviations from the expected utility theory's predictions occur because of the combination of the above biases and heuristics: loss aversion, the status quo bias, the negativity effect and the certainty effect (see also Jones 2001; Gilovich et al. 2002; Jervis 2004). Recent studies suggest that individuals' cognitive tendency to make decisions consistent with prospect theory's main finding have an evolutionary origin and may thus be hardwired. For example, by adapting a model from risk-sensitive optimal foraging theory, McDermott, Fowler & Smirnov (2008) show how risk-accepting behaviour in the domain of losses (e.g. when facing starvation) and risk aversion in the domain of gains may be the optimal strategy for an individual who endeavours to maximize his or her chances of survival over time and who is subjected to an environment in which abundance and scarcity vary. If 'prospect theoretical tendencies concerning risk propensity lie more deeply rooted in human evolutionary psychology (...)' (McDermott et al. 2008: 336), this has far-reaching implications for decision-making. First, it suggests that cognitive biases, the deviations from rationality, cannot be easily overcome. Second, and related, it indicates that individuals may not be very likely to learn over time or through experience to overcome these tendencies. The work of Harbaugh, Krause & Vesterlund (2001) supports this latter conclusion. Harbaugh et al. find that 5-year olds, 10-year olds and undergraduates all display the endowment effect, suggesting that they are more sensitive to losses than to gains. This is surprising, giving that undergrads – as well as 10-year olds – have substantially more market experience than 5-year olds. If they had

learnt over time, the bias would have reduced over time. In fact, however, it did not.

Experimental evidence on primates, more specifically on capuchin monkeys, shows that behavioural biases – such as loss aversion – also extend beyond the human species (Chen, Lakshminarayanan & Santos 2006). These monkeys prove to have clear preferences, as humans do, and their preferences change when they are faced with gambles (that is, when risk is introduced). The monkeys, for example, preferred the experimenter who showed first one apple and later with a 50-50 chance delivered two apples instead of one over the experimenter who first showed two apples and later with a 50-50 chance delivered one apple instead of two. This finding suggests that also monkeys do not like to lose (by first having two apples and later only one). In turn, this indicates that individuals' tendencies to make choices consistent with prospect theory's predictions may not only be hardwired (McDermott et al. 2008: 336), but that loss aversion is an innate and evolutionary ancient feature of human preferences, a function of decision-making systems that evolved before the common ancestors of capuchins and humans diverged (Chen et al. 2006: 520). It may therefore not be surprising that the greater sensitivity to losses than to gains shows up in our brain activity as well (Tom, Fox, Trepel & Poldrack 2007). The neural responses to gains and losses are coded by the same mechanism and take place in the same neural circuitry (e.g. the striatum). Loss aversion is thus not driven by negative affective responses, such as fear, discomfort, and vigilance (Tom et al. 2007). It is not just that people are more sensitive to losses than to gains, but the brain also is.

6.3 Prospect theory versus expected utility theory

Notwithstanding their differences, prospect theory and expected utility theory also have some commonalities. One of these is the assumption '(...) that individuals are independent agents making deliberate choices that will lead to a desired outcome' (Masters 2004: 704, referencing McDermott 1998). That is to say, both prospect theory and expected utility theory focus on individual decision-making and choice rather than on structural determinants (Weyland 2002: 37). Moreover, both prospect theory and expected utility theory focus on deliberate – as opposed to irrational – choices. Finally, prospect theory and expected utility theory are comparable in that both allow for clear predictions (hypotheses) regarding decision-making.

If the two theories are similar on certain points, why then use prospect theory and not expected utility theory? The main disadvantage of rational choice scholarship that uses the expected utility theory framework is that it 'does not rest on a readily identifiable set of empirical successes' (Green & Shapiro 1994: 5). On the contrary. The advantage of prospect theory over rational choice theory is that whilst the latter fails in its descriptive accuracy, prospect theory is descriptively correct and holds explanatory force too. Individuals do not always act risk averse, as expected utility accounts postulate, but attitudes towards risk vary across circumstances (domains). For example, Quattrone & Tversky (2000[1988]) demonstrate through problems involving the choice between political candidates and public referendum issues that the assumptions underlying expected utility theory are systematically violated in the manner predicted by prospect theory. Specifically, they show that prospect theory's predictions are supported whilst those of expected utility theory are not. Moreover, Camerer (2000: 299, italics in original) argues that prospect theory '(...) can explain anomalies [like the status quo bias] and can *also* explain the most basic phenomena expected utility is used to explain'. McDermott (1998: 14) goes even as far as to suggest that, 'the superiority of prospect theory renders rational choice models descriptively vacuous, empirically static, and normatively bankrupt with respect to understanding risk-taking in international politics'.

Finally, and important for the study of politics, whilst prospect theory rests on a micro-foundation – in that sense it can pass the methodological individualists' test that explanations need to have micro-foundations³ – it allows for the incorporation of macro-factors too because of its situational character: risk acceptance in the *domain* of losses and risk aversion in the *domain* of gains. In methodologically individualist rational choice accounts, which assume that 'explanatory laws [should] concern features of individual human beings' (Hausman 1992: 97), incorporation of such macro-factors fits less comfortably (Weyland 2002: 38). Although prospect theory assumes that individuals are self-interested actors, the environment surrounding them shapes their perception of alternatives and, hence, their decision-making (Masters 2004). Prospect theory thus offers a micro-foundation but allows preferences to be shaped by factors at the, for example, macro-level as well and hence departs from expected utility theory's methodological principle: methodological individualism. It can thus actually serve as a theoretical alternative to rational choice theory.

6.4 Problems in prospect theory

There are a number of problems in prospect theory. One of the biggest is determining the reference point. As Levy (1997: 100) has put it, prospect theory 'is a reference-dependent theory without a theory of the reference point'. The problem is comparable to the problem of rational choice theory, which is a preference-dependent theory without a theory of preferences. Because there is no theoretical foothold in prospect theory to determine an actor's frame, the 'temptation to reason backwards, from choice to domain to frame, is strong' (Mercer 2005a: 4). This is problematic since, as Boettcher (2004: 333) notes, the 'key to understanding the impact of prospect framing thus becomes the identification of the reference point'.

There are various ways to determine the reference point, including focusing on the status quo, the aspiration level, heuristics, analogies, or emotion (Mercer 2005a: 4). In general, individuals are often likely to take the status quo as their reference point (see Tversky & Kahneman 1981: 456; Weyland 2002: 39; Boettcher 2004). If an actor is satisfied with the status quo, he or she tends to be in a gains domain. On the other hand, if an actor is unsatisfied with the status quo, he or she tends to be in a losses domain. Because there is no general theory of satisfaction (Mercer 2005a, referring to Kahneman et al. 1999), '(...) analysts must study the details of a decision maker's situation, goals, and motivation' (Mercer 2005a: 4) in order to assess the acceptability of this point. In many cases, it is quite easy to establish whether the status quo is acceptable. A deteriorating political position, for example, likely puts actors in a losses domain. An example includes President Carter during the Iran hostage crisis, where a foreign policy crisis made Carter long to return to the pre-crisis status quo (McDermott 1998, chapter 3; see also Mercer 2005a: 4). Also domestic politics, institutional structures, and situational factors such as economic crises can be used to determine the acceptability of the status quo. Data on electoral volatility and public opinion polls, for example, may establish the likelihood of vote switching among voters and the popularity of the government. The higher electoral volatility, the more unpopular the government and the more likely it is that a government considers itself to be in a losses domain (for more examples, see Mercer 2005a: 5).

A problem of the status quo as reference point is, according to Mercer (2005a), that because prospect theorists expect risk aversion in the domain of gains, they fail to consider the possibility that success – rather than failure – can also be a reason for dissatisfaction with the status quo.

An example Mercer gives is President George W. Bush's decision to consider the Iraqi status quo as unacceptable *because* he was doing well in the polls after the military victory in Afghanistan. 'Like a gambler in the black, Bush made bets with "house" money (...) that he felt he could afford only because he was in a domain of gain' (Mercer 2005a: 5). Still, in the case of welfare state reform it is plausible to take the status quo as reference point for establishing the actors' domain as a loss or a gain. This is because, first, welfare state reform is all about changing a situation characterized by institutional resilience and electoral resistance against change (see chapter 1) and, second, because the status quo bias holds for both the reformers and those affected by the reforms.

Another problem is what Levy (1997: 102-104) labels the *aggregation problem*; prospect theory is developed as a theory of individual decision-making, so can it be applied to collective decision-making? In some cases, this problem can be circumvented because an individual is so dominant in decision-making that the collective decision is in effect an individual decision. Highly centralized regimes would be an excellent example hereof. Another way of getting around the problem is by applying prospect theory to individual decision-making. This is the route taken by for instance Fuhrman & Early (2008) in their study of an ambitious and successful nuclear disarmament initiative – the Presidential Nuclear Initiatives (PNIs). They demonstrate that prospect theory is the only account that can explain President George H.W. Bush's willingness to accept the risk involved in the launching of PNIs as well as the timing of the initiative. By specifically focusing on Bush's decision-making, Fuhrman & Early circumvent the aggregation problem. The work of McDermott (1998) is another example in which an individual is the decision-making unit. Specially, McDermott focuses on the foreign policy decisions of the American President Carter and President Eisenhower, such as Carter's decision to embark on a highly risky rescue mission of the hostages held at the Iranian embassy and Eisenhower's decision to deny US espionage when the Soviet Union shot down the U-2 spy plane. A final example includes the work of Weyland (2002). Weyland focuses on the assumption of power by a new president who is put into a domain of losses by the occurrence of severe economic problems to explain why some leaders in fragile democracies (in Argentina, Peru and Brazil) were surprisingly willing to pursue drastic neoliberal reforms, whereas others were not (in Venezuela).

In many political science research problems, like in welfare state politics, the aggregation problem cannot be circumvented because collective decision-making is what matters.⁴ What we can assess, though, is to what

extent this actually is a problem. There is a substantial body of experimental and empirical evidence suggesting that this problem is smaller than it may seem at first. Bowman (1980), for one, uses content analyses of companies in 11 industries to demonstrate that organizations behave like individuals. Specifically, organizations facing losses take larger risks, just as individuals facing losses do. Related, focusing on 47 industries and 2,322 firms between 1975 and 1979, Fiegenbaum & Thomas (1988) find strong confirmation for their hypothesis that both within and across industries firms with below target returns on equity (ROEs), that is losses, display a negative relationship between risk and return (risk acceptance). Conversely, both within and across industries firms with above target ROEs, that is gains, reveal a positive relationship between risk and return (risk averse). These findings are fully in line with prospect theory's predictions. Moreover, recent experiments indicate that pairs of individuals violate the predictions of expected utility theory in the same manner as do individuals (Bone, Hey & Suckling 1999; see Kameda & Davis 1990). This finding offers a good starting point, because if prospect theory would already fail to hold for pairs of individuals, the possibility for extending the theory to collective decision-making would be gloomy. Whyte (1993) finds support for prospect theory in group decision-making. Using six investment decision scenarios to compare individual and group decision-making in escalating commitment – that is 'the tendency to continue an endeavour, regardless of its merits, once an investment in time, effort, or resources has been made' (Whyte 1993: 430-431) – Whyte finds that group decisions are more consistent with prospect theory than individual decisions. Contrary to the many studies finding that groups are better decision-makers (see e.g. Michaelsen, Watson & Black 1989), Whyte (1993) shows that this is not the case when escalating commitments (sunk costs) are involved. Since this is often the case in decision-making by political actors, prospect theory seems especially suited for accounting for such behaviour.

Finally, Kühberger's (1998) meta-analysis also supports the assumption that prospect theory applies to collective decision-making. The 248 published journal articles included in this analysis, all experiments with human adults focusing on risky decision-making, were taken from fields as diverse as experimental, social and applied psychology, medicine, management and business. One of the main conclusions of the meta-analysis is that individual and group analyses have similar effect sizes (Kühberger 1998). This indicates a high degree of correspondence between the results for studies in which the individual is the unit of analysis or those in which a group is.

To sum up, the aggregation problem may not be that big of a problem after all. Regarding individuals' decision-making, such as foreign policy decisions by a president, the aggregation problem per definition does not materialize and prospect theory is applicable. With respect to collective decision-making such as that of a cabinet the same conclusion holds, but for a different reason. Here, prospect theory can be used because experiments, meta-analyses and real world data indicate that groups display the same pattern of risk-attitudes as do individuals – and are thus in line with prospect theory. In one study, groups were even found to follow prospect theory's predictions more strongly.⁵

6.5 Applications of prospect theory in political science

Contributions in the international relations literature

Recently, scholars in the field of international relations have started to use prospect theory, usually because of their dissatisfaction with the explanatory or descriptive power of the rational choice accounts that dominate a large part of the (sub) discipline. McDermott's (1998) study of American foreign policy of the Carter and Eisenhower administrations, mentioned above, is an excellent example of the explanatory value of prospect theory. McDermott seeks to explain irregularities in state behaviour, that is to say, she wants to account for why 'nations take crazy risks, like the Iranian rescue mission; throw good money after bad, as in Vietnam, forgo easy gains, by terminating the Gulf War before reaching Baghdad; and so on' (McDermott 1998: 2). Methodologically, her work is a parallel demonstration of theory (prospect theory), whereby the idea is to develop a theoretical argument and then demonstrate its utility several times to a number of historical cases. This demonstrates the theory's applicability, and thus value, across a group of cases and additionally provides insights into how to operationalize key variables in specific cases. To test the theory's empirical value, McDermott examines the decision-making of President Carter and Eisenhower under both a losses and gains domain to see to what extent the difference in domain results in a difference in risk-propensity, as predicted by prospect theory. Different sources, such as memoirs, interviews, public opinion polls and salient international events, are used to determine the domain; McDermott's independent variable. The variance in each choice option establishes the relative riskiness of an option, the risk-propensity; her dependent variable (McDermott 1998: 9-12, 36-40). In each of the four cases of foreign policy-making, McDermott probes

in much detail the domain, the (riskiness of the) options considered and the actual decision and assesses to what extent the outcome is consistent with – and could even be predicted by – prospect theory. In all four cases, the decisions made are fully in line with prospect theory. This finding reveals the theory's empirical applicability. McDermott (1998: 176ff) shows that whilst the predictions of many theories in international relations, such as realism and neorealism, are static in their predictions, prospect theory's are dynamic. When the external environment and hence the domain changes, prospect theory would predict a different outcome. Similarly, prospect theory is capable of dealing with escalating commitments and sunk costs as it demonstrates that individuals who are loss averse are more likely to try and recoup sunk costs by means of further escalation than those individuals who have not suffered losses.

Another example of – from the viewpoint of expected utility theory – puzzling behaviour is great powers' initiation of risky military and diplomatic interventions in regions that do not directly threaten the homeland's security (Taliaferro 2004). Why risk the lives of soldiers and invest time and money if the national interest is not at stake? Moreover, why persist as great power in a peripheral conflict when the prospects of winning are falling rapidly and the political, economic and military costs are increasing? Based on prospect theory, Taliaferro (2004) argues that senior officials' loss aversion drives great power intervention in the periphery. 'Leaders (...) persevere and even escalate failing peripheral interventions to recoup their past losses. Instead of cutting their present losses, they continue to invest blood and treasure in losing ventures in peripheral regions' (Taliaferro 2004: 178, paraphrasing Jervis 1994: 26). What is especially interesting about this contribution is that Taliaferro combines prospect theory defensive realism in a so-called balance-of-risk theory. By incorporating prospect theory into an established theory of international relations, substantive predictions about political behaviour can be derived.

In another interesting contribution, Haas (2001) shows that prospect theory explains the most important decisions in the Cuban missile crisis better than expected utility theory does. Specifically, he uses material from Soviet archives and information from the US side that has been made recently available, particularly the tapes of the Executive Committee of the National Security (ExCom), to assess what the key actors in the crisis – most prominently Presidents Kennedy and Khrushchev – believed to be the likely costs, benefits and probabilities of success involved in each of the major policy choices at each stage of the crisis (Khrushchev's decision to send missiles to Cuba; Kennedy's decision to implement

the blockade; Kennedy's decision to continue to threaten the Soviets once the blockade had been established; Khrushchev's decision to return the missiles to the USSR; and Khrushchev's decision to bluff Kennedy from October 22 to October 28 in order to get a better deal before the missiles were removed). In line with the predictions of prospect theory, Kennedy and Khrushchev engaged in risky, non-value maximizing behaviour when facing losses. As soon as an outcome approached certainty, the two became much more risk averse – also in line with prospect theory. As Haas (2001: 266) argues, 'these findings are particularly problematic for value-maximizing theories [such as expected utility theory] since Kennedy and Khrushchev repeatedly engaged in excessively risky behavior when the downside of their gambles was nuclear conflict between the superpowers'. In fact, throughout the entire crisis, prospect theory explains these actors' decisions better than expected utility theory does.

In another application, Fanis (2004) shows that prospect theory can help solve the puzzle of why individuals participate in collective action. Whilst expected utility theory accounts for collective action by focusing on individuals' tendency to maximize their utility, her prospect theoretical application indicates that a fear of losses motivates individuals to engage in collective action. By studying four economic groups in Chile during 1973-1975 (the first years of the Pinochet regime), Fanis demonstrates that these groups' motivation to cooperate indeed results from them being in a domain of losses; not from utility maximization. Specifically, cooperation with other, rival, groups could recoup the recent losses incurred. Somewhat related, Steinacker (2006) uses insights from prospect theory to explain why governments act on certain externality problems but not on others. Steinacker argues that because of loss aversion, governments are more likely to act on a situation constructed as entailing a negative externality than one that produces a positive externality.

Contributions in the international political economy and comparative politics literature

Different from scholars in international relations, scholars in international political economy (IPE) have been slow on incorporating insights from behavioural economics, including prospect theory, in their work. An exception includes Elms (2004), who shows that insights from prospect theory help one to explain why states sometimes devote a high amount of money, time and effort to resolve trade disputes with only limited potential benefits – something expected utility theory could not explain be-

cause the costs involved here clearly outweigh the benefits. Specifically, Elms' analysis reveals that the trade dispute between the US and Japan over expanded market access for American apples – a potential market that would not exceed \$ 15 million – could continue for 30 years with high costs involved for both sides because '(...) each became caught in a prospect theory spiral of actions and became willing to take even riskier actions in an attempt to recoup losses' (Elms 2004: 241). In a later contribution to this literature, Elms (2008) argues that it is particularly unfortunate that not more IPE scholars use prospect theory, as it regularly offers a more convincing account of puzzles in IPE than do rival accounts. To demonstrate this point, Elms selects three publications from a key IPE journal, *International Organization*, of which she discusses the empirical puzzle and the original explanation. Elms shows how the same puzzle could be solved more convincingly by drawing on insights from behavioural economics, such as loss aversion.

Also comparativist applications of prospect theory in the field are still relatively rare (Weyland 1996; 1998a; 1998b; 2002; Vis & Van Kersbergen 2007; Vis 2009a; 2009b). Weyland (2002), for example, focuses on the puzzle that in the 1990s several Latin American democratic governments (Menem in Argentina, Collor in Brazil, Fujimori in Peru and Pérez in Venezuela) have enacted harsh neoliberal reform shortly after having taking office; reforms that involved painful adjustment on the part of the public and which, hence, were theoretically expected to take place only under dictatorships. Interestingly, as well as puzzling, these painful reforms have led to little revolt and even wide support in Argentina, Brazil and Peru whilst resulting in unprecedented protests in Venezuela. Weyland argues and empirically demonstrates that their risk-propensity can explain the willingness of the four presidents to pursue bold and costly stabilization measures. Being faced with unleashing hyperinflation (>50 per cent per month) upon taking office, they found themselves in a domain of losses amounting in their willingness to act risk-accepting in an attempt to recoup some of the losses. In Argentina, Brazil and Peru, the problem of hyperinflation was known by and affecting large parts of the public who, consequently, were also in a losses domain and embracing the bold reforms. In Venezuela, conversely, where inflation was more limited and the former government had hidden the worsening situation from the public, the public rejected the bold reforms and engaged in violent protests. Economic-structural, political-institutional, ideational and rational choice theories, while shaping the context of leader's and citizens' choices, could neither explain the adoption of the drastic market reforms

nor the acceptance – or even support – by the public thereof. This study thus also demonstrates the explanatory supremacy of prospect theory.

6.6 A theory of the politics of welfare state reform

Let us now bring prospect theory into the study of the politics of welfare state reform. To this end, recall that this theory's central finding suggests that policy-makers avoid risks as long as they consider themselves to be in a domain of gains, when they see their current situation (the status quo) as still acceptable or tolerable. Paraphrasing Berejikian (1997: 793), prospect theory yields two predictions for governments as the major decision-makers in welfare state reform politics. First, governments will opt for the certainty of the status quo (their current situation), when they view this as a gain (their position of power) and are confronted with a choice between a) the status quo (no reform) and b) some gamble (reform) with both a *positive* expected value (e.g. electoral gain) and some smaller risk of loss (electoral punishment smaller than the expected gain). Second, governments will opt for the gamble, when they view their current situation as a loss and are confronted with a choice between a) the status quo (no reform) and b) some gamble (reform) with both an expected value of *further loss* (further electoral loss) and some smaller prospect for improvement (an electoral reward smaller than the expected loss). Governments in a gains domain pursue absolute gains and are unwilling to engage in risky reform efforts, whilst governments in a losses domain pursue relative gains and are more willing to accept the risks of reform (Vis & Van Kersbergen 2007; see Berejikian 1997: 789).

Following Weyland (1996), the same reasoning applies to voters, interest groups or the public at large. For reasons of clarity, I elaborate this for voters only. First, voters will prefer the certainty of the status quo when they view this as a gain (their level of welfare is acceptable) and are confronted with a choice between a) the current situation (no reform) and b) some gamble (reform) with both a *positive* expected value (e.g. higher welfare) and some smaller risk of loss (a loss of welfare smaller than the expected gain). Second, voters will prefer the gamble when they view the status quo as a loss (their level of welfare is unacceptable) and are confronted with a choice between a) the current situation (no reform) and b) some gamble (reform) with both an expected value of *further loss* (a further loss of welfare) and some smaller prospect for improvement (a welfare gain smaller than the expected loss).

Table 6.1 illustrates the corollaries of this reasoning. First, governments will only undertake welfare state reform with risky electoral repercussions ('gamble') if they consider the status quo a loss (either cells I or II in table 6.1). Second, if governments pursue reform, there are two possible outcomes: 1) the implementation of the reform will be relatively easy if voters are reform-friendly, that is if they consider themselves to be in a losses domain too (cell II); 2) the implementation of the reform will be relatively difficult if voters are reform-hostile, that is if they consider themselves to be in a gains domain (cell I). Third, if governments consider the status quo to be a gain (cells III and IV) they will not undertake electorally risky reform. Fourth, if governments do not favour reform, there are two possible outcomes: 1) there will be no conflict if voters also consider the status quo a gain (cell III); 2) there will be conflict if voters consider the status quo to be a loss (cell IV).

In theory, all four cells in table 6.1 are possible. In the context of welfare state reform, however, cell IV is highly unlikely. This situation would imply that the voters want a reform that has an expected value of further loss of (their) welfare and only a smaller prospect of improvement of welfare, whereby the improvement is smaller than the loss of welfare. For instance, it is very implausible that voters would prefer to have their unemployment benefits lowered or the pension age increased whilst the government would not. Typically, acceptance of the risk of loss of welfare among voters occurs only after the government has successfully convinced the voters of the need of the reform. When the government opposes reform, as is the case in cell IV, such a situation is basically impossible.

Cell II, in which both the voters and the government are risk-accepting and thus willing to respectively accept and pursue the reform is the situation that materializes when the government has succeeded in convincing the voters of the necessity of reform or demonstrated that the reform is in the voters' interest. This situation would therefore typically arise only some time after the government has decided to pursue the reform. Consequently, for the question under which condition governments are willing to accept the risk involved in reform, this situation is less relevant. Cells I and III though, are highly applicable here. In cell III, the government finds itself in a domain of gains, is risk averse and consequently unwilling to pursue unpopular welfare state reform. When the domain changes from gains to losses – and all else remains the same – the situation shifts from cell III to cell I. Facing losses, the government turns risk-accepting and willing to bite the bullet of unpopular reform.

Table 6.1 Domains and risk attitudes

		Government	
		<i>Losses domain</i> (status quo -/-)	<i>Gains domain</i> (status quo +)
Voters	<i>Gains domain</i> (status quo +)	(voters are risk averse, government is risk accepting) Conflict: Government wants reform; voters oppose reform	(voters are risk averse, government is risk averse) No conflict
	I	III	
	<i>Losses domain</i> (status quo -/-)	(voters are risk accepting, government is risk accepting) No conflict	(voters are risk accepting, government is risk averse) Conflict: Voters want reform; government opposes reform
	II	IV	

Source: Vis & Van Kersbergen (2007, Table 1).

The Hartz IV reform in Germany

The theoretical argument outlined above suggests that it is the change in the government's domain that affects its risk-attitude and consequently its willingness to pursue an unpopular, risky reform that it was unwilling to take before. Let me illustrate the theoretical mechanism involved by means of a recent reform in the German welfare state, the *4th Law on Modern Service of the Labour Market*, better known as Hartz IV.⁶ Central to this reform is the merger of unemployment assistance scheme (*Arbeitslosenhilfe*) and the social assistance scheme (*Sozialhilfe*) into one, means-tested benefit (*Arbeitslosengeld II*, or ALG II).⁷ Notwithstanding some transitory arrangements, like supplements payable for up to two years after the exhaustion of ALG (ISSA 2006, no.3326), this reform entails lower benefits for most unemployed previously receiving unemployment assistance as well as the loss of eligibility of those unemployed individuals with partners in work (due to the stricter means-testing). Additionally,

the definition of suitable work changed considerably, with ALG II claimants being in principle required to accept any legal job offer.

The Hartz IV reform qualifies as unpopular, as it was opposed by trade unions, parts of the Social Democratic party and citizens (especially in the new *Länder*) (Fleckenstein 2008). The citizens' protests were most clearly visible in the so-called *Montagsdemonstrations* in (largely) East Germany in 2004, but were also reflected in the miserable opinion polls for the Social Democrats and several crushing defeats of the party in the *Länder* elections (Clasen 2005; Helms 2007). Following the theory outlined above, this would suggest that the government implementing the reform found itself in a domain of losses, so either in cell II or, theoretically and empirically more likely, cell I of table 6.1. The theory also suggests that the domain in the previous cabinet period (Schröder's first term in office) was one of gains. Prospect theory indicates that the shift from a domain of gains into one of losses is responsible for the changed risk-attitude of the government and the, consequent, higher degree of unpopular reform pursued. Let us see to what extent these hypotheses find support in this particular case.

Both in terms of its political position and the socio-economic situation, the first Schröder cabinet was in a relatively good position, that is, in a domain of gains (see table A3 and Appendix C). The Social Democrats had won the 1998 elections, mostly at the expense of the Christian Democrats, and the election results offered a clear mandate for a Red-Green coalition. Despite some setbacks, such as losses in several *Länder* elections and the EP election, the Socialist Democrats' and the Greens' political position was reasonably good in this period in office. The same holds for the socio-economic situation. Although the level of unemployment was high (on average about 8 per cent), it was stable. Since it is downward deviations that trigger risk-accepting behaviour, not so much a high level *per se*, this suggests that the socio-economic situation during Schröder I was not that weak. Also the level of economic growth in the first three years of the cabinet period is (well above) 1 per cent. In the final year, the growth rate falls to close to 0 per cent.⁸

The political position of the second Schröder cabinet was very different from the first, as was the socio-economic situation in which the cabinet found itself (see table A3 and Appendix C). Regarding the political position, the Red-Green coalition had a very small majority of the seats. It would probably not have reached a majority at all if it had not been for the war in Iraq and the flood in Eastern Germany. Whilst the Greens won in terms of votes, the substantially larger Social Democrats

ended up with 2.4 per cent less votes. The government's political position deteriorated further when it presented its 'Agenda 2010', a plan for far-reaching reforms in the German welfare state. This plan had not figured in the election campaign, as a result of which the public felt misinformed. The socio-economic situation was as poor. In 2003, the German economy contracted 0.2 per cent and the level of unemployment increased further from below 4 million in 2002 to 4.5 million a year later. Also the level of employment decreased to the lowest in 10 years (Clasen 2005: 74).

Is it the shift in domain that can help one to account for the Hartz IV reform that was pursued in Schröder's second period in office? An analysis of the process leading up to the reform suggests that it is. For one, based on the 'Third Way/Die Neue Mitte' paper that the British Prime Minister Tony Blair and Schröder published in 1999 (Blair & Schröder 1999), it is plausible to assume that Schröder would have preferred to implement such a reform already in his first period in office. However, in this first cabinet period, the so-called 'modernizers' in the Social Democratic party – headed by Schröder himself – were not able to convince the so-called 'traditionalists' – supported by the trade unions – of the need for reform. According to observers, the lack of success for Schröder was at least partly due to the relatively weak problem pressure at the time (Clasen 2005: 72; Dyson 2005). Drawing on insights from prospect theory allows for making a clearer prediction about Schröder's failure to convince his fellow party members and the trade unions that something needed to be done. Whilst the modernizers within the Social Democratic party considered the status quo no longer tenable, the traditionalists and the trade unions wanted to keep this status quo. The latter found themselves in a domain of gains (cell III in table 6.1) and were unwilling to accept the electoral risk involved in pursuing reform. Whilst Schröder and the other modernizers were already in cell I, and thus acceptant of the risk involved in reform, the overriding view in the government was one of remaining at the status quo.

The situation, the domain, changed due to both the deteriorating socio-economic situation and the so-called placement scandal (see Leibfried & Obinger 2003: 213-214; Clasen 2005; Fleckenstein 2008; Stiller 2010: chapter 6). The placement scandal concerned manipulated statistics on the number of unemployed who had been successfully reintegrated by the *Bundesanstalt für Arbeit* early 2002. The scandal made clear that the current system was not functioning well, indicating to the traditionalists within the Social Democratic party and the trade unions that the status quo might no longer be the 'best' option available. The rising levels of unemployment added to the idea that something needed to be

done. Given the radical nature of the reform, the Social Democrats ‘first had to muster the necessary courage to bear the resulting conflict; [and] did not dare to tackle the issue immediately’ (interview with SPD MP, 25 January 2005, quoted in Stiller 2010: 145). In prospect theoretical terminology, they had to be willing to accept the risk involved in implementing the reform and for that a domain shift was needed. This is precisely what happened. The domain in which the government found itself changed from one of gains in Schröder’s first period in office to one of losses in the second. It is the change in risk-attitude of the government that made it willing to face the potential electoral losses involved and to implement the reform nonetheless.

The account of the occurrence of the Hartz IV reform complements the existing explanations such as those put forward by Clasen (2005), Fleckenstein (2008) and Stiller (2010). The advantage of my prospect-theoretical explanation is that it can travel across countries and over time. Often, an account of a specific reform is tied to the peculiarities of that particular case. Whilst such idiosyncrasies are relevant for an in-depth understanding of a reform process, my approach allows for more general – but still specific – hypotheses. The Hartz IV case illustrates that a shift in domain could very well be responsible for the change in risk-attitude of the German government and the accompanying reform. The empirical test that I conduct in the next chapter supports this conclusion. Moreover, it suggests that it is plausible that similar results arise if the focus is on other cabinets in Western democracies.

Prospect theory and the politics of welfare state reform

Summing up, prospect theory provides the necessary condition under which risky welfare state reform can occur: when governments view the status quo as a loss (cells I and II of table 6.1). This theory, then, can explain the fact that governments pursue risky reforms at all, that is, for the empirical fact for which institutional approaches – and especially rational choice institutionalism that employs expected utility theory – have no account. Prospect theory thus offers an answer to the fundamental *when*-question; it provides the basic cause of hazardous reforms. It also indicates the conditions under which the politics of welfare state reform is likely to be successful: when either voters are also in a domain of losses so that they accept the risk of reform (cell II), or when the government is able to overcome the reform-hostility of the voters in the domain of gains (cell I).

From this we can derive that it is the situation of either losses or gains that fosters a specific risk-attitude among the government, which influences the degree and type of welfare state reform this government is willing to take. Specifically, I hypothesize that a government is only willing to accept the risk of electoral losses that comes with unpopular reform if it confronts losses, since only then it is willing to incur the risk in an attempt to win back (some of) the losses. Conversely, a government pursues not-unpopular reform only when it faces gains. Because not-unpopular reforms, such as increases in spending on active labour market policies, are expensive whilst simultaneously hardly offering avenues for reaping electoral gains, a government takes such reform under (socio-economic) gains. It is only under such a condition that the government can pay for 'luxurious' social spending (Armingeon 2007). Summing up, losses and gains induce a specific risk-attitude among the government, which can account for the cross-government variation in different types of welfare state reform.

6.7 Concluding remarks

This chapter developed a theoretical framework for studying welfare state reform based on prospect theory. The next chapter puts this theoretical framework to an empirical test by explaining why some governments, such as Lubbers I and Schröder II, are willing to take the risk of unpopular reform, whereas others, such as Lubbers II and Schröder I, shy away from it.

7 Politics of risk-taking

7.1 Introduction

This chapter puts the theoretical model based on prospect theory developed in the previous chapter to an empirical test by assessing under which conditions governments engage in unpopular reform and not-unpopular reform. Existing studies that stress the importance of socio-economic problems and problem load, partisanship, institutions and ideas identify the opportunities and constraints of reform, the motives for reform, what triggers reform and what makes decision-makers act. They also can help one to account for the variation in reform across countries. However, these theories fall short when it comes to explaining the *variation across governments* in unpopular and not-unpopular welfare state reform. In the previous chapter, I argued that insights from prospect theory can explain this variation, thereby complementing existing approaches. Recall that prospect theory's key empirical finding is that individuals are cautious in their decision-making (risk averse) when facing favourable prospects (gains), but tend towards bold decision-making (risk acceptance) when confronting threats to their well-being (losses).

As discussed in chapter 4, this study examines three outcomes: two measures of unpopular reform (1) a broad measure of unpopular reform and 2) benefit cutbacks) and one of not-unpopular reform (activation). The broad measure of unpopular reform offers the general picture of the conditions under which governments pursue unpopular reform. Conversely, benefit cutbacks is the more conservative measure, so to speak, that allows for a comparison with the conditions under which governments engage in activation. Based on prospect theory, I hypothesize that the presence of a situation of either losses or gains pushes governments into a specific risk-attitude, which affects the amount and type of welfare state reform they are willing to take. Specifically, I propose that governments are only willing to accept the risk of electoral punishment involved in unpopular reform when confronting losses, because only then are they

willing to take risk in an attempt to recoup (some of) the losses incurred. Conversely, governments pursue not-unpopular reform only when facing gains. Since not-unpopular reforms, such as increases in spending on active labour market policies, are expensive whilst simultaneously hardly offering avenues for reaping electoral gains, such reforms will only be undertaken under (socio-economic) gains. I thus hypothesize that the risk-attitudes that losses and gains induce explain the cross-government variation in different types of welfare state reform.

This chapter's empirical analysis supports these hypotheses and shows that the extent to which a government undertakes reform in a given period in office, and thus the degree of electoral risk it is willing to take, is conditional on the losses it faces. In almost all instances of unpopular reform, the government faces a deteriorating socio-economic situation (e.g. falling growth rates, rising levels of unemployment) or a weakening political position (e.g. a fall in the polls), supporting the argument that such a condition is necessary for inducing governments to behave risk accepting and hence to pursue the risk involved in unpopular reform. This condition is only sufficient for unpopular reform in combination with one or two other conditions (namely, an improving or deteriorating political position and a rightist government). Moreover, the analysis shows that an improving political position, that is a gain, is necessary for governments to pursue not-unpopular reform. This condition is also only sufficient in combination with one or two other factors. What triggers not-unpopular reform is the combination of a strong political position and an improving socio-economic situation or the combination of a strong political position and a leftist government.

7.2 Losses or gains?

Which factors determine if a government faces losses or gains? This question relates to the delicate issue of how to establish in which domain a government finds itself. Following Mercer (2005a), and building on the existing approaches to welfare state reform, I focus on the government's situation, especially its socio-economic situation and political position (cf. Vis 2009a, 2009b). The *socio-economic situation* is the first factor. Recall that the socio-economic account identifies problem load as such (e.g. high unemployment) as triggering governments to pursue unpopular reform. Prospect theory, conversely, suggests that simply having a problem is not enough. If, for example, the level of unemployment in a country

is always above 10 per cent, like in Spain, this in itself does not induce action from the part of the government – although an unemployment level that tops 10 per cent is problematic for any advanced democracy. What prospect theory teaches us is that the socio-economic situation needs to deteriorate – for example by increasing levels of unemployment or a deteriorating growth rate – to incite a response from the government. Such a worsening socio-economic situation puts the government in a domain of losses, which elicits risk-accepting behaviour and thereby a willingness to pursue unpopular reform.

Whilst a status quo situation, even when problematic, leads governments to steer clear of reform and a deteriorating situation pushes them to engage in risk-accepting behaviour and thus unpopular reform, an *improving* socio-economic situation (e.g. rising levels of employment, a booming economy) induces governments to engage in not-unpopular measures. According to prospect theory, in a domain of gains individuals or collectives of individuals act risk-averse and shy away from unpopular reform. However, I argue that such gains do foster not-unpopular reforms such as activation. The need for this type of reform lies in socio-economic changes like de-industrialization and demographic change (Armingeon & Bonoli 2006). When people have to leave their old field of work or when the demography of a country changes, programmes are needed to deal with the resulting problems. Given that such measures cost money and given that the expected positive reward for introducing them is likely to be small, I expect that governments pursue not-unpopular measures only when the socio-economic situation is improving (cf. Armingeon 2007; Huo, Nelson & Stephens 2008; but see Rueda 2007; Gaston & Rajaguru 2008). Only under such a condition can the government afford the policies. Moreover, and specific to active labour market policies, only in a tight labour market can a government legitimately demand the unemployed to participate in active labour market programmes. If there is no job available after benefit recipients have finished an ALMP programme, it is difficult to demand from the benefit recipients that they participate in such programmes. Under deteriorating socio-economic conditions it is also much harder to blame the beneficiaries' unemployment on their employability – the factor that ALMPs are set out to improve. Summing up, I hypothesize that a deteriorating socio-economic situation is a necessary condition for unpopular welfare state reform and that an improving socio-economic situation is a necessary condition for not-unpopular reform.

The second factor that affects the domain in which the government finds itself 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 reforms (Garrett 1993; Keeler 1993; Alesina, Ardagna & Trebbi 2006). A large electoral victory or mandate is seen as producing a 'macro-window' (Keeler 1993) for reform. This electoral mandate gives the government the authority to pursue its programme. The authority derives from the public support for the programme, a factor that reduces the possible opposition to the proposed changes. Keeler labels this the authorization mechanism. Additionally, a large majority in parliament empowers a government to implement its plans. By having a large share of the votes or seats, the government can realize its plans – the empowerment mechanism. It depends on a country's institutions how high this degree of empowerment should be for it to be effective. The more fragmented the institutions and the weaker the parties, the more empowerment is needed for policy reform. Finally, the party activists may pressure the government to pursue the reform after an electoral victory. If the reform does not happen now, with the large mandate, then when will it? Keeler labels this the party pressure mechanism. For not-unpopular reform, the mandate hypothesis seems plausible indeed. A stronger political position gives political parties leeway to introduce their preferred policies, even if these policies are not likely to win them votes (such as with activation). As discussed in chapter 1, public opinion data demonstrate 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,' but 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'. Whilst the answer to the first question suggests a favourable attitude towards ALMPs, the answer to the second question implies a less positive stance. Given that the median voter is thus likely to be neither in favour nor opposed to ALMPs in general, it is not likely that implementing them wins the government votes. Therefore, I expect the mandate hypothesis to hold and hypothesize that an improving political position is a necessary condition for not-unpopular reform.

However, like with the socio-economic situation, prospect theory's key finding suggests that a weakening – instead of an excellent or improving – political position (e.g. a meagre electoral victory, a minority in the upper house in a bicameral system such as Germany) puts governments in a losses domain, inducing risk-accepting behaviour and thereby prompting unpopular reform. Also an improving political position of the main opposition party (e.g. electoral victory, domination of the upper house) may put governments in a losses domain. The stronger the opposition's politi-

cal position, the less the government has to lose and the more it has to gain when pursuing reforms. As a consequence, the government will perceive the status quo in which the main opposition party or parties are more successful in terms of votes and/or offices as a loss. Prospect theory's central result then suggests that governments view their own improving political position as a gain (e.g. landslide electoral victory, domination of both chambers in a bicameral system), impeding unpopular reform. The reasoning is similar, but reversed. When the government for example enjoys wide electoral support it perceives this status quo to be a gain. The probability that the government will end up in a worse position than this status quo when implementing unpopular measures is very high. This government thus has much to lose and little to gain by reforming. I hypothesize that a deteriorating political position is a necessary condition for unpopular reform. Combining the hypotheses on the socio-economic situation and the cabinet's political position leads to 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 an improving cabinet's political position is a necessary condition for governments' pursuit of not-unpopular 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 government does not influence their pursuit of reform. However, since the seminal work by Hibbs (1977) most scholars agree that the objectives of leftist parties and rightist ones vary with respect to socio-economic policies. While rightist parties have a preference for welfare state cutbacks and are hardly interested in active labour market policies, leftist parties have a preference for expanding such policies and hardly care for enacting cutbacks (e.g. Korpi & Palme 2003; Huo et al. 2008). However, as elaborated in chapter 1, in the current context of permanent austerity leftist governments cannot simply increase spending. Moreover, all governments face the dilemma of managing the economy and dismantling the welfare state. The inconclusive findings on partisanship in the empirical literature reveal this dilemma. Whilst some scholars posit that rightist governments enact harsher cutbacks, others conclude that leftist governments are better at pursuing cuts. What is unclear,

though, is under which conditions – other than invariant institutional characteristics – governments are willing to pursue unpopular reform. For ALMPs, some scholars find the expected positive relationship with leftist partisanship (e.g. Huo et al. 2008). Others 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 but there is discussion about how these preferences translate into policies.

Given political parties' different preferences for unpopular reform and not-unpopular reform, it is likely that these preferences mediate the relationship between partisanship and reform. Stated differently, although leftist governments and rightist ones both act risk-accepting when facing losses, the latter need less of a push to pursue cutbacks, that is to take the electoral gamble. Similarly, leftist governments need fewer gains before turning to activation. Therefore, I expect rightist partisanship and leftist partisanship to be INUS conditions, that is '*insufficient* but *nonredundant* part[s] of an *unnecessary* but *sufficient* [combination of conditions]' (Mahoney & Goertz 2006: 232, fn. 4, italics in original), for respectively unpopular reform and not-unpopular reform.

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

Hypothesis 3b: Leftist partisanship is an INUS condition for not-unpopular reform.

7.3 The causal conditions

Drawing on prospect theory and the existing literature, I hypothesized that the socio-economic situation, the government's political position and the colour of the cabinet affect whether and what type of welfare state reform a government is willing to pursue. These factors determine the degree of risk the government is willing to take and are therefore the causal conditions in the empirical analysis. I construct fuzzy-sets for these conditions, labelled Weak Socio-Economic Situation (WSE), Weak Political Position (WPP) and Rightist Government (RIGHT). Because of how I calibrate the fuzzy-sets (see chapter 6), scores below .5 (out of the set) indicate a blossoming socio-economic situation, a solid political position and leftist government.

For calibrating the fuzzy-set scores for WSE, I draw primarily on the level and change in economic growth and the level and change in unemployment. To complement these quantitative indicators, I also include information on the degree to which the specific socio-economic situation is perceived to be detrimental by the public and/or the government. I take the latter information from 'Notes on recent elections' in *Electoral Studies* and, especially, 'Political data' in the *European Journal of Political Research*. For example, I coded Schlüter I as having a fairly strong socio-economic situation (fairly out of the set of WSE, fuzzy-set score .33). Although the average level of unemployment during this cabinet period was high (8.2%, see table A3 in the Appendix), given that the level was *decreasing* throughout the period made it look good anyway; that is, a gain. The stable average economic growth of 2.8 per cent does not make the socio-economic situation better or worse, which yields a fairly strong overall socio-economic situation. Schlüter IV, conversely, has a rather poor socio-economic situation (fairly in the set of WSE, fuzzy-set score .67). Although with 6.6 per cent the average level of unemployment is lower in this cabinet period than under for example Schlüter I, the perception of the situation is worse because the unemployment rate is increasing throughout the period. This fosters a situation of loss. The lack of economic growth enhances this situation. Whilst with on average 1.7 per cent growth the objective performance is not that bad, the reduction of 3.6 per cent in the first year in office to only .3 per cent in the second contributes to a situation of socio-economic loss. Table 7.1 presents the resulting fuzzy-set scores.

For coding the fuzzy-set scores for WPP, I use quantitative indicators again, in this case the percentage of votes for the governing party or parties and the percentage of votes for the (main) opposition party of parties (see table A3 in the Appendix). In addition, I draw on the 'Notes on recent elections' in *Electoral Studies* and 'Political data' in the *European Journal of Political Research* to get information about the public's perception of the cabinet, the effect of political crises on the cabinet's political position (for the Dutch cases), the election results in the *Länder* elections (in Germany), intra-party problems (in the German and British cases), and the vote distribution between the rightist bloc and the Social Democratic bloc (in the Danish cases). An example helps to illustrate how I coded the fuzzy-set scores for Political Position; Appendix C displays a similar reasoning behind the political positions of all the governments this study examines. An appendix with a detailed reasoning behind the coding decisions is included for WPP but not for WSE because the qualitative sources

Table 7.1 Fuzzy-set scores WSE, WPP and RIGHT

	Weak Socio- Economic Position (WSE)	Weak Political Position (WPP)	Rightist Government (RIGHT)
Schlüter I	.33	.33	1.00
Schlüter II	.60	.33	1.00
Schlüter IV	.67	.33	1.00
Schlüter V	.67	.60	1.00
N. Rasmussen I	.17	.17	.40
N. Rasmussen II (& III)	.60	.60	.25
N. Rasmussen IV	.33	.33	.25
Kohl I	.33	.17	1.00
Kohl II	.17	.33	1.00
Kohl III	.33	.17	1.00
Kohl IV	.67	.67	1.00
Schröder I	.40	.33	0
Schröder II	.83	.83	0
Lubbers I	.83	.33	1.00
Lubbers II	.33	.17	1.00
Lubbers III	.67	.33	.60
Kok I	.40	.17	.40
Kok II	.33	.33	.40
Balkenende II	.67	.67	1.00
Thatcher I	.83	.17	1.00
Thatcher II	.33	.33	1.00
Thatcher III	.67	.33	1.00
Major I	.60	.33	1.00
Blair I	.33	.17	0
Blair II	.33	.33	0

Notes: Cases that are 'in' a specific set (fuzzy-set membership >.5) are indicated in **bold**; *N. Rasmussen* is the cabinet Nyrup Rasmussen.

are more important for coding the political position than for the socio-economic situation.

The Thatcher I cabinet is coded as having a very strong Political Position (fuzzy-set score WPP .83). The position was this strong because the 1979 election saw '(...) the Conservatives return to power with the largest

parliamentary majority since 1966 and also the largest lead in the popular vote attained by any party since 1945' (Berrington 1983: 263). In its first year in office, the government became highly unpopular though. Its cuts in taxes could not offset the increase in unemployment that resulted from the retrenchment of public expenditure. However, and good for the cabinet's political position, Labour was also highly unpopular because of its shift to the left. The newly formed Alliance of the Social Democratic Party and the Liberals did gain support after its erection in September 1981. Polling over 50 per cent over the votes in November 1981, there were even talks about a next Alliance government – especially as the two major parties did so poorly. Alliance's support dropped somewhat early 1982, but remained at about 30 per cent (Berrington 1983: 263). Everything changed for the government's popularity when Argentina seized the Falkland Islands on 2 April 1982. After some heated debate, the government sent a task force to recapture the islands. In June 1982, the Argentine troops surrendered. A month later, the Prime Minister who had a year before been called 'the most unpopular PM [Prime Minister] since the polls began', started to dominate the political landscape. The Conservatives polled around 46 per cent of the votes and even 52 per cent of the voters approved of Thatcher as PM (Berrington 1983: 264).

For establishing the fuzzy-set scores for RIGHT, I focus on the partisan complexion of a government by means of the share of leftist parties in government. Specifically, I examine the cabinet composition of Social Democratic and other leftist parties as a percentage of total cabinet posts, weighted by days (*gov_left* in the Comparative Political Dataset of Armingeon et al. 2008). Measuring the partisan complexion of the government by means of the share of leftist parties in office is conventional in the literature (e.g. Huber & Stephens 2001; Allan & Scruggs 2004). I calibrate the raw *gov_left* scores in fuzzy-set scores using the coding scheme in table 7.2. The resulting scores, which table 7.1 display, indicate that both cabinets including Christian Democrats (such as Kohl I-IV) as well as secular-conservatives cabinets (such as Thatcher I-III) are coded as right-wing. This may seem problematic given these parties' different attitudes towards the welfare state. However, taking into account the emphasis of leftist and rightist issues in the manifesto programmes of the parties in government this coding makes sense. For calculating the policy orientation of the government, the Left-Right scale constructed by the Comparative Manifesto Project is particularly useful (see Budge et al. 2001). This Left-Right scale taps the policy orientation of a party by means of the percentage of references to rightist issues, such as free-

dom and economic incentives and leftist issues, such as democracy and labour groups (for all categories, see Budge et al. 2001: table 1.1). The scale ranges from -100 (when the entire programme is devoted to leftist issues) to +100 (when the entire programme is devoted to rightist issues). The policy orientation of the government can be calculated as follows: $[\sum(\text{absolute number of seats of party}_i \text{ in government} \times \text{party}_i\text{'s Left-Right score})]/(\text{total number of seats for the cabinet})$. To illustrate the coding using the Kohl I cabinet as an example, the number of seats of the parties in government (FDP and CDU/CSU) was 34 and 244. These parties' Left-Right scores were 4.0 and 29.9. The Left-Right score for the cabinet is thus: $[(34 \times 4) + (244 \times 29.93)]/278 = 26.8$. According to this Left-Right score per cabinet, the secular-conservative Thatcher governments and the German and Dutch cabinets including the Christian Democrats are not that far apart ideologically. For example, the Thatcher II cabinet and Lubbers I hardly differ, with both scoring well in the rightist part of the scale (29.0 versus 28.3). Moreover, the Kohl cabinets are overwhelmingly rightist, with Kohl I scoring even higher than Thatcher I (26.8 versus 24.4).

Table 7.2 Coding scheme for the fuzzy-set RIGHT

Fuzzy-set score		Gov_left
1	Hegemony of right-wing parties	0
.75	Right-wing (and centre) parties dominate	$0 < X \leq 33.3$
.6	Parity between left and right parties, with the rightist party or parties receiving most of the votes	$33.3 < X \leq 66.6$
.4	Parity between left and right parties, with the leftist party or parties receiving most of the votes	$33.3 < X \leq 66.6$
.25	Dominance of Social Democratic and other left parties	$66.6 < X < 100$
0	Hegemony of Social Democratic and other left parties	100

Notes: Gov_left is the cabinet composition, calculated as Social Democratic and other leftist parties as a percentage of total cabinet posts, weighted by days.

Source: Armingeon et al. (2005 [data before 1990: Schmidt & Beyer (1990)], since 1990: based on the political data published in the *European Journal of Political Research* (Political Data Yearbook, various issues), Keesing's Archive, Neue Zürcher Zeitung, People in Power]).

7.4 Findings

Broad measure of unpopular reform

How to explain the variation in unpopular reform broadly defined, labelled Unpopular Reform, across governments? Under which conditions do governments pursue such unpopular reform? The fsQCA procedure employed here involves two stages, which can be carried out with the fsQCA 2.0 software.¹ In the first stage, I use the so-called *truth table algorithm* (Ragin 2008, chapter 7) to transform the fuzzy-set membership scores into a truth table (see also Ragin 2006b: 96-110). 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 & Ragin 2009: 183). If there are k conditions, the property space has 2^k corners. Here the property space thus has 2^3 (WSE, WPP, and RIGHT) = 8 corners. In the second stage, I first examine the distribution of cases across the corners of the property space. Next, I establish the degree to which membership in a corner is a subset of the outcome, that is, to what extent a case's placement in a specific combination of conditions (e.g. WPP, WSE, RIGHT) is sufficient for the outcome (Unpopular Reform) (see Ragin 2006b: 96).

Table 7.3 displays the truth table based on the fuzzy-set scores for Unpopular Reform, WSE, WPP, and RIGHT. Table 7.3 also includes the level of consistency, the degree to which the fuzzy-set membership scores of all cases in a combination are (almost always) sufficient for the outcome. The researcher needs to select a cut-off point to determine whether a configuration receives a positive (1) or negative (0) score on the outcome. Gaps in the level of consistency help one to identify where to place this cut-off point (Ragin 2005: 14-15). Because the results in table 7.3 suggest a substantial drop in consistency from .91 to .72, the cut-off point is set at .91. Consequently, I assign a positive outcome to the first three configurations and a negative one to the next two. Because there are no empirical cases for the last three configurations, which makes them so-called logical remainders, these configurations do not receive a score for the outcome.

In the second step, I employ Boolean algebra to minimize the truth table to identify the (combinations of) causal conditions that are (almost always) sufficient for producing the outcome (Ragin 1987, chapter 6; 2006b). The researcher has to decide what to do with the logical remainders. The most complex solution results if no 'simplifying assumptions' are employed, that is when the positive cases are set 'true' and all other cases 'false'. Simplifying assumptions are statements about the hypotheti-

Table 7.3 Truth table for the outcome Unpopular Reform

Conditions			Outcome UR	Consis- tency	N	Cabinets
WPP	WSE	RIGHT				
0	1	1	1	.92	7	Lubbers I & III; Schlüter II; Thatcher I & III; Major I; [Schlüter IV]
1	1	1	1	.91	3	Balkenende II; Kohl IV; [Schlüter V]
1	1	0	1	.91	2	Schröder II; Nyrup Rasmussen II (& III)
0	0	1	0	.72	6	Lubbers II; Kohl I-III; Schlüter I; [Thatcher II]
0	0	0	0	.64	7	Kok II; Schröder I; Nyrup Rasmussen I; Blair I & II; [Kok I; Nyrup Rasmussen IV]
0	1	0	–		0	
1	0	0	–		0	
1	0	1	–		0	

Notes: WPP is the set Weak Political Position; WSE is the set Weak Socio-Economic Situation; RIGHT is the set rightist government; Outcome UR is the outcome Unpopular Reform; – indicates logical remainder, that is, a configuration without empirical cases; Number is the number of governments with membership in the respective configuration higher than .5; Cabinets lists these governments, whereby those that produced a deviant outcome are presented between brackets. For example, the cabinet Schlüter V has membership to the sets WPP and WSE and RIGHT, yet – and different from Balkenende II and Kohl IV that have membership to the same configuration – unpopular reform is absent.

cal outcome of the logical remainders. The most parsimonious solution of fsQCA is attained if the positive cases are set ‘true’, the negative cases ‘false’, and the remainders ‘don’t care’. I employ the most complex solution, as that is the most conservative approach (Schneider & Wagemann 2006), and report the result of the most parsimonious approach in a footnote.²

The fsQCA analysis finds that the outcome Unpopular Reform is the product of the conditions Weak Socio-Economic Situation AND Weak Political Position OR Weak Socio-Economic Situation AND Rightist Government. In fuzzy-set theory, logical AND (*) refers to the combination of sets. Accordingly, WSE*WPP denotes in the set of Weak Socio-Economic Situation as well as in the set of Weak Political Position. Logical OR (+) refers to the intersection of sets. WSE*WPP + WSE*RIGHT thus means that both the combination of WSE and WPP and WSE and RIGHT can lead to Unpopular Reform. In fuzzy-set notion, the result of the analysis is

$$WSE * (WPP + RIGHT) \rightarrow UR \text{ (coverage: .86; consistency: .90).}^3$$

Recall that consistency taps the degree to which the solution is sufficient for the outcome. Coverage measures the proportion of membership in the outcome that is explained by the solution term (Ragin 2006: 107-110). Coverage thus resembles the variance explained (R^2) in traditional quantitative approaches (see Schneider & Grofman 2006: 25). Thus, the result covers 86 per cent of the cases under review and in 90 per cent suffices to bring about unpopular reform.

The above finding indicates that there are two paths towards Unpopular Reform: 1) a weak socio-economic situation in combination with a weak political position (WSE*WPP), and 2) a weak socio-economic situation in combination with a rightist government (WSE*RIGHT). Either of the paths is *sufficient*, but not necessary, for producing the outcome. Furthermore, the fsQCA result indicates that a weak socio-economic situation is *necessary*, but not sufficient, for unpopular reform. A deplorable socio-economic situation does not by itself invoke a losses domain that triggers the pursuit of unpopular reform. Instead, it works in conjunction with the conditions rightist government and weak political position. These findings indicate that without a weak socio-economic situation, that needs to be combined with one other condition, governments do not pursue unpopular reform. This result offers support for hypothesis 1. Also the presence of a weak political position, combined with a weak socio-economic situation, is in line with this hypothesis. The finding that the combination of a weak socio-economic situation and a rightist government induces governments to pursue unpopular measures suggests that, as hypothesized, rightist partisanship is an INUS condition for unpopular reform broadly defined. Partisanship thus does matter, but differently than usually argued. In contrast with for example Allan & Scruggs (2004), rightist governments do not pursue more or harsher benefit reductions than leftist ones. Instead, rightist governments are *more likely* to pursue them. To be precise, for rightist governments a weak socio-economic situation is enough to trigger such measures, whilst leftist ones only curtail benefits when the socio-economic condition is poor and the political position is strong. Furthermore, it is intriguing to note that unpopular reforms by leftist governments are somewhat peculiar in the sense that the dominant paths do not capture two of the three instances of such reform (Kok I and Nyrup Rasmussen IV). This result suggests that the conditions fostering a losses domain among leftist governments and rightist ones may differ, which ties onto for instance Levy's (1999) 'vice into virtue' approach and Ross's (2000a) 'Nixon goes to China' argument (see chapter 5).

Is either of the two paths more important in that it uniquely covers more cases? Moreover, do the paths actually capture the cabinets that pursued unpopular reform broadly defined? Beginning with the former question, the paths' unique coverage – which resembles partition explained variation in multiple regression and assesses the relative importance of the different (combinations of) causally important conditions (Ragin 2008: 65-68) –, is similar: .15 for WSE*WPP and .24 for WSE*RIGHT. This suggests that they cover the cases in more or less the same way. With respect to the paths capturing the cabinets, table 7.4 shows that the fit is good. This table presents the cabinets' membership scores of the outcome as well as of the two paths. In 10 (of the 13) cabinets that pursued unpopular measures broadly defined at least one of these two paths is present. For three cases, however, these combinations do not adequately explain the occurrence of unpopular reform. Specifically, the cabinets Kok I, Nyrup Rasmussen IV and Thatcher II pursued unpopular reform but did not face a Weak Socio-Economic Situation *and* had a Weak Political Position, nor did they face a Weak Socio-Economic Situation *and* were Rightist Governments. This suggests that other (combinations of) factors may also be conducive to a domain of losses. Regarding Kok I, what might apply is the 'Bush-considers-the-Iraqi-status-quo-unacceptable-*because*-he-was-doing-well-in-the-polls' situation (Mercer 2005a: 5, see chapter 6). The reasoning then would be that because of its strong political position and the fairly strong socio-economic situation, Kok I felt it could afford pursuing unpopular measures to tackle the high level of unemployment and the high and continuously increasing number of individuals receiving disability benefits (De Vries 2002). The political position of Thatcher II and Nyrup Rasmussen IV is with a fuzzy-set score of .33 on the condition Weak Political Position somewhat weaker than Kok's, but still fairly strong. The socio-economic situation of these three cabinets is similar (fuzzy-set scores for Weak Socio-Economic Situation of, respectively, .33, .33 and .40). Consequently, a similar reasoning might apply here. In the case of Thatcher II, this conclusion seems plausible indeed. As is well known, Thatcher's ideological and political assault on the welfare state was intense and unceasing. Therefore, this cabinet needed no push to pursue measures that I label unpopular and took advantage of its strong political position. Additionally, one could argue that the socio-economic situation of Thatcher II was not that bright after all. Throughout the cabinet period, the level of unemployment was on average no less than 11 per cent. As prospect theory suggests that it is the deviations from the status quo that matter, not a high level *per se*, this high level of unemployment

is not reflected in the score for WSE. Instead, the score of .33 is given because of the increasing level of economic growth – a socio-economic gain. Had the coding been done differently, which admittedly would not have reflected prospect-theoretical logic, the Thatcher II cabinet would have fitted in one of the paths and would not have been an outlier.

In the case of Nyrup Rasmussen IV, it is more difficult to conclude that the *Bush-considers-the-Iraqi-status-quo-unacceptable-because-he-was-doing-well-in-the-polls* situation applies. Most of the reforms pursued by Nyrup Rasmussen IV hardly corresponded to the traditional policy preferences of the main governing party, the Social Democrats. However, and in line with the ‘Bush situation’ argument, at the time when the government pursued the reforms, these were in line with the party’s ideas (Larsen & Goul Andersen 2009). Specifically, the Social Democrats had come to accept the idea of a so-called structural unemployment paradigm, in which unemployment is considered to result from structural problems on the labour market that need to be addressed by means of supply-side policies. Although this account may plausibly explain the type of reform the government pursued, the question remains why the reform was taken at that time. The bourgeois coalitions of Schlüter before the Nyrup Rasmussen cabinets had also embraced the structural unemployment paradigm, yet they made no important changes in this respect. Why not? Given that such reforms are much more in line with the bourgeois parties’ traditional preferences, this is puzzling. Larsen & Goul Andersen (2009: 249-251) suggest the Social Democrats could implement the unpopular reform more easily because by then even the unions had come to accept the notion that structural unemployment was a problem. Labour market reform was consequently seen as a necessity. The structural employment could be tackled in many ways, of which active labour market policy seemed the lesser of possible evils. If this ALMP would work, so it was argued, there would be no need for a long duration of unemployment benefits. These benefits could thus be reduced, which they were. But why were the Social Democrats open to the idea of a new paradigm in the first place? And why were the unions? This remains a question. We see a similar pattern with the reform of the highly popular Danish early retirement scheme – the *efterløn*. For one, this reform also compromised the Social Democratic party’s traditional preferences. According to Larsen & Goul Andersen (2009), like with the reform in labour market policy, it was a new cause-effect belief that led to the reform. Specifically, by 1998, consensus had emerged that the scheme was both too expensive and was causing, and not solving, labour market problems. This led the government to renege

on its election promise of guaranteeing early retirement and to pursue the reform anyway. Also here, it is both hard to distil why exactly this government, and not the earlier bourgeois ones, was the one who pursued the reform. Remaining at the status quo is always an option and, as explained in chapter 1, a less risky one electorally speaking.

Table 7.4 also reveals that two cabinets should have pursued unpopular measures (because of their membership to WSE*RIGHT or both WSE*RIGHT and WSE*WPP) but did not (Schlüter IV & V). This finding suggests that there is a 'road block' in the paths that hinders reform from coming about.⁴ In-depth case analysis can help identify such factors. This chapter's results suggest, for example, that probing Denmark more deeply would be useful as three of the seven cases proved to be deviant ones. In addition to the above discussion of the cabinet Nyrup Rasmussen IV, a plausible hypothesis is that the Danish peculiarity is at least to some extent related to the relatively short duration of an average Danish government (two years) and to the usual type of government (multi-party minority). In multi-party minority governments, some of the opposition parties are also involved in the policy-making process. This makes it harder, yet not impossible, to pursue reform as the less uniform the preferences regarding a certain proposed reform across groups or within groups, the lower the likelihood of reform (Cason & Mui 2005). This may partly explain why the cabinets Schlüter IV & V did not engage in reform.

Benefit cutbacks and activation

Are the findings for unpopular reform similar when, instead of focusing on the broad measure of unpopular reform, we examine benefit cutbacks? Moreover, do the conditions under which governments pursue benefit cutbacks vary from the conditions triggering activation? To answer these questions, I again use the two-stage fsQCA procedure described above. Table 7.5 displays the truth table based on the fuzzy-set scores for WSE, WPP, RIGHT and the two outcomes Activation (ACT) and Benefit Cutbacks (BEN). Because the results in table 7.5 suggest a substantial drop in consistency from .88 to .76 for the outcome Activation, the cut-off point is set at .88. Consequently, I assign a positive outcome to the first three configurations and a negative one to the next two. Similarly, I also place the cut-off point for the outcome Benefit Cutbacks at .88 because of the drop in consistency between .88 and .78. Because there are no empirical cases for the last three configurations, making them logical remainders, these configurations do not receive a score for the outcome.

Table 7.4 Membership scores of cases in sufficient paths

	Outcome unpopular reform	Path 1 WSE *WPP	Path 2 WSE *RIGHT
Lubbers I	.83	.33	.83
Lubbers II	.33	.17	.33
Lubbers III	.67	.33	.60
Kok I	.67	.17	.40
Kok II	.17	.33	.33
Balkenende II	.83	.67	.67
Kohl I	.33	.17	.33
Kohl II	.17	.17	.17
Kohl III	.33	.17	.33
Kohl IV	.67	.67	.67
Schröder I	.17	.33	0
Schröder II	.83	.83	0
Schlüter I	.33	.33	.33
Schlüter II	.67	.33	.60
Schlüter IV	.17	.33	.67
Schlüter V	.33	.60	.67
Nyrup Rasmussen I	.17	.17	.17
Nyrup Rasmussen II (& III)	.83	.60	.25
Nyrup Rasmussen IV	.67	.33	.25
Thatcher I	.83	.17	.83
Thatcher II	.67	.33	.33
Thatcher III	.67	.33	.67
Major I	.67	.33	.60
Blair I	.40	.17	0
Blair II	.33	.33	0
Consistency		.91	.90
Coverage		.62	.71

Note: Cases that are in a specific set are indicated in **bold**.

Table 7.5 Truth table for the outcomes Activation and Benefit Cutbacks

Conditions				Activation		Benefit Cutbacks				
WPP	WSE	RIGHT	Outcome ACT	Cons.	N	Cabinets	Outcome BEN	Cons.	N	Cabinets
0	1	0	1	.98	1	Nyrup Rasmussen II	1	.98	1	Nyrup Rasmussen II
0	0	1	1	.89	6	Schlüter I, Lubbers II, Kohl I & II, Thatcher II [Kohl III]	1	.88	6	Schlüter I, Thatcher II, Kohl II & III, [Kohl I, Lubbers II]
0	0	0	1	.88	7	Kohl I-II, Nyrup Rasmussen I & IV, Blair I [Schröder I, Blair II]	0	.78	7	Kohl II, Schröder I, Nyrup Rasmussen I, Blair II [Kohl I, Nyrup Rasmussen IV, Blair I]
1	1	1	0	.81	2	Kohl IV, [Schlüter V]	1	.97	2	Schlüter V, Kohl IV
0	1	1	0	.79	7	Schlüter II, Thatcher I & III, Major I, Lubbers I [Lubbers III, Schlüter IV]	1	.94	7	Lubbers I & III, Schlüter II & IV, Thatcher I & III, Major I
1	0	0	-	0	0		-	-	0	
1	0	1	-	0	0		-	-	0	
1	1	0	-	0	0		-	-	0	

Notes: Outcome ACT is the outcome for Activation; Outcome BEN is the outcome for Benefit Cutbacks; see also table 7.3.

The fsQCA analysis reveals that Benefit Cutbacks is 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

$$\text{WSE} * (\text{wpp} + \text{RIGHT}) + \text{wpp} * \text{RIGHT} \rightarrow \text{BEN} \text{ (coverage: .88; consistency: .88).}^5$$

The fsQCA 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).⁶ In fuzzy-set notation, the analysis' result is

$$\text{wpp} * (\text{right} + \text{wse}) \rightarrow \text{ACT} \text{ (coverage: .88; consistency: .86).}^7$$

These findings indicate that, as hypothesized, the paths towards not-unpopular reform (Activation) and unpopular reform (Benefit Cutbacks) are distinct and that socio-economic gains and losses and political ones 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 fsQCA 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 only have membership to the path combining a solid political position and a rightist government. The losses evidence for benefit cutbacks is stronger, though, 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.

Like for the broad measure of unpopular reform, also the fsQCA findings for benefit cutbacks and activation suggest that, as expected, rightist partisanship is an INUS condition for unpopular reform and leftist partisanship for not-unpopular reform. Again, rightist governments do not engage in more or harsher benefit cutbacks than leftist ones. Rightist governments are, however, *more likely* to implement them. For rightist governments, a weak socio-economic situation is enough to incite such measures, whilst leftist ones only cutback benefits when the socio-economic condition is poor and the political position is strong. Similarly, leftist governments are *more likely* to pursue activation. For them a strong political position is enough for such reforms, whilst rightist governments only pursue activation 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. According to Rueda, a higher level of unemployment makes insiders on the labour market, Social Democracy's core constituency, more vulnerable and hence more like outsiders. Consequently, they will be more favourable towards policies that benefit outsiders foremost or even exclusively – such as active labour market policies. This would result in a positive relationship between the level of unemployment and the degree of spending on ALMPs. Although not dismissing the notion that insiders on the labour market may become more favourable towards ALMPs under rising unemployment, I theorize and empirically establish a different relationship between unemployment and spending on ALMPs. Because of ALMPs' not-unpopular nature, these policies are never a winner in that they can lead parties to reaping substantial electoral gains. The policies are, however, expensive. This twofold nature of active labour market policies leads governments to pursue them only when they have socio-economic leeway, that is, socio-economic gains.

The finding that a deteriorating socio-economic situation (WSE) combined with a solid political position (wpp) leads to the occurrence of unpopular reform does not tally with the findings presented earlier for the broad measure of unpopular reform. The latter showed that unpopular reform comes about because of the combination of WSE and a deteriorating political position (WPP). Within the larger literature on welfare state reform, the relevance of a strong political position for benefit cut-

backs does make sense. While the broad measure of unpopular reform is based on a wide range of quantitative sources and qualitative ones, benefit cutbacks involve only cutbacks in the generosity of unemployment insurance. As for example argued by Pierson (1994) and Green-Pedersen (2002), unemployment benefits are less difficult to retrench given that such cutbacks can be justified more easily – for instance by arguing that generous benefits encourage idleness. Related with this, the blame associated with the cutbacks can be avoided more easily (see also Jensen 2007). This suggests that the threshold to reduce unemployment benefits is lower than the threshold to engage in unpopular reform broadly defined.

Like for the broad measure of unpopular reform, also for benefit cutbacks none of the paths is much more important, as indicated by the paths' unique coverage. Specifically, the unique coverage is .06 (WSE*RIGHT), .11 (wpp*WSE) and .13 (wpp*RIGHT). Whilst the coverage of the first path is admittedly lower than that of the other two, the unique coverage of all three paths is relatively low. Also here the paths thus cover the cases in about the same way. For activation, we see a similar trend, with the unique coverage being .02 (wpp*right) and .19 (wpp*right). To identify which path covers which case(s), table 7.6 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. The same holds for Kok I, Nyrup Rasmussen IV and Blair I in the case of benefit cutbacks. Regarding the latter, I already discussed how the Bush-considers-the-Iraqi-status-quo-unacceptable-because-he-was-doing-well-in-the-polls situation can explain why Kok I and Thatcher II pursued unpopular reform anyway. Moreover, I indicated that the pursued unpopular reform by Nyrup Rasmussen IV is more difficult to account for. Interestingly, when measured as benefit cutbacks, Thatcher II is no longer an outlier in that it displays unpopular reform but has no membership to any of the paths. Conversely, Blair I did not emerge as an outlier in the fsQCA analysis of unpopular reform broadly defined but does pop up as an outlier here. This latter position may again be explained by the 'Bush situation'. In his first cabinet period, Blair tried to strike a balance between 'rights and responsibilities', fitting the idea of lower benefit generosity and more ALMPs (Clasen 2005, chapter 4).

Moreover, table 7.6 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, there are again one or more unobserved factors hindering 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 and Schlüter IV). Since it would require quite some guessing to account for why these cabinets have not pursued activation or have not cut back benefits, I will not engage in such an exercise and leave this question for future research.

7.5 Concluding remarks

This chapter has put the theoretical model of welfare state reform based on prospect theory to an empirical test. The fsQCA analysis of the reform activities of over 20 British, Danish, Dutch and German governments between 1979 and 2005 demonstrates that a deteriorating socio-economic situation is necessary for unpopular reform. More precisely, it is necessary for a losses domain that triggers risk-accepting behaviour among the government and thereby induces the government to pursue unpopular measures. A falling socio-economic situation did not have this impact by itself but only in conjunction with one or two other conditions: a declining political position or a rightist government. Similarly, a deteriorating socio-economic situation is necessary for benefit generosity reduction – the second, more narrow definition of unpopular reform. A falling socio-economic situation did not have this influence independently but in conjunction with one or two other conditions: an improving political position or a rightist government. Conversely, the fsQCA analysis of reform in the area of activation indicated that a strong political position is necessary for the occurrence of not-unpopular reform. This condition, however, is only sufficient for triggering reform if the socio-economic situation is improving too or the cabinet is of leftist composition.

This chapter's findings enhance our understanding of the causal underpinnings of welfare state reform by establishing that governments pursue unpopular reform only if they are confronted with losses. While most current studies focus on macro-factors, bringing in prospect theory adds a perspective based on individual decision-making. This new perspective offers a micro-foundation that complements the existing theories. It is a complement since we need current theories to determine in which domain political actors find themselves. Moreover, 'prospect theory ex-

Table 7.6 Membership scores of cases in sufficient paths

	Outcome ACT	Path 1 wpp*right	Path 2 wpp*wise	Outcome BEN	Path1 WSE*wpp	Path II WSE*RIGHT	Path III wpp*RIGHT
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 Nyrup Rasmussen

plains 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). Ideational arguments can for instance be invoked in this respect. Furthermore, theories other than prospect theory are needed to account for the deviant cases that will almost always arise. Still, the value of incorporating insights from prospect theory demonstrated here suggests that these insights not only advance the debate on the politics of welfare state reform, but can also be of worth to other fields of political analysis. Prospect theory furthers existing theories of welfare state reform, as it fills lacunae in these theories. Notwithstanding the fact that Pierson (1994: 18-19) used prospect theory's key finding to explain why political actors have such difficulty to enact unpopular measures, there has been hardly any cross-fertilization of psychological theories in the field. This is particularly puzzling since prospect theory seems apt for advancing the study of welfare state development. Let me give two examples.

First, insights from prospect theory elucidate when socio-economic variables influence social policy reform, so helps to answer one of the key questions this approach grapples with. Socio-economic challenges affect reform indirectly by (re) shaping governments' domain and thus increasing governments' willingness to pursue unpopular measures. Moreover, prospect theory teaches us that it is not so much the *depth* of the socio-economic problem that matters (e.g. high unemployment), but the *intensification* of it (e.g. rapidly rising unemployment). Second, prospect theory provides a theoretical footing to the question when ideas produce change, which is one of the main issues existing studies struggle with. The hypothesis is that ideas that lead to the adoption of unpopular measures are implemented only if governments find themselves confronted with losses. For example, although Schröder might long have been planning to implement his controversial agenda, it was the deteriorating political position magnified by the gloomy socio-economic performance that allowed the Chancellor to pursue his plans (see chapter 6). Let me stress that the insights from prospect theory cannot be used to predict the *exact* timing of reforms. However, the findings from prospect theory teach us under which conditions political actors pursue unpopular measures. Losses are key here, as precisely these cause governments to engage in the act of desperation by turning to reforms that may backfire electorally and have only a (small) chance of recouping some of the incurred losses.

Part III

Conclusion

8 Risk-taking in welfare reform: Summary and implications

Notwithstanding the risk of electoral punishment that governments face when implementing unpopular welfare state reforms – that is, policy changes that do not favour the median voter such as benefit cutbacks –, this study has shown that a substantial number of governments did pursue such reforms over the last decades. Interestingly, there were also governments that shied away from this risk by not implementing unpopular measures. Moreover, this study has demonstrated that a similar variation across governments exists for not-unpopular reforms – that is, those policy changes that affect the median voter neither positively nor negatively such as increased spending on active labour market policies. Why are some governments willing to bite the bullet and take an electoral gamble by pursuing unpopular reform, whilst other governments are not? And why do some governments undertake reform that is unlikely to win them (m)any votes – although the risk of losses is minimal – whilst others do not? This study has demonstrated that for understanding this puzzling variation across similar governments insights into governments' risk-attitudes are crucial. Because of this centrality of *risk* in welfare state reform, I have proposed to describe the politics of welfare state reform as the politics of risk-taking.

This study has drawn on several bodies of literature, particularly mainstream welfare state research, the regulation approach to political economy, prospect theory and the literature on set-theoretical approaches. By bringing these literatures together – something that to my knowledge had not been done yet – this study has helped answering two of the questions that feature highly on the agenda of comparative welfare state researchers. First, how much and in which direction have Western democracies' welfare states changed? Second, under which conditions have governments implemented these changes? In this final chapter, I use these two central questions to summarize the study's main findings, discuss its methodological and theoretical innovations and explore its implications for the scholarship on the welfare state.

8.1 How much and in which direction have welfare states changed?

The simplest and shortest answer to the question how much and in which direction welfare states have changed is *quite a bit* and *different ones*. Chapters 3 and 4 have shown that the degree to which countries pursued unpopular welfare state reforms and not-unpopular ones has been quite substantial. The data on activation, generosity, conditionality and employment protection also revealed a substantial variation across countries and – especially – across welfare state regimes (liberal, conservative and social democratic) in both types of reform. The occurring changes, however, did not transform the character of welfare states radically. That is to say, the reforms did not amount in many countries changing membership of one ideal type to another. Countries belonging to the conservative welfare state regime, for example, did not transform into countries fitting the liberal welfare state regime. Instead, the occurring changes took place within a welfare state regime. An example includes Germany, which saw its membership of the ideal type conservative welfare decrease from .85 in 1985 to .59 in 2002. This finding indicates that Germany became a less ideal-typical conservative welfare state. As a result of the largely regime-specific changes, almost none of 16 countries under study changed radically from a *welfare* state into a *workfare* regime. This finding conflicts with the prediction of the scholars in the regulation approach to political economy tradition, such as Jessop (2002) and Peck (2001). The pattern of changes proved much more in line with the mainstream welfare state research's view that welfare state reform is not radical but takes place incrementally and in line with the existing welfare state regime, such as argued by for example Pierson (1994; 2001) and Esping-Andersen (1996; 1999).

What do these results suggest with respect to the welfare state's alleged 'hollowing out' (see Cox 1998b; Gilbert 2002), 'retrenchment' (see Korpi & Palme 2003; Allan & Scruggs 2004), or 'persistency' (Pierson 1996; 2001b; Huber & Stephens 2001; Castles 2004)? To begin again with the brief answer, this study's analysis can substantiate none of these assertions fully. At odds with the idea of a hollowed out or retrenched welfare state are the on average increase in active spending per unemployed in the liberal and conservative (but not social democratic) regimes; the fact that most countries either expand the duration of unemployment or sick pay benefits or leave them unaltered; the absence of higher qualifying periods and waiting days for these benefits in most countries; and the improvement of employment protection in the liberal regime. These findings suggest instead that the welfare state persists. However, there are indications of welfare state cut-

back or retrenchment, particularly the lowering of the replacement rates of unemployment insurance and sick pay that have occurred in all countries under study. The relaxation of employment protection in most countries of the conservative and social democratic regimes, and the lower emphasis on activation in the latter, suggest that the policy changes may be more than 'bounded change' – as the advocates of path dependence would have it. These results bear out the importance of the dependent variable problem discussed in chapter 1. Specifically, the findings show that it depends on the characteristics of the welfare state one focuses on (e.g. activation or generosity) to what extent and shape the welfare state has changed. This study has been responsive to this problem by discussing extensively the concepts used, the indicators employed to tap these concepts and the indicators' measurement. By doing so, I have tried to come to grips with these core methodological issues that seemed to have ebbed away into the distance (Sartori 1984; Brady 2004: 62ff; Collier et al. 2004: 203-209).

The idea of a hollowed out welfare state often does not, or not only, refer to less spending on welfare state arrangements. Instead, the focus is regularly (also) on the *quality* of the welfare state. What, for example, is the effect of welfare state changes on citizens' rights and responsibilities? In this respect, workfare programmes are particularly interesting. Although this study has shown that welfare states have not univocally transformed into workfare regimes, workfare *programmes* are adopted (almost) everywhere (Australia, Denmark, Germany, Finland, France, the Netherlands, New Zealand, Sweden, the UK and the US). Given the characteristics of such programmes (the compulsory nature, the stress on labour participation and the striving for minimal income protection provisions), their widespread presence may very well be a change for the worse in terms of the quality of the welfare state. When it comes to the alleged virtues and vices of workfare programmes, the debate is still unresolved. Programmes of the so-called Work First type that aim to place participants in a job as quickly as possible can be a stepping-stone helping individuals to a job, that is, if the demand on the labour market is sufficiently high (Peck & Theodore 2000; Bruttel & Sol 2006: 85). This can be an improvement in the quality of the welfare state (but see Malmberg-Heimonen & Vuori 2005). However, if workfare programmes simply force people to take on jobs without offering anything in return (like training or skill development), these programmes can change the rights and obligations accruing to members of society for the worse – in that sense 'hollowing out' the welfare state (Cox 1998b; Gilbert 2002; Dwyer 2004). Such hollowing out does not necessarily take place when programmes follow the so-called Hu-

man Capital Development model that focuses on the development of social attitudes and marketable skills that enhance individuals' ability to find a job (Lødemel & Trickey 2001; Peck & Theodore 2001; Bruttel & Sol 2006: 70). Generally speaking, the workfare programmes in the Anglo-Saxon countries are Work First ones, whilst the programmes in the countries in the conservative and social democratic regimes are usually of the Human Capital Development type (but see Bruttel & Sol 2006). This suggests that the adoption of workfare programmes 'hollows out' the – already quite lean – liberal welfare states further, whilst the workfare programmes in the conservative and social democratic regimes do not have this effect.

In addition to focusing on reform at the country level and the welfare state regime level, this study has also zoomed in onto the government level by examining the degree of reform pursued by over twenty British, Danish, Dutch and German governments. Introducing governments as the units of analysis is, in fact, one of this study's theoretical contributions. Many of the theoretical claims or hypotheses in comparative welfare state research pertain – sometimes implicitly – to what governments do. Yet, the units of analysis employed most often are either a country in a point in time (particularly in quantitative, statistical analyses) or a series of governments (especially in case study research). Notwithstanding the usefulness of such studies, they fail to account for the choices individual governments make as regards welfare reform (see also Schumacher & Vis 2009). If there were nothing on offer, this would not be problematic. However, also on the government level there has been quite a bit of welfare state reform in different directions. A substantial number of governments pursued unpopular reform, both when we define this type of reform broadly and when we define it as benefit cutbacks. Examples of such governments include Schlüter II, Nyrop Rasmussen II & IV, Lubbers I & III, Kok I, Balkenende II, Kohl IV, Schröder II, Thatcher I-III and Major I. There have also been a substantial number of governments pursuing not-unpopular reform, defined as activation (increased spending on active labour market policies). Examples of such governments are Schlüter II & IV, Nyrop Rasmussen I-IV, Lubbers II & III, Kok I & II, Kohl I & II, Thatcher II and Blair I. Interestingly, and theoretically puzzling, my analysis has also shown that there is a remarkably large variation across similar governments in the types of reform they pursue. Why are some governments willing to face the electoral risk of unpopular reform and implement risky policies, whilst other governments – of similar partisan complexion and confronting a similar institutional context – do not? And why do some governments pursue not-unpopular reform, a decision that

is not risky since it does not involve a substantial risk of electoral backlash but which is not a winner in terms of electoral gains either, whilst other governments do not? The second part of this study has taken up these challenging questions, to which I turn now.

8.2 Under which conditions do governments pursue reform?

Existing studies

Existing studies have difficulty in explaining the puzzling variation across governments in different types of welfare state reform. As discussed in chapter 5, most current work focuses on *how* political actors can overcome the political and institutional hindrances to reform to implement it successfully. Given that these hurdles are mounting indeed, this approach is understandable. However, it leaves open the question of under which conditions, or when, governments pursue reform. Given the risk involved in welfare state reform, which is substantially higher than the risk of remaining at the status quo, the consequence is that these studies cannot systematically account for the variation in reform across similar governments and independent from institutional characteristics. Let me briefly discuss the strengths and weaknesses of the four main approaches to welfare state reform. The first, institutional approach is particularly instructive for revealing the opportunities and constraints of reform but has more difficulty to account for the variation in reform over time. For example, a large body of work has suggested that those countries with the least institutional hurdles (for example measured by the number of veto points), and therefore the highest degree of power concentration, should display the highest degree of welfare state reform. Such an argument explains why reform in some political systems (such as the UK) is easier than in other systems (such as the US) and thereby accounts for the variation in the degree of reform across such systems. At the government level, however, the approach runs into problems. It can, for instance, not explain why some Dutch governments were able to implement unpopular reform whilst others, faced with the same institutional opportunities and constraints, were not.

Studies focusing on partisanship face a similar – though not identical – problem; they cannot account for the variation across similar governments. By highlighting the differences between governments of different political colours, this body of research is particularly instructive with regard to the motives of reform. Although this literature is divided on the exact theoretical and empirical relationship between leftist and rightist

governments and welfare state reform, the consensus is that the effect of each political colour is the same over time. For example, rightist governments are expected to display more unpopular reform than leftist governments. This study has shown that this assumption is incorrect. For example, the analysis has demonstrated that some leftist governments pursue reform whilst others – consisting of the same parties – do not. Given that the effect of being a leftist government thus varies over time, the politics approach fails to convince fully.

The third approach, focusing on socio-economic change, also has a lot to offer, particularly identifying the trigger of reform (socio-economic difficulty). It remains under-theorized, however, when a socio-economic problem is large enough to induce response from the government. The approach cannot explain why some governments apparently accept a specific level of unemployment – by not taking any action to lower it – whilst the same level impels other governments to act and implement a reform. The related literature on crises displays a similar lacuna, as this body of work also leaves it theoretically underdeveloped when exactly a crisis triggers a response.

Finally, the literature on ideas is especially strong in uncovering what makes a political actor act. Scholars in this tradition clarify that ideas can serve as powerful weapons to overcome the political impediments and institutional hindrances to reform. But when do political actors actually act on their ideas? How to explain what political actors actually do? We can pose related questions with reference to the literature on learning. When do political actors learn? What turns some countries into excellent learners, whilst other countries remain poor learners? Similarly, why do some experts become excellent learners at a particular point in time when they were not good learners before?

The theoretical account based on prospect theory that this study has outlined and empirically assessed complements these existing accounts by filling some of their voids. Moreover, and different from the existing approaches, this novel approach can systematically explain the cross-government variation in different types of welfare state reform.

A prospect-theoretical account of welfare state reform

This study's main theoretical contribution is the prospect-theoretical account of welfare state reform. Prospect theory can reveal the conditions under which governments pursue different types of welfare state reform of which the degree of political risk varies. Most existing studies

underestimate the degree of risk involved in unpopular reform. These studies assume (implicitly) that governments pursue such reform whenever an opportunity presents itself, for instance when the institutional configuration allows it. Since the electoral risk involved in unpopular reform is typically much higher than the electoral risk involved in remaining at the status quo, we need a theory that is able to explain political actors' attitude towards risk. Prospect theory is precisely such a theory. Based on the results of experiments, this theory is a descriptively, or behaviourally, accurate theory of choice. Prospect theory's main finding is that the risk-attitude of individuals varies across the situation in which they find themselves, the so-called domain. Confronting a positive situation (gains domain), individuals are cautious in their decision-making, making choices that are risk-averse. Faced with a negative situation (losses domain), individuals' response is very different. Confronting set-backs, individuals go to (sometimes) great lengths to recoup (part of) the losses incurred by taking bold decisions, and thus displaying risk-accepting behaviour. This pattern of risk-attitudes, and related decisions, materializes because of a combination of biases in decision-making and decision-making heuristics such as loss aversion, the status quo bias, the negativity effect and the certainty effect. Recent studies indicate that these biases and the resulting prospect theory preferences may very well have an evolutionary origin and may thus be hardwired in our cognitive architecture.

An important question for welfare state studies and other fields interested in collective decision-making is whether prospect theory's main finding, which derives from experiments with individuals, also applies to collective decision-making. There are ample indications that this is indeed the case (see chapter 6). This study has empirically shown that prospect theory can be used to explain a particular type of collective decision-making, namely that involved in welfare state politics. Specifically, the analysis has demonstrated that – as prospect theory predicts – governments' stances towards risk, and hence their willingness to bite the bullet and accept the electoral risk involved in unpopular reform, is shaped by the context or *domain* in which they find themselves. The presence of a losses domain in the government proved to be the necessary condition for unpopular reform. Only when governments found themselves confronted with losses in the form of a deteriorating socio-economic situation and/or deteriorating political position, were they willing to accept the electoral risk involved in unpopular reform in a desperate attempt to try and regain (some of) the losses experienced. A worsening

socio-economic situation was only sufficient for triggering reform when the political position was also deteriorating or when the government was of rightist composition. This finding implies that rightist governments did not pursue more or harsher reforms than leftist ones did, but that the threshold for engaging in unpopular reform was lower for rightist governments. This result tallies nicely with the distinct preferences of leftist parties and rightist ones. Conversely, governments' pursuit of not-unpopular reform was shown to depend on the occurrence of gains. Governments pursued activation only when their political position was solid, which needed to be combined with an improving socio-economic situation or a leftist cabinet composition. The conditions under which governments pursue unpopular reform and not-unpopular reform were thus ascertained to vary. A condition of loss was necessary for governments to pursue the former, whilst a condition of gain was necessary for the latter. Hence, this study has demonstrated that the asymmetric influence of gains and losses as central to prospect theory is crucial for understanding the politics of welfare state reform.

8.3 Contributions to existing theories

By drawing on prospect theory, this study enhances current theories of welfare state reform. Prospect theory offers a micro-foundation that is behaviourally correct, which is something most existing theories lack. Although Pierson (1994) did employ prospect theory's central result to clarify why it is politically difficult for political actors to implement unpopular policies, the use of psychological theories in comparative politics and comparative welfare state research has been limited. Since such theories can fill lacunae in existing approaches, this is a missed opportunity. As discussed in chapter 7, prospect theory for example elucidates how socio-economic variables affect social policy reform – one of the socio-economic approach's lacunae (Starke 2006: 107). Socio-economic pressures wield an indirect influence on reform as they (re)shape the governments' domain and thereby increase their willingness to pursue unpopular measures. Furthermore, prospect theory has informed us that it is not so much the *depth* of the socio-economic problem that matters (e.g. high unemployment), but its *intensification* (e.g. increasing unemployment). Hereby prospect theory can account for the puzzling fact that some governments act when facing a particular socio-economic problem, whilst others – facing the same problem – do not. Prospect

theory also gives theoretical footing to the question when ideas produce change. Ideas that lead to the adoption of unpopular measures are implemented only if governments find themselves confronted with losses. This is precisely what happened in the case of the Hartz IV reform in Germany, which was implemented by the second cabinet Schröder (see chapter 6). Although Schröder preferred to implement this reform already in his first period in office, it was only when the socio-economic situation deteriorated and the government's political position weakened that the government as a whole was ready to face up to the possible electoral penalties involved in implementing the unpopular reform. Prospect theory's central finding thus teaches us under which conditions the different types of reform occur.

With its understanding of the politics of welfare state reform as the politics of risk-taking, the findings presented here also advance Pierson's (1994; 1996) new politics argument; the notion that the politics of welfare state retrenchment is fundamentally different from the politics of welfare state expansion. This study has shown that Pierson's claim is incomplete – though not wrong – as it fails to explain what induces political actors to engage in electorally dangerous reform in the first place. It falls short when it comes to accounting for the politics of risk-taking. Insights from prospect theory, especially individuals' aversion to losses, help identify what triggers governments seeking to be re-elected to pursue unpopular initiatives. Specifically, the change in the environment (domain) of a government from gains into losses makes it acceptant of risks it would otherwise avoid. Furthermore, insights from prospect theory provide additional footing to Pierson's blame avoidance argument by specifying why, and when exactly, governments need to divert the blame associated with unpopular policies in order to lower the chances of being punished for implementing these reforms. In the context of the welfare state, given that voters almost always find themselves in a domain of gains, voters are unwilling to accept the risk (of welfare losses) involved in reform and prefer to keep the existing status quo. In order to implement reform and get away with it, governments thus need to either avoid the blame associated with the reform *or* reframe the voters' domain from gains into losses. The latter would be visible by a shift from cell I to cell II in table 6.1. This entails a shift from the situation in which the government is risk-accepting and thus willing to pursue the reform and the voters are risk averse and thus opposing the reform to the situation in which both the government and the voters are risk-accepting and thus ready to bear the risks involved in the reform.

Such a domain shift opens up the possibility for new blame avoidance strategies. Vis & Van Kersbergen (2007) discuss two of such strategies. The first one is *damned if you do, damned if you don't*. With this strategy political actors try to manipulate the domain of the voter so that the gains domain is reframed into a losses domain (the voters shift from cell I to cell II). This strategy is essentially an attempt to make plausible that no matter which party or government rules, the reform will take place because the status quo is untenable. This strategy is found in major government communication and information campaigns that explain the necessity of reform such as cost containment measures, implying that the status quo is no longer tenable and that no other options but the reform are available. The intended effect is twofold: it reframes the domain of voters into losses, making the public risk-acceptant, and defines the political position of the opposition party (or parties) as fundamentally identical to the policy stance of the government. The second strategy is *creative accounting* and *lies, damn lies and statistics*. With this strategy political actors try to redefine the terms according to which the outcomes are measured that are feared to have negative consequences, in order to change the domain of voters from gains into losses (again shifting the voters from cell I to cell II). This strategy simply tries to hide the effects of cost containment and recommodification measures by redefining the standards of accounting. For instance, in order to stimulate a losses domain among the public, a government may publish future scenarios that are based on assumptions that are known to lead to bad results. Slightly adjusting or not incorporating estimated productivity growth, for instance, has a huge impact on the predicted costs of ageing.

Finally, let me note that a prospect-theoretical account also questions the usual argument that the securer a government's political position, especially the securer its parliamentary majority, the higher the degree of unpopular reform. The problem with this typical argument is that it fails to differentiate between the two phases in the reform process: first, the government's decision to pursue the reform and, second, the strategy used to implement the reform successfully. With respect to the second – or how – phase, a large parliamentary majority will be helpful because this for example makes it easier to share the blame as widely as possible. However, the relationship between a solid parliamentary majority and unpopular welfare state reform is negative. That is to say, due to among others the status quo bias – that is the '(...) tendency to remain at the status because the disadvantages of leaving it loom larger than the advantages' (Kahneman et al. 2000[1991]: 163) –, the stronger the government's po-

litical position, the more unlikely it is that the government wants to pursue policies jeopardizing this position. This finding also sheds additional theoretical light on Clasen's (2005: 40) conclusion that a secure majority and an ideological disposition towards retrenching the welfare state are not necessarily sufficient for unpopular reform.

8.4 Methodological contribution

After having discussed the study's theoretical and empirical contributions, let me also say a few words about its main methodological contribution; its demonstration of the value of set-theoretical approaches for comparatively analyzing welfare state reform. Set-theoretical approaches (see Ragin 2008; Rihoux & Ragin 2009) do not (yet) belong to the standard toolkit of comparative researchers – although the rising number of journal articles applying them suggests that the research community increasingly accepts these techniques. Chapter 2 argued that these approaches have several characteristics that make them particularly suited for examining the politics of welfare state reform. An important one is that they can reveal complexity such as equifinality, the situation when there is more than one way in which an outcome can come about. This study's fuzzy-set qualitative comparative analysis (fsQCA) in chapter 7 showed that both unpopular and not-unpopular reform can indeed be attained by such different routes. Much of the causation proved configurational, another complexity that set-theoretical approaches can pick up. Another advantage of these approaches is that the fsQCA variant, like the crisp-set Boolean variant, is attuned to revealing the necessary and sufficient (combinations of) conditions. Since this study's hypotheses derived from prospect theory were formulated in terms of necessity, fsQCA was the appropriate approach to use.

Moreover, chapter 3 has demonstrated that another set-theoretical approach, fuzzy-set ideal type analysis, which combines fuzzy-set theory and ideal type analysis, is ideally suited for the simultaneous assessment of quantitative changes (that is, differences in degree) and qualitative ones (that is, differences in kind) in an intermediate number of countries. This feature made fuzzy-set ideal type analysis particularly relevant for examining the degree to which countries changed radically, from having membership of a welfare state ideal type of a workfare state ideal type, or regime-specific, changing membership within an ideal type. This chapter also offered evidence that set-theoretical approaches indeed unite the

best of qualitative techniques and quantitative ones. Specifically, they allow both for the replication of findings and for the examination of qualitative changes in addition to quantitative ones.

8.5 Concluding remarks

Summing up, this study has demonstrated that to solve key theoretical questions in welfare state research and to overcome pending methodological issues, new theoretical angles and methodological approaches are not only needed but also useful. Set-theoretical approaches, especially fuzzy-set ideal type analysis and fsQCA, proved to offer new evidence about the extent and shape of welfare state reform and the conditions under which it occurs. To understand governments' behaviour with regard to unpopular and not-unpopular welfare state reform, this study has established that prospect theory's key finding of varying risk-attitudes across domains is crucial. This has helped to account for the puzzling fact that governments wanting to return to the government benches engage in unpopular activities at all. By doing so, this study has offered a critical step in understanding the politics of risk-taking.

What step to take next? An important one would be to see to what extent the presented prospect-theoretical argument travels to different countries. This study has tested the hypotheses derived from prospect theory on the reform-activities of British, Danish, Dutch and German governments. As chapter 4 has elaborated, these cases have been selected because they vary on a number of characteristics that could potentially affect the degree and type of welfare state reform. The idea behind this was that if the prospect-theoretical hypotheses would hold in such different contexts, they were likely to hold in other (more similar) contexts too. But do they? A fsQCA analysis of the changes in spending on active labour market policies (that is, not-unpopular reform) by over 50 governments from 18 Western democracies between 1985 and 2003 offers first evidence that they do (Vis 2009d). In line with this book's findings, the analysis shows that the presence of an improving socio-economic situation, or a gains domain, is a necessary condition for governments to pursue not-unpopular welfare state reform. This result underscores the plausibility that active labour market policies may be 'luxuries' that governments can only afford when the economy is improving (cf. Armingeon 2007). If this proves to be true, the gloomy prediction is that the financial crisis of 2008/2009 and its aftermath lead governments to tune down their ALMP

spending – despite all the efforts of the OECD and the EU to convince them to do otherwise.

Also with respect to unpopular reform, there are indications that the role of socio-economic losses and/or political ones is relevant for reform in countries other than those studied here. An example includes the reforms in the Swedish pension system pursued by the Social Democratic minority Carlsson III government (1994-1998). The government, for example, changed the pension benefits indexation rules, lowered housing benefits (affecting – for the first time – low income pensioners), reduced the basic pension for married couples, and introduced an income test for window pensioners under the official retirement age (Schludi 2005: 95). These measures were unpopular among the voters and had severe negative electoral repercussions for the Social Democrats. Their share of the votes fell from 45.3 per cent in 1994 to only 36.6 per cent in 1998 – the worst result in over 75 years. Most voters who changed their vote went to the Communist party, suggesting that it were indeed the welfare state cut-backs that induced the vote switching. There are strong indications that the Social Democratic government was willing to take the electoral risk because it found itself in a domain of losses. First, there was the banking crisis, which had led to a severe economic recession. Whilst the average economic growth had been a solid 2.3 per cent in the 1980s, from 1991 to 1993 the growth rate turned negative. Consequently, the tax base decreased by 10 per cent and the level of unemployment and public deficit soared to 13 and 12 per cent in the 1990s. Following a prospect-theoretical logic, it was this weakening socio-economic condition that induced the government to be acceptant of the electoral risk involved and pursue the reforms nevertheless.

With the effects of the recent financial crisis still playing out, it seems plausible that over the coming years we will see a peak of electorally risky, unpopular reforms that are pursued by governments that find themselves in dire socio-economic straits. If these governments additionally are doing poorly in terms of their political position, the prospects of unpopular reform become even more likely. It is improbable that voters turn against the core welfare state programmes any time soon, especially since the financial crisis comes with an additional social risk of having to make use of these programmes. Therefore, it seems plausible to assume that the politics of welfare state reform continues to be best characterized as the politics of risk-taking.

Appendix A Tables

Table A1a Fuzzy membership scores for the set activation

	A_1985	A_1995	A_2002	~A_1985	~A_1995	~A_2002
UK	.08	.05	.09	.92	.95	.91
Ireland	.13	.37	.99	.87	.63	.01
US	.03	.03	.02	.97	.97	.98
Canada	.06	.06	.06	.94	.94	.94
Australia	.05	.19	.08	.95	.81	.92
New Zealand	.86	.26	.20	.14	.74	.80
Austria	.07	.18	.33	.93	.82	.67
Belgium	.26	.48	.72	.74	.52	.28
France	.07	.24	.40	.93	.76	.60
Germany	.12	.60	.41	.88	.40	.59
Netherlands	.18	.50	1.00	.82	.50	0
Switzerland	.77	.44	.71	.23	.56	.29
Denmark	.50	.50	1.00	.50	.50	0
Finland	.70	.18	.24	.30	.82	.76
Norway	.92	.97	.90	.08	.03	.10
Sweden	1.00	.97	.97	0	.03	.03

Notes: A refers to the set activation; ~A refers to the set not-activation. Scores in bold indicate membership of a set (>.5).

Table A1b Fuzzy membership scores for the set generosity

	G_1985	G_1995	G_2002	~G_1985	~G_1995	~G_2002
UK	.08	.06	.05	.92	.94	.95
Ireland	.37	.18	.10	.63	.82	.90
US	.26	.20	.20	.74	.80	.80
Canada	.72	.68	.61	.28	.32	.39
Australia	.09	.11	.08	.91	.89	.92
New Zealand	.18	.10	.08	.82	.90	.92
Austria	.68	.69	.67	.32	.31	.33
Belgium	.86	.82	.82	.14	.18	.18
France	.75	.78	.74	.25	.22	.26
Germany	.85	.83	.79	.15	.17	.21
Netherlands	.93	.84	.88	.07	.16	.12
Switzerland	.86	.86	.84	.14	.14	.16
Denmark	.84	.70	.58	.16	.30	.42
Finland	.81	.75	.65	.19	.25	.35
Norway	.88	.87	.86	.12	.13	.14
Sweden	.93	.91	.82	.07	.09	.18

Notes: G refers to the set generosity; ~G refers to the set not-generosity. Scores in bold indicate membership of a set (>.5).

Table A1c Fuzzy membership scores for the set protection

	P_1980s	P_1990s	P_2003	~P_1980s	~P_1990s	~P_2003
UK	.06	.06	.07	.94	.94	.93
Ireland	.12	.12	.17	.88	.88	.83
US	.02	.02	.02	.98	.98	.98
Canada	.09	.09	.09	.91	.91	.91
Australia	.12	.21	.21	.88	.79	.79
New Zealand	.12 ^a	.12	.35	.88	.88	.65
Austria	.75	.75	.59	.25	.25	.41
Belgium	.97	.75	.75	.03	.25	.25
France	.91	.95	.95	.09	.05	.05
Germany	.97	.86	.75	.03	.14	.25
Netherlands	.91	.70	.70	.09	.30	.30
Switzerland	.17	.17	.17	.83	.83	.83
Denmark	.79	.30	.30	.21	.70	.70
Finland	.79	.70	.65	.21	.30	.35
Norway	.94	.91	.88	.06	.09	.12
Sweden	.99	.75	.75	.01	.25	.25

^a 1990s instead of 1980s.

Notes: P refers to the set protection; ~P refers to the set not-protection. Scores in bold indicate membership of a set (>.5).

Table A2 Fuzzy membership scores for 'atheoretical' ideal types

Country	Model	1985	1995	2002
UK	(~A*G*~P)	.08	.06	.05
	(A*~G*P)	.06	.05	.07
	(~A*~G*P)	.06	.06	.07
Ireland	(~A*G*~P)	.37	.18	.01
	(A*~G*P)	.12	.12	.17
	(~A*~G*P)	.12	.12	.01
US	(~A*G*~P)	.26	.20	.20
	(A*~G*P)	.02	.02	.02
	(~A*~G*P)	.02	.02	.02
Canada	(~A*G*~P)	.72	.68	.61
	(A*~G*P)	.06	.06	.06
	(~A*~G*P)	.09	.09	.09
Australia	(~A*G*~P)	.09	.11	.08
	(A*~G*P)	.05	.19	.08
	(~A*~G*P)	.12	.21	.21
New Zealand ^a	(~A*G*~P)	.14	.10	.08
	(A*~G*P)	.82	.12	.20
	(~A*~G*P)	.14	.12	.35
Austria	(~A*G*~P)	.25	.25	.41
	(A*~G*P)	.07	.18	.33
	(~A*~G*P)	.32	.31	.33
Belgium	(~A*G*~P)	.03	.25	.25
	(A*~G*P)	.14	.18	.18
	(~A*~G*P)	.14	.18	.18
France	(~A*G*~P)	.09	.05	.05
	(A*~G*P)	.07	.22	.26
	(~A*~G*P)	.25	.22	.26
Germany	(~A*G*~P)	.03	.14	.25
	(A*~G*P)	.12	.17	.21
	(~A*~G*P)	.15	.17	.21

Table A2		Fuzzy membership scores for 'atheoretical' ideal types		
Country	Model	1985	1995	2002
Netherlands	(~A*G*~P)	.09	.30	0
	(A*~G*P)	.07	.16	.12
	(~A*~G*P)	.07	.16	0
Switzerland	(~A*G*~P)	.23	.56	.29
	(A*~G*P)	.14	.14	.16
	(~A*~G*P)	.14	.14	.16
Denmark	(~A*G*~P)	.21	.50	0
	(A*~G*P)	.16	.30	.30
	(~A*~G*P)	.16	.30	0
Finland	(~A*G*~P)	.21	.30	.35
	(A*~G*P)	.19	.18	.24
	(~A*~G*P)	.19	.25	.35
Norway	(~A*G*~P)	.06	.03	.10
	(A*~G*P)	.12	.13	.14
	(~A*~G*P)	.08	.03	.10
Sweden	(~A*G*~P)	0	.03	.03
	(A*~G*P)	.07	.09	.18
	(~A*~G*P)	0	.03	.03

Notes: Scores in bold indicate membership of a model (>.5). Due to data availability, employment protection is measured over late 1980s, late 1990s and 2003.

Sources: Data on activation: Armingeon (2005, OECD Labour Market Statistics); data on generosity: Scruggs (2004); data on protection OECD (1999; 2004).

Table A3 Summary of quantitative material used

	Govern. party/ies (% of votes)	Main opp. party (% of votes)	Δ generosity index	Average economic growth	Average unem- ployment
Schlüter I	Cons (14.5) Agr. Lib (11.3) Centre Dem (8.3)CPP (2.3)	SD (32.9)	+5% (UI/P up; sick no Δ)	2.8% (almost stable)	8.2% (decreasing)
Schlüter II	Cons (23.4) Agr. Lib (12.1) Centre Dem (4.6)CPP (2.7)	SD (31.6)	- 8% (all 3 down)	4.4% (almost stable)	5.5% (decreasing after 1985; then stable)
Schlüter IV	Cons (19.3) Agr. Lib (11.8) Rad. Lib (5.6)	SD (29.8)	+ 3% (P up; sick down; UI no Δ)	1.7% (3.6/.3/1.2)	6.6% (increasing)
Schlüter V	Cons (16.0) Agr. Lib (15.8)	SD (37.4)	+ 2% (U↑; P/ sick no Δ)	.9% (decreasing)	8.3% (increasing)
N. Rasm. I	SD (40.6) Centre Dem (4.6)Social Lib (4.6)CPP (3.2)	Cons (16.0) Agr. Lib (15.8)	+ 3% (all 3 up, especially UI)	2.8% (increasing from 0 to 5.5)	8.7% (decreasing)
N. Rasm. II (& III)	SD (34.6) Social Lib (4.6) Centre Dem (2.8)	Agr. Lib (23.3)	- 8%(all 3 down)	2.8% (almost stable)	6.1% (decreasing)
N. Rasm. IV	SD (35.9) Social Lib (3.9)	Agr. Lib (24.0)	0	2.6% (almost stable)	4.7% (almost stable)
Kohl I	CD (48.8) Con. Lib (7.0)	SD (38.2)	0	2.2% (almost stable)	6.9% (almost stable)
Kohl II	CD (44.3) Con. Lib (9.1)	SD (37.0)	- 3% (UI no Δ; P/sick a little down)	3.6% (increasing from 1.5 to 5.7)	5.7% (decreasing from 6.3 to 4.8)
Kohl III	CD (43.8) Con. Lib (11.0)	SD (33.5)	0 (P up; UI down)	2.1% (5/2./ -1.1/2.3)	6.8% (increasing from 5.3 to 8.0)
Kohl IV	CD (41.5) Con. Lib (6.9)	SD (36.4)	- 5% (UI/sick down; P a little)	1.4% (almost stable: 1.7/ .8/1.4/1.7)	8.5% (increasing from 7.7 to 8.7, with 9.2 in 1987)
Schröder I	SD (40.9) Greens (6.7)	CD (35.1)	- 4% (UI no Δ; sick a little down; P a lot)	1.5% (1.9/3.1/1./1)	7.8% (about stable)

Table A3 Summary of quantitative material used

	Govern. party/ies (% of votes)	Main opp. party (% of votes)	Δ generosity index	Average economic growth	Average unem- ployment
Schröder II	SD (38.5) Greens (8.6)	CD (38.5)	..	.6% (-.2/ .8/1.1)	9.0 (almost stable)
Lubbers I	CD (29.4) Con. Lib (23.1)	SD (30.4)	- 1% (UI/sick down; P up)	1.7% (increasing from -1.2 to 3.1)	9.5% (increasing between 1982-3 from 8.2 to 10.6; then 10.2 and decreasing to 8.8)
Lubbers II	CD (34.6) Con. Lib (17.4)	SD (33.3)	+ 2% (UI/sick no Δ; P up)	2.9% (2.8/1.4/2.6/ 4.7)	7.4% (decreasing from 8 to 6.6)
Lubbers III	CD (35.3) SD (31.9)	Con. Lib (16.4)	- 6% (UI/sick no Δ; P down)	2.3% (decreasing from 4.1 to .8)	5.6% (almost stable)
Kok I	SD (24) Con. Lib (20) Prog. Lib (15)	CD (22.2)	+ 2% (UI no Δ; sick/P up)	3.1% (almost stable)	6.4% (decreasing from 7.2 to 5.4, increasing from 1992 onwards)
Kok II	SD (29) Con. Lib (25) Prog. Lib (9)	CD (18.4)	- 2% (UI/P down)	3.3% (almost stable; decreasing from 3.5 to 1.2 between 2000-1)	3.3% (decreasing from 4.2 to 2.5)
Balken. II	CD (29) Con. Lib (18) Prog. Lib (4)	SD (27.2)	..	1.7% (.3/2.0/1.5/ 3.0)	4.7% (stable)
Thatcher I	Cons (43.9)	Lab. (36.9)	+ 21% (UI/P up; sick down)	.3% (growth rates positive in 1979 [2.8%], but declining to -2.2 in 1980; positive in 1982 [1.7])	7.2% (increasing throughout the period)

Table A3 Summary of quantitative material used

	Govern. party/ies (% of votes)	Main opp. party (% of votes)	Δ generosity index	Average economic growth	Average unem- ployment
Thatcher II	Cons (42.4)	Lab. (27.6)	- 11% (all 3 down)	3.5% (increasing from 2.2 to 4.4)	11.2% (high, but stable)
Thatcher III	Cons (42.3)	Lab. (30.8)	+ 8% (UI down; sick/P up)	2.2% (after 1988 [5.2], the growth rate falls: 2.1/.7/-1.5)	7.3% (decreasing from 1986 onwards; increasing from 1990 onwards)
Major I	Cons (41.9)	Lab. (34.4)	+ 3% (UI down; sick/P up)	2.4% (in 1991, 1; then increasing to 2.3 in 1993 and further)	9.3% (decreasing from 9.8 to 8.0)
Blair I	Lab. (42.3)	Cons. (30.7)	+ 3% (UI/sick up; P a little down)	3.3% (almost stable; decreasing to 2.1 in 2001)	6.2% (decreasing from 7.0 to 5.1)
Blair II	Lab. (40.7)	Cons. (31.7)	..	2.7% (increasing from 2.1 to 3.3)	5.0% (almost stable)

Notes and sources: *Cons* is Conservatives; *Agr. Lib* is Agrarian Liberals; *Dem* is Democrats; *CPP* is Christian People's Party; *SD* is Social Democrats; *Rad Lib* is Radical Liberals; *CD* is Christian Democrats; *Con. Lib* is Conservative Liberals; *Prog. Lib* is Progressive Liberals; *Government party/ies/main opp. party* (% of votes) is the percentage of votes collected by the government party/ies/largest opposition party (Woldendorp et al. 2000; Armingeon et al. 2005, from 2003 onwards data collected by author from various sources); Δ (*change*) *generosity index* per cabinet period (Scruggs 2004; see Scruggs & Allan 2006b); *Average economic growth* per cabinet period, with economic growth measured as the percentage change in real gross domestic product per year (Armingeon et al. 2005 [OECD Economic Outlook, various years]; from 2003 onwards OECD 2006b); *Average unemployment* per cabinet period, commonly used definitions (Armingeon et al. 2005 [OECD 2005; OECD Historical Statistics various years]; from 2003 onwards: OECD 2006b); *P* is pensions; *UI* is unemployment insurance; *sick* is sick pay; ΔUI rr. see table 3.1; Δ *sick* rr. is idem for sick pay replacement rate; own calculations. I only include the year of the election if the election took place in the second half of the year (as a new administration needs some time in order to take control) (cf. Armingeon & Giger 2008).

Appendix B Coding of the Degree of Unpopular Reform Pursued by British, Danish, Dutch and German Cabinets, 1979-2005

British cabinets

Thatcher I (May 1979-June 1983)

The Thatcher I cabinet is coded as scoring high on Unpopular Reform (fuzzy-set score .83). Although the generosity index increased by 21 per cent, the average unemployment insurance and sick pay replacement rates fell by 22.6 percentage points (Scruggs 2004, see table A3). Specifically, the government abated unemployment benefits for occupational pensions for people over 60, which meant that certain pensioners received lower pensions. Pensions increased less (5%) than normally, resulting in lower benefits. Moreover, the cabinet abolished the earnings related supplement, leading to much lower benefits for workers. Furthermore, the government taxed unemployment benefits, resulting in lower net benefits (Pierson 1994: table 5.1; Van Gerven 2008). Additionally, the cabinet introduced a positive incentive to work by increasing the earnings-disregard, and no longer required men over 60 to be available for work, which enabled 'early retirement' for the older unemployed (Van Gerven 2008; see also Daguerre & Taylor-Gooby 2001/2).

Thatcher II (June 1983-June 1987)

The Thatcher II cabinet is coded as scoring fairly high on Unpopular Reform (fuzzy-set score .67). The generosity index fell by 11 per cent and the average replacement rates for unemployment insurance and sick pay were cut by 4 percentage points (Scruggs 2004, see table A3). Moreover, the government lowered childcare benefits and got rid of sanctions for those accepting voluntary redundancy, which further enabled early retirement for older workers. The government also increased the sanction period, made indexation 'more voluntarily' (allowing for lower benefits during economic downturns), abolished partial unemployment benefits for those with smaller contribution records (stricter access) and introduced the Re-

start programme (activation) (Van Gerven 2008; see also Pierson 1994: table 5.1).

Thatcher III (June 1987-April 1992)

The Thatcher III cabinet is also coded as scoring fairly high on Unpopular Reform (fuzzy-set score .67). Although the generosity index displayed an increase of 8 per cent, the average unemployment insurance and sick pay replacement rates were again cut (respectively minus 4.3 and 2.1 percentage points, Scruggs 2004, see table A3). Additionally, the Thatcher III cabinet increased the condition period for unemployment benefits, extended the sanction period, abated occupational pension for 55+ and introduced Youth Training Schemes (introducing more conditions for the 16-17 years old) (Pierson 1994: table 5.1; Van Gerven 2008). The cabinet also introduced an 'actively seeking work' test, bringing in more conditions and less rights to refuse an offer. The latter were further intensified by the enacted 'back to work' plans (Van Gerven 2008).

Major I (April 1992-May 1997)

Like its Thatcher predecessors, the Major I cabinet also is coded as scoring fairly high on Unpopular Reform (fuzzy-set score .67). Although the generosity index was again on the rise (plus 3 per cent), the high level of unemployment meant that the lowering of the generosity of the unemployment benefit scheme negatively affected a large group of voters. In addition, the government further reduced the average replacement rates of unemployment insurance and sick pay (minus 1.6 and 3.1 percentage points, Scruggs 2004, see table A3). In 1995, the Major I cabinet introduced a new Job Seekers Allowance (JSA). The JSA shortened the duration of unemployment benefits to six months, reduced the benefits for the youth by 20 per cent, and tightened the earnings-limit considerably. Moreover, the cabinet abated occupational pensions for all ages, but only after £ 50 a week, resulting in lower benefits for certain pensioners. The cabinet also increased sanctions, introduced a Jobseekers' agreement and direction, leading to stricter conditions and sanctions, and provided a back-to-work-bonus, which offered positive incentives to work but involved more sanctions (Van Gerven 2008; see also ISSA 2006: no.1433). The cabinet then made it harder for benefit recipients to refuse an offer (Van Gerven 2008). On a more positive side, it extended assistance for

people returning to work (ISSA 2006: no.1596) and upgraded benefits in order to allow 15 million people to be better able to meet the cost of VAT on their fuel bills (ISSA 2006: no.1133).

Blair I (May 1997-June 2001)

The Blair I cabinet is coded as scoring more or less low on Unpopular Reform (fuzzy-set score .40). Although the average replacement rates of unemployment insurance and sick pay were reduced somewhat (minus 1.1 and 2.0 percentage points), the overall generosity of these schemes improved (Scruggs 2004, see table A3). Moreover, the cabinet introduced a series of New Deals, including activation as well as more conditions (Van Gerven 2008; ISSA 2006: no.1925). The Bertelsmann-foundation (1999: 33-34) notes that although 100,000 unemployed young people and 60,100 adults had moved to one of the four New Deals (with 4,200 finding jobs), the emphasis on compulsion remained a controversial issue. However, in 1998 the cabinet introduced a national minimum pay (Bertelsmann-foundation 1999: 43; Van Gerven 2008), which increased the wages of between 1.5 and 1.7 million workers (mainly women in part-time positions) without severe macroeconomic effects such as increased unemployment (Bertelsmann-foundation 2000: 53-54).

Another measure enacted by the Blair I cabinet was the replacement of the Family Credit scheme with the Working Families Tax Credit scheme. With this reform, the government aimed to combat welfare dependency by removing or at least lowering the poverty traps and unemployment traps present in the old scheme (Bertelsmann-foundation 2000: 32-33). The government also introduced a (voluntary) New Deal for the elderly and the disabled, resulting in easier access and incentives to work (ISSA 2006: no.1926; Van Gerven 2008). Additionally, the government reformed disability payments, especially modifying the incapacity benefit into a means-tested scheme. Critics claimed that the new act treated the disabled unfairly and in discriminatory ways; others argued that its chief aim was cutting spending (€ 1.8 billion) rather than modernizing the welfare system (Bertelsmann-foundation 2000: 33-34). On the positive side, the maternity grant was doubled through the introduction of a new Sure Start Maternity Grant (ISSA 2006: no.2336; see also Bertelsmann-foundation 2001: 50-51; 2002: 40-41). New regulations to improve the conditions of part-time workers were also introduced (Bertelsmann-foundation 2000: 44-45; see also 2003: 61-65).

Blair II (June 2001-May 2005)

The Blair II cabinet is coded as scoring fairly low on Unpopular Reform (fuzzy-set score .33). The cabinet introduced child working tax credits, leading to higher entitlements (Bertelsmann-foundation 2003: 22-24; ISSA 2006: no.2725; Van Gerven 2008). Additionally, the cabinet made new rules to encourage persons with disabilities to return to work, intended to help 70,000 people currently on benefits to some paid work (ISSA 2006: no.2666). Furthermore, the government introduced a New Employment Bill, which tried to enhance employee protection (e.g. by increasing maternity leave) whilst minimizing new employer obligations (Bertelsmann-foundation 2002: 68-70).

Danish cabinets

Schlüter I (September 1982-October 1984)

The Schlüter I cabinet is coded as scoring fairly low on Unpopular Reform (fuzzy-set score .33). Although some benefits were frozen for one or more years and the average replacement rates for unemployment insurance and sick pay were cut back by respectively 3.7 and 3.9 percentage points (Green-Pedersen 2002, chapter 5; Scruggs 2004, see table A3), the government hardly engaged in unpopular activities. Instead, the government introduced a new disability-pension scheme that improved benefits and increased possibilities for awarding pensions for 'social reasons' (Green-Pedersen 2002, chapter 5) and enacted changes that increased the generosity index (see table A3).

Schlüter II (October 1984-September 1987)

The Schlüter II cabinet is coded as scoring fairly high on Unpopular Reform (fuzzy-set score .67). The measures the government enacted reduced the generosity index by 8 per cent and lowered the average replacement rates of unemployment insurance and sick pay by 9.1 percentage points (Scruggs 2004, see table A3). In addition, the cabinet pursued a number of reforms that were likely unpopular among the government parties' electorate as they were more Social Democratic than 'free enterprise' rightist (Borre 1988: 78). So, the cabinet introduced extended unemployment benefits, eased the income testing of the pension supplement and increased this supplement too, and raised the level of

early-retirement benefits from 70 to 80 per cent (Green-Pedersen 2002, chapter 5).

Schlüter IV (May 1988-December 1990)

The Schlüter IV cabinet (Schlüter III is excluded because it was in office less than a year) is coded as scoring low on Unpopular Reform (fuzzy-set score .17). The changes the government implemented were (almost all) popular ones. The government increased maximum unemployment benefits, gave up the rules concerning extended benefits, raised the level of disability-pension benefits, hastened the easing of the income testing for the disability pension supplement and further eased income testing. Additionally, the cabinet increased most early-retirement benefits, raised the basic amount of pensions for most married pensioners and tied the development of unemployment and disability benefits to the development in real wages. Moreover, the cabinet introduced strong incentives for later retirement (Green-Pedersen 2002, chapter 5). Because of the enacted changes, the generosity index increased by 3 per cent and the average replacement rates of unemployment insurance and sick pay rose by 3.7 and 3.8 percentage points (Scruggs 2004, see table A3).

Schlüter V (December 1990-January 1993)

The Schlüter V cabinet is coded as scoring fairly low on Unpopular Reform (fuzzy-set score .33). The generosity of unemployment insurance went up somewhat, that of pensions and sick pay remained the same whereby the average replacement rates of unemployment insurance and sick pay were reduced by a small .3 percentage points (Scruggs 2004, see table A3). Additionally, the cabinet engaged in labour market reform (Green-Pedersen 2002, chapter 5).

Nyrup Rasmussen I (January 1993-September 1994)

The Nyrup Rasmussen I cabinet is coded as scoring fairly low on Unpopular Reform (fuzzy-set score .33). The generosity index went up by 3 per cent and the average replacement rates of unemployment insurance and sick pay increased somewhat (.1 and 1.1 percentage points) (Scruggs 2004, see table A3). In addition, the government improved the pension supplement whilst cutting back the basic amount, which resulted in expansion of the scheme (Green-Pedersen 2002, chapter 5).

Nyrup Rasmussen II (& III) (September 1994-March 1998)¹

The Nyrup Rasmussen II (& III) cabinet is coded as scoring high on Unpopular Reform (fuzzy-set score .83). The changes the cabinet enacted reduced the generosity index by 8 per cent and also lowered the average replacement rates of unemployment insurance and sick pay somewhat (Scruggs 2004, see table A3). More specifically, the cabinet cut unemployment benefits for young people with no qualifying education after six months of unemployment, shortened benefit duration to five years and tightened eligibility rules (Green-Pedersen 2002, chapter 5; Larsen & Goul Andersen 2009). The government also reduced certain benefits in the highly popular job sharing/special leave programme from 80 to 70 per cent (ISSA 2006: no.1360). Moreover, the cabinet implemented an Act on Active Social Policy that aimed to increase participants' abilities to establish or re-establish contact with the labour market and society. The compulsory nature of the activities – especially the requirement that social assistance recipients were obliged to participate in activities for a minimum of 30 hours per week, whereby failure to comply possibly led to benefit withdrawal or reduction – was considered highly controversial (Bertelsmann-foundation 1999: 25-26).

Nyrup Rasmussen IV (March 1998-November 2001)

The Nyrup Rasmussen IV cabinet is coded as scoring fairly high on Unpopular Reform (fuzzy-set score of .67). Although the generosity index did not change and the average replacement rates of unemployment insurance and sick pay were reduced only mildly (minus .3 and minus .4 percentage point, Scruggs 2004, see table A3), the changes enacted by the cabinet negatively affected large groups of voters. The cabinet, for example, pursued early retirement reform, which both the labour unions and the general public opposed. The unions viewed the reform package to be a 'breach of trust' by the government as during the election campaign the promise was made not to change the very favourable early retirement system (Bertelsmann-foundation 2000: 17; see also Bille 1999: 380; Larsen & Goul Andersen 2009). Changes in this package included simplification of the system, equalizing of early retirement pensions and unemployment benefits, and the introduction of so-called 'flexijobs' for those who could still work (somewhat) (Bertelsmann-foundation 2001: 19). Moreover, the duration of unemployment benefits was limited to four years, and the rules for unemployed over 50 years of age were tightened (Bertelsmann-foundation: 2000: 36-37; Green-Pedersen 2002, chapter 5). Positively in-

fluencing a substantial group of voters, the cabinet lowered the pension age from 67 to 65 (Bertelsmann-foundation 2000: 16-17; Green-Pedersen 2002, chapter 5; see also ISSA 2006: no.3093).

Dutch cabinets

Lubbers I (September 1982-May 1986)

The Lubbers I cabinet is coded as scoring high on Unpopular Reform (fuzzy-set score .83). The cabinet substantially lowered the unemployment replacement rates by 11 per cent and the changes it enacted reduced the generosity index by 1 per cent (Scruggs 2004, see table A3). Furthermore, the government enacted a harsh retrenchment package, including among other things, indexation of pensions, unemployment benefits and disability pensions, limitation of the duration of unemployment benefits and cutbacks in disability pension and unemployment benefits (Green-Pedersen 2002, chapter 5).

Lubbers II (May 1986-September 1989)

The Lubbers II cabinet is coded as scoring fairly low on Unpopular Reform (fuzzy-set score .33). The changes enacted increased the generosity index by 2 per cent and raised the average replacement rates of unemployment insurance and sick pay somewhat (plus 1.1 percentage points) (Scruggs 2004, see table A3). The cabinet pursued some policies that affected groups of voters negatively, such as benefit freezes and the abolishment of the 'labour-market consideration' within the disability benefit scheme (see Green-Pedersen 2002, chapter 5). Moreover, the government introduced a new unemployment benefit scheme that did not have any budgetary effect (Green-Pedersen 2002, chapter 5), but which did sharpen work conditions, shortened benefit duration for people with a short work record whilst increasing it for workers with longer work records and introduced some changes from which the elderly benefited at the expense of the long-term unemployed (Van Gerven 2008).

Lubbers III (September 1989-May 1994)

The Lubbers III cabinet is coded as scoring fairly high on Unpopular Reform (fuzzy-set score .67). The government pursued changes that reduced the generosity of pensions substantially, leading to a drop of the gener-

osity index of 6 per cent. Additionally, the average replacement rates of unemployment insurance and sick pay were cut back (marginally, minus .8 percentage point) (Scruggs, 2004, see table A3). Moreover, the cabinet enacted benefit freezes for several years and benefit cuts in 1993 (Green-Pedersen 2002, chapter 5). Additionally, the conditions for the young under 21, or 27 if school leaver, were tightened and conditions to be available, seek and accept work were increased for all (Van Gerven 2008).

Kok I (May 1994-May 1998)

The Kok I cabinet is coded as scoring fairly high on Unpopular Reform (fuzzy-set score .67). Although the generosity index increased by 2 per cent during this period and the average replacement rates of unemployment insurance and sick pay were hardly affected (Scruggs 2004, see table A3), the government implemented many changes that affected substantial groups of voters negatively. The cabinet froze benefits for 1994 and 1995, abolished the special supplement for pensioners with a partner younger than 65 in 1995 and tightened eligibility rules of unemployment benefits in 1994 (Van Gerven 2008). Moreover, the government revised the unemployment benefit scheme. Specifically, the unemployment insurance law (WW) was transformed into a minimum benefit (mainly for those persons with short work histories), eligibility rules were tightened, school-leavers had to accept all work (at once), the definition of a 'suitable job' widened and the conditions linked to activation became stricter. On the positive side, the follow-up benefit was extended to two years, which positively affected the long-term unemployed (Van Gerven 2008). Another reform was the privatization of sickness benefits: employers were now obliged to pay 70 per cent of the previous wage for the first 52 weeks of sickness. Note that this did not affect the level of the benefits received by the sick (ISSA 2006: no.1541). A related reform was the significant change in the protection for people with disabilities. Employers now had the option to self-insure against the risk of invalidity of their employees outside of the social security scheme (ISSA 2006: no.1970).

Kok II (May 1998-May 2002)

The Kok II cabinet is coded as scoring low on Unpopular Reform (fuzzy-set score .17). Although the generosity index did fall during this cabinet period (minus 2 per cent, Scruggs 2004, see table A3), the reforms implemented by the government affected (a) large group(s) of voters largely

positively. The cabinet implemented a law on Flexibility and Security (*Wet Flexibiliteit en Zekerheid*) in order to strengthen the position of 'atypical' workers (temps and part-timers) and to enhance labour market flexibility by (slightly) reducing dismissal protection for regular employees and by giving more leeway to temporary work agencies (Bertelsmann-foundation 1999: 37; 2003: 57-58). Moreover, various measures were introduced for families, such as additional possibilities for firms to subtract the costs of their staff's childcare facilities from taxation, additional possibilities for parents to subtract their day-care costs from income taxation, and subsidized childcare for mothers on social assistance (Bertelsmann-foundation 1999: 28). Additionally, the legal right to work part-time was introduced, which could help combining work and family life (Bertelsmann-foundation 2000: 28, 32-43; 2001: 45-47). A year later, the government introduced the new Work and Care Act (*Wet Arbeid en Zorg*), which facilitated the combination of work and care. The latter act was generally welcomed and no one questioned its introduction (Bertelsmann-foundation 2002: 36-39).

Another reform enacted by the Kok II cabinet involved the income tax reform that fully individualized income taxation and intended to provide incentives to work for, especially, low-skilled (and low-paid) women (Bertelsmann-foundation 2001: 47-49). Additionally, the administration of social security benefits was overhauled completely. Note that this latter change had no immediate effect on the voters, whereas the power of unions and employer organizations might have been diminished because of it (Bertelsmann-foundation 2000: 23-24).

Balkenende II (January 2003-June 2006)²

The Balkenende II cabinet (Balkenende I is excluded because it was in office less than a year) is coded as scoring high on Unpopular Reform (fuzzy-set score .83). In its first year in office, the Balkenende II cabinet reformed unemployment benefits. Specifically, it abolished the follow-up benefit (resulting in shorter duration), increased the earnings related benefit whilst simultaneously linking it to the actual work record – which resulted in shorter benefit duration (Bertelsmann-foundation 2005: 34). According to critics, '(...) the government is hollowing out the Unemployment Benefits Act and [is] imposing the social costs of unemployment on individuals unable to influence the supply of jobs in the labour market. [Such as] elderly persons, young working couples and women who have re-entered the labor market (...)'

 (Bertelsmann-foundation 2005: 34-35; see Van Gerven 2008). Moreover, the cabinet increased the conditions for

the elderly by also making the eligibility for an unemployment assistance benefit conditional on seeking work for people over 57.5. Additionally, it enacted social assistance reform to increase labour market participation, which involved a shift in the financial responsibility for social assistance onto municipalities. This reform considerably changed the logic underlying social assistance, as under the new system everyone is obliged to work and people are treated individually (as opposed to part of a family) (Bertelsmann-foundation 2004: 41-43). The government also extended the period in which the employer is responsible for paying sick leave from one to two years, whilst it deferred coverage by the Disability Benefits Act by one year (starting after two years of sickness). Under the new law, employees receive 70 per cent of their last pay (often increased to 100% in collective agreements), whereby the employers should pay at least minimum wage in the first year but not in the second (Bertelsmann-foundation 2005: 32-33). To curb the (still) high level of people in the disability scheme, the cabinet introduced the so-called Improved Gatekeeper Act (*Wet Verbetering Poortwachter*) to restrict access to the scheme by increasing the rights and responsibilities of employees and employers in the first year the employee is unable to work (Bertelsmann-foundation 2003: 24-25). Additionally, in both 2004 and 2005, the cabinet froze unemployment benefits (Bertelsmann-foundation 2005: 71-72; Van Gerven 2008). Finally, the government implemented a new, compulsory, health care insurance, which was met with wide protests in the first year especially because individuals with a relatively low income paid more – or thought they paid more – for their health care insurance (ISSA 2006: no.3580).

German cabinets

Kohl I (March 1983-January 1987)

The Kohl I cabinet is coded as scoring fairly low on Unpopular Reform (fuzzy-set score .33). Although the government curbed the unemployment replacement rates by 7 per cent, the enacted changes left the generosity index unaltered (Scruggs 2004, see table A3). Moreover, despite the promises Kohl made upon taking office, no consistent pattern of reform materialized (Leibfried & Obinger 2003: 209; Schmidt 2005: 101). Some benefit cuts occurred and eligibility criteria for several programmes were tightened (Leibfried & Obinger 2003: 209; Schmidt 2005: 99-100). However, these measures were not unpopular *per se*. Public opinion surveys demonstrate that the public accepted limited cuts in welfare state benefits

in 1982. From the mid-1980s onwards, Kohl I started to combine retrenchment initiatives with selective expansion (Aust et al. 2002: 8-9, 28-29; Leibfried & Obinger 2003; Schmidt 2005: 100-101, 105-106). This trend nicely follows public opinion, as surveys show that further cuts would receive the disapproval of voters from 1984 onwards (Alber 1986, referenced in Zohlnhöfer 2003: 136).

Kohl II (January 1987-December 1990)

The Kohl II cabinet is coded as scoring low on Unpopular Reform (fuzzy-set score .17). The generosity of pensions and sick pay was reduced somewhat, but the generosity of unemployment insurance was left unaltered. Moreover, the average replacement rates of unemployment insurance and sick pay were left untouched (Scruggs 2004, see table A3).

Kohl III (December 1990-October 1994)

The Kohl III cabinet is coded as scoring fairly low on Unpopular Reform (fuzzy-set score .33). The cabinet did not enact measures that affected the generosity index, nor did it increase or curtail the average sick pay replacement rates. Only the average unemployment insurance replacement rates were increased marginally (plus .1 percentage points) (Scruggs 2004, see table A3). In fact, the 'retrenchment plus selective expansion' as pursued by the previous Kohl cabinets continued after reunification (Leibfried & Obinger 2003: 210; see also Aust et al. 2002: 4-5; Zohlnhöfer 2003: 139-141).

Kohl IV (October 1994-September 1998)

Contrary to the other Kohl cabinets, the Kohl IV cabinet is coded as scoring fairly high on Unpopular Reform (fuzzy-set score .67). The generosity index was reduced by 5 per cent, with reductions especially in the area of unemployment insurance and sick pay but also hitting pensions somewhat. Additionally, average sick pay replacement rates were reduced by about 7 percentage points (Scruggs 2004, see table A3). With the 'Programme for Economic Growth and Employment' of 1996, comprehensive retrenchment was implemented, which met with strong resistance from the Social Democratic party and the unions. The latter even left the *Bündnis für Arbeit*. The changes enacted include a reduction of sick pay from 100 to 80 per cent and a lowering of cash sick pay benefits. Furthermore, the pension retirement age was accelerated and some other (negative) pension changes

took place. The age limit for retirement pensions was raised for the severely disabled (ISSA 2006: no.2367). Additionally, the labour market was made somewhat more flexible, for instance by the reduction of employment protection. Affecting a group of voters positively, the active component of labour market policy was increased. However, the positive effect hereof was offset partially by the increase in the pressure for the unemployed to accept jobs. Another reform positively influencing a group of voters involved the softening of cuts in passive labour market programmes via improvements for the long-term unemployed (Leibfried & Obinger 2003: 211; ISSA 2006: no. 1487; see also Zohlnhöfer 2003: 145-146; 2004: 108).

Schröder I (September 1998-September 2002)

The Schröder I cabinet is coded as scoring low on Unpopular Reform (fuzzy-set score .17). During the 1998 election campaign, Schröder had repeatedly stated 'Thank you, Helmut – but now it's enough' (Poguntke 1999: 402). In its first term, Schröder's cabinet stuck to its electoral promises and undid some of Kohl's latest retrenchment measures (Bertelsmann-foundation 2000: 30-31; Leibfried & Obinger 2003: 212; Schmidt 2005: 114-115; ISSA 2006: no.2365, 2190, 2340). Moreover, the government introduced the legal right to work part-time. Unions generally favoured the latter reform, although they disliked the veto-power of employers regarding the working time reduction. Employer organizations, conversely, generally disliked the new regulation (Bertelsmann-foundation 2001: 41-43). The cabinet also passed a major pension reform, which among others lowered the replacement rate of a standard public pension from 70 to 64 per cent by 2030 (Bertelsmann-foundation 2001: 23-24; Leibfried & Obinger 2003: 212-213; Schmidt 2005: 115, 119-120; ISSA 2006: no.2508). Finally, this cabinet entered into force the main elements of the Act on Reform of Labour Market Policy Instruments (*Job-AQTIV Gesetz*). These provisions aimed to modernize labour market policy and to restructure labour market policy instruments (Bertelsmann-foundation 2001: 43-46; 2002: 60-61; ISSA 2006: no.2577).

Schröder II (September 2002-November 2005)

The cabinet Schröder II is coded as scoring high on Unpopular Reform (fuzzy-set score .83). On 20 December 2002, several of the so-called Hartz measures came into effect. The Hartz reform included job services for the unemployed combined with tighter obligations to accept job offers

and an increase of the social security contribution ceiling by € 600 per month in the west and € 500 in the east (Leibfried & Obinger 2003: 213; see also Bertelsmann-foundation 2003: 45-49, 54-58; 2004: 58-61; Zohlnhöfer 2004: 114-6; Schmidt 2005: 120-121; ISSA 2006: no.3326, 3327, 3495, 3694). Moreover, pensions were lowered by effectively .85 percentage points because the total long-term care insurance contributions were to be paid by pensioners (Bertelsmann-foundation 2004: 37-38; ISSA 2006: no.3293). Some small expansions also occurred, especially the introduction of a basic security benefit aimed to reduce poverty among individuals over 65 years of age as well as among adults with a permanently reduced earnings capacity (ISSA 2006: no.2883).

Appendix C Coding of the Political Position of the British, Danish, Dutch and German Cabinets, 1979-2005³

British cabinets

Thatcher I (May 1979-June 1983)

The Thatcher I cabinet is coded as having a very strong Political Position (fuzzy-set score .83). The position was so strong because the 1979 election saw '(...) the Conservatives return to power with the largest parliamentary majority since 1966 and also the largest lead in the popular vote attained by any party since 1945' (Berrington 1983: 263). In its first year in office, the government became highly unpopular though. Its cuts in taxes could not offset the increase in unemployment that resulted from the retrenchment of public expenditure. However, and good for the cabinet's political position, Labour was also highly unpopular because of its shift to the left. The newly formed Alliance of the Social Democratic Party and the Liberals did gain support after its election in September 1981. Polling over 50 per cent over the votes in November 1981, there were even talks about a next Alliance government – especially as the two major parties did so poorly. Alliance's support dropped somewhat early 1982, but remained at about 30 per cent (Berrington 1983: 263).

Everything changed for the government's popularity when Argentina seized the Falkland Islands on 2 April 1982. After some heated debate, the government sent a task force to recapture the islands. In June 1982, the Argentine troops surrendered. A month later, the Prime Minister who had a year before been called 'the most unpopular PM [Prime Minister] since the polls began', started to dominate the political landscape. The Conservatives polled around 46 per cent of the votes and even 52 per cent of the voters approved of Thatcher as PM (Berrington 1983: 264).

Thatcher II (June 1983-June 1987)

The Thatcher II cabinet is coded as having a fairly strong Political Position (fuzzy-set score .67). In the run up to the 1983 election, the government had a comfortable campaign because they were ahead in the polls by a percentage almost unknown to a governing party (Berrington 1983: 264). The Conservatives were able to reap an extra 3.9 per cent of the votes. The Alliance won 11.6 per cent of the vote – the highest share for a Liberal party since 1923 (Berrington 1983: 265). Thatcher and her government thus returned to power with a substantially larger majority (Cozens & Swaddle 1987: 263).

Thatcher III (June 1987-April 1992)

The Thatcher III cabinet also is coded as having a fairly strong Political Position (fuzzy-set score .67).

The general election of June 11, 1987 brought Thatcher back into power with an overall majority of 102 seats, which is somewhat below the landslide victory of 144 seats in 1983 (Cozens & Swaddle 1987: 263). In terms of the percentage of votes, the government had lost just .1 per cent.

Since June 1989, Labour enjoyed a large leap in the opinion polls. This position changed abruptly because of Thatcher's deposition. In the next four months, Major enjoyed a honeymoon period and this, in combination with the war in Iraq, resulted in the Conservatives leading solidly in the polls. After these months, in which the support was over 50 per cent, support declined and never topped 40 per cent. The war in Iraq caused internal division within the Labour party (Mackie 1992: 538-539).

Major I (April 1992-May 1997)

The Major I cabinet is coded as having a fairly strong Political Position (fuzzy-set score .67). Against the predictions of the pre-election opinion polls, and even the exit polls, the Conservatives won the 1992 election with a working majority (Mortimore 1992: 352). It has been argued that the victory of Major '(...) depended on successfully disassociating his government from its former leader, Margaret Thatcher, who by the time of her deposition had become an electoral liability (...)’ (Mortimore 1992: 355). The year 1993 proved a difficult one for the government, with support for the Ministry and the Prime Minister dropping to record lows (by

late 1993/early 1994, only 13% approved the government's performance), and with local government elections and by-elections bringing further setbacks (Mackie 1994: 446ff).

The year 1996, the pre-election year, proved to be not very successful for the Conservative government. The relationship between the UK and Europe was a topic of debate. In March, the BSE crisis – regarding the mad cow disease – got a grip on the UK and other European countries. The consensus was that the government had coped with this crisis miserably. Then there were problems concerning corruption and maladministration and the fact that the main opposition party, (New) Labour, seemed to have risen from the ashes and had improved its prospects of forming the new government (Webb 1997: 511ff.). The declining support for the Conservatives in the polls is traceable back to 1992, when the UK was forced to leave the European Exchange Rate Mechanism; this turned a 7 per cent lead in the polls into a 20 per cent loss (Wood 1999: 143).

Blair I (May 1997-June 2001)

The Blair I cabinet is coded as having a very strong Political Position (fuzzy-set score of .83). Labour won an absolute majority of 179 seats; the Conservatives scored the second lowest result ever (165) and the lowest share in the popular vote (30.7%). The Liberal Democrats, conversely, won the highest number of seats (46) since 1929 (Wood 1999: 146-147).

Labour's good political fortune of the recent years continued in 1998. The average opinion poll throughout the year was 52 per cent (never dipping below 51%), whereas the Conservatives polled only 28 per cent (never surpassing 29%). Blair was highly popular. Between 62 and 72 per cent of the voters expressed their satisfaction with this PM (Webb 1999: 533). There were, however, some small intra-party tensions in 1998. One issue concerned certain aspects of the 1997 welfare reform, which remained one of the government's thorniest issues (Webb 1999: 533-534).

Throughout 1999, Labour's good standing with the electorate continued (Webb 2000: 547). Regarding the proposed welfare reform, intra-party disagreement continued, which among other things was visible in rebellions of backbenchers. In 1999, the problems within the Conservative party regarding issues such as leadership and policies continued (Webb 2000).

Blair II (June 2002-May 2005)

The Blair II cabinet is coded as having a fairly strong Political Position (fuzzy-set score .67). The result of the 2001 election was similar to the 1997 one; a major victory for Labour, receiving its second historic landslide despite losing six seats (minus 1.6% of the votes). The Conservatives won one seat only (Fisher 2002: 1101; see also Bartle 2003).

Despite its victory, Labour had a difficult 2002, which was mainly caused by the dissatisfaction with – and the government's plans for – public services, a topic that dominated the political debate that year (see Fisher 2003: 111off.). Dissatisfactions particularly involved the quality and level of services and the government's proposals for reform. This resulted in two cabinet reshuffles within five months time. Furthermore, the 2001/2002 parliamentary sessions saw more rebellions (76) by Labour Members of Parliament than during any previous Labour government (Fisher 2003: 1108). These problems were reflected in the polls; popularity dropped from 48 per cent in January to 39 per cent in December 2002. The Liberal Democrats were the main beneficiaries of this, as the Conservatives could not capitalize on Labour's problems. The satisfaction ratings of the government fell accordingly, as did those of Blair (Fisher 2003: 1108-1109).

In 2004, Labour, and especially Blair, started with the lowest polls in over a decade. In January, Labour polled 38 per cent, the Conservatives 36 and the Liberal Democrats 20 (Fisher & Smith 2005: 1217). The year proved a tough one for Blair with the Hutton report, internal power struggles (should/would Brown replace Blair?), and so forth. At the end of the year, the Conservatives' position in the polls had dropped (to 32%), whereas Labour had remained at 37 per cent (and the Liberal Democrats had increased to 22%) (Fisher & Smith 2005: 1219).

Danish cabinets

Schlüter I (September 1982-October 1984)

The Schlüter I cabinet is coded as having a fairly strong Political Position (fuzzy-set score .67). This government replaced the previous Social Democratic minority government, without elections being held. The mood was generally optimistic and favourable towards the coalition. Upon taking office, the cabinet held 36.4 per cent of the votes (*vis-à-vis* 32.9% for the main opposition party, the Social Democrats); by the time the 1984 elec-

tion was announced in December 1983, government support had grown to 45 per cent (Borre 1984: 190).

Schlüter II (October 1984-September 1987)

Also the Schlüter II cabinet is coded as having a fairly strong Political Position (fuzzy-set score .67). The coalition capitalized on the grown support and won the 1984 election by increasing its share of the votes to 42.8 per cent. Especially Schlüter's Conservative People Party won substantially (plus 8.9%). Still, the cabinet's position was not very strong as its main rival's losses had been only modest (minus .5%) (Borre 1984: 191).

Schlüter IV (May 1988-December 1990)⁴

Like the other two Schlüter cabinets, the fourth one is also coded as having a fairly strong Political Position (fuzzy-set score .67). Between 1982 and 1988, the Schlüter coalitions had consisted of the Conservatives, Agrarians, Centre Democrats and the Christian People's Party, relying on the support of the centrist Radical Liberals. For attaining a majority, the governments needed either the Social Democrats on the left or the Progress Party on the right. At times, an alternative majority had overruled the government, for example in foreign issue matters. This had become intolerable in May 1988, when 'the Radical Liberals, so to speak, forced their way into the government at the cost of the Centre Democrats and the Christian People's party' (Borre 1991: 133). As a result, the cabinet held 36.7 per cent of the votes against 29.8 per cent for the Social Democrats – still the coalition's main rival.

Schlüter V (December 1990-January 1993)

The Schlüter V cabinet is coded as having a more or less weak Political Position (fuzzy-set score .40). The Social Democrats and the Agrarian Liberals emerged as winners in the 1990 election, gaining respectively 7.6 and 4.0 per cent of the votes (Borre 1991: 134-136). Because of the electoral defeat in December 1990 (minus 2.1% of the votes), the Radical Liberals withdrew from the tripartite minority government. The support in parliament for the new coalition, consisting of the Conservatives and the Liberals was minimal, especially as no other parties had committed themselves to government support. To survive, the coalition needed support from all

parties on the right of the Social Democrats or from the Social Democrats themselves (Bille 1992: 387-388).

Nyrup Rasmussen I (January 1993-September 1994)

The Nyrup Rasmussen I cabinet is coded as having a strong Political Position (fuzzy-set score .83). This cabinet resulted after Prime Minister (PM) Schlüter announced the resignation of his cabinet on January 14, 1993, because of the so-called Tamil Gate affair.⁵ It was very unusual that the PM did not call a general election before resigning – this happened only twice before: in 1950 and in 1982 (Bille 1994: 282-283).

After only 11 days, the largest cabinet ever was installed.⁶ For Danish politics highly unusual, this government held a majority of the votes; it was the first majority cabinet since 1971 and only the fourth one since 1945. With the instalment of the cabinet, a change of power took place – from rightist (bourgeois) to Social Democratic. Interestingly, this was not the outcome of a general election, but resulted from the decision of the centre parties to change sides after more than a decade of supporting centre-right and right-wing governments. Additionally, it was remarkable that the Centre Democrats and the Christian Democratic Party joined the Social Democratic government, given that the former parties were usually regarded right-wing ones.

Despite their unease with the new coalition and the fact that it had been erected without general elections, the opposition from the Liberals and the Conservatives was relatively modest. As the referendum regarding the Maastricht Treaty and the Edinburgh Agreement was an important topic during spring, the *yes*-parties had to put their disagreements on hold for the moment in order to secure a majority in favour of their position.

Nyrup Rasmussen II (& III) (September 1994-March 1998)⁷

The Nyrup Rasmussen II (& III) cabinet is coded as having a more or less weak Political Position (fuzzy-set score .40).

Since 1945, none of the four majority governments was voted back into office, nor did that happen this time. The Social Democrats lost 6 per cent of the votes, the Centre Democrats survived but lost 1.8 per cent of the votes, and the Christian Democrats did not pass the election threshold (for the first time since 1973). In fact, of the incumbent parties, only the Social Liberals won (1 seat). The clear winners were the Liberals, gaining

7.5 per cent of the votes, and the Unity List that passed the threshold for the first time and gained 3.1 per cent of the votes. The other parties in opposition lost mildly (Bille 1995: 320). The loss of the government parties is remarkable given the increasing growth rates and the reforms implemented (a tax reform and a labour market reform to tackle unemployment, Thomsen 1995: 315-316). Government formation was quite simple. Although the Socialist People's Party and the Unity List indicated that they would not want to participate in a three-party minority government, they would not submit a vote of no confidence either (Bille 1995: 320). As usual with the Danish minority governments, the cabinet was back to a situation in which it had to form a majority on important issues in parliament.

Although the cabinet had clearly lost votes, seats, and even a party, it was uncertain how much the government had lost in terms of power. Despite the gains for the Liberals, the right-wing alliance had not managed to gain a majority of seats in parliament (Thomsen 1995: 322).

Nyrup Rasmussen IV (March 1998-November 2001)

The Nyrup Rasmussen IV cabinet is coded as having a fairly strong Political Position (fuzzy-set score .67).

The 1998 election was basically a status quo election (Bille 1999: 377). The Social Democratic/Social Liberals minority government stayed in office. The Unity List, the Socialist People's Party and one North Atlantic seat supported the cabinet. This constituted a fragile majority of one seat. Still, the government's position was less feeble than it may have seemed, as the opposition on the right had been weakened, which was due to the substantially varying stances of the six parties from extreme right to centre (Bille 1999: 378; see also Elklit 1999: 141). Hence, Bille's (1999: 380) conclusion that 'despite its tiny parliamentary basis, the position of the minority government was not weak, since it had room for political manoeuvre, playing one side [the parties on the left] off against the other [the parties on the right]'. The strength of the cabinet was demonstrated by the major tax reform enacted, as well as by the reform of the pension system. As the latter went against the explicit promises of the Social Democrats during the election campaign, backlash occurred. Social Democratic party members, trade union members and voters protested, leading to a crisis within the Social Democratic party in early 1999. Party members left the party, donations from trade union members stalled, and the party's support measured by opinion polls dropped to about 20 per cent – the lowest level ever (Bille 1999: 380).

The Social Democrats worked extremely hard to explain to their constituencies the necessity of the changes in the early retirement scheme. The effort worked to a certain extent. Although still 5 to 10 per cent lower than the result of the 1998 election, the support for the Social Democrats increased from the 20 per cent low (Bille 2000: 368). The Conservatives, conversely, were unable to manage their internal rifts. In the Progress Party, restoring peace also proved impossible (see Bille 1999: 368ff).

After the terrorist attacks of 9/11, the government strongly supported the measures taken by NATO and the European Union to counter terrorism – something that all parties (except the leftist Unity List) supported. Also the Prime Minister benefited in terms of popularity from his firm and well balanced handling of the situation. The Social Democrats started to rise in the polls again, reaching 30 per cent. This might have been one of the reasons why Nyrup Rasmussen decided on 31 October 2001 that the election was to take place on 20 November – the same day of the municipal and county elections (Bille 2002: 941-942).

Dutch cabinets

Lubbers I (September 1982-May 1986)

The Lubbers I cabinet is coded as having a fairly strong Political Position (fuzzy-set score .67). In the 1982 election, the Conservative Liberals entered the coalition after having won 5.8 per cent of the votes. The position was not very strong, though, since the other coalition partner, the Christian Democrats, had incurred a 1.5 per cent loss of the votes and was no longer the largest party in the Netherlands – a position taken over by the Social Democrats (see Irwin 1983). Still, both the Christian Democrats and the Conservative Liberals did well in the polls in their first year in office. By autumn 1983, both parties started losing votes to the Social Democrats, which polled 40 per cent of the votes at the end of 1984 – a historic high. By mid-1985, the popularity of the Christian Democrats started to rise again, against a slightly dropping popularity of the Social Democrats (Van der Eijk, Irwin & Niemöller 1986). Furthermore, public opinion polls demonstrated that the voters of all parties considered Lubbers to be a good Prime Minister (Van der Eijk et al. 1986: 295).

Lubbers II (May 1986-September 1989)

The Lubbers II cabinet is coded as having a very strong Political Position (fuzzy-set score .83). Before the 1986 election, the Christian Democrats announced that they would like to continue the coalition with the Conservative Liberals – an exceptional move in Dutch politics. Prior to the election, only 36 per cent of the voters indicated that they thought the coalition would lose its majority (Van der Eijk et al. 1986: 291). Nonetheless, it came as a surprise that the Christian Democrats were very successful in the election (plus 5.2 per cent of the votes). The other coalition partner, conversely, lost 5.7 per cent of the votes, which left the majority of the coalition unchanged (Van der Eijk et al. 1986).

Lubbers III (September 1989-May 1994)

The Lubbers III cabinet is coded as having a fairly strong Political Position (fuzzy-set score .67). Together, the coalition parties received 67.2 per cent of the votes – a very large majority for a Dutch cabinet. Lubbers I and II, for example, received about 52 per cent of the votes. However, there are also indications that this cabinet's political position was not excellent. The popularity of the Social Democrats – the Christian Democrats' new coalition partner – started to drop in the polls from the beginning of 1990 onwards; a deteriorating position that expressed itself in the poor performance in the municipal elections of 21 March 1990. The position of the Christian Democrats also weakened during the term in office. In 1991, when the problems regarding the restructuring of the disability pensions (WAO) started to rise, the party's support slipped below the 30 per cent level. The downward trend continued until the autumn of 1993 and plummeted thereafter. The winners in this process were the two liberal parties (VVD and D66) (Irwin 1995).

Kok I (May 1994-May 1998)

The Kok I cabinet is coded as having a very strong Political Position (fuzzy-set score .83). This score is mainly based on the major success of two of the three governing parties: the Conservative Liberals who gained 5.4 per cent of the votes and the Progressive Liberals who gained 7.6 per cent of the votes. The third coalition party, the Social Democrats, lost 7.9 per cent of the votes. This result, however, could be seen as somewhat of a victory as the polls three months before the elections had pointed to a

loss of about 13 per cent (Irwin 1995: 75). The Christian Democrats, the opposition party, incurred the most severe loss: minus 13.1 per cent of the votes. Furthermore, the political position of Kok I weakened in 1997 by two quasi-crises: an epidemic hitting Dutch pigs (*varkenspest*) in February and the failure of two ministers from the Progressive Liberal party (Hans van Mierlo of Foreign Affairs and Winnie Sorgdrager of Justice) to arrest a suspected drugs dealer (Lucardie & Voerman 1998: 472).⁸

Generally speaking, though, the Kok I coalition encountered few problems. When the 1998 election approached, public opinion polls indicated that it were the Social Democrats and Conservative Liberals especially who profited from the high levels of satisfaction among the voters. Furthermore, the Social Democratic Prime Minister Kok was popular, also among the liberal voters. As the Christian Democrats were newcomers in the opposition benches, their counterweight to the cabinet had been weak at times (Irwin 1999).

Kok II (May 1998-May 2002)

The Kok II is also coded as having a fairly strong Political Position (fuzzy-set score .67). As polled before the elections, the Social Democrats and the Conservative Liberals were the main winners in the 1998 election: plus 5 per cent of the votes. The Progressive Liberals, conversely, lost 5 per cent of the votes. Like with the Social Democrats in the previous election, this could be considered somewhat of a positive outcome as the polls indicated much heavier losses (Irwin 1999).

Balkenende II (January 2003-June 2006)⁹

The Balkenende II cabinet is coded as having a fairly poor Political Position (fuzzy-set score .33). The smallest coalition partner, the Progressive Liberals, had incurred a loss of 1.1 per cent of the votes (compared to 1998 even 5). Conversely, the other coalition parties, the Christian Democrats and the Conservative Liberals had emerged as winners in the election (respectively, plus 1% and 2.6% of the votes). Despite these winnings, the cabinet's position was somewhat weak given that the main opposition party, the Social Democrats, was only a bit smaller than the Christian Democrats (two seats). In fact, the election results made a Christian Democrats/Social Democrats centre-left cabinet the natural outcome. The negotiations to form such a coalition hampered, however, among other things because of differences regarding the war in Iraq (Irwin & Van Holsteyn 2004).

The fact that the Christian Democrats now faced such a strong opposition party lowered the cabinet's political position. Furthermore, the coalition parties did not do well in the polls. If there had been elections on 28 April 2006, the Christian Democrats and the Progressive Liberals would have lost dramatically (minus 11.2% and 1.6% of the votes). The Conservative Liberals were 2.2 per cent in the plus in these polls, but this seemed merely to have been caused by the fact that the party was choosing a new leader at the time. In the polls of March 10, when these campaigns were not running yet, the party polled a loss of almost 2 per cent of its votes.¹⁰

German cabinets

Kohl I (March 1983-January 1987)

The Kohl I cabinet is coded as having a strong Political Position (fuzzy-set score .83).¹¹ Throughout 1982, public opinion data indicated that the Christian Democrats (CDU/CSU) were on the verge of an absolute majority. The Social Democrats (SPD) and the Conservative Liberals (FDP), conversely, were losing ground. In this period, the support for Chancellor Schmidt (SPD) was steadily declining and a new party of Greens was formed. From March 1983 to the end of 1984, Kohl I was in its honeymoon period and continuously headed the SPD in the polls. From early 1985 to mid-1986, the government's position declined, as the SPD recovered and the Greens turned the tides. The satisfaction with the coalition dropped, not so much because of the deteriorating economic situation – even though unemployment kept rising –, but because of a series of scandals. The most serious one was the allegation that the Flick conglomerate had paid large sums of money to the CDU and FDP for political favours. Because of these charges the CDU Speaker of the Bundestag, Rainer Barzel and the FDP Minister of Economics, Count Lamsdorff, resigned (Pulzer 1987: 150). From mid-1986 onwards, the SPD's popularity dropped. Whereas in May 1986 the majority of voters still expected a SPD-Greens majority, only a quarter did by the end of the year. In December, the CDU even polled approaching 50 per cent (Pulzer 1987: 151).

Kohl II (January 1987-December 1990)

The Kohl II cabinet is coded as having a fairly strong Political Position (fuzzy-set score .67). Kohl's coalition was re-elected with a reduced, but still comfortable, majority. The position of the opposition parties prior

to this election had been weak. 'Not only did their joint share of the vote (43.8%) hold out little promise of defeating the government at the next election, but they did not constitute an Opposition with a capital O and both [the SPD and the Greens] were internally divided, not least on the subject of co-operation with each other' (Pulzer 1987: 149). Still, the Kohl II cabinet was somewhat less strong than its predecessor as the CDU had incurred a loss of 4.5 per cent of the votes (Pulzer 1991: 145). Throughout most of 1987, the CDU enjoyed a honeymoon period in the opinion polls. During 1988, 1989 and the beginning of 1990, the CDU and the SPD changed these positions variously, with the SPD generally in front. The elections in the *Länder* confirm these results (Pulzer 1991: 146).

Kohl III (December 1990-October 1994)

The Kohl III cabinet is coded as having a strong Political Position (fuzzy-set score .83). As the election of December 2 approached nearly 90 per cent of the voters expected the CDU to win the elections, which made Kohl basically sure of winning. The FDP pulled the card it had pulled successfully before – the citizens' fear of an absolute CDU majority – and solicited the second (list) votes of those whose first (constituency) vote might go to the CDU. This strategy proved successful, again (Poguntke 1992: 412). The CDU's response was a last minute poster campaign soliciting both votes (Pulzer 1991: 151). The election's outcome was a stunning victory for the coalition parties, with 'the opposition parties (...) reduced to further demoralization and disarray' (Pulzer 1991: 151). The FDP emerged as the major winner. The SPD lost for the third time in a row in the western zone. Falling below 30 per cent of the popular vote, the party even risked losing its status as a 'catch all' party (Pulzer 1991: 153). Kohl's CDU did not manage to reap much of the electoral benefits. The party achieved 44.1 per cent of the votes – the lowest share since 1949 (Poguntke 1992: 412).

Only two months after the election, the new coalition's popularity dropped because of announced tax increases; a proposal that went against the explicit promises made during the election campaign. The cabinet argued that the financial support during the Gulf war had led to unexpected expenses. The voters did not swallow this argument lightly and in the *Land* election in Rhineland-Palatinate the SPD won for the first time in this traditional Christian Democratic stronghold. On June 2, the SPD again gained electorally from the position of the coalition parties as it reaped the majority of seats in the Hamburg *Land* election. After the summer, however, the Christian Democrats gained some ground as the

result of – especially – the heated public debate about political asylum (Poguntke 1992: 414-415). Altogether, 1993 proved a year of scandals and resignations of senior politicians (see Poguntke 1994: 308-310). At the end of this year, ‘(...) the SPD rose like a phoenix from the ashes of its arguably most severe leadership crises in postwar history’ (Poguntke 1994: 308).

The year 1994 was a so-called super election year as an unprecedented number of elections were scheduled (Poguntke 1995: 346ff.). The Lower Saxony *Land* election, held on March 13, provided the first electoral test. The SPD won an overall majority, but the gain had in fact only been .1 per cent of the vote. The Christian Democrats incurred a loss of 5.6 per cent, whereas the Greens gained 2 per cent but ended up in the opposition benches, as the SPD did not need them (Poguntke 1995: 348). The second election was that of the President. A parliamentary assembly (*Bundesversammlung*), consisting of all members of the Bundestag plus an equal number of delegates who are elected by the individual *Länder* parliaments, conducts this vote. After two rounds, the FDP withdrew its candidate and rallied with the Christian Democrats, who won as a result (Poguntke 1995: 348). A few weeks later, in the European Parliament (EP) election, the Christian Democrats fared better than expected, whilst the Social Democrats lost over 5 per cent. Consequently, and despite the fact that the FDP had not proven capable of crossing the 5 per cent hurdle, the EP election was regarded a turning point in the run-up to the general election. From May onwards, Kohl was again leading in the popularity polls (Poguntke 1995: 349-350). There were three more *Länder* elections before the *Bundestag* election (Saxony and Brandenburg in Eastern Germany and Bavaria in West Germany). These elections did not affect the political position of the government much: the CDU Prime Minister, Kurt Biedenkopf, won in Saxony; the CSU won the Bavarian election; and the SPD stayed most popular in Brandenburg. In Eastern Germany, both the Liberals and the Greens incurred severe losses (almost all seats) whilst the PDS reaped electoral benefits (Poguntke 1995: 350).

Kohl IV (October 1994-September 1998)

The Kohl IV cabinet is coded as having a fairly weak Political Position (fuzzy-set score .33). After the 1994 election, the returning cabinet had only a narrow majority of 10 seats. These seats mainly stemmed from ‘surplus mandates’, which result when a party’s directly won seats exceed the overall number of seats it would be entitled to according to the rules of proportional representation based on the result of the second vote (CDU

12, SPD 4). The large number of surplus mandates for the Christian Democrats may have been due to the successful 'second vote campaign' by the FDP. Still, since the latter had lost (almost) all seats in the 1994 *Länder* elections, the party started with a bitter and hectic internal conflict immediately after the general election (Poguntke 1995: 350-351).

Before the 1998 Lower Saxony *Land* election, Schröder had stated that he would only consider himself a suitable Chancellor-candidate if he would win the election with a certain margin. He indeed won convincingly, which induced his competitor, Lafontaine, to declare his support to Schröder (Poguntke 1999: 401) and substantially boosted the Social Democrats in the opinion polls. The Greens, who had done well until 1997 (around 10% of the votes in the polls, which is about twice their usual support) announced a drastic increase in petrol prices in their manifesto. As a result, they had to fight hard to return from the 5 per cent they polled in April 1998.

Schröder I (September 1998-September 2002)

The cabinet Schröder I is coded as having a fairly strong Political Position (fuzzy-set score .67). The incumbent government had been seriously defeated in the 1998 election and the election outcome represented a clear mandate for a Red-Green coalition. The election results also made a Red-Blue (SPD/FDP) coalition possible, but the FDP was unwilling to accommodate itself to the Social Democrats. The Christian Democrats, who could have formed a Grand Coalition with the SPD, preferred the opposition benches after having lost 6 per cent of the popular vote. The new Red-Green coalition was formed rapidly. To the surprise of many, the Greens behaved professionally and disciplined, whilst the Social Democrats ranks showed considerable turmoil (especially about who should get which position). Party chairman Lafontaine was the 'bad guy' in much of this (see Poguntke 1999: 400).

Two conflicts marked the first months of Schröder I. First, Schröder was reluctant to consider the Green priorities like dual citizenship and nuclear energy policy. Second, within the SPD itself, there was a permanent power struggle between the left-wing traditionalists, led by Lafontaine and the economic modernizers, led by Schröder. Lafontaine's sudden resignation from all offices and his escape from public life solved the latter conflict. In April 1999, Hans Eichel, newly ousted former Hesse Prime Minister, took over as Minister of Finance and Schröder himself became party leader. To re-adjust his party position further, Schröder published a

joint declaration with Blair. In this document, the two called for supply-side oriented left-wing policies, a stance that was severely criticized by the unions and the SPD traditionalists (Poguntke 2000: 393). In all *Länder* elections in 1999, the Greens lost substantially – perhaps because of Germany's forces first military confrontation since WW II (Yugoslavia). Also the SPD generally lost in the *Länder* elections. Both parties ended up on the losing side of the EP elections too, whereby the Greens were hit hardest (Poguntke 2000: 393-4).

However, in November 1999, a major scandal over illegal party finance, corruption charges and so-called 'black' Swiss bank accounts, paralyzed the Christian Democrats and amounted to the worst crisis in the party's history and the resignation of Kohl. The coalition, and especially Schröder, benefited from the CDU's misery (Poguntke 2000: 394).

Hence, a year before the election, most observers expected the Red-Green coalition to win the 2002 election by a substantial margin. Things turned for the better for the Christian Democrats when CDU leader Edmund Stoiber announced to run for Chancellor early 2002. In March 2002, the SPD entered a party finance and corruption scandal. Probably more damaging was that the unemployment figures reached a four-year high in June. Furthermore, the economic competence of Schröder was questioned when a major building company, which Schröder had helped to rescue with state subsidies, collapsed (Poguntke 2003: 957; see also Helms 2004: 144-145).

Schröder II (September 2002-November 2005)

The Schröder II cabinet is coded as having a very poor Political Position (fuzzy-set score .17). The Red-Green coalition won the election by a small margin with four seats over an absolute majority (Poguntke 2003: 957). Before the 2002 election, more than 80 per cent of the electorate indicated that unemployment was the most important problem in Germany. However, when the election approached, the war in Iraq and the flood in Eastern Germany started to dominate the public debate – to the advantage of the SPD (Helms 2004: 145).

The Greens won the 2002 election (plus 2.1% of the total vote), which is remarkable as the Greens lost every single election since 1998. The widespread support for the Minister of Foreign Affairs Fischer, who was among the most popular politicians for several years then, probably helped (Helms 2004: 146). The SPD, conversely, lost 2.4 per cent of the votes (Helms 2004: 146). The position of Schröder was wobbly. Indicative

of this is that in the Chancellor election of 2002, which is done secretly by parliament, 305 members of parliament supported Schröder's candidacy. Not only is this a meagre three more than required, it also suggests a poor position as the SPD and Greens' parliamentarians were 306 in total (Helms 2004: 148-149). Moreover, from the beginning of the second term of the Schröder cabinet onwards, opponents doubted the Red-Green coalition's mandate and suggested that the government had deliberately misinformed the public about the size of public debt and several related issues during the 2002 election campaign. These allegations heated up when the cabinet presented its plan to reform substantially the German welfare state. This so-called 'Agenda 2010' had not figured in the government parties' 2002 manifestos (Helms 2007: 223). Consequently, the SPD did miserably in the polls and lost several *Länder* elections. Furthermore, the SPD's elite and rank-and-file deviated, leading to the unprecedented resignation of a Chancellor from party leadership. In May 2005, the last remaining Red-Green coalition at *Land* level was voted out of office, which crushed the SPD (Helms 2007: 223). In the European Parliament election of June 2004 it became clear how poor the Social Democrats were doing: the party received its lowest result ever (21.5% of the vote, Poguntke 2005: 1023).

Notes

Chapter 1

- 1 A related assumption is that among political parties' various strategies of office seeking and especially vote seeking are the most important ones. Policy seeking, conversely, is of secondary importance only (Downs 1957). For discussions about the three types of competitive party behaviour and the tensions between them, see for example Budge & Keman (1990, chapter 1), Strøm (1990), Müller & Strøm (1999), Gallagher, Laver & Mair (2005: 384-388).
- 2 In line with some quantitative studies on this topic (e.g. Armingeon 2007), this study uses activation and increased spending on active labour market policies as synonyms. In reality, activation is more encompassing than increased spending on active labour market policy alone. Activation, for example, also includes the reduction of labour market exit options for working age claimants like disability and long-term sickness benefits (Clasen & Clegg 2006; OECD 2006a).
- 3 These figures are for women only, but the line of argument does not change when examining the figures for men too.
- 4 Detailed case studies and comparative accounts have documented the considerable and persisting support of national publics for their welfare states. Moreover, public opinion research typically finds considerable public support for the welfare state and little, if any, decline in patterns of public attachment to the national systems. The welfare state is well entrenched in national political cultures (Sihvo & Uusitalo 1995; Svallfors 1995; Ferrera 1997; Goul Andersen 1997; Becker 2005; Brooks & Manza 2006). Cross-national studies allow for similar conclusions, as there is little evidence to support a declining popularity hypothesis (e.g. Boeri et al. 2001).
- 5 Given that a substantial number of welfare state reforms occurred in the 2000s, especially in the continental or Bismarckian welfare states (e.g. Clasen & Clegg 2006; Clegg 2007; Stiller 2007, 2010; Van Gerven 2008; Vis et al. 2008), it is unfortunate that the quantitative data used in this study are not available after 2002 or 2003.

Chapter 2

- 1 Configurational approaches such as fuzzy-set analysis can be, and increasingly are, used in 'large-n' research designs as well (e.g. Ragin 2009: chapter 11; see also Berg-Schlusser et al. 2009).
- 2 For a discussion of the epistemological foundations of configurational comparative methods, a discussion of assumptions regarding causality in configurational methods, and an overview of the use of data, generalizability, data, replicability and transparency, see Berg-Schlusser et al. (2009).
- 3 In fact, traditional quantitative variables are calibrated in a crude way, based on sample means and standard deviations.

Chapter 3

- 1 Lødemel and Trickey (2001: 9-10) are aware that in some countries workfare applies to more than social assistance. Where workfare programmes also apply to those individuals with insurance entitlements, such as in Denmark, the contributors to the edited volume consider these programmes too.
- 2 However, leaner employment protection means lower job security, which may trigger some people to prefer welfare to work (see Regalia 2003: 107-108).
- 3 Some of the indicators capture more than one workfare characteristic. For instance, activation relates both to the obligation to work and striving for maximal labour participation. Although this practice may seem problematic, it is not. For assessing the claims from the regulationists and the mainstream welfare state scholars, the individual characteristics of workfare are not interesting; only the shift towards workfare (or the absence thereof) is. For such an assessment, we need indicators that tap into these characteristics. It is no problem that an indicator captures more than one characteristic because the individual characteristics are not what matters for the establishing (absence of) a welfare-workfare shift.
- 4 Countries in the liberal regime are Australia, Canada, Ireland, New Zealand, the UK and the US; countries in the conservative regime include Austria, Belgium, France, Germany, the Netherlands and Switzerland; and countries in the social democratic regime include Denmark, Finland, Norway and Sweden.
- 5 Due to data availability, I measure employment protection for the late 1980s and 2003 instead of 1985 and 2002. This causes no problems for the analysis because the regulationists consider the welfare-workfare shift to be a fairly recent phenomenon.

- 6 Note that different from the strongly deregulated labour market in the liberal regime and the strongly regulated labour market in the conservative regime, a relatively strongly regulated labour market is not a typical feature with which to characterize the social democratic regime. Still, the countries of the social democratic regime have – with the exception of Denmark – relatively strongly regulated labour markets, which is why I include this feature here.
- 7 In the article version of this analysis (Vis 2007a), I have used a different way to calibrate the fuzzy-sets. Specifically, I first recoded all raw data below or above the qualitative breakpoints, that is <5 and >25 as follows (see Ragin 2006b): lowest through 5, new value 5; 25 through highest, new value 25. The new minimum and maximum are 5 and 25. Then, the fuzzy-set is computed by taking these transformed raw data and subtracting the lower limit (here 5) from each score and then dividing the result by the [upper limit minus the lower limit], here $25 - 5 = 20$. In formula: fuzzy-set score = [transformed raw data – lower limit]/[upper limit – lower limit]. The procedure adopted in the main text draws heavily on this one, as a result of which the resulting fuzzy-set scores hardly differ. The reason why this new calibration technique is adopted nonetheless is because this procedure is integrated in the fsQCA software and using it is considered ‘best practice’ within fsQCA (Ragin 2008, chapter 5; 2009; 118).

Chapter 4

- 1 Aust et al. (2002), Leibfried & Obinger (2003), Zohlnhöfer (2003; 2004), Clasen (2005) Schmidt (2005) and Vis (2007b) for Germany; Green-Pedersen (2002, chapter 5), Van Gerven (2008) and Vis, Van Kersbergen & Becker (2008) for the Netherlands; Green-Pedersen (2002, chapter 5) for Denmark; and Daguette & Taylor-Gooby (2001/2), Clasen (2005) and Van Gerven (2008) for the UK.
- 2 Available at www.reformmonitor.org.
- 3 Data available from about 1992 onwards.

Chapter 5

- 1 It is unclear what exactly *radical* retrenchment is (see Vis 2009c). Starke states, for example, that New Zealand’s classification as radical retrencher ‘rests also on the concurrence of retrenchment in virtually all social security schemes (...) within a very short time-period’ (p.188). Does this mean that

retrenchment has to take place in all social security schemes simultaneously in order to be radical? If that would be the case, why then is the UK also seen as a case of radical retrenchment in the early 1980s, at a time when pensions went up?

- 2 Note that due to the 'relatively low ceilings of maximum benefits, [the basic insurance contribution variant's] degree of earnings-relatedness is lower than it is in the encompassing countries' (Korpi & Palme 1998: 670).
- 3 For ideational approaches to economic policy-making and institutional change, see for example Hall (1993) and Blyth (2001; 2002).

Chapter 6

- 1 Following Elster (1986), Mercer (2005b: 78) argues that rational choice theory is above all a normative theory.
- 2 Quattrone & Tversky (2000[1988]: 454-458) offer an experimental test of the presence of the status quo bias. In this experiment, participants were offered two sets of choice problems – like in the Asian disease example displayed above – in which they had to decide for whom of two presidential candidates to cast their vote. The two problems were identical but for how the status quo was located. As the status quo bias, as well as loss aversion, implies the majority of respondents opted for the status quo presidential candidate. This finding is incompatible with expected utility theory according to which decisions do not depend on whether or not an option is designated as the status quo.
- 3 Following Dickson (2006: 455), I define micro-foundations as 'the cognitive pathways through which individual members of society form political judgments, learn about political questions, or come to make political choices'.
- 4 Note that the aggregation problem occurs in other disciplines as well. For example, economists are often interested in households or firms, which are collective actors (see Bone et al. 1999). Similarly, organizational sciences focus on what organizations – aggregates of individuals – do (see e.g. Shimizu 2007).
- 5 In addition to these problems, there are other pending issues. For instance, can prospect theory deal with strategic interaction? The work of Weyland (2002) offers an intriguing example of how a prospect-theoretical approach can deal with the strategic interaction between leaders and citizens. Furthermore, Butler (2007) constructs a game-theoretical model that demonstrates the differences between expected utility theory and prospect theory with respect to strategic interaction. Linking prospect theory to the theory of blame avoidance is another route, which Vis & Van Kersbergen (2007) elaborate.

- 6 The law is named after the Hartz Commission that drew up the proposal for the reform. This commission was chaired by Peter Hartz, the head of the personnel executive committee of Volkswagen.
- 7 In addition to the unemployment assistance and social assistance scheme, the German system also includes an unemployment insurance scheme, for which those unemployed are entitled who have been at least 12 months insured in the past three years (Stiller 2010: 146).
- 8 Actually, the growth rate starts to fall from the third year of this cabinet period onwards, from 3.1 per cent in the second year to 1.0 and .1 in the third and final years (see table A3).

Chapter 7

- 1 Available at www.compass.org.
- 2 Ragin (2008, chapter 9) proposes as best practice to report also the so-called intermediate solution. In terms of complexity, this solution is located somewhere between the most parsimonious solution (with all simplifying assumptions included) and the most complex one (with no simplifying assumptions included). This intermediate solution involves easy counterfactuals for the logical remainders. However, given that there are no obvious easy counterfactuals for the occurrence of unpopular reform and not-unpopular reform, I do not present the intermediate solution here.
- 3 The most parsimonious solution, that is with setting the remainders to 'don't care', is WSE → UR (coverage: .88; consistency: .90).
- 4 Thanks to Richard Katz for pointing this out.
- 5 The most parsimonious solution is: WSE + RIGHT → BEN (coverage: .93; consistency: .72).
- 6 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.
- 7 The most parsimonious solution is: right + wse + WPP → ACT (coverage: .90; consistency: .80).

Appendices

- 1 The Nyrup Rasmussen II cabinet is included in the cabinet Nyrup Rasmussen III. The latter technically commenced when the Centre Democrats left the cabinet in December 1996.

- 2 The Balkenende I cabinet is excluded from the analysis because it reigned less than a year.
- 3 Information on the elections is taken from *Electoral Studies*' 'Notes on Recent Elections' and from the *European Journal of Political Research*'s 'Political Data' (from 1991 onwards). The percentage of votes for the governing party or parties and for the main opposition party or parties can be found in table A3 in Appendix A.
- 4 Schlüter III is not included because it was in office less than a year.
- 5 The Tamil Gate affair involved the court of inquiry's conclusion that the administration of a law granting refugees the right to be reunited with their families in Denmark was illegal. The information that the PM had given in regards this affair was considered highly misleading and incorrect.
- 6 The following draws on Bille (1994: 284-285).
- 7 Nyrup Rasmussen III is included is Nyrup Rasmussen II because the former began when the Centre Democrats left the coalition.
- 8 The suspected drugs dealer, Desi Bouterse, was an ex-commander of the armed forces in Surinam (a former Dutch colony), leader of the Surinam National Democratic Party, and advisor to the government.
- 9 The Balkenende I cabinet is excluded because it reigned less than a year.
- 10 See www.politiekebarometer.nl.
- 11 The following draws on Kaase (1983).

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