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WHY AND HOW DO POLITICAL ACTORS PURSUE RISKY REFORMS?

Barbara Vis and Kees van Kersbergen

ABSTRACT

Why and how do political actors pursue risky welfare state reforms, in spite of the institutional mechanisms and political resistance that counteract change? This is one of the key puzzles of contemporary welfare state research, which is brought about by the absence of a complete account that identifies both the cause and causal mechanisms of risky reforms. In this article we offer a remedy for this lacuna. Prospect theory teaches us that political actors will only undertake risky reforms if they consider themselves to be in a losses domain, that is when their current situation is unacceptable. Next, we discuss the strategies that political actors use to avoid the blame associated with risky reforms. These provide the causal mechanisms linking cause and effect. The sudden outburst of risky reforms in formerly 'immovable' Italy provides an empirical illustration of our account.

KEY WORDS • blame avoidance • causation • prospect theory • welfare state reform

1. Introduction

One of the major puzzles of contemporary welfare state research is why and how reforms are taking place in spite of the institutional mechanisms and political resistance that work against change. Empirically, the field is very rich with detailed single case studies, comparative projects and large studies that have produced a host of hypotheses on the *how* of welfare state reform. Moreover, mainstream welfare state research informs us that it is plausible to assume that welfare state reform is always politically risky, so that there must be a very strong or convincing reason *why* political actors will pursue such reforms in the first place. It is especially this *why* question for which welfare state studies have no theoretical answer. This stems from their lack of a complete theory that links the 'basic cause' of reform (why does it happen?) to the effect (reform). In addition, one also needs to identify the causal mechanisms explaining the link between cause and effect (how does it happen?).

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Our contribution is rooted in two theories. First, prospect theory helps us to find the basic cause of risky welfare state reform. This theory is a context-sensitive, empirically based, behavioural theory of choice that is especially well equipped to deal with the problem of decision making under conditions of uncertainty and risk (see for recent reviews McDermott, 2004; Mercer, 2005). Second, the theory of blame avoidance inspires us to identify the causal mechanisms. This theory can explain how political actors try to avoid the negative consequences of their reform efforts. The combination of both theories yields a complete causal account of risky welfare state reforms. We illustrate our major points by discussing the puzzling reform experience in Italy in the 1990s.

The article is structured as follows. In Section 2 we shortly discuss major studies of contemporary welfare state research and identify the basic theoretical problems that contribute to the puzzle of reform. In Section 3 we turn to prospect theory to find the basic cause for risky welfare state reforms. Section 4 is devoted to the theory of blame avoidance and gives us the strategies of reform that serve as causal mechanisms between cause and effect. Section 5 elaborates on this and discusses blame avoidance strategies for risky reforms. Section 6 is the conclusion.

2. Puzzles in Welfare State Research

Theories from various intellectual backgrounds in the late 1980s and (early) 1990s argued and predicted the definitive crisis and final breakdown of the welfare state. They pointed to formidable challenges such as ageing populations, sluggish economic growth, long-term unemployment, changing family structures, the transformation of life cycle patterns, the post-industrialization of labour markets, the erosion of systems of interest intermediation and collective bargaining, the rise of new risks and needs, and international pressures (globalization and European integration) (for general overviews and reviews of the literature see Huber and Stephens, 2001; Green-Pedersen and Haverland, 2002; Myles and Quadagno, 2002; Van Kersbergen, 2002; Starke, 2006). The main prediction of these theories was that such challenges and pressures necessarily would bring about major structural revisions as they threatened the welfare state's viability and subsistence. However, empirical reality contradicted this prediction, since the welfare state continued to exist. As a result, the major explanatory puzzle in the mid-1990s became the theoretically unexpected but empirically observed *persistence of the major institutions of the welfare state* (see Pierson, 2001).

Theoretically, and in accordance with mainstream political science, institutionalist approaches provided part of the solution to this puzzle by identifying some of the crucial mechanisms that explained welfare state persistence. Another part of the solution was found in the 'politics of blame avoidance' (Weaver, 1986). Major policy reform was not only very difficult because of the heavy weight of policy legacies, but also politically highly risky as it adversely affected (parts of) the electorate and vested interests. Major welfare state reform efforts time and again failed because of two major pro-status quo forces: first, the broad (electoral) support for core social programmes and accordingly the political unpopularity of cutbacks; and, second, the rigidity of welfare state institutions that results from path-dependent development and veto points that have the capacity to obstruct reform. Hence Pierson's (1996: 178) argument that 'frontal assaults on the welfare state carry tremendous electoral risks' and that retrenchment as a political issue should not be misunderstood as the mirror image of the growth of the welfare state. Whereas welfare expansion usually generated a popular politics of credit claiming for extending social rights and raising benefits to an increasing number of citizens (that is, the *old* politics of welfare state expansion), austerity policies tended to affront voters and networks of organized interests and therefore triggered a politics of blame avoidance (that is, the *new* politics of welfare state retrenchment). Shifting the goals from expansion to retrenchment imposed 'tangible losses on concentrated groups of voters in return for diffuse and uncertain gains' (Pierson, 1996: 145). On average, 'retrenchment advocates thus confront a clash between their policy preferences and their electoral ambitions' (p. 146). However, by the late 1990s, a new puzzle was emerging: if institutional sclerosis and political deadlock were indeed so powerful in precluding change, why were there nonetheless empirical instances of (sometimes substantial or even radical) welfare state restructuring? What explained the reforms that did occur in spite of the theoretically plausible predictions of log jam?

Most new analyses start from the institutionalist argument and then try to add specific and ad hoc mechanisms or conditions under which substantial reform is possible (e.g. Kitschelt et al., 1999; Levy, 1999; Bonoli, 2000, 2001; Ross, 2000; Green-Pedersen, 2001; Kitschelt, 2001; Swank, 2001) and point to the role of framing, discourse and policy learning in overcoming electoral and institutional resistance against major policy reform (Cox, 2001; Green-Pedersen and Haverland, 2002; Van Kersbergen, 2002; Schmidt, 2002; Starke, 2006).

Despite these attempts, the current state of affairs is such that many researchers are struggling to understand the dynamics of institutional resilience and reform. Indeed, many theoretical propositions and empirical hypotheses are proposed (and even tested), but all seem to face serious problems in elaborating the causal foundation of their argument. More specifically, welfare state scholars fail to provide a theoretically founded answer to the question *why* political actors pursue risky reforms in the first place and tend to focus only on *how* reform measures are taken in the face of institutional and political resistance.

In our view, a good theory proposes to explain the phenomenon of interest by identifying cause and effect (and thus answering the *why* question) as well as the mechanism that links cause and effect (and thus answering the *how* question) (see for a good discussion of causation, Gerring, 2005). In this article, we combine prospect theory and the theory of blame avoidance in order to develop such a theoretical account of risky reform projects.

3. Finding the Basic Cause of Welfare State Reform: Prospect Theory

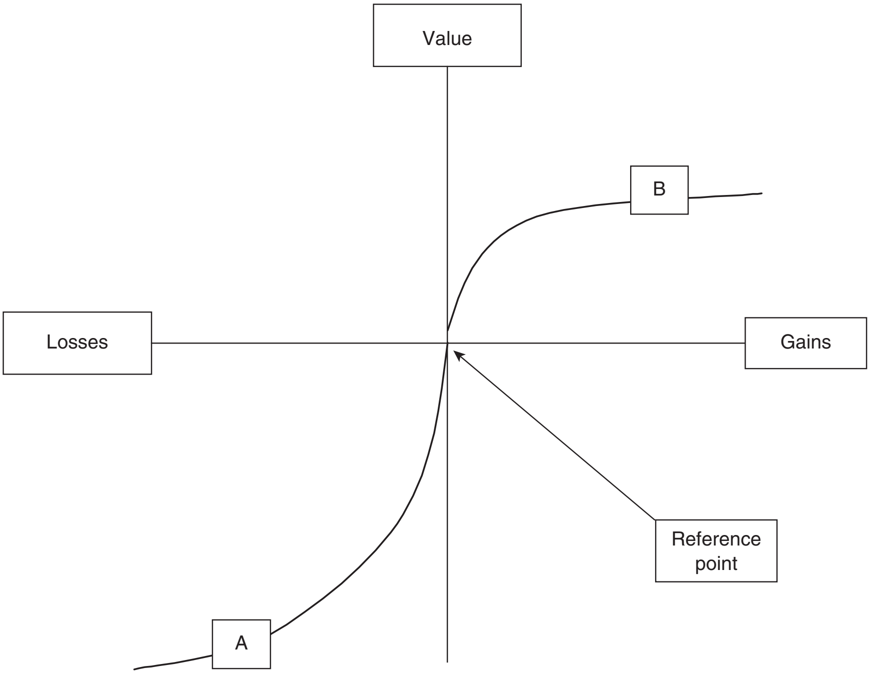
It is intriguing to note that prospect theory, 'the most influential behavioural theory of choice in the social sciences' (Mercer, 2005: 3), has had hardly any influence in political science in general and in comparative politics in particular. Some interesting attempts aside, mainly (but not exclusively) in the field of international relations (Weyland, 1996, 1998, 2002; Quattrone and Tversky, 2000; Bueno de Mesquita et al., 2001; Levy, 2003; Boettcher, 2004; Taliaferro, 2004), this is all the more surprising because prospect theory seems particularly apt to deal with situations in which decisions have to be made under conditions of uncertainty and risk, that is situations in which political actors typically find themselves. Expected utility theory, as commonly used in economics and in political science schools that employ economic theories such as rational choice institutionalism, on the contrary, makes predictions that do not adequately describe how people actually make choices under conditions of risk and uncertainty.

Prospect theory, developed by Kahneman and Tversky (1979) more than 25 years ago, was meant as a descriptive model of decision making that would provide an alternative to the normative theory of expected utility. In experimental settings, a significant number of people consistently made choices that deviated from the predictions of the model of expected utility. Whereas in both expected utility theory and prospect theory people make choices over gambles, these gambles are defined over end-states in the former and over deviations from a reference point in the latter. Prospect-theoretical experiments also disclosed that people are more likely to choose risky options when they find themselves in the domain of losses, whereas they were risk averse in the gains domain. In addition, a most typical statement of prospect theory is that 'losses loom larger than gains' (Kahneman and Tversky, 1979: 279) or 'losses hurt more than equal gains please' (McDermott, 2004: 298). These are prospect theory's main findings.

The original theory[1] can perhaps best be illustrated by the so-called (hypothetical) value function (see Figure 1): the value function is (a) defined on deviations from the reference point; (b) generally concave for gains (in the figure denoted by B) and commonly convex for losses (A); (c) steeper for losses than for gains.

Why do deviations from the predictions of the expected utility theory occur? There are a number of reasons. The first concerns the 'negativity effect', which sums up the 'losses loom larger than gains' proposition. A negativity effect refers to 'the greater weight given to negative information relative to equally extreme and equally likely positive information' (Lau, 1985: 119). Second, there is the 'certainty effect', which means that 'people overweigh outcomes that are considered

1. Tversky and Kahneman (2000) have extended their theory into the so-called cumulative prospect theory version that – among other things – applies to uncertain as well as risky prospects with multiple outcomes. There are still significant limitations of the theory, for instance the lack of applicability to strategic interaction and aggregate behaviour (see Levy, 1997; McDermott, 2004).



Source: Adapted from Kahneman and Tversky (1979: 279).
Figure 1. A Hypothetical Value Function

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

Third, there is the 'reflection effect', which suggests that the preference order in the negative domain mirrors the preference order in the positive domain. This implies that how choices are 'framed' matters for how preferences are ordered. Framing is 'the process by which a communication source constructs and defines a social or political issue for its audience' (Nelson et al., 1997: 221). A decision frame, then, refers to the 'decision-maker's conception of the acts, outcomes, and contingencies [that is, the conditional probabilities that relate outcomes to acts] associated with a particular choice' (Tversky and Kahneman, 1981: 453). For example, when people are faced with the fact that there is 10 per cent unemployment, they probably are ready to accept tough policy measures to fight unemployment. However, when this fact is reformulated in positive terms, namely that employment is at 90 per cent, they probably are less inclined to accept harsh measures to increase further the level of employment. In other words, framing the same fact differently reverses preferences.

Finally, we mention the effect of the 'status quo bias': 'individuals have a strong tendency to remain at the status quo, because the disadvantages of leaving it loom larger than advantages' (Kahneman et al., 2000: 163). Actually, there is no status quo bias but a reference point bias. 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).

There are a number of problems in prospect theory. One of the biggest is the determination of 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' (see Mercer, 2005: 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 status quo as reference point, aspiration as reference point, heuristics, analogies and emotion (Mercer, 2005: 4). It is plausible in the case of the welfare state to take the status quo as a 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 that is characterized by institutional resilience and electoral resistance against change and, second, because the status quo bias holds for both the reformers and those affected by reforms. Detailed case studies and comparative accounts have documented the considerable and persisting support of national publics for their welfare states. Moreover, time and again public opinion research 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 and Uusitalo, 1995; Svallfors, 1995; Ferrera, 1997; Goul Andersen, 1997). Cross-national studies allow for similar conclusions, as there is little evidence to support a declining popularity hypothesis. In a recent study, Boeri et al. (2001: 32) asked whether citizens would like to shrink the welfare state. Their central finding was that 'the majority of respondents support the status quo'.

A second, and well-known, theoretical problem concerns the lack of a theory of framing (but see Kanner, 2005). As a result, prospect theory does not provide an answer to the question how to determine when political actors consider themselves to be in a gains or losses domain. This is crucially important as this establishes whether actors are risk averse or risk seeking. This issue of the importance of framing is increasingly taken up in welfare state studies, particularly under the influence of Vivien Schmidt's (2002) work on discourse in reform politics (see also Kuipers, 2006).

In addition to these problems, there are other pending issues. For instance, can prospect theory deal with group behaviour and with strategic interaction? There is no definite answer here, but – as in rational choice theory – the suggestion is that the unitary actor assumption is a legitimate tool (on the condition that its validity is empirically substantiated; Levy, 1997), so that prospect theory can be applied to group behaviour. Recent experimental evidence (Bone et al., 1999) suggests that pairs of individuals violate the predictions of expected utility theory in (almost) the same matter as do individuals – that is, risk seeking in the domain of gains, and risk adversity in the domain of losses. This indicates that the central finding of prospect theory extends to situations of collective decision making. The work of Weyland (2002), furthermore, offers an example of how a prospect theoretical approach can deal with the strategic interaction between leaders and citizens. Our linking of prospect theory to the theory of blame avoidance is another route, which we elaborate later.

This exposition of prospect theory, then, would tell us that policy makers avoid risks as long as they consider themselves in a domain of gains, that is, they see their current situation as still acceptable or tolerable. Paraphrasing Berejekian (1997), the theory yields two predictions for governments as the major decision makers in 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, while governments in a losses domain pursue relative gains and are more willing to accept the risks of reform (see Berejekian, 1997).

Following Weyland (1996), the same reasoning could be applied to voters, interest groups or the public at large. For reasons of clarity, we elaborate this only for voters. 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).

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

To illustrate the value of our prospect-theoretical approach, we discuss the puzzling case of Italy, where – after decades of immobility – the 1990s saw a sudden outburst of reform activities. Ferrera and Gualmini (2004) explain this as a result of an institutional and political learning process under pressure of the entrance criteria of the Economic and Monetary Union (EMU) in Europe, but we hold that the empirical material actually allows for a better explanation based on prospect theory.

Italy's decision to join the Maastricht process towards EMU was a bold decision in the light of the country's limited political reform capacity and precarious budgetary situation at the time (see Ferrera and Gualmini, 2004). It was a bold decision as it was highly unlikely that Italy would even come close to reaching the stringent

		Government	
		Losses domain (status quo –/–)	Gains domain (status quo +)
Voters	Gains domain (status quo +)	(risk averse, risk seeking) Conflict: Government wants reform; Voters oppose reform **I**	(risk averse, risk averse) No conflict **III**
	Losses domain (status quo –/–)	(risk seeking, risk seeking) No conflict **II**	(risk seeking, risk averse) Conflict: Voters want reform; government opposes reform **IV**

Note: The risk attitude of the voters is listed first.

Figure 2. Voters' and Government's Domains, Risk Attitudes and the Need for Blame Avoidance

criteria set of EMU. It seemed impossible that Italy would be able to reduce its budget deficit to 3 per cent of gross domestic product (GDP) as the deficit was still 10.7 per cent in 1992. Also reaching a public debt of 60 per cent of GDP seemed not realistic as the level was no less than 107.7 per cent in 1992 (Ferrera and Gualmini, 2004). Still, trying to implement drastic measures in order to qualify for EMU seemed the 'rational' choice for Italy. The political and monetary crises of the early 1990s had already taught politicians a painful lesson. In 1992–3 financial markets had attacked the lira, the currency had to be devaluated vastly, and Italy was forced to exit the European Monetary System. Ferrera and Gualmini (2004: 24) formulate the choices the Italian government faced as follows:

> As the 1999 deadline approached it became in fact clear that being denied entry into the new EMU club would originate high penalties on the side of international financial markets. Thus, the real alternative was no longer between adjusting for EMU or maintaining the status quo: it was an alternative between adjusting or losing ground. Actors had to choose between a potentially positive sum outcome (adjustment and entry) and a negative sum outcome (no or insufficient adjustment, non-entry and therefore high losses for virtually all actors). Choosing in favour of the first scenario was facilitated by the fact that the losses started to hit immediately: between 1995 and 1997 the exchange and interest rates of EMU candidate countries (especially the weaker ones) were closely linked to the probabilities of admission assigned by international rating institutions. The low (and actually declining) probabilities of EMU admission due to the political crisis and the stalling negotiations on pension reform resulted in high penalties on both the exchange and interest rates.

According to Ferrera and Gualmini, the Italian government thus faced two choices: (1) a negative sum outcome of limited to no reform (incurring high losses); and (2) a potential positive sum outcome of reform (adjusting and entering the EMU). The choice between: (3) the status quo (that is, no reform); and (4) reform (that is, trying to enter the EMU) was no longer an option. Confronted with options 1 and 2, the 'rational' choice from a vote-seeking perspective seems to be option 2 (reform) as option 1 produces *certain* losses whereas option 2 has potential benefits. The corollary of this reasoning is that the Italian government opted for pursuing drastic reforms in the 1990s, because it was rational to do so.

Notwithstanding the intuitive plausibility of this argument and the explanatory power it seems to have, we argue that the choices the Italian government faced in the 1990s were actually different from options 1 and 2 as presented by Ferrera and Gualmini. More precisely, we hold that they underestimate the risks involved in undertaking the radical reform measures. The actual choices should be described as follows. Option 5 is similar to option 1 but we propose to frame it somewhat differently, namely as no reform, meaning a *certain loss*. Option 6 is similar to option 2 but again presented differently as this option has two possible outcomes. Outcome 6A: the reforms are unsuccessful, so that the benefits of EMU membership cannot be reaped and the government is punished for its unpopular and failed measures with a substantial loss of votes. Outcome 6B: The reforms are successful and the benefits of EMU membership can be collected, but voters – given their attachment to the established rights of the welfare state – are still likely to punish the government for having undertaken the unpopular reform measures. The difference between options 5 and 6 is that the losses in option 5 are certain, whereas the losses in option 6 are uncertain. Given the 'immobility' of the Italian welfare state and the state of the Italian economy in the 1990s, outcome 6A seemed much more likely than outcome 6B. As is easy to see, the losses under 6A are higher than those under 6B. In addition, it seems – especially given the potential loss of votes under option 6 – reasonable to assume that the total (potential) losses are higher under option 6 than under option 5. Thus, a 'rational' actor would not opt for the 'gamble' of reform, but would simply take the loss.

So, if the choices that the Italian government actually faced are presented properly, that is, as choices between options 5 and 6, a rational choice account would not predict nor could it explain why the government pursued such a radical reform agenda. The puzzling choice the government in fact made was, however, precisely the one our prospect-theoretical account would predict. At the time of the choice, the Italian government found itself in a losses domain, which was primarily evoked by the precarious condition of the Italian economy and the labour market. The high budget deficits and debts, the interest rates as well as the long-term and youth unemployment rates were significantly above the EU average. Decreasing productivity, accelerating labour costs, and declining competitiveness in the tertiary sector (Ferrera and Gualmini, 2004) were all unacceptable, especially as Italy aspired to become a member of the EMU club. So the government found itself in a losses domain, meaning that actors were risk acceptant and therefore willing to pursue risky reform projects.

In conclusion, prospect theory gives us the necessary condition under which risky welfare state reform can occur: when governments view their current situation as a 'loss' (cells I and II of Figure 2). This theory, then, gives us an explanation for 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 as we have demonstrated in the Italian example. Prospect theory thus gives us an answer to the fundamental *why* question; it provides the basic *cause* of hazardous reforms. It also gives us an indication of the conditions under which welfare state reform is likely to be successful: when either voters are also in a domain of losses so that they seek 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). The case of cell I poses the question *how* a government deals with the resistance against reform. To identify the *causal mechanisms* that link this basic cause with the effect (risky welfare state reform), we turn to the theory of blame avoidance.

4. Identifying the Causal Mechanisms of Welfare State Reform: The Theory of Blame Avoidance

Drawing on prospect theory, we argued that political actors will only pursue risky reform projects if they consider themselves to be in a losses domain. In addition, we reasoned that welfare state reform is likely to be successful if either voters are also in a domain of losses or if the government is able to overcome the reform hostility of the voters who consider themselves to be in a gains domain.

In the case of the public, one can imagine that in some contexts voters are risk acceptant (as in cell II of Figure 2). Weyland (1996) gives an interesting account in his study of radical economic reforms in Latin America. Asking 'what gains and losses loom largest for leaders and citizens?' (p. 190), Weyland first puts forward that income is the main economic concern for common people. He then argues that in Latin America, 'runaway inflation is the single biggest threat that can thrust large numbers of people suddenly into a domain of losses. The speed of this deterioration prevents them from lowering their expectations and redefining their reference point for assessing gains and losses' (p. 190). In the context of developed welfare states, it is not so much runaway inflation but physical and social security (recently including issues of migration) that are the main concerns of people. However, as the support for the welfare state among the public remains firm and high (see e.g. Becker, 2005) and there is no immediate threat to the continuing existence of the welfare state, it is unlikely that voters will consider their present situation as a loss. As a consequence, the condition is such that governments consider themselves to be in a domain of losses, while voters regard their situation as a gain. This creates a large need for strategies to minimize the risk involved in reform, for instance, electoral punishment.

In the literature on party-political decision making, three kinds of motivations are distinguished: (1) credit claiming, (2) 'good policy' and (3) blame avoidance (Weaver, 1986). In the context that we focus on, that is, in situations where the government, but not the voters, is in a losses domain and therefore needs to overcome the reform hostility of the voters in order to be successful, the motivation of blame avoidance is most relevant. Governments are here most likely to search for blame avoidance strategies because this will help them to be successful, that is, attain the goal (reform) that – because they find themselves in a losses domain – they have been forced to set, while avoiding the well-known risk of blame that accompanies such hazardous reform.

Can blame-avoidance strategies in this sense be politically (rather than policy) effective? We give a positive answer that is based on the 'negativity effect' described earlier. Hood (2002), for example, has observed a rising negativity bias, both among voters and politicians. In addition, Pierson (2001) has correctly argued that the benefits of reforms are widely dispersed electorally, while the losses tend to be concentrated among voter groups. We take this to imply that voters who are negatively affected by welfare state reforms remember such reforms much better and longer than reforms that affect them positively. Or, as Weaver (1988: 21) states, voters 'are more sensitive to what has been done *to* them than what has been done *for* them' (emphasis in original). So, how to do things to voters and get away with it?

The theory of blame avoidance, which can be traced back to Downs's (1957) theory of electoral competition, has had a clear focus on explaining why governments have a strong incentive to refrain from pursuing policies that are unpopular among voters. It was, in fact, one of the theoretical underpinnings of the welfare state resilience thesis. Interest group theory at the same time had been informing us that 'in addition to resisting to vetoing reforms, strong organized interests also reinforce the blame avoidance incentives of governments because trade unions and elderly lobbies are able to mobilize large segments of voters in elections' (Hering, 2003: 4, referring to Weaver, 1986: 394–5).

Indeed and interestingly, the resistance-against-change theorem was definitively one of the specific consequences of the politics of blame avoidance that Weaver (1986: 394) pointed to:

> Blame avoidance . . . helps to explain why policies are so difficult to change, even if they fail. If policymakers and their constituents perceived costs and benefits symmetrically, they would be willing to change policies quite freely, at least as long as the new policies promised at least as high a surplus of concentrated benefits over costs as the status quo. But substantial vested interests often develop around programmes. Because costs and benefits are perceived asymmetrically, policymakers fear that new policies will not win them as much support as dismantling the old ones will lose.

Prospect theory informs us that it is not just or only a matter of a cost–benefit calculus, but the theory also explains that even if reforms cost more than policy immobility, governments that find themselves in a losses domain nonetheless pursue risky reforms.

Can the eight strategies that Weaver (1986: 385) identified to explain why policy change is so difficult also be employed to simplify or facilitate reform?

- Strategy 1, *limit the agenda*, basically tries to avoid that the very issue of a hazardous reform is put on the agenda and is politicized; this is therefore not an option if reform is considered necessary;
- Strategy 2, *redefine the issue*, is primarily an attempt to spread the costs of reform and can just as likely be used as a reform strategy;
- Strategy 3, *throw good money after bad*, is a strategy that tries to soften the pain of reforms by offering a small compensation and can also be a strategy to help reform;
- Strategy 4, *pass the buck*, is delegation of the blame and includes 'automatic government' (e.g. indexation; see Weaver, 1988). This, again, is a strategy for implementing reform that may help to minimize negative consequences;
- Strategy 5, *find a scapegoat*, is shifting the responsibility for reform measures;
- Strategy 6, *jump on the bandwagon*, is swinging opinion towards the direction of the winning group by supporting a popular alternative. In the context of welfare state reform, this seems a strategy that either is not likely to occur or reinforces the difficulty of reform by moving away from it;
- Strategy 7, *circle the wagons*, is also a possible strategy, because it is used when blame is inevitable. It aims to share as much blame as possible, for instance by including the opposition in a reform package that is highly unpopular;
- Finally, Weaver's Strategy 8, *stop me before I kill again*, is restricting the discretion over the choice so that it appears that the government has no autonomous room to manoeuvre, which is an example of a reform-supporting strategy.

Most blame avoidance strategies that were originally thought primarily to work against reform, can, in fact, be employed by political actors to ease the reform efforts that they undertake. Blame-avoidance theory, then, can help us identify the causal mechanisms that link the basic cause (losses frame) with the effect (risky welfare state reform).

In addition to Weaver's strategies that political actors can use to deflect the negative feedback of risky reform, we can now also draw on prospect theory to offer two strategies that political actors can use not so much to avoid blame, but rather to change the domain of voters from gains into losses (that is, from cell I into II in Figure 2). First, *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. It 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. Second, *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.

However, an issue is that the theory of blame avoidance – and the extensions we have proposed here – is, so to speak, a strategy-dependent theory without a theory of strategies. Consequently, there is a lack of theoretically informed means to identify blame-avoidance strategies. Here, we cannot offer a definite solution. But we argue that linking blame-avoidance theory directly to well-established theories and empirically corroborated hypotheses of the mainstream welfare state literature provides some answers. This approach promises to strengthen the causal argumentation of welfare state theories and to enrich blame avoidance theory with empirical substantiation. In the next section, we elaborate on this and give illustrations.

5. Blame Avoidance Strategies for Risky Reforms

It is difficult to conceptualize what exactly is a risky welfare state reform (leaving painstaking problems of operationalization and measurement aside). This is a highly controversial issue among welfare state researchers and is also known as the dependent variable problem (for an overview see e.g. Green-Pedersen, 2004). We cannot offer a definite theoretical solution. Still, first we define a 'risk' as the probability of an event (e.g. loss of votes in an election) occurring times its impact (loss of power, removal from government) if it did. We know from prospect theory that the negativity effect and the status quo bias foster resistance against reform, so that the probability of electoral punishment and a loss of power is high. Moreover, institutional theory informs us that sclerosis impedes reform.

One of the proposals to solve the dependent-variable problem was a reconceptualization of reform in three dimensions (Pierson, 2001). First, *cost containment*, that is, the attempt to keep balanced budgets through austerity policies, including deficit reduction and tax moderation. Second, *recalibration*, which consists of 'reforms which seek to make contemporary welfare states more consistent with contemporary goals and demands for social provision' (Pierson, 2001: 425). This, however, is an unlikely route for blame avoidance, because it belongs more to the expansion phase of the welfare state and is therefore more suitable for credit claiming.[2] Finally, *recommodification*, that is, the attempt 'to restrict the alternatives to participation in the labour market, either by tightening eligibility or cutting benefits' (Pierson 2001: 422).

Pierson (2001) argued that each regime (social democratic, liberal or conservative) is characterized by its own 'new politics' of welfare state reform – that is, a specific combination of cost containment, recalibration and recommodification. In contrast to Pierson, however, we think that given the basic cause of reform (the losses domain) recommodification is – like cost containment – a feature of all welfare reform efforts, irrespective of the regime. These are at the same time by far the most risky reform policy objectives. This reinforces our confidence that linking the blame-avoidance and mainstream welfare literature is potentially productive, a task that we turn to now.

The strategy of *redefining the issue*, that is, spreading the costs of reform, can be recognized in recommodification policies that are presented as cost containment. Cost containment, while the demand for social expenditures remains the same or increases, implies recommodification. We may assume that no government will ever present reform policies of popular social programmes as explicitly aiming at reducing the level of protection from the market, that is, as explicitly recommodifying. Instead, harsh retrenchment policies will be portrayed as necessary efficiency measures.

The strategy of *throwing good money after bad*, that is, softening the pain of reforms, is difficult to translate into the terms of mainstream welfare state theory. Nevertheless, we know that in many countries various cost-containment measures were introduced – varying from tightening the eligibility criteria and lowering the benefit replacement rates to the abolishment of whole social programmes – that were subsequently followed by measures to compensate partly the disadvantageous impact on income equality and poverty. However, cross-national studies of aggregate data and of survey data on income (the Luxembourg Income Study) indicate that generally speaking both income inequality and poverty have increased (see e.g. Huber and Stephens, 2001). One may infer from this that most probably throwing good money after bad does not fully compensate retrenchment, but is used as a political strategy for its high symbolic positive potential.

Pass the buck, that is, delegation of the blame and/or automatic government, is another important strategy in welfare state reform. Retrenchment policies very often take the form of national framework laws that specify general objectives for

2. Levy (1999) has argued that some parties can turn policy vices into virtues. However, this is an option that can only occur if there are very (regime) specific vices that already lead to serious 'blaming', such as the large-scale misuse of the disability scheme in The Netherlands (see Kuipers, 2006).

lower level government to attain. To redefine competencies and delegate them to lower levels of government or to quasi-governmental institutions is also an option. This strategy, including decentralization and privatization, therefore includes various shifts in governance that aim to shun direct government responsibility (Van Kersbergen and van Waarden, 2004). Another feature of welfare schemes particularly suitable for passing the buck is found in indexation, a usually highly technical and therefore poorly visible matter (see Weaver, 1988). Many benefits are automatically coupled to developments in the economy, for instance the inflation rate, the growth rate of private sector wages, the level of the minimum wage, and so on. Passing the buck would imply that a blame-avoiding retrenchment strategy would tinker with the indexation rather than with, for instance, the replacement rate of benefits, leading to 'creeping disentitlement' (Van Kersbergen, 2000). To know more about this strategy, we would need to look at how and at what level the basic (or lowest) social benefits are coupled to the (minimum) wage development in the economy. An increasing distance between benefits and wages, presented as a technical adjustment of indexation, would be an indication of 'passing the buck'.

According to Hering (2003: 5), *circling the wagons*, that is, sharing the blame as widely as possible, is an important strategy for avoiding blame in major cost-containment operations, particularly in the form of 'an all-party consensus to diffuse blame'. If the major opposition party is no credible defender of the welfare state, 'voters may be unable to blame the government for welfare cutbacks because they have no reasonable alternative to turn to' (p. 5). As a result, 'governments are more likely to initiate welfare state reform if they command a large majority in parliament and are in a powerful electoral position' (p. 9). This would imply that in systems with multiple veto points and veto players, such as Germany, all major reforms necessarily are the result of system-wide bargains such as a grand coalition. It would also imply that in multi-party systems the number of surplus-coalitions as opposed to minimal winning coalitions increases and/or that the size of the surplus increases.

The *stop me before I kill again* strategy, that is, restricting the discretion over choice, is frequently used when, for cost-containment reasons, coalition partners agree upon certain budget norms to govern their spending behaviour during their period in office or when a system-wide bargain is struck that incorporates such a budget method in law or even the constitution. At the European level, Ulysses (the member states) has delegated his power over monetary policy to an independent European Central Bank in order not to react to the seductive song of the sirens (the pressure for inflationary spending). The cost of this change is that national political actors no longer have control over monetary policy, but the gain is that domestically they can withstand the unpopular refusal to spend more by invoking an external constraint. The European Central Bank emerges as the cause of tied hands and consequently blame can be shifted. Moreover, it will help politicians to *find a scapegoat*, thereby shifting responsibility for cost-containment operations whenever they get into trouble.

The *damned if you do, damned if you don't strategy*, that is, the manipulation of the domain of voters, 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 *creative accounting* and *lies, damn lies and statistics* strategies, that is, redefining the outcome measuring terms, simply try 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.

6. Conclusion

Why and how risky welfare state reform takes place, in spite of the institutional mechanisms and political resistance counteracting change, remains one of the key puzzles of contemporary welfare state research. We argued that the lack of a plausible answer is caused by the absence of a theory that links the basic cause of reform to the effect and that also specifies the causal mechanisms between cause and effect. In this article, we therefore proposed a theoretical account that does exactly this and that allows us to answer the question not only how, but also why political actors undertake risky reforms.

Drawing on prospect theory we identified that political actors will only pursue risky reforms if they consider themselves to be in a losses domain, that is, if they see the status quo (our reference point) as unacceptable. One of prospect theory's central findings is that people are risk seeking in the domain of losses and risk averse in the domain of gains. Consequently, political actors will abstain from reforming if they are in a gains domain. They will pursue risky reform policies if the status quo is no longer seen as tenable. The losses domain is thus the basic cause of reform. Prospect theory furthermore predicts that reforms can be implemented relatively easily if the voters consider themselves to be in a losses domain as well, while voters will oppose reforms if they consider themselves to be in a gains domain.

On the basis of the theory of blame avoidance, we established the mechanisms that link this basic cause and its effect. Instead of taking blame-avoidance strategies to explain welfare state resilience, we proposed to view them as strategies that avoid the blame that accompanies risky welfare state reform. The answer to the *how* question is found in the specification of these causal mechanisms.

We proposed solutions to several problems in prospect theory and the theory of blame avoidance. One problem is how to establish the reference point that determines the actors' domain. We contended that in the context of developed welfare states, it makes sense to take the status quo as the reference point. Another problem concerns how to conceptualize what is a risky welfare state reform. In our view, institutional sclerosis and the presence of the negativity effect and the status quo bias not only impede reform but make it risky business as well. Finally, we proposed to deal with the problem of the lack of a theory of strategies in blame avoidance theory by elaborating such strategies on the basis of well-established welfare state theories.

In sum, in trying to answer why and how politicians pursue risky reforms, we offered a theoretical account of welfare state reform describing the basic cause and causal mechanisms of risky reform. The empirical usefulness of a prospect-theoretical approach to welfare reform was illustrated by our reinterpretation of the causes of the unexpected outburst of risky reform activities in Italy in the 1990s. In addition, we put forward several strategies that political actors can use to avoid blame when they decide to pursue risky reforms and suggested ways to establish and assess these empirically. By combining prospect theory and the theory of blame avoidance we provided an answer to the question *why* political actors pursue risky reforms. In addition, we identified causal mechanisms that can explain *how* reforms happen in spite of the risks involved. Our account thus enhances the application of prospect and blame avoidance theory on welfare state reform and yields clear hypotheses that can be tested.

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