Governments and unpopular social policy reform: Biting the bullet or steering clear?

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Abstract. Under which conditions and to what extent do governments pursue unpopular social policy reforms for which they might be punished in the next election? This article shows that there exists substantial cross-cabinet variation in the degree to which governments take unpopular measures and argues that current studies cannot adequately explain this variation. Using insights from *prospect theory*, a psychological theory of choice under risk, this study hypothesises that governments only engage in unpopular reform if they face a deteriorating socio-economic situation, a falling political position, or both. If not, they shy away from the risk of reform. A fuzzy-set Qualitative Comparative Analysis (fs/QCA) of the social policy reform activities pursued by German, Dutch, Danish and British cabinets between 1979 and 2005 identifies a deteriorating socio-economic situation as necessary for unpopular reform. It is only sufficient for triggering reform, however, if the political position is also deteriorating and/or the cabinet is of rightist composition. This study's findings further the scholarly debate on the politics of welfare state reform by offering a micro-foundation that helps one to understand what induces political actors aspiring to be re-elected to engage in electorally risky unpopular reform.

Introduction

One of the findings that continues to emerge in the body of work focusing on welfare state reform (broadly defined as ranging from radical changes overhauling the welfare state system to (minor) cutbacks in unemployment benefits) is that reform is politically risky and difficult. The core programmes of the welfare state receive wide electoral support, which makes curbing them unpopular and politically dangerous (e.g., Esping-Andersen 1996; Becker 2005; Boeri et al. 2001; Brooks & Manza 2006; see also Kitschelt 2001). Moreover the costs of, for example, cutbacks are usually concentrated, while the benefits are dispersed (Pierson 1994). The difficulty of reform arises from this political deadlock as well as from institutional hindrances to reform such as veto points and the process of path dependency (e.g., Pierson 2001; Swank 2002).

In spite of these political and institutional hurdles, unpopular reform has taken place. Given the theoretical unexpectedness of such reforms, it comes as

no surprise that many studies try to explain the occurrence of reform (for reviews and overviews, see Green-Pedersen & Haverland 2002; Huber & Stephens 2001; Myles & Quadagno 2002; Scharpf & Schmidt 2000; Starke 2006; Van Kersbergen 2002). Stressing the importance of, among other factors, socio-economic problems and problem load, partisanship, institutions and ideas, this body of literature has come a long way in explaining the variation in reform pursued across countries, welfare programmes and/or over time. However, existing theories fall short when it comes to explaining the *variation across governments* in the adoption of electorally risky measures. Why are some governments willing to engage in unpopular reform, whereas other governments shy away from this risk?[1] Why, for example, did the Dutch Christian democratic/conservative liberals (CDA/VVD) cabinet pursue many unpopular measures in its first term in office, while refraining from them in its second term (Green-Pedersen 2002: Chapter 5)? And why did the German coalition of social democrats and Greens (SPD/die Grünen) eschew unpopular reforms in its first period in office, but implement a radical reform agenda in its second term (Kemmerling & Bruttel 2006; Leibfried & Obinger 2003)? Understanding the variation in reform across governments advances the scholarly discussion on the politics of welfare state reform by clarifying why political actors seeking to be re-elected engage in risky unpopular reform.

In this article, I address the issue of cross-cabinet variation by examining under which conditions and to what extent governments pursue unpopular, and hence risky, reform.[2] I argue that current theories need to be complemented with insights from *prospect theory* – a context-sensitive, behavioural theory of choice under risk (Kahneman & Tversky 1979) – to yield a systematic account. The key empirical finding of prospect theory is that individuals are cautious in their decision making (i.e., risk averse) when facing favourable prospects (i.e., gains), but tend towards bold decision making (i.e., risk seeking or risk accepting) when confronting threats to their well-being (i.e., losses) (for recent reviews of prospect theory in political science, see Levy 2003; McDermott 2004; Mercer 2005).[3] This finding provides important insights into understanding why and to what extent governments engage in unpopular social policy measures. Specifically, I contend that the extent to which a government undertakes unpopular reform in a given period in office is conditional on the 'losses' it faces. If a government confronts a comfortable socio-economic situation (e.g., a flourishing economy, low levels of unemployment) and/or a solid political position (e.g., a large parliamentary majority), it displays risk averse behaviour and shies away from the risk of pursuing unpopular measures. Conversely, if a government faces a deteriorating socio-economic situation (e.g., a plummeting growth rate, rising levels of unemployment) and/or a weakening political position (e.g., a fall in the polls), it demonstrates risk

accepting behaviour and accepts the dangers of pursuing unpopular reform. Consequently, the presence of 'losses' is necessary for governments to engage in risky reform (cf. Vis & Van Kersbergen 2007).

Necessity as well as sufficiency can be conceptualised as set-theoretical relationships, which makes fuzzy-set Qualitative Comparative Analysis (fs/ QCA)[4] particularly apt for testing the argument outlined above (Ragin 1987, 2000; Schneider & Wagemann 2006; for recent applications of fuzzy-set theory and QCA in this journal, see, e.g., Grendstad 2007; Pennings 2003; Rihoux 2006; Veugelers & Magnan 2005). The empirical analysis focuses on 25 German, Dutch, Danish and British cabinets between 1979 and 2005.[5] Hence, the research design combines intra-national and cross-national comparisons. The advantage of this design is twofold. First, the intra-national comparisons between different cabinets within a country (e.g., Lubbers I, II, III, Kok I and Kok II in the Netherlands) control for the influence of institutional variables such as the party system. Second, the cross-national comparisons between the cabinets of different countries reveal the robustness of the findings as the four countries constitute different 'types' of welfare states (Esping-Andersen 1990, 1999) with different types of party competition (e.g., Kitschelt 2001). Finally, the design controls for the impact of partisanship as all countries (apart from the UK) had rightist cabinets as well as leftist ones that pursued unpopular reforms in one cabinet period and abstained from them in another.

The empirical analysis highlights three findings. First, the extent to which governments engage in unpopular social policy reform varies greatly across (similar) cabinets, which makes examining this variation worthwhile. Second, in line with the prospect-theoretical hypothesis, a deteriorating socio-economic situation is the necessary condition for unpopular reform; without this contextual factor, governments abstain from risky reforms.[6] Third, a weakening socio-economic situation is only *sufficient* for unpopular reform in combination with at least one of two other factors: a weakening political position *or* a rightist government. That is to say, a dwindling socio-economic situation combined with a deteriorating political position and/or a rightist government induces governments to accept the possible electoral penalties of reform and introduce controversial measures. If these combined conditions are absent, governments shy away from adopting risky reform.

The structure of the article is as follows. The next section demonstrates that existing theories fail to account for the variation in governments' risk tendencies. The third section introduces prospect theory as a way to fill the lacunae in previous work on social policy reform and develops the prospect-theoretical hypotheses. The next section discusses the measurement of the outcome (i.e., dependent variable) and documents the extent to which the various governments pursued unpopular reforms. The fifth section tests the hypotheses by

means of a fs/QCA analysis. The final section discusses the study's findings and implications.

Insufficiency of current theories of welfare reform

Existing theories fail to account adequately for the cross-cabinet variation in unpopular reform. Studies focusing on the formal political *institutions* or the institutions of the welfare state highlight the opportunities or limits these institutions exert on social policy reform (e.g., Esping-Andersen 1996; Pierson 1996, 2001; Scharpf & Schmidt 2000; Swank 2002). Whereas this body of work helps one to understand variation across countries, it has great difficulty accounting for the cross-cabinet variation in the degree of reform as governments in the same country face the same institutional constraints and opportunities (Armingeon et al. 2005).

Approaches emphasising *politics* posit that partisanship matters. Specifically, rightist governments are associated with harsher cutbacks in the welfare state than leftist ones (e.g., Allan & Scruggs 2004; Korpi & Palme 2003). Or, conversely, leftist governments are considered better at enacting painful measures as the public trusts these parties to conduct reform carefully and only when really necessary (e.g., Ross 2000). Furthermore, studies in this strand of research suggest that differences in the system of party competition or party consensus affect the opportunities governments have for pursuing unpopular reform (Green-Pedersen 2002; Kitschelt 2001). Notwithstanding the important insights regarding the mechanisms of reform these studies generate, the explanatory strength of the partisanship argument falls short when explaining reform within a single country as *both* rightist and leftist cabinets in Germany, the Netherlands and Denmark, for example, pursued unpopular reforms. Moreover, if leftist governments will take up unpopular measures according to a Nixon-goes-to-China logic (cf. Ross 2000), why did Schröder wait until his *second* term in office?

Studies adopting a (*neo*)*functionalist* approach argue that socio-economic changes, such as population ageing and the process of globalisation, and the associated problem load trigger reform (see, e.g., Castles 2004; Huber & Stephens 2001; Schwartz 2001). Theoretically, linking socio-economic changes and problem load to reform makes sense. If, for example, the unemployment level is skyrocketing, measures from the government are likely. The problem with the socio-economic account is that it is still a moot point as to 'how exactly socio-economic variables matter for the timing and extent of cutbacks' (Starke 2006: 107). If socio-economic difficulty sparks change, we should have seen cutbacks under Kohl I–III as these cabinets operated under high levels of

unemployment (average 6.3 per cent; Armingeon et al. 2005). The Dutch case is also problematic in this respect, as under Lubbers II the country faced substantial socio-economic problems but unpopular measures were absent.

Approaches highlighting the importance of *ideas* suggest that by invoking a specific discourse or imperative, political actors may overcome the hindrances to change and successfully implement reform (e.g., Cox 2001; Kuipers 2006; Schmidt 2002; Stiller 2007; see also Campbell 2002). Next to the role of ideas, these studies also pay attention to the degree to which political actors can learn (e.g., Hemerijck & Schludi 2000). The main problem within this strand of literature is that the causal mechanisms with which different types of ideas affect policy making are often poorly specified (Campbell 2002: 29). Consequently, there is little theoretical footing as regards when ideas actually are taken up. Given the difficulty of reform, why and how do 'change-oriented actors' (Kuipers 2006) become change-oriented? How does one explain what political actors actually *do*? It is exactly such a theoretical foothold that is necessary for explaining the cross-cabinet variation in unpopular reform. I argue that insights from prospect theory complement existing theories, yielding a systematic account of unpopular reform (and the absence thereof).

Insights from prospect theory

Prospect theory is developed as a behavioural alternative to expected utility theory as the latter failed repeatedly to predict how people actually make choices (Kahneman & Tversky 1979, 2000). Controlled experiments disclosed that these violations were systematic (e.g., Tversky & Kahneman 1981), and resulted in the prospect theory's central empirical finding: people lean towards caution (risk averseness) when they face favourable prospects, but tend towards risk accepting behaviour when they confront threats to their well-being. Instead of basing decisions on end-states (as expected utility theory posits), according to prospect theory people make decisions based on relative gains and losses they determine using a *reference point*. The choices made in a so-called 'gains domain' differ radically from those made in a 'losses domain' because individuals' willingness to take risk varies across domains.

The risk accepting behaviour in the domain of losses stems from people's relative aversion to loss (Brooks & Zank 2005; Tversky & Kahneman 1991). Loss aversion has to do with the facts 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 twenty euros hurts more than finding twenty euros pleases.

This loss aversion is the primary underlying factor for the so-called '*status quo bias*', suggesting that 'individuals have a strong tendency to remain at the status quo because the disadvantages of leaving it loom larger than advantages' (Kahneman et al. 1991: 197–198). The inclination to remain at the status quo is so strong that it is very difficult for individuals not to display this bias (Samuelson & Zeckhauser 1988).

There are a number of problems with applications of prospect theory, one of which should be dealt with here: how to determine the reference point? This point is crucially important as the actor's domain, which establishes the actor's risk attitude, hinges on it. In this respect, prospect theory 'is a reference-dependent theory without a theory of the reference point' (Levy 1997: 100), which resembles rational choice theory that is, so to speak, a preference-dependent theory without a theory of preferences (cf. Vis & Van Kersbergen 2007: 158). There are various ways to determine the reference point, including the status quo, aspiration levels, heuristics, analogies and emotion (see Mercer 2005: 3–11; Tversky & Kahneman 1981: 456).

Generally, individuals are likely to take the status quo as their reference point (see Boettcher 2004). If an actor is satisfied with the status quo, he or she is in a gains domain. To the contrary, if an actor is unsatisfied with the status quo, he or she is in a losses domain. Because there is no general theory of satisfaction (Mercer 2005: 4), 'analysts must study the details of a decision maker's situation, goals and motivation' in order to assess the acceptability of this point. In many cases, it is quite easy to establish the status quo's acceptability. A deteriorating political position, for example, likely puts actors in a domain of losses. Also domestic politics, institutional structures and situational factors such as economic crises can be used to determine the status quo's acceptability (e.g., Weyland 2002).

Taking the status quo as reference point makes sense in the case of the welfare state (cf. Vis & Van Kersbergen 2007). First, welfare state reform is all about changing a situation that is characterised by institutional resilience and electoral resistance against change. Second, both the reformers and those affected by the reforms are influenced by the status quo bias and thus have a strong tendency to remain at the status quo. How, then, to determine whether the status quo is acceptable? Here, I follow Mercer (2005) and focus on the situation a government is in. Building on the (neo)functionalist account, the first causal condition is the country's *socio-economic situation*. Unlike studies identifying problem load as such as inducing governments to engage in unpopular reform, prospect theory indicates that a *worsening* socio-economic performance (e.g., increasing levels of unemployment, deteriorating growth rates) puts a government in a domain of losses – because it knows it might be punished for the perilous socio-economic state in the next election

(Lewis-Beck & Paldam 2000) – and thereby triggers reform. Conversely, prospect theory suggests that governments probably view an improving socio-economic state (e.g., rising levels of employment, a booming economy) as a gain, tempering substantially their willingness to reform.

Another factor that likely influences the degree of reform is governments' *political position*. Usually, the argument is that the better this position (e.g., the larger the majority in parliament), the better the prospects for enacting changes (see, e.g., Keeler 1993). However, the key finding of prospect theory suggests that it is 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) that puts governments in a domain of losses, prompting reform. An improving political position of the main opposition party (e.g., electoral victory, domination of the upper house) also may put governments in a losses domain. Conversely, prospect theory's central result suggests that governments probably view their own burgeoning political position (e.g., landslide electoral victory, domination of both chambers in a bicameral system) as a gain, impeding reform.

Finally, because the prospect-theoretical finding of varying risk propensities across domains should hold for all political actors, the political colour of the cabinet should not influence the extent to which governments pursue unpopular reform.

To sum up, three hypotheses guide the empirical analysis:

> *H1:* Governments pursue unpopular social policy reform only if the socio-economic situation and/or the cabinet's political position is deteriorating.

> *H2:* Governments shy away from pursuing unpopular measures if the socio-economic situation and/or the cabinet's political position is improving.

> *H3:* The political colour of cabinets does not affect the governments' pursuit of unpopular welfare state reform.

These hypotheses are empirically tested by means of fs/QCA. Before turning to this analysis, the next section establishes the extent to which the 25 governments under study engage in unpopular reform.

The pattern of unpopular reform

How to establish the degree to which cabinets pursue electorally risky measures or abstain from doing so? This question is important as the comparative

literature on the welfare state suffers from a so-called 'dependent variable problem' (Green-Pedersen 2004) concerning how to define social policy reform (i.e., its theoretical conceptualisation) and how to measure it (i.e., its empirical operationalisation) (see Esping-Andersen 1990; Korpi & Palme 2003; Kühner 2007). Different authors employ different definitions, which leads to different operationalisations and, consequently, different findings.

Results that contradict one another are not a problem *per se*. However, lack of clarity as regards the definition(s) and operationalisation(s) 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 – generally outstanding – 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 2005: 5)? Lacking or unclear operationalisations 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, which is that they may fail to capture qualitative welfare state changes. For example, this article concentrates on unpopular social policy reform, which 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 more unpopular in the social democratic countries than in the liberal ones.

Hence, let me elaborate the definition and operationalisation of unpopular reform adopted here. 'Reform' is defined broadly and ranges from radical changes overhauling the welfare state system to (minor) cutbacks in unemployment benefits. The extent of unpopular 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, which Table A1 (in the Appendix) summarises. Fuzzy-sets are particularly apt for incorporating these two types of sources since they comprise both qualitative and quantitative states. A 'fuzzy-set' should be seen as '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 (i.e., 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 of the government's reform activities are unpopular and that none is (in fuzzy-set terminology: 'fully in' and 'fully out' of the set Unpopular Reform). The degree of membership between 0 and 1, then, 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, 2006: 22–26). Scores above 0.5 indicate that a government engages in unpopular reform (i.e., 'in' the set of Unpopular Reform); scores below 0.5 suggest that a government refrains from unpopular reform (i.e., 'out' of the set Unpopular Reform).

I use two quantitative sources. First, the percentage point change during the cabinet period in the net unemployment insurance (UI) replacement rate and the net sick pay replacement rate, both averaged for two groups: a single average production worker (APW), and a married APW with an unemployed spouse and two children (Scruggs 2004; see Scruggs & Allan 2006). The second quantitative source of information is the percentage change during the cabinet period in the generosity index. This index is a revised version of Esping-Andersen's (1990) decommodification index that taps into the degree to which citizens are independent from the market for their livelihood (Scruggs 2004; see Scruggs & Allan 2006). With respect to the qualitative material employed, the most important sources of information are the Social Security Worldwide dataset of the International Social Security Association (ISSA 2006), the information on reforms available in the International Reform Monitors of the Bertelsmann Foundation (various years) and case studies of the countries under review.

To establish the *unpopularity of 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. The context (e.g., the country, type of welfare state regime) affects how negative the voters' response will be. Therefore, I take into account the cross-regime variation in the support for welfare policy, with support being highest in Denmark and the Netherlands, intermediate in Germany, and lowest in the United Kingdom (Larsen 2008). Note that whereas the quantitative material used is the same across the cases, the qualitative material employed varies – especially across the four countries. Therefore, the quantitative material provides the primary source of information, while the qualitative sources are used as secondary material. A document containing the reasoning behind the fuzzy-set scores of the outcome Unpopular Reform for all cases is available upon request from the author. The scores themselves can be found in Table 3.

Two examples illustrate how I construct the fuzzy-set scores for Unpopular Reform. The first Kohl cabinet receives a fuzzy-set score of 0.33, suggesting that Kohl I hardly engaged in unpopular reform. In fuzzy-set terminology, Kohl I is 'fairly out' of the set 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 materialised (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 followed public opinion as surveys show that further cuts would have received the disproval of voters from 1984 onwards (Alber, referenced in Zohlnhöfer 2003: 136).

The first Lubbers cabinet receives a score of 0.83, indicating that Lubbers I pursued many unpopular measures. In fuzzy-set terminology, Lubbers I is 'almost in' the set Unpopular Reform. Lubbers I 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). Furthermore, the government enacted a harsh retrenchment package, including among others things indexation of pensions, unemployment benefits and disability pensions, limitation of the duration of unemployment benefits, and cutbacks in disability pensions and unemployment benefits (Green-Pedersen 2002: Chapter 5).

Figure 1 displays the pattern of fuzzy-set membership of Unpopular Reform by country, which shows that the number of cabinets pursuing unpopular reform (i.e., receiving a score higher than 0.5) is somewhat larger than the number of cabinets refraining from doing so: 13 *versus* 12. The fuzzy-set scores for Unpopular Reform can be found in Table A2. Figure 1 also indicates that the pursuit of unpopular reforms is not limited to a certain period: such reforms were taken in the 1980s, 1990s and 2000s alike. Moreover, there is a puzzling variation in the pursuit of unpopular measures by similar governments in different cabinet periods. Lubbers I & III, Schröder II, Nyrup Rasmussen II & IV, Kok I, Kohl IV and Schlüter II proved willing to accept the great risk of reform and enacted unpopular measures, whereas Lubbers II, Schröder I, Nyrup Rasmussen I, Kok II, Kohl I–III and Schlüter I, IV & V acted cautiously and refrained from pursuing unpopular policies. Finally, the British pattern of reform is distinct because it lacks such similar-government
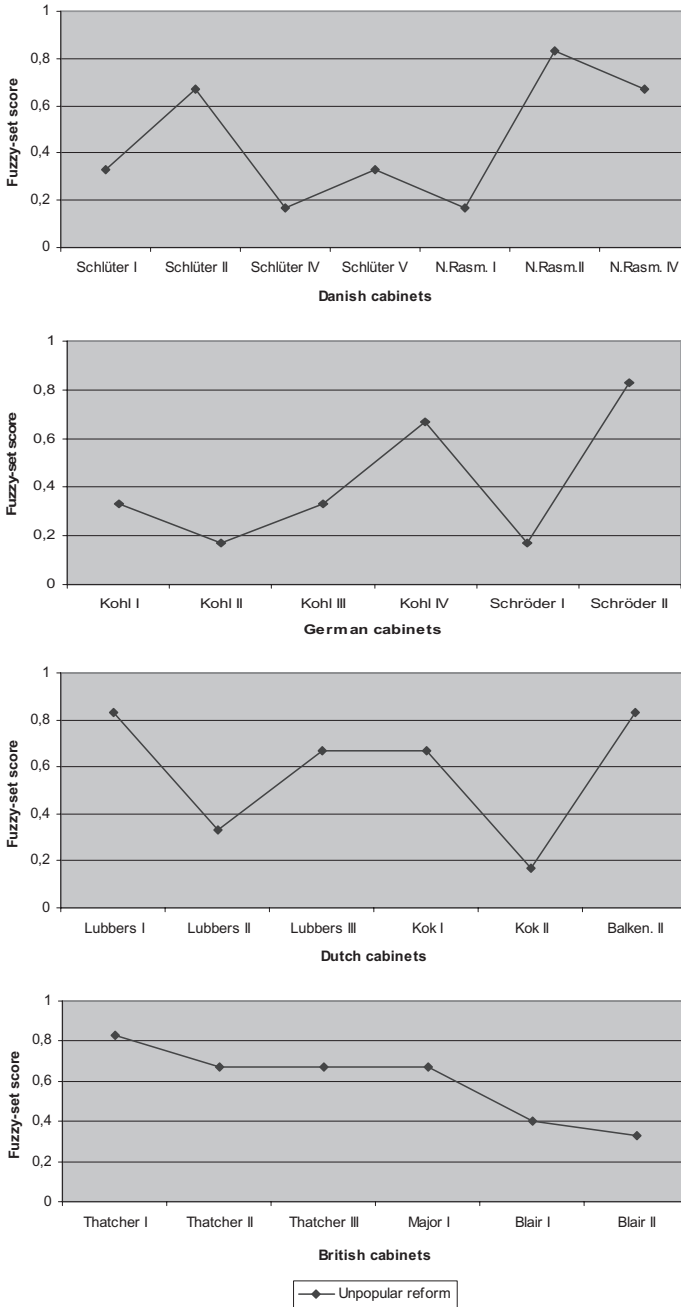
Figure 1. The pattern of unpopular reform.
Source: Based on the fuzzy-set scores for Unpopular Reform in Table A2.

variation. Instead, the successive Conservative governments engaged in unpopular reforms, whereas the Labour governments refrained from doing so.

When do governments engage in unpopular reform?

How does one explain the variation in unpopular reform across governments? Under which conditions do governments engage in unpopular social policy reform and when do they refrain from doing so? Drawing on prospect theory, I hypothesised that governments pursue unpopular reform only if the socio-economic situation and/or the cabinet's political position is deteriorating; that they shy away from reform if the socio-economic situation and/or the cabinet's political position is improving; and that the political colour of the cabinet has no effect on governments' pursuit of unpopular reform. The causal conditions in these hypotheses are the socio-economic situation, the government's political position and the colour of the cabinet.

As for the outcome Unpopular Reform, I construct fuzzy-sets for these conditions, labelled Weak Socio-Economic Situation (WSE), Weak Political Position (WPP) and rightist government (RIGHT). Note that because fs/QCA also reveals the *absence* of a cause, the analysis also considers the influence of a blossoming socio-economic situation, a solid political position and the presence of leftist governments. Information on how I assigned the fuzzy-set membership scores for the three causal conditions (WSE, WPP and RIGHT) is provided in Tables 1a and 1b. The scores themselves are presented in Table A2.[7,8]

The fs/QCA procedure employed here involves two stages, which can be carried out with the fs/QCA 2.0 software (http://www.compasss.org). In the first stage, the so-called '*truth table algorithm*' (Ragin 2005) is used to transform the fuzzy-set membership scores into a truth table (see also Ragin 2006: 96–110). This algorithm uses the direct link between the rows of the truth table and the corners of the property space, whereby the latter is the multidimensional space consisting of the logically possible combinations of causal conditions (Barton 1955). If there are k conditions, the property space has 2^k corners. In this article, the property space has $2^3 (= 8)$ corners. In the second stage, the researcher examines the distribution of cases across the corners of the property space and establishes 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., WSE, WPP, RIGHT) is sufficient for the outcome (here: Unpopular Reform) (see Ragin 2006: 96).

Table 2 displays the truth table based on the fuzzy-set scores for Unpopular Reform, WSE, WPP and RIGHT. This table also includes the level of

Table 1a. Data used to establish the fuzzy-sets WSE and WPP

W	The level and change in economic growth
S	The level and change in unemployment
E	The extent to which the specific socio-economic situation is perceived as detrimental
	The percentage of votes for the governing party/ies
	The percentage of votes for the (main) opposition party/ies
W	The perception of the public regarding the cabinet
P	The effect of political crises on the cabinet's political position (for the Dutch cases)
	Election results in the *Land* elections (for the German cases)
	Intra-party problems (for the German and British cases)
	Vote distribution between the bourgeois and the social democratic block (for the Danish cases)

Sources: The level and change in economic growth and unemployment: Armingeon et al. (2005); OECD *Economic Outlook* (various years); OECD (2005: Annex Tables 1 & 13), own calculations. For establishing whether a specific socio-economic context is perceived as detrimental: 'Notes on Recent Elections' in *Electoral Studies* and the annual Political Data Yearbook of the *European Journal of Political Research*. The latter sources are also the main ones for establishing the government's political position. The percentage of votes of governing party/ies and opposition party/ies: Armingeon et al. (2005); Woldendorp et al. (2000). From 2003 onwards, data collected by author from various sources.

Table 1b. Data used to establish the fuzzy-set RIGHT

Fuzzy-set score		Gov_left
1	Hegemony of right-wing parties	0
0.75	Right-wing (and centre) parties dominate	≦33.3
0.6	Pact between left and right parties, with the rightist party/ies receiving most of the votes	>33.3; <66.6
0.4	Pact between left and right parties, with the leftist party/ies receiving most of the votes	>33.3; <66.6
0.25	Dominance of social-democratic and other left parties	≧66.6
0	Hegemony of social-democratic and other left parties	100

Notes: Gov_left is the cabinet composition, calculated as social-democratic and other left parties as a percentage of total cabinet posts, weighted by days. Measuring the complexion of a cabinet by means of the share of leftist parties is conventional in the literature (e.g., Huber & Stephens 2001; Allan & Scruggs 2004).
Sources: Since 1990, calculations by Armingeon et al. (2005) 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*.

Table 2. Truth table

Conditions						
WPP	WSE	RIGHT	Outcome UR	Consistency	N	Cabinets
0	1	1	1	0.92	7	Lubbers I & III; Schlüter II; Thatcher I & III; Major I; [Schlüter IV]
1	1	1	1	0.91	3	Balkenende II; Kohl IV; [Schlüter V]
1	1	0	1	0.91	2	Schröder II; Nyrup Ramussen II (& III)
0	0	1	0	0.72	6	Lubbers II; Kohl I-III; Schlüter I; [Thatcher II]
0	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 = the set Weak Political Position; WSE = the set Weak Socio-Economic Situation; RIGHT = the set of rightist governments; Outcome UR = the outcome Unpopular Reform; Consistency indicates the degree to which the fuzzy-set membership scores of all cases in a combination are sufficient for the outcome; Number = the number of cabinets with membership in the respective configuration higher than 0.5; Cabinets lists these cabinets, with those cabinets where a specific configuration of causal conditions produced a deviant outcome 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.

consistency – that is, the degree to which the fuzzy-set membership scores of all cases in a combination are sufficient for the outcome. The researcher selects 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 identify where to set this cut-off point (Ragin 2005: 14–15). Because the results in Table 2 suggest a substantial drop in consistency from 0.91 to 0.72, the cut-off point is set at 0.91. 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 (indicated by '–' in Table 2).

In the second stage, Boolean algebra is employed to minimise the truth table to identify the (combinations of) causal conditions that are sufficient for producing the outcome (Ragin 1987: Chapter 6, 2006). 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 hypothetical outcome of the logical remainders. The most parsimonious solution of fs/QCA is attained if the positive cases are set 'true', the negative cases 'false' and the remainders 'don't care'. In this article, I employ the most complex solution as this is the most conservative approach (Schneider & Wagemann 2006), and report the result of the most parsimonious approach in a footnote.

The fs/QCA 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 Weak Socio-Economic Situation as well as 'in' the set 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

$$\text{WSE} * (\text{WPP} + \text{RIGHT}) \rightarrow \text{UR} \, (\text{coverage: } 0.86; \text{ consistency: } 0.90).[9]$$

This finding indicates that there are two paths towards Unpopular Reform: a weak socio-economic situation in combination with a weak political position (WSE*WPP), and 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 fs/QCA 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, but works in conjunction with the conditions rightist government and weak political position.

Do these two paths (WSE*WPP and WSE*RIGHT) capture the cabinets that pursued unpopular reform? Table 3 presents the cabinets' membership scores of the outcome as well as of the two paths. In ten (of the 13) cabinets that pursued unpopular measures, at least one of these two paths is present.

Table 3. Membership scores of cases in sufficient paths

	Outcome unpopular reform	Path 1 WSE *WPP	Path 2 WSE *RIGHT
Lubbers I	**0.83**	0.33	**0.83**
Lubbers II	0.33	0.17	0.33
Lubbers III	**0.67**	0.33	**0.60**
Kok I	**0.67**	0.17	0.40
Kok II	0.17	0.33	0.33
Balkenende II	**0.83**	**0.67**	**0.67**
Kohl I	0.33	0.17	0.33
Kohl II	0.17	0.17	0.17
Kohl III	0.33	0.17	0.33
Kohl IV	**0.67**	**0.67**	**0.67**
Schröder I	0.17	0.33	0.00
Schröder II	**0.83**	**0.83**	0.00
Schlüter I	0.33	0.33	0.33
Schlüter II	**0.67**	0.33	**0.60**
Schlüter IV	0.17	0.33	**0.67**
Schlüter V	0.33	**0.60**	**0.67**
Nyrup Rasmussen I	0.17	0.17	0.17
Nyrup Rasmussen II (& III)	**0.83**	**0.60**	0.25
Nyrup Rasmussen IV	**0.67**	0.33	0.25
Thatcher I	**0.83**	0.17	**0.83**
Thatcher II	**0.67**	0.33	0.33
Thatcher III	**0.67**	0.33	**0.67**
Major I	**0.67**	0.33	**0.60**
Blair I	0.40	0.17	0.00
Blair II	0.33	0.33	0.00
Consistency		0.91	0.90
Coverage		0.62	0.71

Notes: Cases that are 'in' a specific set are indicated in bold. Consistency measures the degree to which membership in each solution term (WSE*WPP and WSE*RIGHT) is a subset of the outcome – i.e., to what extent the solution term is sufficient for the outcome. Coverage measures the proportion of memberships in the outcome that is explained by each solution term (Ragin 2006: 107–110), and therefore resembles the variance explained (R^2) in traditional quantitative approaches.

For three cases, however, these combinations do not explain adequately 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 finding indicates that although there are two clear paths towards unpopular reform, these are not the only ones; other (combinations of) factors may also be conducive to a domain of losses. For example, the 'Bush-considers-the-Iraqi-status-quo-unacceptable-*because*-he-was-doing-well-in-the-polls' situation (Mercer 2005: 5) might apply to Kok I. 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 to pursue unpopular measures in order to tackle the high level of unemployment and the high and continuously increasing number of individuals receiving disability benefits (De Vries 2002).

Table 3 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.[10] In-depth case studies can help to understand better the cases that deviate from the dominant patterns. In this sense, fs/QCA could be used to reveal which cases to examine in more detail. This study's results, for example, suggest that probing Denmark more deeply would be useful as three of the seven cases proved to be deviant ones. Although it is beyond the scope of this article to find the 'real' underlying causes for the Danish exceptionality, a plausible assumption is that this is at least partly related to the relatively short duration of an average Danish government (two years) and to the usual type of government (multiparty minority). The presence of multiparty minority governments means that besides the governing parties some of the opposition parties also are 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.

The finding that the combination of weak socio-economic situation and a rightist government induces governments to pursue unpopular measures suggests that partisanship does matter, contrary to H3, but in a different way than usually argued. In contrast to, for example, the findings of Allan and Scruggs (2004), rightist governments did not pursue more or harsher unpopular measures than leftist ones. Instead, rightist governments were *more likely* to pursue unpopular reforms. Precisely, for rightist governments, a weak socio-economic situation was enough to trigger such measures, whereas leftist governments only

pursued unpopular reform when the socio-economic condition was poor *and* their political position was weak. Furthermore, it is intriguing to note that unpopular reforms by leftist governments are somewhat peculiar in the sense that two of the three instances of such reform are not captured by the dominant paths (Kok I and Nyrup Rasmussen IV). This suggests that the conditions fostering a losses domain among leftist and rightist governments may differ, which ties onto previous findings (e.g., Levy 1999; Ross 2000). Levy (1999), for one, indicates that leftist and rightist governments are distinct in that the former have used the so-called 'vice into virtue' approach. Specifically, in Christian democratic welfare states, such as Italy and the Netherlands, leftist 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 is generous disability pensions that are 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). Rightist governments, conversely, have not pursued this vice into virtue approach.

Concluding remarks

The main finding of this study is that the extent to which a government pursues unpopular social policy reform in a given period in office is conditional on the 'losses' in terms of socio-economics and/or politics it faces. The fs/QCA analysis of the reform activities of 25 German, Dutch, Danish and British cabinets demonstrates that a deteriorating socio-economic situation is necessary for unpopular reform or, more precisely, for a losses domain that triggers risk accepting behaviour among the government and thereby induces it to pursue unpopular measures. A falling socio-economic situation did not have this impact by itself, but only in conjunction with one or two other conditions: a declining political position and a rightist government.

   This article's findings enhance our understanding of the causal underpinnings of reform by establishing that governments pursue unpopular reform only if they are confronted with losses. These losses, then, arise under a weak socio-economic situation combined with a weak political position or a rightist government (or both). Moreover, this study shows that insights from prospect theory further existing theories of welfare state reform as they help fill important lacunae in these theories. Notwithstanding the fact that Pierson (1994: 18–19) uses prospect theory's key finding to explain why political actors have such difficulty enacting unpopular measures, there has been hardly any cross-

fertilisation of psychological theories in the field. This is particularly puzzling since prospect theory seems particularly apt for advancing the study of welfare state development. Let me give two examples.

First, insights from prospect theory elucidate how socio-economic variables influence social policy reform. 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 of when ideas produce change. 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 – as some political commentators have argued – it was the deteriorating political position magnified by the gloomy socio-economic performance that allowed the Chancellor to actually to pursue his plans. Let me stress that the insights from prospect theory cannot be used to predict the *exact* timing of reforms. Rather, the findings from prospect theory inform us about the *why* of reform as they reveal under which conditions political actors pursue unpopular measures. 'Losses' are key here, as it is precisely these that 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.

Prospect theory thus provides a micro-foundation that complements existing theories. It is a complement since current theories are needed to determine in which domain political actors find themselves. Moreover, 'prospect theory explains which one of the available options is chosen, [but] does not account for the *range of options* that a decision-maker considers' (Weyland 2002: 70; emphasis added). Ideational arguments can, for instance, be invoked in this respect. Moreover, theories other than prospect theory are needed to account for the deviant cases that may be identified. 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.

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Table A1. Data used to establish the extent of unpopular reform

Data	Source(s)	Operationalisation
The net unemployment insurance (UI) replacement rate[a]	Scruggs (2004)	The percentage change in the net UI replacement rate between election t and election t + 1[b]
The generosity index	Scruggs (2004)	See UI replacement rate
Available (case) studies	For Germany: Aust et al. (2002); Leibfried & Obinger (2003); Zohlnhöfer (2003, 2004); Schmidt (2005); Vis (2008). For the Netherlands: Green-Pedersen (2002: Chapter 5); Van Gerven (2006). For Denmark: Green-Pedersen (2002: Chapter 5). For the United Kingdom: Daguerre & Taylor-Gooby (2001/2002); Van Gerven (2006)	
International Reform Monitors	Bertelsmann Foundation (1999–2005)[d]	
Social Security Worldwide dataset	ISSA (2006)[e]	

Notes: [a] The net replacement rate is the after-tax benefit of a single, fully insured 40 year-old individual earning average production worker (APW) wage divided by the after tax wage of a fully insured APW. [b] Following Armingeon and Giger (2006), I only include the indicator for the year of the election when the election took place in the second half of the year. If not, the calculation is based on the year previous to the election under consideration. [c] The generosity index is a revised version of Esping-Andersen's (1990) decommodification index, which taps the extent to which citizens do not depend on the market for their livelihood (see Scruggs & Allan 2006). [d] http://www.reformmonitor.org. [e] Data available from about 1992 onwards.

Table A2. Features of cabinets in terms of fuzzy scores, 1979–2005

	Period in office	Weak political position (WPP)	Weak socio-economic position (WSE)	Rightist government (RIGHT)	Outcome unpopular reform (UR)
Netherlands					
Lubbers I	09/82–05/86	0.33	**0.83**	**1.00**	**0.83**
Lubbers II	05/86–09/89	0.17	0.33	**1.00**	0.33
Lubbers III	09/89–05/94	0.33	**0.67**	**0.60**	**0.67**
Kok I	05/94–05/98	0.17	0.40	0.40	**0.67**
Kok II	05/98–05/02	0.33	0.33	0.40	0.17
Balkenende II	05/02–06/06	**0.67**	**0.67**	**1.00**	**0.83**
Germany					
Kohl I	03/83–01/87	0.17	0.33	**1.00**	0.33
Kohl II	01/87–12/90	0.33	0.17	**1.00**	0.17
Kohl III	12/90–10/94	0.17	0.33	**1.00**	0.33
Kohl IV	10/94–09/98	**0.67**	**0.67**	**1.00**	**0.67**
Schröder I	09/98–09/02	0.33	0.40	0.00	0.17
Schröder II	09/02–11/05	**0.83**	**0.83**	0.00	**0.83**
Denmark					
Schlüter I	09/82–10/84	0.33	0.33	**1.00**	0.33
Schlüter II	10/84–09/87	0.33	**0.60**	**1.00**	**0.67**
Schlüter IV	05/88–12/90	0.33	**0.67**	**1.00**	0.17
Schlüter V	12/90–01/93	**0.60**	**0.67**	**1.00**	0.33
N.Rasmussen I	01/93–09/94	0.17	0.17	0.40	0.17
N.Rasmussen II (& III)	09/94–03/98	**0.60**	**0.60**	0.25	**0.83**
N.Rasmussen IV	03/98–11/01	0.33	0.33	0.25	**0.67**
United Kingdom					
Thatcher I	05/79–06/83	0.17	**0.83**	**1.00**	**0.83**
Thatcher II	06/83–06/87	0.33	0.33	**1.00**	**0.67**
Thatcher III	06/87–04/92	0.33	**0.67**	**1.00**	**0.67**
Major I	04/92–05/97	0.33	**0.60**	**1.00**	**0.67**
Blair I	05/97–06/01	0.17	0.33	0.00	0.40
Blair II	06/01–05/05	0.33	0.33	0.00	0.33

Notes: Cases that are 'in' a specific set are indicated in bold; N.Rasmussen = Nyrup Rasmussen.

Notes

1. The terms 'government' and 'cabinet' are used interchangeably.
2. 'Risk' is the probability that an event occurs (e.g., loss of votes in an election) multiplied by the impact if it did (e.g., loss of power, removal from government). Governments thus could get away with unpopular reform (e.g., if social policy is not a salient issue in the election campaign), but they could also suffer (major) losses because of it. Since this article deals with the conditions under which governments are willing to bite the bullet of risky reform, and not with the effects of reform on, for example, the percentage of votes, the question of whether reform actually results in electoral losses is an irrelevant one.
3. For reasons of simplicity and clarity, I employ prospect theory's central finding only. For interesting extensions in prospect theory, see Kahneman and Tversky (2000).
4. This article follows Schneider and Wagemann (2006: 777, fn.3) in adopting the acronym 'fs/QCA', since the dichotomies that are central to the traditional QCA approach are a special case of a fuzzy-set.
5. The analysis includes the *German cabinets* from Kohl I to Schröder II (N = 6); the *Dutch cabinets* from Lubbers I to Balkenende II (excluding Balkenende I because this cabinet reigned less than a year) (N = 6); the *Danish cabinets* from Schlüter I to Nyrup Rasmussen IV (excluding Schlüter III because this cabinet governed less than a year; and incorporating Nyrup Ramussen III in Nyrup Rasmussen II because the former resulted from the Centre Democrats leaving the coalition) (N = 7); and the *British cabinets* from Thatcher I to Blair II (N = 6).
6. The exceptions are Kok I, Thatcher II and Nyrup Rasmussen IV.
7. The full dataset is available upon request from the author.
8. Note 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 rightist. Given 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 (e.g., freedom and economic incentives) and leftist issues (e.g., 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: [Σ(absolute number of seats of party$_i$ in government × party$_i$'s left–right score)]/(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 29.93. The left–right score for the cabinet is thus: [(34 × 4) + (244 × 29.93)]/278 = 26.76. According to this left–right score per cabinet, the secular-conservative Thatcher governments and the German and Dutch cabinets including the Christian democrats (i.e., Kohl and Lubbers) 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 28.33). Moreover, the Kohl cabinets are overwhelmingly rightist, with Kohl I even scoring higher than Thatcher I (26.76 versus 24.4).

9. The most parsimonious solution (i.e., with setting the remainders to 'don't care') is WSE → UR (coverage: 0.88; consistency: 0.90). With simplifying assumptions, WSE is thus *necessary and sufficient* for Unpopular Reform.
10. Thanks to Richard Katz for pointing this out to me.

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