Why and How Do Political Actors Do Risky Reforms? A Theoretical Account Rooted in Prospect Theory and the Theory of Blame Avoidance

Barbara Vis and Kees van Kersbergen

Department of Political Science
Vrije Universiteit Amsterdam
De Boelelaan 1081
NL-1081HV Amsterdam
The Netherlands
Tel + 31 20 598 6821
Email: B.Vis@fsw.vu.nl

June 2005

Word count: 8.552 (including references and endnotes)

* An earlier version of this paper was presented at the Workshop “Blame Avoidance and Blame Management: Institutional and Policy Implications” of the ECPR Joint Sessions, Granada, Spain, April 14–19, 2005. We wish to thank the participants for their useful remarks. We also would like to thank Catherine Netjes and Sabina Stiller for their comments.
Abstract

Why and how do political actors do 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. The lack of a plausible answer so far is brought about by the absence of a complete causal account. In this paper we propose to remedy this lacuna in welfare state theory.

Drawing on prospect theory, we argue that political actors will only embark upon risky reforms if they consider themselves to be in a losses frame. They will engage in reform policies only if the status quo is no longer seen as tenable. The losses frame is thus the basic cause of risky reform. On the basis of the theory of blame avoidance, we establish the mechanisms that link this basic cause and its effect. Finally, we discuss three theoretical problems and provide some solutions.

Key words:
Welfare state reform, prospect theory, blame avoidance, causation
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-n 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 embark upon risky 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?).

Our contribution is rooted in two theories. First, prospect theory helps us to find the basis 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 may yield a complete causal account of risky welfare state reforms.

The paper 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 be-
tween cause and effect. Section 5 discusses some theoretical problems of prospect and blame avoidance theory and proposes solutions. 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 postindustrialisation of labour markets, the erosion of systems of interest intermediation and collective bargaining, the rise of new risks and needs, and international pressures (globalisation 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). 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: 411).

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). Taken together, a theoretically plausible answer was formulated to the puzzle. 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 (i.e. the old politics), austerity policies tended to affront voters and networks of organized interests and therefore triggered a politics of blame avoidance (i.e. the new politics of the welfare state). 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’ (idem: 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; Ross 2000; Bonoli 2000, 2001; 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; Schmidt 2000; see Green-Pedersen and Haverland 2002; Van Kersbergen 2002).
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 questions why political actors embark upon risky reforms in the first place and how they try to implement such reform-measures 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 paper, 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), hardly has had 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, 2001; Quattrone and Tversky 2000; Bueno de Mesquita et al. 2001; Boettcher 2004; Taliaferro 2004; see Levy 2003), 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 insti-
tutionalism, 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. People were found not to maximize the outcome (i.e. to deliberate rationally over end-states), but rather to use a certain standard or reference point (e.g. the status quo) to establish if an option involved a relative gain or loss. In other words, repeated experiments revealed that most people make a choice between gambles (also called prospects, hence prospect theory) rather than between the end-states. The 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). The original theory\(^1\) can perhaps best be summarized and illustrated by the so-called (hypothetical) value function (see figure 1): ‘the value function is (i) defined on deviations from the reference point; (ii) generally concave for gains [in the figure denoted by B, BV&KvK] and commonly convex for losses [A]; (iii) steeper for losses than for gains.

\[\text{Figure 1 about here}\]

Why do the 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 posi-
tive information (…)’ (Lau 1985: 119). Second, there is the “certainty effect”, which means that ‘people overweight outcomes that are considered 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 is the exact mirror (hence the term “reflection”) of 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 [i.e. the conditional probabilities that relate outcomes to acts, BV&KvK] 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).² In effect, individuals are likely to take the status quo as their reference point for judging whether change implies a gain or a loss (see Boettcher 2004).
So, prospect theory tells us that policy-makers avoid risks as long as the outcomes of the status quo are perceived as gains, i.e. as still acceptable or tolerable. Paraphrasing Berejekian (1997: 793), 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, when they view the status quo 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 the status quo 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 frame pursue absolute gains and are unwilling to engage in risky reform efforts, while governments in a losses frame pursue relative gains and are more willing to accept the risks of reform (see Berejekian 1997: 789).

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 the status quo as a gain (their level of welfare is acceptable) 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. 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 status quo (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).
Hence, one corollary of this reasoning is that governments will only embark upon welfare state reforms with risky electoral repercussions (“gamble”) if the status quo is considered a “loss”. Another is that if governments pursue reforms, there are two possible outcomes: 1) the implementation of a reform is relatively easy if voters are reform-friendly, that is if they consider themselves in a losses frame; 2) the implementation of a reform is relatively difficult if voters are reform-hostile, that is if they consider themselves in a gains frame. This is illustrated in table 1. Prospect theory, therefore, gives us the necessary condition under which risky welfare state reform can occur: when governments view the status quo as a “loss”. 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 or when the government is able to overcome the reform-hostility of the voters in the domain of gains. This theory, then, gives us an explanation for the fact that governments embark upon 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. Stated differently, prospect theory gives us an answer to the fundamental why-question; it provides the basic cause of hazardous reforms. 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.

Table 1 about here

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 embark upon risky reform projects if they consider themselves to be in a losses frame. In addition, we rea-
soned 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 that consider themselves in a gains domain.

In the case of the public, one can imagine that in some contexts voters are risk
acceptant. Weyland (1996) gives an interesting account in his study of radical eco-
nomic reforms in Latin America. Asking ‘what gains and losses loom largest for leaders
and citizens?’ (idem: 190), Weyland first puts forward that income is the main economic
concern for common people. He then argues that in Latin America, ‘(…) runaway infla-
tion 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 (…)’
(idem). 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 pub-
lic 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 pre-
sent domain as a loss. As a consequence, the condition is such that governments con-
sider themselves to be in a domain of losses, while voters regard their situation as a
gain.

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: 372). In the context that we focus on, that is in situations where the government,
but not the voters, is in a losses frame 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 strate-
gies because this will help them to be successful, that is attain the goal (reform) that –
because they find themselves in a losses frame – they have been forced to set, whilst
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
above. Hood (2002: 20), 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 concen-
trated among voter groups. We take this to imply that voters who are negatively af-
fected 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’ (ital-
ics 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’ (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 vot-
ers. 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 avoid-
ance 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

Indeed and interestingly, the resistance-against-change theorem was defini-
tively 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-benefits calculus, but that even if reforms cost more than policy immobility, governments that find themselves in a losses frame nonetheless can be expected to pursue risky reforms.

Let us now discuss if and how the eight strategies that Weaver (1986: 385) identified to explain why policy change is so difficult can 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 politicized and therefore is 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 basically 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 also “automatic government” (e.g. indexation; see Weaver 1988). This, again, is a strategy for implementing reform that may help to minimise 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 op-
position 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. The introduction of an independent European Central Bank is an example of a reform-supporting strategy.

In addition to Weaver’s strategies that political actors can use to deflect the negative feedback of risky reform, we draw on prospect theory to offer two strategies that political actors can use to change the domain of the voters from gains into losses. 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 frame is reframed into a losses frame. 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. One example may be Thather’s TINA-argument (There Is No Alternative). Second, creative accounting and “lies, damn lies and statistics”. With this strategy political actors can try to avoid blame by redefining the terms according to which the outcomes are measured that are feared to have negative consequences. For instance, the economic advisers of a policy-maker make plausible that an economic reform will lead to a sudden rise in unemployment. A rise in unemployment is known to have harmful electoral consequences. Redefining how unemployment is counted can conceal the effect of the economic reform. It may seem that this strategy is so transparent that it will be self-defeating. However, given the technical and complicated nature of such accounting practices and the general lack of specific knowledge (such as the definition of “unemployed”) among the public, this is a potential strategy.

In sum, 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, when applied in the context of prospect theory, can help us identify the causal mechanisms that link the basic cause (losses frame) with the effect (risky welfare state reform).
5 Theoretical problems

We have now established that prospect theory gives us the reason why hazardous reforms take place and that the theory of blame avoidance provides us with a list of strategies with which political actors can deflect the negative feedback of such reforms or use to reframe the domain of the voters from gains into losses. In this section, we identify three theoretical problems and offer some suggestions for their solution.

The first theoretical problem is that it is difficult to conceptualise a risky welfare state reform (leaving painstaking problems of operationalisation and measuring 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 complete theoretical solution. Still, we know from institutional theory that sclerosis impedes reform. Moreover, we know from prospect theory that the negativity effect and the status quo foster resistance against reform. In addition, there are empirically informed arguments that may reinforce the plausibility of the existence of risky reforms. For instance, budget cuts that reverse the trend towards increasing public debt and budgetary deficits can be considered as difficult reforms, if we adopt the political economy assumption of an expansionary political and institutional logic in public finances. Moreover, such cuts can be considered as very risky, because of the high visibility and salience of fiscal policy, not only during phases of government formation, but also during the yearly political presentation of the government’s plans.

The second, and well-known, theoretical problem concerns prospect theory, which lacks a theory of framing, as a result of which it 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. 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). For our purposes, it made most sense to take the status quo as a reference point for establishing the domain as a loss or a gain. This is because, first, welfare state reform is all about changing a situation that is characterised by institutional resilience and electoral resistance against change and, second, because the status quo bias holds for both reformers and voters.

On the basis of the four psychological biases (“negativity effect”, “certainty effect”, “reflection effect”, “status quo bias”), we deduced that political actors introduce risky reforms only when the status quo is considered a loss. One could argue, for instance, that the criteria for entry into the Economic and Monetary Union (EMU) have forced the governments of the member states of the European Union (EU) (and other states whose currency is strongly linked to the Euro) to follow more radical adjustment policies than those that seemed electorally safe from the politician’s short term perspective. National governments that chose to meet the harsh criteria of Maastricht automatically ended up in a losses domain, because defending the status quo was no option: in 1995 no country was even close to meeting the entry criteria (OECD 2004). Another possibility would be to use data on electoral volatility and public opinion polls to establish the electoral potential for party change and the popularity of a government.
The higher the volatility and the more unpopular the government, the more likely it is that a government considers itself in a losses domain.

A third theoretical issue concerns the problem that, so to speak, the theory of blame avoidance is a strategy-dependent theory without a theory of strategies. Consequently, there is a lack of theoretically informed means to identify blame avoidance strategies. Here, too, we cannot offer a definite solution. We argue, however, 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.

One of the solutions to the dependent variable problem of what exactly is welfare state reform was a reconceptualisation 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. 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 characterised by its own specific “new politics” of welfare state reform – that is a specific of combination of cost containment, recalibration and recommodification. In contrast to Pierson, however, we think that given the basic cause of reform (the losses frame) 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, reinforcing our confidence that linking the blame avoidance and mainstream welfare literature is a potentially productive endeavour.

The strategy of redefining the issue, i.e. spreading the costs of reform, can be recognised 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 defend 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 always be portrayed as necessary efficiency measures (for unpopular social programmes the opposite would apply).

The strategy of throwing good money after bad, i.e. 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 special 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 incomes inequality and poverty have increased (see e.g. Huber and Stephens 2001: chapters 6 and 7). 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, i.e. 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 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 therefore
includes various shifts in governance that aim to shun direct government responsibility (including decentralisation and privatisation) (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, etc. 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. 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”.

Finding a scapegoat, i.e. shifting responsibility, is almost an automatic response for political actors who get into trouble. We already mentioned the example of the EU and especially the criteria of the EMU that apparently helped many governments to do in the 1990s what they said they would do already in the 1980s. Ferrera and Gualmini (2004), for instance, convincingly show that it has been the tightening of EU constraints that in Italy in the first half of the 1990s enabled reform oriented politicians to introduce risky reforms. The EMU convergence criteria provided quantitative norms against which to measure success or failure as well as a clear and – for Italian standards – inexorable deadline. These criteria could be presented to the Italian public as external “givens” with which national politician had to comply. Non-compliance would not simply mean failure to enter the EMU, but economic loss. The blame game was played out as follows: ‘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’ (Ferrera and Gualmini 2004: 24). Italian
politicians were used to deal with competitive electoral pressure by increasing public spending and refusing to raise taxes, thus causing rising levels of public debt (Newell 2000: 164). The Maastricht criteria blocked this and at the same time provided the scapegoat for cost containment through cutting public spending and raising taxes.

According to Hering (2003: 5), circling the wagons, i.e. 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’ (idem). 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’ (idem: 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. 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, i.e. 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 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.
The damned if you do, damned if you don’t strategy, i.e. 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 a losses frame, making the public more 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, dawn lies and statistics” strategies, i.e. 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 frame among the public, a government may publish future scenario’s 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 complete theory that links the basic cause of reform to the effect and that also specifies the causal mechanisms between cause and effect. In this paper, we therefore proposed a theoretical account that does exactly this and that allows us to answer the question why and how do political actors do risky reforms?

Drawing on prospect theory we identified that political actors will only embark upon risky reforms if they consider themselves to be in a losses frame, that is if they see the status quo (our reference point) as a loss. One of the findings of the experi-
mental research on which prospect theory is based, 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 the status quo is still seen as gain, i.e. if they are in a gains frame. They will engage in reform policies if the status quo is no longer seen as tenable. The losses frame 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 frame as well, whilst voters will (strongly) oppose reforms if they consider themselves 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 used 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.

Subsequently, we discussed three theoretical problems and, although we were unable to solve them completely, provided some (partial) solutions. On the problem of conceptualising what is a risky welfare state reform, we argued that institutional sclerosis and the presence of the negativity effect and the status quo bias not only impedes reform but makes it risky business as well. The second problem was the lack of a theory of framing in prospect theory, making it difficult – at least – to establish an actor’s frame. We contended that in the context of developed welfare states, it makes sense to take the status quo as the reference point. To establish empirically whether government consider themselves in a domain of gains or losses, one could, for example, look at data on electoral volatility or public opinion polls. Voters most likely consider themselves in a gains domain, which is exactly why blame avoidance strategies are so important. We finally showed that a productive way of solving the final problem, the lack of a theory of strategies, is combining the blame avoidance strategies with well-established welfare state theories.
In sum, in trying to answer why and how politicians do risky reforms, we tried to offer a complete theoretical account that describes the basic cause and blame avoidance mechanisms of risky welfare state reform. We are fully aware that our theoretical propositions need to be empirically corroborated. Nonetheless, by combining prospect theory and the theory of blame avoidance in a way unprecedented in the welfare state literature, our account enhances the theorising on welfare state reform and yields clear hypotheses that can be tested.
References


Figure 1: A Hypothetical Value Function

<table>
<thead>
<tr>
<th>Voters’ risk attitude</th>
<th>Government’s risk attitude</th>
<th>Conflict</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gains domain (status quo +)</td>
<td>Gains domain (status quo +)</td>
<td>No conflict</td>
</tr>
<tr>
<td>Gains domain (status quo +)</td>
<td>Losses domain (status quo -/-)</td>
<td>(risk averse, risk seeking)</td>
</tr>
<tr>
<td>Losses domain (status quo -/-)</td>
<td>Losses domain (status quo -/-)</td>
<td>(risk seeking, risk seeking)</td>
</tr>
<tr>
<td>Losses domain (status quo -/-)</td>
<td>Gains domain (status quo +)</td>
<td>(risk averse, risk averse)</td>
</tr>
<tr>
<td>Losses domain (status quo -/-)</td>
<td>Losses domain (status quo -/-)</td>
<td>(risk seeking, risk seeking)</td>
</tr>
</tbody>
</table>

Note: The risk attitude of the voters is listed first.
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. However, there are still significant limitations of the theory, for instance the lack of applicability to strategic interaction and aggregate behaviour (see Levy 1997: 102–5; McDermott 2004: 305).

Technically, there is no status quo bias but a reference point bias. The reference point 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).

In addition to this problem, there are other pending issues. For instance, can prospect theory deal with group behaviour and with strategic action? 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: 102), so that prospect theory can be applied to group behaviour. The work of Weyland (2002) offers an example of how a prospect theoretical approach can deal with the interaction between leaders and citizens. Our linking of prospect theory to the theory of blame avoidance is another route, which we elaborate in the main text.

Levy (1999) has argued that some policies can turn 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 disability scheme in the Netherlands (see Kuipers 2004).