

Pitlik, Hans; Heinemann, Friedrich; Schweickert, Rainer

Research Report

Overcoming reform resistance and political implementation of large-scale welfare state reforms

WWWforEurope Policy Brief, No. 3

Provided in Cooperation with:

WWWforEurope - WelfareWealthWork, Wien

Suggested Citation: Pitlik, Hans; Heinemann, Friedrich; Schweickert, Rainer (2014) : Overcoming reform resistance and political implementation of large-scale welfare state reforms, WWWforEurope Policy Brief, No. 3, WWWforEurope, Vienna

This Version is available at:

<https://hdl.handle.net/10419/125767>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



Overcoming reform resistance and political implementation of large-scale welfare state reforms

Hans Pitlik (WIFO), Friedrich Heinemann (ZEW), Rainer Schweickert (IfW),

Reviewed by Andreas Freytag (Friedrich-Schiller-University Jena), Vincenzo Galasso (Università Bocconi) and Janneke Plantenga (Utrecht University)

Policy Brief No. 3

April 2014

INTRODUCTION

The challenge of large-scale welfare state reforms

European welfare states have to deal with a multitude of intertwined socio-economic developments. Since the beginning of the 2000s, most EU Member States have experienced a rise in income inequality, partly as a consequence of the Financial Market Crisis. Crisis phenomena occur against the backdrop of rapid globalisation, accelerating technological change and a shift in demographic structures due to increasing life expectancy and migration. These trends go along with the spreading of new types of employment relations and changing life-styles, which all puts additional claims on existing welfare systems. Concerns about dwindling international competitiveness and deteriorating fiscal positions put tight constraints on further expansion of transfers and social services.

Any socio-economic transition process produces winners and losers. Welfare states must cope with the distributional consequences of socio-economic change not only through retrenchment policies. A more flexible division of responsibilities between private, state, and third-party actors, the liberalisation of over-regulated labour markets, and activating social policies to reduce inequalities of opportunity, seem to be more suitable to address the contemporary problems than established, costly and inefficient policies.

Reforms yielding positive returns in a long-term perspective not only face opposition from powerful insiders and beneficiaries of the system in place. Major policy changes occasionally trigger resistance even from prospective winners. Overcoming both the 'rational' and ostensibly 'irrational' obstacles to reform is thus a core challenge for political reform management.

This policy brief sets out to explore origins of political attitudes towards substantial welfare state reforms. It builds upon and summarizes a sizeable literature on the barriers and success factors of structural reforms, from conventional political-economic explanations to more recent findings. It pays particular attention to innovative insights originating from behavioural, evolutionary and cultural economics. These insights have helped to overcome a narrow political-economic perspective on reform resistance which was too focused on individual self-interest as major determinant of reform preferences. Instead, the new approaches widen the perspective to

the role of fairness considerations, beliefs or social trust. We also take into account the experience of periphery countries and reform patterns in the Central and Eastern European Countries (CEECs).

A key message is that important factors for successful policy change have found too little attention in the literature, compared with technical aspects of reform implementation. Communication, credible political commitment, moral norms, beliefs, confidence building and learning play at least as important roles for the social acceptance of reforms. Policy recommendations cannot of course deal with all political and economic idiosyncracies of welfare state change in a heterogeneous group of countries such as the EU-28. Clusters of welfare systems are quite heterogeneous in Europe. Any concept of reform has to be integrated into the economic system in place, because different kinds of systems also imply different roles for government. We thus focus instead on several aspects of reform acceptance and implementation that we regard as generally valid.

KEY OBSERVATIONS

Opposition to large-scale reforms

Welfare regimes seem to be inherently resistant to change, and change usually happens within a given institutional framework. Unlike the countries in Central and Eastern Europe (CEECs) which underwent a most radical change of their entire political, economic and social system, basic structures of most advanced Western welfare states have not been altered over the past 50 years. However, within the given welfare state regimes, numerous more or less far reaching adjustments have occurred. Examples concern the the British Thatcher reforms in the 1980s, the substantial cutbacks of the size of the Scandinavian welfare state in the early 1990s, or, more recently, the German 'Hartz reforms' of the labour market and benefit system which have taken place since 2003. In addition, most pension systems in European countries have been adjusted with the intention to safeguard sustainability given population ageing – albeit with different degrees of success.

Currently, periphery crisis countries like Ireland or in Southern Europe Greece, Spain, Portugal, or Italy, currently also go through painful reforms of welfare institutions. The experience with this recent wave of reforms points to tight political constraints which, however, differ strongly across countries. Frequently, the lack of approval of harsh policy changes has triggered government resignations and fuelled political instability. Street demonstrations against reforms have at times degenerated into more radical protests and outbreaks of violence. In other cases, merely parametric policy reforms that do not address main features of existing welfare state institutions are confronted with fierce political opposition. Reforms are frequently opposed by groups in society which may easily be identified as main potential winners from a change. Understanding the sources of political opposition against welfare state reforms is therefore key for the design of suitable strategies offering higher chances of success.

Uncertainty about individual consequences of reforms

Policy advisors often stick to the idea that overcoming reform resistance only requires better communication of the potential reform benefits to the general public. An implicit assumption is that technocrats in government will, once they have all the relevant information, pursue the right course. While information is important and necessary to highlight advantages of a policy change, lack of knowledge about the need for reform and its effects is hardly ever the principal reason for resistance to reform.

In the course of time, welfare states establish entitlements and group privileges, and create mutual dependencies between beneficiaries, politicians and welfare bureaucracy. Implementation of significant, but currently unpopular reforms is becoming more and more difficult for governments seeking to remain in office, even if expected long-term outcomes are positive for society as a whole. In this respect, uncertainty about the distributional consequences of reforms play a major role:

- Ex ante, it may be impossible to identify losers and winners from reforms. This may explain that a reform is not popular beforehand but, once implemented, proves to be self-enforcing since winners are identified and start to stabilize the change.
- In addition to this traditional argument there may exist an aggravating asymmetry of that identification problem: Potential losers from a policy change are often relatively easy to spot. For example, the burden of government spending cuts falls on current recipients, service providers and a state bureaucracy administering the provision of services and transfers. Entrenched groups have a lot to lose and are politically vocal.
- Well-designed welfare state reforms produce substantial, but often widely spread gains, as the potential winners are much more difficult to identify. Prospective beneficiaries from a reform typically belong to broad and heterogeneous groups, e.g. taxpayers, 'women' or 'younger people'. Uncertainty about who exactly is going to profit personally reduces reform support even within the prospective winner groups. Pro-reform collective action becomes harder to organise, as the propensity to back a policy of uncertain individual effects is generally weak.
- Gains from reform will often not materialise immediately, but only after a costly adjustment or a tedious re-organisation process. Although up-front costs accrue only temporarily, they work as an obstacle to a long-run beneficial policy change if the time horizon of voters and/or politicians is sufficiently short – for example because of an upcoming election. Also structural trends like population ageing can weaken the long-term-orientation and obstruct the transition towards institutional change – if this change has no immediate payoff.

A typical case in point combining all these factors is a labour market where well-organised and privileged insiders defend generous job protection rules at the expense of weakly organised outsiders like the unemployed or employees in non-standard job relations. One should stress that these uncertainty- or information-related arguments are still consistent with the assumption of full individual rationality.

Behavioural aspects of opposition to reform

However, a rational calculus of expected costs and benefits of a policy change does not prove sufficient for a full understanding of attitudes towards welfare state reforms. Behavioural approaches provide a slightly different perspective on factors guiding individual decision making, both of politicians and voters. Contrary to the traditional rational choice models and their strong assumptions regarding the rational processing of information and (narrow) utility maximization, behavioural approaches take much stronger account of observable human behaviour. The respective research combines insights from psychology and economics and is based on empirical tools like field observations or experimental psychological research.

A particularly relevant idea of behavioural economics in the context of welfare state reform acceptance is a 'status-quo bias' in individual decision making. It prevails if a person has a preference for one option among a set of alternatives from which to choose, only because this particular option happens to be the status quo. Confronted with a complex choice situation, and with a lack of full information about all alternatives, people tend to stick to the current position.

- The status-quo bias can first of all be traced back to an 'endowment effect'. It describes the repeatedly-confirmed phenomenon in psychological experiments whereby people value a good higher only because they already possess this specific good. Hence, there is a natural bias towards the established and time-tested welfare system, even if in hindsight a change would be evaluated favourably.
- A further cause of a seemingly irrational status-quo preference is 'loss aversion'. Experimental evidence shows that people do not evaluate potential losses and gains symmetrically. Decision makers rather perceive potential losses much more intensely than possible improvements. As a consequence, risk aversion of governments and bureaucracies is substantially understated in traditional models. Also among the electorate we can observe a stronger propensity to avoid losses than to reap potential gains. Prospective losers will mobilise opposition against change more easily than prospective winners will be able to muster political support for reform.
- Empirical research also suggests that women are generally less inclined to accept welfare state retrenchment, as they have a more positive attitude towards redistribution and government intervention than men. The evidence of women's lower acceptance of reform compared with men is consistent with the experimental literature indicating a greater degree of risk aversion among women. The implicit message would be that compensation and effective protection of the losers from reform is of particular importance for obtaining the support from women for reform.

Behavioural aspects contribute to seemingly irrational conservatism as regards policy change. As a corollary, ostensible decision making anomalies offer a broader range of promising strategies to facilitate welfare reform acceptance which can complement the traditional rational choice view.

The role of beliefs and trust

A further strand of welfare state research emphasizes the critical role of culture, beliefs, and ethical norms for attitude formation and social acceptance of reforms. They shape codes of behaviour and general views of what is 'desirable' and 'right' in a normative sense.

- A central factor concerns fairness. Policies are accepted more readily if regarded as 'fair'. Fairness concerns also explain why reform winners may not always lobby for change: Voters do not judge reforms just from a perspective of their individual material self-interest. If potential winners regard certain welfare state reforms as detrimental for societal fairness, they may be opposed to it – even if the status quo creates significant opportunity costs for the individual (from reform benefits foregone).
- Fairness does not refer exclusively to equality of final outcomes, e.g. the distribution of income or of wealth. Impartiality and unbiasedness of decision and implementation procedures matter at least as much. Increasing inequality can be a crucial impediment to reforms if it is perceived as a result of an unfair process; it matters even more if the terms of burden sharing are also decided according to mechanisms deemed unfair.
- In this context, fundamental beliefs about the underlying sources of inequalities matter for preferences for redistribution. If people have the impression that markets produce unfair outcomes, they desire more corrective intervention. Opinion surveys reveal clear inter-cultural differences: In the U.S., only about 30 percent of the population think that a better life is mainly a matter of luck and good connections rather than of own effort, whereas in Italy or France around 48 percent of people hold this view. Similarly, individuals who have the impression to control their own life course are less favourable toward redistribution by the state.
- Social trust plays a major role in more than one sense. It is deemed to reduce the cost of control against cheating on benefits and taxes, facilitating a less costly provision of social services. Social trust also reduces the need for regulatory intervention, for example on labour markets. Generalized trust is further important for confidence building in government institutions. While the direction of causality still remains an unresolved issue, lack of general trust and governance problems like corruption go hand-in-hand. Thus, in trusting societies the perceived fairness of political procedures is increased. The relatively smooth reform process of the Scandinavian welfare states points to the relevance of this argument given the high trust levels in the North of Europe. By contrast, trust levels are notoriously low, e.g. in Southern European countries which may help to understand the particularly high reform obstacles in the euro area periphery.
- The ideological position of the political reform pioneers may be highly relevant for the formation of trust and the belief that reforms are motivated by the general interest. The German case where a chancellor from the political left (Gerhard Schröder) was able to kick-off a liberal reform agenda in 2003 is not untypical in this regard. Politicians not under suspicion to push reforms just in favour of the special interest of their constituencies may enjoy higher confidence and, as a consequence, face lower reform resistance.

The political-institutional framework between decisiveness and responsiveness

To a substantial degree, the ability of a country to introduce reforms depends on fundamental rules of the political game. Social security systems are embedded in institutional settings which largely reflect historical developments and political power relations. Range and scope of potential changes are limited in structures with distinct political checks and balances. Radical reform is less likely if veto powers of insiders with opposing partisan interests are embedded in the institutional framework. Reform-minded authorities may be more decisive if they do not need to seek formal agreement with opposing vested interests, as, e.g., in majoritarian systems. The far reaching Thatcher reforms despite fierce voter opposition in the U.K. illustrate the capability to act in this institutional environment.

Consensual structures reduce the margin of policy action and thus inhibit radical change in any direction. Yet, statutory veto rights can serve as a commitment device in the process of reform implementation by increasing stability and reliability. Once a final reform decision has been made in such a setting, it is obviously more difficult to reverse. The big advantage is that governments can more credibly commit to, and people can more confidently rely upon a policy change. This, in turn, facilitates economic adjustment to reform. Like with the general prevalence of trust, consensus-oriented structures can help to mitigate problems of commitment to reform.

The different role of the welfare state in European economic systems as an obstacle to reform

If welfare systems are integrated in institutional settings, any concept of welfare reform in Europe also has to acknowledge the variety of economic systems. Historical and social preferences with respect to the form of governance and the extent of government activity establish clusters within two 'worlds of redistribution': liberal clusters of Anglo-Saxon type systems recently augmented by some CEECs (Baltic countries, Slovakia, Bulgaria and Romania), and clusters of consensus-based coordinated systems with stronger preferences for spending and redistribution. Nevertheless, a high level of government activity in the consensus-based Nordic cluster can be shown to have similar implications for economic growth compared with a low level of government activity in the liberal Anglo-Saxon cluster. This demonstrates that a preference for redistribution and welfare spending does not necessarily imply a high level of regulation as is the case for Continental and Southern European systems. At the same time, a similar level of government intervention into the economy is likely to have different growth implications in liberal and coordinated market economies, i.e. a complementary institutional framework has to be in place and one size does not fit all.

The existence of clusters of economic systems and welfare states has implications for the implementation of welfare state reforms in Europe. First, welfare system reform would have to be compatible with the economic systems in place. This could be the case for solutions implying a low level of regulatory intervention. Large-scale reforms in this direction are clearly possible as witnessed by the Nordic European countries, which strongly reduced regulatory intervention while maintaining redistribution. Second, liberal economic systems are sometimes endowed with constitutions giving major players strong veto powers, while coordinated economic systems rely on seeking political support by social consensus. Hence, reform resistance, discussed in terms of decisiveness and responsiveness, is likely to differ.

RECOMMENDATIONS

Compensating losers from reforms, bundling, and the 'big bang' vs. 'gradual reform' controversy

At the heart of political opposition to overall beneficial reforms lies the fact that any change of policies and institutions has distributional consequences. Welfare state reforms do not create only winners, at least not in the short run. From an economic perspective, the sum of all (discounted) benefits should be sufficiently high to compensate the net losers from reform. Otherwise the policy change itself would be questionable.

Problems in the design of compensation schemes

To moderate political resistance, and to win popular approval for reforms, compensation for those negatively affected from the policy change appears to be necessary. For example, the Scandinavian reforms in the 1990s were simplified by the fact that the effective poverty protection of the Northern Welfare State credibly provided compensation for reform losers. Yet, the development of compensation schemes carries a number of additional problems:

- Direct side payments to prospective losers in order to 'buy' their support could be very costly. Excessive compensation may result from the fact that prospective losers have an incentive to overstate their potential losses.
- Specific compensation schemes may be targeted at groups of potential losers from reform, or groups which strongly oppose policy change. As these are often the previous beneficiaries, excessive compensation could easily provoke fierce opposition against compensation schemes on fairness grounds.
- A more practicable strategy would be to soften the potential losses of an abrupt change by extending the reform transition phase or by grandfathering clauses. Such a gradual 'phasing out/phasing in' strategy is frequently used in pension reforms. A potential risk of this approach is that the original aims of the reform may be excessively watered down by prolonged adjustment periods and over-generous concessions.

Compensation through bundling of complementary domains

Devising compensation schemes to mitigate the adjustment costs for prospective losers without removing incentives to adjust is thus an ambitious task. A careful bundling of reforms in different domains, such that potential losers from one reform are compensated by prospective gains from change in another policy domain, appears to be the most promising strategy. Combining different programmes to a single reform package could be highly successful if complementary policy changes – like labour market reforms and pension reforms, including old-age and invalidity schemes – are introduced simultaneously. Southern Europe with its well-known lack of effective protection against poverty is a good example for the need of a comprehensive reform approach. Welfare state reform packages should include measures to secure an effective protection of the subsistence level as a minimum guarantee for reform losers.

Feasibility of a big bang approach?

While adopting complementary reforms in a single step ('big bang reforms') might generate extra returns, the effects on economic uncertainty are ambiguous. Uncertainty increases significantly if the government undertakes numerous reforms at the same time. An unintended consequence may be that frictions during the adjustment period become stronger and even impossible to deal with. Only well-designed reform bundles that take advantage of close links between reform areas and exploit policy complementarities will yield a substantially higher gain. Specifically, in the context of Southern Europe the recommendation is to address poverty protection in a comprehensive big bang approach or to combine efficiency-targeted reforms of economic structures with fairness-targeted reforms of the political system and public administration.

Some lessons from CEECs

A remarkable experience of large-scale changes has been the transition of the CEECs towards market-oriented and 'Western-type' welfare systems. In that respect, Slovakia and Hungary followed two strikingly different transition paths: Slovakia as a nation builder had some scope to launch a reform process, while Hungary as the most liberal socialist state at the time was bound by path-dependency to a considerably higher extent.

Slovakia has been labelled a star performer, as its performance was based on sweeping liberal reforms. At the same time, the Slovak experience shows that it is crucial to build well-functioning formal institutions right at the start of any transition. Furthermore, any government deciding on the appropriate pace of reforms faces a trade-off. A too low speed may risk the window of opportunity. And a swift pace of reforms should not be achieved at the expense of their quality and long term sustainability, since numerous additional changes of institutions may undermine confidence in the respective reforms. Moreover, the experience of Slovakia shows that reform strategies in CEECs are still closely linked to the political cycle.

The fact that Hungary did not have to start from scratch also implied that it had to build reforms on existing institutions. The gradualist approach adopted ended up with rather strong political and economic crises. The overall feature of the Hungarian transformation can be characterised as transformation without stabilization. The gradualist pattern of the Hungarian transformation was not the result of a deliberate decision by a freely elected government, but a historically determined path-dependent outcome of a two-decade long reform process that culminated in the political changes of 1989.

Overall, the experience of Slovakia and Hungary confirms insights from the transition literature that there is no unique optimal speed of reform, but that the challenge is rather to put the right institutions in place as fast as possible. There seems to be a tendency in CEECs that nation-builder as well as low-income countries prefer or are forced to adopt more liberal systems, while the more advanced countries had to cope with more complex circumstances and had to make greater efforts to overcome reform resistance.

Commitment to reform goals and implementation

The importance of credible commitment to reform

Successful implementation of reform requires credibility on the part of the authorities. They must be able to credibly convey that they will stick to long-term policy goals, that reforms will not be reversed, and that compensation promises will not be broken. There are good economic, political and behavioural reasons for stressing the importance of credible commitment to reform goals and implementation.

- From an economic standpoint, citizens and companies must be convinced that the reforms will be introduced as announced, since adjustment often requires up-front investment in physical or in human capital. If a policy change is unexpectedly reversed, the previous investment becomes (partly) obsolete. Indeed, if investors have to beware of reform reversals, they will resort to wait-and-see, and adjustment may be disappointingly slow.
- Politically, commitment is required since credible compensation for prospective losers from reform is usually fraught with time consistency problems. Potential losers only agree to a policy change, if they can be sure that the compensation scheme will not be withdrawn or that future governments will not renege on current government promises.
- From the behavioural perspective, irreversible reform decisions have a better chance of overcoming the status-quo preference. If the old institutional arrangement ceases to be an available option, voters will mentally adjust to the new environment more easily.

Steadfastness is not enough, institution-building helps

Problems of credible commitment are inherent to the democratic political process. For a reform-minded government, building up a reputation of sticking to its decisions by repeated demonstration of steadfastness may help, but it provides no general solution for a fundamental time inconsistency problem. 'Time inconsistency' is given if there are future incentives to diverge from a pre-announced path of action. For example, a promise to consolidate the budget not now but in the medium term suffers from an obvious time inconsistency-problem: If the political resistance to consolidation is too powerful now why should the political chances for consolidation be higher at a future stage?

It is an unresolved research question whether radical and comprehensive reform, accepting harsh consequences of temporary economic hardship, is superior to more moderate changes for producing credibility. As noticed, effective institutions with approved checks and balances may generate the required safeguards against sudden policy reversals:

- Governments willing to reform can demonstrate commitment and self-restraint by adopting tight rules and procedures, which are preferably put down in hard-to-change constitutional law. The budget rules stipulated by the Fiscal Compact, which shall be implemented in national law through provisions of 'binding force and permanent character', serve as a role model in this respect.

- An example of such binding rules is offered by pension reforms: The introduction of life-expectancy factors in pension reform laws which provide for automatic adjustment of the retirement age can help to keep discussions about reform reversal out of the political sphere.
- Credibility of announced reforms and their implementation can also be enhanced by the creation of independent and non-partisan agencies to supervise the reform process at the national level.
- Commitment may be strengthened by membership in supra-national organisations or international treaties. There is no doubt that significant reforms in CEECs gained substantial credibility when the reforming countries were offered a realistic perspective for European Union membership.
- International support for reforms is yet a two-edged sword. In some cases, international obligations proved helpful in that they generated stronger reform pressure at the national level. But in many other cases, the supra-national authority, as witnessed in the EU, took on the role of a scapegoat, and contributed only little to reform credibility of the national government. Such a strategy may be inevitable, though. Especially if confidence of the general public in domestic political institutions is extremely eroded, reliance on international reform obligations may be the only feasible way to commit to a policy change.
- Again, the Southern European crisis countries offer insights into the potential of EU involvement. In some of these countries, trust in the local bureaucracy and in the political parties is almost completely absent. Hence, national actors are unable to fulfill the conditions for perceived fairness, trust and credibility which are indispensable for a successful reform process. In the event, the EU governance framework may function as a substitute. A precondition is, of course, that EU actors are not regarded as just another special-interest player (who, for example, just protects the national interests of Northern European countries).

Increasing the perceived fairness of reforms

Participation of all relevant groups

Welfare state reforms address highly sensitive domains. Numerous people and interest groups are affected by the regulations of pension systems, labour market institutions, health systems, etc. In modern welfare regimes, almost everyone has a stake in social insurance or redistribution schemes. Notions of fairness and participation require involvement of a substantial share of the population.

The political acceptance of the distributional outcome of welfare state reforms depends to a substantial degree on the perceived fairness of decision making procedures regarding the policy change in question. A crucial factor in this respect is the impartiality of the procedures, including absence of biased interest group influence in the decision process, as well as the balanced involvement of affected groups. Participation of all groups concerned may slow down the decision making, but it ensures that these groups have a voice which is heard in the process.

Communication of reform goals

Information about consequences of reform and non-reform

As noted, information about reform goals and consequences of non-reform is usually not sufficient by itself to persuade opponents and a 'silent majority' of prospective winners to support a reform. Yet, without communication of the central aims, the government will not get a clear mandate for a change. Information can (and should) stimulate public debate about the flaws and problems of the system in place.

Framing of the reform communication

Reform communication should not solely focus on the efficiency objective of reforms like, for example, 'overcoming labour market dysfunction'. In addition, the fairness dimension of comprehensive reform must be conveyed ('integrating the disadvantaged into the labour market'). A fairness framing of reform objectives, if it is credible, has a much higher chance of gaining political support than just the appeal to concepts like efficiency or competitiveness.

Strategically, the design of productive communication schemes may take into account insights from prospect theory that a voter's propensity to take risks is shaped by his/her reference point. People observe the status quo and establish whether they are in a domain of loss or of gain. Governments can increase voters' willingness to support a change if they are able to reframe the reform problem from (potential) gains of a policy change into (potential) threats of losses in the case of no action being taken. This would include, for example, emphasizing more pessimistic future scenarios.

Some caveats

From a moral/ethical viewpoint, such a policy may be questionable if it opens the door to an extrinsic manipulation of information and the options for decision offered to the general public. From a paternalistic perspective, there may be few objections, but from a liberal point of view there are certainly qualifications. A similar moral problem is associated with the increasingly popular idea of 'nudging', where policy makers alter the 'choice architecture' of citizens by shifting their default position in order to attain certain 'social goals'.

You never want a serious crisis to go to waste

An important result from political economy research is that a rapidly deteriorating socio-economic situation can serve as a trigger to (unpopular) reforms. There are several possible reasons why a crisis will strengthen the political momentum for policy changes. On the one hand, a serious crisis provides a shock to the equilibrium of established political interest groups, opening a window of opportunity for change. On the other hand, a crisis can be interpreted as a sign of a deeply rooted policy failure that intensifies the search for better policy models. It is during times of crisis that new policy ideas can really matter.

A crisis should nevertheless not be communicated as single most important reason for a policy change. To have a long-lasting effect, it is necessary that the underlying root causes of a need for reform are communicated, and that the central aims of reform are made clear.

Education as a key in the long-run

The crucial importance of values, beliefs and social trust for the formation of attitudes towards the welfare state and the support for reform finally leads to the question how and in which way these factors can (and should) be influenced to support welfare state change.

In general, values and behavioural traits are persistent over time, in part genetically and socially transmitted, predominantly through family relations. Yet, schools also convey social behaviour to children, and recent evidence suggests that beliefs concerning cooperation, trust, and self-organisation can be transmitted via school education. Teaching values of life control and improving economic knowledge may be essential. In a society with a higher share of independent, self-confident, active and economically trained people, it is easier to introduce reforms that put greater emphasis on personal responsibility and individual autonomy.

ACKNOWLEDGEMENT

We thank Karl Aiginger, Georg Busch, Andreas Freytag, Vincenzo Galasso, and Janneke Plantenga for valuable comments and polishing up the manuscript. The responsibility for the content remains with the authors.

RESEARCH PARAMETERS

Objective of the research

In the face of the financial and economic crisis and long-term challenges from globalisation, demographic shifts, climate change and new technologies, Europe needs to redefine its development strategy. The objective of WWWforEurope – Welfare, Wealth and Work for Europe – is to strengthen the analytical foundation of this strategy. It goes beyond the Europe 2020 targets of smart, sustainable and inclusive growth and lays the basis for a socio-ecological transition. The new development strategy aims at high levels of employment, social inclusion, gender equity and environmental sustainability.

The research programme

WWWforEurope will address essential questions in areas of research that reflect vital fields for policy action to implement a socio-ecological transition:

- It will deal with challenges for the European welfare state, exploring the influence of globalisation, demography, new technologies and post-industrialisation on welfare state structures.
- It will analyse the impact of striving towards environmental sustainability on growth and employment and provide evidence for designing policies aimed at minimising the conflict between employment, equity and sustainability. This involves using welfare indicators beyond traditional GDP measures.
- It will investigate the role that research and innovation as well as industrial and innovation policies can play as drivers for change by shaping the innovation system and the production structure.
- It will focus on governance structures and institutions at the European level and the need for adjustments to be consistent with a new path of smart, sustainable and inclusive growth.
- It will explore the role of the regions in the socio-ecological transition taking into account institutional preconditions, regional labour markets and cultural diversity and examining the transitional dynamics of European regional policy.

This research will be conducted within a coherent framework which from the outset considers linkages between research topics and highlights how different policy instruments work together. The results of all research areas will be brought together to identify potential synergies, conflicts and trade-offs, as a starting-point for the development of a coherent strategy for a socio-ecological transition.

Methodology

The project builds on interdisciplinary and methodological variety, comprising qualitative and quantitative methods, surveys and econometrics, models and case studies.

PROJECT IDENTITY

Coordinator Karl Aiginger, Director, Austrian Institute of Economic Research

Consortium Austrian Institute of Economic Research
 Budapest Institute
 Nice Sophia Antipolis University
 Ecologic Institute
 University of Applied Sciences Jena
 Free University of Bozen/Bolzano
 Institute for Financial and Regional Analyses
 Goethe University Frankfurt
 ICLEI - Local Governments for Sustainability
 Institute of Economic Research Slovak Academy of Sciences
 Kiel Institute for the World Economy
 Institute for World Economics, RCERS, HAS
 KU Leuven
 Mendel University in Brno
 Austrian Institute for Regional Studies and Spatial Planning
 Policy Network
 Ratio
 University of Surrey
 Vienna University of Technology
 Universitat Autònoma de Barcelona
 Humboldt-Universität zu Berlin
 University of Economics in Bratislava
 Hasselt University
 Alpen-Adria-Universität Klagenfurt
 University of Dundee
 Università Politecnica delle Marche
 University of Birmingham
 University of Pannonia
 Utrecht University
 Vienna University of Economics and Business
 Centre for European Economic Research
 Coventry University
 Ivory Tower
 Aston University

European Commission Domenico Rossetti di Valdalbero, DG Research and Innovation

Duration 1 April 2012 – 31 March 2016

Funding scheme FP7 Collaborative Research Project

Budget EC contribution: EUR 7,999,858.25

Website www.foreurope.eu

For more information Kristin Smeral, wwwforeurope-office@wifo.ac.at
