

The Welfare States in a United Europe

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Abstract

Despite the creation in Europe of a common economic and monetary union, the convergence towards a unique European Welfare State (EWS) model is not yet in evidence. By applying a β -Convergence panel data approach on real per-capita welfare expenditure, the paper analyses how the different types of welfare states and country-specific factors are conditioning the convergence of EU member states social policies. Our results suggest that a unique European model toward which the different countries are converging does not exist. Instead, we find evidence of strong heterogeneity among welfare states. While accounting for the sensitivity to national specificity of the earlier literature (Esping-Andersen, 1990), this methodology allows us to understand whether there exists a prospect for constructing a new 'Transnational European Social Model' (Hay et al., 1999).

Keywords: *Welfare, Longitudinal Analysis, β -Convergence*

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1. Introduction

The economic and monetary union of Europe is the new supranational entity which poses common political and economic targets to each member state. This interaction between ‘geographical spaces and membership spaces’ (Flora et al., 2000) should be the root of the modern notion of welfare state. However, the centralisation of political and economic decisions may undermine the autonomous manoeuvring of national policy and lead to a progressive de-structuring of national welfare institutions (Ferrera, 2000; Rokkan, 1973). The next step is a restructuring process which allows for a combination of sub-national, national and supranational programs, leading member states towards a ‘unique’ political model; the question at this point is whether there should also be a ‘unique’ European Social Welfare State (ESWS) model and, if this unique model exists, the main problem is to define the desired level of ESWS; should all countries converge toward a minimum common welfare level or to a higher level similar to that of the North European Countries?

While the Maastricht Treaty in 1992 has defined an explicit common target in terms of financial indicators it is not clear whether the relatively flexible approach in social policy-making at the supra-national level (the Open Method of Coordination and the Lisbon Strategy are an example) will also lead to a common target in terms of social protection policies.

The main objective of the paper is to establish empirically whether the different types of welfare states and country-specific factors are conditioning the convergence process of EU member states welfare policies. While accounting for the sensitivity of the earlier literature (Esping-Andersen, 1990) to national peculiarities, this analysis allows us to understand whether there is a prospect for constructing a new ‘Transnational European Social Model’ (Hay et al., 1999) which implies that there should be a ‘complementary action at the EU and national level’ (p. 12). Hence, the proposed outcome will be a co-ordinated solution and not just the sum of EU countries' welfare policies introduced without any common agreement (Paganetto, 1997).

The contribution of this paper is twofold. By applying a β -convergence panel data approach, the paper analyses how the institutional diversity is conditioning the convergence of EU member states real per-capita welfare expenditure; second, it examines whether the different types of welfare regimes can coexist or if only a leading welfare model is destined to survive.

The paper is divided into six sections. In the second, we provide an overview of the literature on welfare and we analyse the existing classifications of welfare states. The third section analyses the role played by the European Union on individual countries' welfare policies. The fourth section analyses whether the EU members, after having achieved a monetary union, are also moving toward a unique welfare state model. In the fifth section we propose a statistical methodology based on longitudinal analysis to test whether there is a convergence process in welfare policies conditional upon specific countries' institutions. The sixth section contains the conclusions.

2. The Classification of Welfare States

The notion of social welfare has been extensively explored in the literature. Rose (1986) in formulating the well known ‘welfare society thesis’ stresses that states, economies and civil societies are equally important foundations of the notion of social welfare.

Titmus (1974) in his work on the foundations of social policy has highlighted the main differences in the nature of the welfare states, identifying three main categories. The *residual welfare* state in which individuals (workers and families) bear most of the financial costs of protection against social risk, where the State steps in only when this private support is miss-

ing. The *industrial achievement-performance* model, built around the individual employment and occupational history, in which free market generally dominates and social security is supplementary. The *institutional redistributive* model in which there is a collective responsibility for individual welfare and the State adopts a redistributive mechanism to provide assistance to individuals in need.

Esping-Andersen (1990 and 1999) have further extended the previous classification identifying three kinds of social states: the *liberal ones*, such as the United States and the United Kingdom, characterised by limited collective provision, similar to Titmus' residual model; the *corporatist* state, such as Germany, Belgium, and France where the coverage provided by collective provisions is selective and hierarchical and in which the predominance of collective social insurance means that the protection offered by private schemes is fairly limited; the *social democratic* welfare state, such as Sweden, Denmark and Norway where there is a high level of social protection for all the residents in the country; it is, in general, a very expensive system which can be sustained only if there is a commitment to full employment for both men and women.

As stressed by Wildeboer et al.'s empirical work (2000), the three types of welfare states identified by Esping-Andersen (1990) show a strong dichotomy in terms of income: in the liberal countries, there is less income redistribution, greater income inequality and more widespread poverty than in the other two types. Taking Europe as an example, Wildeboer et al. (2000) stress income differences between households are the smallest in Belgium and the Netherlands. However, if the size of households is taken into account, then the social democratic welfare states¹ are at the top of the list, with the Netherlands in an intermediate position. Taxes and social security contributions reduce income differences more strongly in Belgium, Sweden and Germany. The Netherlands occupies fifth place in this respect.

3. Issues on Welfare Convergence

All the empirical analysis supporting the evidence of divergence in industrialized welfare states (Esping-Andersen 1996) focuses on outcomes such as social security expenditure rather than on the *quality* of social policy. If we consider the qualitative change of instruments within the EU, then we expect to find more evidence for convergence towards a unique continental model of welfare state (Armingeon et al., 1999) and the progressive dismantling of ideal types of welfare state like those proposed by Esping-Andersen (1990).

The literature (Rokkan, 1973; Ferrera, 2000; Teague, 2000) stresses the strong relationship between the modern concept of state and the development of the welfare state. Once the political model for the EU has been defined (weak or strong political integration) the problem becomes the definition of a welfare state compatible with the political model chosen.

However, defining the welfare state is not an easy task since it is the result of the interaction between several contingent and well established factors. The contingent factors are *political* elements like the fragmentation of political parties, the political stability and the power of trade unions; other factors are *institutional* like the degree of federalism and the competition of political systems; finally there are *socio-economic* factors like globalisation trends, demographic and occupational trends and changes in life-style. A well-established factor is represented, for example, by history. Hence, welfare cannot be measured using a single macro-economic variable. Instead, it is the result of the relationship between contingent factors and it is strictly related to the historical concept of nation state and with the future development of a political model for the EU. In fact, social insurance was the co-foundation in the

¹ United Kingdom, Canada, Australia and the United States, as liberal countries, Sweden, Norway and Denmark constitute the social democratic group, Germany, Belgium and France are corporatist welfare states, finally the Netherlands does not clearly belong to one of the three types

history of the nation states in Europe which operated an institutionalisation of solidarity in order to strengthen the link between territories, cultural identities and political institutions (Ferrerera, 1993, 2000 and Ferrera et al. 2001; Flora and Alber, 1981); it will be also one of the most important co-foundations of the recently built European State defined within its economic and political constitution. In this respect one of the pre conditions to have a European Welfare State is the convergence of nation-based welfare regimes. The early studies on EU welfare convergence can be considered, at least partially, deriving from the vast literature on the welfare convergence for the industrialized countries.

In fact, looking at the OECD countries, on one hand globalisation and regional integration lead to a higher degree of convergence among welfare states and to greater regulatory competition which produces a race-to-the-bottom of social policies (Ohmae, 1995). Even if one focuses on pure domestic factors, this can lead to a similar outcome; in fact, since Western societies are similar, this creates similar demands for social security and a convergence in welfare states (Flora, 1981). If we assume convergence, however, there is the difficulty of conceptualising the notion of welfare state².

On the other hand, institutional differences at the national level may lead to the coexistence of different welfare states and to divergence rather than convergence in social policy. One argument in favour of the resistance of national state programs is the importance of a distinctive social-policy for each national government (Pierson, 1994). He notes that institutional reforms at the national level, in particular political decisions that strengthen the position of budget cutters, may place serious pressure on welfare enhancing policies. Also, different institutional settings are important variables for social policy development (Esping-Andersen, 1996).

At the EU level, currency and economic unification is meant to be the vehicle for ever closer political union. That would ultimately imply the formation of a continental policy with wide socio-economic disparities. In this respect, the Economic and Monetary Union (EMU) of Europe would resemble the U.S. rather than any of its constituent nation states.

One of the most debated issues is how to proceed with respect to social policy matters. Notwithstanding commitments to guarantee adequate levels of protection also advocated and renewed in article 2 of the Maastricht Treaty, the implementation of the stability pact and the constraints imposed on budget policies of member states, pose alarming prospects to the implementation of the various protection policies in the member countries.

Recent years have witnessed profound changes in economic, social and demographic structures which have determined new contexts within which the social protection system must operate, in some cases with old regulations yet to be updated. In this new panorama the EU States have to face common restructuring problems, adopting measures designed to render the social protection system more efficient.

However, in the richer EMU countries, fears of a rush to the bottom are widespread. Poorer countries are afraid of a rapid upward convergence in social standards since they see this as a threat to their ability to catch-up.

As several authors stress (among others see Boeri, 2000), the bias in favour of the *status quo* in the EU integration process may represent an obstacle to the convergence of the different social states. There are several reasons to justify this argument. For example, Calmfors (1998) argues that monetary union will reduce incentives to reform the labour market, since the closer integration shifts the burden of the reform onto the other members and allows the inefficient countries to benefit from spillovers from the virtuous ones. Similarly Sibert and

² As Cox (1999) notes: Not only are countries adopting similar programs, but also they are using similar language to legitimate them. From Sweden to the United States, policy makers justify programs because they promote individual responsibility, strengthen the rewards of work, and correct perverse incentives. Present theories of welfare state development do not adequately explain these trends because, I argue, they lack historical perspective and focus too narrowly on the policies that comprise the welfare state, rather than the *idea* of the welfare state (p. 14).

Sutherland (2000) argue that due to monetary policy spillovers among countries, a monetary union leads to less reform than a regime of non co-operative monetary policy. Cukierman and Lippi (1999) have found that a reform of the labour market implemented by a single country will have only a small effect on the common rate of inflation. Along the same lines, Minford (1994) identifies another motive for the irrelevance of the EU policy on the EU social integration and reforms. According to his interpretation, in Europe the structural rigidities and inefficiencies of the welfare systems should not be removed immediately but only when the macro-economic conditions become favourable. In fact, slow growth makes reforming more difficult. Downward business cycles imply that the demand for social protection and job security is increasing, so governments are discouraged to reform their welfare state toward a residual model.

For the EU countries the slow convergence in social protection is motivated by the need of the national government to focus the policy action on structural reforms (Bean, 1998). In fact, countries can respond to asymmetric shocks only if they are able to tackle the Euroclerosis which characterises the product and labour markets with the result that the social protection policies are often neglected.

Hence, one possible consequence of this forced integration is the dismantling of the European social protection systems. As Sinn (1998) stresses the increasing competitive pressures on national fiscal systems may generate a race-to-the-bottom in terms of social welfare provision. The tighter restrictions thereby imposed upon national budgets to meet economic parameters of entry into the EU, have played an important role in conditioning programs which have attempted to improve the social protection system.

The need of bringing together social intervention policies at the EU level is stressed by Bertola et al. (1999) who argue that:

“the failure to provide guidance on the challenges facing social provision at the country level, in light of the removal of economic borders across the Union, exposes European policies to the twin risk of inertia on the one hand, and uncoordinated and unsustainable reforms on the other”.

4. Which Model for the EU: a European or a Country-Specific Welfare State?

The process of political unification of Europe poses the question of whether there exists a transnational model that links the single national welfare policies, on the basis of the Esping-Andersen classification (1990), or if each country represents a specific ‘national’ model that should be preserved.

We have stressed that the welfare state is the result of the interaction between social and economic factors and this relationship has varied considerably over time, with respect to each welfare state and at each time period between different welfare state regimes (Wincott, 1999). The process of the monetary unification of Europe and the integration of the EU markets have generated a mutual antagonism between social and economic policy with the result that some models are held to be undermined because of their incompatibility with the underlying new political environment. For example, the process of economic unification is supposed to weaken a variety of social models, like the Scandinavian, French and German ones, while suggesting the comparative advantage of others, principally Anglo-American models (Lane, 1983, Meidner, 1993). Other empirical work has challenged such a view (Cameron, 1978; Calmfors and Driffil, 1988) suggesting that welfare states are gradually converging versus a deregulatory neo-liberal optimum and a social-democratic corporatist optimum. The question is whether European centre-left governments have any free choice between neoliberalism and social-democracy or whether there is an institutional preference, in some countries, for an ‘archetypal’ social democratic model which encompasses labour market institutions and in which

corporatism leading to wage-restraint, produces a tight control of the wage-push inflationary pressures.

As Hay et al. (1999) note:

“...whilst there may well be institutional (pre)conditions for successful social-democratic corporatism in contemporary Europe -conditions EMU may invariably compromise- the choice is not simply that between social democratic corporatism and neoliberalism. There are as many social democracies as there are current variants of neoliberalism... “(p.22).

As Begg (2002) points out, the viable alternative is to allow single countries to shape national welfare states within common lines, letting governments weight their policy targets appropriately. So this ‘differentiated policy harmonisation’ can be the solution to the problem stressed by Teague (2000) who argues that if the EU cannot guarantee a transnational European model the risk will be the Americanisation of the social policy.

5. The Empirical Model

The main question is whether there is any empirical evidence of a shift toward a single continental welfare state regime in Europe. The analysis takes into account that among countries, even with divided competencies and multilevel governances, there are important spillover effects from supranational regulatory politics at the European Union level to the single-country level.

To analyse whether there is any convergence in per-capita welfare expenditure among the EU countries, we use the β -convergence method (described below) using a panel of annual data of real per-capita welfare expenditure and subsidies for all the EU countries³. Since we need a measure of aggregate welfare we turn to the World Bank database. Its advantage with respect other measures usually employed in the literature (e.g. social spending levels) is that it covers a broader spectrum of public and mandatory private social expenditure⁴. By conditioning the model on a set of institutional and political variables we also account for the interaction between country-specific factors and welfare policies.

To test the indirect effects of the European policy integration on the convergence process we have divided the panel in two sub-periods: the first spanning the years before the Maastricht Treaty (Model 1, 1980-1991) and the second taking into account the years after the agreement (Model 2, 1992-1998).

According to the literature on β -convergence (see, for example, Sala-i-Martin, 1996) we suppose that there is an underlying common steady level of per-capita welfare expenditure to which nation-specific policies are converging: if so, we should have homogeneous negative β values, which imply that there is an inverse relationship between the initial value of per capita income and its future growth, i.e. catching up. In fact, if β -convergence holds for all i nations ($i=1,2,\dots,M$), the welfare dynamics can be expressed according the well-known relationship:

$$\ln w_{i,t} = \alpha + (1 + \beta) \ln w_{i,0} + \varepsilon_{i,t} \quad 1$$

³ The EU countries comprise: Portugal, Greece, Ireland, Norway, Spain, Italy, Denmark, Germany, Austria, France, Belgium, Netherlands, Sweden, Luxembourg, plus Finland, Denmark, and UK taken from the World Bank database.

The data can be downloaded at www.worldbank.org/research/growth/gdndata. The OECD Social Expenditure Database provides information for a subset welfare spending.

⁴ National social security policies covered are classified under the following 13 social policy areas: old age cash benefits; disability cash benefits; occupational injury and disease; sickness benefits; services for the elderly and disabled people; survivors; family cash benefits; family services; active labor market programs; unemployment; public expenditure on health; housing; other contingencies.

in which $w_{i,t}$ is the per-capita welfare expenditure of nation i at time t for $t=1, \dots, T$. In particular we estimate three different specifications of the above model. The first tests the average convergence among all the EU countries following the transformed relationship:

$$w_{i,t}^* = \alpha + \beta w_{i,0}^* + \varepsilon_{i,t} \quad 2$$

in which $w_{i,t}^*$ is equal to $(\ln w_{i,t} - \ln w_{i,0})$ and it measures the change in real per-capita welfare expenditure between time t and time zero; also, $w_{i,0}^*$ is equal to $\ln w_{i,0}$. In this way we define a homogeneous starting point useful to analyse how the convergence ‘dynamics’ changes before and after the Maastricht Treaty.

The second model analyses the effect that the different welfare regimes have on the per-capita welfare expenditure dynamics. All countries have been grouped on the basis of the Esping-Andersen classification of welfare states, reported in section 2 of the paper. This leads to estimate the following model:

$$w_{i,t}^* = \alpha + k_r + \beta w_{i,0}^* + \varepsilon_{i,t} \quad 3$$

in which k_r takes the values 1,2,3,4 according to the following classification of welfare models:

- 1) Liberal (UK,IRL);
- 2) Social-Democratic (SWE,NOR,DNK,FIN);
- 3) Corporatist (AUT,BEL,DEU,LUX,NLD,FRA);
- 4) Southern-European (ITA,ESP,PRT,GRC).

So a value of k_r equal to 1 indicates that the country considered is classified as *liberal*, and so forth. The estimated β show how the likelihood of the event, for example $k_r = 1$, affects the predicted value of the response variable.

Finally the third model accounts for the interaction between country-specific effects and welfare policies:

$$w_{i,t}^* = \alpha + \beta_i w_{i,0}^* * country + \varepsilon_{i,t} \quad 4$$

Using this specification we are able to estimate a country-specific β . Moreover with this structural form it is possible to test if the specific institutional setting (the country factor) and the initial welfare expenditure affect the response variable contemporaneously or independently. In this way we can observe the tendency of each national specific institutional setting (captured by the country factor) to converge to (or diverge from) an underlying European Welfare State. If we note that all the β s in the panel display a negative sign we can conclude that there is convergence because, given relationship (1), the growth rate at time t is inversely related to the initial level, so a higher coefficient indicates a quicker tendency for convergence. On the other hand, a $\beta > 0$ indicates that countries are far from equilibrium and the variance of national per-capita welfare is increasing over time. All the models have been estimated using the Maximum Likelihood Estimation (MLE) method.

Figure 1 shows the scatter plot of the average countries' growth rate of welfare per-capita expenditure between 1980 and 1998 versus the log of initial welfare per-capita expenditure. Norway, Sweden and Luxembourg have the highest level of growth rate whereas Portugal and Greece the lowest. This result can be also noted comparing the two Lorenz's curves (Figure 2 and 3) describing the distribution of the average welfare expenditure in the two sub-samples in each EU country. Using standardised data Figure 2 shows that in the pre-Maastricht period Portugal was leading behind the rest of E-16 countries while Luxemburg was at the top of the ranking. In the post-Maastricht period Greece has replaced Portugal at the bottom of the distribution, while Sweden has replaced Luxemburg at the top. The comparison of the Lorenz's curve in the two sub-sample periods also shows that inequality was higher in the first sub-period: in fact, the further the Lorenz curve lies below the line of equality, the more unequal is the distribution of standardised welfare expenditure among countries.

Table 1 shows the panel estimates in the two sub-periods and the initial level of welfare expenditure with no group effects and no interaction between countries. In contrast with the static Lorenz's curve results, the longitudinal analysis shows that in the pre-Maastricht period the β -convergence is higher than in the second period. This result can be explained noting that most likely the Maastricht process has not imparted a marked acceleration to the convergence process toward the hypothetical European model. So country diverse dynamics persists also after the unification. These results can be more deeply analysed in the second model estimated on the basis of relationship (2) which accounts for group effects related to the different welfare states. Here, looking at the parameter values, we note a reduction of the speed of convergence in the after-Maastricht period, together with a strong positive contribution to the growth in welfare expenditure of the social-democratic countries. In other words, the event: "the country i belongs to the social-democratic group" increases the expected real per-capita welfare expenditure.

The contribution of the corporatist welfare states remains substantially stable; this result is consistent with the Lorenz's curve given in Figures 2 and 3 where the corporatist countries' ranking has not muted in the two sub-periods. In line with the theoretical literature cited above, which stresses the importance of the interaction between the welfare state and the socio-political and economic institutions, we have chosen to consider the country fixed factors as a proxy of all the variables underlying these national specificities.

The last specification considers the interaction between countries' effects and the initial welfare per-capita expenditure. Using this model we can assess whether country-specific factors and initial conditions jointly affect the convergence process. This implies that from an 'unconditional' β -convergence analysis (Models 1 and 2) we move to a 'conditional' β -convergence approach (Model 3). The results confirm that we cannot detect the presence of a unique European welfare model since some countries are not converging and those displaying convergence have heterogeneous β s. This result allows us to say that each country possesses its own specific institutions, welfare policy and social demand for protection policy that define different dynamics within each of the four classes.

Although there is no complete convergence and homogeneity across all the countries considered, it is evident from the Lorenz's and β -convergence analysis that the unequal distribution of real per-capita welfare expenditure among the EU countries has been progressively reduced. In particular, the liberal countries (United Kingdom and Ireland) are slightly more converging, even though their per-capita welfare expenditure is still far below the European average. The rate of convergence of the social-democratic countries -having a level of welfare expenditure above the European average- remains substantially stable. Corporatist countries, like Germany, exhibit divergence across the two sample periods. This result can be explained by observing that the unification process may have created bias in the allocation in public expenditure and a contraction of welfare expenditure. Finally, all the Mediterranean countries (Spain, Italy, Portugal) with a level of per-capita welfare expenditure below the European average in the pre-Maastricht period, show a greater tendency to converge.

6. Conclusions

The paper has confirmed, in line with Boeri (2000) that in terms of welfare policies there exists a mix of converging and not converging countries, with a heterogeneous contribution of the different types of welfare states to the convergence process. While accounting for the sensitivity of the earlier literature (Esping-Andersen, 1990) to national specificity, the results indicate how far the single nation welfare states are from an underlying 'Transnational European Social Model' (Hay et al., 1999). Here, the role of the European institutions is crucial since they can govern the harmonisation of country-specific diversity to avoid the danger of

an ‘Americanisation’ of the welfare states (Teague, 2000). In fact, as also Boeri (2002) stresses, the superimposition of a unique European social policy model would jeopardise the reforming efforts of the EU countries. European supra-national institutions should, instead, introduce common standards in the development of social protection policies as a co-ordination mechanism among national welfare states.

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Figures and Tables

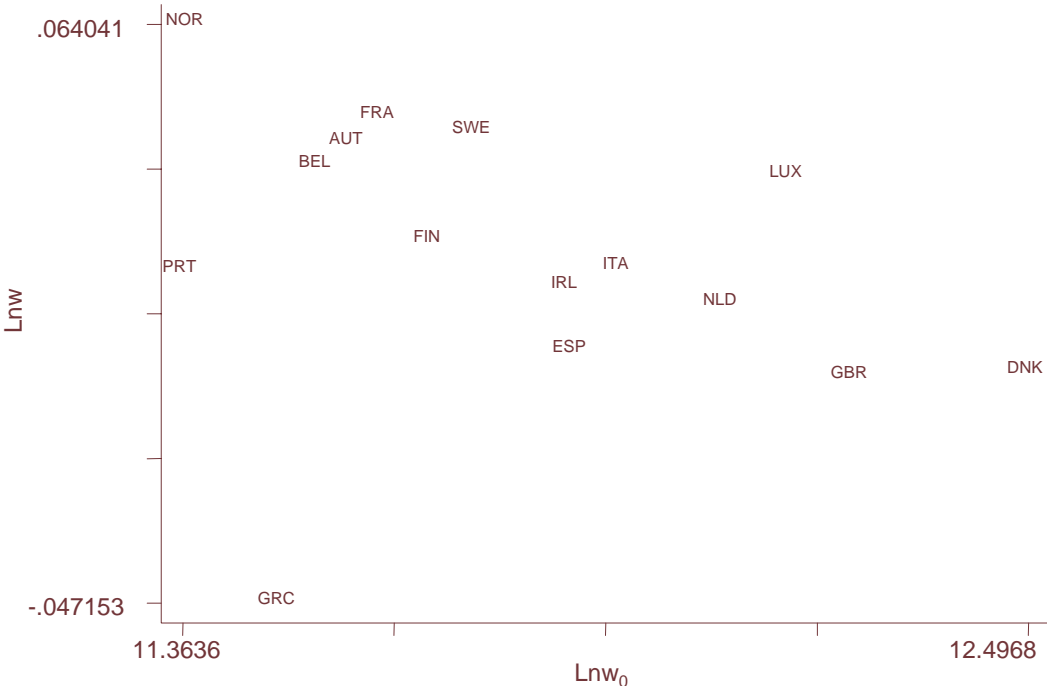


Figure 1: 1980 Real Per-capita Welfare Expenditure and Real Per-capita Welfare Expenditure Growth between 1980 and 1998

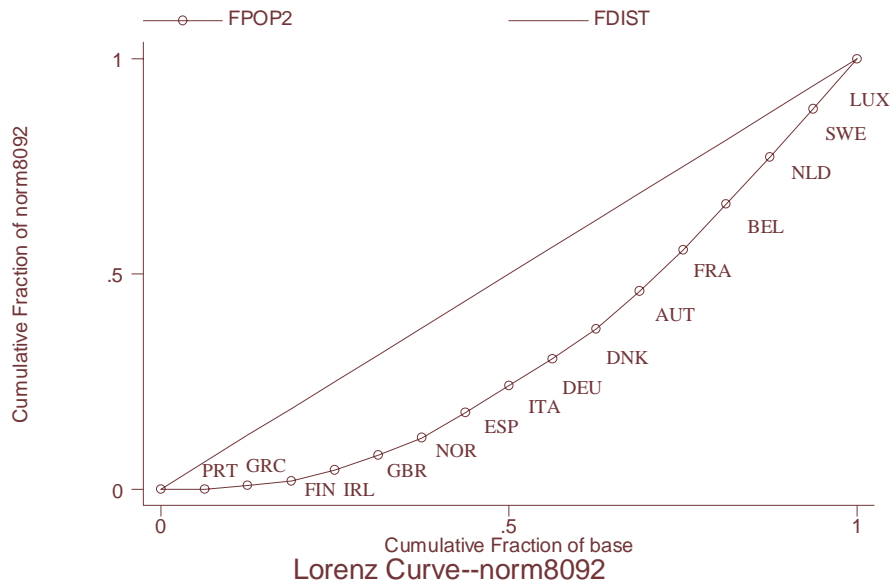


Figure 2: The Distribution of Welfare Expenditure: Inequality Index 1980-92

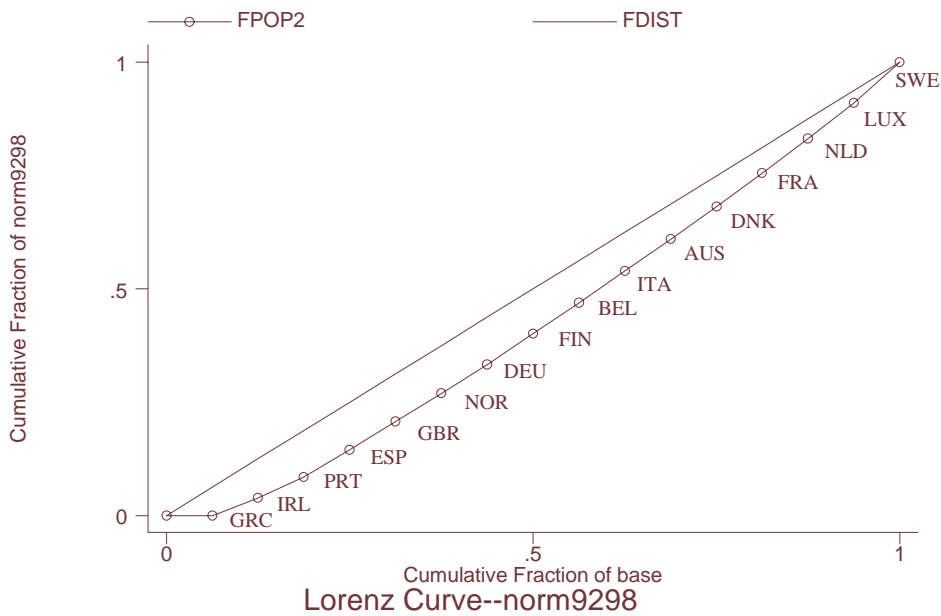


Figure 3: The Distribution of Welfare Expenditure: Inequality Index 1992-98

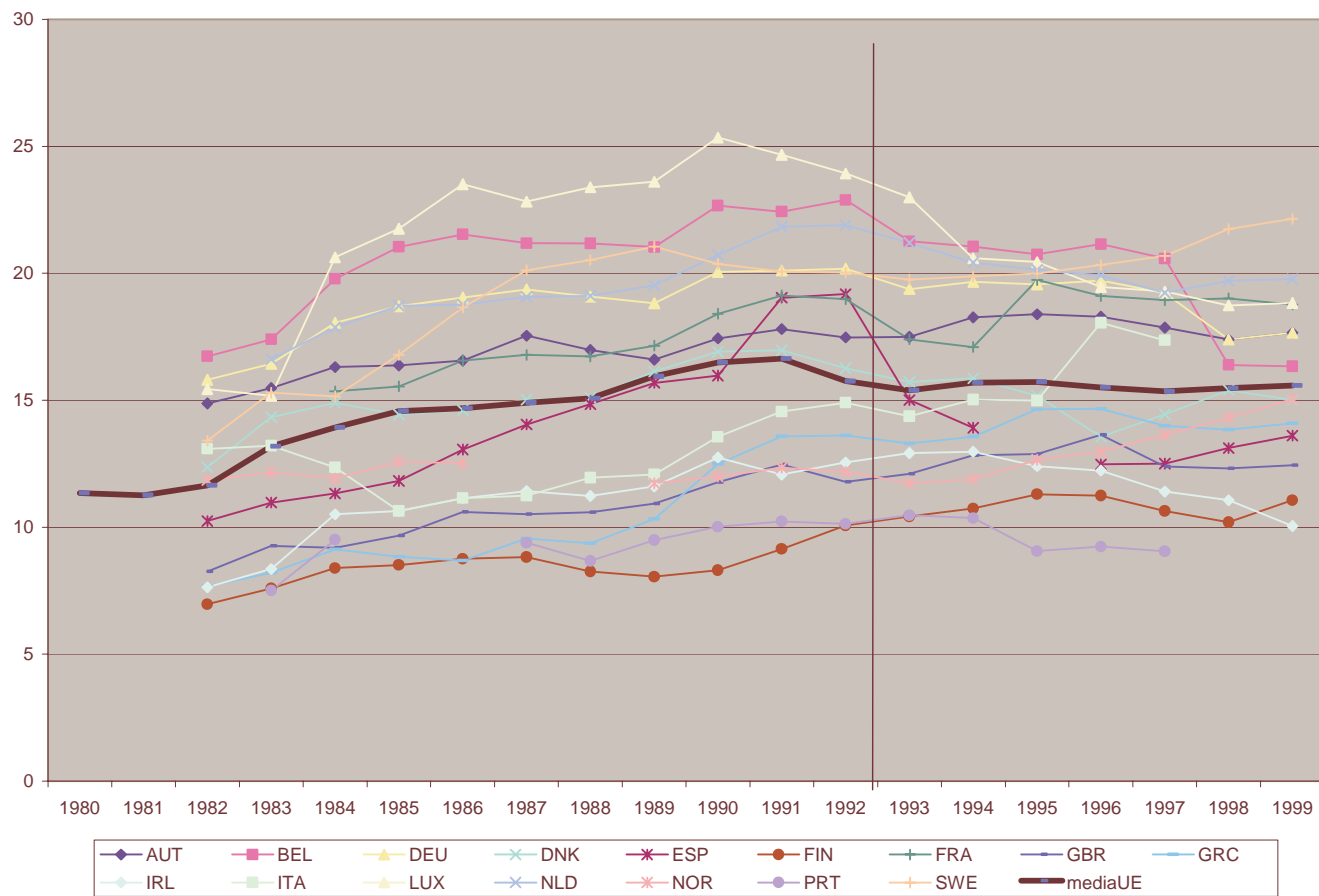


Figure 4: The Dynamics of Welfare Expenditure

Dependent Variable: $\ln(w_t/w_0)$	Model 1				Model 2			
	β	<i>Std.Err</i>	z	$P > z $	<i>Coef</i>	<i>Std.Err.</i>	z	$P > z $
w_0	-0.42	0.11	-3.81	0.000	-0.34	0.15	-2.28	0.023
<i>Constant</i>	5.15	1.31	3.93	0.000	4.44	1.79	2.47	0.014
<i>Observations</i>	184				106			

Table 1: Panel Estimates: No Interaction and No Group-Effects

Dependent Variable: $\ln(w_t/w_0)$	Model 1				Model 2			
	β	<i>Std.Err</i>	z	$P > z $	β	<i>Std.Err.</i>	z	$P > z $
w_0	-0.459	0.070	-6.53	0.000	-0.429	0.108	-3.97	0.000
<i>Liberal</i>	-0.019	0.076	-0.26	0.795	0.189	0.117	1.61	0.107
<i>Social – Democratic</i>	0.633	0.058	10.79	0.000	0.821	0.090	9.03	0.000
<i>Corporatist</i>	0.846	0.053	15.70	0.000	0.843	0.085	9.87	0.000
<i>Constant</i>	5.115	0.821	6.23	0.000	4.891	1.264	3.87	0.000
<i>Observations</i>	184				106			

Table 2: Panel Estimates: No Interaction and Group-Effects

Dependent Variable: $\ln(w_t/w_0)$	Model 1				Model 2			
	β_i	<i>Std.Err</i>	z	$P > z $	β_i	<i>Std.Err.</i>	z	$P > z $
Interaction between country and w_0								
<i>Belgium</i>	0.182	0.005	3.62	0.000	0.002	0.003	0.68	0.495
<i>Germany</i>	-0.026	0.005	-5.37	0.000	-0.027	0.007	-3.59	0.000
<i>Denmark</i>	-0.074	0.004	-15.96	0.000	-0.063	0.003	-17.79	0.000
<i>Spain</i>	-0.070	0.005	-14.47	0.000	-0.062	0.003	-16.71	0.000
<i>Finland</i>	-0.049	0.005	-10.00	0.000	-0.015	0.004	-4.10	0.000
<i>France</i>	0.010	0.005	2.03	0.042	0.005	0.004	1.45	0.148
<i>United Kingdom</i>	-0.082	0.004	-17.40	0.000	-0.065	0.003	-17.86	0.000
<i>Greece</i>	-0.086	0.005	-17.33	0.000	-0.144	0.003	-37.00	0.000
<i>Ireland</i>	-0.094	0.004	-19.75	0.000	-0.076	0.003	-20.28	0.000
<i>Italy</i>	-0.047	0.004	-10.03	0.000	-0.034	0.003	-9.30	0.000
<i>Luxembourg</i>	-0.017	0.004	-3.76	0.000	-0.086	0.003	-2.35	0.019
<i>Netherlands</i>	-0.027	0.004	-5.81	0.000	-0.032	0.003	-8.66	0.000
<i>Norway</i>	0.005	0.005	1.06	0.287	0.028	0.004	7.19	0.000
<i>Portugal</i>	-0.094	0.005	-18.94	0.000	-0.058	0.004	-14.97	0.000
<i>Sweden</i>	0.013	0.004	2.70	0.070	0.015	0.004	4.09	0.000
<i>Constant</i>	0.627	0.041	15.26	0.000	0.749	0.031	23.69	0.000
<i>Observations</i>	184				106			
<i>LogLikelihood</i>	113.9				121.1			
<i>Deviance/DegreesFreedom</i>	0.18				0.07			

Table 3: Panel Estimates: Interaction between Initial Real Per-Capita Welfare Expenditure and Country-Specific Effects

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