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Succumbing to peer pressure? European coordination of labour market policies and domestic policy change

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Abstract

This paper is concerned with the impact of EU coordination on domestic labor market policy reforms. Relying on pooled time series data and spatial models, the analyses lead to the conclusion that the European Employment Strategy has contributed to higher expenditures on active labor market policies through peer pressure from other countries. Peer pressure seems to be even stronger from countries with good labor market performances or comparable welfare states. Furthermore, the study provides systematic empirical evidence for the pervasive argument in the literature that the impact of the EES is dependent on domestic political conditions. When domestic support for EU coordination is high, peer pressure can be used strategically in the policy-making process, but when public opinion towards EU coordination is skeptical, governments resist pressure from other member states. Finally, we assess whether domestic political economic institutions condition responsiveness to peer pressure.

Keywords: policy diffusion; European Employment Strategy; welfare state; open method of coordination (OMC); European integration

1. Introduction

In June 2010, the European Council adopted the *Europe 2020* strategy. Reacting to the world's most severe recession since the 1930s, this strategy is designed to increase economic growth and employment rates and reduce poverty rates. To achieve this strategy, the EU Commission relies on the Open Method of Coordination (OMC). This is a legally non-binding means of governance, building on guidelines, recommendations and benchmarking. The OMC has been used for the European Employment Strategy (EES) from 1997 onwards. The EES seeks to reach its employment goals by shifting labour market policy towards activation of the jobless. Because of the non-binding character of the EES, it is intended to influence the policies of the member states through policy learning and peer pressure. The extensive case study literature on the domestic impact of the EES has primarily focused on policy learning (Hemerijck and Visser, 2003; Heidenreich and Bischoff, 2008; Hartlapp, 2009; Zeitlin, 2005; Zeitlin, 2009). This is probably due to the fact that the systematic empirical identification of pressure from other EU-countries requires a large-N approach.

In this study, we examine – in the context of an accounting for other diffusion processes and international and domestic policy determinants - whether and how peer pressure from other countries has influenced domestic labour market policy reforms. Using pooled time-series cross-section regression analyses, we assess the impacts of European coordination on expenditures on active labour market policies (ALMPs) in EU countries over the past two decades. With this approach, we seek to make several contributions.

First, this paper builds on a rapidly growing body of research on active labour market policies. This work has commonly been focused on policy impacts of corporatism (Swank and Martin, 2001; Martin and Swank, 2004; 2012; Rueda, 2007), government partisanship (Rueda, 2006; Huo et al, 2008), and internationalization (Franzese and Hays, 2006; Gaston and Rajaguru, 2008). Some scholars have found that the EES has led to relatively higher spending on ALMPs in EU-countries (Armingeon, 2007; Swank, 2011; Van Vliet and Koster, 2011). The present study aims to provide more insight into the specific mechanisms that link European coordination to domestic policy change.

Second, several authors have argued that the effectiveness of external pressure is dependent on domestic conditions. Perhaps most centrally, only when common EU policies are regarded as legitimate by voters are governments sensitive to such external pressure and, in turn, able to use EU policies and rankings as levers for domestic policy reforms. To examine whether peer pressure is conditional on domestic public support for EU labour market policies, we develop a new measure that is based on survey data from the Eurobarometer. Third, this study engages methodological debates on the empirical analysis of welfare state impacts of European integration. Peer pressure is one of the core mechanisms through which the EES is supposed to influence national policy-making. To capture its effects, we use spatial models of the current policy impacts of lagged levels of political actions and policy changes in peer nations.

The remainder of the paper is structured as follows. In section 2, the theoretical mechanism of peer pressure will be discussed and hypotheses will be formulated. Section 3 introduces our methodological approach on how to analyze the effects of peer pressure. Then, the data, measures, and theoretical bases of other factors in our empirical model will be described in section 4. Subsequently, section 5 presents the results of the analysis. Section 6 concludes the paper.

2. Peer pressure from the European Employment Strategy

The European Employment Strategy

In 1997, the European Council adopted the EES at the Amsterdam Summit and further operationalized it at the Luxembourg Summit later that year. The EES aims at higher employment and lower unemployment rates by advocating ALMPs. These policies include programs ranging from services of employment agencies, labor market training, youth programs and subsidized employment, to programs for the disabled.[1] In 2003, the

[1] It should be noted that the cost-effectiveness of activation programs is fiercely debated in the labour economics literature. In a meta-analysis, Kluve (2010) finds positive effects for employment services and private sector incentive programmes such as wage subsidies and at most modest effects for training programmes, whereas direct public employment creation even has a detrimental effect. Card et al (2010) confirmed Kluve's findings and show that training programs are likely to be more effective in the long run, whereas employment services have positive effects particularly in the short run.

EES was reinforced and streamlined to improve the coherence with the goals of the Lisbon Strategy, which were focused on strengthening social cohesion within the EU. Subsequently, in 2005 the employment guidelines were integrated with the Broad Economic Policy guidelines to enhance the consistency between economic and employment policies. Since 2010, the EES is also used to achieve the economic, employment and social objectives of the Europe 2020 strategy.

The EES is an intergovernmental means of EU governance. The European Council and the European Commission coordinate the national labor market policies, but the governments of the member states are still responsible for their own labor market policies. Coordination is based on non-binding instruments, such as guidelines and benchmarks. The guidelines provide policy norms, stating that member states should focus more strongly on activation. Furthermore, the guidelines define targets, for instance with respect to employment rates. Initially, it was stated that 70 percent of the labor force should be in work. Later, in the Europe 2020 strategy, the target was fixed at an employment rate of 75 percent. To monitor the labor market performances of the member states, they have agreed upon common definitions of indicators. These indicators are used by the Council and the European Commission in the Progress Reports and the scoreboards. The naming, shaming and faming in the Progress Reports and the ranking of the countries' performances facilitates peer pressure (Hartlapp, 2009: 8). This peer pressure varies across countries and over time, as the EES is an annual process, with iterative monitoring and reporting (Mosher and Trubek, 2003).

Peer pressure

With respect to the mechanism of external pressure on national governments, two forms of this mechanism have been distinguished (Zeitlin, 2009). First, *vertical pressure* comes from the European Commission and the European Council and is exerted through friendly presented advice or through public naming and shaming. The most direct form of vertical pressure is the issuing of Council recommendations. In these recommendations, the Council comments on the progression of domestic policy reforms with respect to the objectives, guidelines and targets of the EES. Second, *horizontal pressure* comes from the peers, the policy-makers in the other Member States. Nonetheless, this peer pressure

is facilitated by the Commission through publishing reports, rankings and benchmarks of the performance of the countries.

External pressure is one of the core mechanisms through which the EES is supposed to influence national policy-making, since 'national governments will be induced to live up their commitments and implement necessary but painful reforms in order to maintain their reputation and avoid embarrassment in the eyes of their peers and the wider public' (Zeitlin, 2009: 226). However, it has also been argued that 'the incentive for member states to engage in (potentially) costly reforms to do better in the Progress Report is likely to be small' (Hartlapp, 2009: 8). Some scholars have found evidence for the impact of vertical pressure on domestic policy-making, as was for instance the case when Denmark did not fulfil the goal of activating jobless people after 6 or 12 months (Mailand, 2009). However, Van Vliet and Koster (2011) did not find evidence for a more generalized effect of council recommendations on domestic policies across 15 EU-countries. Probably, the pressure from recommendations has diminished over the years, because governments can negotiate the content of the recommendations with the Commission (Mailand, 2009) and because governments have become used to them (Büchs and Friedrich, 2005). Yet, the effect of *horizontal peer pressure* on national labor market policy reform has not been systematically examined.[2]

With respect to horizontal pressure, Zeitlin (2005: 477) argues that there is certainly evidence that peer pressure and rankings of countries' performances have an influence on the behavior of national governments. For instance, Jacobsson (2005) found that both Danish and the Swedish governments are concerned to make a good impression in international comparisons. Furthermore, Zeitlin (2005: 477) found that 'in many cases, national governments have been prepared to take some corrective action, such as increasing expenditure on activation and prevention services'. Peer pressure is especially felt by those exposed to it, national representatives such as ministers and members of EU

[2] A partial exception is Franzese and Hays (2006) who test whether or not increases in ALMP spending in one EU country has positive or negative externalities in neighboring countries. Thus, for instance, Franzese and Hays explore whether increases in spending in France reduce pressures for ALMP initiatives in Belgium as Belgian workers and employers benefit from French resource commitments (i.e., French policy has positive externalities). The authors find that spending increases in EU neighbors depresses spending in the home country and that this effect ultimately produces suboptimal levels of ALMP spending. Their study, however, covers only the 1987-1998 largely pre-EES period and does not address other diffusion mechanisms.

committees engaged in mutually reviewing each other's national performance in the achievement of targets and objectives (Zeitlin, 2009: 226).

Hypotheses

To understand the theoretical mechanism underpinning the impact of the EES on national ALMPs through peer pressure, and the sources of the variation in labor market policy-making more generally, we start from the assumption that policy makers seek to maximize economic performance and political support. This maximization is subject to common situational tradeoffs which are shaped by political economic and institutional constraints (Swank, 2011). ALMPs could be beneficial for the performance of the economy, as they tend to improve the functioning of the labor market.[3] Electorally, the costs and benefits of increasing ALMP expenditures are diffuse: for the unemployed, the chances to find a job increase, but wage competition increases for the employed; firms are in favor of the increased labor supply and because of the higher public expenditure, taxes may increase for everyone. The weighting of the political costs and benefits is dependent on political preferences, which are a function of ideological, programmatic and strategic considerations. In the end, increasing expenditures on ALMPs is a function of policy makers' assessments of the relative economic and political costs and benefits associated with the transformation of labor market policies (Swank, 2011).

Hence, the influence of international peer pressure can also be understood in this framework of weighting costs and benefits. Ideational consensus among governments creates externalities in the sense that it alters the reputational payoffs associated with policy choices. Deviating from the normative consensus on the best approach to increase employment levels and to decrease unemployment levels casts doubts on a government's economic approach and potentially its legitimacy (Simmons and Elkins, 2004: 173). In this respect, higher efforts devoted to ALMPs in other countries create peer pressure on governments to increase ALMP expenditure as well. Hence, we hypothesize that higher efforts devoted to ALMPs in other EU-countries lead to higher efforts devoted to ALMPs in the home country. The legitimacy of activation as the prevailing policy paradigm is even stronger if countries with relatively high ALMP expenditures also have good labor

[3] But see footnotes 2 and 3.

market performances. Vice versa, the peer pressure on governments to adopt activation policies gets stronger if a country has relatively low employment levels and high unemployment levels. Therefore, we expect that labor market performance strengthens the peer pressure effect.

In addition, we expect that policy makers assign more weight to the policy decisions in countries with which they have socio-economic and cultural linkages (Simmons et al, 2006). In the framework of this study, that would be welfare state regimes. Indeed, Huo (2009) has convincingly shown that the shift to an activation strategy is heavily conditioned by welfare state structures and associated institutions; other case studies have indicated that policy makers are hence rationally most interested in the policies in most-similar countries (e.g. Visser, 2009). Since labor market performances and the effects of ALMPs are more comparable across countries with similar welfare state institutions, policy makers find those policies and performance more relevant and they start to emulate with sub-groups of self-identified peers. Hence, we expect to find strong effects of peer pressure in groups of countries with comparable welfare states.

Furthermore, several scholars have found that the domestic impact of the EES is dependent on national political conditions (Zeitlin, 2009). More specifically, we argue that the effect of peer pressure from the EES is conditional on the public support for the coordination of labor market policies at the EU level. Governments are more sensitive to their position on European rankings of labor market performances when these rankings are regarded as legitimate by domestic voters. Furthermore, it has been well documented that governments make selective and strategic use of the EES as a 'lever' in domestic processes of policy reforms (Visser, 2005). Moreover, governments want to avoid low rankings on common indicators as this could also be used strategically by opposition parties and interest groups (Zeitlin, 2005: 477). However, the use of the EES reports as a lever, by both the government and the opposition parties, has only a positive effect on ALMP expenditures if voters support the coordination of labor market policies at the EU level. In countries where the domestic public opinion towards the EU is openly skeptical, governments may be prepared to resist pressure from the EES publicly (Zeitlin, 2005). Thus, the EES changes the domestic constraint and opportunity structures, but the effect

is dependent on the public support for EU coordination. Hence, we hypothesize that the effect of peer pressure on domestic policy makers is conditional on the public support for the coordination of labor market policies at the EU-level.

3. Estimating peer pressure

Analyzing the domestic impact of the EES is a methodological challenge, as the instruments are legally non-binding and the underlying causal mechanisms are rather indirect (e.g. Zeitlin, 2009). This is especially the case for peer pressure, as it contributes to domestic labour market policy reform, but it is not the single or dominant driver of policy reform. To examine the effect of peer pressure from EU member states on the domestic policy-making, the study relies on spatial lag variables.[4] The main advantage of the approach in the framework of this study is that it enables us to model the responses of national policy-makers to public policy choices in all other EU countries included. Formally, the spatial lag variable for country *i* can be written as:

$$\sum_{k} w_{ikt} y_{kt}$$

For each observation of ALMP expenditures in country *i* and year *t*, y_{it}, $w_{ikt}y_{kt}$ gives the weighted sum of the ALMP expenditures in the other countries *k* in year *t*. The spatial weighting matrix w_{ikt} is based on a variable that indicates the strength of the connectivity between the policy decisions in country *k* and *i*. Hence, the spatial lag is a measure for the peer pressure stemming from efforts on ALMPs in other countries, taking into account how much weight domestic policy-makers assign to a particular country because of labor market performance, politico-cultural ties, or other factors.

Cross-country interdependence can be estimated with several models (Beck et al, 2006; Jahn, 2006; Franzese and Hays, 2007). The most parsimonious estimator is an ordinary least square (OLS) regression analysis with the spatial lag variable on the right-hand side of the equation, which is called spatial OLS, or S-OLS. This is an appropriate estimator to model the peer pressure from the EES, because S-OLS is most effective when the interdependence is significant but modest. However, in this estimator a

[4] We use the term spatial lag, although the variables that we model are actually based on political economic mechanisms rather than on geographical distance.

simultaneity bias is incorporated, because the ALMP expenditure of country A explains that of country B and the ALMP expenditure of country B explains that of country A. Hence, this is a typical example of endogeneity as the spatial lags are correlated with the model's error terms (Jahn, 2006).

One way to deal with the endogeneity is to use instrumental variables in a spatial two-stage least squares model (S-2SLS). This estimator yields correct results if the instruments are truly exogenous and if the sample size is large (Franzese and Hays, 2007). These conditions can rarely be fulfilled in comparative political economy. An alternative estimator is a spatial-maximum likelihood model (S-ML) that specifies the endogeneity of the spatial lag. A disadvantage of this estimator is that it underestimates the strength of the spatial effect, especially in studies with a small N (Franzese and Hays, 2007). This disadvantage is especially relevant when the cross-country interdependence is modest, in the sense that it is only one factor among a number of explanatory factors. In fact, that is the maximum impact of the EES on domestic ALMPs that has been found in the literature. Based on a comparison of S-ML, S-2SLS and S-OLS, Franzese and Hays (2007: 18) conclude that modest interdependence strength and imperfect exogeneity of instruments favor the simpler S-OLS over the S-2SLS or ML estimators. Furthermore, it can be expected that, as is the case for almost all determinants of labour market policy-making, it will take at least a year before labor market changes in peer countries will create peer pressure on policy-makers and before this peer pressure contributes to domestic policy-changes. Beck et al (2006) argue that if the spatial lag variable is expected to affect the dependent variable with a temporal lag, spatial-OLS is preferable as the S-ML model would be almost impossible to calculate. In summary, we employ S-OLS regression analyses to assess the role of peer pressure from EU member states on their domestic labour market policies.

Recognizing that the variation in ALMP expenditures may be related to unobserved country-specific effects, such as other welfare state institutions and cultural differences, country fixed effects are included. As discussed above, it may take some time before the dependent variable responds to changes in the independent variables. Therefore, the independent variables are lagged one year. Hence, the estimating equation for the empirical model is:

$$y_{it} = \alpha + \rho \sum_{k} w_{ikt-1} y_{kt-1} + \beta X_{it-1} + \eta_i + \varepsilon_{it}$$

where y denotes ALMP expenditure in country *i* and year *t*; α is the intercept and X is a vector of independent variables. The country specific effects are denoted by η and ε is the error term. The error-term follows an AR(1)-process to correct for autocorrelation.[5] In addition, panel-corrected standard errors are applied to correct for panel-heteroscedasticity and contemporaneous spatial correlation (Beck and Katz, 1995).

The analyses are performed to assess the role of the EES through peer pressure in domestic labor market policy-making. Before we focus on peer pressure, we analyze whether the EES matters at all in that respect. Hence, following earlier studies, (Armingeon, 2007; Swank, 2011; Van Vliet and Koster, 2011), the EES is treated as a dichotomous variable in the first analyses. As the EES was launched in 1997, we expect the impact from the EES to be visible from 1998 onwards. Therefore, the dummy variable is given a score of 0 for the years before 1998 and 1 afterwards.

Subsequently, to analyze the effects of peer pressure, spatial lag variables are included for the period 1998-2007.[6] First, un-weighted spatial lags are included to examine the peer pressure that ALMP expenditure in other countries generates itself.[7] Then, to examine whether more peer pressure is experienced from the ALMP expenditure in countries with good labor market performances, two spatial lags are included which are weighted by employment rates and unemployment rates. The latter are included as 1 minus the unemployment, to align the direction of the effect with the effects of the other spatial lag variables. To examine whether policy-makers feel more pressure from policy decisions in countries with more similar welfare states, we use a binary connectivity

[5] Demeaned Fisher tests for unit roots (an augmented Dickey-Fuller test) and IPS tests are near significant. Furthermore, individual AR1's indicate that almost all panels are stationary.

[6] Following Neumayer and Plümper's (2012) reasoning, policy-makers have been exposed to peer pressure with respect to ALMPs since the launch of the EES. Indeed, analyses (not shown here) indicate that the spatial lags yield no significant effects in the pre-EES period. The results reported below indicate that the spatial lags are significantly related to the dependent variable in the EES period. The spatial lags are not row-standardized, because we are interested in the total level of peer pressure that policy-makers experience.

[7] In these cases, the connectivity matrix W has a value of 1.

matrix for welfare state regimes.[8] As a result of this matrix, in which pairs of countries get a score of '1' if they belong to the same welfare regime and a score of '0'otherwise, the spatial lag includes only the policy decisions of the countries which belong to the same welfare regime. The seminal work by Esping-Andersen (1990) has triggered a lively academic debate on classifying welfare states (Arts and Gelissen, 2006; Scruggs and Allen, 2008). In one of the most recent contributions to this debate, Sapir (2006) has classified the European welfare states along the lines of the emerging consensus in the literature on four welfare regimes. We use this classification for the weighting matrix, including northern countries (Denmark, Finland, Sweden and the Netherlands), anglo-Saxon countries (Ireland and the United Kingdom), continental countries (Austria, Belgium, France and Germany) and Mediterranean countries (Greece, Italy, Portugal, Spain).

Finally, we examine to what extent the impact of peer pressure is conditional on the domestic support for the coordination of national labour market policies at the EU level. Therefore, we include an interaction effect between the spatial lag variable and a measure of public support. Then, the model has the following appearance:

$$y_{it} = \alpha + \rho \sum_{k} w_{ikt-1} y_{kt-1} + \lambda \sum_{k} w_{ikt-1} y_{kt-1} * Z_{it-1} + \beta X_{it-1} + \eta_i + \varepsilon_{it}$$

where Z is a measure for the public support for EU coordination of labour market policies in country *i* and year *t*. As noted, we also assess the mediating role of political economic institutional context and, in that case, Z is an indicator of the strength of macrocorporatist institutions (see below).[9]

4. Data and measures

As we are interested in the mechanisms through which the EES is supposed to influence national policy-making, the study is focused on EU member states. For reasons of data availability, the study covers the period 1985-2007. As the Central and Eastern European

[8] In contrast to the other weighting variables, this connectivity matrix does not vary over time.
[9] We also test for the conditioning effect of institutional and partisan veto points on adaption to peer pressure but find that these political institutions play an insignificant role.

countries entered the EU only in 2004 and 2007 and because not much data on those countries is available for the period before 2000, the study includes the following 14 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

Active labour market policies

The dependent variable of this study is ALMP effort. Data on ALMP expenditure are taken from the OECD Social Expenditure Database (OECD, 2012c). ALMP expenditures consist of all social expenditures on programs other than education which are aimed at the improvement of the beneficiaries' prospect of finding remunerative employment, including spending on public employment services and administration, labor market training, special programs for youth when in transition from school to work, labor market programs to provide or promote employment and special programs for the disabled. To compare the efforts of governments on activation across countries and over time, the study relies on three measures in order to increase the robustness of the results. First, we use the most common indicator of ALMP effort in the welfare state literature that measures ALMP expenditure as a percentage of GDP. A second indicator measures ALMP expenditures as a percentage of total government expenditures, indicating the importance being attached to ALMPs within the total budget. Third, we include an indicator that expresses ALMP spending as a share of expenditures on all labor market policies, defined as the sum of active and passive spending. This measure gives some indication of governments' emphasis on activation policies relative to all labor market policies.[10] We should note, however, as Huo (2009) and others suggest, a shift from passive to active labor market programs is likely to involve not only cuts in unemployment compensation and assistance programs but an array of income transfer programs (i.e., early retirement pensions, disability and sickness programs that are often used to absorb the unemployed, and so forth). Thus, we stress the second measure –

[10] While some studies utilize ALMP spending per unemployed worker, we do not use this measure. The great bulk of ALPM expenditure such as training, employment subsidies, and public sector jobs is targeted at the longer term unemployed; these programs kick-in at variable points in the unemployment experience across countries and, thus, it is difficult to generate a precise unemployment indicator for standardization of expenditure.

ALMP spending as a share of public sector budgets – as the best measure of relative prioritization of an activation strategy.

Table 1 shows the developments of the three measures of expenditures on ALMPs for the period 1985-2007. Some countries score quite similarly on the three indicators. For Austria for instance, all three indicators show increasing expenditures on ALMPs. However, for other countries the indicators show different patterns. In the United Kingdom, ALMP expenditure has been decreased relative to GDP and government expenditure, but is has been increased as a percentage of LMP expenditure. Furthermore, the average level of expenditures on ALMPs measured as a percentage of GDP has been decreased between 1985 and 2007, whereas the other two measures indicate that governments have spent more on ALMPs relative to total government expenditure and to total LMP expenditure. Interestingly, the correlation between ALMP expenditure as a percentage of GDP and as a percentage of government expenditure is 0.95, between a percentage of GDP and a percentage of total LMP expenditure 0.29, and between a percentage of government expenditure and a percentage of LMP expenditure 0.29 as well.

[Table 1 around here]

Independent variables

In order to examine whether the effect of peer pressure on domestic policy-making is conditional on the public support for coordination of labour market policies at the EU level, we construct an indicator based on survey data from several editions of the Eurobarometer (European Commission, several years). In the specific question we use here, it was asked whether policies with respect to 'the fight against unemployment' should be decided by the national government or whether these policies should be decided jointly within the EU. This question was included in the questionnaires of the Eurobarometer in each year between 1997 and 2007. We recoded the data so, that the value '1' indicates that people find that employment policies should be decided jointly within the EU, and that the value '0' indicates that people find that employment policies should be decided by the national government. Subsequently, the data has been

aggregated per country and per year.[11] The resulting macro-level indicator is presented in Table 2. There is considerable variation in the domestic support for EU coordination of labour market policies across countries. The support levels are especially high in the Southern member states of the EU. In 1998, 72 percent of the Italian people find that labour market policies should be coordinated at the EU level against 36 and 37 percent in Denmark and the United Kingdom respectively. The figures for the latter two countries are in line with several other indications showing that the Danish and the British are generally the least in favor of further European integration (Anderson and Kaltenthaler, 1996). Furthermore, with the exception of Greece and Portugal, the public support for EU coordination of labour market policies has decreased steadily in the course of time. In 2007, on average not more than 40 percent of the people find that European institutions should play a role in labour market policies.

[Table 2 around here]

In addition to peer pressure from other EU member states, the model accounts for a number of other determinants of labor market policy-making. Primary determinants are the partisan programmatic orientations and ideological preferences of governing parties. In general, left-wing parties can be expected to be more in favor of high levels of public expenditure on ALMPs such as public employment services and labor market training than right-wing parties. This is even more the case since social democratic parties have embraced the objective of employment next to decommodification (Huo et al, 2008). To assess the role of partisan differences, we use data on the percentage of total cabinet seats held by left-wing parties from Swank's database on political parties (Swank, 2012).

In addition, the degree of corporatism has been considered as an important determinant of the cross-country variation in labour market policies in the political economy literature. When policy-makers aim to spend more on ALMPs to fight unemployment, they can exchange social partner support for programs for group opportunities to influence the content of policy reforms. This is more likely to happen

[11] Weight variables are used to adjust all country samples to the standard size and to adjust the East and West German samples to their respective proportions in the United Germany, and the British and Northern Irish samples to their respective proportions in the United Kingdom.

where unions and employers are highly organized and engaged in centralized collective bargaining. Corporatist unions can be expected to support higher spending on ALMPs, even though ALMPs are not directly in the interest of core-sector union members because of increasing taxes and wage competition (Rueda, 2007). Traditionally, unions were compensated for wage moderation with higher social benefits. However, because of the shift in the orientation of most policy-makers from the demand side to the supply side, the room to negotiate for unions has narrowed. Therefore, higher expenditures on ALMPs might be the best compensation unions can get as this is in line with the supply-side orientation of governments (Ebbinghaus and Hassel, 2000; Brandl and Traxler, 2005). In addition, highly organized unions are more likely (than pluralist unions) to encompass (and support the interests of) labor market outsiders who directly benefit from ALMP spending (Martin and Swank 2012).

With respect to employers, they can be expected to be in favor of investments in the skills of employees and of measures that increase the labour supply. This is especially the case for highly organized employers whose strong peak associations foster long-term collective orientations of business; frequent, reciprocity-oriented exchange with organized labor; and the successful political development and implementation of new forms of ALMP training that stress private jobs and business involvement in skills upgrading (Martin and Swank, 2004; 2012). Hence, we hypothesize that macrocorporatist institutions are positively associated with higher expenditures on ALMPs. Also, for these reasons, we expect that corporatism facilitates the adaption to peer pressure for more ALMP innovations.

To examine the effect of the national coordination of economies, we update Swank's (2011) corporatism indicator. This measure is an additive index of three sub-indicators highlighted in the industrial relations literature. The first sub-indicator is a scale of the level of wage bargaining where a low score indicates fragmented bargaining, mostly at the company level, and a high score indicates economy-wide bargaining. The second sub-indicator is a union organization index that measures the extent of involvement of the main union confederation in consultation with the government, the centralization of union confederation power and union density. The third sub-indicator is an employer organization index that measures the extent of involvement of the employer

peak association in forums for formulation and implementation of public policy and the centralization of employers' association power. The corporatism indicator is expressed in z-values, where low values indicate weak corporatism and high values indicate strong corporatism.

Furthermore, the study controls for the possible direct effects of the common pressures of international economic integration on national policy makers. To date, the scholarly debate is centred around two hypotheses (Rodrik, 1998; Garrett 1998; Swank, 2002). The efficiency hypothesis states that in reaction to increased economic integration, governments reduce social expenditure levels to offer attractive conditions for firms. Based on the compensation hypothesis, it could be expected that governments spend more on ALMPs to mitigate the increased labour market risks faced by people due to economic integration. Two variables are included to capture the effects of internationalization. For trade openness, measured as the sum of imports and exports as a percentage of GDP, data are taken from the OECD Macro Trade Indicators (OECD, 2012c). For capital restrictions, we use the familiar Quinn (1997) index, indicating the absence of national restrictions on the cross-border movement of payments and the receipt of capital.

In addition, the study accounts for a number of socio-economic variables. Using data from the Penn World Table (Heston et al, 2012), real GDP per capita is included to control for the effect that economically more developed countries usually have more generous social protection systems and higher social expenditures. Furthermore, policy-makers may be inclined to increase ALMP expenditure in particular in times of structural domestic economic changes. Employment shifts from manufacturing to other sectors increases the demand for spending on labour market training and employment services. To capture the impact of structural economic changes on the demand for labour market policies, Iversen and Cusack's (2000) indicator of deindustrialization is included. This indicator is defined as 100 minus the sum of employment in industry and agriculture as percentage of total civilian employment. Data are taken from the OECD Labour Force Statistics (OECD, 2012a). To control for the direct relationship between ALMP expenditures and the unemployment level, the unemployment rate is included, measured as the percentage of the labour force unemployed. Furthermore, the unemployment rates

and the employment rates are used as weights in the spatial lag variables, as discussed above. For both the employment rate, measured as the ratio of employment to the population between 15 and 64 years old, and the unemployment rate, data are taken from the OECD Labour Force Statistics (OECD, 2012a).

5. Empirical analysis

Table 3 presents the results of estimation of the three measures of ALMP expenditure. Starting with the estimations where the EES is modeled as a dummy variable, all three models show that the EES is positively and significantly related to effort on activation. These results suggest that the EES contributes to more effort on activation as percentages of GDP and of total government expenditures and relative to passive LMPs; this is in line with our hypothesis and with the findings in the existing literature.

With respect to the domestic politics variables, the results indicate that government partisanship is not significantly related to ALMP expenditure. Corporatism is positively and strongly significantly associated with ALMP as percentages of GDP and of total government expenditure, which is in line with our hypothesis. However, the effect of corporatism does not reach significance in the model of the share of LMP expenditures spent on activation. These results indicate that, in countries with highly organized unions and employers and centralized bargaining, social partners are willing to support plans to increase ALMP expenditure, but not at the expense of significant spending cuts on passive unemployment benefits. This finding is in line with Martin and Swank (2012) who find that macrocorporatist institutions are positively associated with both more spending on ALMP and the relative maintenance of social benefit generosity for current workers.[12]

As to the effects of economic integration, the significant coefficients for trade openness and capital restrictions suggest that the compensation effect tends to dominate the efficiency effect. The positive effect of capital market liberalization on ALMP

[12] Two additional points on partisan effects are in order. First, we use a simple control of one year lags in social democratic government and, given our central concerns, do not explore other specifications of direct or indirect partisan effects. Second, it is important to point out that social democratic government exerts a strong and positive effect on the development and maintenance of corporatist institutions (Hicks 1999; Martin and Swank 2012); thus, our models in effect contain an important indirect effect of social democracy.

spending (as GDP and public budget shares) is consistent with Martin and Swank (2012) and suggests ALMP spending is increased to bolster human capital in the face of competition for mobile capital as well as to compensate those adversely affected by capital outflows. Interestingly, GDP per capita is negatively related to ALMP expenditure as a percentage of GDP, whereas it is positively related to the share of LMP spending used for activation. The first effect probably reflects a denominator effect, whereas the latter effect tends to indicate that affluent countries spend more on activation relative to unemployment benefits. The negative effects of the unemployment rate and deindustrialization in the model of ALMP expenditure as a share of LMP expenditure suggest that in times of increased uncertainty and stress in the labor market, expenditures on passive policies (to address shorter term income maintenance needs) are increased more than expenditures on activation.

[Table 3 around here]

Table 4 presents the results of the regression analyses with the spatial lag variables. Models 4, 6 and 8 show a positive and significant effect of the spatial lag on all measures of ALMP expenditure, providing support for the hypothesis that policy makers are influenced by peer pressure that is facilitated by the EES. In model 6 for instance, the coefficient for the spatial lag indicates that policy makers in the home country spend close to .1 percentage point of the total government budget more on ALMPs when all other countries together increase their ALMP expenditure 1 percentage point. Central to our concerns with domestic political conditions, Models 5 and 7 show a positive and significant interaction effect between the spatial lag and the domestic support for coordination of labor market policies at the EU level. In line with our hypothesis, this result clearly indicates that the effect of peer pressure on ALMP is stronger when mass electorates are receptive to the idea of EU policy coordination and, in turn, when domestic political benefits to policy makers are clear. The interaction effect is not significant in the model of the share of LMP expenditure spent on activation.

[Table 4 around here]

Table 5 and Table 6 present the results of estimation for the models with the spatial lag variables weighted by employment and unemployment rates respectively. As expected, the positive and significant results for the performance-weighted spatial variables suggest that a good labor market performance in fact tends to make a peer country's policy choices more relevant to the home country. Furthermore, and underscoring the relevance of domestic political conditions, the tables show positive and significant interaction effects between the spatial lags and public support for all models except the estimates of ALMP expenditure as a share of total LMP expenditure. The marginal effects of peer pressure at various levels of public support for EU coordination (from the interaction effect in Model 13) are graphically illustrated in Figure 1. The figure shows that when the level of public support for EU coordination of labor market policies is below roughly 35 percent of the citizenry, peer pressure from the EES is even negatively related to ALMP expenditure. This suggests that when public opinion is skeptical towards the EU, politicians resist the European pressure to reform labor market policies. In contrast, when the domestic support for EU coordination is high (i.e., at roughly 50 percent or more), policy makers are more sensitive to peer pressure and it can be used strategically in labor market policy-making.

[Table 5 around here]

[Figure 1 around here]

[Table 6 around here]

The regression results for the spatial lags with the binary welfare regime weights are presented in Table 7. In line with our expectation, the results show positive and significant coefficients for the spatial lags in the models of ALMP expenditure as a percentage of total government expenditures and as a percentage of total LMP expenditure. This finding indicates that policy-makers are influenced by their peers within the sub-group of countries that belong to the same welfare state regime. Indeed, policy makers are quite likely to look to peers with similar welfare state structures and

associated institutions; as noted above, these factors may well serve as guides to feasibility of replicating ALMP initiatives of the peers in the home country. Again, the effect of peer pressure from welfare regime co-members is stronger under higher levels of public support for labor market policy coordination by the Council and the Commission.[13]

[Table 7 around here]

6. Conclusion

This paper has been concerned with the impact of the EES on domestic labour market policy reforms through peer pressure from other countries. To date, this mechanism has been hardly studied in the existing literature on the influence of the EES. The results from the empirical analyses suggest that the EES has contributed to higher expenditures on ALMPs across EU member states. More specifically, the findings provide support for the view that the EES influences domestic policy-making through peer pressure from other countries. This is in line with the goal of the EES and with arguments in the literature that peer pressure is one of the factors that contributes to policy adjustments (Jacobsson, 2005; Simmons and Elkins, 2004; Zeitlin, 2005; Zeitlin, 2009). Furthermore, the results indicate that the policy choices in peer countries are even more relevant for policy-makers when peer countries have comparable welfare states or when peer countries have good labour market performances.

Furthermore, the study provides systematic empirical evidence for the pervasive argument in the literature that the impact of the EES is dependent on domestic political conditions (Visser, 2005; Zeitlin, 2009). When the domestic support for coordination of labour market policies at the EU level is high, policy makers are sensitive to pressure from European peers because the political benefits to them are clear. Peer pressure can be used strategically in the policy-making process and therefore yields a relatively strong effect on domestic policy reform. However, when public opinion is skeptical towards EU coordination, governments tend to resist European pressure to reform labor market

[13] We should note that tests for the mediating effect of corporatism on ALMP impacts of various forms of peer pressure produced null findings.

policies. In summary, these results illustrate the relevance of domestic politics for the impact of European integration on national policy-making.

Finally, further quantitative assessments and case study analyses are needed to provide in-depth knowledge on the effect of peer pressure on policy-makers. For now, the study presents evidence that international peer pressure, facilitated by the European Council and the Commission, plays an important role in domestic policy-making.

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Table 1. ALMP expenditures in 14 EU-countries (1985-2007)

	ALMP expenditure as percentage GDP				ALMP expenditure as percentage of total government expenditure				ALMP expenditure as percentage of LMP expenditure			
	1985	1995	2000	2007	1985	1995	2000	2007	1985	1995	2000	2007
Austria	0.28	0.38	0.52	0.68	0.53	0.67	1.01	1.39	23.35	22.73	35.57	42.40
Belgium	1.17	1.21	1.16	1.22	2.01	2.33	2.36	2.52	26.43	27.26	29.13	28.12
Denmark	-	1.91	1.89	1.31	-	3.22	3.53	2.56	-	30.10	38.64	40.44
Finland	0.73	1.41	0.89	0.87	1.57	2.30	1.84	1.83	36.11	26.54	28.93	35.90
France	0.60	1.19	1.19	0.90	1.16	2.19	2.30	1.73	20.54	42.42	45.04	39.93
Germany	0.49	1.19	1.23	0.72	-	2.18	2.73	1.66	34.33	43.50	47.95	34.31
Greece	0.15	0.40	0.24	0.17	-	0.87	0.52	0.37	32.97	49.44	37.44	27.22
Ireland	1.06	1.34	0.81	0.64	-	3.27	2.59	1.73	23.96	42.61	50.75	39.55
Italy	-	0.27	0.57	0.45	-	0.51	1.23	0.94	-	27.84	58.56	50.68
Netherlands	1.31	1.36	1.47	1.08	2.28	2.42	3.34	2.38	28.26	32.54	53.83	48.60
Portugal	-	0.48	0.60	0.51	-	1.16	1.47	1.17	-	34.57	48.83	33.97
Spain	0.33	0.43	0.80	0.73	-	0.96	2.03	1.86	10.66	11.89	28.61	25.58
Sweden	2.08	2.18	1.74	1.10	-	3.35	3.15	2.15	70.63	48.88	55.79	62.24
United Kingdom	0.69	0.407	0.24	0.32	1.51	0.94	0.61	0.71	25.28	32.10	42.60	60.92
Mean	0.81	1.01	0.95	0.76	1.51	1.88	2.05	1.64	30.23	33.74	42.98	40.70

Source: OECD Social Expenditure Database (OECD, 2010)

Table 2. Domestic support for EU coordination of labour market policies

	1998	2000	2002	2004	2006	2007
Austria	0.65	0.56	0.52	0.50	0.36	0.36
Belgium	0.63	0.57	0.53	0.50	0.41	0.43
Denmark	0.36	0.41	0.32	0.40	0.26	0.27
Finland	0.38	0.36	0.33	0.31	0.22	0.26
France	0.62	0.63	0.49	0.47	0.30	0.36
Germany	0.59	0.59	0.51	0.36	0.37	0.38
Greece	0.54	0.53	0.63	0.71	0.52	0.56
Ireland	0.57	0.51	0.50	0.45	0.38	0.43
Italy	0.72	0.75	0.68	0.52	0.48	0.55
Netherlands	0.50	0.49	0.34	0.40	0.32	0.32
Portugal	0.49	0.52	0.58	0.54	0.57	0.66
Spain	0.51	0.56	0.66	0.56	0.45	0.42
Sweden	0.47	0.47	0.38	0.40	0.21	0.31
United Kingdom	0.37	0.34	0.37	0.33	0.23	0.25
Mean	0.53	0.52	0.49	0.46	0.36	0.40

Source: Own calculations based on Eurobarometer survey data (various years).

Table 3. Panel data regressions of ALMP expenditures, 14 EU countries (1985-2007)

	ALMP expenditure as % of GDP	ALMP expenditure as % of total government expenditure	ALMP as share of total LMP expenditure
	(1)	(2)	(3)
EES	0.0618*	0.1493**	1.8566*
	(0.0468)	(0.0681)	(1.4032)
Left cabinet seats (t-1)	0.0000	-0.0001	0.0123
	(0.0004)	(0.0007)	(0.0127)
Corporatism (t-1)	0.1080**	0.2671***	1.1990
	(0.0512)	(0.1012)	(1.2485)
Unemployment (t-1)	0.0093	0.0123	-0.4252*
	(0.0110)	(0.0172)	(0.2583)
Trade openness (t-1)	-0.0013	0.0026	0.1051*
	(0.0018)	(0.0030)	(0.0555)
Capital restrictions (t-1)	0.0040***	0.0048*	-0.0175
	(0.0012)	(0.0027)	(0.0488)
GDP per capita (x 10^{-2}) (t-1)	-0.0018*	-0.0032	0.0007**
	(0.0011)	(0.0020)	(0.0003)
Deindustialization (t-1)	0.0024	-0.0006	-0.4697**
	(0.0059)	(0.0150)	(0.2398)
Constant	0.5020	1.0145	30.6597**
	(0.3505)	(0.6520)	(12.6424)
Rho	0.7565	0.7648	0.80
N x T	304	257	300
Adj. R^2	0.5428	0.5668	0.41

Note: OLS regressions; unstandardized coefficients; panel-corrected standard errors in parentheses;
Prais-Winsten transformation [AR (1) disturbances]. One-tailed hypothesis for the EES variable.
Significant at the .10 level; ** at the .05 level; *** at the .01 level.
Each regression also includes country dummies (not shown here).

Table 4. Panel data regressions of ALMP expenditures, spatial lags and support for EU coordination, 14 EU countries (1985-2007)

	ALMP expenditure as percentage of GDP		ALMP expenditure as percentage of total government expenditure		ALMP expenditure as share of total LMP expenditure	
	(4)	(5)	(6)	(7)	(8)	(9)
Spatial lag (t-1)	0.0047*	-0.0113*	0.0056***	-0.0048	0.0039*	-0.0004
	(0.0033)	(0.0085)	(0.0024)	(0.0056)	(0.0027)	(0.0063)
Spatial lag (t-1) x support (t-1)		0.0307**		0.0199**		0.0080
		(0.0144)		(0.0101)		(0.0116)
Support (t-1)		-0.0298		0.0676		1.8689
		(0.0714)		(0.1076)		(2.4875)
Left cabinet seats (t-1)	-0.0000	0.0000	-0.0001	-0.0002	0.0118	0.0112
	(0.0004)	(0.0004)	(0.0007)	(0.0007)	(0.0127)	(0.0128)
Corporatism (t-1)	0.1071**	0.0997*	0.2661***	0.2477**	1.1829	0.9966
	(0.0512)	(0.0510)	(0.1011)	(0.1016)	(1.2418)	(1.2522)
Unemployment (t-1)	0.0096	0.0104	0.0128	0.0109	-0.4126	-0.4201
	(0.0110)	(0.0107)	(0.0171)	(0.0166)	(0.2577)	(0.2591)
Trade openness (t-1)	-0.0013	-0.0015	0.0026	0.0021	0.1017*	0.0968*
	(0.0018)	(0.0017)	(0.0030)	(0.0030)	(0.0550)	(0.0545)
Capital restrictions (t-1)	0.0040***	0.0039***	0.0047*	0.0048*	-0.0181	-0.0185
	(0.0013)	(0.0012)	(0.0027)	(0.0027)	(0.0487)	(0.0492)
GDP per capita (x 10^{-2}) (t-1)	-0.0017	-0.0012	-0.0030	-0.0027	0.0694**	0.0720**
	(0.0011)	(0.0010)	(0.0020)	(0.0020)	(0.0333)	(0.0352)
Deindustialization (t-1)	0.0024	0.0024	-0.0002	0.0008	-0.4739**	-0.5088**
	(0.0059)	(0.0059)	(0.0150)	(0.0142)	(0.2390)	(0.2437)
Constant	0.4735	0.3676	0.9367	0.8267	31.1337**	32.6601**
	(0.3357)	(0.3349)	(0.6320)	(0.5967)	(12.5393)	(13.1542)
Rho	0.7590	0.7626	0.7653	0.7365	0.8030	0.8014
N x T	304	304	257	257	300	300
Adj. R^2	0.5399	0.5399	0.5666	0.5973	0.4037	0.4053

Note: OLS regressions; unstandardized coefficients; panel-corrected standard errors in parentheses; Prais-Winsten transformation [AR (1) disturbances]. One-tailed hypothesis for spatial lags. * Significant at the .10 level; ** at the .05 level; *** at the .01 level. Each regression also includes country dummies (not shown here).

Table 5. Panel data regressions of ALMP expenditures and spatial lags weighted by employment rates, 14 EU countries (1985-2007)

	ALMP expenditure as percentage of GDP		ALMP expenditure as percentage of total government expenditure		ALMP expenditure as share of total LMP expenditure	
	(10)	(11)	(12)	(13)	(14)	(15)
Spatial lag weighted by employment (t-1)	0.0001* (0.0001)	-0.0002* (0.0001)	0.0001** (0.0000)	-0.0001 (0.0001)	0.0001* (0.0000)	0.0000 (0.0001)
Spatial lag weighted by employment (t-1) x support (t-1)		0.0005** (0.0002)		0.0003** (0.0002)		0.0001 (0.0002)
Support (t-1)		-0.0307 (0.0714)		0.0671 (0.1075)		1.9340 (2.4874)
Left cabinet seats (t-1)	-0.0000 (0.0004)	0.0000 (0.0004)	-0.0001 (0.0007)	-0.0002 (0.0007)	0.0118 (0.0127)	0.0112 (0.0128)
Corporatism (t-1)	0.1071** (0.0512)	0.0997* (0.0510)	0.2656*** (0.1011)	0.2481** (0.1016)	1.1809 (1.2407)	1.0110 (1.2519)
Unemployment (t-1)	0.0096 (0.0110)	0.0105 (0.0107)	0.0128 (0.0171)	0.0109 (0.0166)	-0.4119 (0.2580)	-0.4246 (0.2589)
Trade openness (t-1)	-0.0013 (0.0018)	-0.0015 (0.0017)	0.0026 (0.0030)	0.0021 (0.0030)	0.1013* (0.0550)	0.0965* (0.0544)
Capital restrictions (t-1)	0.0040*** (0.0013)	0.0039*** (0.0012)	0.0047* (0.0027)	0.0048* (0.0027)	-0.0180 (0.0487)	-0.0187 (0.0492)
GDP per capita (x 10^{-2}) (t-1)	-0.0017 (0.0011)	-0.0012 (0.0010)	-0.0030 (0.0020)	-0.0027 (0.0020)	0.0686** (0.0335)	0.0702** (0.0354)
Deindustialization (t-1)	0.0024 (0.0059)	0.0024 (0.0059)	-0.0003 (0.0150)	0.0009 (0.0141)	-0.4760** (0.2391)	-0.5087** (0.2436)
Constant	0.4779 (0.3379)	0.3662 (0.3363)	0.9586 (0.6346)	0.8309 (0.5970)	31.5041** (12.6405)	33.1957** (13.2269)
Rho	0.7597	0.7626	0.7670	0.7350	0.8043	0.8000
N x T	304	304	257	257	300	300
Adj. R^2	0.5388	0.5399	0.5647	0.5986	0.4025	0.4063

Note: OLS regressions; unstandardized coefficients; panel-corrected standard errors in parentheses; Prais-Winsten transformation [AR (1) disturbances].
One-tailed hypothesis for spatial lags. * Significant at the .10 level; ** at the .05 level; *** at the .01 level. Each regression also includes country dummies (not shown here).

Table 6. Panel data regressions of ALMP expenditures and spatial lags weighted by unemployment rates, 14 EU countries (1985-2007)

	ALMP expenditure as percentage of GDP		ALMP expenditure as percentage of total government expenditure		ALMP expenditure as share of total LMP expenditure	
	(16)	(17)	(18)	(19)	(20)	(21)
Spatial lag weighted by unemployment (t-1)	0.0005* (0.0004)	-0.0014* (0.0011)	0.0006** (0.0003)	-0.0007 (0.0007)	0.0004 (0.0003)	-0.0003 (0.0009)
Spatial lag weighted by unemployment (t-1) x support (t-1)		0.0038** (0.0019)		0.0026** (0.0014)		0.0013 (0.0017)
Support (t-1)		-0.0215 (0.0723)		0.0776 (0.1117)		1.8380 (2.5374)
Left cabinet seats (t-1)	0.0000 (0.0004)	0.0000 (0.0004)	-0.0001 (0.0007)	-0.0001 (0.0007)	0.0125 (0.0127)	0.0121 (0.0128)
Corporatism (t-1)	0.1066** (0.0513)	0.0999* (0.0513)	0.2666*** (0.1018)	0.2468** (0.1023)	1.1801 (1.2541)	0.9704 (1.2629)
Unemployment (t-1)	0.0095 (0.0110)	0.0100 (0.0108)	0.0119 (0.0171)	0.0101 (0.0167)	-0.4258* (0.2576)	-0.4272* (0.2593)
Trade openness (t-1)	-0.0011 (0.0018)	-0.0013 (0.0017)	0.0030 (0.0030)	0.0026 (0.0030)	0.1084* (0.0556)	0.1030* (0.0553)
Capital restrictions (t-1)	0.0041*** (0.0013)	0.0040*** (0.0012)	0.0049* (0.0027)	0.0050* (0.0027)	-0.0175 (0.0488)	-0.0172 (0.0493)
GDP per capita (x 10^{-2}) (t-1)	-0.0016 (0.0011)	-0.0012 (0.0010)	-0.0028 (0.0020)	-0.0026 (0.0019)	0.0725** (0.0326)	0.0759** (0.0344)
Deindustialization (t-1)	0.0025 (0.0059)	0.0026 (0.0059)	0.0006 (0.0150)	0.0011 (0.0142)	-0.4581* (0.2392)	-0.4969** (0.2441)
Constant	0.4360 (0.3278)	0.3557 (0.3304)	0.8144 (0.6217)	0.7587 (0.5932)	28.9247** (12.2954)	30.4249** (12.9511)
Rho	0.7582	0.7604	0.7582	0.7367	0.7951	0.7982
N x T	304	304	257	257	300	300
Adj. R^2	0.5406	0.5409	0.5723	0.5952	0.4087	0.4065

Note: OLS regressions; unstandardized coefficients; panel-corrected standard errors in parentheses; Prais-Winsten transformation [AR (1) disturbances].
One-tailed hypothesis for spatial lags. * Significant at the .10 level; ** at the .05 level; *** at the .01 level. Each regression also includes country dummies (not shown here).

Table 7. Panel data regressions of ALMP expenditures and spatial lags weighted by welfare regime, 14 EU countries (1985-2007)

	ALMP expenditure as percentage of GDP		ALMP expenditure as percentage of total government expenditure		ALMP expenditure as share of total LMP expenditure	
	(22)	(23)	(24)	(25)	(26)	(27)
Spatial lag weighted by welfare regime (t-1)	0.0203 (0.0169)	-0.0450 (0.0387)	0.0277*** (0.0107)	-0.0149 (0.0225)	0.0223** (0.0134)	0.0142 (0.0279)
Spatial lag weighted by welfare regime (t-1) x support (t-1)		0.1411** (0.0726)		0.0921** (0.0456)		0.0147 (0.0522)
Support (t-1)		-0.0320 (0.0708)		0.0568 (0.1057)		2.1479 (2.4883)
Left cabinet seats (t-1)	0.0000 (0.0004)	-0.0000 (0.0004)	-0.0001 (0.0007)	-0.0003 (0.0007)	0.0121 (0.0127)	0.0113 (0.0127)
Corporatism (t-1)	0.1106** (0.0510)	0.1029** (0.0504)	0.2680*** (0.1008)	0.2521** (0.1011)	1.2379 (1.2322)	1.1309 (1.2458)
Unemployment (t-1)	0.0085 (0.0112)	0.0099 (0.0106)	0.0117 (0.0174)	0.0106 (0.0167)	-0.4115 (0.2581)	-0.4445* (0.2559)
Trade openness (t-1)	-0.0012 (0.0019)	-0.0015 (0.0017)	0.0024 (0.0029)	0.0019 (0.0029)	0.0991* (0.0546)	0.0961* (0.0537)
Capital restrictions (t-1)	0.0040*** (0.0013)	0.0040*** (0.0013)	0.0047* (0.0027)	0.0049* (0.0027)	-0.0186 (0.0487)	-0.0193 (0.0491)
GDP per capita (x 10^{-2}) (t-1)	-0.0017 (0.0011)	-0.0012 (0.0010)	-0.0030 (0.0020)	-0.0027 (0.0019)	0.0007** (0.0003)	0.0006* (0.0003)
Deindustialization (t-1)	0.0026 (0.0059)	0.0018 (0.0058)	-0.0020 (0.0150)	-0.0026 (0.0142)	-0.4803** (0.2392)	-0.5038** (0.2430)
Constant	0.4718 (0.3350)	0.3950 (0.3274)	1.0550 (0.6505)	1.0099 (0.6213)	31.9932 (12.596)	34.4163*** (12.8836)
Rho	0.7675	0.7638	0.7818	0.7539	0.8081	0.7974
N x T	304	304	257	257	300	300
Adj. R^2	0.5302	0.5421	0.5531	0.5866	0.4015	0.4098

Note: OLS regressions; unstandardized coefficients; panel-corrected standard errors in parentheses; Prais-Winsten transformation [AR (1) disturbances].
One-tailed hypothesis for spatial lags. * Significant at the .10 level; ** at the .05 level; *** at the .01 level. Each regression also includes country dummies (not shown here).

Figure 1. Marginal effect of peer pressure at various levels of support of EU coordination