Social Democratic Capitalism

Lane Kenworthy

August 17, 2017

Preliminary, tentative, incomplete

My conclusion

The available evidence is consistent with the hypothesis that *social democratic capitalism is superior at producing an "expanded Rawlsian" result*

- Better on economic security
- Better on distribution favoring the least well-off
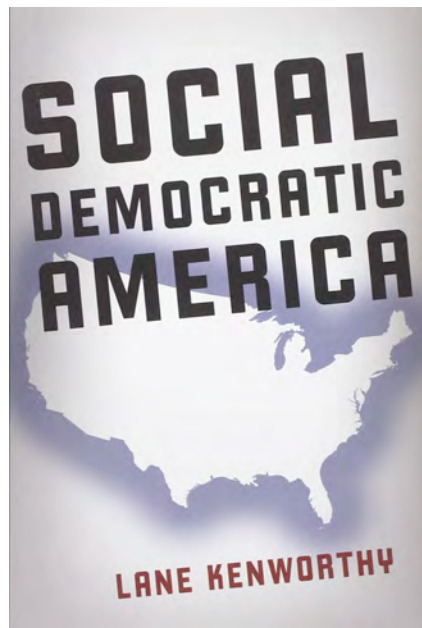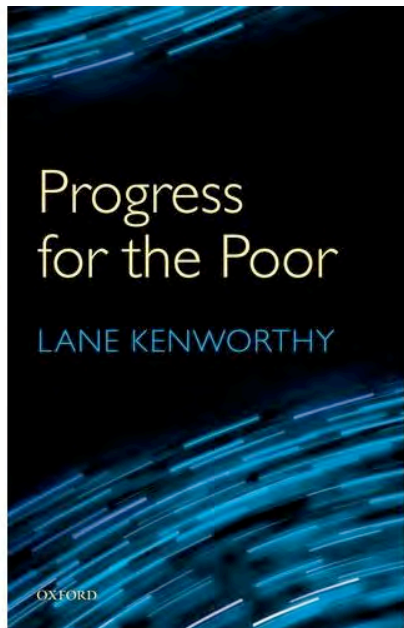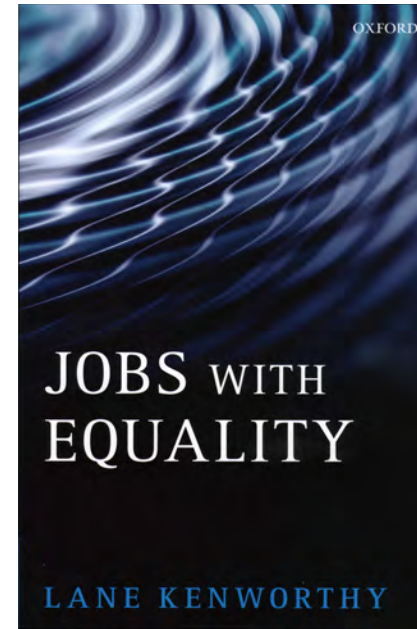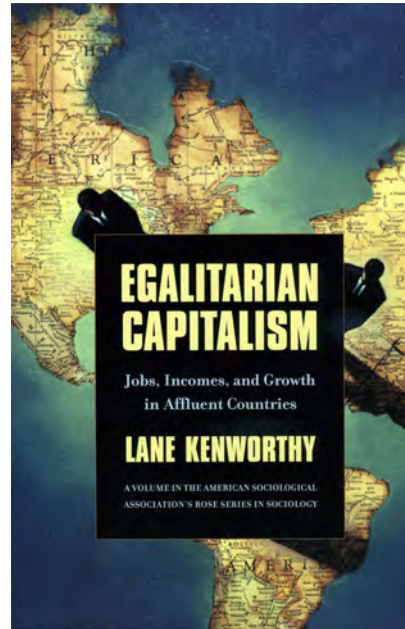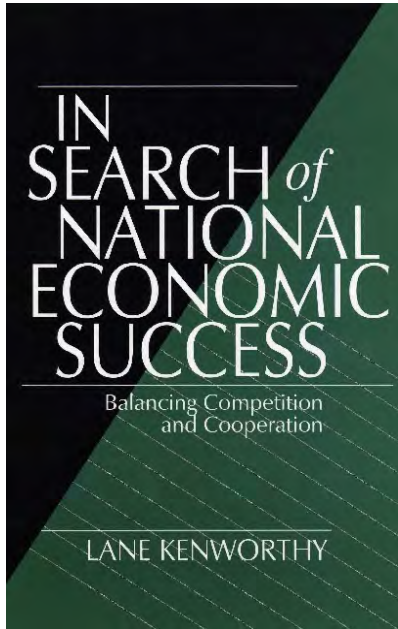- Better on equality of opportunity (probably)
- Better on employment
- Average on economic growth
- Average or better on most other goals

What institutions and policies are most conducive to human flourishing in an affluent democratic society?

My prior research has looked at some key pieces of this puzzle

IN
SEARCH of
NATIONAL
ECONOMIC
SUCCESS

Balancing Competition
and Cooperation

LANE KENWORTHY

EGALITARIAN
CAPITALISM

Jobs, Incomes, and Growth
in Affluent Countries

LANE KENWORTHY

A VOLUME IN THE AMERICAN SOCIOLOGICAL
ASSOCIATION'S ROSE SERIES IN SOCIOLOGY

OXFORD

JOBS WITH
EQUALITY

LANE KENWORTHY

Progress
for the Poor

LANE KENWORTHY

OXFORD

SOCIAL
DEMOCRATIC
AMERICA

LANE KENWORTHY

HOW
BIG
SHOULD OUR
GOVERNMENT
BE?

JON BAKIJA
LANE KENWORTHY
PETER LINDERT
JEFF MADRICK

I'm revisiting my earlier analyses and adding a host of additional outcomes

thegoodsociety.net

This talk

What do we want?

"Social democratic capitalism"

Evidence

   Core goals

   Other goals

Questions, objections, caveats

Social democratic capitalism in the US?

What do we want?

What do we want?

Community

Democracy

Economic equality

Economic opportunity

Economic prosperity

Economic security

Economic stability

Education

Employment

Environment

Family

Freedom

Good government

Happiness

Health
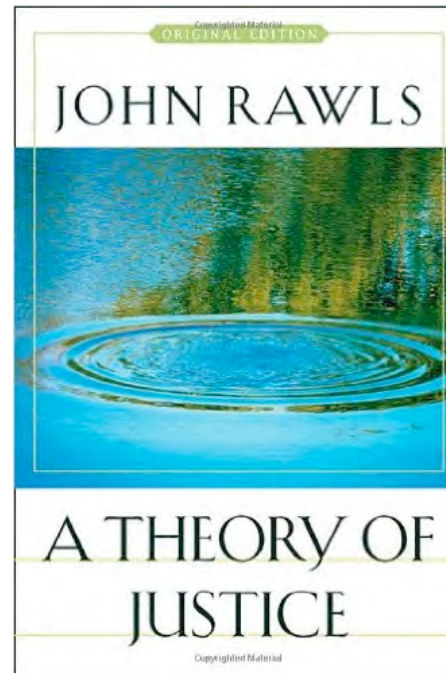
Housing

Inclusion

Information

Privacy

Safety

Openness and support
  for other countries

Which goals should we prioritize?

Rawls: basic liberties, equality of opportunity, and a distribution of goods favoring the least well-off

Which goals should we prioritize?

An "expanded Rawlsian" view

Core aims

Economic security

Distribution favoring the least well-off

Equality of opportunity

Key secondary aims

High employment

Solid economic growth

Which institutions and policies are most likely to deliver an "expanded Rawlsian" result?

Which institutions and policies?

"Social democratic capitalism"

Expansive, generous public insurance

Employment-oriented public services (early education, affordable college, retraining, job placement assistance, individualized monitoring and support, lifelong learning)

Light regulation of product and labor markets

Which institutions and policies?

"Social democratic capitalism"

The best exemplars are the Nordic countries, especially Denmark and Sweden
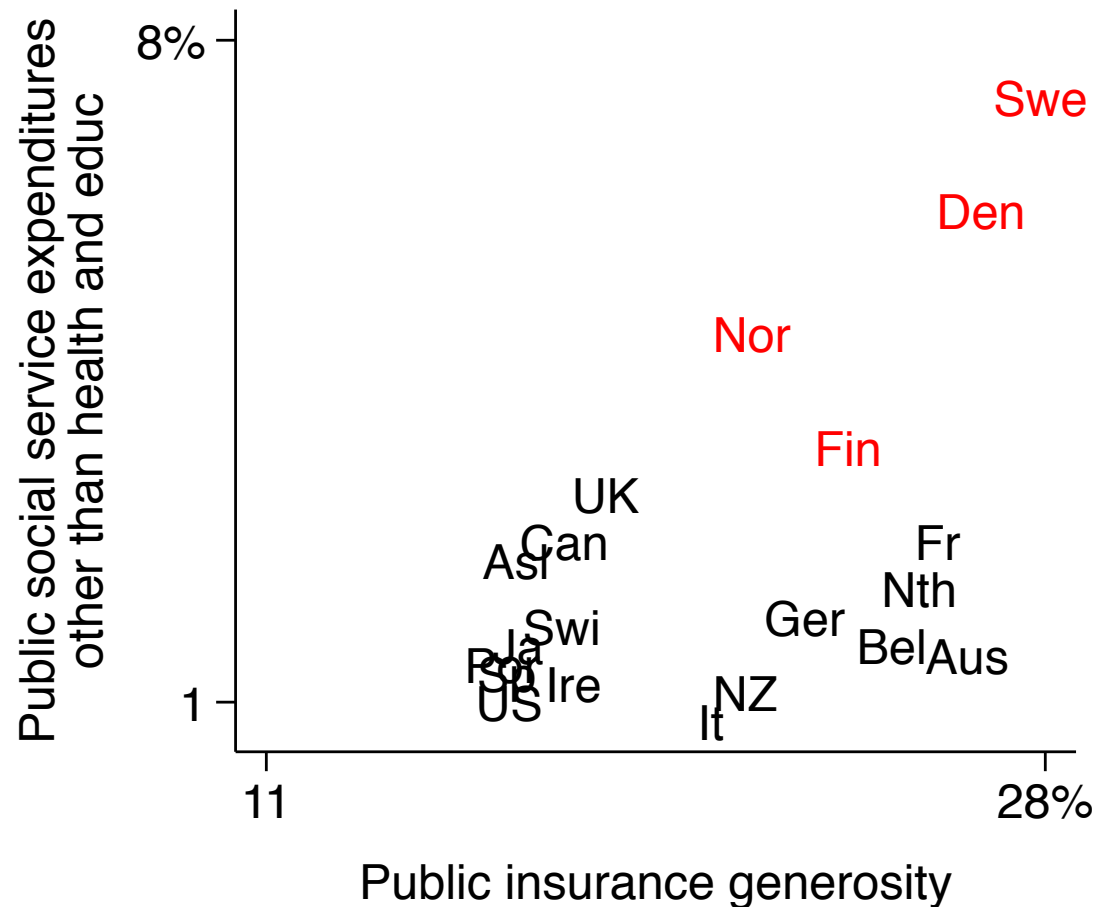
Which institutions and policies?

Other rich democratic nations

Less public insurance: US, Can, Asl, NZ, UK, Ire, Ja, Kor, Swi

Less employment-oriented public services: all others

More regulation: Bel, Fr, It, Por, Sp, Nth, Ja

Which institutions and policies?

Public insurance generosity: public social expenditures as a share of GDP, adjusted for the size of the elderly population and the unemployment rate. The data are for 2000-2010. Data source: OECD. Public social service expenditures other than health and education: The data are for 2003. Data source: Francis G. Castles, "What Welfare States Do: A Disaggregated Expenditure Approach," *Journal of Social Policy*, 2008, table I.

Which institutions and policies?
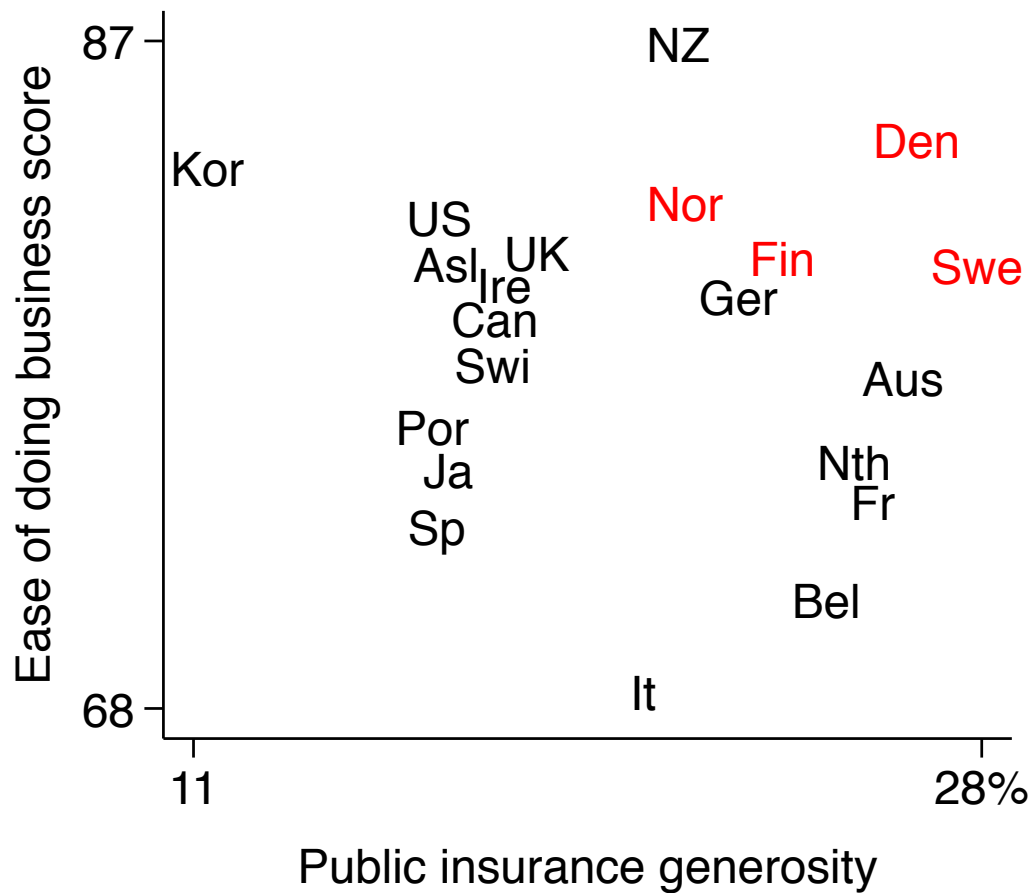
The data are for 2014. Government expenditures: share of GDP. Includes all levels of government: central, regional, and local. Data source: OECD. Ease of doing business: average score on ease of starting a business, dealing with construction permits, getting electricity, registering property, paying taxes, trading across borders, getting credit, protecting minority investors, enforcing contracts, resolving insolvency, and flexibly employing labor. Data source: World Bank Group.

Which institutions and policies?

Good comparison cases for the Nordics

Less public insurance and service generosity:
US, Can, Asl, NZ, Ire, Swi, Ja, Kor, Sp, Por

More regulation: Bel, Fr

Which institutions and policies?

This leaves out a lot

Primary/secondary/college education, training

Fiscal and monetary policy

Unions, collective bargaining

Orientation to the world economy

Industrial policy

Who has input into policy making

My analytical strategy
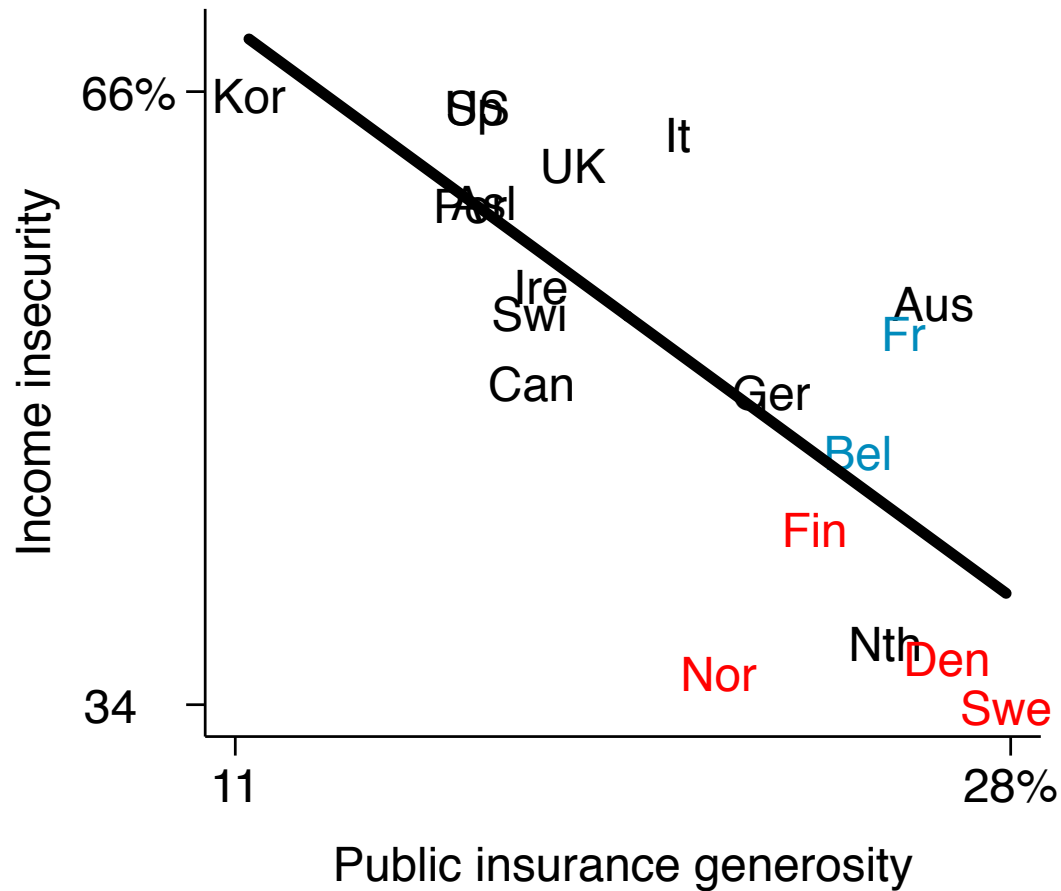
Data: country-level

Analysis

Preferred test: difference-in-difference

But data for many outcomes don't go back very far in time, and most of the change in public insurance generosity occurred in the 1960s and 1970s

So I use second-best analytical strategies

Economic security

Public insurance ⬇ income insecurity

Income insecurity: share of households with a person experiencing a year-to-year earnings decrease of 20% or more in which the household's income decreases by 20% or more. The data are for 2005-2010. Public insurance generosity: public social expenditures as a share of GDP, adjusted for the size of the elderly population and the unemployment rate. The data are for 2000-2010. Data source: OECD. "Asl" is Australia; "Aus" is Austria.

High employment ↓ income insecurity

Having a second earner in the household helps

Distribution favoring the least well-off

Public insurance ⬇ material hardship
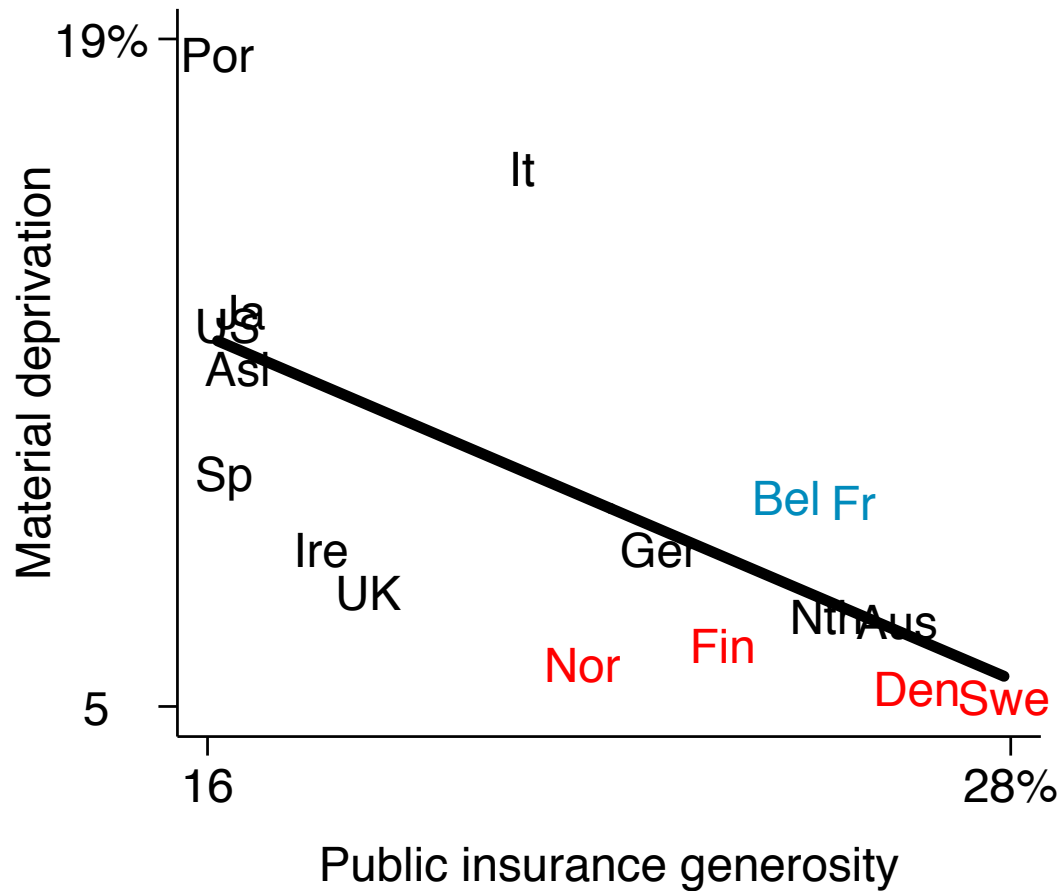
Material hardship: share of households experiencing one or more of the following: inability to adequately heat home, constrained food choices, overcrowding, poor environmental conditions (e.g., noise, pollution), arrears in payment of utility bills, arrears in mortgage or rent payment, difficulty in making ends meet. The data are for 2005. Public insurance generosity: public social expenditures as a share of GDP, adjusted for the size of the elderly population and the unemployment rate. The data are for 2000-2010. Data source: OECD. "Asl" is Australia; "Aus" is Austria.

Public insurance ⬇ relative poverty
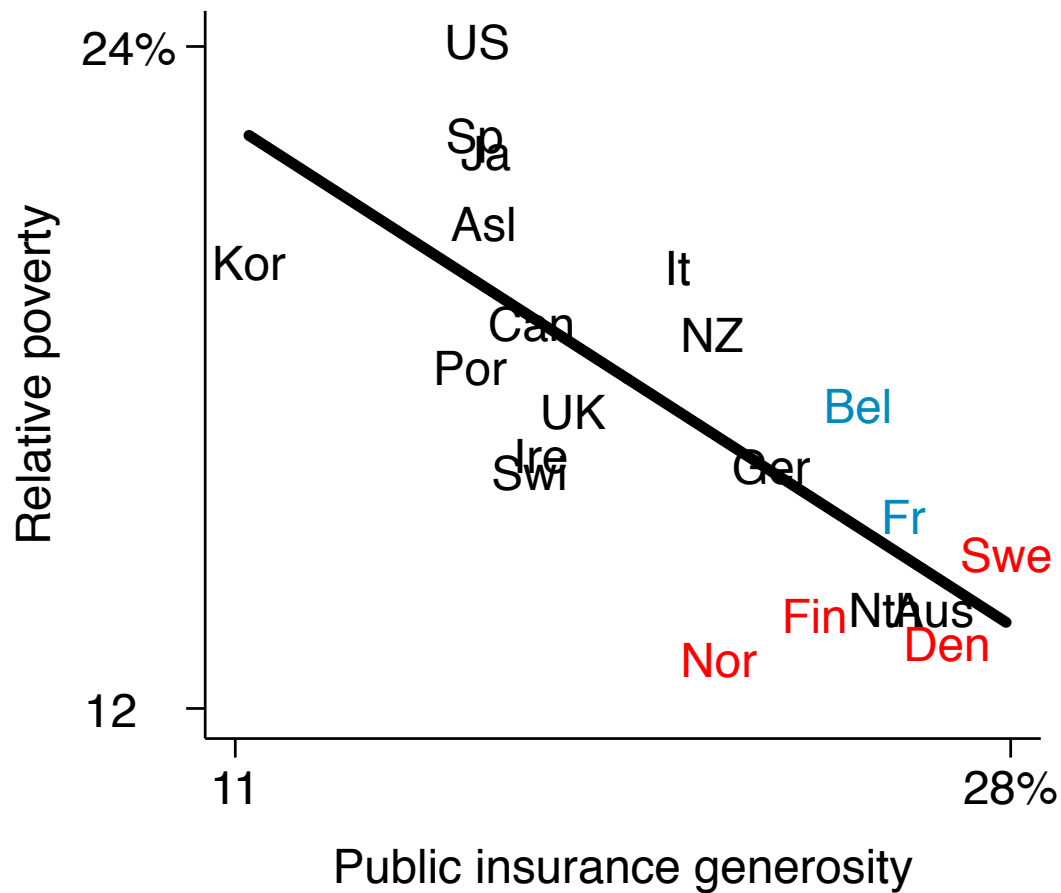
Relative poverty: share of persons in households with income below 60% of the median. The data are for 2010-2013. Data sources: Luxembourg Income Study; OECD. Public insurance generosity: public social expenditures as a share of GDP, adjusted for the size of the elderly population and the unemployment rate. The data are for 2000-2010. Data source: OECD. "Asl" is Australia; "Aus" is Austria.

Material hardship and relative poverty
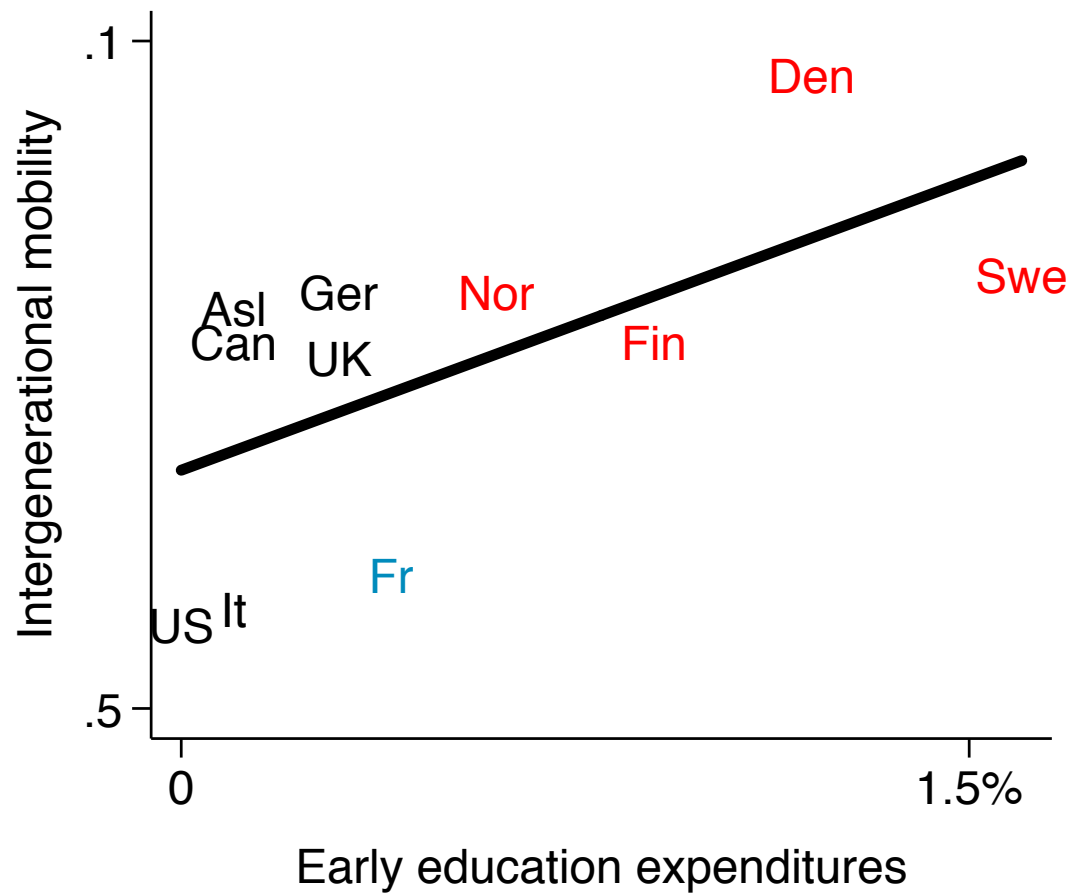
A high employment rate also helps

Equality of opportunity

Public services ↑ intergen mobility
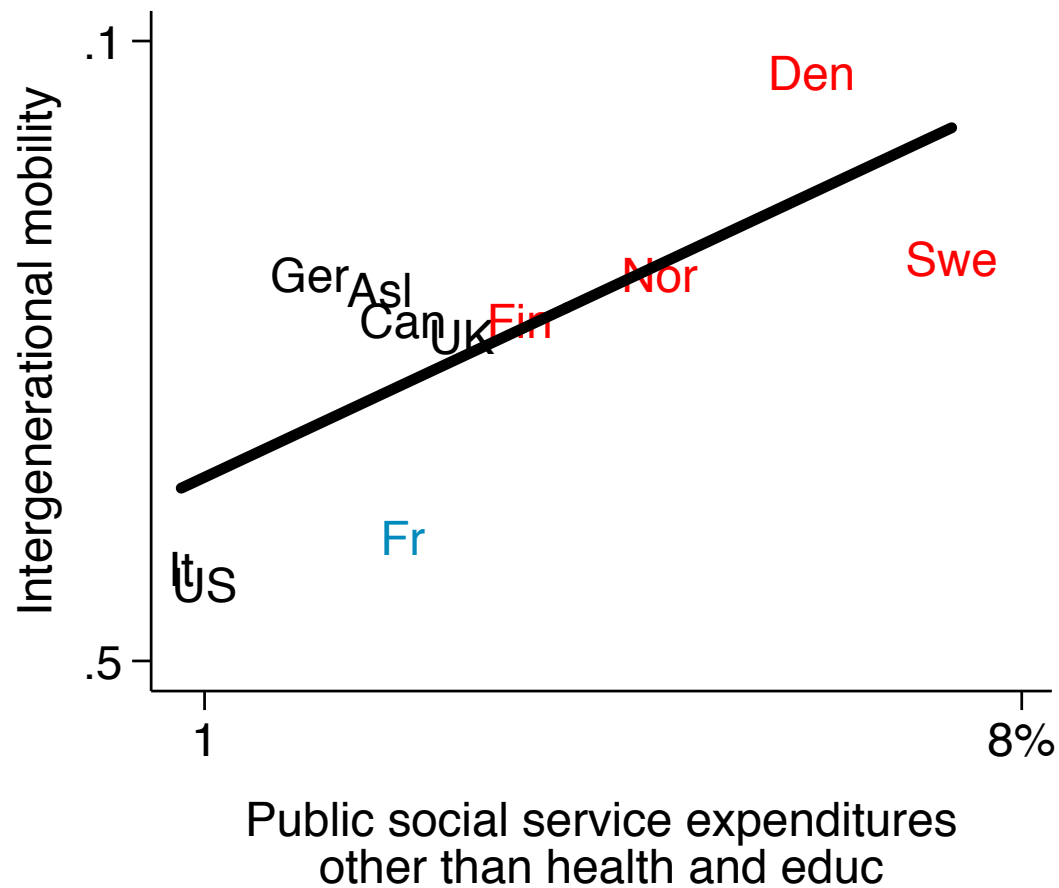
Intergenerational mobility: correlation between the earnings of parents and those of their children, with axis values reversed. Data source: John Ermisch et al, eds., *From Parents to Children*, Russell Sage Foundation, 2012, figure 1.1. Public social service expenditures other than health and education: The data are for 2003. Data source: Francis G. Castles, "What Welfare States Do: A Disaggregated Expenditure Approach," *Journal of Social Policy*, 2008, table I. "Asl" is Australia.
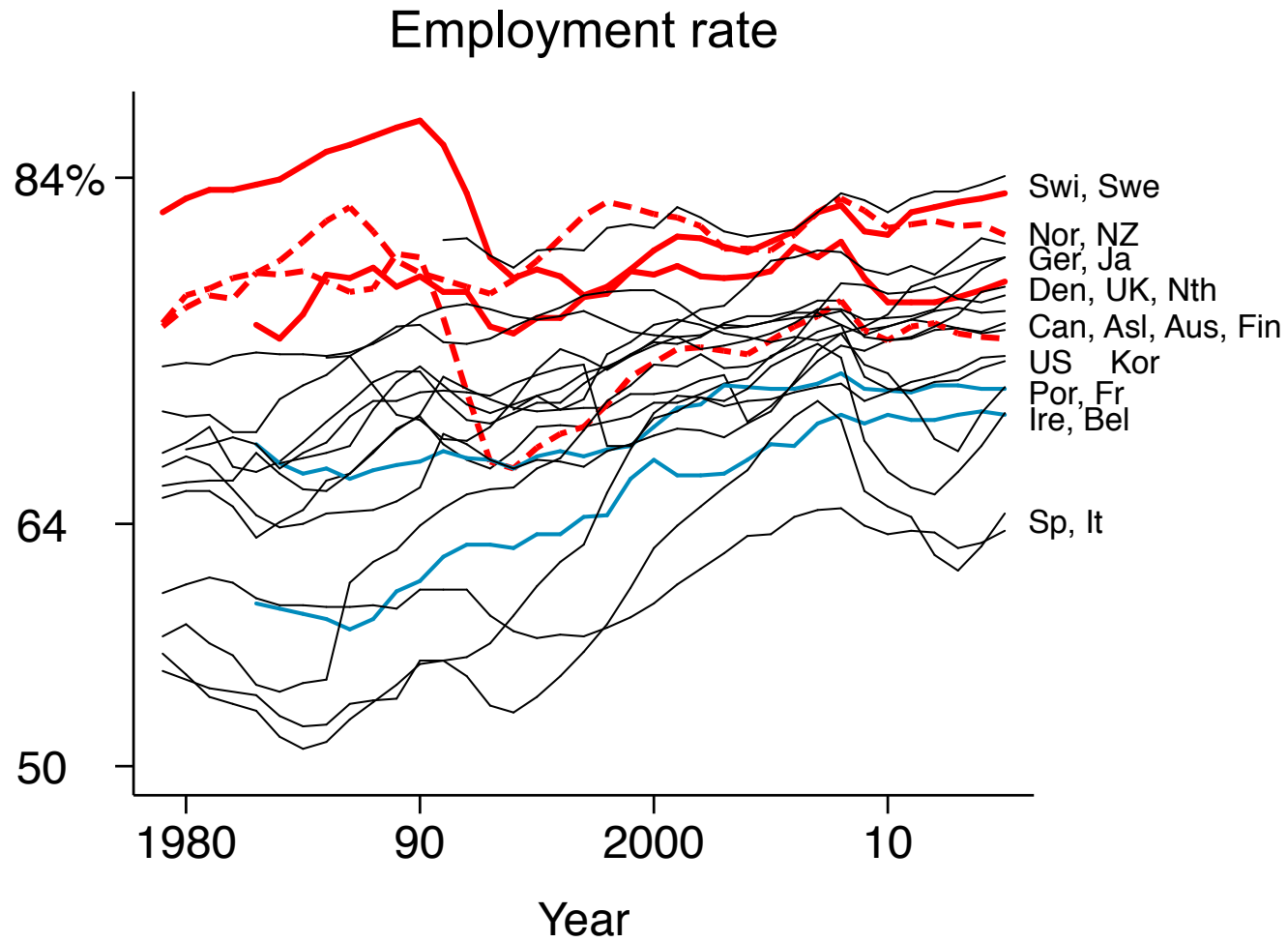
Public services ⬆ intergen mobility

Intergenerational mobility: correlation between the earnings of parents and those of their children, with axis values reversed. Data source: John Ermisch et al, eds., *From Parents to Children*, Russell Sage Foundation, 2012, figure 1.1. Early education expenditures: The data are for 1980-95. Data source: OECD, Social Expenditures Database. "Asl" is Australia.

Employment

Employment

Employment rate

Labels (right side, top to bottom): Swi, Swe · Nor, NZ · Ger, Ja · Den, UK, Nth · Can, Asl, Aus, Fin · US   Kor · Por, Fr · Ire, Bel · Sp, It
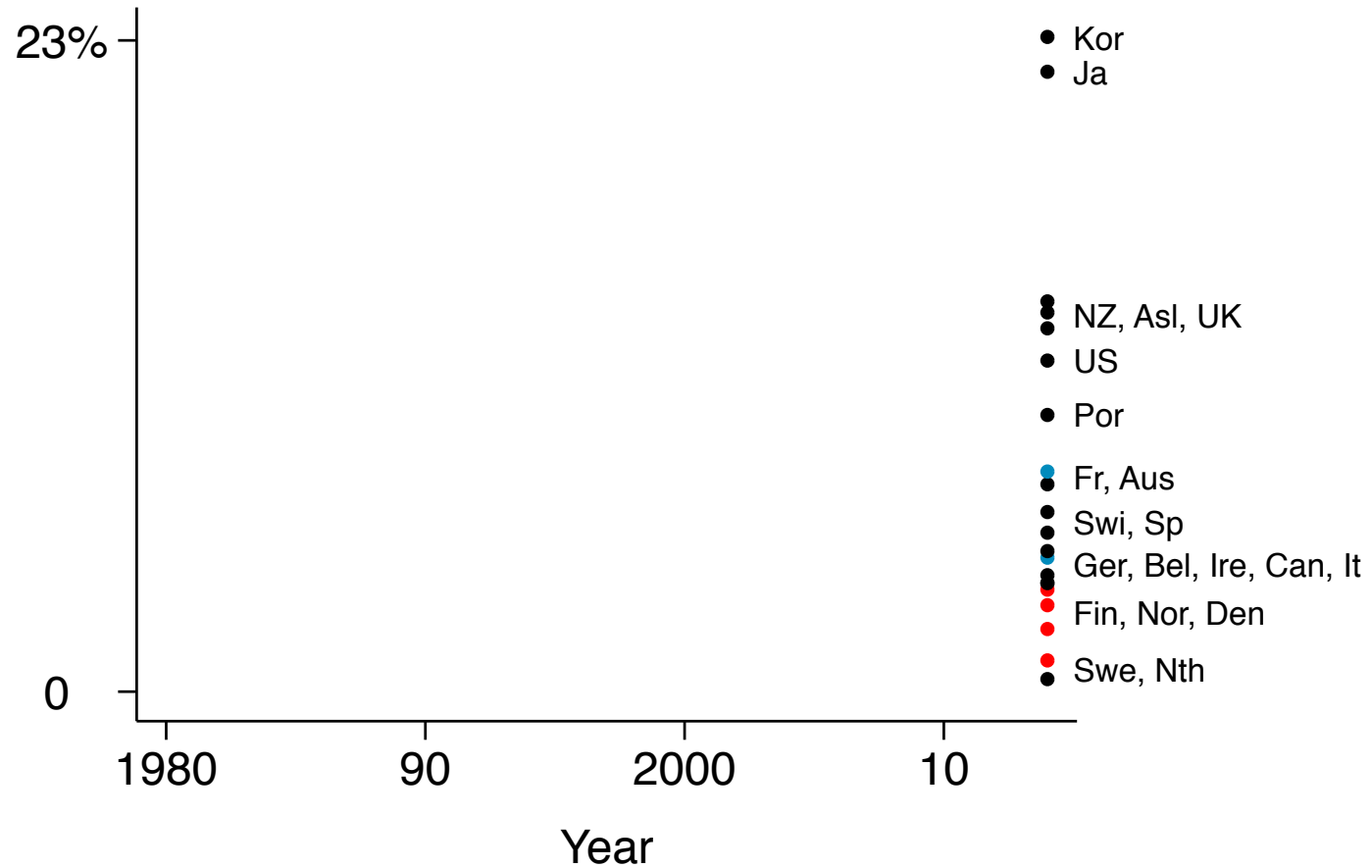
Y-axis: 84%, 64, 50

X-axis (Year): 1980, 90, 2000, 10

Employed persons as a share of all persons. Age 25-64. The vertical axis doesn't begin at zero. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
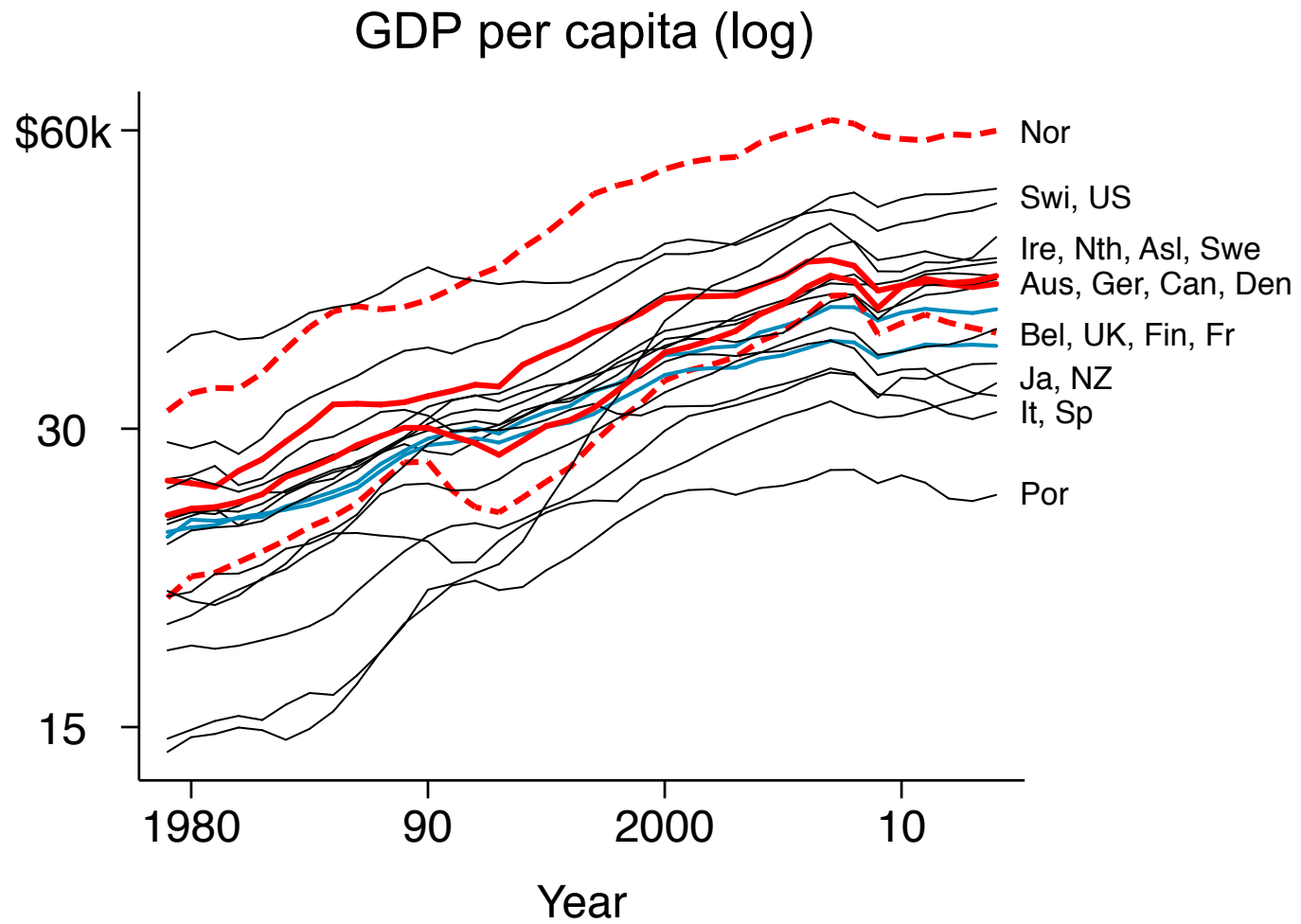
Employment

Work more than 50 hours per week

23% —   • Kor
        • Ja

            ● NZ, Asl, UK
            • US

            • Por

            ● Fr, Aus
            ● Swi, Sp
            ● Ger, Bel, Ire, Can, It
            ● Fin, Nor, Den

            ● Swe, Nth

0 —

1980   90   2000   10

Year

Share of employed persons whose usual hours of work per week are 50 hours or more. Data source: OECD. "Asl" is Australia; "Aus" is Austria.

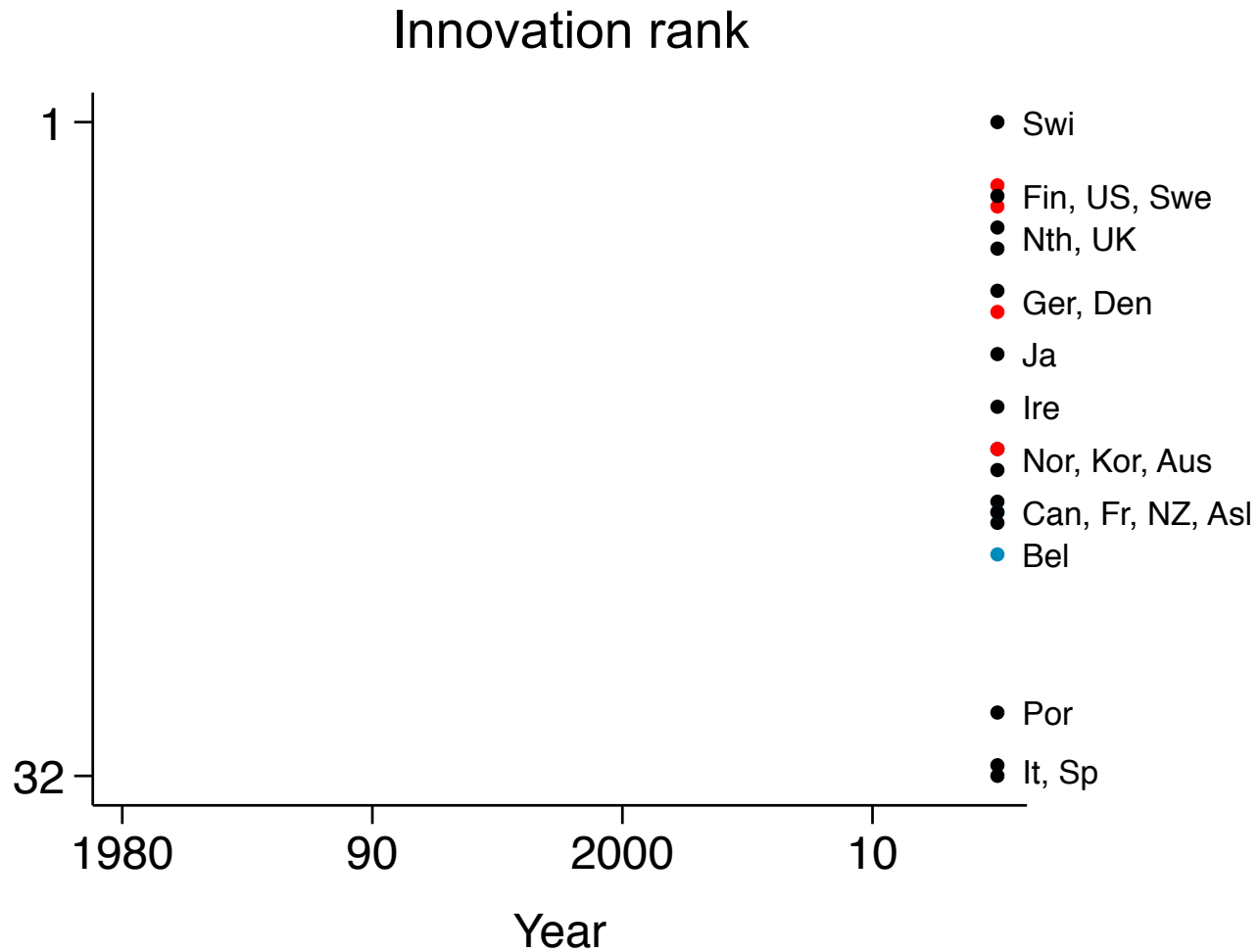# Economic growth

Economic growth

GDP per capita (log)

Adjusted for inflation and converted to US dollars using purchasing power parities. Data source: OECD.

Innovation

Innovation rank

Innovation rank: average innovation ranking for 2015 according to the Global Competitiveness Report and the Global Innovation Index. Data sources: World Economic Forum, *The Global Competitiveness Report 2015-2016,* pillar 12, table 5; Cornell University, Insead, and WIPO, *The Global Innovation Index 2015,* p. xxx. "Asl" is Australia; "Aus" is Austria.

Economic growth

Social democratic capitalism could be *better* for economic growth

- Encourages entrepreneurship

- Facilitates employment by women and those from less-advantaged backgrounds

- Allows unemployed workers more time to reskill and choose a productive job
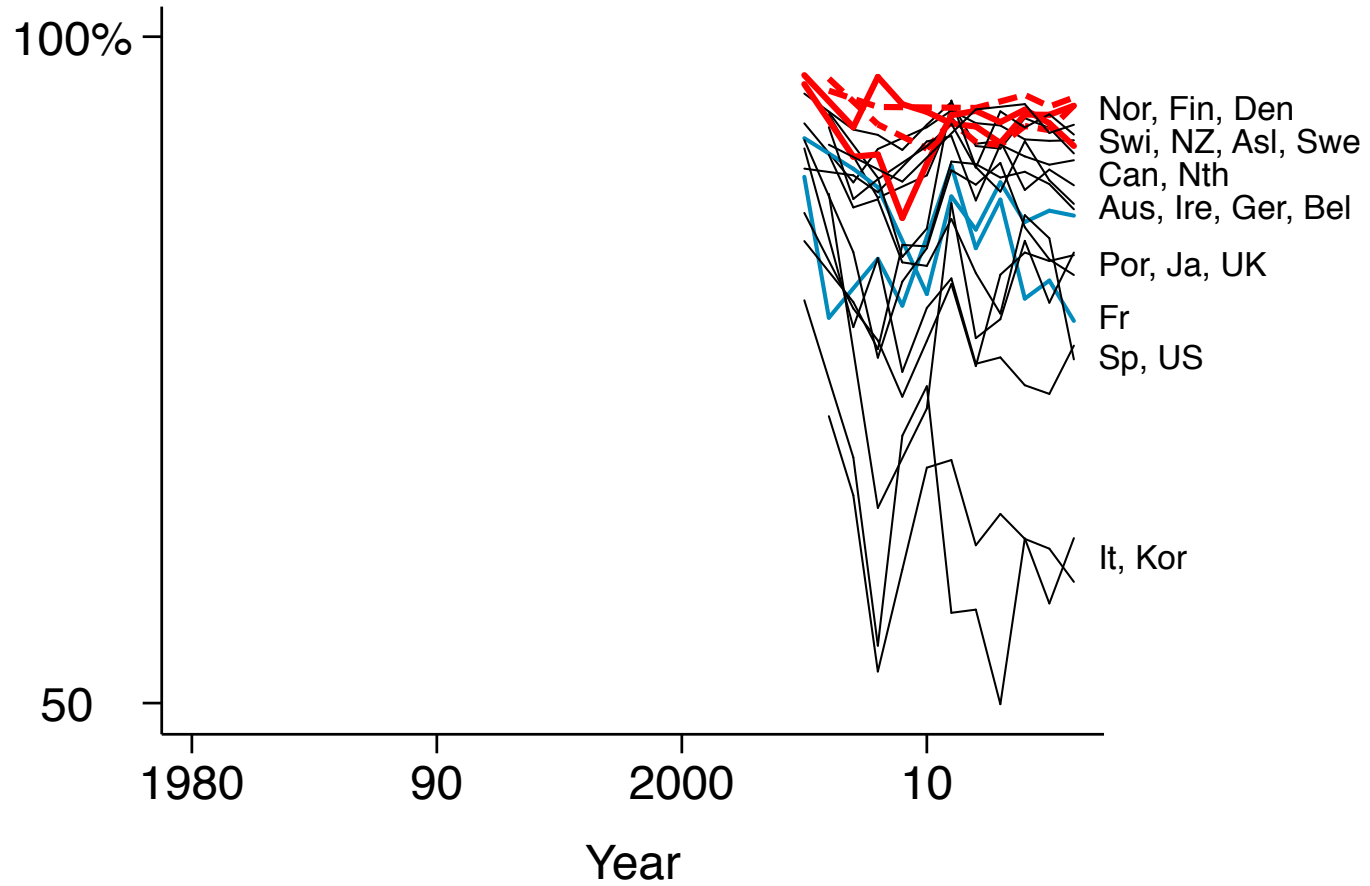
- Limits income inequality

But I don't see support for this hypothesis in the cross-country or over-time data
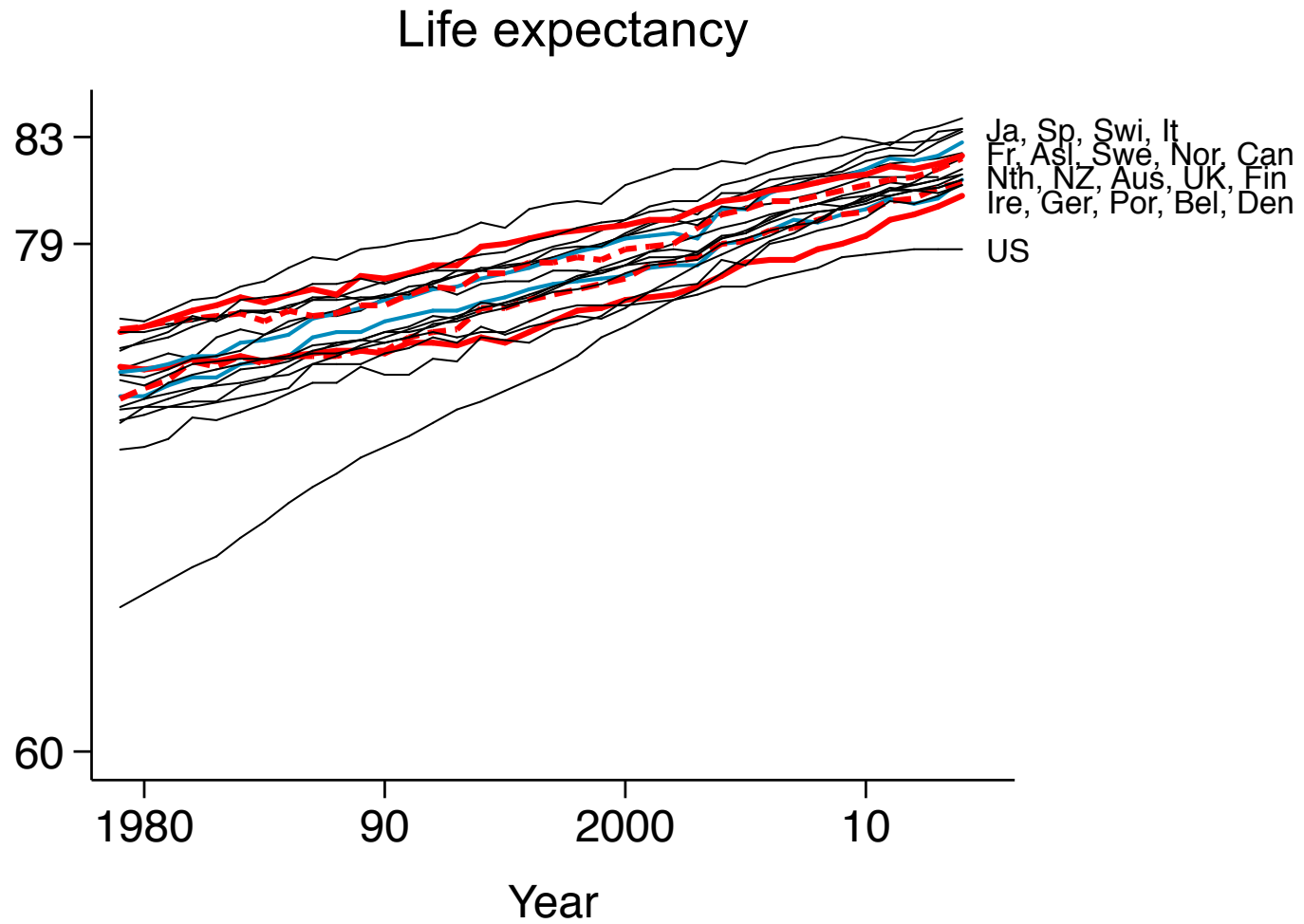
Other goals

Freedom

Perceived freedom to make life choices

Nor, Fin, Den
Swi, NZ, Asl, Swe
Can, Nth
Aus, Ire, Ger, Bel

Por, Ja, UK

Fr
Sp, US

It, Kor

100%

50

1980   90   2000   10

Year

Share responding "satisfied" to the question "Are you satisfied or dissatisfied with your freedom to choose what you do with your life?" Data source: Gallup World Poll, via the World Happiness Report 2017, online appendix. "Asl" is Australia; "Aus" is Austria.

Health
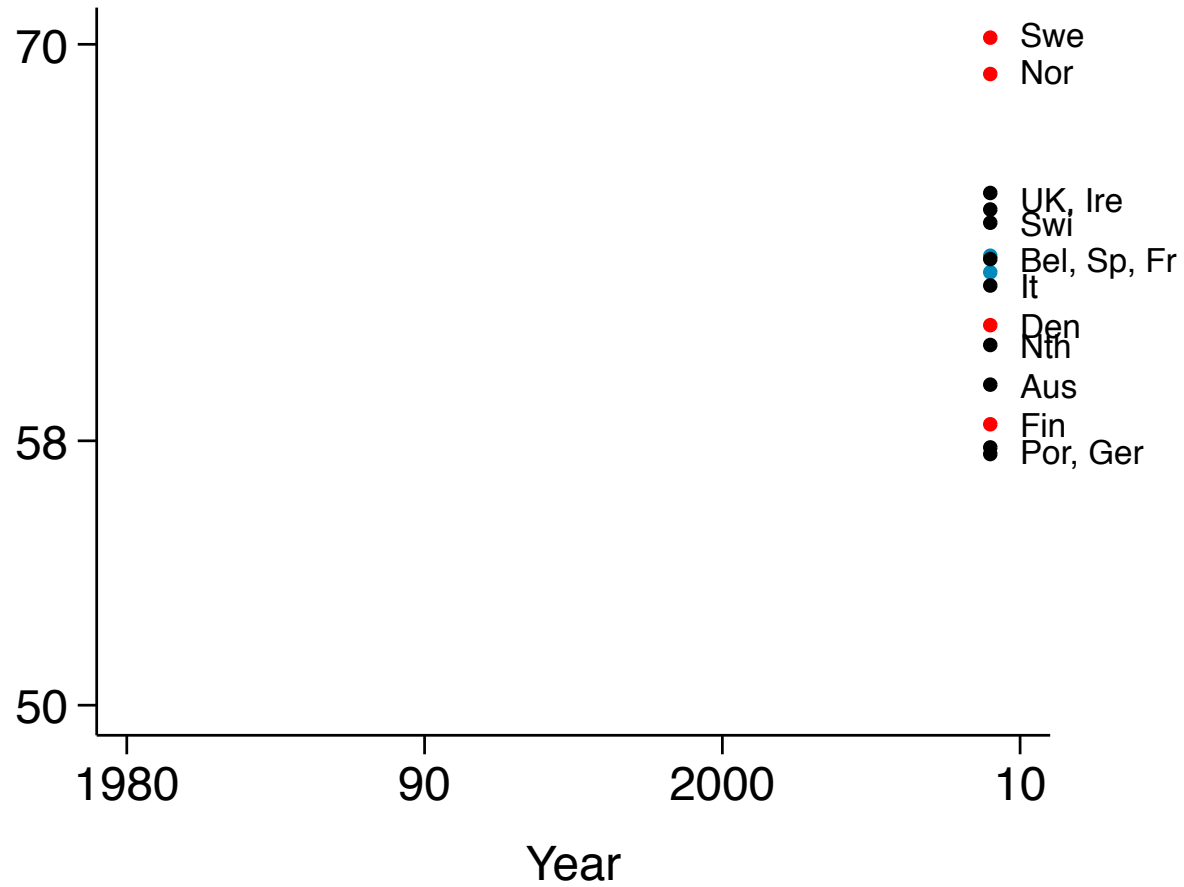
Life expectancy

Ja, Sp, Swi, It
Fr, Asl, Swe, Nor, Can
Nth, NZ, Aus, UK, Fin
Ire, Ger, Por, Bel, Den

US

Years of life expectancy at birth. The vertical axis doesn't begin at zero. Data source: OECD. "Asl" is Australia; "Aus" is Austria.

Health

Healthy life expectancy

Legend (top to bottom):
- Swe
- Nor
- UK, Ire
- Swi
- Bel, Sp, Fr
- It
- Den
- Nth
- Aus
- Fin
- Por, Ger

Vertical axis: 70, 58, 50
Horizontal axis (Year): 1980, 90, 2000, 10

Expected years of life without limitations on usual activities. At birth. The vertical axis doesn't begin at zero. Data source: OECD, *Health at a Glance: Europe, 2012*. "Aus" is Austria.
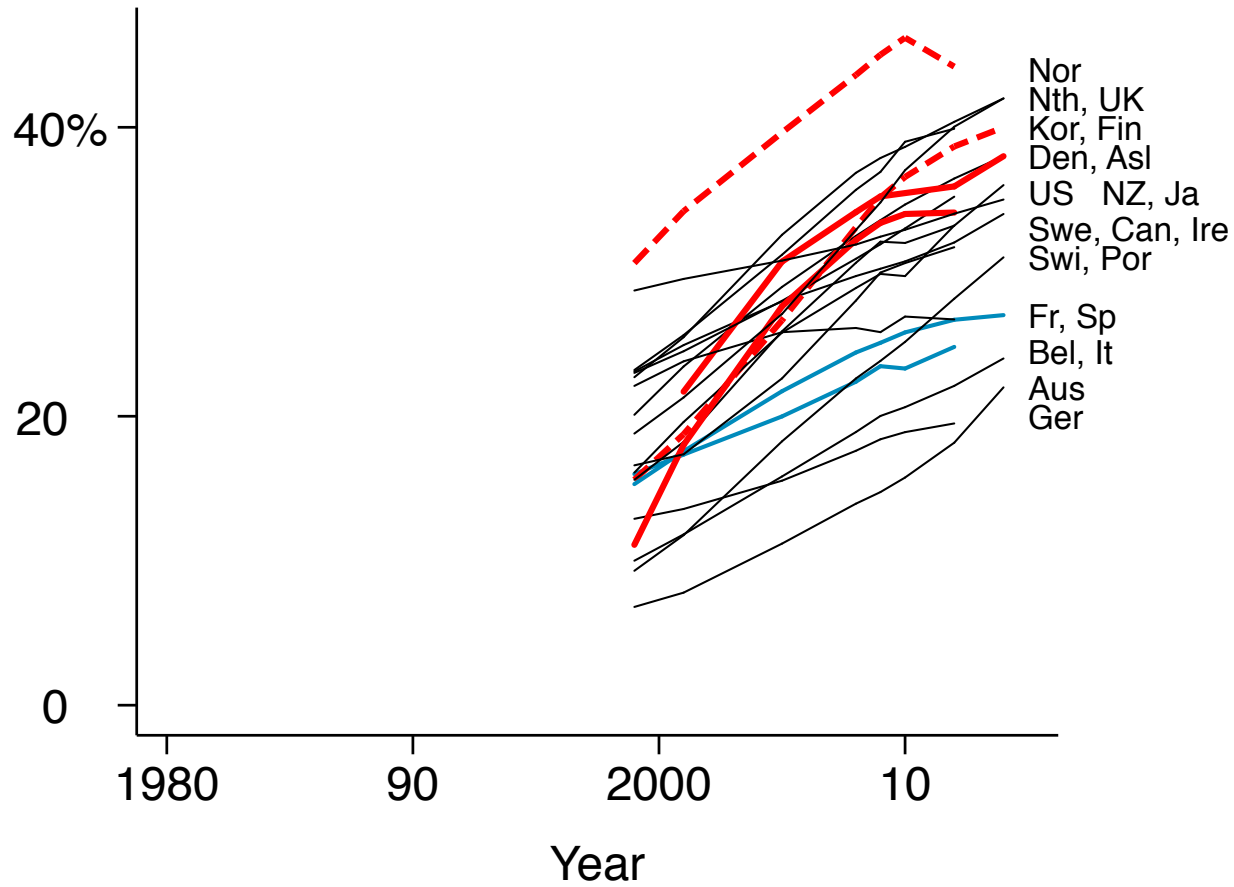
Education

PISA scores, 15-year-olds
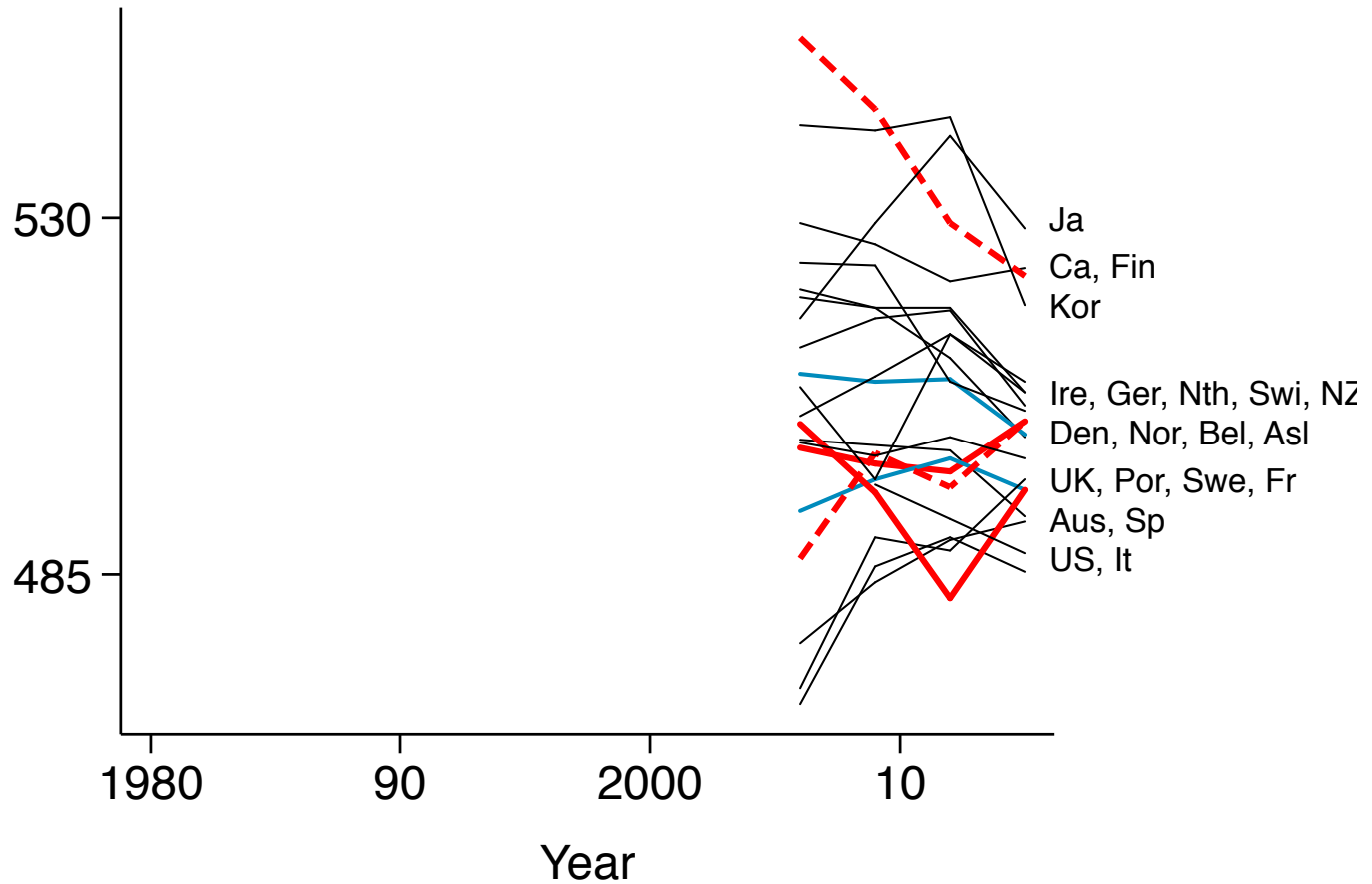
Average student score on PISA reading, math, and science tests. 15-year-olds. The PISA tests ask students to solve problems they haven't seen before, to identify patterns that aren't obvious, and to make compelling written arguments. Data source: OECD. "Asl" is Australia; "Aus" is Austria.

Education

College degree

Labels at right of chart (top to bottom):
Nor
Nth, UK
Kor, Fin
Den, Asl
US   NZ, Ja
Swe, Can, Ire
Swi, Por
Fr, Sp
Bel, It
Aus
Ger

Y-axis: 40%, 20, 0

X-axis: 1980, 90, 2000, 10 — Year

Ages 25 to 34. Bachelor's (or bachelor's equivalent) or more. Data sources: National Center for Education Statistics, *Digest of Education Statistics*, table 603.30, using OECD data; OECD, *Education at a Glance 2015*, table A1.3a, p. 41. "Asl" is Australia; "Aus" is Austria.
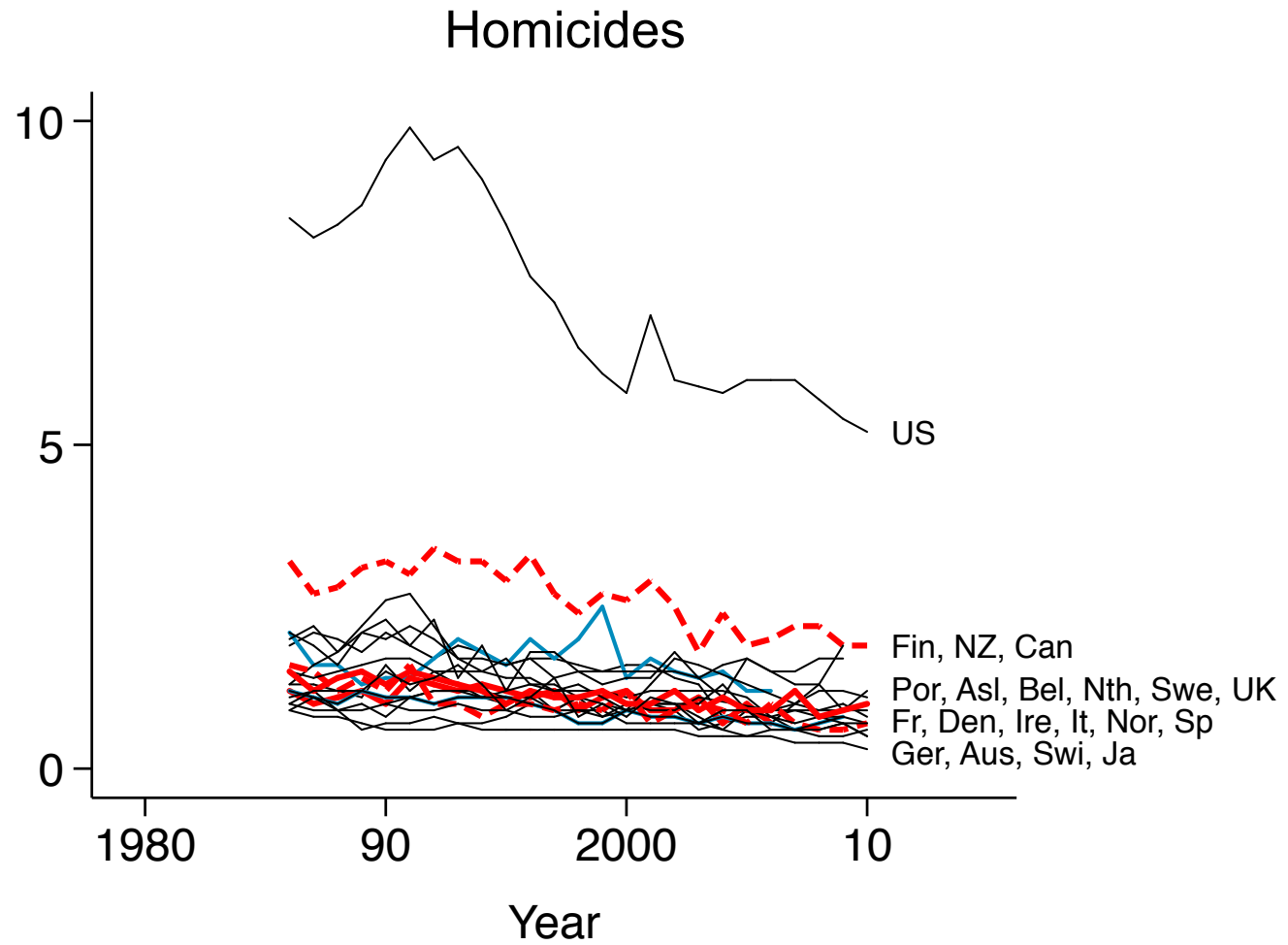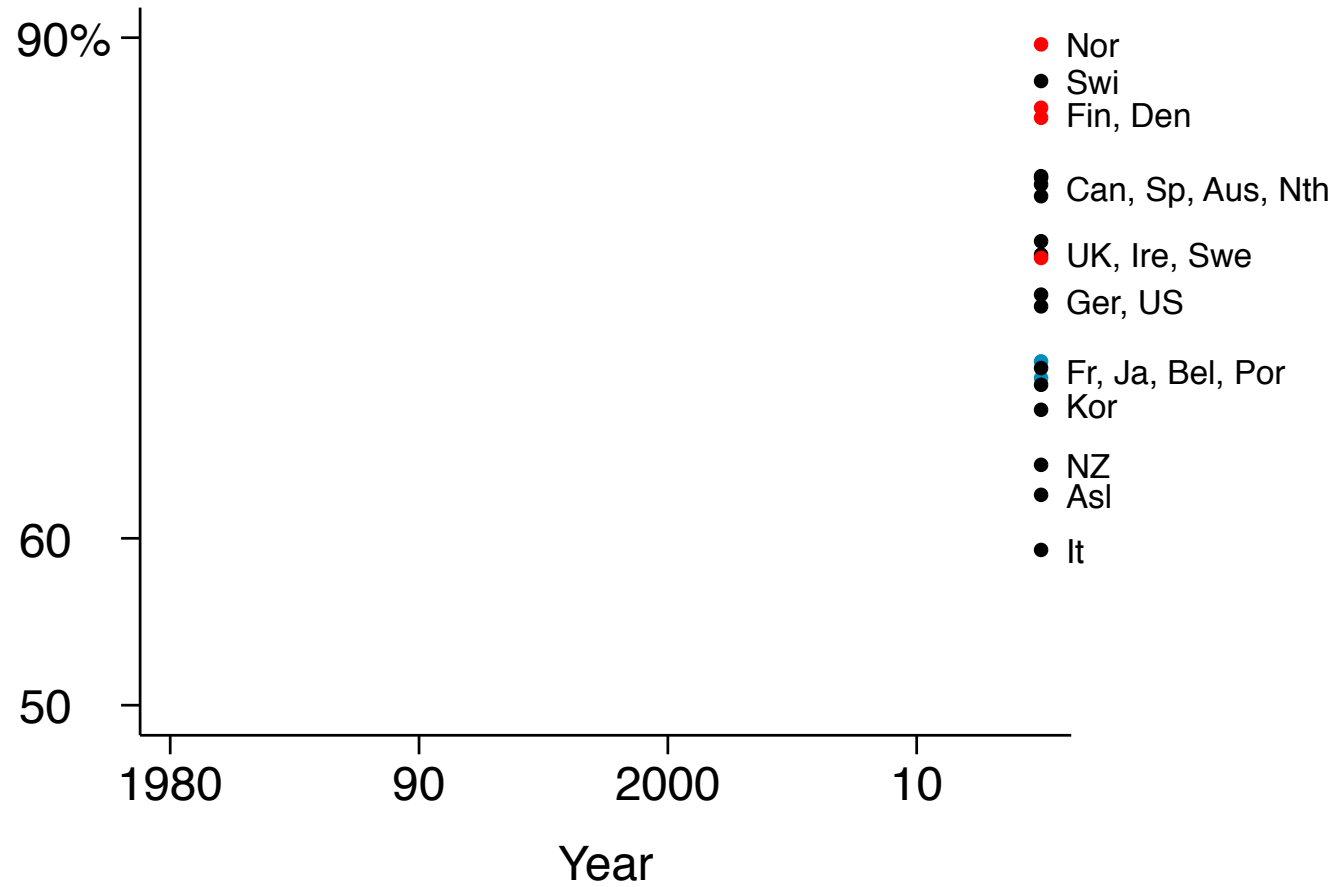
Safety

Homicides

Homicides per 100,000 population. Data source: OECD. "Asl" is Australia; "Aus" is Austria.

Safety

Feel safe walking alone at night

90% –

● Nor
● Swi
● Fin, Den

● Can, Sp, Aus, Nth

● UK, Ire, Swe
● Ger, US

● Fr, Ja, Bel, Por
● Kor

● NZ
● Asl

60 –   ● It

50 –

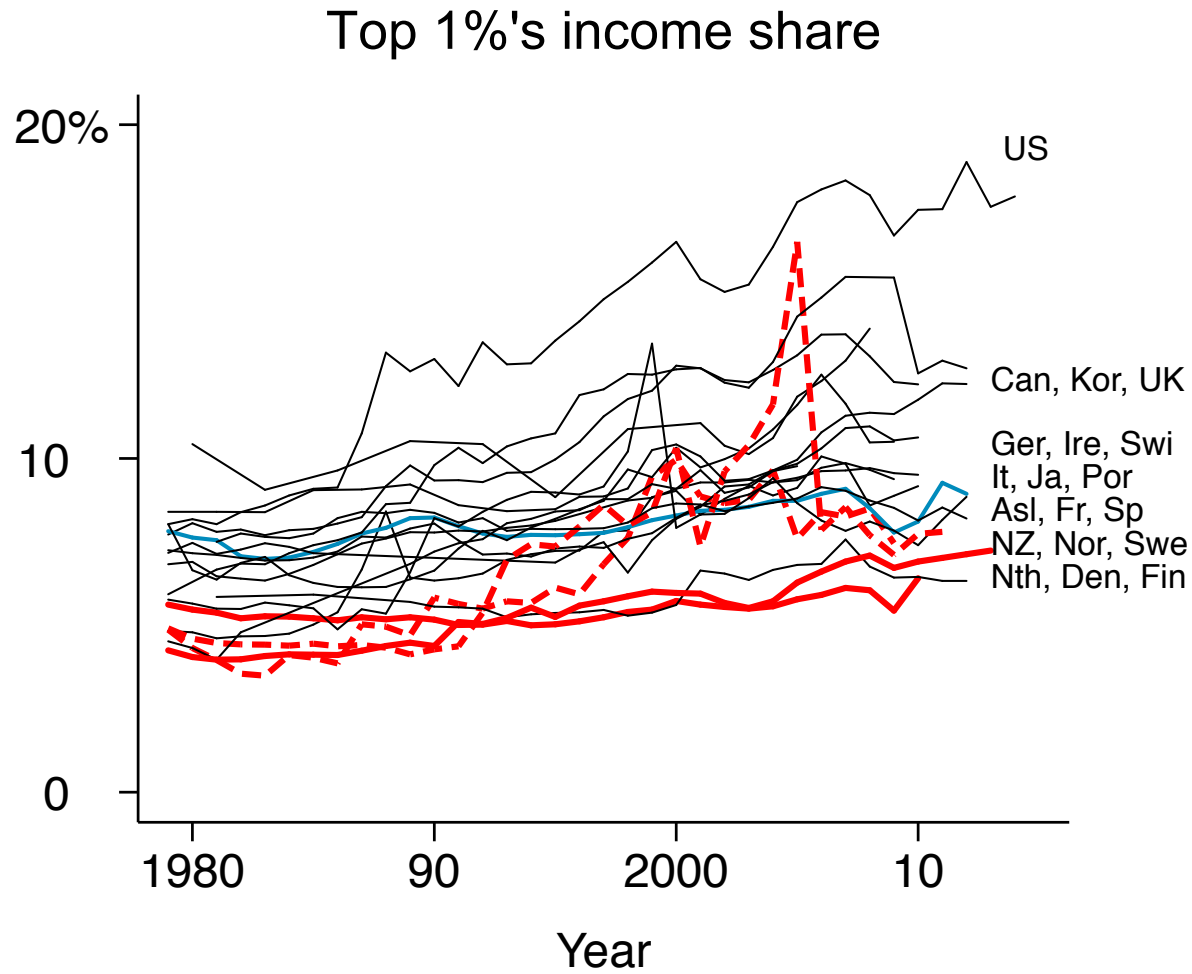1980   90   2000   10

Year

Question: "Do you feel safe walking alone at night in the city or area where you live?" Data source: OECD Better Life, using Gallup World Poll data. "Asl" is Australia; "Aus" is Austria.

Shared prosperity

Median household income
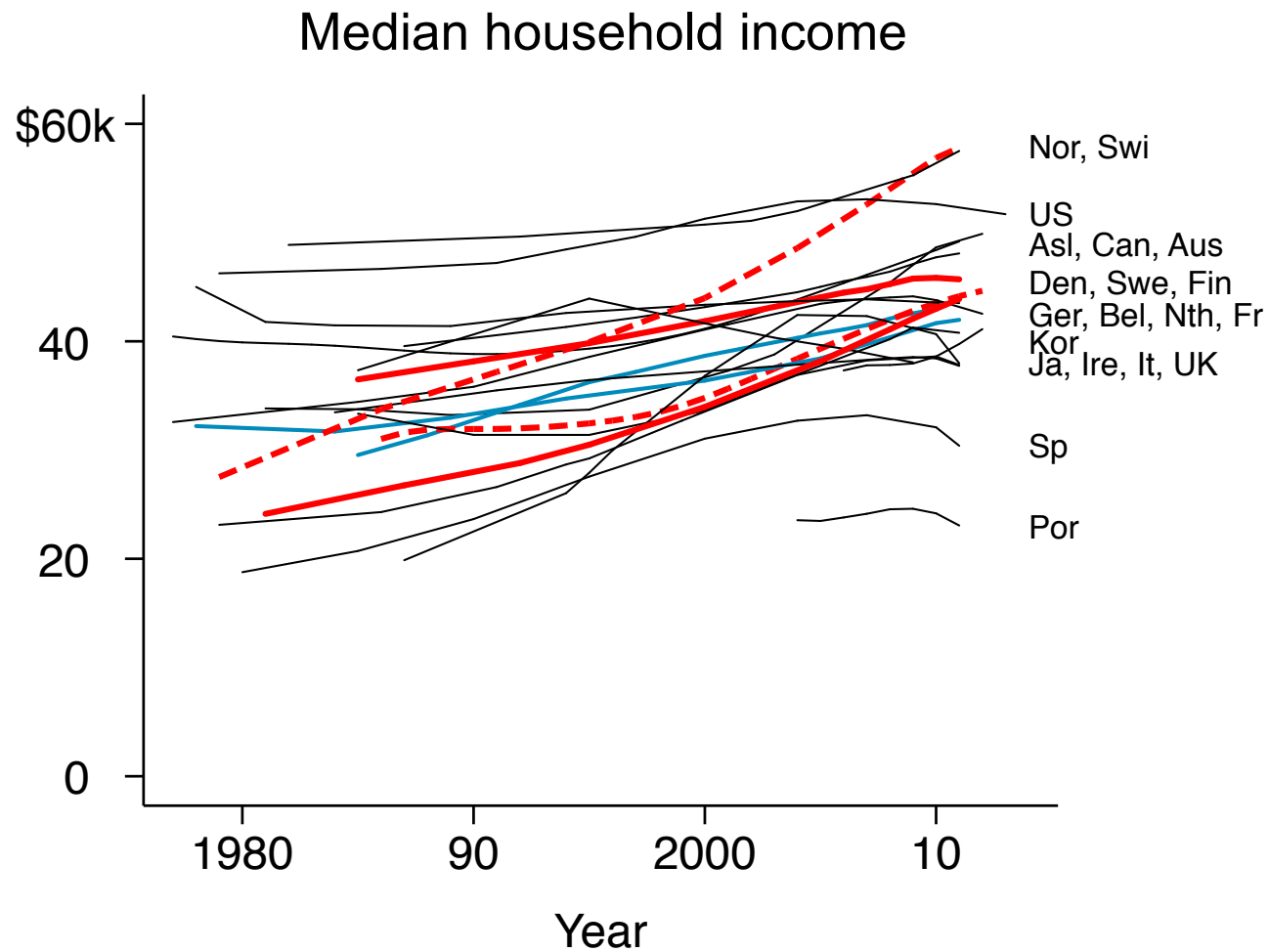
Posttransfer-posttax household income. The incomes are adjusted for household size and then rescaled to reflect a three-person household, adjusted for inflation, and converted to US dollars using purchasing power parities. "k" = thousand. The lines are loess curves. Data sources: Luxembourg Income Study; OECD. "Asl" is Australia; "Aus" is Austria.

Income inequality

Top 1%'s income share

US

Can, Kor, UK

Ger, Ire, Swi
It, Ja, Por
Asl, Fr, Sp
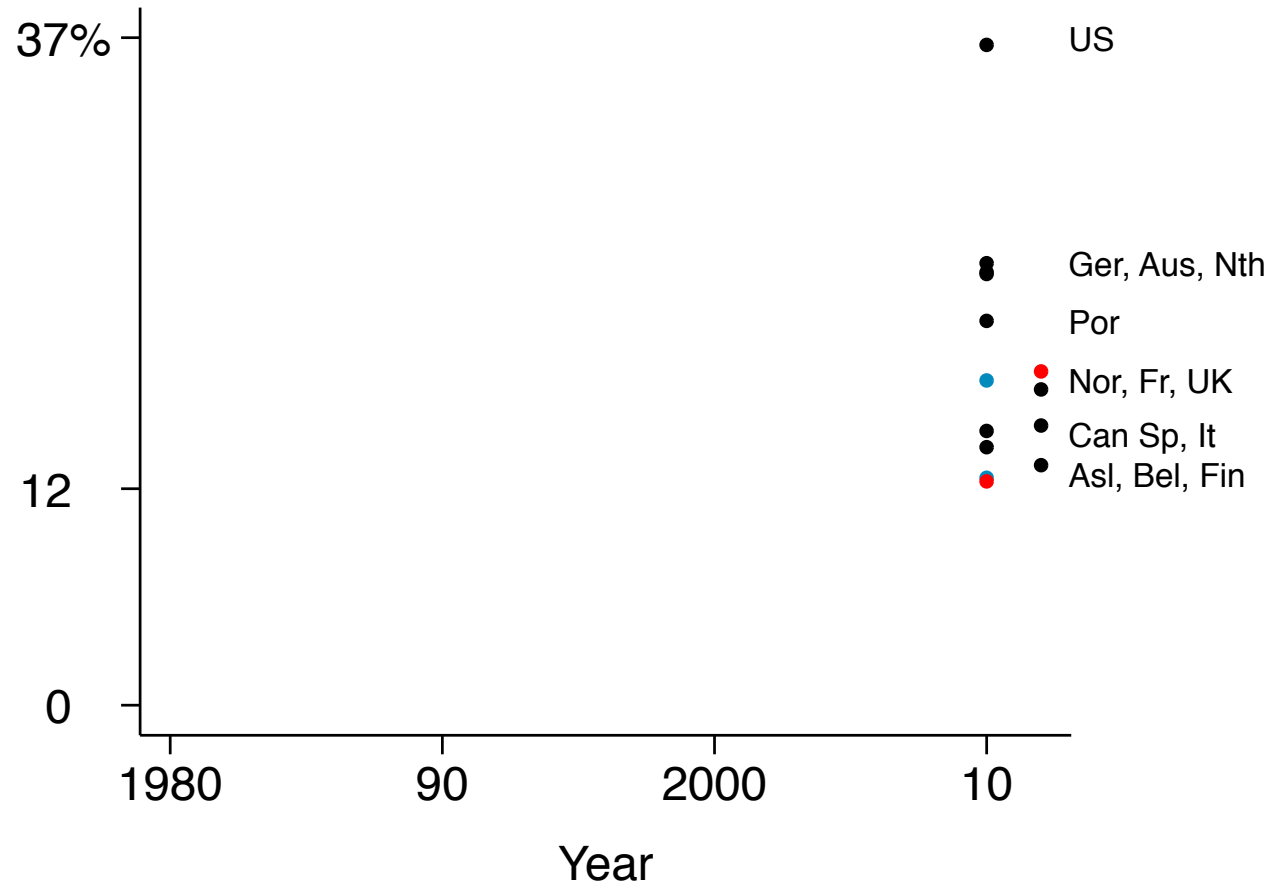NZ, Nor, Swe
Nth, Den, Fin

20%

10

0

1980   90   2000   10

Year

Pretax income. Excludes capital gains. Data source: World Wealth and Income Database. "Asl" is Australia.

Wealth inequality

Top 1%'s wealth share

37% –

● US

● Ger, Aus, Nth

● Por

● ● Nor, Fr, UK

● ● Can Sp, It
● ● Asl, Bel, Fin

12 –

0 –

1980   90   2000   10
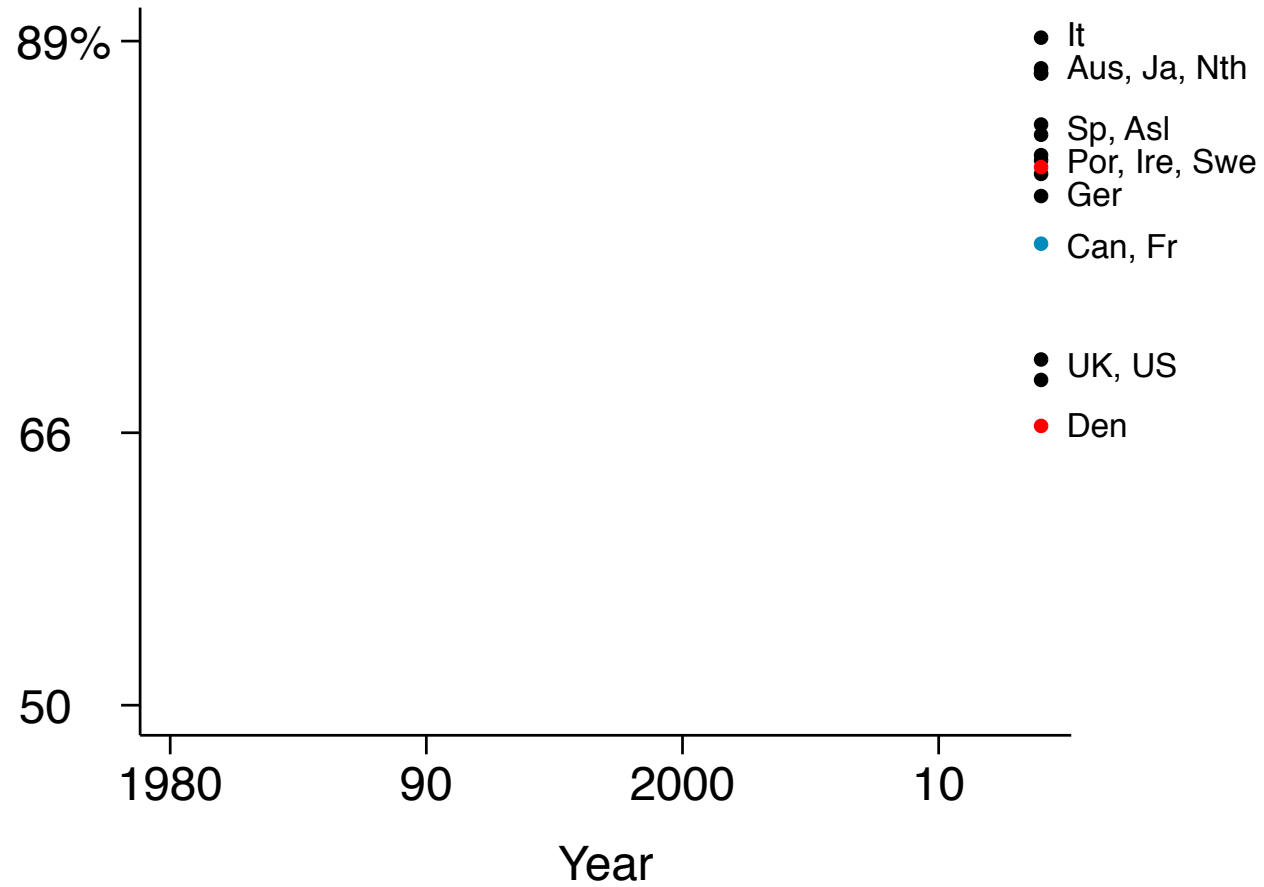
Year

Wealth = assets minus liabilities. Data source: OECD. "Asl" is Australia; "Aus" is Austria.

Family

Children living in two-parent families

89% • It
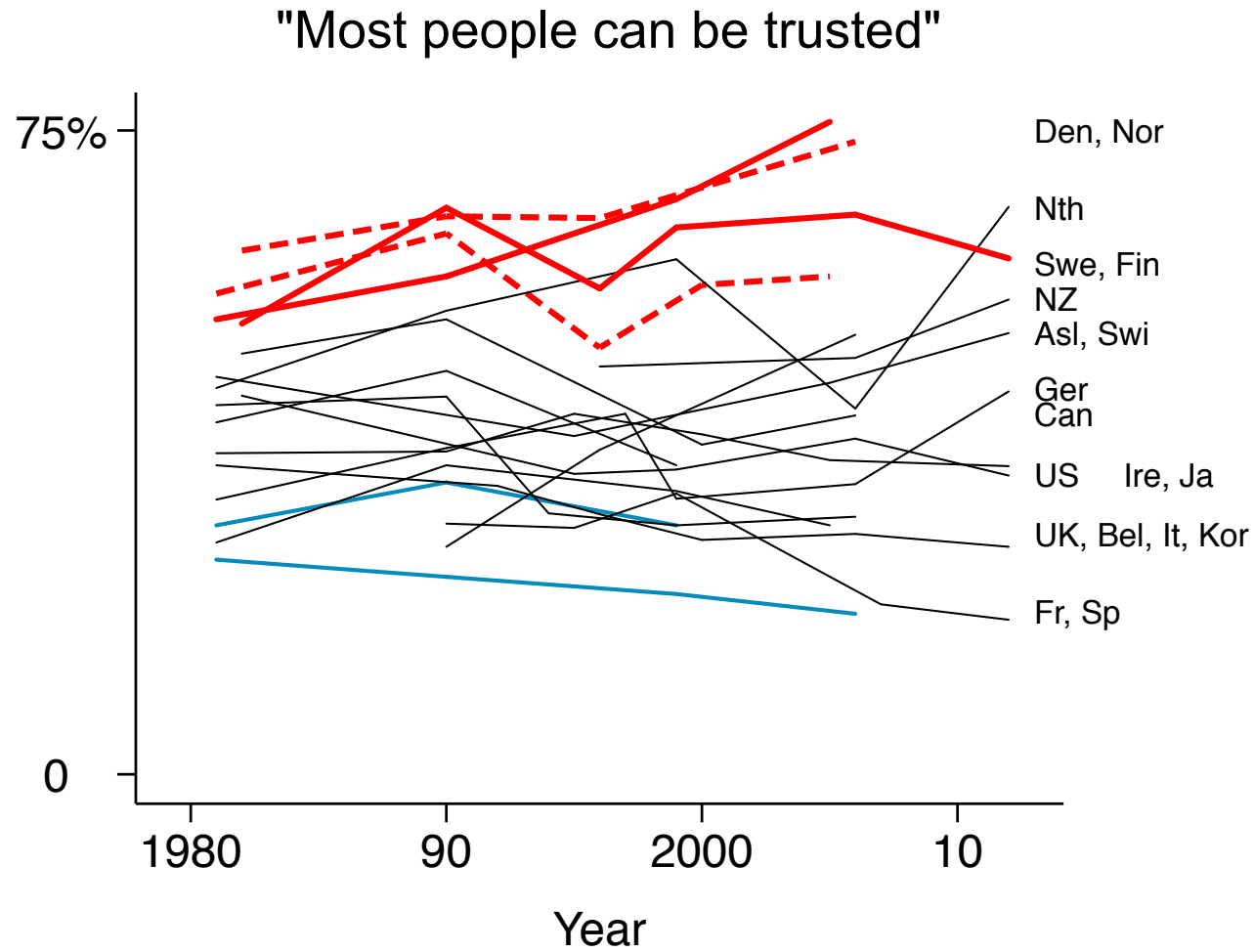   • Aus, Ja, Nth

     • Sp, Asl
     • Por, Ire, Swe
     • Ger

     • Can, Fr

     • UK, US

66   • Den

50

1980   90   2000   10

Year

Civic engagement

Active member of a voluntary organization

18% —
- Can
- NZ

- UK
- Swi
- Asl, US

- Nth, Nor
- Swe, Fin
- Fr
- Ger, It
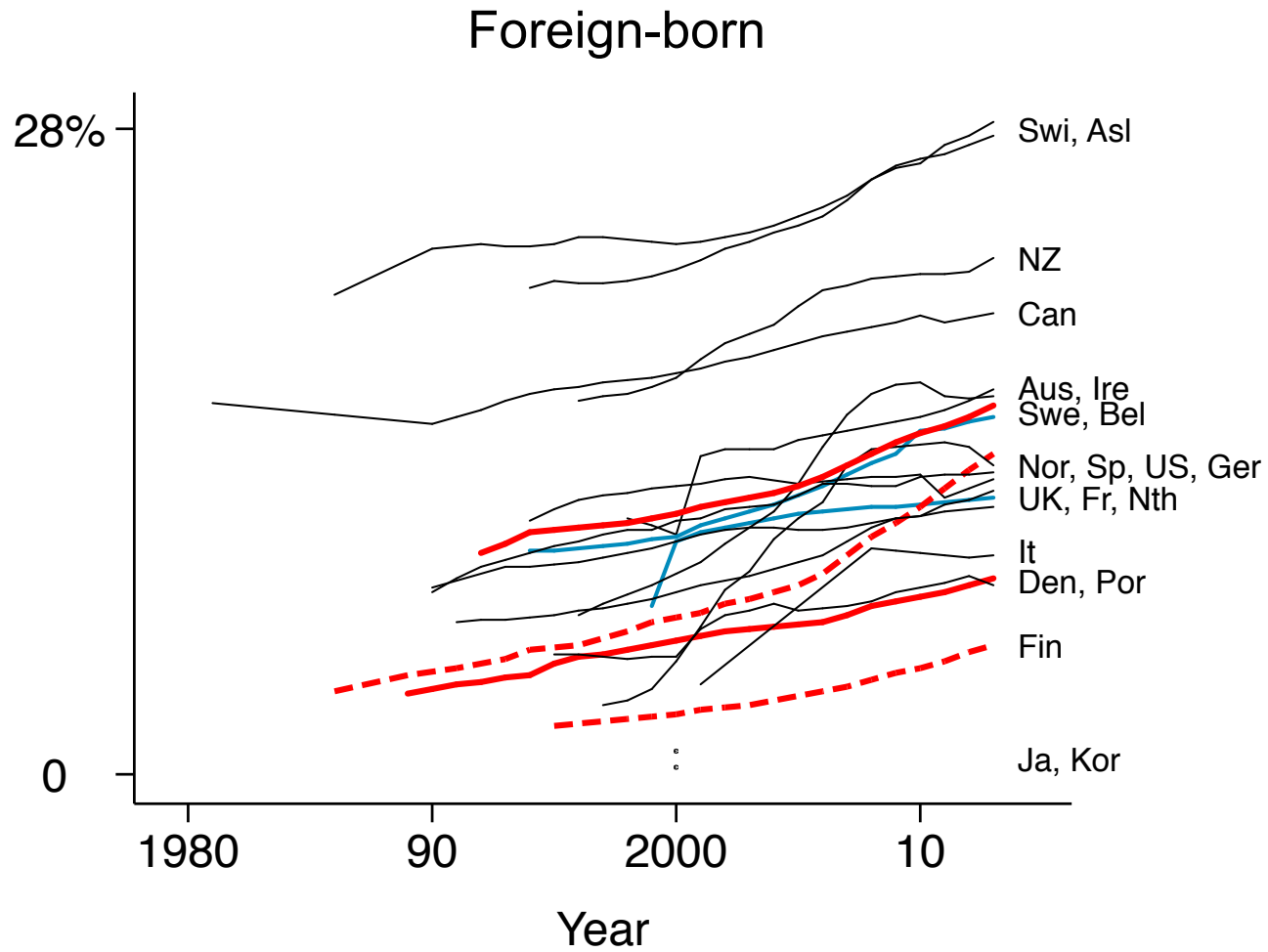- Kor
- Ja
- Sp

0 —

1980   90   2000   10

Year
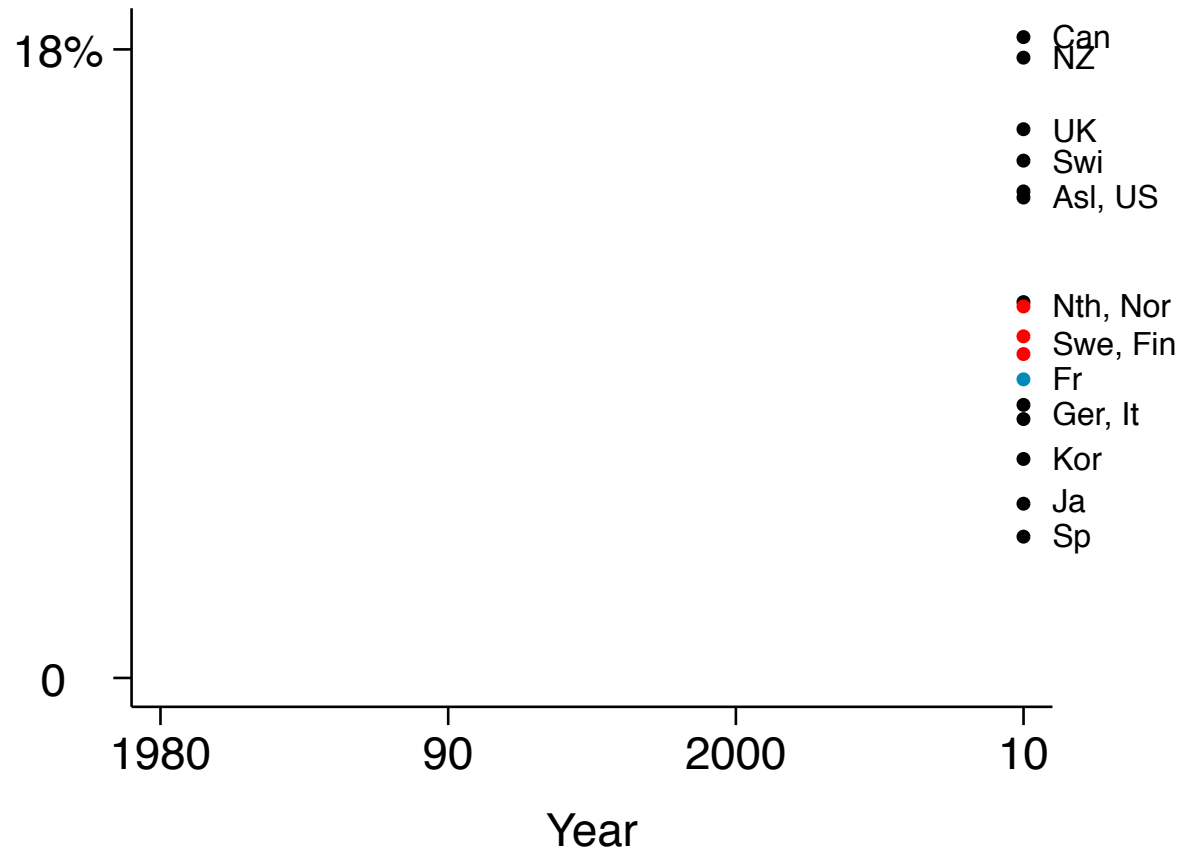
Average for 8 types of organization: sports-recreation, religious, art-music-education, charitable, professional, labor union, environment, consumer. Question: "Now I am going to read off a list of voluntary organizations. For each organization, could you tell me whether you are an active member, an inactive member or not a member of that type of organization?" Response options: active member, inactive member, not a member. Data source: World Values Survey, worldvaluessurvey.org. "Asl" is Australia.

Trust

"Most people can be trusted"

Den, Nor

Nth

Swe, Fin
NZ
Asl, Swi

Ger
Can

US   Ire, Ja

UK, Bel, It, Kor

Fr, Sp

75%

0

1980   90   2000   10

Year

Share of adults who believe most people can be trusted. Question: "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?" Data source: World Values Survey. "Asl" is Australia; "Aus" is Austria.

Immigration

Foreign-born

28%

Swi, Asl

NZ

Can

Aus, Ire
Swe, Bel

Nor, Sp, US, Ger
UK, Fr, Nth

It
Den, Por

Fin

Ja, Kor

0

1980   90   2000   10

Year

Foreign-born share of the population. Includes both legal and illegal immigrants. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
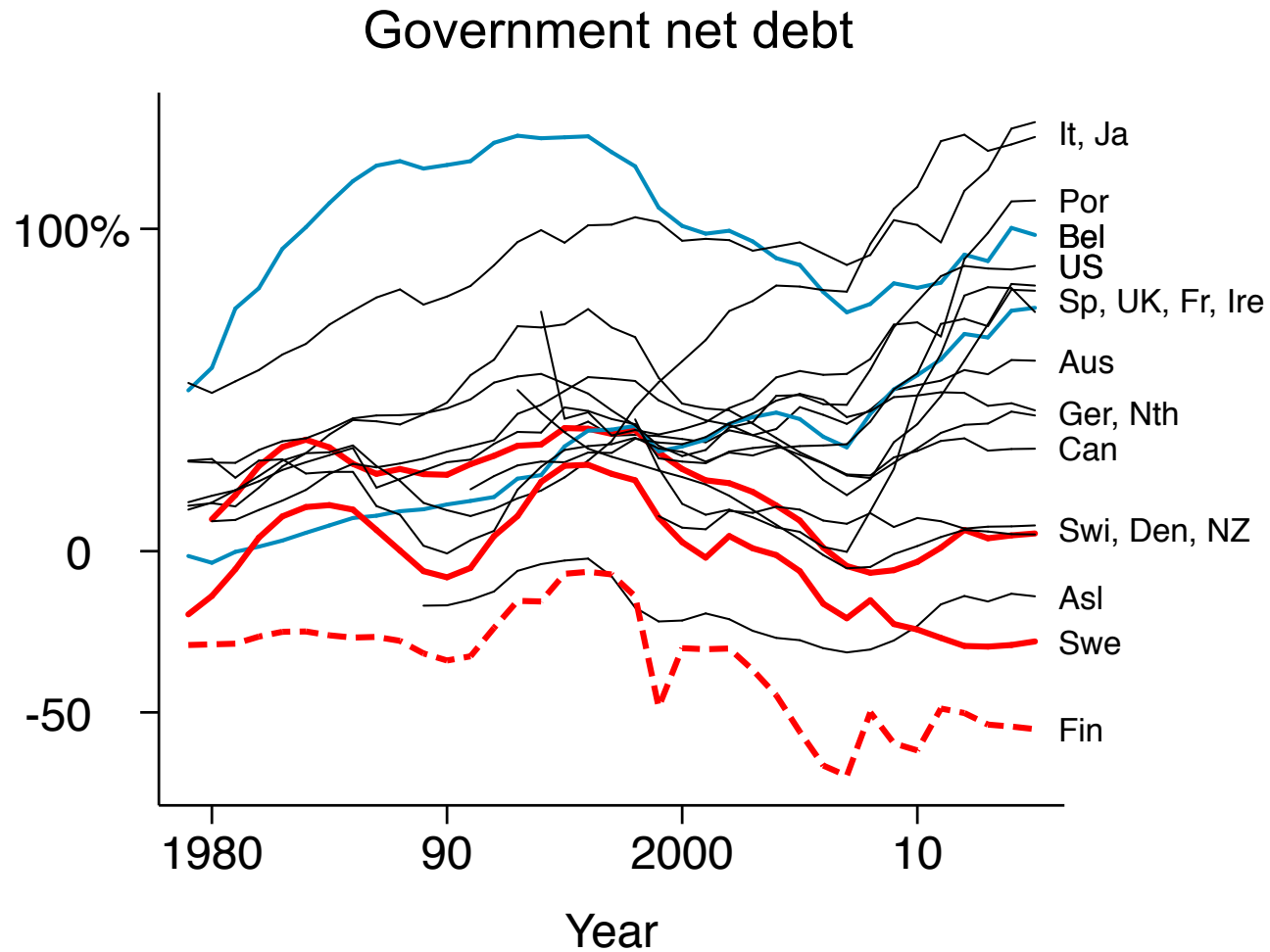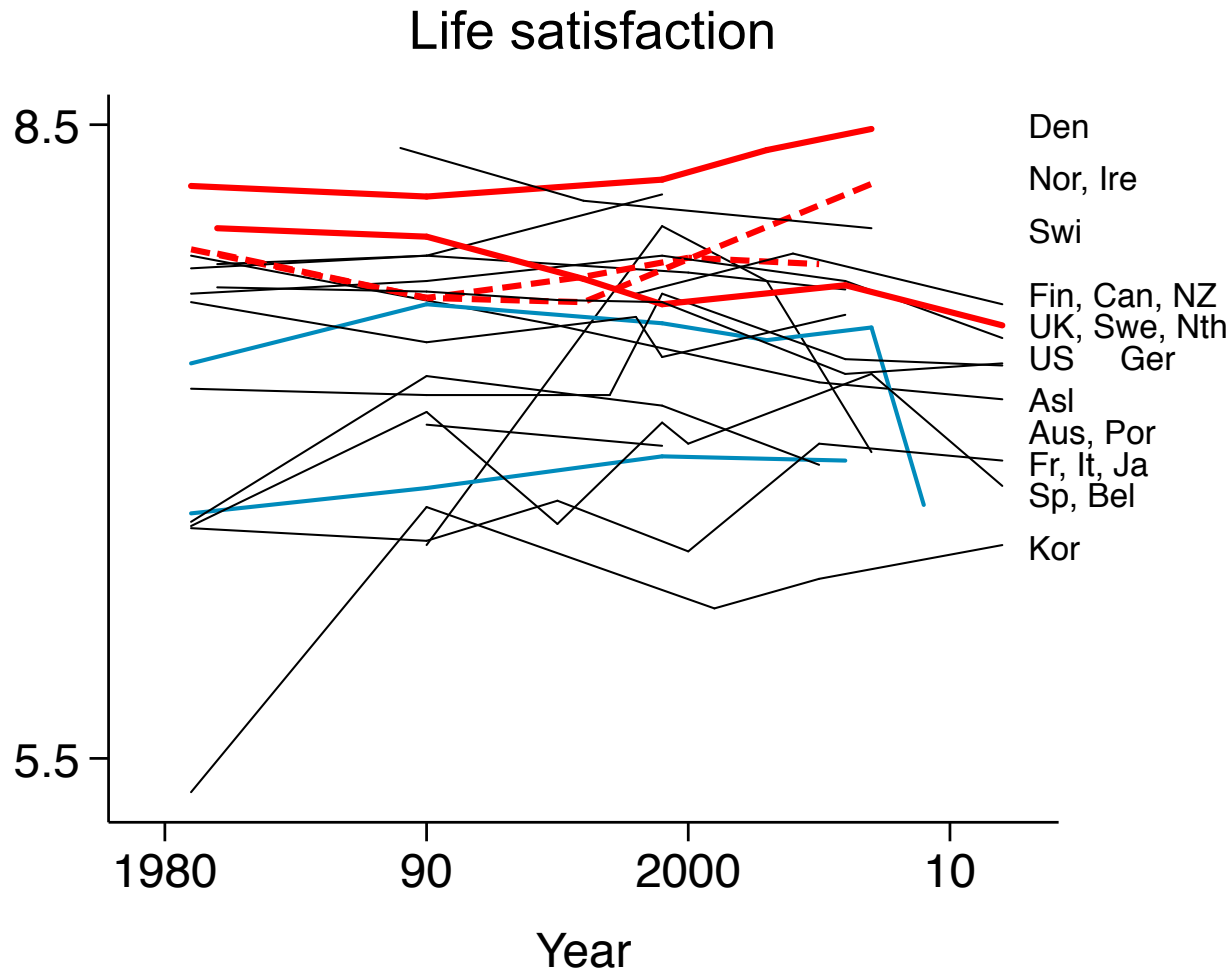
Environment

Carbon dioxide emissions per capita

US   Asl

Can

Kor, Nor

Nth, Ja
Ger, Fin, Bel

Ire, NZ, Aus, UK, Den

It
Fr, Sp, Swi, Swe, Por

Year
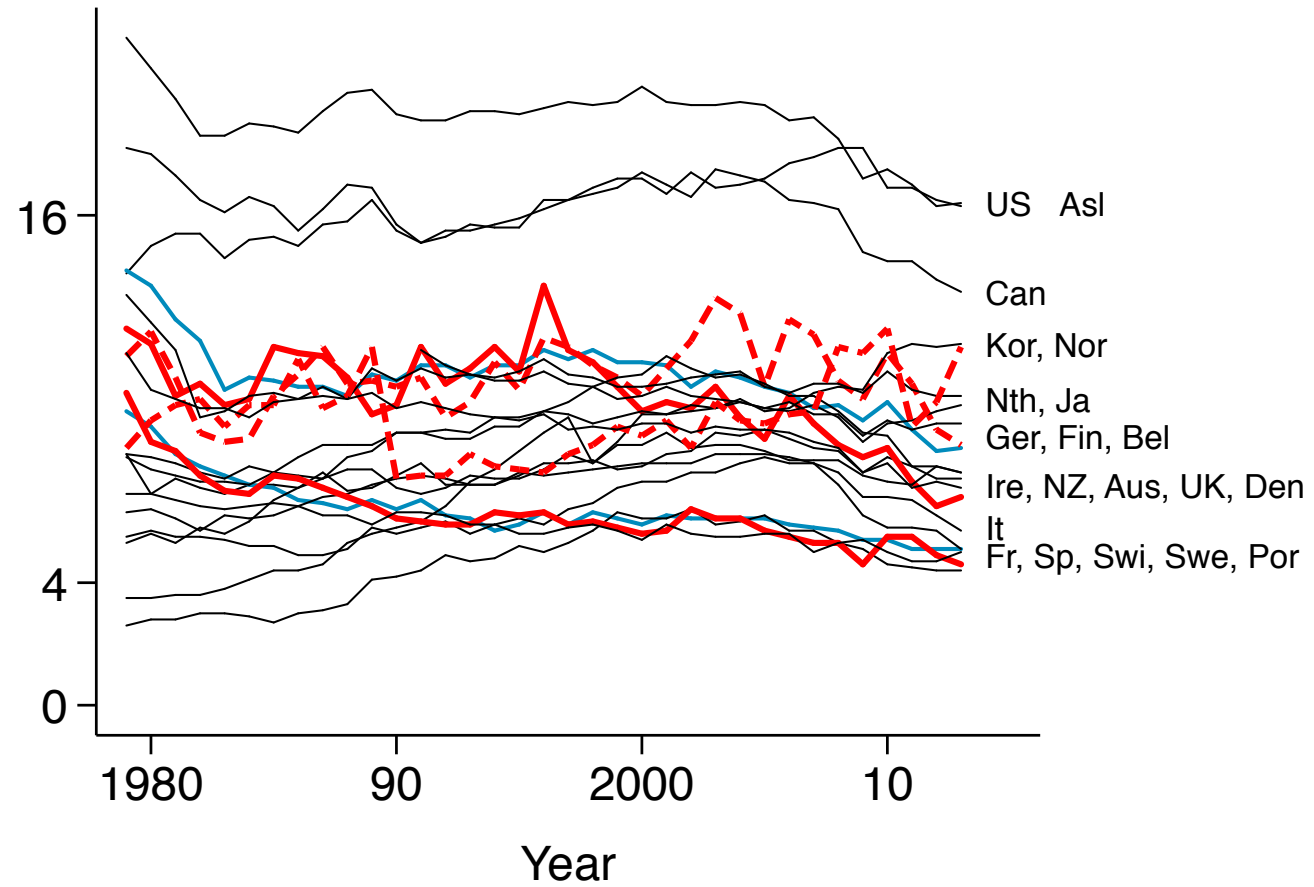
Metric tons per person. Data source: World Bank. "Asl" is Australia; "Aus" is Austria.

Government debt

Government net debt

- It, Ja
- Por
- Bel
- US
- Sp, UK, Fr, Ire
- Aus
- Ger, Nth
- Can
- Swi, Den, NZ
- Asl
- Swe
- Fin

Government financial liabilities minus government financial assets, measured as a share of GDP. Higher on the vertical axis indicates larger debt. Data source: OECD. Norway, which has a negative net debt of better than 200% of GDP, is omitted.

Happiness

Life satisfaction

Den

Nor, Ire

Swi

Fin, Can, NZ
UK, Swe, Nth
US   Ger

Asl
Aus, Por
Fr, It, Ja
Sp, Bel

Kor

Scale from 1 (completely dissatisfied) to 10 (completely satisfied). Question: "All things considered, how satisfied are you with your life as a whole these days?" The vertical axis doesn't begin at zero. Data source: World Values Survey, via the World Database of Happiness, series 122F. "Asl" is Australia; "Aus" is Austria.

My conclusion

My conclusion

The available evidence is consistent with the hypothesis that *social democratic capitalism is superior at producing an "expanded Rawlsian" result*

- Better on economic security

- Better on distribution favoring the least well-off

- Better on equality of opportunity (probably)

- Better on employment

- Average on economic growth

- Average or better on most other goals

Questions, objections, caveats

Questions, objections, caveats

What about the policy details?

Should early education be universal? Targeted to the poor? "Targeted" to poor plus middle?

Should paid parental leave be for six months or one year? Should it include a "daddy quota"?

Should there be a statutory minimum wage? If so, how high?

Should low market income be supplemented by an employment-conditional earnings subsidy?

Questions, objections, caveats

Is an "expanded Rawlsian" result really what we want? P75 household incomes:
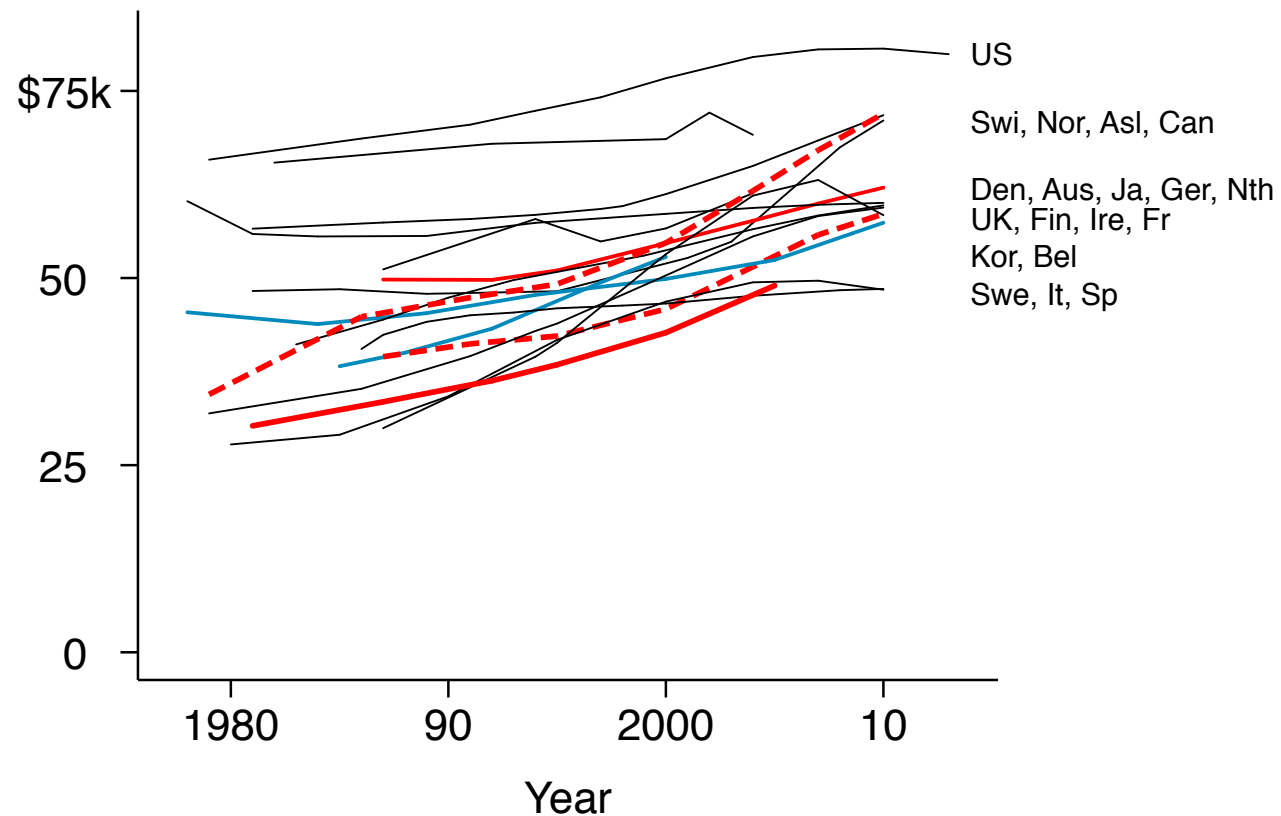
Questions, objections, caveats

Is an "expanded Rawlsian" result really what we want?

Note that the upper middle class in the Nordic countries gets nearly-free health care, child care/preschool, and college

Questions, objections, caveats

How accurate and comparable are the equality of opportunity (intergenerational mobility) data?

Questions, objections, caveats

Does the Nordic countries' success owe to luck?

Unlikely: key parts of the model have been in place for half a century (1965ff)

Questions, objections, caveats

Does the Nordic countries' success owe to the *coherence* of their institutions and policies?

Unlikely:

Their configuration hasn't been more coherent than Germany, Japan, the US, and others

Their institutions and policies have changed over time

In other analyses, I've found no association between coherence and economic performance

Questions, objections, caveats

Can the model yield good outcomes without strong unions, high trust, ethnic homogeneity, and small country size?

Difficult to test, because we don't have real-world cases

These probably contribute indirectly, via good policy and policy adjustment

It isn't clear how much, if at all, they matter as direct causes of good outcomes
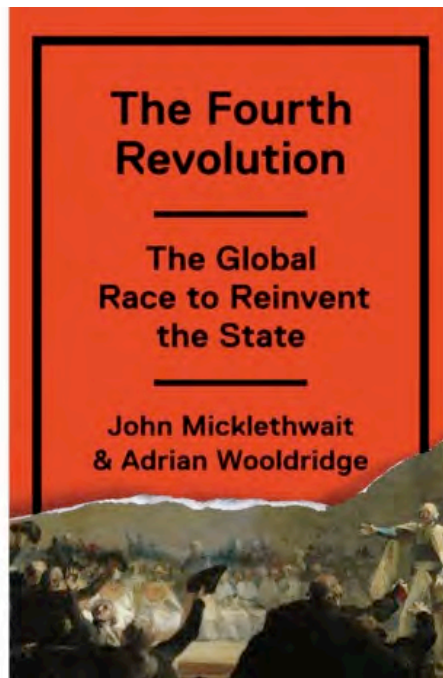
Questions, objections, caveats

Can the model yield good outcomes without effective government?

Nordic governments have been adept at experimenting and adjusting ("The streets of Stockholm are awash with the blood of sacred cows")

Yet they've also made policy mistakes — overshooting welfare state generosity, Sweden's rapid reduction in capital controls coupled with austerity in the early 1990s
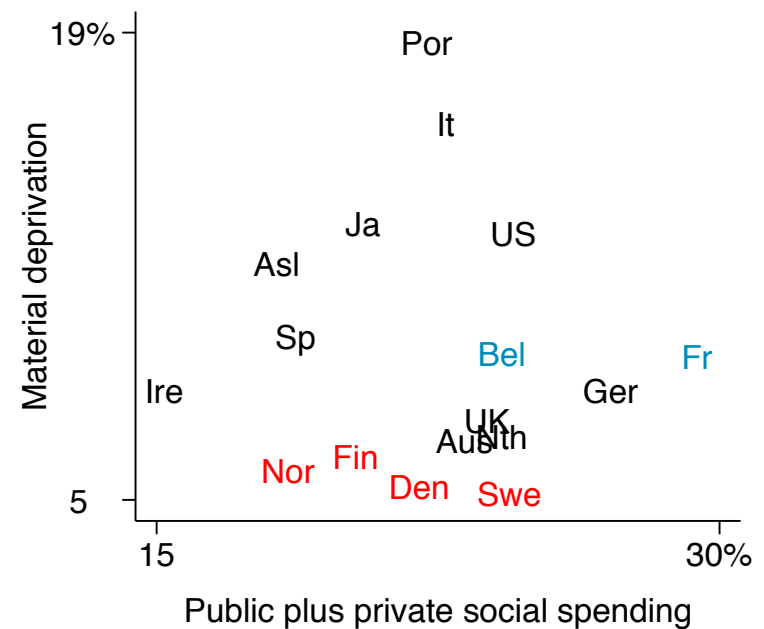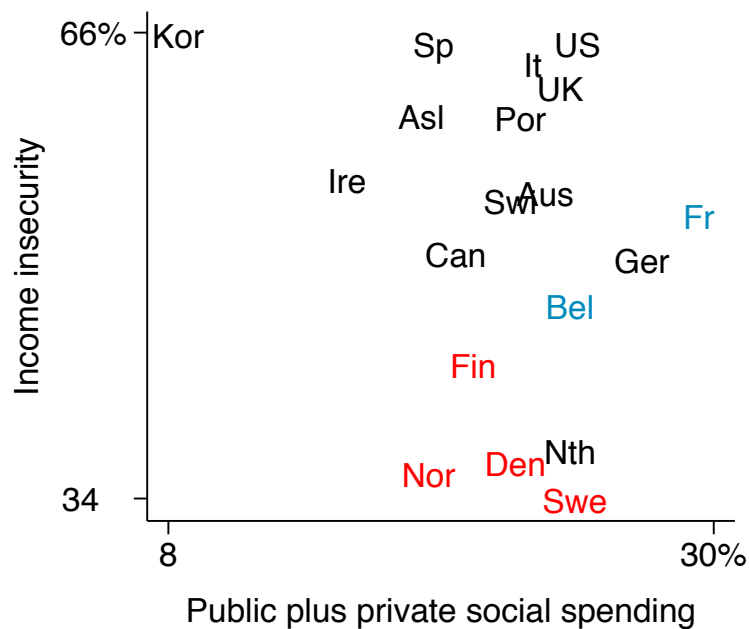
Questions, objections, caveats

"It's not about big government. It's about *smart* government."

Questions, objections, caveats

"It's not about big government. It's about *smart* government."

Questions, objections, caveats

Will the model succeed in the more flexible-precarious labor market we're moving toward?

Likely yes:

Benefits provided by government and funded by taxes rather than by provided by employers and funded by contributions

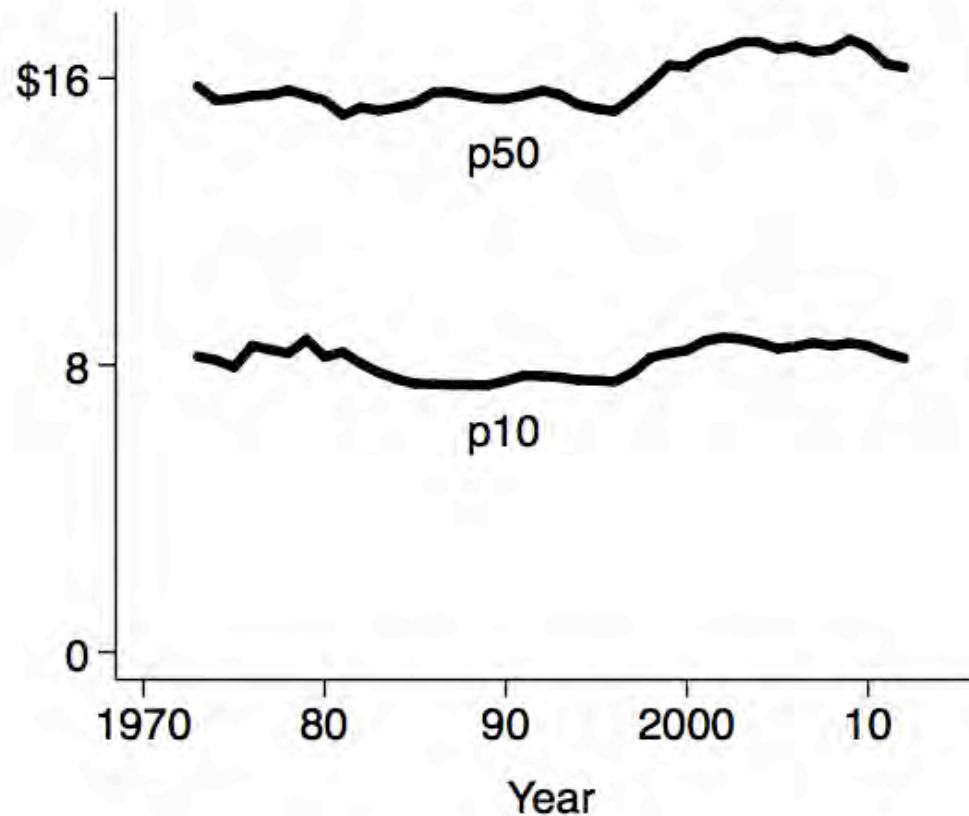Supports for employment, including work-family balance

Questions, objections, caveats

There are three major risks social democratic capitalism doesn't currently insure against

1. Wage stagnation

2. Decline of good jobs in small cities/towns

3. Economic and social exclusion of less-skilled immigrants

Questions, objections, caveats

Wage stagnation in the US

Hourly wage at the fiftieth (median) and tenth percentiles of the wage distribution. 2012 dollars; inflation adjustment is via the CPI-U-RS. Data source: Economic Policy Institute, "Wages Deciles," *The State of Working America*, using Current Population Survey (CPS) data.

Questions, objections, caveats

Slow income growth in the US
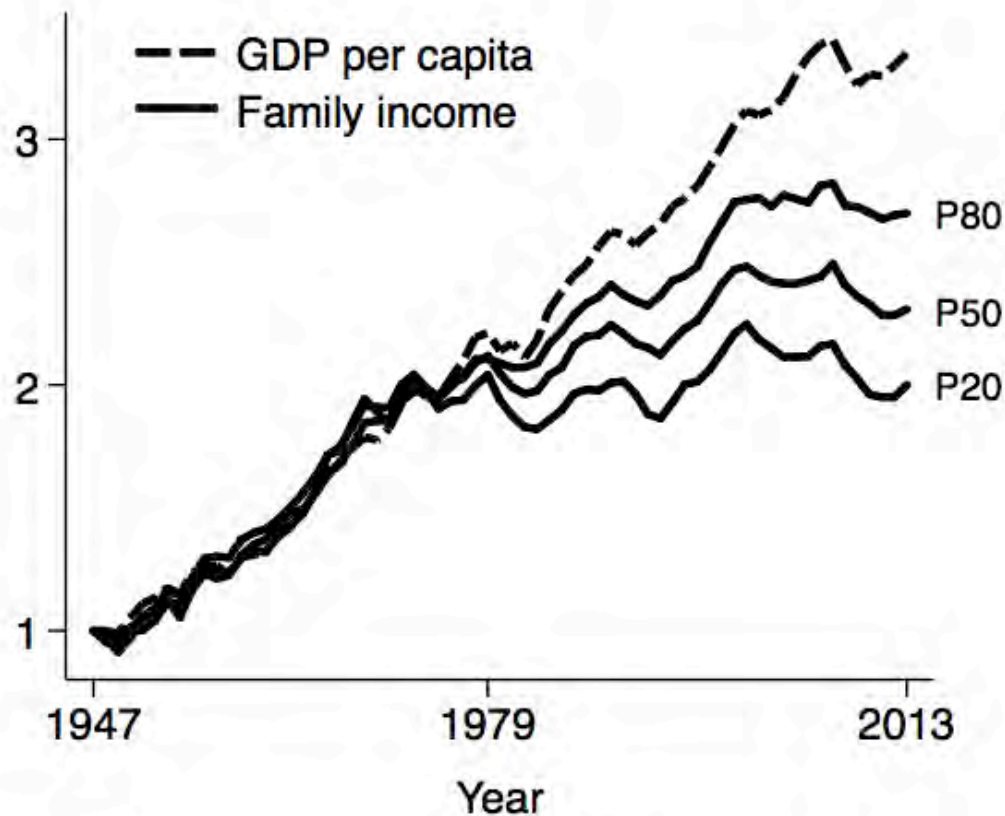
Each series is displayed as an index set to equal 1 in 1947. The family income data are posttransfer-pretax. Inflation adjustment for each series is via the CPI-U-RS. Data sources: Bureau of Economic Analysis, "National Income and Product Accounts Tables," table 1.1.5; Census Bureau, "Historical Income Data," tables F-1 and F-5..

Questions, objections, caveats

Strong unions have prevented wage stagnation in many countries, but unions are weakening nearly everywhere

Two possible solutions

Heavy regulation of wages (France extension, Australia tribunals)

An EITC that rises in sync with GDP per capita (also more generous and individualized)
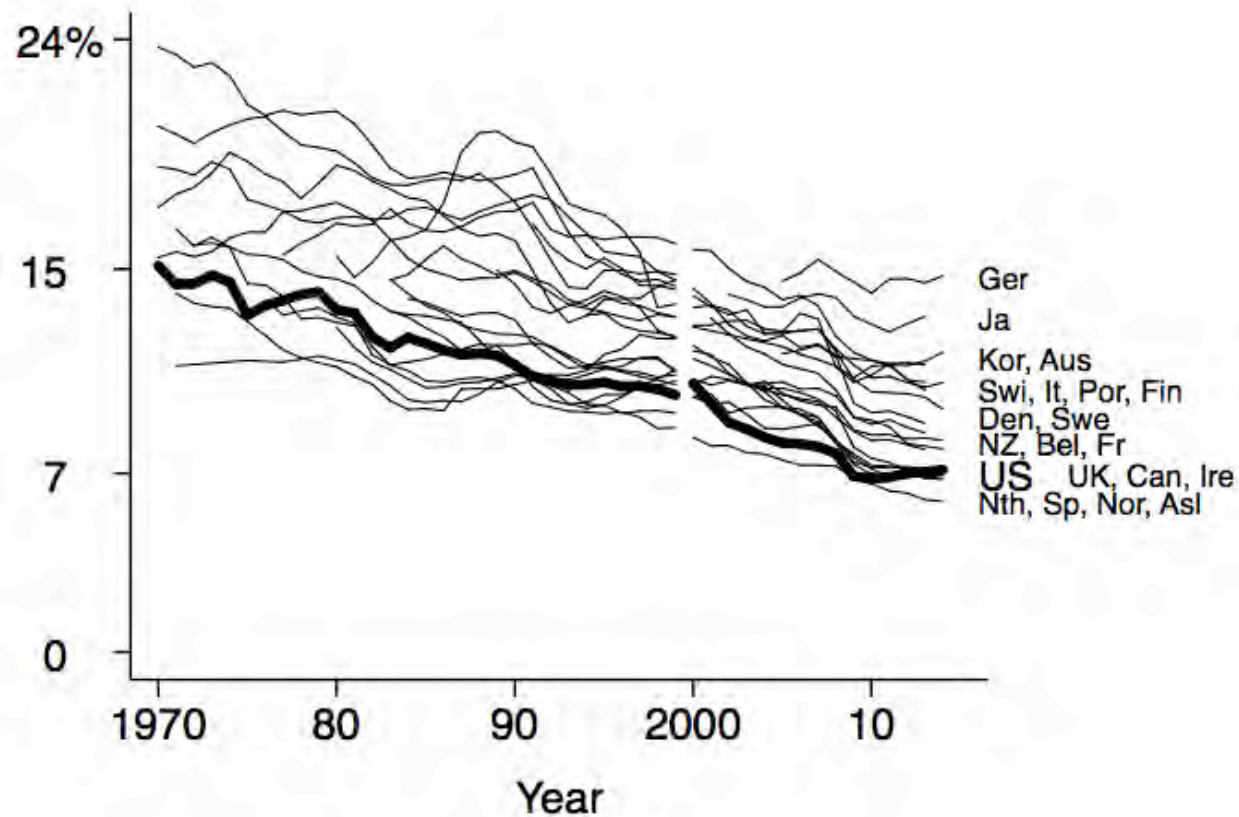
Questions, objections, caveats

Decline of good jobs in small cities/towns

Lifetime jobs with a middle-class paycheck for persons without a four-year college degree

Most such jobs are in manufacturing or supported by it

Questions, objections, caveats

Decline of manufacturing employment

Manufacturing employment share of the pop age 15-64. The break in the data series is due to a change in measurement. Data source: OECD.

Questions, objections, caveats

Decline of good jobs in small cities/towns

This, arguably, is what yielded Donald Trump's wins in Ohio, Pennsylvania, Michigan, and Wisconsin

It's surely part of the reason why he won among whites without a four-year college degree by almost 40 percentage points (according to exit poll data)

Questions, objections, caveats

Decline of good jobs in small cities/towns

What to do?

Education, (re)training

Infrastructure investment

Job guarantee (but not place guarantee)

Assistance with moving out or incentives for in-migration (including by immigrants)

Questions, objections, caveats

Economic and social exclusion of less-skilled immigrants

Questions, objections, caveats

Might other not-yet-tried institutions and policies do even better than social democratic capitalism?

Basic income

Economic democracy

Social Democratic Capitalism

Lane Kenworthy