Social Democratic Capitalism

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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
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
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?

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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 \(\downarrow\) income insecurity

Having a second earner in the household helps
Distribution favoring the least well-off
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
Employment
Employment

Employment rate

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

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.
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

Year

1980  90  2000  10

50  100%

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.
Years of life expectancy at birth. The vertical axis doesn't begin at zero. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
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.
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.
Homicides per 100,000 population. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
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

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

Year

Wealth inequality

Top 1%'s wealth share

Year

1980 90 2000 10

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

Children living in two-parent families

Year

Data source: OECD.
Civic engagement

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.
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 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

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

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

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.
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Questions, objections, caveats
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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."
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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

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