

Social Democratic Capitalism

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/ /

My conclusion

The available evidence is consistent with the hypothesis that *social democratic*

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

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

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"

The best exemplars are the Nordic countries,
especially Denmark and Sweden

Which institutions and policies?

Other rich democratic nations

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

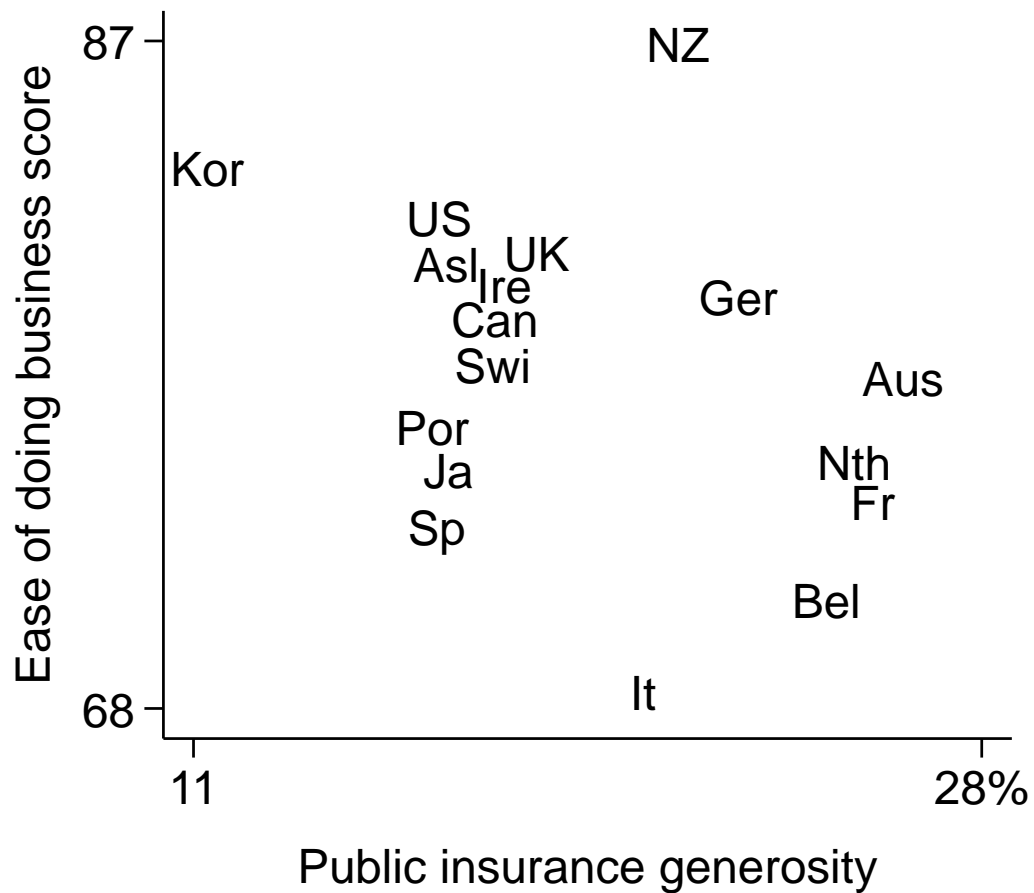
Less employment-oriented public services: all others

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

Which institutions and policies?

A word cloud of country abbreviations. The words are arranged in two main groups. The left group includes UK, Can, Asi, Swi, Ire, Sp, Jpn, Pol, and US. The right group includes Fr, Nth, Ger, Bel, Aus, NZ, and It.

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

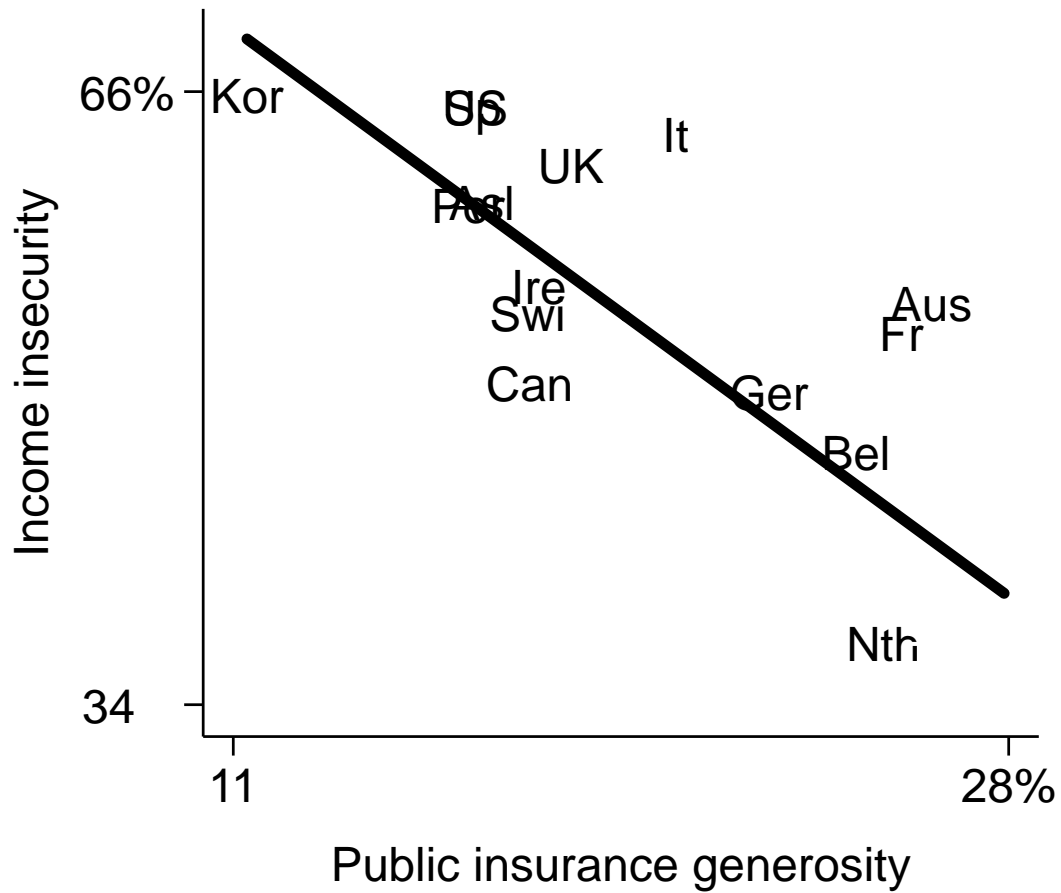
Data: country-level

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 ButD

Public insurance ! income insecurity



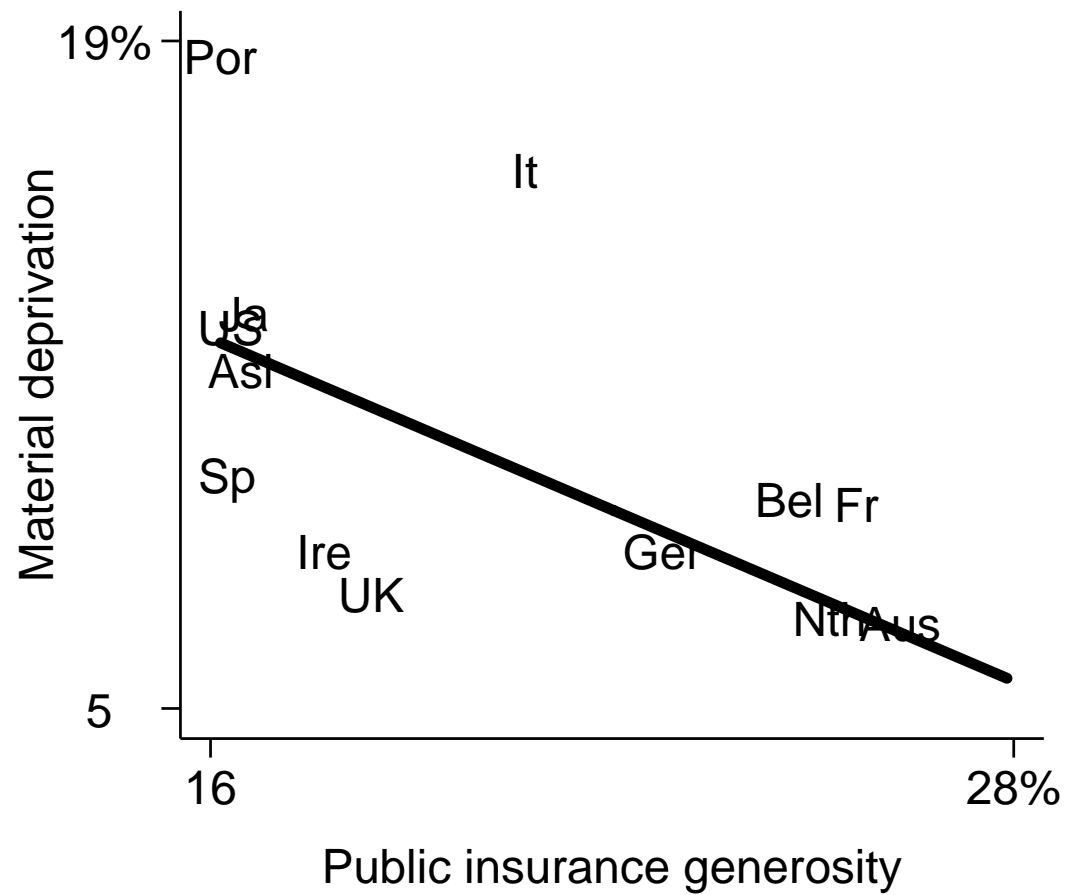
Income insecurity: share of households with a person experiencing a year-to-year earnings decrease of 20% or more in which the household's

High employment ! income insecurity

Having a second earner in the household helps

Distribution favoring the
least well-off

Public insurance ! material hardship



Material hardship: s

Public insurance ! relative poverty

Asl

Can

Ire

Ger

Aus

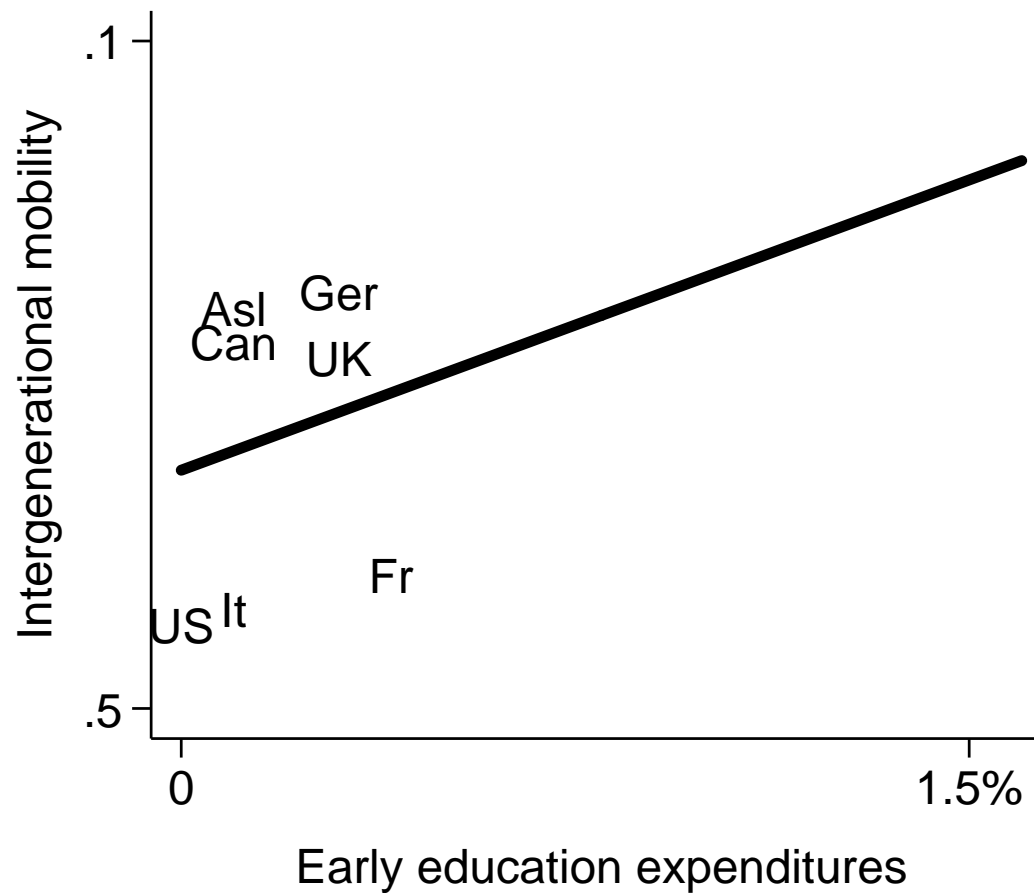
Material hardship and relative poverty

A high employment rate also helps

Equality of opportunity

Public services " intergen mobility

Public services " intergen mobility



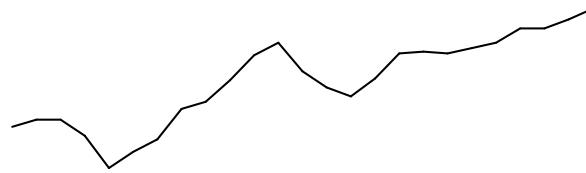
Intergenerational mobility: correlation between the earnings of parents and those of their children, with axis values reversed. Data source: John Ermisch et al, eds., *BBB*, Russell Sage Foundation, 2012, figure 1.1. Early education expenditures: The data are for 1980-95. Data source: OECD, Social Expenditures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

Employment

Employment

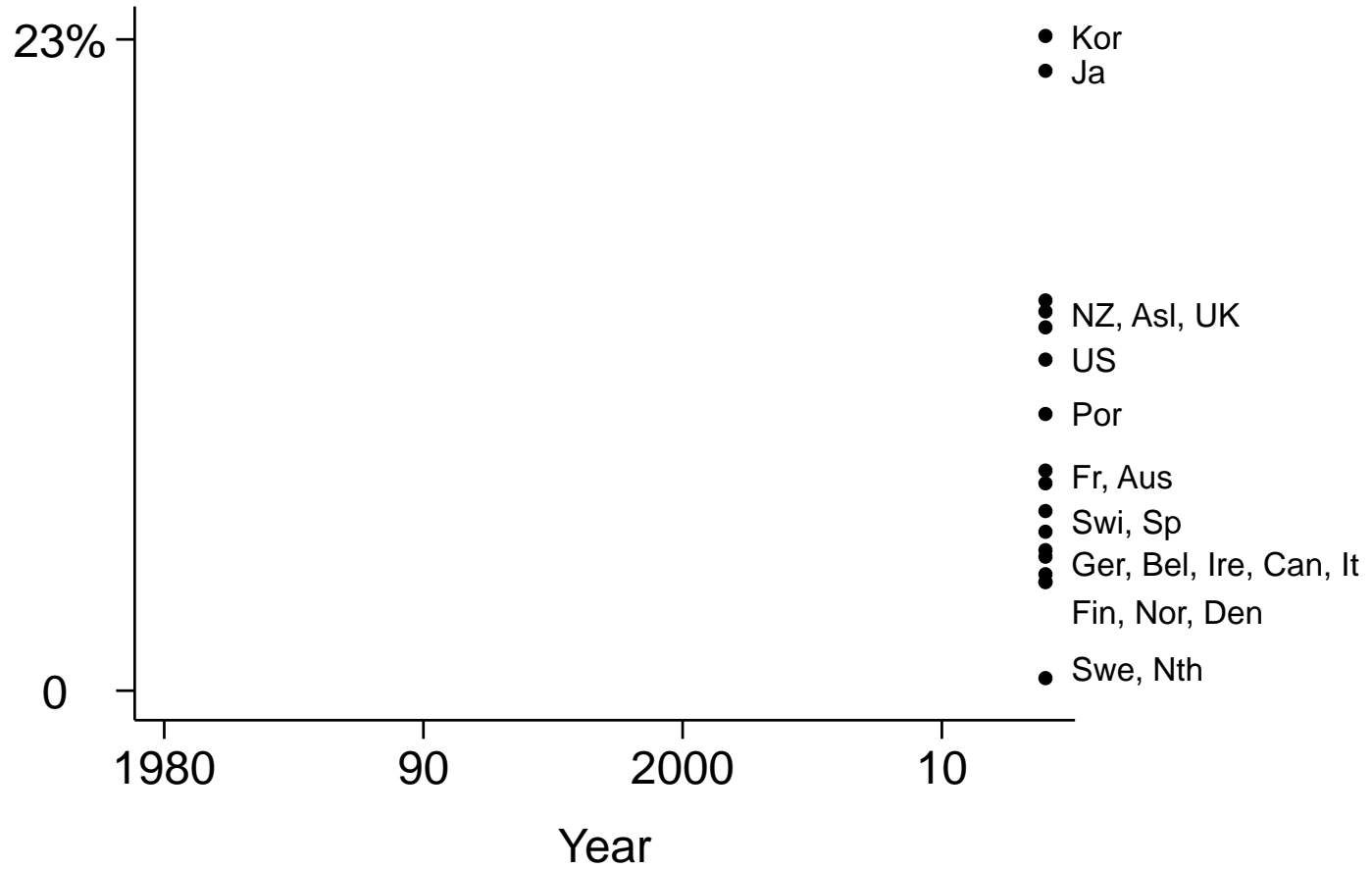
Employment rate

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Employment

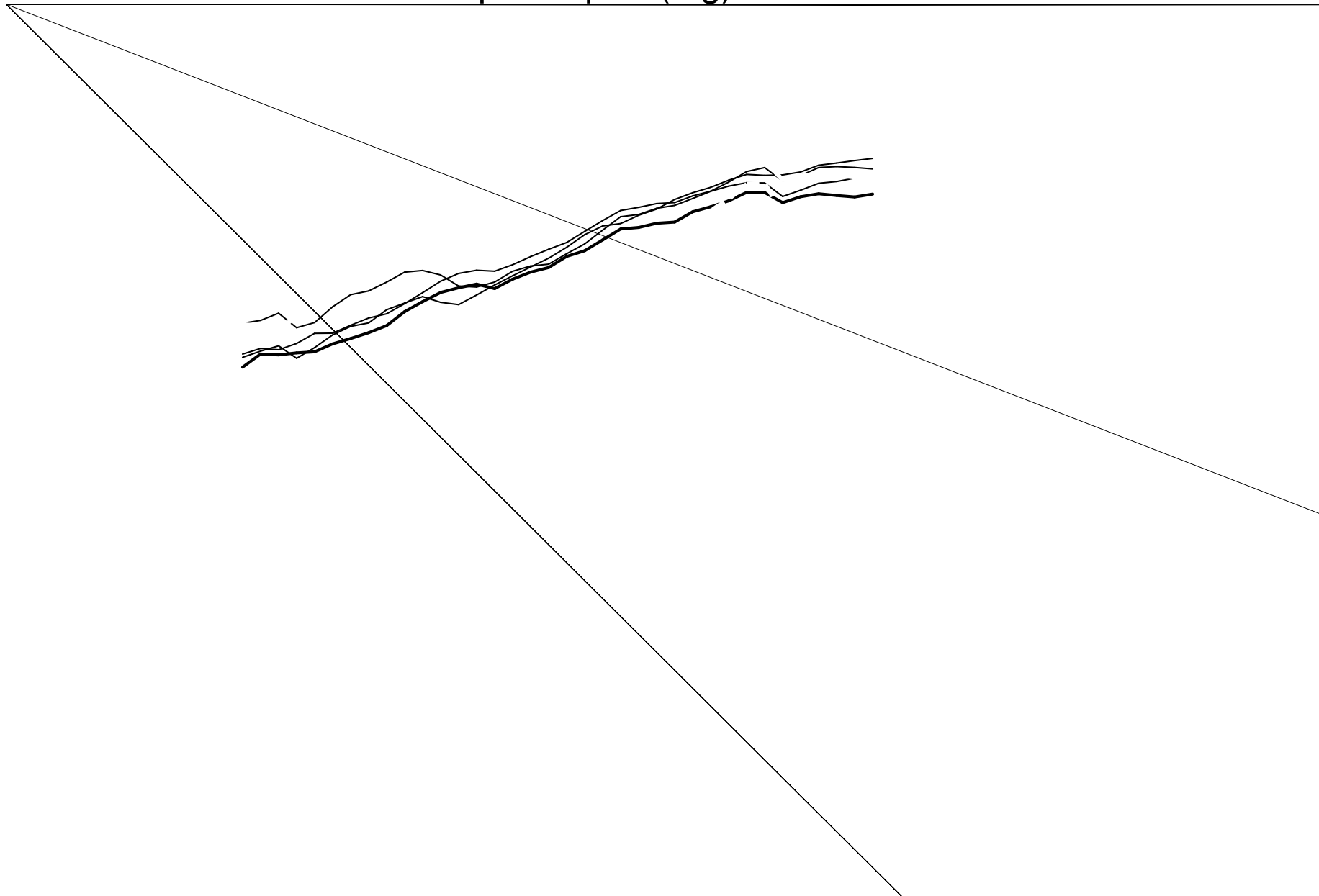
Work more than 50 hours per week



Economic growth

Economic growth

GDP per capita (log)



Innovation

Innovation rank

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Economic growth

Social democratic capitalism could be for

Other goals

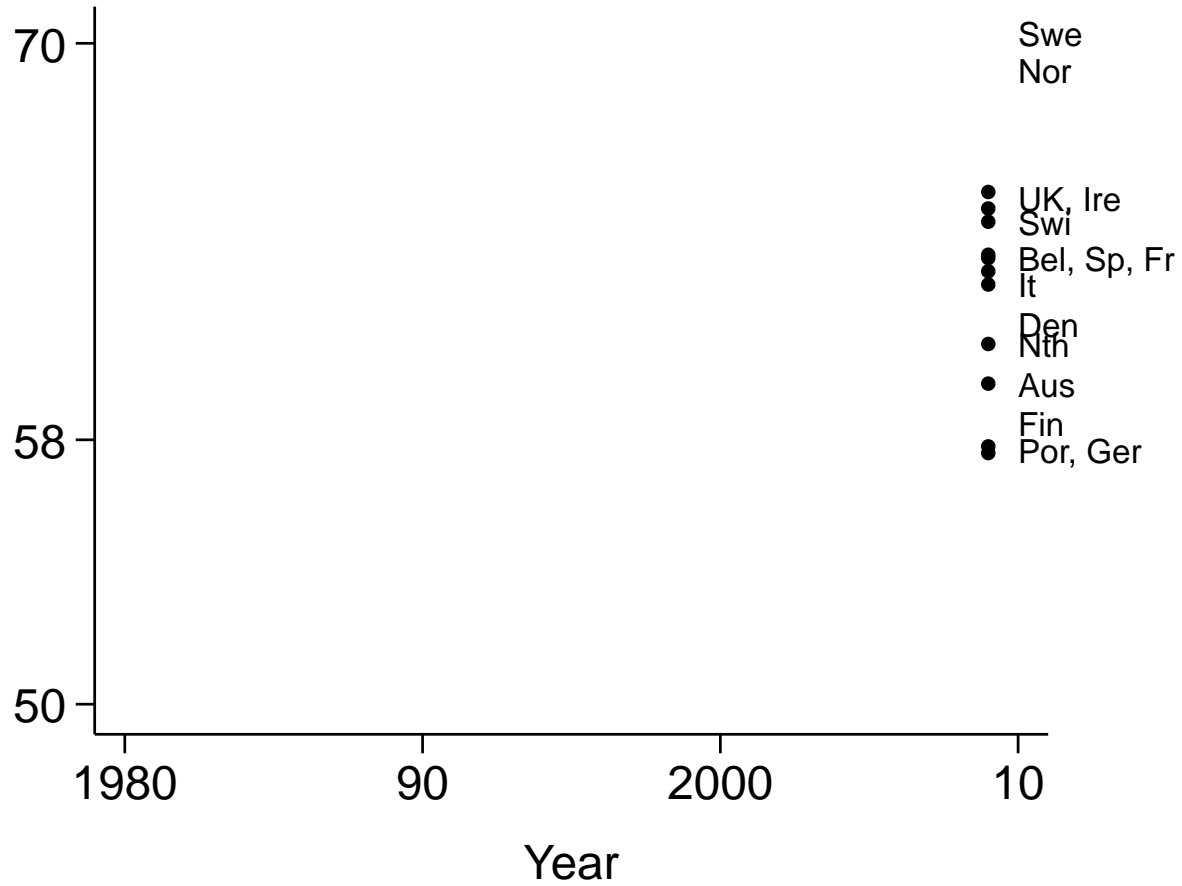
Freedom

Health

Life expectancy

Health

Healthy life expectancy



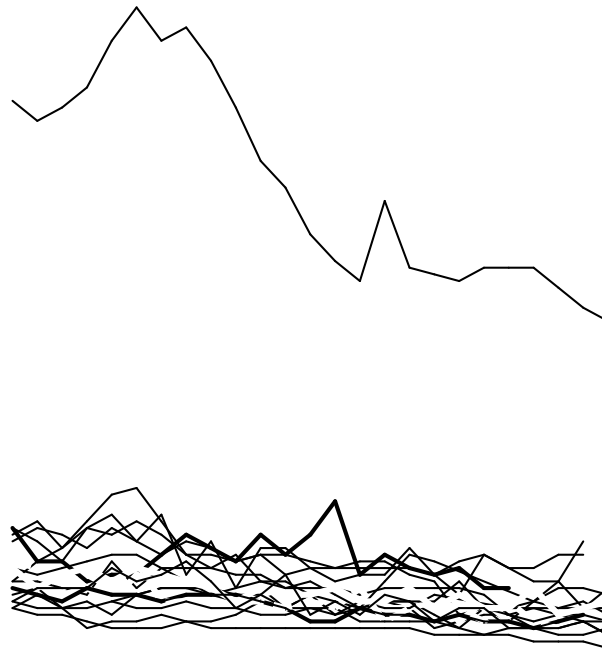
Expected years of life without limitations on usual activities. A

Education

College degree

Safety

Homicides



Safety

Feel safe walking alone at night

Income inequality

Top 1%'s income share

Family

Children living in two-parent families

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Civic engagement

Active member of a voluntary organization

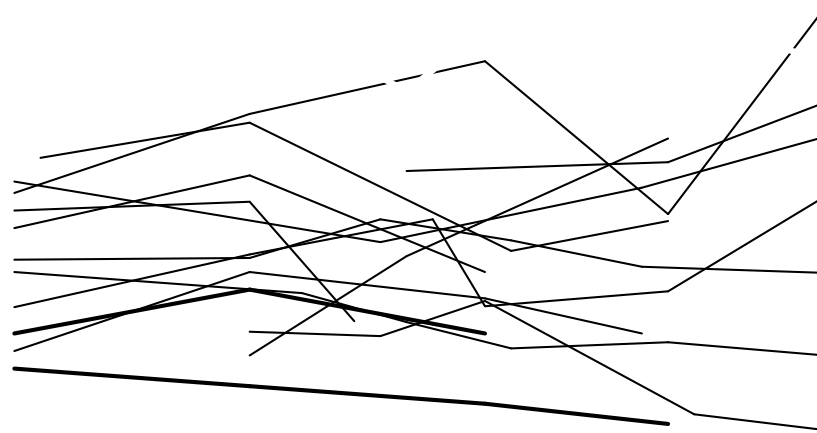
- Can
- NZ
- UK
- Swi
- Asi, US

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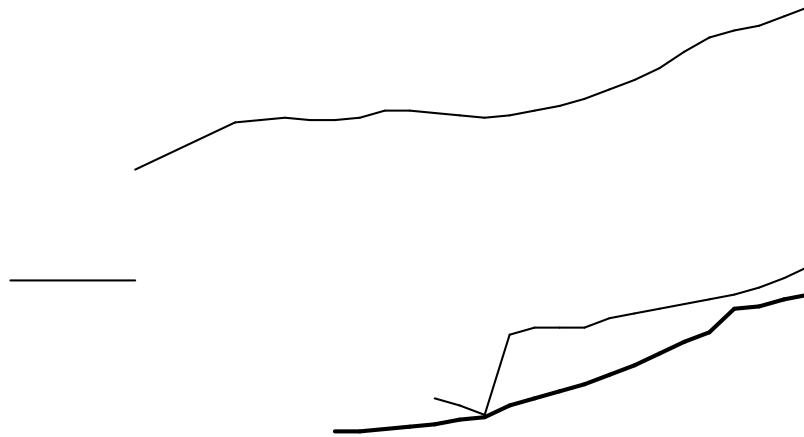
Trust

"Most people can be trusted"



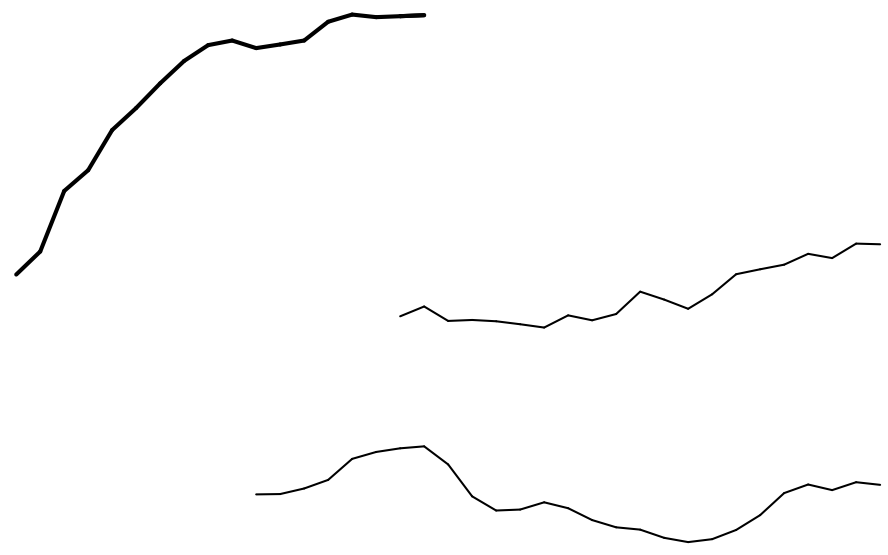
Immigration

Foreign-born



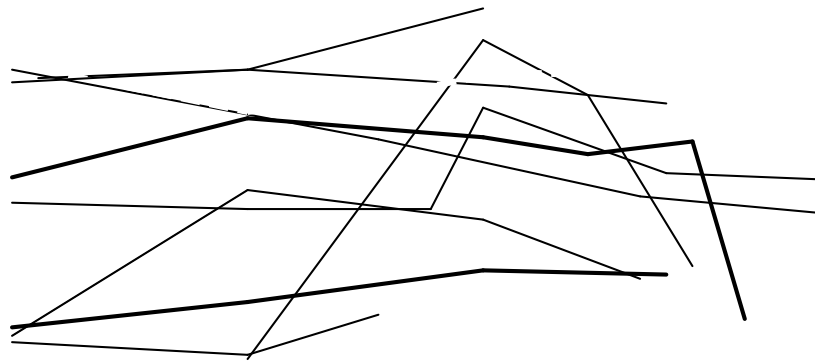
Government debt

Government net debt



Happiness

Life satisfaction



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

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

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

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")

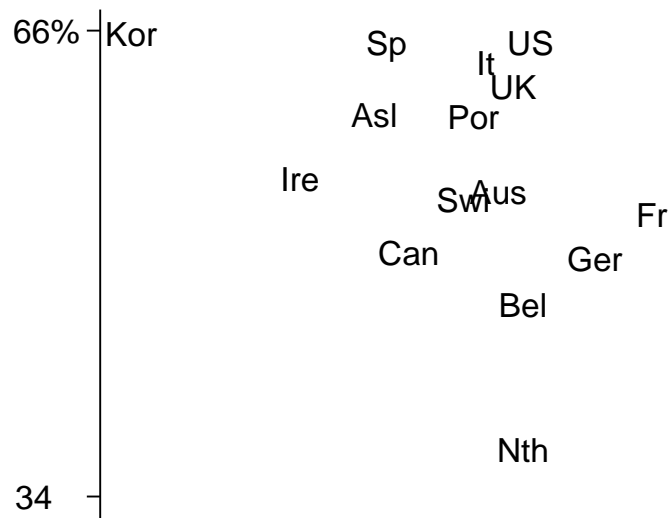
Yet they've also made policy mistakes — overshooting welfare state generosity, Sweden's rapid reduction in capital controls coupled with austerity in the early 1990s

Questions, objections, caveats

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

Questions, objections, caveats

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

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," ~~2014~~, using Current Population Survey (CPS) data.

Questions, objections, caveats

Slow income growth in the US

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

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