

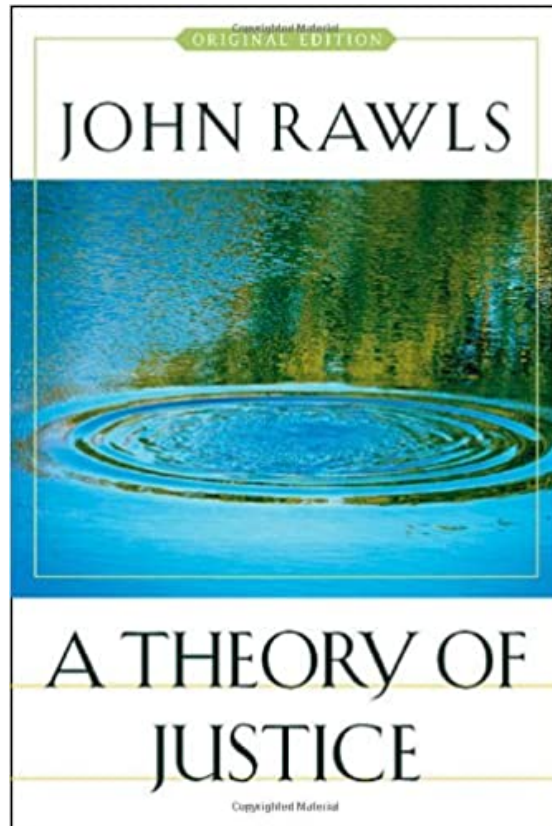
SOCIAL

DEMOCRATIC

CAPITALISM

Lane Kenworthy

Outcomes we want: "expanded Rawls"



Basic liberties (political and personal)

The best possible standard of living for the least well-off

Equality of opportunity

Today Rawls likely would add income security

Hypothesized means to those ends: social democratic capitalism

1. Political democracy
2. Capitalism: private ownership, markets
3. Good K-12 schooling
4. Expansive, generous public insurance
5. Employment-oriented public services: early education, affordable college, retraining, job placement assistance, individualized monitoring and support, lifelong learning
6. Moderate product and labor market regulations

How to identify effects

Data: country-level

Preferred test: quasi-experiment (difference in differences)

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

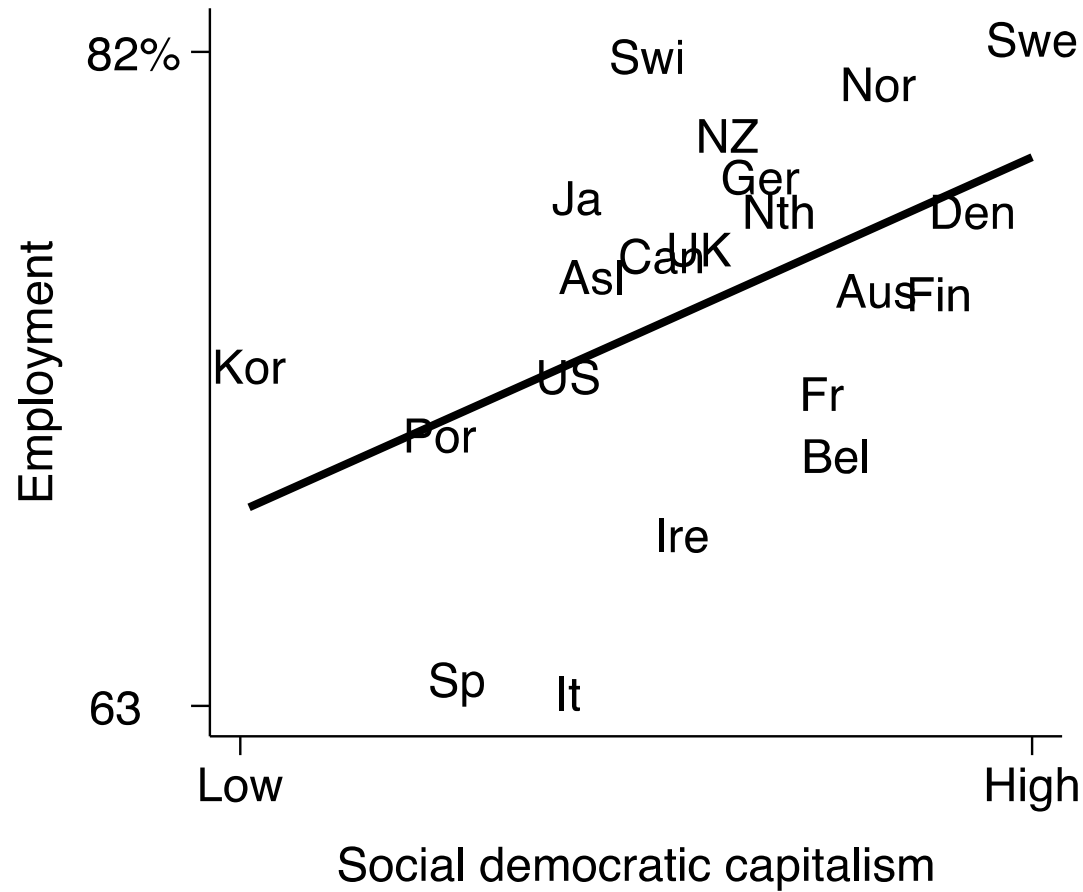
So I use second-best analytical strategies

- Comparison across countries at a single point in time

- Comparison over time in individual countries

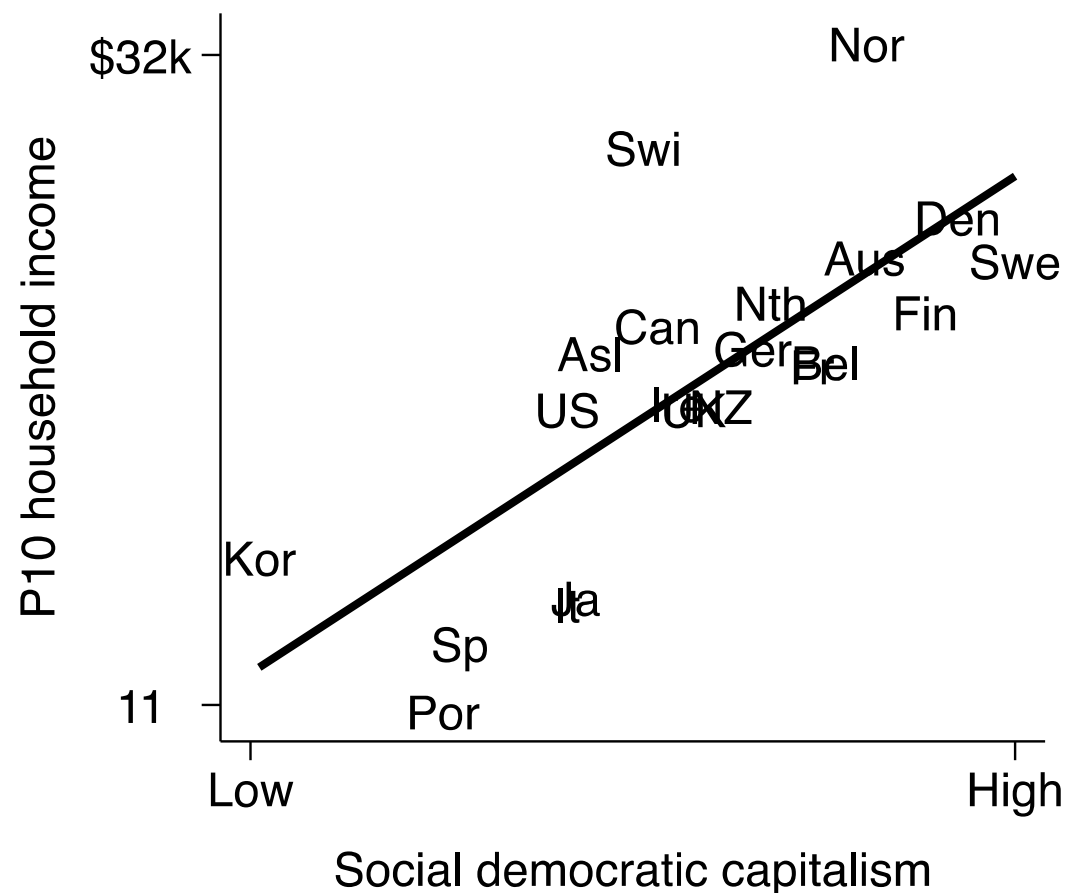
Social democratic capitalism
increases the likelihood that a
country will achieve expanded
Rawlsian outcomes

Employment



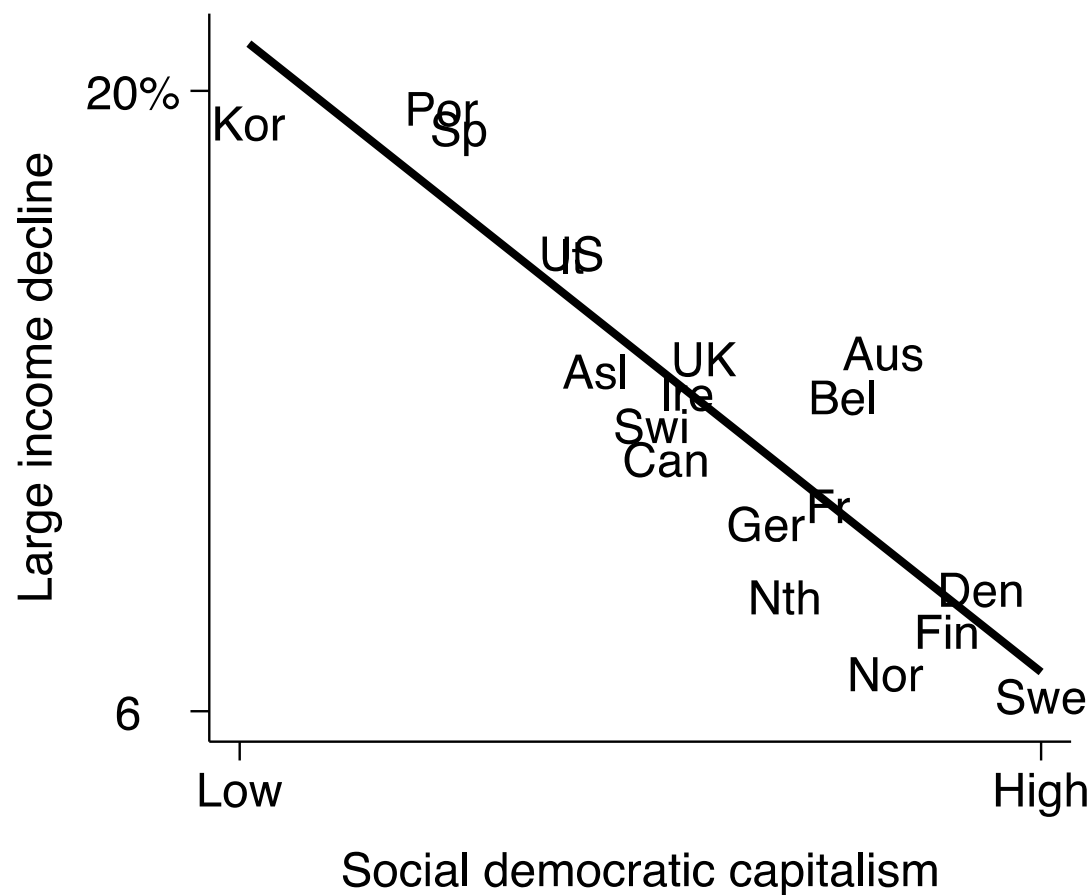
Employment: employed persons age 25-64 as a share of all persons age 25-64. 2010-2016. Data source: OECD. Social democratic capitalism: average standard deviation score on four indicators: public expenditures on social programs as a share of GDP, replacement rates for major public transfer programs, public expenditures on employment-oriented services, and modest regulation of product and labor markets. The data cover the period 1980-2015. Data source: Lane Kenworthy, *Social Democratic Capitalism*, Oxford University Press, 2020, pp. 39-40. "Asl" is Australia; "Aus" is Austria. The line is a linear regression line. The correlation is +.47.

Incomes of the least well-off



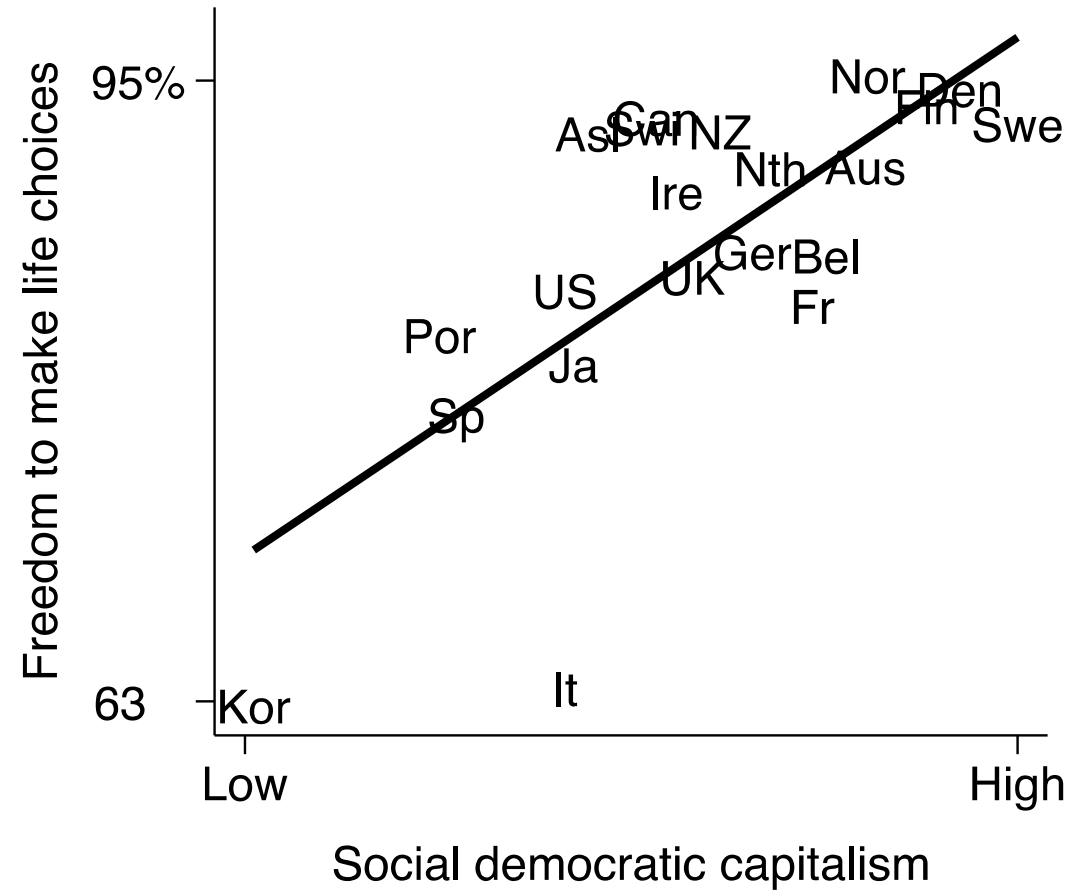
Tenth-percentile household income: posttransfer-posttax income. 2010-2016. The incomes are adjusted for household size and then rescaled to reflect a three-person household, adjusted for inflation, and converted to U.S. dollars using purchasing power parities. "k" = thousand. Data sources: Luxembourg Income Study; OECD. Social democratic capitalism: see the first chart above. "Asl" is Australia; "Aus" is Austria. The line is a linear regression line. The correlation is +.73.

Economic security



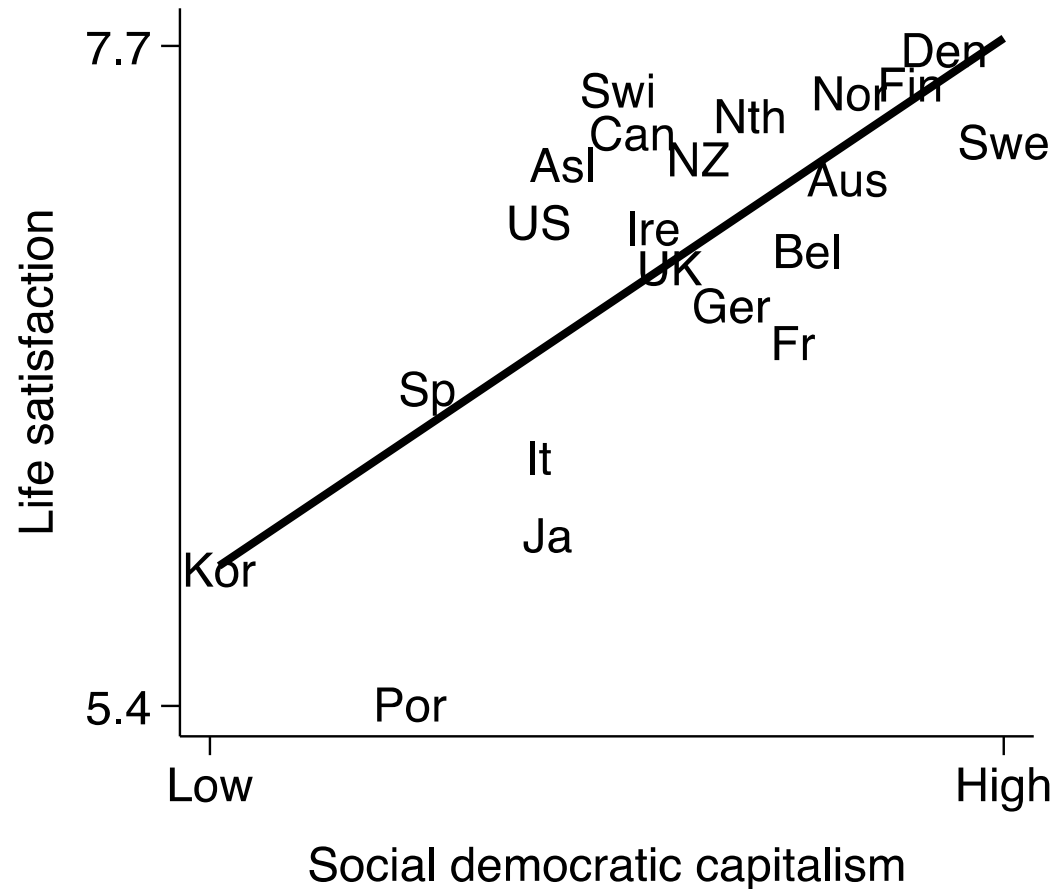
Large income decline: Share of households experiencing a year-to-year income decrease of 25 percent or more. Average over the two-year periods between 1985 and 2015. Excludes households that enter retirement between one year and the next. Data source: Jacob S. Hacker, "Economic Security," in *For Good Measure: Advancing Research on Well-Being Metrics Beyond GDP*, edited by Joseph E. Stiglitz, Jean-Paul Fitoussi, and Martine Durand, OECD, 2018, table 8.4, using data from the ECHP, EU-SILC, CPS, and CNEF (BHPS, SOEP, HILDA, KLIPS, SHP, SLID). Social democratic capitalism: see the first chart above. "Asl" is Australia; "Aus" is Austria. The line is a linear regression line. The correlation is -0.88 .

Opportunity



Freedom to make life choices: share responding "satisfied" to the question "Are you satisfied or dissatisfied with your freedom to choose what you do with your life?" 2005-2019. Data source: Gallup World Poll, via the *World Happiness Report 2020*, online appendix. Social democratic capitalism: see the first chart above. "Asl" is Australia; "Aus" is Austria. The line is a linear regression line. The correlation is +.72.

Happiness



Life satisfaction: average response to the question "Please imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time?" 2005-2019. Data source: Gallup World Poll, via the *World Happiness Report 2020*, online appendix. Social democratic capitalism: see the first chart above. "Asl" is Australia; "Aus" is Austria. The line is a linear regression line. The correlation is +.72.

Is social democratic capitalism an
interdependent configuration?

An interdependent configuration?

Does a country need to have both high public insurance and high employment in order to get the benefits of either one?

No. Public insurance helps on its own, and employment helps on its own.

Does social democratic capitalism
sacrifice other things we want?

Tradeoffs?

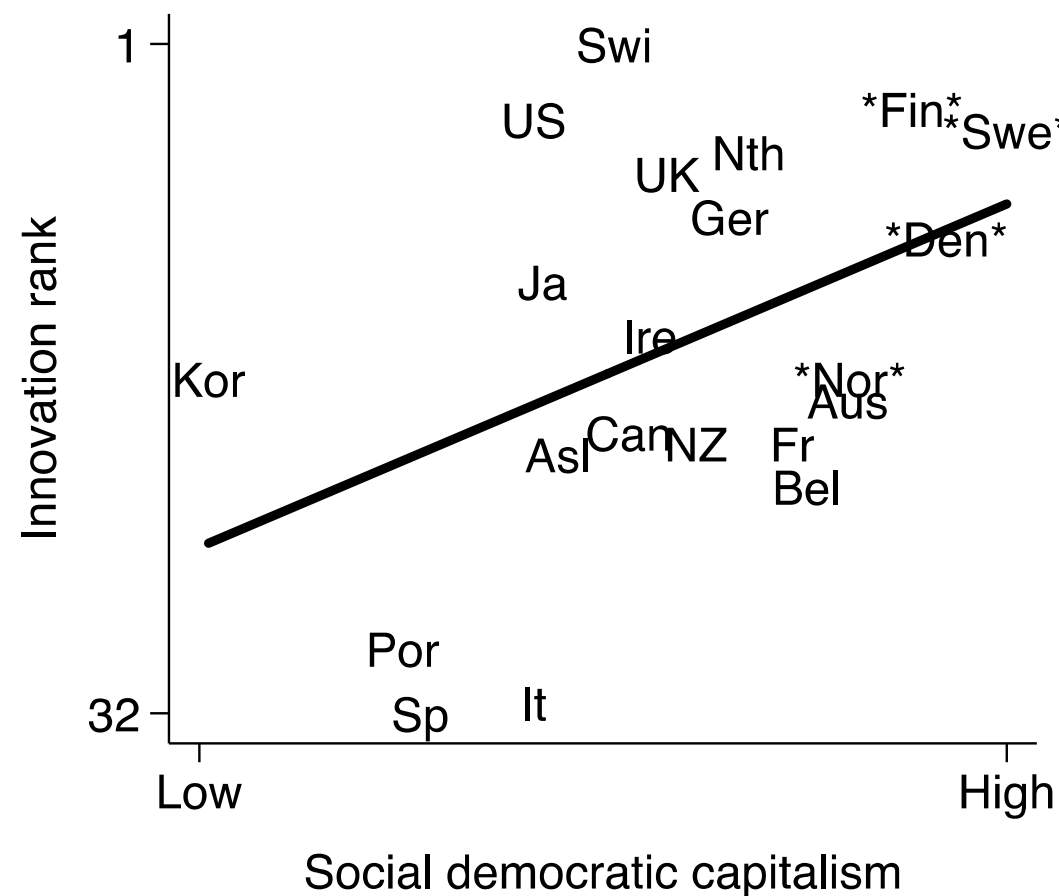
Community
Democracy
Economic equality
Economic opportunity
Economic prosperity
Economic security
Economic stability
Education
Employment
Environment
Family
Finance

Freedom
Good government
Happiness
Health
Housing
Inclusion
Knowledge
Law and order
Openness and support
for other peoples
Privacy
Safety

Tradeoffs?

I see no evidence that social democratic capitalism yields bad results for any outcome we want in a good society

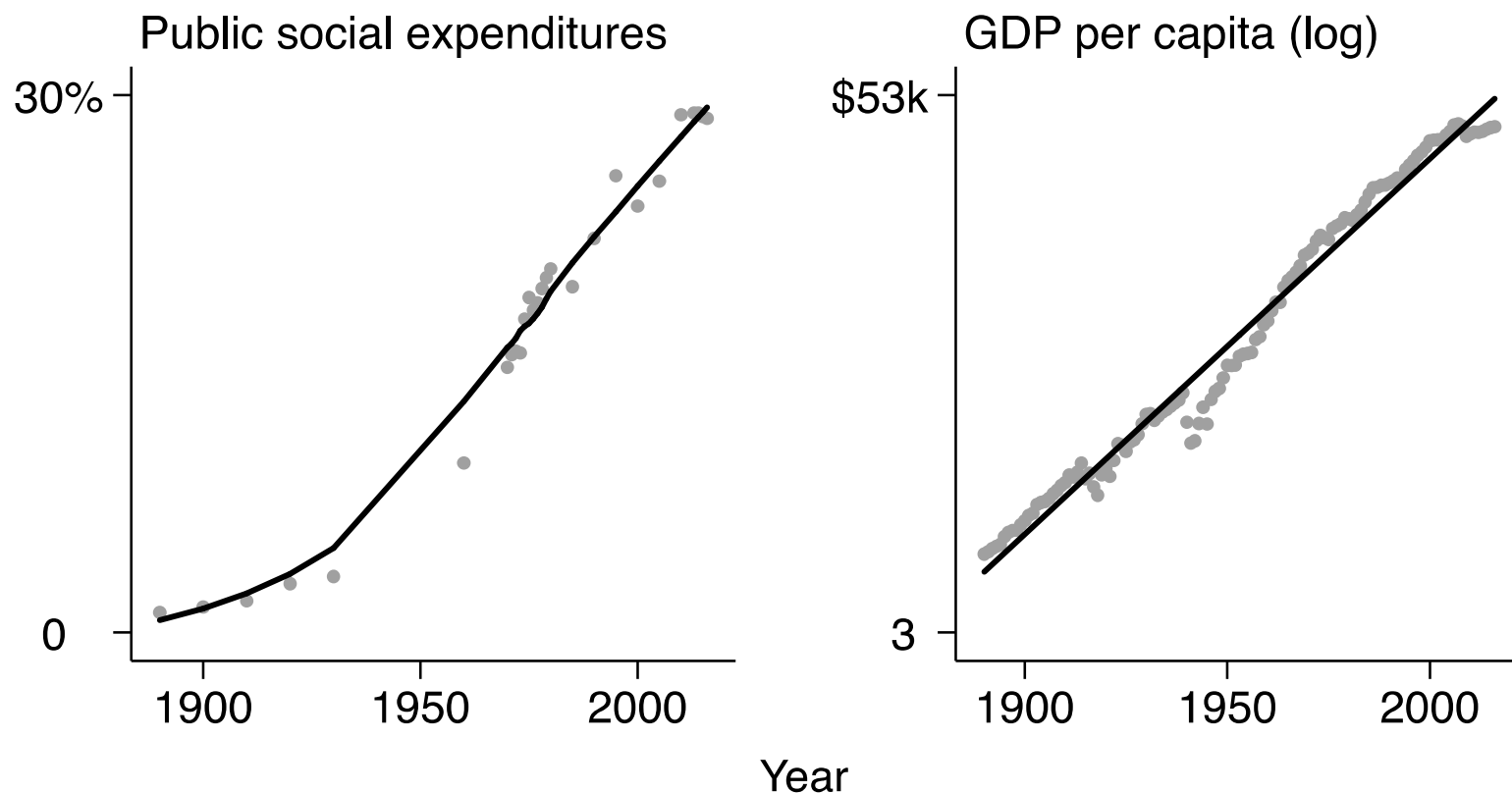
Tradeoff with innovation?



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. Social democratic capitalism: see figure 2.19. The asterisks highlight the Nordic countries. "Asl" is Australia; "Aus" is Austria. The line is a linear regression line.

Tradeoff with economic growth?

Denmark



Public social expenditures: share of GDP. Data source: Esteban Ortiz-Ospina and Max Roser, "Public Spending," *Our World in Data*, using data for 1890-1930 from Peter Lindert, *Growing Public*, volume 1, Cambridge University Press, 2004, data for 1960-1979 from OECD, "Social Expenditure 1960-1990: Problems of Growth and Control," OECD Social Policy Studies, 1985, and data for 1980ff from OECD, Social Expenditures Database. The line is a loess curve. GDP per capita: natural log of inflation-adjusted GDP per capita. A log scale is used to focus on rates of change. "k" = thousand. The vertical axis does not begin at zero. The line is a linear regression line; it represents a constant rate of economic growth. Data source: Maddison Project Database 2018, rug.nl/ggdc.

Has social democratic capitalism
become less successful in recent
decades?

What does "less successful" mean?

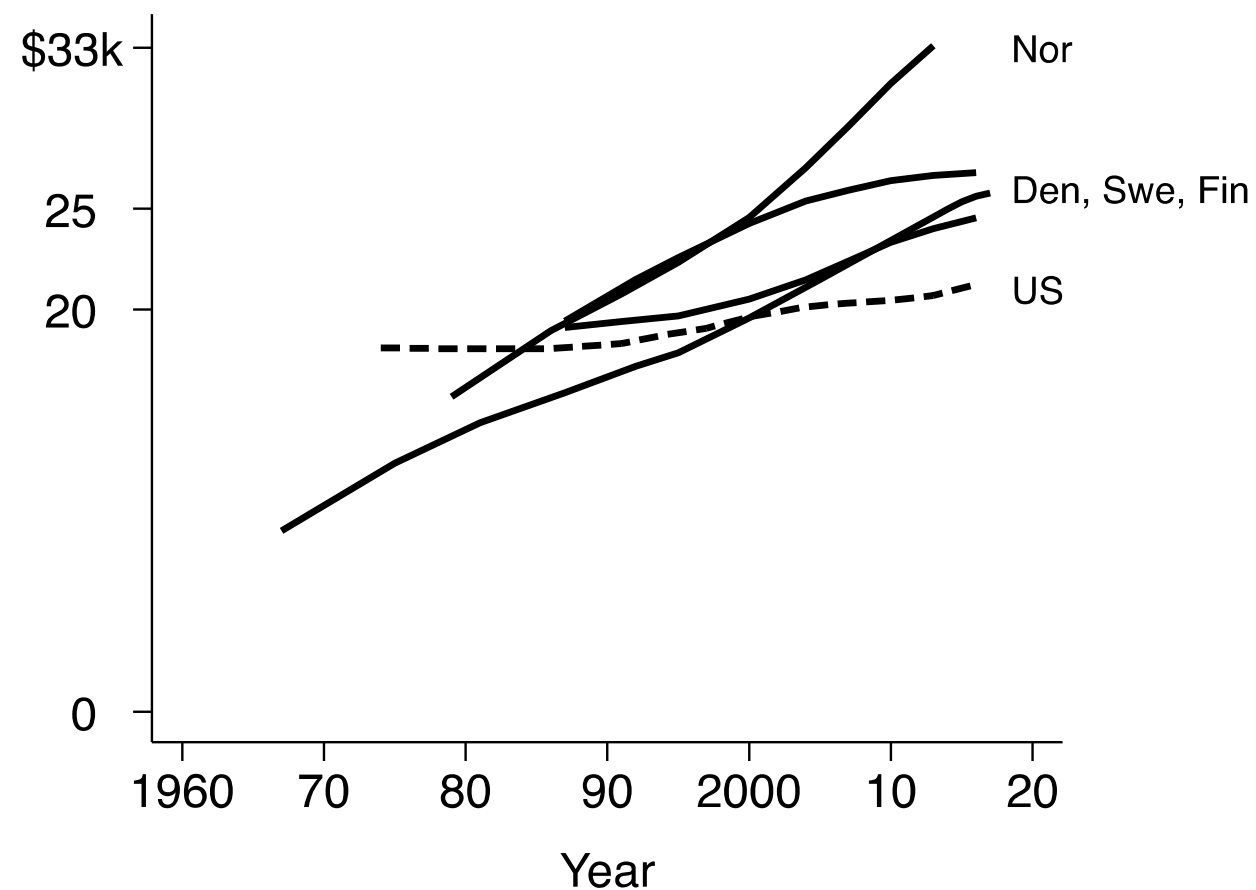
Social democratic capitalism \neq electoral success of Social Democratic political parties

Social democratic capitalism is a bundle of policies and institutions

Have countries moved away from these policies and institutions?

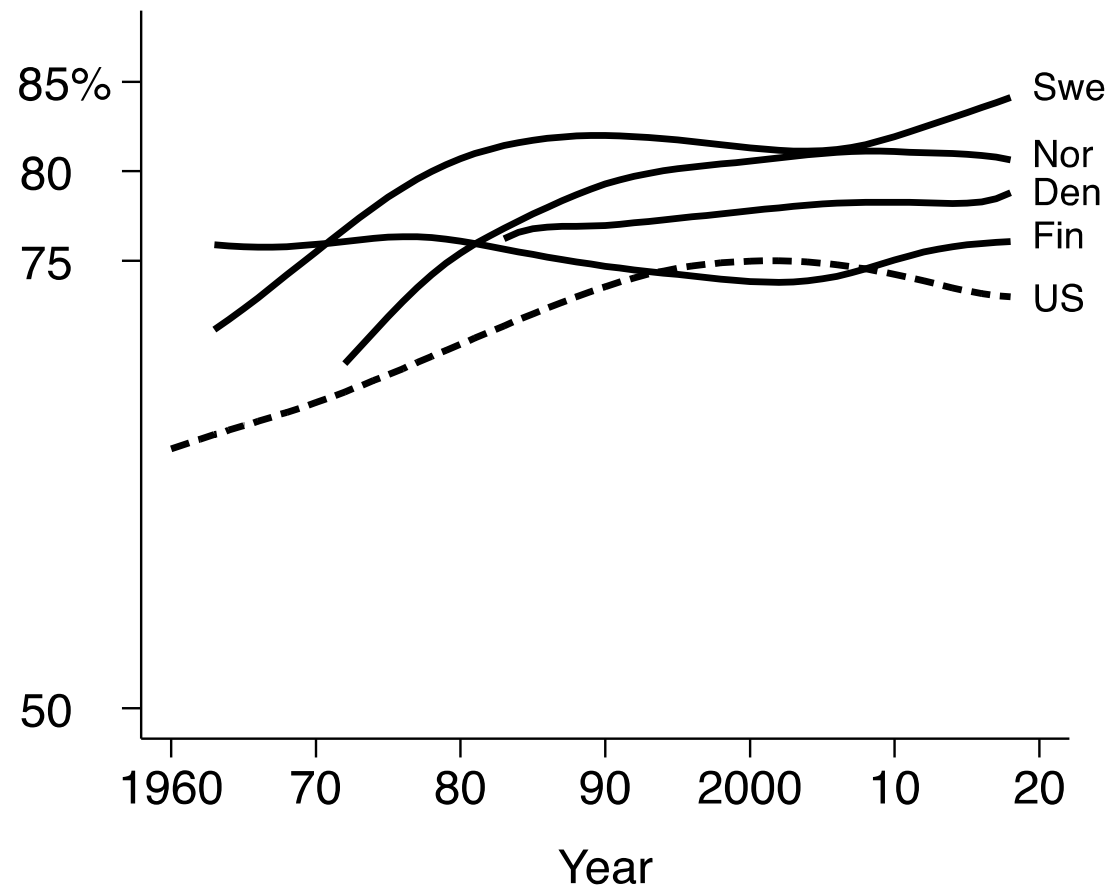
Have these policies and institutions become less effective at generating good outcomes?

Incomes of the least well-off



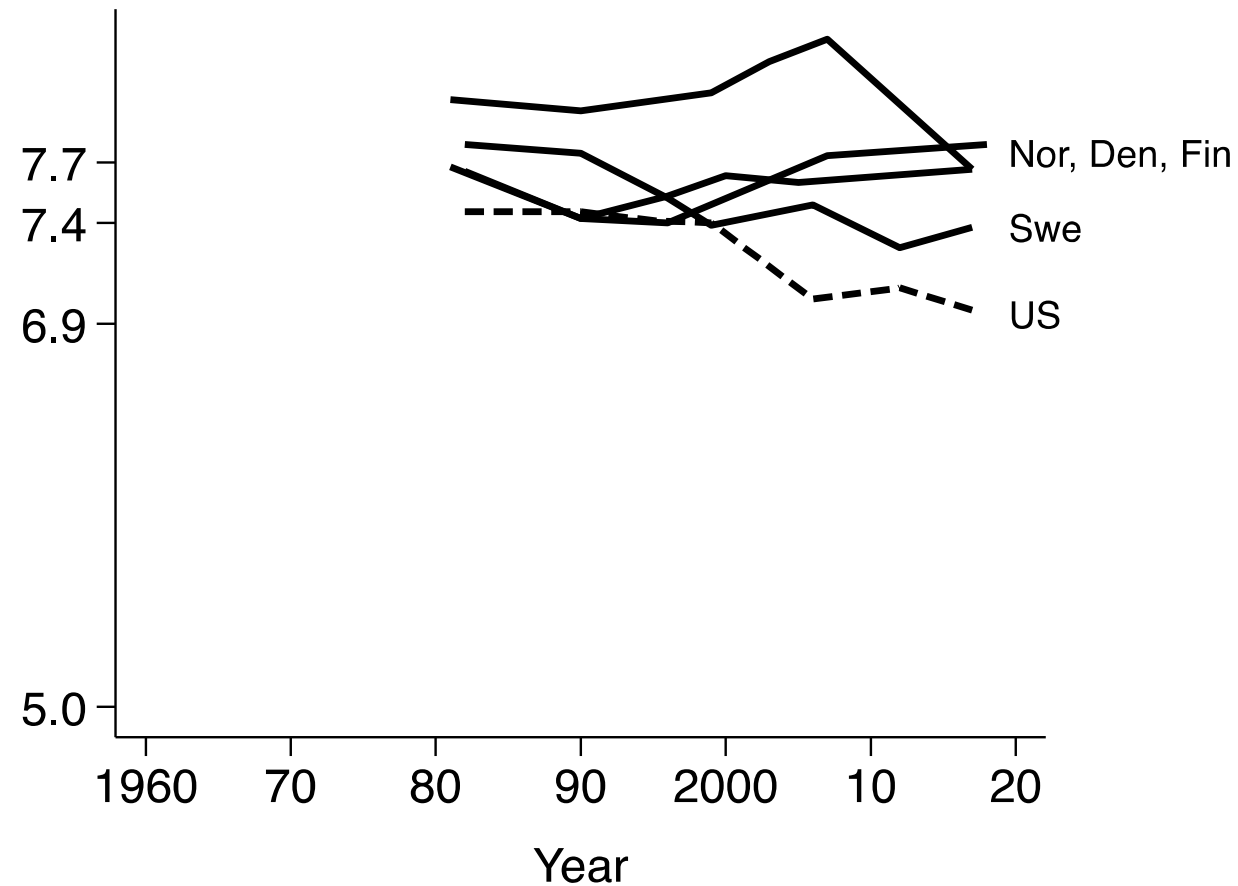
Tenth-percentile household income. Posttransfer-posttax income. The incomes are adjusted for household size and then rescaled to reflect a three-person household, adjusted for inflation, and converted to US dollars using purchasing power parities. "k" = thousand. Data sources: Luxembourg Income Study;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

Employment



Employed persons age 25-64 as a share of all persons age 25-64. The vertical axis doesn't begin at zero. Data source: OECD. The lines are loess curves.

Happiness



Average response to the question "All things considered, how satisfied are you with your life as a whole these days?" Scale of 0 to 10. The vertical axis doesn't begin at zero. Data source: World Values Survey.

Is it only the Nordic countries that
can get this success without
suffering tradeoffs?

Is the model's success generalizable?

Hypothesized elements of Nordics' "secret sauce"

Work ethic, personal responsibility

Intelligence

Trust

Solidarity

Small population size and ethnic homogeneity

Institutional coherence

Effective government

Corporatism

Willingness to be taxed

Tax compliance

Strong unions

Low income inequality

Is the model's success generalizable?

My conclusion

The Nordic countries *aren't* unique

If other rich democratic nations adopt this model, they too will get "expanded Rawlsian" outcomes with little or no tradeoff