America's Social Democratic Future

The Arc of Policy Is Long But Bends Toward Justice

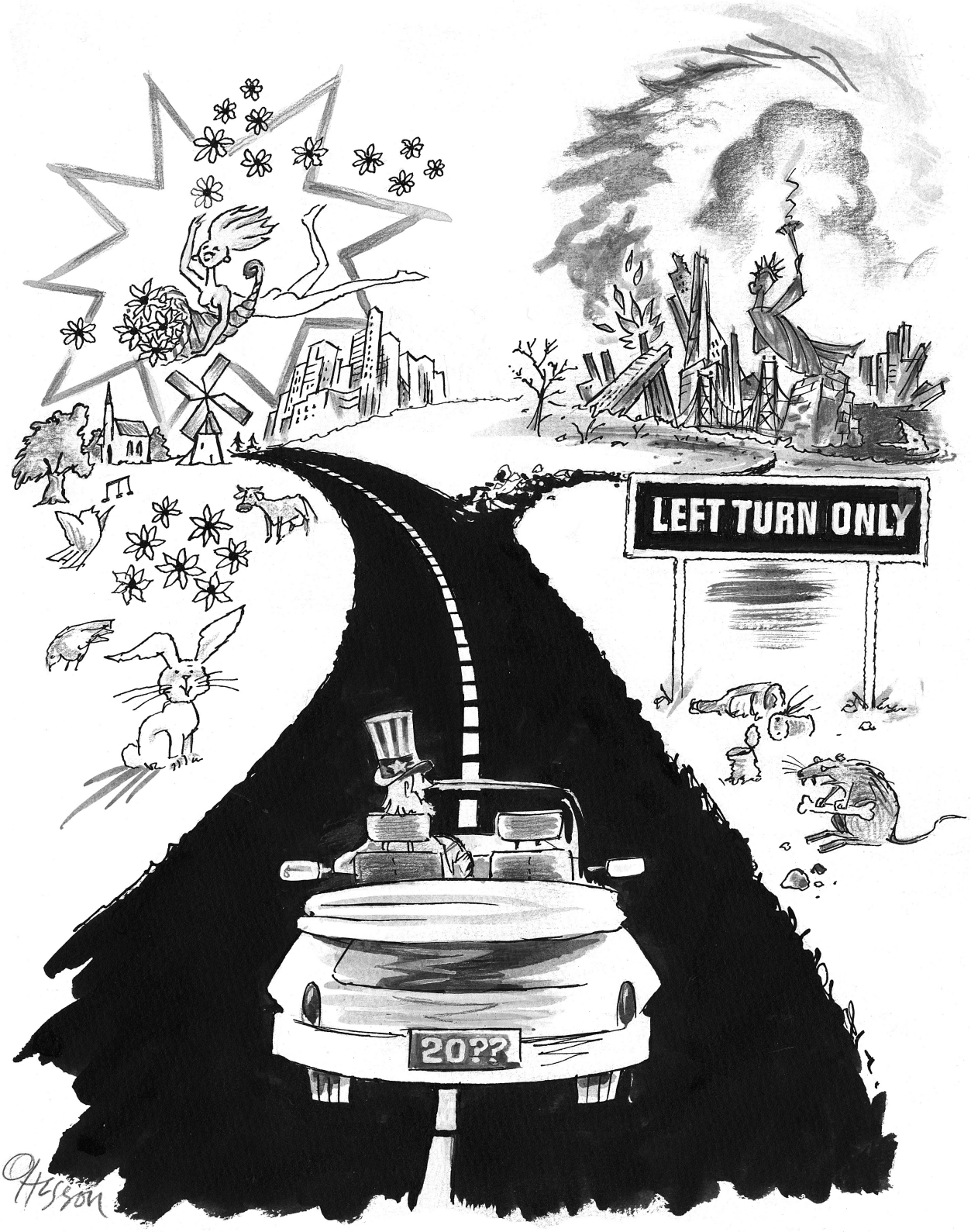
Lane Kenworthy

Since March 2010, when U.S. President Barack Obama signed the Affordable Care Act into law, the ACA has been at the center of American politics. Tea Party activists and their allies in the Republican Party have tried to stymie the law at nearly every turn. The Republican-controlled House of Representatives has voted more than 40 times in favor of repealing or defunding it, and last October the House allowed a partial shutdown of the federal government in an attempt to block or delay the law. The controversy surrounding the ACA shows no sign of ending anytime soon.

Obamacare, as the law is commonly known, is the most significant reform of the U.S. health-care system in half a century. It aims to increase the share of Americans who have health insurance, improve the quality of health insurance plans, and slow the growth of health-care spending. But the fight over the law is about more than just health-care policy, and the bitterness of the conflict is driven by more than just partisan polarization. Obamacare has become the central battleground in an ongoing war between liberals and conservatives over the size and scope of the U.S. government, a fight whose origins stretch back to the Great Depression and the New Deal.

Opponents of President Franklin Roosevelt's innovations were silenced when the New Deal's reforms were locked in during the Truman and Eisenhower years, and the U.S. welfare state took another leap

LANE KENWORTHY is Professor of Sociology and Political Science at the University of Arizona. This essay is adapted from his most recent book, *Social Democratic America* (Oxford University Press, 2014).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forward under Lyndon Johnson, whose Great Society agenda expanded public help for the poor and created the government-administered health insurance programs Medicare and Medicaid. But the following decades saw few major additions and some notable setbacks, including the failure of President Bill Clinton's health-care reform effort in 1994.

The passage of Obamacare has caused such controversy in part because it seems to signal a new stage of government activism, leading some conservatives to oppose it as a decisive and possibly inexorable turn to the left. "Precisely because the Affordable Care Act is the realization of a half-century long liberal dream," the conservative commentator Peter Wehner wrote recently in *The Weekly Standard*, "if it fails, it will be a crushing blow not just to Barack Obama but to American liberalism itself. Why? Because Obamacare is in many ways the avatar, the archetype, of modern liberalism. That's true in terms of its coercive elements, its soaring confidence in technocratic solutions, its ambition to centralize decisionmaking, and its belief that government knows best."

Such apocalyptic arguments vastly overstate Obamacare's practical significance. But they also obscure the more interesting reality, which is that the ACA represents another step on a long, slow, but steady journey away from the classical liberal capitalist state and toward a peculiarly American version of social democracy. Unlike in, say, northern Europe, where social democracy has been enacted deliberately and comprehensively over the years by ideologically self-aware political movements, in the United States, a more modest and patchy social safety net has been pieced together by pragmatic politicians and technocrats tackling individual problems. Powerful forces will continue to fight those efforts, and the resulting social insurance policies will emerge more gradually and be less universal, less efficient, and less effective than they would otherwise have been. But the opponents are fighting a losing battle and can only slow down and distort the final outcome rather than stop it. Thanks to a combination of popular demand, technocratic supply, and gradually increasing national wealth, social democracy is the future of the United States.

NORDIC MODELS

Social democracy originated in the early twentieth century as a strategy to improve capitalism rather than replace it. Today, people generally associate it with European social democratic political parties and the policies they have put in place, especially those in the Nordic countries, such as Denmark and Sweden. Over the course of the next half

century, the array of social programs offered by the federal government of the United States will increasingly come to resemble the ones offered by those countries.

This prediction means something quite different today than it would have a generation ago, when the label "social democratic" referred quite narrowly to policies that made it easier for people to survive with little or no reliance on earnings from employment. In the 1960s and 1970s, the practice of social democracy mostly meant maintaining a large public safety net. Today, that's too narrow a conception. In recent decades, the Nordic countries have supplemented their generous social programs with services aimed at boosting employment and enhancing productivity: publicly funded child care and preschool, job-training and job-placement programs, significant infrastructure projects, and government support for private-sector research and development. At the same time, the Nordic governments have adopted a market-friendly approach to regulation. Although they maintain regulations to protect workers, consumers, and the environment, they balance those protections with a system that encourages entrepreneurship and flexibility by making it easy to start or close a business, to hire or fire employees, and to adjust work hours.

Opponents of American-style social democracy are fighting a losing battle.

As pioneered by the Nordic countries, modern social democracy means a commitment to the extensive use of government policy to promote economic security, expand opportunity, and ensure rising living standards for all. But it aims to do so while also safeguarding economic freedom, economic flexibility, and market dynamism, all of which have long been hallmarks of the U.S. economy. The Nordic countries' experience demonstrates that a government can successfully combine economic flexibility with economic security and foster social justice without stymieing competition. Modern social democracy offers the best of both worlds.

Still, the notion that the United States is likely to further increase the size and scope of its welfare state might seem blind to the reality of contemporary American politics. But step back and consider the long run. The lesson of the past hundred years is that as the United States grows wealthier, Americans become more willing to spend more to insure against risk and enhance fairness. Advances in social policy come only intermittently, but they do come. And when they come, they usually last.

That trend is likely to continue. U.S. policymakers will recognize the benefits of a larger government role in pursuing economic security, equal opportunity, and rising living standards and will attempt to move the country in that direction. Often, they will fail. But sometimes, they will succeed. Progress will be incremental, coming in fits and starts, as it has in the past. New programs and expansions of existing ones will tend to persist, because programs that work well become popular and because the U.S. policymaking process makes it difficult for opponents of social programs to remove them. Small steps and the occasional big leap, coupled with limited backsliding, will have the cumulative effect of significantly increasing the breadth and generosity of government social programs.

This is not a prediction about the timing or conditions under which specific policy advances will occur. It's a hypothesis about a probabilistic process. Over the long run, new programs will occasionally be created and existing ones will occasionally be expanded, and these additions and expansions are unlikely to be reversed.

FALLING SHORT

To understand why the United States is on the path to social democracy, one must recognize that although it is a rich country—and in the next half century, it will grow even richer—it nevertheless suffers from serious economic failings. These are deep-seated problems; although exacerbated by the Great Recession and the feeble recovery, they predate the country's recent economic troubles.

First, the United States does not ensure enough economic security for its citizens. Too many Americans have incomes so low that they struggle to make ends meet: among the 25 million households in the bottom fifth on the income ladder, average income is just $18,000 a year. Too many Americans experience sizable income declines: each year, about one in seven U.S. households suffers a drop in annual income of 25 percent or more. Too many Americans have no health insurance: even when Obamacare is fully implemented, between five and ten percent of U.S. citizens still won't have coverage, a far higher share than in any other rich nation. Finally, too many Americans will soon reach retirement age with little savings and inadequate pensions: average household savings as a share of disposable household income fell from ten percent during the 1970s to just three percent during the first decade of this century, many employees with defined-contribution pension plans contribute very

little to them or cash them in early, and the bursting of the housing bubble depleted the sole asset of many middle-class homeowners.

Second, the country is failing in its promise of equal opportunity. Most women and many African Americans now have a much better chance to obtain an advanced education and to thrive in the labor market than did their counterparts a generation ago. Yet the story for Americans who grow up poor is much less encouraging. Among affluent countries for which data are available, the United States has one of the lowest levels of intergenerational earnings mobility. An American born into a family in the bottom fifth of incomes between the mid-1960s and the mid-1980s has roughly a 30 percent chance of reaching the middle fifth or higher in adulthood, whereas an American born into the top fifth has an 80 percent chance of ending up in the middle fifth or higher. Moreover, recent decades have witnessed large increases in the gaps between the test scores and college completion rates of children from low-income families and those from high-income families, and the same will likely be true for their earnings and incomes when they reach adulthood.

Third, too few Americans have shared in the prosperity their country has enjoyed in recent decades. In a good society, those in the middle and at the bottom ought to benefit significantly from economic growth. When the country prospers, everyone should prosper. But since the 1970s, despite sustained growth in the economy, the incomes of households in the middle and below have risen very slowly compared with those at the top. According to calculations by the Congressional Budget Office that account for inflation, the average income for households in the top one percent soared from $350,000 in 1979 to $1.3 million in 2007. For the bottom 60 percent, the rise was quite modest: from $30,000 to $37,000.

These failures owe in part to changes in the global economy, especially the increasing competition faced by U.S. firms. American companies selling goods or services in international markets confront foreign rivals that are far more capable than in the past. Domestic industries face more competition, too, as technological advances, falling construction and transportation costs, and deregulation have reduced barriers to entry. In addition, shareholders now want rapid appreciation in stock values. Whereas a generation ago, investors in a company were happy with a consistent dividend payment and some long-term increase in the firm's stock price, they now demand buoyant quarterly profits and constant growth.

These shifts benefit investors, consumers, and some employees. But they encourage companies to resist pay increases, drop health insurance plans, cut contributions to employee pensions, move abroad, downsize, and replace regular employees with temporary ones—or computers. Such cost-cutting strategies end up weakening economic security, limiting opportunities for low-skilled labor, and reducing income growth for many ordinary Americans—trends that are certain to continue into the foreseeable future. In the coming decades, more Americans will lose a job, work for long stretches without a pay increase, work part time or irregular hours, and go without an employer-backed pension plan or health insurance.

Some believe that the best way to address the stresses and strains of the new economy is to strengthen families, civic organizations, or labor unions. Those are laudable aims. But these institutions have been unraveling over the past half century, and although advocates of revitalizing them offer lots of hope, they can point to little evidence of success.

An influential faction in Washington favors a different solution: shrink the federal government. According to this view, reducing taxes and government spending will improve efficiency, limit waste, and enhance incentives for investment, entrepreneurship, and hard work, leading to faster economic growth. But this approach is predicated on the false notion that the growth of government limits the growth of the private sector. Over the course of the past century, the United States has gradually expanded government spending, from 12 percent of GDP in 1920 to 37 percent in 2007. Throughout that period, the country's growth rate remained remarkably steady. Other evidence comes from abroad: among the world's rich nations, those with higher taxes and government expenditures have tended to grow just as rapidly as those with smaller governments. Moreover, even if cutting taxes and reducing federal spending did produce faster growth, the record of the past few decades suggests that too little of that growth would benefit Americans in the middle and below.

Another possible response to this state of affairs is to grin and bear it. In this view, there is little anyone can do to ameliorate the ill effects of the modern economy, so the wisest course of action for ordinary Americans is to adjust their expectations and carry on. But the United States can do better than that—and the best way to address the country's socioeconomic failings is to expand public insurance.

RISKS AND REWARDS

Most of what social scientists call "social policy" is actually public insurance. Social Security and Medicare insure individuals against the risk of having little or no money after they retire. Unemployment compensation insures individuals against the risk of losing their jobs. Disability payment programs insure against the risk of individuals' suffering physical, mental, or psychological conditions that render them unable to earn a living.

Other U.S. public services and benefits are also insurance programs, even if people don't usually think of them that way. Public schools insure against the risk that private schools will be unavailable, too expensive, or of low quality. Retraining and job-placement programs insure against the risk that market conditions will make it difficult to find employment. The Earned Income Tax Credit insures against the risk that one's job will pay less than what is necessary for a minimally decent standard of living. Social assistance programs, such as food stamps and Temporary Assistance for Needy Families, insure against the risk of being unable to get a job but ineligible for unemployment or disability compensation.

Over the past century, the United States, like other rich nations, has created a number of public insurance programs. But to achieve genuine economic security, equal opportunity, and shared prosperity in the new economy, over the course of the next half century, the federal government will need to greatly expand the range and scope of its existing social insurance programs and introduce new programs.

The government could help low-income American households with one or more employed adults by increasing the statutory minimum wage and indexing it to inflation and by increasing the benefit offered by the Earned Income Tax Credit, particularly for households without children, for whom the credit currently provides only a small amount. For households in which no one is employed, the solution is more complicated. Those who can make it in the labor market should be helped and pushed to do so, which will require extensive, individualized assistance. The federal government should also increase the benefit levels and ease the eligibility criteria for its key social assistance programs: Temporary Assistance for Needy Families, general assistance, food stamps, housing assistance, and energy assistance.

Several initiatives could help reduce the incidence of large involuntary declines in income: public sickness insurance, paid parental leave, and expanded access to unemployment insurance. Currently, nearly one-third

of American workers get no paid sick leave, U.S. law requires only 12 weeks of unpaid parental leave, and only 40 percent of unemployed Americans qualify for unemployment compensation. The United States would also benefit from a wage insurance program. For Americans who get laid off and cannot find a job that pays as well as their prior one, wage insurance would fill half of the gap between the former pay and the new lower wage for a year or two.

By boosting the incomes of poor households with children, an increase in the Child Tax Credit would help reverse the widening gap in inequality of opportunity. Schools help offset gaps in childrens' capabilities that result from differences in families and neighborhoods. Having children enter school earlier in life could reduce the disparities that exist when they arrive for kindergarten. Indeed, some analysts have concluded that the impact of schooling is largest during the pre-kindergarten years.

Social insurance allows a modern economy to hedge against risks without relying on stifling regulations.

For the elderly, a helpful addition to the U.S. safety net would be a supplemental defined-contribution pension plan with automatic enrollment. Employers that have an existing plan could continue it, but they would have to automatically enroll all employees and deduct a portion of their earnings unless an employee elected to opt out. Employees without access to an employer-sponsored plan would be automatically enrolled in the new universal retirement fund, and workers whose employers did not match their contributions would be eligible for matching from the government.

The final piece of the economic-security puzzle would take the form of increased federal spending on public child care, roads and bridges, and health care and federal rules mandating more holidays and vacations for workers. Such changes would raise all Americans' quality of life and free up their income for purchasing other goods and services.

What about shared prosperity? The best way to ensure that household incomes rise in sync with the economy would be to get wages and employment rising again for those in the middle and below. Adjusting for inflation, the wages of ordinary Americans have not increased since the mid-1970s, and the employment rate is lower now than it was in 2000. Policymakers also ought to consider a public insurance remedy: not only increase the benefit offered by the

Earned Income Tax Credit but offer the credit to middle-income Americans and index it to GDP per capita.

Of course, spending on insurance comes at a price. Americans will need to pay more in taxes. Moreover, the existence of insurance increases the incentive for people to engage in risky behavior or to avoid employment. However, insurance also has economic benefits. Better education and health care improve productivity. Bankruptcy protection encourages entrepreneurship. Unemployment compensation encourages a more mobile work force and makes it easier for workers to improve their skills. Programs such as the Child Tax Credit and the Earned Income Tax Credit enhance the educational and economic prospects of children who grow up in poor households. And, crucially, social insurance allows a modern economy to hedge against risks without relying on stifling regulations that specify what businesses can and cannot do.

The experience of the world's rich countries over the past century should allay the fear that growth in the size and scope of public social programs will weaken the U.S. economy. There surely is a level beyond which public social spending hurts economic growth. But the evidence indicates that the United States has not yet reached that level. In fact, the country is probably still well below it.

BIG PRICE TAG, BIGGER PAYOFF

Some observers, even many on the left, worry about the applicability of Nordic-style policies—which have succeeded in the context of small, relatively homogeneous countries—to a large, diverse nation such as the United States. Yet moving toward social democracy in the United States would mostly mean asking the federal government to do more of what it already does. It would not require shifting to a qualitatively different social contract.

But can the United States afford social democracy? Although the added cost of creating the new programs and expansions described above while also maintaining Social Security and Medicare would depend on the exact scope and generosity of the programs, a rough estimate of the cost is an additional ten percent of U.S. GDP, or around $1.5 trillion. (An economic downturn, such as the one precipitated by the financial crisis of 2008, tends to skew GDP and tax revenue figures, so it is best to use data from 2007, the peak year of the precrash business cycle.) If ten percent of GDP sounds massive, keep in mind two things: First, if U.S.

government expenditures rose from 37 percent of GDP, their 2007 level, to around 47 percent, that would place the United States only a few percentage points above the current norm among the world's rich nations. Second, an increase in government spending of ten percent of GDP would be much smaller than the increase of around 25 percent that occurred between 1920 and today.

As a technical matter, revising the U.S. tax code to raise the additional funds would be relatively simple. The first and most important step would be to introduce a national consumption tax in the form of a value-added tax (VAT), which the government would levy on goods and services at each stage of their production and distribution. Analyses by Robert Barro, Alan Krueger, and other economists suggest that a VAT at a rate of 12 percent, with limited exemptions, would likely bring in about five percent of GDP in revenue—half the amount required to fund the expansions in social insurance proposed here.

In the long run, the GOP will come to resemble center-right parties in western Europe.

Relying heavily on a consumption tax is anathema to some progressives, who believe additional tax revenues should come mainly—perhaps entirely—from the wealthiest households. Washington, however, cannot realistically squeeze an additional ten percent of GDP in tax revenues solely from those at the top, even though the well-off are receiving a steadily larger share of the country's pretax income. Since 1960, the average effective federal tax rate (tax payments to the federal government as a share of pretax income) paid by the top five percent of households has never exceeded 37 percent, and in recent years, it has been around 29 percent. To raise an additional ten percent of GDP in tax revenues solely from this group, that effective tax rate would have to increase to 67 percent. Whether desirable or not, an increase of this magnitude won't find favor among policymakers.

A mix of other changes to the tax system could generate an additional five percent of GDP in tax revenues: a return to the federal income tax rates that applied prior to the administration of President George W. Bush, an increase of the average effective federal tax rate for the top one percent of taxpayers to about 37 percent, an end to the tax deduction for interest paid on mortgage loans, new taxes on carbon dioxide emissions and financial transactions, an increase in the cap on earnings

that are subject to the Social Security payroll tax, and a one percent increase in the payroll tax rate.

POLITICAL SPEED BUMPS, NOT ROADBLOCKS

These kinds of tax reforms and the social insurance programs they would fund will not arrive all at once. It will be a slow process, partly owing to a series of obstacles that social democratic ideas are sure to face. But none of the barriers is likely to prove insurmountable.

One basic problem, critics might point out, is that Americans aren't fond of the idea of big government. Although this is true at an abstract level, when it comes to specific government programs, Americans tend to be strongly supportive. For instance, according to the National Opinion Research Center's General Social Survey, since the 1970s, a large majority of Americans—always over 80 percent and often more than 90 percent—have said that they believe the government currently spends the right amount or too little on assistance to the poor, on enhancing the nation's education system, on improving and protecting the nation's health, and on funding Social Security.

Skeptics might also note that expanding social programs will hinge on electoral success by Democrats, and it is possible that the Democratic Party's fortunes are dimming. Democrats have lost support among working-class whites, a main element of the New Deal coalition that dominated U.S. politics from the 1930s through the 1970s. Yet Democratic presidential and congressional candidates have fared well with a new electoral base of city-dwelling professionals, women, African Americans, and Latinos. The flood of private money into election campaigns, encouraged by the Supreme Court's 2010 *Citizens United* ruling, might put Democrats at a fundraising disadvantage. But private campaign contributions have been growing in importance for several decades, and so far, the Democrats have managed to keep up. And although demographics, electoral coalitions, and campaign funding certainly matter, the condition of the economy tends to be the chief determinant of the outcome of national elections. If Democrats manage the economy reasonably well when in they are in charge, they are likely to remain electorally competitive.

Another potential roadblock is the rightward shift in the balance of power among organized interests outside the electoral arena, which exert substantial influence on policymaking. Since the 1970s, businesses and affluent individuals have mobilized, while the labor movement has steadily

declined in membership. Yet this shift has managed to only slow, not stop, the advance of progressive social policy.

A final potential obstacle to American social democracy is the structure of the U.S. political system, in which it is relatively easy to block policy changes through congressional maneuvering or effective vetoes. Given this structure, the kind of disciplined obstructionism demonstrated by congressional Republicans during Obama's tenure would surely threaten the forward march of public insurance. Sooner or later, however, Republican leaders will turn away from the staunch antigovernment orientation that has shaped the party's strategy and tactics in recent years. In the long run, the center of gravity in the Republican Party will shift, and the GOP will come to resemble center-right parties in western Europe, most of which accept a generous welfare state and relatively high taxes.

Three things could potentially trigger such a shift. One is a loss by a very conservative Republican candidate in an otherwise winnable presidential election. If the party were to nominate a member of its far-right or libertarian faction in 2016 or 2020, that candidate would almost certainly lose, which would prompt a move back toward the center. Another factor favoring Republican moderation is the growing importance to the party of working-class whites. Recently, several thoughtful and prominent right-of-center voices, such as David Brooks, Ross Douthat, David Frum, Charles Murray, Ramesh Ponnuru, and Reihan Salam, have noted that working-class whites are struggling economically and could benefit from government help. To shore up electoral support among this group, more top Republicans will come to favor—or at least not oppose—the expansion of programs such as the Child Tax Credit, early education, the Earned Income Tax Credit, Social Security, and even Medicare and Medicaid.

Perhaps most important, clear thinkers on the right will eventually realize that given Americans' desire for economic security and fairness, the question is not whether the government should intervene but how it should do so. An expansion of social programs would not necessarily mean more government interference in markets and weaker competition. Here again, the Nordic countries can show the way. The conservative Heritage Foundation collaborates with *The Wall Street Journal* in a project that grades countries on ten dimensions of economic freedom. Although the United States has lower taxes and lower government spending than the Nordic countries,

Denmark, Finland, and Sweden score better, on average, on the other eight measures, including the right to establish and run an enterprise without interference from the state, the number of regulatory barriers to imports and exports, and the number of restrictions on the movement of capital. Americans want protection and support. To deliver those things, policymakers must choose between public insurance and regulation, and conservatives ought to prefer the former.

TWENTY-FIRST-CENTURY AMERICA

Perhaps what is most important to note about the United States' social democratic future is that it will not look dramatically different from the present day. The United States will not become a progressive utopia; rather, it will become a better version of its current self.

A larger share of adults will be employed, although for many, the workweek will be shorter and there will be more vacation days and holidays. Nearly all jobs will be in the service sector, especially teaching, advising, instructing, organizing, aiding, nursing, monitoring, and transporting; only around five percent will be in manufacturing or agriculture. Most Americans will change jobs and even careers more frequently than they do today. More Americans will work in jobs with low pay, will lose a job more than once during their careers, and will reach retirement age with little savings. Families, community organizations, and labor unions might grow even weaker than they are now.

But by filling in the gaps in the public safety net, the federal government will improve economic security, equal opportunity, and shared prosperity for most Americans in spite of these changes. A social democratic America will be a society with greater economic security and fairness. Its economy will be flexible, dynamic, and innovative. Employment will be high. Liberty will be abundant. Balancing work and family will be easier. Americans will pay higher taxes than they currently do, but the sacrifice will be worth it, because they will receive a lot in return.

The United States has come a long way on the road to becoming a good society, but it still has further to travel. Happily, its history and the experiences of other rich nations show the way forward. One reason the United States is a much better country today than it was a century ago is that the federal government does more to ensure economic security, equal opportunity, and shared prosperity. In the future, it will do more still, and the country will be better for it.