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

My answer: capitalism + big welfare state + high employment
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
What do we want?

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

Freedom
Good government
Happiness
Health
Housing
Inclusion
Information
Law and order
Privacy
Safety
Openness and support for other countries
What is social democratic capitalism?
Social democratic capitalism

1. Capitalism: private ownership, markets

2. Expansive, generous public insurance (big welfare state)

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

4. Modest regulation of product and labor markets
Social democratic capitalism

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

Good comparison cases

Less public insurance: US, Can, Asl, Ire, Swi, Sp, Por, Ja, Kor

Less commitment to employment: Bel, Fr
Social democratic capitalism

Public insurance: 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. Employment-oriented public services: public expenditures on active labor market policy and family (early education, paid parental leave, child allowances and tax credits) as a share of GDP. The data are for 2000-2010. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
Public insurance: 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. 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. 2014. Data source: World Bank Group. "Asl" is Australia; "Aus" is Austria.
Social democratic capitalism

Social democratic capitalism

My analytical strategy
My analytical strategy

Data: country-level

Preferred test: difference in differences

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

  Static cross-country comparisons

  Single-country over-time comparisons
Economic security
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 and subtracting spending on health and active labor market policy. The data are for 2000-2010. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
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. Employment rate: employed persons age 25-64 as a share of the population age 25-64. The data are for 2000-2012. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
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.
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. Data source: OECD. Employment rate: employed persons age 25-64 as a share of the population age 25-64. The data are for 2000-2007. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
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. Data source: Cournède et al, "Effects of Pro-Growth Policies ..." 2015, figure 17.

Public insurance generosity: public social expenditures as a share of GDP, adjusted for the size of the elderly population and the unemployment rate and subtracting spending on health and ALMP. The data are for 2000-2010. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
Employment ↓ 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. Data source: Cournède et al, "Effects of Pro-Growth Policies ..." 2015, figure 17.

Employment rate: employed persons age 25-64 as a share of the population age 25-64. The data are for 2000-2007. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
Equality of opportunity
Social democratic capitalism seems to be superior at producing an "expanded Rawlsian" result
An "expanded Rawlsian" result

Distribution favoring the least well-off and equality of opportunity (with basic liberties)

Today he likely would add income security
Social democratic capitalism

Better on economic security (decent income floor and income stability)

Probably better on equality of opportunity
Tradeoffs?
We want more than "expanded Rawls"

Community  Freedom
Democracy  Good government
Economic equality  Happiness
Economic opportunity  Health
Economic prosperity  Housing
Economic security  Inclusion
Economic stability  Information
Education  Law and order
Employment  Privacy
Environment  Safety
Family  Openness and support
Finance  for other countries
Average score for legal protection, security, freedom of movement, freedom of religion, freedom of association/assembly/civil society, freedom of expression, and freedom in relationships. Scale is 0 to 10. The vertical axis doesn't begin at zero. Data source: Ian Vasquez and Tanja Porcnik, *The Human Freedom Index*, Cato Institute. "Asl" is Australia; "Aus" is Austria.
Perceived 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?" The vertical axis doesn't begin at zero. Data source: Gallup World Poll, via the World Happiness Report 2017, online appendix. "Asl" is Australia; "Aus" is Austria.
Freedom
Economic growth

GDP per capita (log)

Year

1980 90 2000 10

$60k

30

15

Nor

Swi, US

Ire, Nth, Asl, Swe

Aus, Ger, Can, Den

Bel, UK, Fin, Fr

Ja, NZ

It, Sp

Por

Adjusted for inflation and converted to US dollars using purchasing power parities. The vertical axis doesn't begin at zero. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
Economic growth

The data are for 1979-2007. The line is a linear regression line, with Ireland and Norway excluded. Economic growth: average annual rate of change in GDP per capita, adjusted for initial level (catch-up). Data source: OECD. Government revenues: share of GDP. Includes all levels of government: central, regional, and local. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
Economic growth

Economic growth

Economic growth

Economic growth

Is social democratic capitalism *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
Employment

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.
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. The vertical axis doesn't begin at zero. 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.
Safety

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?" The vertical axis doesn't begin at zero. 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

0 12 37%

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

Children living in two-parent families

Share of all children. The vertical axis doesn't begin at zero. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
Average number of children born per woman. The vertical axis doesn't begin at zero. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
Work-family-leisure balance

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.
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.
Environment

Carbon dioxide emissions per capita

Metric tons per person. Data source: World Bank. "Asl" is Australia; "Aus" is Austria.
Openness to other countries

Scale of 0 to 100, with higher scores indicating greater freedom. The score is based on a country’s average tariff rate and the extensiveness of non-tariff barriers to imports. Data source: Heritage Foundation, heritage.org/index. "Asl" is Australia; "Aus" is Austria.
Openness to other countries

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

Government net 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.
Suicides per 100,000 population. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
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.
Are the Nordics *uniquely* able to avoid tradeoffs?
Put another way ...

Is the Nordic countries' ability to use social democratic policies (and thereby achieve "expanded Rawlsian" outcomes) while avoiding tradeoffs nonreplicable?
Why nonreplicable?

Intelligence

Work ethic

Trust

Coherent gestalt

Small size and ethnic homogeneity

Effective government
More intelligent?

If so, shouldn't we trust them to have figured out the best policies?
More intelligent?

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.
Harder working?

Does their "Viking work ethic" make them immune to work disincentives created by generous social programs?

No: In the late 1980s, when sickness insurance benefits were very generous and easy to qualify for, Swedes missed work due to "sickness" an average of 25 days per year
Harder working?

Average annual hours worked per employed person. "k" = thousand. The vertical axis doesn't begin at zero. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
More trusting?

"Most people can be trusted"

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.
More trusting?

Some believe trust is the key to good outcomes, but I'm skeptical.
More trusting?

More important: trust very likely is replicable

The key determinant seems to be confidence/trust in government
More trusting?

Trust: Share of adults saying “most people can be trusted.” The other response option is “You can never be too careful when dealing with others.”

Data source: World Values Survey. Confidence in government question: “Do you have confidence in the national government: yes or no?” Data source: Gallup World Poll, via the OECD. The correlation is +.76. “Asl” is Australia; “Aus” is Austria.
More trusting?

Share of adults. Trust in government question: “Do you trust the government in Washington to do what is right always, most of the time, some of the time, or never?” Data source: Pew Research Center, “Public Trust in Government, 1958-2017,” using data from assorted public opinion surveys. Trust question: “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in life?” Data sources: General Social Survey, sda.berkeley.edu, series trust; National Opinion Research Corp. The correlation is +.85.
More trusting?

How to increase trust in government?

A big universalistic welfare state
A more coherent gestalt?

The Nordic countries' configuration hasn't been more coherent than that of Germany, Japan, the US, and some others.

Their policies and institutions have changed over time.

There is no empirical association between coherence and economic success.
Small size and ethnic homogeneity?

These likely helped the Nordic countries adopt social democratic policies.

But it isn't clear why they would contribute directly to successful outcomes.
Effective government?

Nordic governments have been willing to experiment and adjust ("The streets of Stockholm are awash with the blood of sacred cows")

Yet they've made plenty of mistakes: Sweden's rapid reduction of capital controls coupled with austerity in the early 1990s, sometimes overly generous social policy, and more
Effective government?

GDP per capita (log)

Year

1980 90 2000 10

Adjusted for inflation and converted to US dollars using purchasing power parities. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
Four important problems social democratic capitalism doesn't necessarily solve
Four problems

1. Wage stagnation
2. Decline of good jobs in small cities/towns
3. Unaffordable housing in large cities
4. Economic and social exclusion of less-skilled immigrants
1. Wage stagnation

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.
1. Wage stagnation

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..
1. Wage stagnation

Unions can solve this, and collective bargaining coverage remains fairly high in many rich nations.

But unionization rates have been declining in most, and this may lead to declines in bargaining coverage.
1. Wage stagnation

1. Wage stagnation

1. Wage stagnation

Two potential solutions

Heavy regulation of wages: Australia tribunals, France extension

An EITC that rises in sync with GDP per capita (also more generous and individualized)
2. Loss of jobs in small cities/towns

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.
2. Loss of 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).
2. Loss of jobs in small cities/towns

What to do?

Education, (re)training

Infrastructure investment

Temporary wage subsidy for new jobs

Assistance with moving out or incentives for immigration (including by immigrants)
3. Unaffordable housing in large cities

It's harder to find affordable housing in Stockholm than in San Francisco
3. Unaffordable housing in large cities

What to do?

Increase housing supply via fewer or different regulations

Support for affordable rental units
4. Exclusion of less-skilled immigrants

4. Exclusion of less-skilled immigrants

What to do?

Support for education (including language)

Incentives for geographical integration

Perhaps a lower wage floor (with a wage subsidy)
What if we care more about the upper-middle class?
What about the upper-middle class?

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.
What about the upper-middle class?

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

Australia and Canada (like Norway) cheated with commodity booms.
Is the model suited for the more flexible/precarious labor market of the future?
Suited for the flexible/precarious future?

Yes

Transfers and services are paid for mainly by government rather than by employers

Extensive supports for work-family balance
Even if my conclusion is correct, it gives no guidance on important policy details.
Details, details

Should early education be universal or targeted to the poor, or to the 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?

Supplement low wages with a tax credit?

And many more ...
Might other not-yet-tried institutions and policies do even better than social democratic capitalism?
Other not-yet-tried policies

Basic income

Economic democracy

I'm skeptical, but open to argument and evidence