Social Democratic Capitalism

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Preliminary and incomplete
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Social Democratic Capitalism and the Good Society

The experience of the world's affluent nations suggests that social democratic capitalism is the configuration of institutions and policies most likely to yield the things we want in a good society, including 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, openness and support for other peoples, privacy, and safety.  

We can summarize social democratic capitalism as democracy plus capitalism plus education plus a big welfare state plus high employment. It has six core elements:

1. Democracy in the political sphere
2. Capitalism: private ownership and markets
3. Education: good-quality K-12 schooling
4. Expansive, generous public insurance programs
5. Employment-oriented public services: early education, affordable college, retraining, job placement assistance, individualized monitoring and support, lifelong learning
6. Modest regulation of product and labor markets

The first, second, and third of these are common to all of the world's rich longstanding-democratic nations. Each has a market-oriented economy with extensive private ownership of firms. When it comes to the fourth, fifth, and sixth, there is greater variation. Every affluent democratic country has a welfare state, but they differ significantly in expansiveness and generosity. Employment-oriented public services and modest
product and labor market regulations aim to boost employment, and these too vary notably across countries.

The leading practitioners of social democratic capitalism are the Nordic countries. Denmark and Sweden have embraced this model since roughly the 1970s. Norway has as well, but its performance on many outcomes is enhanced by its substantial oil wealth, so we should be cautious about drawing inferences from the Norwegian experience. Finland is a relative latecomer in embracing the full gamut of social democratic policies, so it too is less useful than Denmark and Sweden in assessing the model.

Figures 1.1 through 1.4 help us to see countries' positioning on these fourth, fifth, and sixth elements of social democratic capitalism. On the horizontal axis of figure 1.1 is a measure of the expansiveness and generosity of public insurance programs: public social expenditures as a share of GDP. Spending is an indirect measure, as it's affected not only by the structure and reach of a country's programs but also by the share of the population that needs them. I therefore adjust for the share of the population that is elderly or unemployed. (There are other ways to measure welfare state comprehensiveness and generosity, but they don't change the story.) Countries on the right side of the chart tend to have more generous and/or expansive welfare states. These include the Nordic nations plus continental European countries Austria, France, the Netherlands, and Belgium. Norway's position is somewhat misleading; its very large GDP (the denominator in the measure) pushes it farther to the left than it ought to be.

On the vertical axis of figure 1.1 is a measure of countries' use of employment-promoting services: spending on active labor market policies such as retraining and job placement and on family programs such as early education and paid parental leave. Here Denmark and Sweden stand out, with Finland and Norway following along with France, the UK, Ireland, Belgium, and Austria.

Figure 1.2's horizontal axis has the same measure of public insurance expansiveness and generosity. On its vertical axis is a measure of the modesty of product and labor market regulations: the World Bank's "ease of doing business" index. This measure is based on the 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. Denmark is among the countries scoring highest on this measure, together with New Zealand and South Korea.
Norway, Finland, and Sweden follow, along with the US, the UK, Australia, Ireland, Germany, and Canada.

Figure 1.3 shows the third combination of these three indicators. Commitment to employment-promoting public services is on the horizontal axis, and modesty of product and labor regulations is on the vertical.

Figures 1.1 through 1.3 suggest that the Nordic countries, to a greater degree than other affluent democratic nations, have tended to have big welfare states coupled with policies aimed at increasing employment. Figure 1.4 once again has public insurance spending on the horizontal axis. The vertical axis has the actual employment rate, rather than policies aimed at boosting that rate. Instead of data for a single point in time, this chart has a line for each country that shows movement over the period from 1980 to 2015. The Nordic countries again are in the upper-right corner. They have been the most successful, over the past generation, at achieving and maintaining a large welfare state together with high employment.

**Figure 1.1** Expansive, generous public insurance and employment-oriented public services

Public insurance: public social expenditures as a share of GDP, adjusted for the size of the elderly population and the unemployment rate. The adjustment is as follows: adjusted public social expenditures = public social expenditures + (0.5 x (21 – (elderly share of the population + unemployment rate))). This implies that each percentage point of the elderly share and/or unemployment costs about 0.5% of GDP. Twenty-one is the average across all countries and years for the elderly share plus the unemployment rate. 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. 2000-2010. Data source: OECD. The asterisks highlight the Nordic countries. “Asl” is Australia; “Aus” is Austria.
Figure 1.2 Expansive, generous public insurance and modest product and labor market regulations

Public insurance: see the note to figure 1.1. 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. The asterisks highlight the Nordic countries. “Asl” is Australia; “Aus” is Austria.

Figure 1.3 Employment-oriented public services and modest product and labor market regulations

Employment-oriented public services: see the note to figure 1.1. Ease of doing business: see the note to figure 1.2. The asterisks highlight the Nordic countries. “Asl” is Australia; “Aus” is Austria.
1. Social Democratic Capitalism and the Good Society

Figure 1.4 Expansive, generous public insurance and employment

1980-2015. Public insurance: see the note to figure 1.1. Employment rate: Employed persons as a share of all persons. Age 25-64. Data source: OECD. The lines are loess curves. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. The other countries are Australia, Austria, Belgium, Canada, France, Germany, Ireland, Italy, Japan, Korea (South), Netherlands, New Zealand, Portugal, Spain, Switzerland, United Kingdom, and United States.

HOW TO IDENTIFY SOCIAL DEMOCRATIC CAPITALISM’S EFFECTS

How can we assess the hypothesis that social democratic capitalism is the combination of policies and institutions that gets us closest to the good society? We look at countries. Examining persons or cities or regions won’t, in most instances, give us the information we need, because processes at these levels may or may not scale up to full nations.³

For countries, the best way to identify causality is via a "difference in differences" test.⁴ We measure the countries on the hypothesized cause and the outcome at a point in time. Then some countries change more than others on the hypothesized cause; for instance, some countries expand their public insurance system more than others. Then we compare across the countries to see whether changes in the outcomes correlate with changes in the hypothesized cause. This isn't foolproof evidence, but it gets us as close as possible to an experimental design.

Unfortunately, much of the change in public insurance expansiveness and generosity occurred in the 1960s and 1970s, but data for many outcomes that we want in a good society aren't available that far back in time. We are therefore stuck with second-best analytical strategies: comparison...
across countries at a single point in time and comparison over time in individual countries.

SOCIAL DEMOCRATIC CAPITALISM PRODUCES AN "EXPANDED RAWLSIAN" RESULT

Let's begin with economic security. One component of economic security is a good living standard for the least well-off. Another is protection against large income declines and large unexpected expenses.

The vertical axis of figure 1.5 has a common indicator of the living standards of a country's least well-off: the relative poverty rate. This is calculated, for each country, as the share of people living in households with an income below 60% of the country's median income. On the horizontal axis is public insurance expenditures as share of GDP. (Here I subtract expenditures on health and active labor market policy; these are services, which aren't counted as income and therefore by definition can't affect the poverty rate.) There is a strong correlation; countries with bigger welfare states tend to have lower relative poverty rates.

There is good reason to believe this correlation is causal. For people with limited earnings from work, government transfers are a key source of income. Programs that are more expansive and generous will tend to provide them with more income, so countries with those programs are likely to have less poverty. But skeptics note that those transfer programs can discourage work, especially among people with limited labor market prospects. That would cause more people to have low market incomes, with government transfers then reducing poverty that they had themselves caused. This process does occur, but studies regularly find its impact to be small. Overall, public insurance programs reduce poverty, which is why nations with bigger welfare states tend to have less poverty, as we see in figure 1.5.\(^5\)

Indeed, in recent decades government transfers have been key to rising incomes among the least well-off. We often think of the trickle-down process as one in which economic growth produces rising earnings via more work hours and higher wages. But in most of the world's rich democratic countries, the earnings of low-end households have increased little, if at all, since the late 1970s. Instead, it is increases in net government transfers — transfers received minus taxes paid — that have tended to drive increases in incomes for those households.\(^6\)

Figure 1.6 has relative poverty rates again on the vertical axis with employment replacing welfare state generosity on the horizontal. Here
too we see a correlation; nations with higher employment rates tend to have lower relative poverty rates.

Some think a more informative indicator of the living standards of the least well-off is an absolute one. Here a useful measure is the share of households experiencing hardships such as arrears in mortgage or rent payment, arrears in utility bill payment, inability to adequately heat one's home, constrained food choices, overcrowding, poor environmental conditions (e.g., noise and pollution), and general difficulty in making ends meet. On the vertical axis in figure 1.7 is the share of households in each country experiencing one or more of these. Here too we observe a tendency for countries with bigger and more generous welfare states to do better.

Nations with a higher employment rate also tend to do better, as figure 1.8 shows. The least well-off don't automatically benefit from a higher employment rate. They could end up worse off in a relative sense if the additional jobs go mainly to people in households who were already in the middle or above. And there may be little gain even in an absolute sense if a person shifts from receipt of a government transfer to working in a lousy job with low pay. On average, however, employment is a source of poverty reduction.

The other aspect of economic security is avoiding large reductions in income. A helpful measure here is the average decrease in household income from one year to the next when an individual in the household experiences a large earnings decline. Suppose a person suffers a large earnings drop because she gets laid off from her job, takes time off to deal with a health problem or to have a child or to care for an ailing relative, or retires. If she is the sole earner in the household and nothing else changes, the household's income will decline by the same amount as the individual earnings decline. But if there is another earner in the household, the fall in household income will be smaller (as a share of the previous year's income). And if the other earner increases his work hours or gets a pay raise, the household's income might not decline at all. The same is true if the household receives a government transfer such as unemployment compensation, sickness or disability benefit, parental leave payment, a pension, or social assistance.

The vertical axis of figure 1.9 shows the average decline in household income among households in which an adult suffers an earnings decline of 20% or more from one year to the next. Not surprisingly, this is correlated with the size and generosity of public insurance. As figure 1.10 shows, it also correlates with the employment rate.
1. Social Democratic Capitalism and the Good Society

**Figure 1.5** Relative poverty by public insurance expansiveness and generosity

Relative poverty: share of persons in households with income below 60% of the country’s median. 2010-2013. Data sources: Luxembourg Income Study; OECD. Public insurance: public social expenditures as a share of GDP, adjusted for the size of the elderly population and the unemployment rate. I also subtract spending on health and active labor market policy; because these are services rather than transfers, they don’t alter household incomes and thus won’t affect the poverty rate. 2000-2010. Data source: OECD. The line is a linear regression line. The asterisks highlight the Nordic countries. "Asl“ is Australia; "Aus“ is Austria.

**Figure 1.6** Relative poverty by employment

Relative poverty: see the note to figure 1.5. Employment rate: employed persons age 25-64 as a share of the population age 25-64. 2000-2012. Data source: OECD. The line is a linear regression line. The asterisks highlight the Nordic countries. "Asl“ is Australia; "Aus“ is Austria.
Material deprivation: share of households experiencing one or more of the following: arrears in mortgage or rent payment, arrears in utility bill payment, inability to adequately heat home, constrained food choices, overcrowding, poor environmental conditions (e.g., noise, pollution), difficulty in making ends meet. 2005. Data source: OECD, Growing Unequal?, 2008, pp. 186-188, using data from the Survey on Income and Living Conditions (EU-SILC) for European countries, the Household Income and Labour Dynamics in Australia survey (HILDA) for Australia, and the Survey of Income and Program Participation (SIPP) for the United States. Public insurance: see the note to figure 1.1. 2000-2010. The line is a linear regression line. The asterisks highlight the Nordic countries. "Asl" is Australia; "Aus" is Austria.

Material deprivation: see the note to figure 1.7. Employment rate: employed persons age 25-64 as a share of the population age 25-64. 2000-2012. Data source: OECD. The line is a linear regression line. The asterisks highlight the Nordic countries. "Asl" is Australia; "Aus" is Austria.
**Figure 1.9** Income decline by public insurance expansiveness and generosity

Income decline: average year-to-year household disposable income decline for households in which an individual experiences an earnings decline of 20% or more. 2005-2010. Data source: Boris Couronné, Paula Garda, Peter Hoeller, and Volker Ziemann, “Effects of Pro-Growth Policies on the Economic Stability of Firms, Workers and Households,” OECD Economic Policy Papers 12, 2015, figure 18, using CNEF, ECHP, EU-SILC, and OECD data. Public insurance: public social expenditures as a share of GDP, adjusted for the size of the elderly population and the unemployment rate (see the note to figure 1.1). Spending on services (health and active labor market policy) is also subtracted because it doesn’t directly affect household incomes. 2000-2010. Data source: OECD. The line is a linear regression line. The asterisks highlight the Nordic countries. "Asl" is Australia; "Aus" is Austria.

**Figure 1.10** Income decline by employment

Income decline: see the note to figure 1.9. Employment rate: employed persons age 25-64 as a share of the population age 25-64. 2000-2012. Data source: OECD. The line is a linear regression line. The asterisks highlight the Nordic countries. "Asl" is Australia; "Aus" is Austria.
Next, let's look at equality of opportunity. There is no straightforward way to measure opportunity, so social scientists tend to infer from outcomes, such as employment or earnings. If we find that a particular group fares worse than others, we suspect a barrier to opportunity. It isn't ironclad proof, but it's the best we can do. To assess equality of opportunity among people from different family backgrounds, we look at relative intergenerational mobility — a person's position on the income ladder relative to her or his parents' position.⁹

The feature of social democratic capitalism that is most likely to enhance equality of opportunity is provision of accessible, affordable, high-quality early education (child care and preschool). It does so by improving the capabilities of children from less advantaged homes, thereby pulling them closer to those of kids in the middle and at the top.

Some children have parents who read to them, instill helpful traits such as self-control and persistence, shield them from stress and physical harm, expose them to new information and learning opportunities, assist them with homework, provide connections to help them get out of trouble or into a good job, remain in a stable relationship throughout the childhood years, and so on. Other children are less fortunate.

Schools help to offset the massive differences in capabilities caused by families. We know that from two pieces of evidence. First, children from poor homes tend to have much lower measurable skills than children from affluent homes at kindergarten entry. Given the huge variation in home and neighborhood circumstances, we would expect that gap to continue to widen throughout childhood. But it doesn't; it's about the same size at the end of high school. This tells us that schools have an equalizing effect.¹⁰ Second, during summer vacations, when children are out of school, those from lower-income families tend to fall farther behind.¹¹

Having children enter school earlier in life could reduce the disparity when they arrive for kindergarten. Indeed, some analysts conclude that the impact of schooling is larger before kindergarten than after.¹²

The effects of three high-quality early education programs in the United States — the Perry Preschool Program in Michigan in the 1960s, the Abecedarian Project in North Carolina in the 1970s, and the Child-Parent Center Education Program in Chicago in the 1970s — have been tracked into early adulthood or beyond. Each program appears to have had positive effects for low-income children that persist throughout the life course. That's also the case with Head Start, with a large-scale though
short-lived childcare program put in place in the 1940s during World War II, and with early education in Denmark and Norway.\textsuperscript{13}

For the Perry and Chicago Programs, gains in test scores faded away but there were long-term gains in labor market success and other outcomes. The same appears to be true for Head Start and for Norway’s universal early education program. This suggests that the key improvement is in noncognitive skills more than in cognitive ability. On the other hand, the Abecedarian Project yielded better long-term behavioral outcomes along with sustained gains in test scores. A natural experiment in Denmark also found lasting test-score gains. So early education's benefits for children from less advantaged homes may come via both cognitive and noncognitive skills.

Skeptics point to findings of little apparent impact of existing universal preschool programs for four-year-olds in Oklahoma and Georgia. But these programs are too new to assess long-run effects.\textsuperscript{14}

\begin{figure}
\centering
\includegraphics{figure1.png}
\caption{Intergenerational earnings mobility by early education spending}
\end{figure}

The Nordic countries, particularly Denmark and Sweden, have had universal early education systems in place for a generation, and these nations have a comparatively large share of young children from lower-income families enroll in center-based care.\textsuperscript{15} The vertical axis in figure
1.11 shows the correlation between the relative position of fathers in the earnings distribution and the relative position of their sons at a similar point in the life course. Smaller numbers, which are higher on the axis, indicate a weaker correlation, or greater intergenerational mobility. This suggests that children’s earnings aren’t determined by the earnings of their parents, which implies greater equality of opportunity. The horizontal axis in the figure shows countries' public expenditures on early education as a share of GDP. There is a positive association across the countries: those spending more on early education tend to have greater intergenerational mobility.

We should be cautious about what the association in figure 1.11 tells us. The number of countries with available data is relatively small, and the estimates of equality of opportunity may not be as comparable across these nations as we would like. However, it is consistent with the other evidence suggesting a beneficial effect of high-quality, affordable early education.

The most informative test is one that looks at differences across countries in changes over time. If early education helps to equalize opportunity, we would expect a greater equalization over time in countries that adopted universal early education, such as Sweden and Denmark, than in countries that didn't. Gøsta Esping-Andersen has examined the data. He concludes that this is indeed what happened:

"I use the IALS [International Adult Literacy Survey] data to compare social origin effects on the probability of completing upper-level secondary education across birth cohorts.... The analyses follow three cohorts, the oldest born in the late 1940s and early 1950s; the youngest in the 1970s. And I compare 'social inheritance' trends in the three Nordic countries with Germany, the UK, and the US. The results are very consistent with a 'constant flux' scenario in Germany, the UK, and the US. In these countries we see no decline whatsoever in the impact of origins on educational attainment across the cohorts — which is to say, over a half century.... In contrast, there is a very significant decline in the association in all three Scandinavian countries, and the drop occurs primarily in the youngest cohort — the first to enjoy near-universal participation in child care." 

The available evidence for the world's rich longstanding-democratic countries suggests, then, that social democratic capitalism increases economic security and may well increase equality of opportunity.

We can think of this as an "expanded Rawlsian" result. In *A Theory of Justice*, John Rawls argued that among the features we should want in a good society, three stand out as most important: basic liberties, equality
of opportunity, and the best possible living standards for the least well-off.\textsuperscript{19} Given what we have learned about loss aversion since the early 1970s, when Rawls's book was published, if he were writing today he likely would include income security as an additional core feature of a good society. Humans dislike loss, and we're willing to pay substantial sums to avoid it or limit it.\textsuperscript{20} As a person's income or assets increase, she will tend to buy more insurance. Similarly, as nations get richer, they tend to allocate a larger portion of their income (GDP) to insurance. Richard Layard puts it as follows: "Many studies have found that a loss hurts roughly twice as much as an equal gain helps. That is why people are so keen to avoid loss, and so unwilling to incur the risk of loss.... It is precisely because people hate loss that we have a social safety net, and in Europe a welfare state. People want the security that these entities provide.... If security is what most of us desperately want, it should be a major goal for society. The rich have quite a lot of it and the poor less. A happy society requires a lot of it all round."\textsuperscript{21}

All rich democratic nations have basic liberties. Social democratic capitalism appears to be conducive to achievement of the other elements of an expanded Rawlsian result: equality of opportunity, high living standards for the least well-off, and income security.

TRADEOFFS?

Most of us want more than "expanded Rawls." Even if we agree to privilege basic liberties, equality of opportunity, a high living standards floor, and income security, we seek additional features in a good society: economic prosperity, community, family, health, happiness, and more. Does social democratic capitalism get us expanded Rawlsian outcomes at the expense of some or many of these? In other words, to what degree are there tradeoffs?

One tradeoff is built into the social democratic model: upper-middle-class and rich households forgo cash income in favor of services that they may or may not use and in favor of more transfers and services for less well-off households. To fund a big welfare state and employment-oriented services, tax rates need to be fairly high for almost everyone. For households in the middle and below, these tax payments are more than offset by the value of services they use and transfers they receive. For those the top quarter or so (the exact cutoff point varies), particularly those with children, there may be considerable benefit to the services and transfers provided — childcare, preschool, child allowance, free or
low-cost college, and more. But most of those with few or no children will pay a good bit more in taxes than they receive in services and benefits.

The picture in figure 1.12 is consistent with this tradeoff. It shows household incomes at the 75th percentile of the distribution (75% of household have incomes that are lower; 25% have incomes that are higher). Setting Norway aside, we see that incomes for this group in Denmark, Finland, and Sweden are notably lower than in the United States, Switzerland, Australia, and Canada.

![Figure 1.12](image)

**Figure 1.12 Upper-middle-class household income**

75th percentile of the income distribution. 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. Data sources: Luxembourg Income Study; OECD. The lines are loess curves. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Aus" is Australia; "Aus" is Austria.

What about other tradeoffs? There are many possibilities. In assessing the evidence, I'll use the Nordic countries as stand-ins for social democratic capitalism. The question, then, is whether these countries fare poorly when it comes to other things we desire in a good society. Do they have less freedom? Slower economic growth? Weaker families or communities? Poorer health? Less happiness?

A note of warning before we plunge in: I will use graphs to show you how the Nordic countries have fared on various indicators. Most of these will show trends over time, beginning around 1960. You may be puzzled by the large amount of blank space in some of these graphs. It's there intentionally. I want you to be aware of the limited amount of data we sometimes are able to examine.
Let's begin with freedom. A key element of social democratic capitalism is modest, rather than heavily restrictive, regulation of product and labor markets. So in this respect the model embraces liberty rather than constricting it.\textsuperscript{22}

How about personal freedom? One line of conservative thinking, best expressed in Milton and Rose Friedman's \textit{Free to Choose}, suggests that a big welfare or extensive government services, and the taxes needed to fund it, will tend to impinge on freedom.\textsuperscript{23} An alternative view is that when government provides an array of services and risk-mitigating transfers, it reduces our dependence on family, on voluntary associations (charities, churches, and so on), and neighborhoods and thereby expands individual liberty.\textsuperscript{24}

The Cato Institute, a libertarian think tank, has assembled a "personal freedom index" that measures legal protection, security, freedom of movement, freedom of religion, freedom of association, assembly, and civil society, freedom of expression, and freedom in relationships. Figure 1.13 shows the over-time patterns for the world's affluent longstanding-democratic nations over the ten years for which the data are available. The Nordic countries are among those at the top of the list, suggesting the average Dane, Norwegian, Finn, and Swede has more freedom, not less, than their counterparts in most other rich nations.

Another way to measure personal freedom is to ask people how free they feel. Since the mid-2000s, the Gallup World Poll has asked adults in various countries whether they are satisfied or dissatisfied with their freedom to choose what they do with their life. The share responding "satisfied" is shown in figure 1.14. Here too the Nordic nations are among those at the top.

Next let's look at economic growth. Generous benefits and services, and the high tax rates needed to fund them, can reduce the financial incentive to innovate, invest, create and expand businesses, increase skills, and work hard. There almost certainly is some level of taxes or government expenditures at which such responses will be sufficiently widespread and large to reduce growth. The question is where the tipping point lies, and where existing social democratic capitalist nations are in relation to that point.

Over the medium- and long-run, innovation is the key driver of economic growth. Innovation isn't easy to measure, particularly when the aim is to compare across countries. The best indicator we have is expert judgments. Two influential country rankings are by the Global Competitiveness Report and the Global Innovation Index. Figure 1.15
shows the average for each nation on these two rankings as of 2015. Finland and Sweden are near the top of the rankings, with Denmark not far behind. Norway is in the middle of the pack. Social democratic capitalist countries don’t appear to be lacking in innovation.

Figure 1.16 shows each country's of GDP per capita since 1979. The data are shown in logarithms, so the slope of a country's line represents its rate of economic growth. The Nordic countries have grown at about the same pace as most other affluent democratic nations.

Figure 1.17 shows the relationship between economic growth rates and government revenues across countries during the period from 1979 to 2016. The pattern suggests no association between the size of government and economic growth. Countries with bigger governments have grown, on average, neither slower nor faster than nations with smaller governments.

Figure 1.18 looks at the long run in a single country: Denmark. Over the past century Denmark's government, measured using government revenues as a share of GDP, grew from medium-size to quite large, as the chart on the left indicates. The chart on the right shows the log of GDP per capita. If the economy had grown at a constant rate, the data points would form a straight line. As the pattern suggests, that's essentially what happened. If government size were a hindrance to economic growth, we would expect Denmark's growth rate to have slowed as a result of the massive expansion in its government's size. But that didn't happen. As we see in figure 1.19, the same is true for Sweden, which, like Denmark, shifted from a medium-size government to a large one. Figure 1.20 shows that it's also true for the United States, where government grew from small to medium-size. 

Finally, we can compare changes across countries. If big government is bad for economic growth, nations in which government expands more should experience smaller increases, or larger declines, in economic growth. On the vertical axis in figure 1.19 is change in the average rate of economic growth from the period 1945-1973 (the post-World War 2 "golden age") to the period 1979-2015. On the horizontal axis is change between these two periods in government revenues as a share of GDP. Here too the data give us no reason to conclude that a bigger government is worse for economic growth than a smaller one.

Let me repeat: There very likely is some level of government size at which we will begin to observe a significant harmful effect on economic growth. However, we don't know what that level is, and the most reasonable
conclusion from the experience of the world's rich democratic countries is that they aren't above it.

**FIGURE 1.13** Personal freedom


**FIGURE 1.14** 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. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Aus" is Australia; "Aus" is Austria.
**Figure 1.15** Innovation


**Figure 1.16** GDP per capita (log)

Natural logarithm. Adjusted for inflation and converted to US dollars using purchasing power parities. The vertical axis doesn’t begin at zero. Data source: OECD. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia; "Aus" is Austria.
1. Social Democratic Capitalism and the Good Society

**Figure 1.17** Government size and economic growth

1979 to 2016. 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. The line is a linear regression line. Ireland, Korea, and Norway are outliers and so are omitted. The asterisks highlight the Nordic countries. “Asl” is Australia; “Aus” is Austria.

**Figure 1.18** Government size and economic growth in Denmark

FIGURE 1.19  Government size and economic growth in Sweden  
See the note to figure 1.18.

FIGURE 1.20  Government size and economic growth in the  
United States  
See the note to figure 1.18. For the US there is one additional government revenues  
FIGURE 1.21 Change in government size and change in economic growth


FIGURE 1.22 Employment

Employed persons as a share of all persons. Age 25-64. The vertical axis doesn't begin at zero. Data source: OECD. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia; "Aus" is Austria.
Does social democratic capitalism boost economic growth? There are several reasons why it might. By providing an array of cushions for people who fail, it may encourage entrepreneurship. It facilitates employment by women and persons from less-advantaged backgrounds. It allows unemployed workers more time to reskill and choose a productive job. It tends to reduce income inequality, which may be harmful for growth. I don't, however, see support for this hypothesis in the cross-country or over-time data. Social democratic capitalism seems to be no worse for economic growth than other institutional and policy configurations, but also no better.

Let's turn from economic growth to employment. A big welfare state could reduce employment by allowing people to live off a benefit program rather than work. But high employment is a core aim of social democratic capitalism, so policy makers take steps to avoid such disincentives and to offset them with employment-oriented services and modest product and labor market regulations. Figure 1.22 shows that the Nordic countries have consistently been at or near the top in employment among the affluent democratic nations.

How do the Nordic countries fare on health outcomes? Life expectancy is a crude but relevant indicator of a nation's health. As figure 1.23 suggests, the rich democratic nations perform very similarly on this measure — apart from the United States, which lags well behind. Three of the four Nordic countries are in the middle of the pack. Denmark is toward the low end, probably due to the fact that smoking has declined less in Denmark than elsewhere. A helpful complementary indicator is "healthy life expectancy," which is an estimate of how many years a person will live without limitations on usual activities. (Unfortunately, data are only available for the very recent period.) As figure 1.24 shows, Norway and Sweden do particularly well here, while Denmark and Finland are toward the bottom. All told, it looks very unlikely that social democratic capitalism has cost the Nordic nations in the area of health.

What about education? Good-quality schooling is a core element of social democratic capitalism, but the cushions provided by expansive and generous public insurance programs could discourage some from studying hard or completing a college degree. Do we see evidence of that in the Nordic countries? A common measure of educational success is 15-year-olds' scores on the PISA (Program for International Student Assessment) assessments of reading, math, and science. As figure 1.25 indicates, Finnish students have tended to do quite well on these assessments, though they've fallen back a bit in recent years. Denmark, Norway, and Sweden have been average. Sweden's scores were at the
bottom of the table in one year, 2012, but that looks to have been an anomaly. Another common indicator of educational success is the share of people who complete a four-year college degree. Here the Nordic countries have risen to near the top, as figure 1.26 shows. So in education, too, we see no sign of a tradeoff due to pursuit of social democratic capitalism.

Figures 1.27 and 1.28 give us information on safety. The first indicator is the homicide rate. The second is the share of people who say they feel safe walking alone at night in the area where they live. The Nordic nations do well on both of these measures of safety, apart from the relatively high homicide rate in Finland.

One reason we care about economic growth is that it tends to boost incomes and living standards. However, it isn't guaranteed to do so. If a large share of economic growth is grabbed by those at the top of the income ladder, less is available to trickle down to households on the middle and lower rungs. Median household income gives us a picture of how those in the middle are faring. As figure 1.29 indicates, the Nordic countries have done relatively well. The same is true when we turn to the households at the tenth percentile (P10), shown in figure 1.30. Norway looks especially good in both charts, but keep in mind that this is partly a function of its very rapid economic growth buoyed by North Sea oil.

Figure 1.31 shows trends in income inequality, measured as the share of income that goes to the top 1% of the population. Income inequality has tended to be comparatively low in the Nordic countries. They've experienced increases since 1980, but from a low starting point, so they remain below the norm among rich democratic nations. The same appears to be true for wealth inequality, which is shown in figure 1.32. Unfortunately, wealth inequality data are available at only a single point in time, and for only two of the four Nordic countries.

What of inequality between women and men? A common indicator here is the gender pay gap — the difference in median pay between women and men who work full-time year-round. As figure 1.33 reveals, the Nordic countries have tended to do well at reducing pay inequality. Figure 1.34 shows a broader indicator of women's inclusion: the Women, Peace, and Security Index. This measure includes information about how women fare in the economy and politics, in law and culture, and in safety and security. Here too the Nordic nations look comparatively good.
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Figure 1.23 Life expectancy
Years of life expectancy at birth. The vertical axis doesn't begin at zero. Data source: OECD. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia; "Aus" is Austria.

Figure 1.24 Healthy life expectancy
**Figure 1.25** PISA test scores, 15-year-olds

Average student score on Program for International Assessment (PISA) reading, math, and science tests. 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. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. “Asl” is Australia; “Aus” is Austria.

**Figure 1.26** College degree

FIGURE 1.27  Homicides
Homicides per 100,000 population. Data source: OECD. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia; "Aus" is Austria.

FIGURE 1.28  Feel safe walking alone at night
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.
**Figure 1.29** Median household income

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. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Aus" is Australia; "Aus" is Austria.

**Figure 1.30** P10 household income

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. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Aus" is Australia; "Aus" is Austria.
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Figure 1.31 Income inequality: top 1%’s income share

Figure 1.32 Wealth inequality: top 1%’s wealth share
Wealth = assets minus liabilities. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
1. Social Democratic Capitalism and the Good Society

**Figure 1.33** Gender pay gap

Difference between median full-time male pay and median full-time female pay as a share of median male pay. Data source: OECD. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia; "Aus" is Austria.

**Figure 1.34** Women, peace, and security index

An index measuring inclusion (economic, social, political), justice (formal laws and informal discrimination), and security (family, community, societal) via 11 indicators. Scale is 0 to 1. The vertical axis doesn't begin at zero. Data source: Georgetown Institute for Women, Peace, and Security and Peace Research Institute of Oslo, *Women, Peace, and Security Index 2017-18*. "Asl" is Australia; "Aus" is Austria.
Next, let's consider family. It's conceivable that by reducing the need to have a partner to help with the breadwinning and childrearing, government services and transfers will cause fewer people to commit to long-term family relationships. But if so, we might expect family to have weakened considerably when universal K-12 schooling (kindergarten, elementary, and secondary) was established, and that didn't happen. Still, perhaps adding paid parental leave, child care, preschool, a child allowance, and other government supports has pushed social democratic capitalist countries past the tipping point.

Marriage isn't a helpful indicator. While the institution has fallen out of favor in many western European countries, that doesn't necessarily mean there are fewer long-term relationships. A better measure is the share of children living in a home with two parents. Unfortunately, cross-nationally comparable data are available for only two of the Nordic countries. As figure 1.35 shows, Sweden is in the middle of the pack. Denmark, in contrast, has the lowest share among the nations for which the data are available. This is perhaps worrisome, although Denmark is only slightly below two countries with much smaller welfare states, suggesting a lack of causal effect. Indeed, across these countries there is no association between the size of government and the share of children in two-parent households.

Have people in big-government countries stopped having kids? According to one hypothesis, expansive and generous public social programs foster a culture in which children are seen as a burden and a distraction from the fun things in life. This too turns out to be wrong. As figure 1.36 shows, fertility rates are lower now than half a century ago in all of the rich democratic nations, but in the Nordic countries they are higher than in most others.

One reason for the comparatively high fertility rates in the Nordic countries is their array of policies that facilitate women's ability to balance work and family, particularly paid parental leave, affordable high-quality early education. Figure 1.37 points to another contributor. It shows that a comparatively small share of working-age persons in Denmark, Finland, Norway, and Sweden work very long hours, measured here as more than 50 hours per week.

What about participation in voluntary organizations? A skeptical view is that "progressive social policy … has sought to make civil society less essential by assigning to the state many of the roles formerly played by religious congregations, civic associations, fraternal groups, and charities, especially in providing help to the poor." Figure 1.38 shows one
measure of civic participation: the share of adults who say they are an active member of a civic group or organization. The three Nordic countries for which data are available — Finland, Norway, and Sweden — are in the middle of the pack.

Does this support the skeptical view? Consider the United States, a country that contrasts sharply with the Nordics in the expansiveness and generosity of its public insurance programs. If big government has the effect of quashing or crowding out civic engagement, we ought to observe significantly more participation in civic groups by Americans than by Finns, Norwegians, and Swedes. The World Values Survey asks about active membership in eight types of groups: religious, sports-recreation, art-music-education, charitable, professional, labor union, environmental, and consumer. Each country has been surveyed three times over the past two decades. When we average across these eight types of groups, 14% of Americans say they are active members compared to 9-11% of Finns, Norwegians, and Swedes. This is a small difference. And it owes mainly to participation in religious groups, which is far more common in the US than in the Nordic nations. It's hard to see this as evidence of a significant negative impact of social democratic capitalism on civic engagement.32

A sometimes-overlooked element of a just society is openness and support for other peoples. One aspect is openness to other economies, such as imports from other nations. Figure 1.39 shows a measure based on countries' trade policies. The Nordic countries are all at or near the top in trade openness.

A second aspect is openness to immigration. The standard measure, shown in figure 1.40, is the foreign-born share of the population. Here the Nordics' record is less impressive. Denmark and Finland are near the bottom of the pack in foreign-born share. Norway has done better, but a significant portion of its immigrants are from other affluent nations, coming for the very high wages. Sweden is alone among the four Nordics in genuinely embracing an inflow of migrants from outside western Europe. I'll return to this issue later in this chapter.
FIGURE 1.35  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.

FIGURE 1.36  Fertility
Average number of children born per woman. The vertical axis doesn't begin at zero. Data source: OECD. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia; "Aus" is Austria.
FIGURE 1.37  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.

FIGURE 1.38  Active member of a voluntary organization
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?" Data source: World Values Survey, worldvaluessurvey.org. "Asl" is Australia.
FIGURE 1.39 Openness to trade

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. The vertical axis doesn’t begin at zero. Data source: Heritage Foundation, heritage.org/Index. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. “Asl” is Australia; “Aus” is Austria.

FIGURE 1.40 Openness to immigration

Foreign-born share of the population. Includes both legal and illegal immigrants. Data source: OECD. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. “Asl” is Australia; “Aus” is Austria.
A just society won't burden future generations with a large public debt that they will have to repay.\(^ {33}\) It's reasonable to predict that countries with greater public expenditures will tend to accumulate larger debts. But as figure 1.41 reveals, the Nordic countries, which are among the world's biggest spenders, have studiously avoided running up a debt. They've done so by raising enough in revenue to cover their expenditures. (Norway isn't shown in the chart. Because of its oil revenue, it has a large government surplus.)

What about environmental fairness? Nearly everyone favors protection of the environment and of the earth's livability, although there is disagreement about how best to do this. Almost all climate scientists believe that limiting greenhouse gas emissions is vital to keeping climate change in check. Figure 1.42 shows per capita carbon dioxide emissions. The Nordic countries vary in their performance, with oil-rich Norway near the high (bad) end and Denmark and Sweden at the low (good) end.

Finally, we come to subjective well-being, which some consider the ultimate prize. Skeptics of the Nordic model success have sometimes pointed to these countries' high suicide rates, suggesting this indicates frustration with insufficient liberty or excessive collectivism and conformity. As figure 1.43 shows, half a century ago suicide rates were indeed comparatively high in Denmark, Finland, and Sweden, and that remained true of Denmark and Finland as recently as the mid-1990s. Today, however, the suicide rate in three of the four Nordics is squarely in the middle of the pack among the rich nations, and even Finland isn't far from the middle. In hindsight it looks as though cold weather and long periods of darkness were more likely the chief causes of previously high suicide rates.

When we turn to survey questions that ask directly about life satisfaction, the Nordic countries tend to be at the top of the rank-ordering, as figure 1.44 suggests.

That's a long walk through a lot of data. What's the punchline? Do we see evidence of tradeoffs? Have the Nordic countries sacrificed other elements of the good society in their pursuit of expanded Rawlsian outcomes? The answer is no.
Figure 1.41  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 surplus (negative net debt) of better than 200% of GDP, is omitted. Solid thick lines: Denmark and Sweden. Dashed thick line: Finland. "Asl" is Australia; "Aus" is Austria.

Figure 1.42  Carbon dioxide emissions per capita

**Figure 1.43** Suicides
Suicides per 100,000 population. Data source: OECD. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia; "Aus" is Austria.

**Figure 1.44** Life satisfaction
Question: "All things considered, how satisfied are you with your life as a whole these days?" Scale from 1 (completely dissatisfied) to 10 (completely satisfied). The vertical axis doesn't begin at one. Data source: World Values Survey, via the World Database of Happiness, series 122F. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia; "Aus" is Austria.
SOCIAL DEMOCRATIC CAPITALISM ISN’T A CURE-ALL

Social democratic policies and institutions have produced impressive results. That doesn’t, however, mean they solve every problem. It’s worth highlighting a few important ones that the Nordic countries have struggled with.

One is financial crises. A core feature of social democratic capitalism is modest regulation of product markets. But finance is different. The two biggest economic crises of the past century have been driven by financial bubbles that popped and spilled over into the broader economy. These crises wreaked havoc on the lives of hundreds of millions of people, causing not just temporary agony but also long-term financial and psychological scarring.⁴⁴

![Figure 1.45 Share of rich democratic nations in banking crisis](image)

**Figure 1.45** Share of rich democratic nations in banking crisis

The countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States. Data source: Carmen M. Reinhart and Kenneth Rogoff, “Dates for Banking Crises, Currency Crashes, Sovereign Domestic or External Default (or Restructuring), Inflation Crises, and Stock Market Crashes (Varieties),” carmenreinhart.com/data.

Banking crises occur frequently in capitalist economies, as we see in figure 1.45.⁴⁵ Figure 1.46 shows that in recent decades the Nordic nations, particularly Denmark and Norway, haven’t done any better than most other affluent democracies at avoiding such crises. Preventing them and minimizing their impact when they do occur is an ongoing challenge for policy makers, particularly given the need to balance this concern with the need to encourage financial flexibility and innovation.
A second problem is housing unaffordability in large cities. Economic and social developments in recent decades have made cities more attractive places to live. Crime rates, a major worry in the 1970s and 1980s, have fallen significantly. Globalization has expanded restaurant and entertainment options. Public spaces tend to be cleaner. Improved public transportation, ride-sharing services, and biking and walking options have increased accessibility. Perhaps most important, professional-analytical jobs have grown in number and risen in status and pay, and many of these jobs are located in cities.

The problem is that in the most attractive cities, demand for housing has sharply outstripped supply. This increases the cost of buying and renting. As a result, far fewer people are able to live in these cities than would like to, and the problem is particularly severe for those with low and middle incomes. Figure 1.47 shows average rent as a share of median income in 15 major cities. Stockholm isn’t as difficult to afford as the priciest American cities, such as New York, Los Angeles, and San Francisco, but it is quite expensive.
The solution to this problem is threefold: facilitate an increase in overall housing supply via fewer or different regulations, support construction of more affordable rental units, and subsidize rental payments for households with low-to-moderate incomes.\(^{36}\)

A third problem is large-scale job loss in small cities and towns. A core element of social democratic capitalism is policies that facilitate high employment. Yet those policies are geared to maximize employment across the economy, not in each and every geographical area. This can be problematic for places that experience rapid, sizeable job loss — a phenomenon that has become relatively common in the rich democratic countries over the past generation.\(^{37}\)

This owes partly to the decline of manufacturing jobs. As figure 1.48 shows, this decline has been a steady one in all affluent longstanding-democratic nations since roughly 1970. Yet this steadiness over time hides the fact that manufacturing job losses can be lumpy for particular places. Sudden, large-scale job loss can have a significant ripple effect on small cities and towns. When a people experience an income loss, they tend to cut back on purchases. That means retail service employers, a key potential source of work for those who have been laid off, are less likely
to be able to hire new employees, which lengthens unemployment spells, which further reduces spending.\textsuperscript{38}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure1_48.png}
\caption{Manufacturing employment}
Share of the population aged 15-64. The break in the series is due to a change in measurement. Data source: OECD. "Asl" is Australia; "Aus" is Austria.
\end{figure}

This problem has contributed to the rise of populist parties in the rich democratic countries. In the United States, worry about jobs was, it appears, one of the key contributors to the election of Donald Trump as president in 2016. One analysis found that across counties the strongest predictor of a shift in voting from Obama in 2012 to Trump in 2016 was a low employment rate.\textsuperscript{39} Another study found an especially strong predictor of the swing from Obama to Trump was the share of jobs that are "routine" — those in manufacturing, sales, clerical work and related occupations that are easier to automate or send offshore.\textsuperscript{40} Across Europe, experience of unemployment and exposure to globalization predict support for right-wing populist parties.\textsuperscript{41}

What can be done? Retraining and assistance with job placement (active labor market policy), standard parts of the social democratic arsenal, can help. But more is needed. Government can provide support for investment in a variety of ways: public infrastructure investment, place-specific investment funds, regional employer consortia, and temporary wage subsidies for new jobs. Another potentially-helpful strategy is to provide assistance for job losers to move out and incentives for others (including immigrants) to move in.

A fourth problem is integration of immigrants, particularly less-skilled ones. Justice considerations oblige the rich nations to welcome some of
those fleeing danger, impoverishment, and/or political repression in less affluent parts of the world. Denmark, Finland, and Norway haven't done as well as they might in this area. Sweden, by contrast, has been perhaps the most welcoming country in the world during the past few decades.

This can create political strains. In the face of rapid, large-scale immigration by unfamiliar peoples, a segment of the population in any country will be susceptible to calls for closing the door. In Sweden the nationalist Sweden Democrats party, founded in the 1990s, has steadily increased its vote share, reaching 6% in 2010 and 13% in 2014.

Of equal concern is economic and social exclusion of immigrants. One indicator here is the employment rate of immigrants without a secondary education compared to native-born counterparts. Figure 1.49 shows that, as of the most recent available data, Sweden fares comparatively poorly on this indicator. That surely owes in part to Sweden's embrace of refugees from the Balkans in the 1990s, Iraq in the 2000s, and Syria in the 2010s. Many such immigrants arrive not only with limited education but also with pronounced language and cultural barriers to integration.

What to do? Emphasis on education, including language, is vital. Incentives for geographical mobility can help to prevent excessive concentration of particular immigrant groups, which sometimes delays integration. The Nordic countries might also consider lowering the very-
high wage floor or providing a subsidy to employers who hire immigrants to help break down employment barriers.

In the best circumstances, genuine assimilation of immigrants often takes multiple generations. In the contemporary media age, with its omnipresent spotlight, countries and their governments are pressured to deliver results in a much shorter time frame. This is a very difficult challenge.

ARE THE NORDIC COUNTRIES ABANDONING THE SOCIAL DEMOCRATIC MODEL?

Social democratic capitalism has worked very well for the Nordic countries. But according to some observers, they have moved away from it in recent years. Is that true?

Each of the Nordic countries has indeed reduced the generosity of some of their public transfers, such as pensions, unemployment compensation, and sickness compensation. These cutbacks have taken various forms: stricter eligibility criteria, lower replacement rates, shorter duration, heavier tax clawbacks. There also have been changes to services, including greater use of user fees and allowance or encouragement of private supplements.

At the same time, some benefits and services have become more generous, most notably parental/family leave, early education, and child allowances.

Figure 1.50 shows replacement rates for major public income transfer programs at three stages in the life cycle: childhood, working-age, and retirement years. Sweden and Finland have pulled back somewhat from the very high levels they were at in the 1980s, yet they remain quite generous in comparative terms. In Denmark and Norway we see no downward trend.

Figure 1.51 shows expenditures on public insurance programs as a share of GDP. This includes both transfers and services. This total has remained constant or increased in each of the Nordic nations since 1980, and they have moved from the middle of the ranking to the top — apart from Norway, whose very large GDP hides its true social program generosity.

In figure 1.52, we see that while government revenues in Sweden have decreased in recent decades, they nevertheless remain quite high. And there has been no noteworthy decline in Denmark, Finland, or Norway.
1. Social Democratic Capitalism and the Good Society

**Figure 1.50** Public transfer replacement rates


**Figure 1.51** Public social expenditures

So the Nordic countries haven’t turned away from social democratic capitalism. Their public insurance programs now cover more risks ("old" plus "new") than before, though some of that coverage is less generous than it had been. They now provide more public services, particularly ones geared toward facilitating employment, and many of those services have become more generous.

OTHER RICH DEMOCRATIC NATIONS ARE MOVING TOWARD SOCIAL DEMOCRATIC CAPITALISM

While the Nordic countries have adjusted but not abandoned social democratic capitalism, other rich democratic nations increasingly are embracing it. Many of the continental European nations have had expansive and general public social programs for a long time. Over the past two decades, some of them added early education, lifelong learning, active labor market policy, and other employment-conducive public services, and some have loosened their product and labor market regulations. Both steps bring these countries into closer alignment with the social democratic model. The United Kingdom also moved in this direction under the New Labour governments headed by Tony Blair and Gordon Brown from 1997 to 2010, though since then it has pulled back somewhat. Even the United States has continued its slow but relatively steady movement toward social democratic capitalism, as I detail in part 2 of this book.
IS SOCIAL DEMOCRATIC CAPITALISM SUITED FOR FUTURE CHALLENGES?

Not only has social democratic capitalism worked very well up to now. It also is well positioned to face some key challenges that lie ahead.

One such challenge is population aging. As the elderly population grows due to retirement of the large baby boom generation coupled with rising life expectancy, the cost of public pension programs and health care will increase. How will countries pay for this? High employment is key. The larger the share of the population that is in paid work, the greater the tax revenues that can be raised from them.

What about capital mobility? Doesn't that hinder governments' ability to raise tax revenues? It can. But we've seen little evidence of large-scale capital flight or a race to the bottom in tax rates, as the country patterns in figure 1.47 suggest. The best way for countries to keep investors at home is to provide a skilled workforce, good services, and product and labor market flexibility, each of which is a hallmark of social democratic capitalism.

In the contemporary postmaterialist era, many individuals want more ability to choose. Social democratic capitalism can accommodate this. Indeed, the Nordic countries have engaged in a variety of experiments with enhanced choice in public services — giving individuals more choice among public providers and in some instances allowing private providers to compete with public ones.

Finally, the rise of the "gig" or "platform" economy has meant an increase in job flexibility and precariousness. More people move in and out of jobs, work irregularly, and work multiple jobs. In this environment, individuals and households will be more economically secure if benefits and insurance come from government rather than from an employer. Imagine a prototypical precarious worker in the modern economy. You work irregular shifts at a coffee shop and drive for an on-demand ride service the rest of the time. In the contemporary United States, such a life can be hellish — low income, unpredictable, at the mercy of finicky managers and customers. Now imagine it in a country where every person has health insurance, access to good-quality child care and preschool, paid parental leave, paid sick leave, free or low-cost college, a decent pension, and other services and benefits. In this context, while a life with irregular or low-paid employment may be suboptimal for some people, it will be far less precarious and problematic.
CONCLUSION

Social democratic capitalism features political democracy, private ownership and markets, good-quality K-12 schooling, expansive and generous public insurance programs, employment-oriented public services, and modest regulation of product and labor markets. This general description leaves open a number of important policy 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? Should low wages be supplemented with a tax credit? And much more. Answers to these questions hinge on public preferences and on evidence about what works.

Social democratic capitalism aims to combine economic dynamism with material security and equality of opportunity. The evidence from the world's rich longstanding-democratic nations suggests that it achieves these goals. And the record of its chief practitioners, the Nordic countries, suggests it can do so without sacrificing other elements of a good society, from economic growth to health to happiness and much more.
Is Its Success Generalizable?

The chief practitioners of social democratic capitalism have been the Nordic countries. Combining democracy, capitalism, and education together with a big welfare state and high employment has brought them a higher income floor, greater income security, and very likely more equality of opportunity than other rich democratic nations. And they have gotten these results without sacrificing economic growth, freedom, happiness, or any of a large number of other outcomes we want in a good society.

But are the Nordic nations blessed with unique features that enable them, and only them, to reap the benefits of social democratic policies without suffering tradeoffs? Varying versions of this hypothesis identify the Nordics' secret weapon as an immutable work ethic, superior intelligence, trust, small population size, ethnic homogeneity, institutional coherence, effective government, or strong labor unions.

At issue here isn't whether other nations can or will adopt social democratic policies (see chapter 7). The question is whether those policies, if they were enacted in other countries, would prove as effective at producing good outcomes as they have in the Nordics.

WORK ETHIC AND PERSONAL RESPONSIBILITY

One possibility is that Nordic culture features a commitment to employment, and this causes people in the Nordic countries to continue to work, and work hard, even in the face of financial disincentives posed by public social programs. According to Nima Sanandaji, "The uniquely strong norms associated with personal responsibility and work in the Nordics made these societies particularly well suited for avoiding the moral hazard of generous welfare systems."^1
2. Is Its Success Generalizable?

Figure 2.1  Claiming government benefits to which you aren’t entitled is never justified

Question: "Please tell me for each of the following actions whether you think it can always be justified, never be justified, or something in between: claiming government benefits to which you are not entitled." The lines show the share responding "never be justified." The vertical axis doesn't begin at zero. Data sources: World Values Survey and European Values Survey. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia; "Aus" is Austria.

Figure 2.2  Hours worked by employed persons

Average annual hours worked per employed person. "k" = thousand. The vertical axis doesn't begin at zero. Data source: OECD. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia; "Aus" is Austria.
Are Nordic citizens more culturally predisposed than others to work hard in the face of welfare state disincentives? Three pieces of evidence suggest they probably aren’t. The first comes from a World Values Survey question asking whether it is ever justifiable to claim government benefits to which you aren’t entitled. Figure 2.1 shows the share responding that doing so is never justified. A generation ago, this share was comparatively high in Denmark, Norway, and Sweden, though not in Finland. That seems consistent with the hypothesis of a deep-seated cultural commitment to employment. In the past two decades, however, there has been a significant shift. In Denmark, a comparatively high share continue to say "never justified." But Norway and Sweden have moved from the top of the ranking to near the bottom, joining Finland. They now have comparatively few citizens who say that claiming government benefits to which you aren’t entitled is never justified. We shouldn’t take this to mean that Finns, Norwegians, and Swedes are lacking in personal responsibility or work ethic, but it does suggest reason to doubt that they are uniquely highly endowed with this quality.

A second piece of evidence is the number of hours worked by people who are employed. Figure 2.2 shows average hours worked per year by employed persons in the rich democratic countries. Here too there is no empirical sign of an overriding commitment to work in the Nordic nations. Denmark and Norway are at the low end of the spectrum, with Sweden and Finland toward the middle but in the lower half.

Third, there are some specific policy episodes in the Nordic nations that offer a useful test of the "unique work ethic" hypothesis. One is Sweden's sickness insurance in the late 1980s. Jonas Agell describes the circumstances: "According to the rules in place by the end of the 1980s, employees were entitled to a 90% compensation level from the first day of reporting sick. Due to supplementary insurance agreements in the labour market, however, many employees had a compensation level of 100%. For the first seven days of sickness leave, a physician's certificate was not required." How did Swedes respond? Did they continue to show up for work despite the fairly strong incentive to be out "sick"? According to Agell, the average number of work days missed due to sickness increased from 13 in the mid-1960s to 25 in 1988, despite an increase in actual health among the Swedish population. To put this in comparative perspective, Americans on average miss 5 days of work per year.

Disability programs offer another test. Children of people who receive disability benefits are more likely than others to be aware of the program and to know its eligibility and benefit rules. If those children are more likely than others to end up on the disability program as adults, this
suggests some degree of benefit cheating. Norway is a good test case here, because its economy has been exceptionally strong for the past generation, with lots of high-paying jobs. A recent study finds that Norwegian children of disability recipients are indeed more likely to become disability benefit recipients, suggesting that they are vulnerable to work disincentives.\(^4\)

None of this evidence is definitive, but it leans strongly against the hypothesis that a culture of hard work and personal responsibility makes Nordic citizens less likely to succumb to work disincentives than their counterparts in other affluent countries.

A more general point here is that while culture certainly influences behavior, policy can have a stronger effect. Consider two illustrative examples. Since the 1970s the Nordic countries, especially Sweden and Denmark, have arguably been world leaders in embracing gender egalitarianism. And their version of gender egalitarianism extends to all aspects of life, including housework and childcare. Yet when maternity leave policies were changed to parental leave policies, allowing fathers to take as much time off following the birth of a child as mothers, relatively few fathers took advantage of the program.\(^5\) Only when a "daddy quota" was added to the leave — whereby a portion of the leave is forfeited by the parents if the father doesn't use it — did large numbers of men begin taking part. Similarly, despite these countries' strong norms favoring gender equality, it appears that until recently the sort of sexual harassment and misconduct that has increasingly come to light in the United States has also been pervasive in Sweden. Part of the reason seems to be that the laws protecting women in the workplace and outside it have not been enforced.\(^6\) Culture mattered in both of these instances. But policy mattered more.

Indeed, it isn't clear why we would need to look to culture to explain high rates of employment in the Nordic nations. Social democratic capitalism includes employment-promoting public services and modest rather than stringent product and labor market regulations. These two elements are aimed at boosting employment. So in the event that policy makers go too far with government transfer generosity and create strong employment disincentives, as they sometimes have, we would expect the damage to be partly or fully offset by these two elements of the social democratic capitalist configuration. This, rather than an immutable work ethic or culture of personal responsibility, is the likely cause of high Nordic employment rates. We should expect the same result when social democratic policies are put in place in other rich democratic nations.
INTELLIGENCE

If people in the Nordic countries have an advantage in average cognitive ability, they might be able to make up for disincentives to work and innovate by working smarter. We have no direct indicators of intelligence, but comparisons of high school students' student performance on international tests of reading, math, and science suggest reason for skepticism about the hypothesis of superior Nordic intelligence. As figure 2.3 shows, students in Finland have done quite well on these tests over the past decade, but the scores of their counterparts in Denmark, Norway, and Sweden have been average or below. This isn't what we would expect to see if people in the Nordic countries have a cognitive advantage.

![Figure 2.3](image)

FIGURE 2.3 PISA test scores, 15-year-olds

Average student score on Program for International Assessment (PISA) reading, math, and science tests. 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. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia; "Aus" is Austria.

TRUST

Some research suggests that interpersonal trust contributes to better societal outcomes, including economic growth, educational attainment, health, and safety.7 The standard measure here is based on the question "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?" The World Values survey has asked this question since the early 1980s. Figure 2.4 shows the share of the population in each country choosing the "most
people can be trusted" response. The Nordic countries have tended to feature comparatively high levels of interpersonal trust.

Does trust enable the Nordic countries to achieve "expanded Rawlsian" outcomes without tradeoffs? Let's begin with the question of how important trust is in achieving good outcomes. Here the supportive evidence actually is, in my view, quite thin.\(^8\)

But even if it turns out that trust is quite valuable as a cause of good outcomes, there is little reason to think a high level of trustingness is possible only in the Nordic countries. The Nordics do look good in the World Values Survey trust data shown in figure 2.4. But going a little farther back in time suggests a different picture. Figure 2.5 shows the level of trust in Denmark and Sweden according to the World Values Survey together with data for the United States from a virtually identical question asked by the National Opinion Research Center. In the 1960s, Americans appear to have been at least as trusting as their Danish and Swedish counterparts, and perhaps moreso.

What caused the huge decline in interpersonal trust in the US? The main cause seems to have been a reduction in trust in government, itself spurred by the Vietnam War in the 1960s and Watergate in the 1970s. As figure 2.6 indicates, trust in government correlates quite closely with interpersonal trust over time. The pattern across rich democratic nations gives additional reason to think that trust in government is a key determinant of interpersonal trust. As figure 2.7 shows, the cross-country association is quite strong.

If countries can in theory achieve Nordic levels of interpersonal trust, how can they do so in practice? As it happens, a prominent hypothesis, supported by recent findings, holds that the best route is via an expansive and generous welfare state.\(^9\)

What can we conclude? Interpersonal trust probably isn't vital for good outcomes. Even if it is, high trustingness isn't unique to the Nordic countries; other rich nations might well achieve comparable levels of trustingness if they were to adopt a Nordic-style welfare state.
2. Is Its Success Generalizable?

FIGURE 2.4  Interpersonal trust
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. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Asl" is Australia.

FIGURE 2.5  Interpersonal trust
2. Is Its Success Generalizable?

**Figure 2.6** Trust in government and interpersonal trust in the United States

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. Interpersonal 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.

**Figure 2.7** Confidence in government and interpersonal trust

Interpersonal 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 asterisks highlight the Nordic countries. "Asl" is Australia; "Aus" is Austria. The correlation is +.76.
2. Is Its Success Generalizable?

SMALL SIZE AND ETHNIC HOMOGENEITY

The Nordic nations are small in population: Denmark, Finland, and Norway each have 5-6 million people and Sweden has about 10 million. They also are relatively homogenous: according to a commonly-used measure of ethnic heterogeneity, among 21 rich longstanding-democratic nations Finland is the eighth most diverse, Denmark sixteenth, Norway seventeenth, and Sweden eighteenth.\(^{10}\)

Do small size and homogeneity underlie the Nordic countries' success? They very likely have played a role in why the Nordics adopted social democratic policies.\(^{11}\) But we have little reason to think they have contributed directly to good outcomes. In rich democratic countries, neither is associated with faster economic growth or greater affluence.\(^{12}\)

INSTITUTIONAL COHERENCE

According to the "varieties of capitalism" perspective on differences among the world's rich nations, their economies fall into two groups. Coordination is market-based in "liberal market economies" such as the United States and the United Kingdom. Coordination is based largely on nonmarket or extramarket institutions in "coordinated market economies" such as Germany and Austria. What matters for successful economic growth is not the type of economic coordination, but the degree of institutional coherence. Countries with more coherent institutions — i.e., with consistently market-oriented or consistently nonmarket-oriented institutions and policies — should grow more rapidly.\(^{13}\)

Does institutional coherence account for the Nordic countries' success in coupling the advantages of social democratic capitalism with an absence of tradeoffs? That's unlikely. The Nordic countries' configuration of institutions and policies hasn't been more coherent than those of Germany, Japan, the US, and some others.\(^{14}\) Nor have the Nordics' institutional configurations been static over time. In any case, the empirical record suggests there is no association between institutional coherence and economic success. Nations with hybrid institutions and policies, or with a mix that changes over time, have performed as well as those with more coherent arrangements.\(^{15}\)
EFFECTIVE GOVERNMENT

The Nordic countries arguably have tended to have good government. A common measure is the World Bank’s "government effectiveness" indicator, which attempts to gauge public and expert perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. The scores are available since the mid-1990s. As figure 2.8 shows, the Nordic countries have consistently been scored at or near the top among the rich democracies. A particular strength has been a willingness to experiment and adjust, to be pragmatic rather than bound by dogma. In the words of one assessment, "The streets of Stockholm are awash with the blood of sacred cows."  

![Figure 2.8 Government effectiveness](image)

**Figure 2.8 Government effectiveness**

Government effectiveness attempts to capture perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. Data source: Stefan Dahlberg, Sören Holmberg, Bo Rothstein, Anna Khomenko, and Richard Svensson, Quality of Government Basic Dataset, version Jan16, Quality of Government Institute, University of Gothenburg, series wbgi_gee, using data from the World Bank. Solid thick lines: Denmark and Sweden. Dashed thick lines: Finland and Norway. "Aus" is Australia; "AUS" is Austria.

Have Nordic governments been *uniquely* effective? I’m not aware of evidence that supports such a conclusion. According to the World Bank measure, the level of government effectiveness in Switzerland, New Zealand, and the Netherlands has tended to match that of the Nordic countries, with Japan, Canada, and Germany close behind.
And policy makers in the Nordic countries have made some significant mistakes. In the early 1990s, Sweden's government chose to reduce capital controls rapidly, which contributed to a deep recession. It then elected to impose austerity measures, which deepened the recession. The downturn ended up lasting from 1990 to 1995. It was one of the most severe experienced by any rich country since the 1930s. Denmark's government proved no more effective than those of many other rich countries at identifying and preventing a housing bubble in the mid-2000s. On various occasions Nordic policy makers have overshot in the generosity of public social programs, as noted earlier.

**STRONG UNIONS**

The unionization rate is higher in the four Nordic countries than in nearly all other rich democratic nations, as figure 2.9 shows. Unions, like small population size and ethnic homogeneity, increase the likelihood that a country will adopt social democratic policies. The key question is whether, and if so to what extent, unions contribute directly to successful outcomes.

![Figure 2.9 Unionization](image)

**FIGURE 2.9 Unionization**


Unions contribute to economic security and shared prosperity by boosting wages. Here there are some alternatives to a high unionization
rate. In some countries collective bargaining agreements are extended by convention to nonunion sectors and firms. The Netherlands and Germany are examples where this practice has been important. In France this kind of extension is legally mandated. Another alternative is wage setting by a public body; in Australia, tribunals set wages for many occupations. Because of these kinds of compensatory mechanisms, in some countries the share of the work force whose wages are determined by collective bargaining is a good bit larger than the share who are union members, as can be seen in figure 2.10.

![Figure 2.10](image)

**Figure 2.10** Unionization and collective bargaining coverage


In the 1970s and 1980s, coordination of wage bargaining encouraged moderate wage increases by workers and thereby contributed to healthy macroeconomic performance — low unemployment together with low inflation. High levels of unionization and centralization of union organizations facilitated wage-bargaining coordination. But in the era of independent central banks and restrictive monetary policy, coordination of wage setting is no longer needed to achieve this outcome.\(^{19}\)

Now the tables have turned, and the major challenge facing workers is to ensure that wages increase rather than to limit such increases. In the long run, wages in a country tend to rise roughly in proportion to the overall economy (GDP per capita). However, unions have often played a key role in ensuring that this happens, and they’re particularly important in the
short- and medium-run. Social democratic capitalism, as I've defined it, doesn't presuppose strong unions. This means wage growth may be slow for ordinary workers in a social democratic capitalist country that lacks strong unions or a compensating mechanism that extends collective bargaining agreements to nonunion employees.

That's especially likely in the current economic era, which features a variety of developments that have enhanced the leverage of firms vis-à-vis workers and the incentive for firms to resist wage increases: technological advance (improvements in computers, robots, and digital communications); globalization (enhanced ability to move operations to another region or country, to outsource supplies instead of making them in-house, to hire lower-paid immigrant employees); declining manufacturing employment and its replacement by services; looser labor markets (higher unemployment rates); the shareholder value revolution in corporate governance.

Wage data that allow us to compare across the world's rich countries only go back a couple of decades. Figure 2.11 shows, for the period from 1995 to 2013, each country's growth rate of median compensation by its growth rate of GDP per capita. The line in the chart is a 45-degree line; a
country will be on the line if its median compensation has grown at the same rate as the economy. The Nordic countries and Belgium have high unionization rates, so it isn't surprising to see them close to the line. France and the Netherlands also are close; as just noted, in France the law requires extension of collectively bargained wage agreements, and the Netherlands a strong extension norm. Austria, Australia, and New Zealand also have compensating mechanisms. In Australia, for instance, wages for many occupations are set by tribunals. These three countries fall somewhat below the 45-degree line, meaning median wage growth has lagged behind that of the economy. The countries with the lowest rates of unionization and little or no collective bargaining extension, such as the United States, sit farthest below the line.

Adoption of social democratic policies won't in and of itself address the problem of union weakness. On the other hand, pursuit of high employment, a core element of social democratic capitalism, may contribute to wage growth via labor market tightness — a low unemployment rate, or "full employment." When employers can benefit from hiring more workers but find it difficult to do so, they are more likely to bid up wages.\(^20\)

Strong unions are part of the reason the Nordic countries have had moderate rather than large increases in income inequality. Solidaristic wage setting compresses earnings, and unions push against skyrocketing executive pay.\(^21\)

What does this imply for other countries' outcomes were they to adopt social democratic capitalist policies? In a nation such as the United States, with very weak unions and no mechanism to compensate for that weakness, wage growth (in the middle and below) is likely to be slower and income inequality higher than in the Nordics. But other outcomes are likely to be similar.

YES, ITS SUCCESS VERY LIKELY IS GENERALIZABLE

The Nordic nations have used social democratic capitalism to achieve "expanded Rawlsian" outcomes with little or no sacrifice of other elements of a good society. Skeptics hypothesize that these countries have unique features that enable them, and only them, to reap the benefits of social democratic policies without experiencing tradeoffs. While these hypotheses are plausible, none of them turn out, on close inspection, to be compelling. Social democratic capitalism is likely to produce similar results in other rich democratic countries.
Notes

1. SOCIAL DEMOCRATIC CAPITALISM AND THE GOOD SOCIETY

1. I've listed these in alphabetical order, not in order of importance.
2. Lane Kenworthy, "Social Programs," *The Good Society*.
3. Deaton 2010; Ravallion 2012.
4. Lane Kenworthy, "How Do We Know?," *The Good Society*.
10. Heckman 2008; Reardon 2011, figure 5.5; Ermisch, Jäntti, and Smeeding 2012, pp. 465-468; Bradbury, Corak, Waldfogel, and Washbrook 2015, chs. 4-6.
11. Downey, von Hippel, and Broh 2004; Alexander, Entwisle, and Olson 2007; Quinn and Polikoff 2017. For discussion of additional findings from natural experiments in which children go without schooling, see Nisbett 2009, ch. 3.
15. Lane Kenworthy, "Early Education," *The Good Society*. 


Notes

17. Lane Kenworthy, "How Do We Know?" *The Good Society*.
23. Friedman and Friedman 1979.
25. Lane Kenworthy, "Is Big Government Bad for the Economy?" *The Good Society*.
29. Chapter 3.
31. Levin 2012. See also Murray 2012.
33. In earlier eras inflation was a way to get around this problem, but this is more difficult to pursue in the modern era of global capital.
35. See also Atkinson and Morelli 2010; Morelli and Atkinson 2015.
38. Autor, Dorn, and Hanson 2016.
42. Waters and Pineau 2015.

2. IS ITS SUCCESS GENERALIZABLE?

3. OECD.stat, "Absence from Work Due to Illness."
13. Hall and Soskice 2001; Hall and Gingerich 2009. Coherence applies both within and across economic spheres. A country's institutional mix is deemed more coherent to the extent that its institutions within each sphere are closer to one or the other of the two poles (liberal market or coordinated market) rather than in between and its institutions are consistent across spheres. Incoherence can be a product of being in the middle within each sphere or having liberal market institutions in some spheres and coordinated market institutions in others.

3. IS THERE AN ATTRACTIVE SMALL-GOVERNMENT ALTERNATIVE?

1. Friedman and Friedman 1979; Murray 1984, 2012; Tanzi 2011; Levin 2012.
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