

Social Democratic Capitalism

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"The arc of the moral universe is long, but it bends toward justice."

– Martin Luther King, Jr.

"The legitimate object of government is to do for a community of people whatever they need to have done but can not do at all, or can not do so well, for themselves in their separate and individual capacities."

– Abraham Lincoln

"If we keep track of how our laws and manners are doing, think up ways to improve them, try them out, and keep the ones that make people better off, we can gradually make the world a better place."

– Steven Pinker

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Sources of Successful Societies

For nations, as for individuals, it's good to be rich. Affluent countries are more likely to be democratic, more likely to have government programs that cushion life's bumps and boost the capabilities and well-being of the less fortunate, and more likely to prioritize personal liberty. Their citizens tend to be more secure, better educated, healthier, freer, and happier.

The world's twenty or so rich democratic countries aren't all alike, and they've changed a good bit over the past century. Their experiences give us helpful clues about what institutions and policies best promote human flourishing. To this point in history, the most successful societies have been those that feature capitalism, a democratic political system, good elementary and secondary (K-12) schooling, a big welfare state, employment-conducive public services, and moderate regulation of product and labor markets.¹ I call this set of policies and institutions "social democratic capitalism."

Social democratic capitalism improves living standards for the least well-off, enhances economic security, and very likely boosts equality of opportunity. It does so without sacrificing the many other things we want in a good society, from liberty to economic growth and much more. Its chief practitioners have been the Nordic nations: Denmark, Finland, Norway, and Sweden. Contrary to what some presume, there is no good reason to think social democratic capitalism will work well only in these countries. Its success almost certainly is transferable to other affluent nations. Indeed, all of those nations already are partial adopters of social democratic capitalism.

The United States, the largest of the world's rich democracies, is one of those partial adopters. If the U.S. were to expand some of its existing public social programs and add some additional ones, many ordinary Americans would have better lives. Despite formidable political obstacles, there is good reason to think America will move in this direction in coming decades.

Those are my conclusions. This book provides the evidence and the reasoning.

AFFLUENCE AND ITS CONSEQUENCES

Let's begin with some context. The extent of human progress over the past two centuries is astonishing. The starting point is improvement in economic well-being. Economic historians have estimates of gross domestic product (GDP) per person back to the year AD 1 for France and back a few centuries or more for some other countries. For most of the past two thousand years — and by extension, for virtually all of human history — the quantity of goods and services we produced barely budged.² Then, around the middle of the 1800s, nations such as the United States, Germany, France, and a handful of others stumbled upon an institutional framework featuring markets, government provision of property rights and public goods, and the scientific method. This configuration has proved conducive to rapid and sustained economic advance, as we see in figure 1.1.³

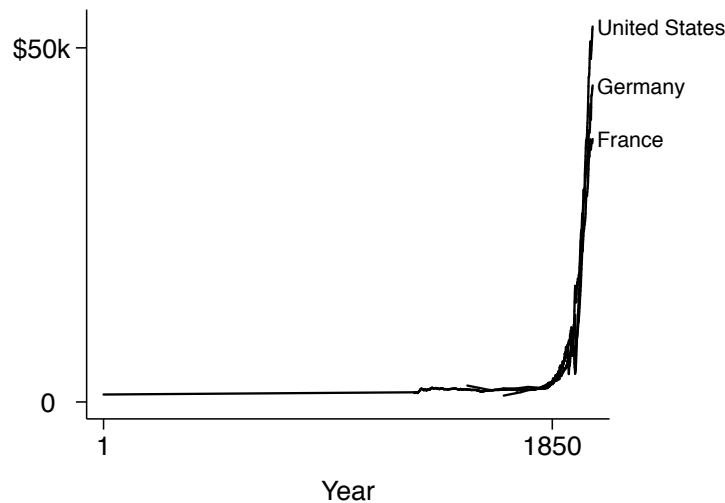


FIGURE 1.1 GDP per capita

Adjusted for inflation and converted to 2011 U.S. dollars using purchasing power parities. "k" = thousand. The data begin in AD 1 for France, in 1500 for Germany, and in 1650 for the United States. Data source: Maddison Project Database 2018, rug.nl/ggdc.

As societies get richer, they change in a variety of ways. Among these changes are shifts in what people want and what they prioritize. Three are particularly important.

First, people tend to dislike loss.⁴ The higher our income, the more insurance we are willing to purchase in order to minimize potential loss. For some types of insurance, such as insurance against low income in old age, government is the most effective provider. Germany created a public old-age pension program in the late 1800s, and other industrializing countries began to do so in the first half of the twentieth century, with many introducing or expanding them during the Great Depression in the 1930s. While many nations now have this type of public program, richer countries tend to have more expansive ones, as figure 1.2 shows.

Government also plays an important role in the provision of health insurance. As we see in figure 1.3, public spending on health care tends to rise as nations get richer. The same is true for education, as figure 1.4 shows. (The association in this figure would be even stronger but for the fact that virtually all countries have universal government-funded K-12 schooling, which requires significant expenditure regardless of national wealth.)

Much of what modern governments spend money on is public insurance. Some programs protect against loss of income due to old age, unemployment, illness, disability, family needs, discrimination, and other conditions and circumstances. Other programs ensure widespread availability of schooling, health care, housing, job training and placement, transportation, and other services and goods. As a country gets more affluent, the welfare state tends to grow.⁵

A second change in people's desires as they get richer is to want more fairness in their society.⁶ Drawing on several decades of public opinion survey data from multiple countries, Ronald Inglehart and Christian Welzel have found that once people can be confident of survival and of a decent standard of living, they tend to shift away from a worldview that emphasizes traditional sources of authority, religious dictates, traditional social roles, and the well-being of the group or community rather than that of the individual. A "postmaterialist" or "emancipative" worldview replaces a scarcity orientation.⁷ One element of postmaterialism is a desire for basic political rights. Another element is universalistic humanism, which deems all persons, including members of outgroups, as equally worthy of rights, opportunities, and respect. In the world's rich nations, the shift from a traditional orientation to a postmaterialist one emerged in the generation that grew up after the Great Depression and World War II.⁸ As the rest of the world gets richer, we're beginning to observe it there too.⁹

We can see the growing embrace of fairness when we compare nations that have varying levels of economic affluence. The richer the nation, the more important people tend to say it is "to live in a country that is governed democratically," as figure 1.5 shows. Similarly, a much larger portion of the populace in higher-income nations disagrees that "when jobs are scarce, men should have more right to a job than women," as we see in figure 1.6.¹⁰ And figure 1.7 shows a similar pattern when respondents are asked whether "when jobs are scarce, employers should give priority to [native-born] people over immigrants."

A third shift that comes with affluence is a growing emphasis on personal liberty. Most of us want the freedom to choose what to believe, how to behave, with whom to live, and so on. As material well-being increases, this desire for freedom comes to the fore.¹¹

Here too we can observe the progress by looking across countries. Figure 1.8 shows that in richer nations more people consider religion, which tends to restrict our beliefs and behaviors, to be not very important in their life.¹² More people say divorce is justifiable, as figure 1.9 shows. And more people view homosexuality as justifiable, as we see in figure 1.10.

These advances in freedom aren't without cost. As people come to value freedom more heavily, more choose to divorce or not to marry, so fewer children grow up with two parents.¹³ And as religion fades, a key source of community weakens.¹⁴ But these developments do enhance individual liberty.

People's value orientations tend to be established in their teen and early adult years and then persist through the rest of their lives, so at the societal level changes in attitudes often happen slowly, via new cohorts replacing older ones. Even so, the attitude shifts are clearly visible in the cross-country patterns in figures 1.2 through 1.10. Researchers also find them when comparing across cohorts within countries and when examining changes over time in the few nations for which attitudinal data are available over a lengthy number of years.¹⁵

When a country's economic performance weakens for a period of time, such as during recessions, the rise in support for public insurance, fairness, and personal freedom sometimes stalls or even reverses. However, such backsliding tends to be temporary.¹⁶

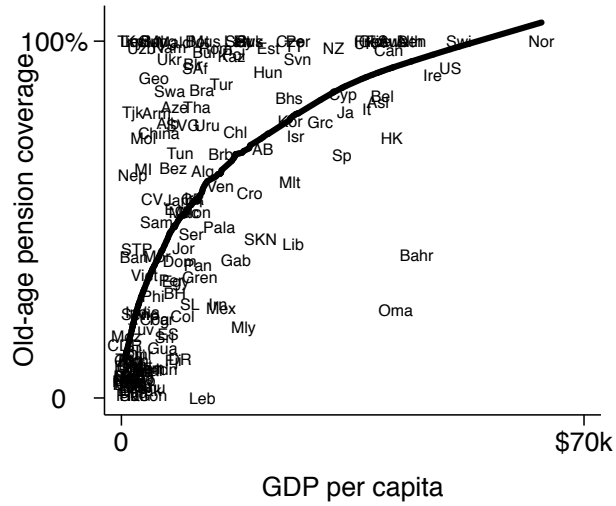


FIGURE 1.2 Affluence and public old-age pension coverage
 Old-age pension coverage: share of statutory pension-age population. 2004-2013. Data source: United Nations Development Program (UNDP), "Human Development Data," using data from the International Labour Office (ILO), *World Social Protection Report*. GDP per capita: converted to 2011 US dollars using purchasing power parities. "k" = thousand. 2005. Data source: UNDP, "Human Development Data." Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a loess curve, calculated with five oil-rich nations excluded.

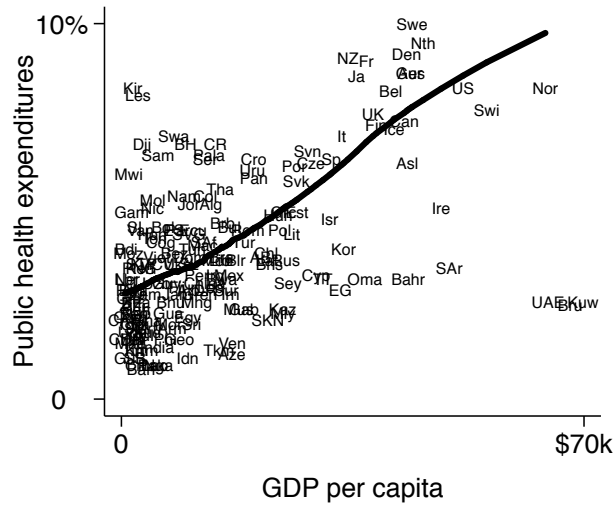


FIGURE 1.3 Affluence and public health expenditures
 Public health expenditures: share of GDP. 2014. Data source: United Nations Development Program (UNDP), "Human Development Data." GDP per capita: see figure 1.2. 2014. Three small, rich city-states (Andorra, Luxembourg, Singapore) and four small island nations that have very high health expenditures are omitted. The line is a loess curve, calculated with eight oil-rich nations excluded.

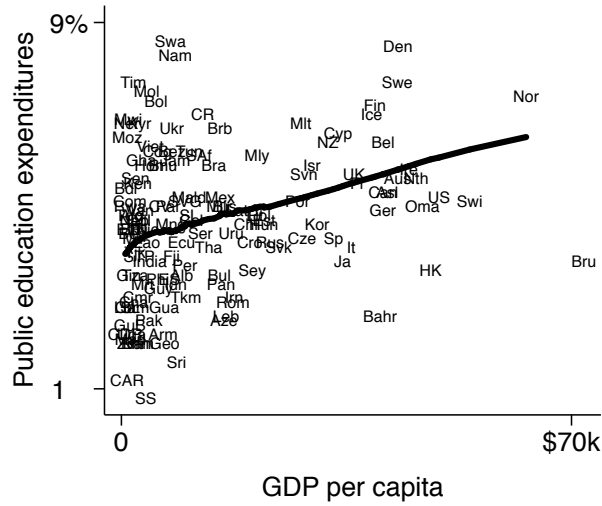


FIGURE 1.4 Affluence and public education expenditures

Public education expenditures: share of GDP. 2010-2014. Data source: United Nations Development Program (UNDP), "Human Development Data." GDP per capita: see figure 1.2. 2010. Three small, rich city-states (Andorra, Luxembourg, Singapore) and two small island nations that have very high education expenditures are omitted. The line is a loess curve, calculated with four oil-rich nations excluded.

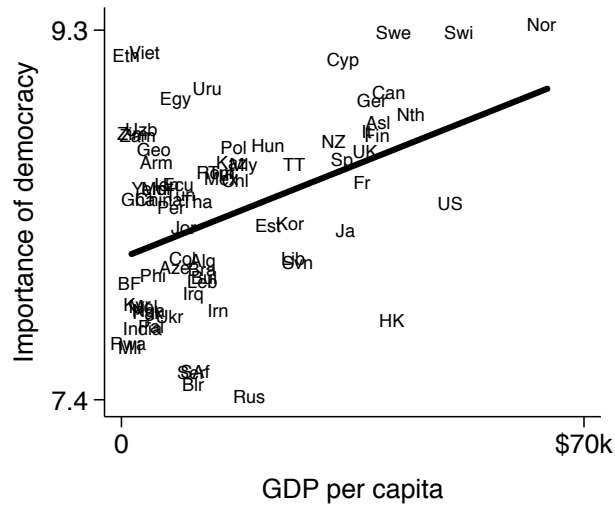


FIGURE 1.5 Affluence and desire for fairness in politics

Importance of democracy: average response to the question "How important is it for you to live in a country that is governed democratically?," with 1 indicating "not at all important" and 10 indicating "absolutely important." 2005-2014. Data source: World Values Survey. GDP per capita: see figure 1.2. 2005. Three small, rich city-states (Andorra, Luxembourg, Singapore) and Haiti are omitted. The line is a linear regression line, calculated with two oil-rich nations excluded.

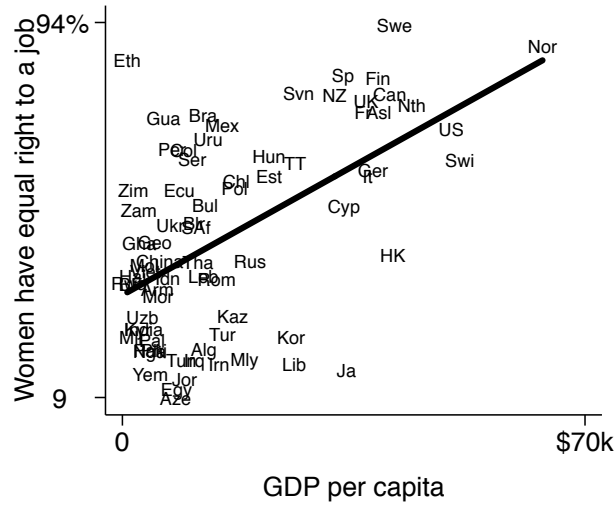


FIGURE 1.6 Affluence and desire for fairness for women

Women have equal right to a job: share disagreeing that "When jobs are scarce, men should have more right to a job than women." Other response options: agree, neither agree nor disagree. 2005-2014. Data source: World Values Survey. GDP per capita: see figure 1.2. 2005. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a linear regression line, calculated with two oil-rich nations excluded.

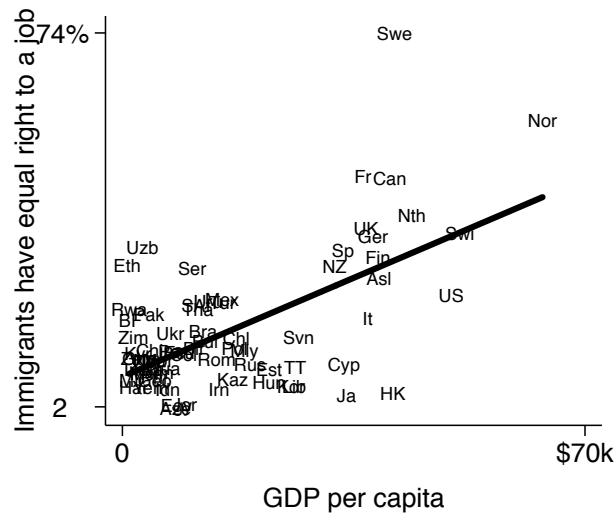


FIGURE 1.7 Affluence and desire for fairness for immigrants

Immigrants have equal right to a job: share not disagreeing that "When jobs are scarce, employers should give priority to [native-born] people over immigrants." Other response options: agree, neither agree nor disagree. 2005-2014. Data source: World Values Survey. GDP per capita: see figure 1.2. 2005. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a linear regression line, calculated with two oil-rich nations excluded.

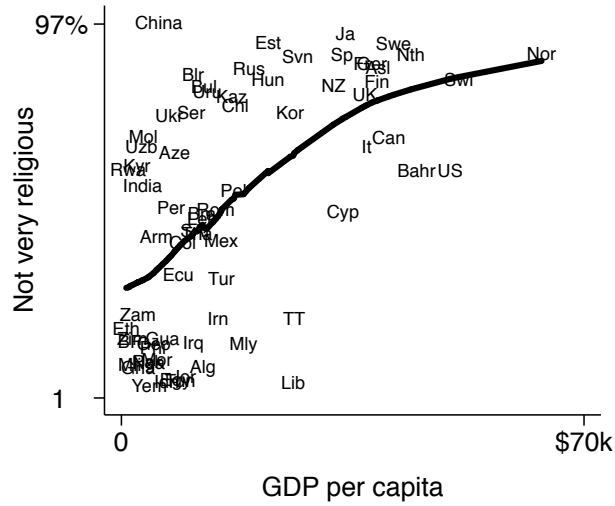


FIGURE 1.8 Affluence and desire for freedom in personal beliefs

Not very religious: share of the population responding other than "very important" to the question "For each of the following, indicate how important it is in your life: religion." Other response options: rather important, not very important, not at all important. 2005-2014. Data source: World Values Survey. GDP per capita: see figure 1.2. 2005. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a loess curve, calculated with three oil-rich nations excluded.

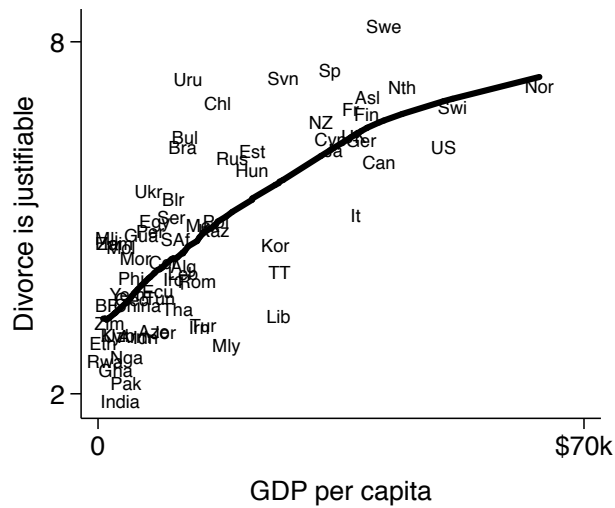


FIGURE 1.9 Affluence and desire for freedom in personal behavior: divorce

Divorce is justifiable: average response to the 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: divorce," where 1 indicates "never justified" and 10 indicates "always justified." 2005-2014. Data source: World Values Survey. GDP per capita: see figure 1.2. 2005. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a loess curve, calculated with two oil-rich nations excluded.

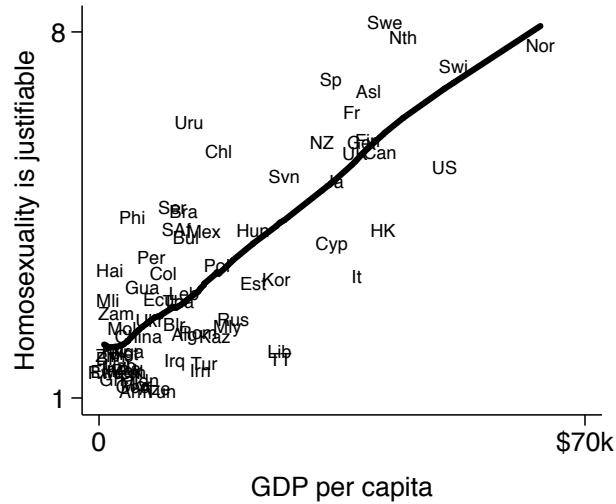


FIGURE 1.10 Affluence and desire for freedom in personal behavior: homosexuality

Homosexuality is justifiable: average response to the 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: homosexuality," where 1 indicates "never justified" and 10 indicates "always justified." 2005-2014. Data source: World Values Survey. GDP per capita: see figure 1.2. 2005. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a loess curve.

Together, affluence, its causes (markets, stable and supportive government, and science), and its consequences (desire for more insurance, fairness, and personal freedom) have produced societies that are not only richer but also more secure, better educated, healthier, fairer, and freer. Let's take a look at some of the evidence that makes this clear.¹⁷

A common way to measure the extent of poverty or material deprivation in different countries is to pick a minimally-acceptable income level and calculate the share of the population that lives in households with an income below that level. Figure 1.11 shows that if we use \$5.50 per day as the threshold, many low-income nations have very high poverty rates, while high-income nations have virtually no poverty. Figure 1.12 shows that school completion tends to be greater in higher-income countries. In figures 1.13 and 1.14, we see a similarly strong relationship for life expectancy and for homicides.¹⁸

Fairness outcomes also improve. Richer nations tend to be more democratic, as figure 1.15 shows. Women in more affluent countries tend to be better off on measures of inclusion, justice, and security, as we see in figure 1.16. Figure 1.17 shows that immigrants are much happier with their lives in richer countries.

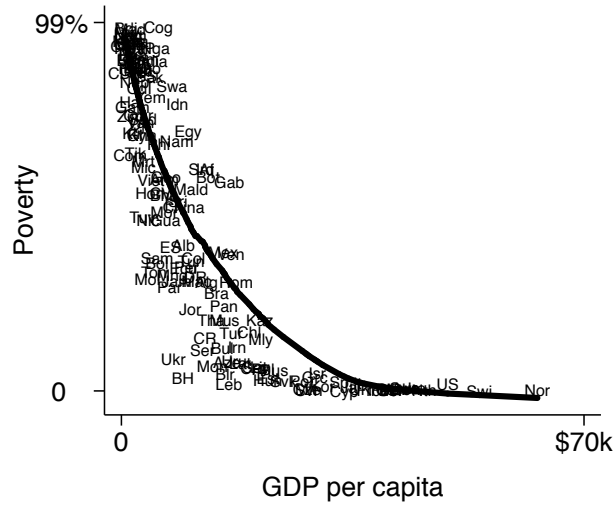


FIGURE 1.11 Affluence and a decent income floor

Poverty rate: share of persons living in a household with an income less than \$5.50 per day. Incomes adjusted for inflation and converted to 2011 U.S. dollars using purchasing power parities. Average over 2004-2015. Data source: World Bank. GDP per capita: see figure 1.2. 2010. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a loess curve.

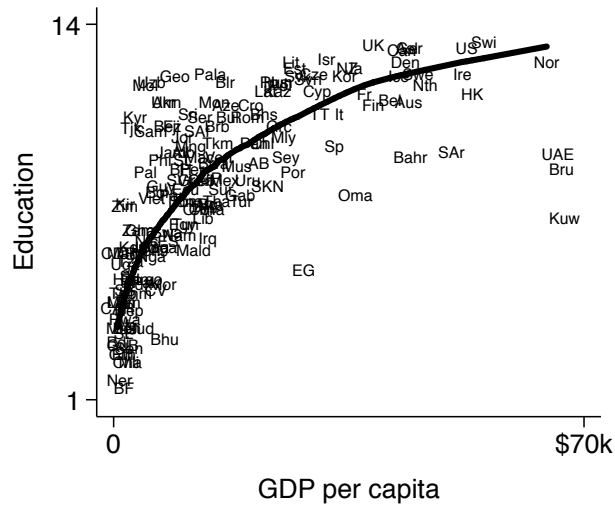


FIGURE 1.12 Affluence and education

Education: average years of schooling completed. 2015. Data source: United Nations Development Program (UNDP), "Human Development Data." GDP per capita: see figure 1.2. 2015. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a loess curve, calculated with eight oil-rich nations excluded.

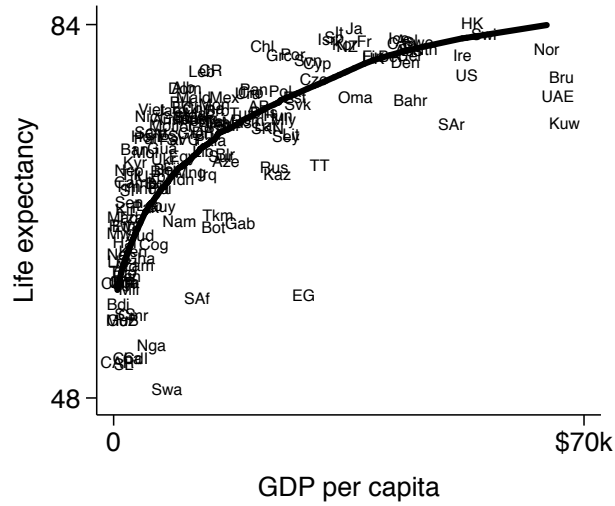


FIGURE 1.13 Affluence and life expectancy
 Life expectancy: years at birth. 2015. Data source: United Nations Development Program (UNDP), "Human Development Data." GDP per capita: see figure 1.2. 2015. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a loess curve, calculated with eight oil-rich nations excluded.

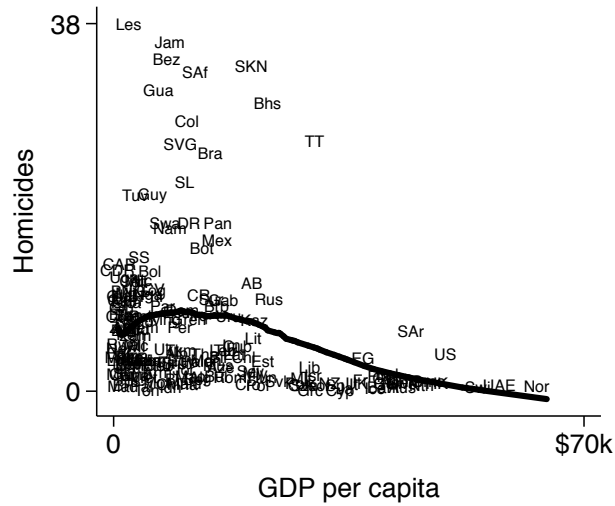


FIGURE 1.14 Affluence and safety
 Homicides: per 100,000 population. 2010-2014. Data source: United Nations Development Program (UNDP), "Human Development Data." GDP per capita: see figure 1.2. 2010. Three small, rich city-states (Andorra, Luxembourg, Singapore) and three very-high-homicide countries (El Salvador, Honduras, Venezuela) are omitted. The line is a loess curve, calculated with eight oil-rich nations excluded.

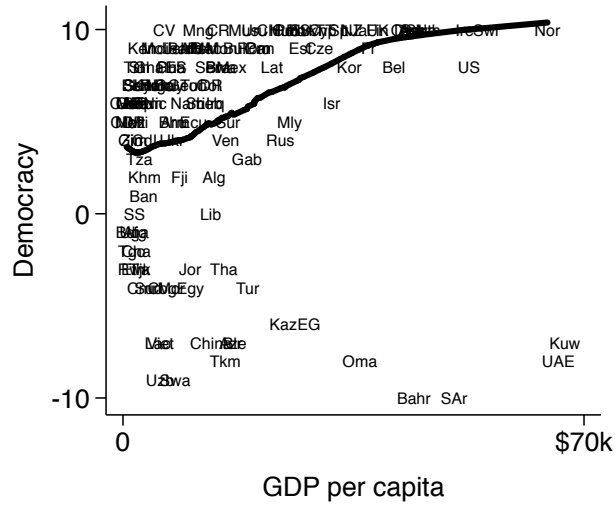


FIGURE 1.15 Affluence and democracy

Democracy: higher values indicate more democratic. Scale is -10 to +10. 2016. Data source: HumanProgress, "Democracy versus Autocracy Over Time," using data from Polity IV Annual Time-Series. GDP per capita: see figure 1.2. 2015. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a loess curve, calculated with seven oil-rich nations excluded.

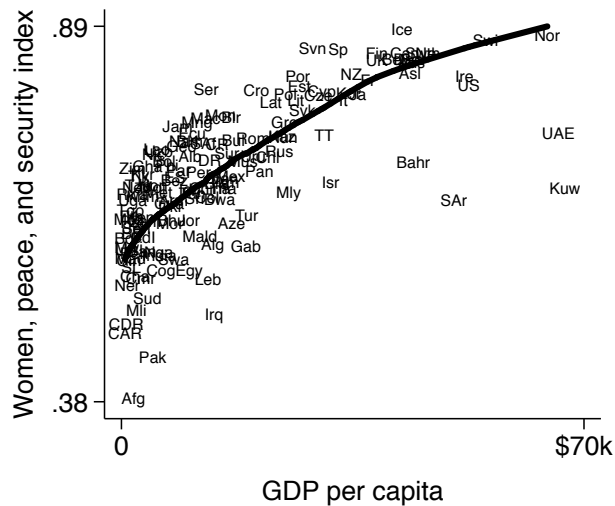


FIGURE 1.16 Affluence and women's well-being

Women, peace, and security index: a composite measure of inclusion (economic, social, political), justice (formal laws and informal discrimination), and security (family, community, societal) via 11 indicators. Scale is 0 to 1. Data source: Georgetown Institute for Women, Peace, and Security and Peace Research Institute of Oslo, *Women, Peace, and Security Index 2017-18*. GDP per capita: see figure 1.2. 2015. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a loess curve, calculated with five oil-rich nations excluded.

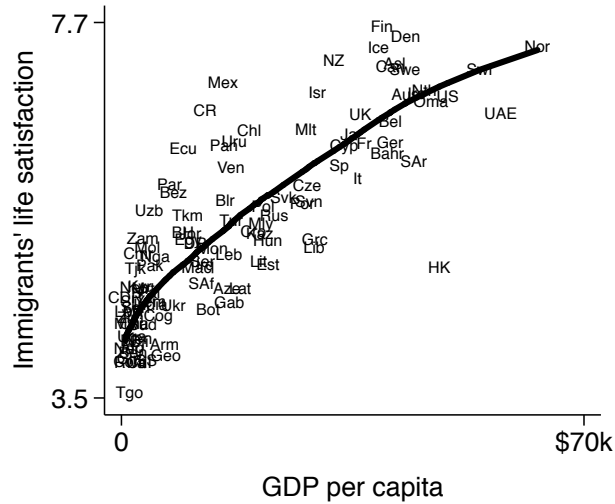


FIGURE 1.17 Affluence and immigrants' well-being

Immigrant life satisfaction: average response to the question "Please imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time?" 2005-2017. Data source: Gallup World Poll, via the *World Happiness Report 2018*, online appendix. GDP per capita: see figure 1.2. 2015. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a loess curve, calculated with six oil-rich nations excluded.

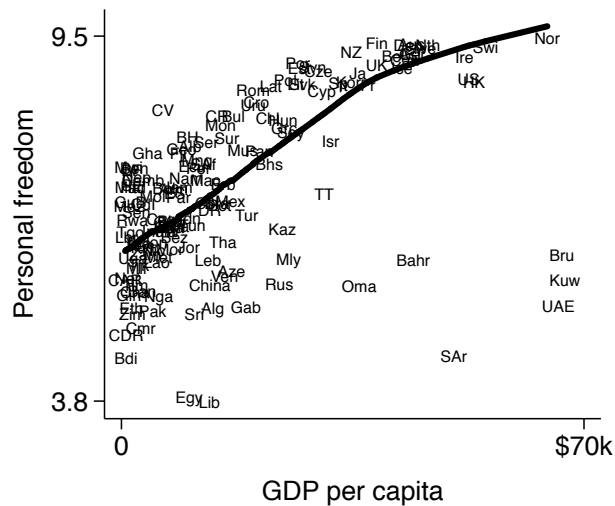


FIGURE 1.18 Affluence and personal freedom

Personal freedom: average score for rule of law, security and safety, freedom of movement, religious freedom, freedom of association, freedom of expression and information, and freedom of identity and relationships. Scale is 0 to 10. 2015. Data source: Ian Vasquez and Tanja Porcnik, *The Human Freedom Index*, Cato Institute. GDP per capita: see figure 1.2. 2015. Three small, rich city-states (Andorra, Luxembourg, Singapore) are omitted. The line is a loess curve, calculated with seven oil-rich nations excluded.

Finally, not only do people want more freedom as their societies become wealthier; they often get it. Researchers at a libertarian think tank, the Cato Institute, have compiled data on an assortment of freedoms, including the rule of law, security and safety, freedom of movement, religious freedom, freedom of association, freedom of expression and information, and freedom of identity and relationships. Figure 1.18 shows that a composite index reflecting these personal freedoms tends to rise with countries' GDP per capita.

The formula for progress, then, is straightforward: Put in place the prerequisites for sustained economic growth. Get richer. This brings pressure (from individuals and from organizations representing them, such as labor unions) for government services and supports, for fairness, and for personal freedoms. Together, changes in material well-being and in popular attitudes improve the likelihood of good outcomes.

Achieving sustained economic growth has proved difficult for many of the world's poorer nations. A key challenge for social scientists is to improve our understanding of how to kick-start and sustain economic growth.¹⁹ In the past several decades there has been considerable progress: for the first time, poorer countries containing a large portion of the world's population — particularly China and India but some others as well — have been growing rapidly. During this period more people have escaped poverty than ever before in human history.²⁰

While affluence makes progress in other areas more likely, it isn't a precondition. An equally important challenge for social scientists, therefore, is to figure out ways to speed up the implementation of services, cushions, fairness, and freedom even before nations become rich.²¹ How can we get more children in good schools for longer? How can we improve health outcomes before a fully modern health care system is in place? How can we reduce deep poverty in advance of full-scale national affluence?

Along with addressing climate change and other existential threats, these tasks are the most important ones facing researchers and policy makers, because they affect a large share of the world's people, including its least well-off.

However, they aren't our only challenge. For all of their achievements, the world's rich democratic countries have progressed unevenly toward the good society. These twenty or so nations are similar to one another in some of their institutions and policies, but they also vary quite a bit. And while it isn't always easy to spot in the charts we've looked at so far, they differ significantly on an array of outcomes.

What, according to these countries' experience, is the configuration of institutions and policies most conducive to human flourishing? The historical and comparative evidence suggests that the answer is social democratic capitalism.

SOCIAL DEMOCRATIC CAPITALISM

Social democratic capitalism consists of democracy, capitalism, education, a big welfare state, and high employment. All rich longstanding-democratic nations have the first three of these — democratic political systems, capitalist economies, and good-quality K-12 schooling. What sets social democratic capitalism apart is the addition of expansive and generous public insurance programs along with aggressive promotion of high employment via public services and modest rather than stringent regulation of product and labor markets.

In part 1 of this book, I examine social democratic capitalism and its performance. What has it achieved? To what extent does it suffer from tradeoffs? Up to now, social democratic capitalism's chief practitioners have been the Nordic countries: Denmark, Finland, Norway, and Sweden. Is its success generalizable beyond the Nordics? Are there alternatives that can do as well or better?

Chapter 2 looks at the experience of the Nordics and other rich democratic nations. Joining democracy, capitalism, and education together with a big welfare state and high employment has brought the Nordic countries a better standard of living for their least well-off members, greater income security, and very likely more equality of opportunity. And they have gotten these results without sacrificing economic growth, freedom, health, happiness, or any of a large number of other outcomes we want in a good society.

Skeptics discount the Nordics' success on the presumption that these nations have some unique feature that allows them, and only them, to reap the benefits of social democratic policies without suffering tradeoffs. Versions of this story identify the Nordics' secret weapon as an immutable work ethic, superior intelligence, trust, solidarity, small population size, ethnic homogeneity, institutional coherence, effective government, corporatism, a willingness to be taxed, tax compliance, strong labor unions, or low income inequality. I examine these hypotheses in chapter 3. None holds up to close inspection.

Is there a small-government set of institutions and policies that can match the success of social democratic capitalism? Some believe there is.

It consists of low government spending and taxes, strong families and voluntary organizations, private rather than public services, and public transfer programs heavily targeted to the least well-off. As I document in chapter 4, the experience of the affluent democratic nations over the past half century hasn't been friendly to this hypothesis. Countries with smaller government haven't achieved faster economic growth. Families and voluntary organizations sometimes are less effective and efficient than government programs, they by nature aren't comprehensive in coverage, and they've been weakening over time. They also are nearly or equally as prominent in nations with a big government as in those with a smaller one. Private provision of services should be welcomed, even embraced, but it is most effective as a complement to public provision rather than a substitute. Relying on heavily targeted government transfers can work, but it may be politically sustainable only in a country with a strong egalitarian ethos, such as Australia. Even there, it hasn't matched the success of social democratic capitalism.

Universal basic income has emerged as a prominent alternative to social democratic capitalism, championed mainly by those on the political left but also by some on the right. We have very little evidence to look to in evaluating the attractiveness of this proposal. What, then, should we make of it? I consider this question in chapter 5.

SOCIAL DEMOCRATIC AMERICA

Part 2 of the book focuses on the United States. The U.S. is by far the largest of the affluent democratic nations, with about one-third of their total population. Despite being one of the richest in this group, it is among the countries that is farthest from the good society. Too few ordinary Americans have adequate economic security, too few who grow up in disadvantaged circumstances are able to reach the middle class, and too few see their boat lifted when the economic tide rises. I detail the nature and extent of these problems in chapter 6.

In chapter 7 I suggest remedies. The problems are big ones, but they are not intractable. The key to a solution? Social democratic capitalism. While we have gradually expanded the size and scope of our public insurance programs and employment-enhancing services over the past century, we need to do more. I offer recommendations to add or improve health insurance, paid parental leave, a child allowance, unemployment insurance and wage insurance, sickness insurance, disability assistance, social assistance, pensions, elder care, housing assistance, early education, apprenticeships, college, affirmative action, full employment,

the minimum wage, the Earned Income Tax Credit, profit sharing, infrastructure and public spaces, and paid vacation days and holidays. After outlining the details for each of these, I turn to how much it will cost and how to pay for it.

Can it happen? I predict yes. In chapter 8 I explain why. The notion that the United States will further increase the size and scope of its welfare state may seem blind to the reality of contemporary American politics, but a different picture emerges when we step back and consider the long run. The lesson of the past 100 years is that as the country gets richer, we are willing to spend more in order to safeguard against loss and enhance fairness. Advances in social policy come only intermittently, but they do come. And when they come, they usually last. Building a social democratic America doesn't require a radical break from our historical path. It simply requires continuing along that path. In all likelihood, that is exactly what we will do.

America has come a long way on the road to the good society, but we have many miles yet to travel. Happily, our history and the experiences of other rich nations show us the way forward. The United States is a much better country today than it was a century ago, and a key part of the reason is that government does more to ensure economic security, opportunity, and shared prosperity now than it did then. In the future it will do more still, and we'll be the better for it.