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# Social Democracy

*By Lane Kenworthy*

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The “system” I favor is commonly termed social democracy. It is exemplified in the institutions and policies of the contemporary Nordic countries—Denmark, Finland, Norway, and Sweden. Details, evidence, references, and discussion of objections and alternatives are in my books *Social Democratic America* and *The Good Society*.<sup>1</sup>

This is a type of capitalist democracy. Most property is privately owned. Markets are the chief mechanism governing economic activity. The government provides an array of insurance programs and services in an attempt to enhance economic security, opportunity, and shared prosperity.

## 1. Core Goals

A good society ought to seek to achieve the following aims (in alphabetical order):



- |                       |   |   |                               |
|-----------------------|---|---|-------------------------------|
| Community             | ☂ | ☂ | Family                        |
| Democracy             | ☂ | ☂ | Freedom                       |
| Economic equality     | ☂ | ☂ | Good government               |
| Economic opportunity  | ☂ | ☂ | Happiness                     |
| Economic prosperity   | ☂ | ☂ | Health                        |
| Economic security     | ☂ | ☂ | Housing                       |
| Economic stability    | ☂ | ☂ | Privacy                       |
| Education             | ☂ | ☂ | Safety                        |
| Employment            | ☂ | ☂ | World embrace: openness to,   |
| Environmental quality | ☂ |   | cooperation with, and support |
| and sustainability    |   |   | for other countries           |

The chief goals social democracy attempts to realize, and that distinguish it from other actually-existing capitalisms, are economic security, equality (low inequality) of opportunity, and shared prosperity. It might be fair to add a second group to this list: economic equality (low or modest income inequality), education, employment, good government, health, housing, and safety. Actually-existing social democracies care about the second group too, but they don't necessarily have a distinctive orientation toward them or strategy for achieving them.

A generation ago, the label "*social democratic*" referred to policies that make it easier for people to survive with little or no reliance on earnings from employment. Social democracy meant, in effect, a large public safety net. Today, social democracy is oriented toward *activation* or *social investment*. It promotes employment as a route to economic security, opportunity, and prosperity, while still recognizing the importance of ensuring decent living standards for those not in paid work. Also, contemporary social democratic countries tend to believe in a market-friendly regulatory approach. There are regulations to protect workers, consumers, and the environment, to be sure. But these exist within an institutional context that aims to encourage entrepreneurship and flexibility, by making it easy to start or close a business, to hire or fire employees, and to adjust work hours. In other words, modern social democracy means a commitment to extensive use of government policy to promote economic security, expand opportunity,



and ensure rising living standards for all. But it aims to do so while encouraging employment and facilitating freedom, flexibility, and market dynamism.

## 2. Major Changes

What changes are needed in the current system? Here I'll take the contemporary United States as my reference point. The chief changes lie in the realm of social policy. Over the past century, the US, like other rich nations, has created a number of public insurance programs. But we haven't done enough. From the United States' experience and that of other affluent countries, we know there are significant risks we could insure against but currently don't, and other risks for which the protection we currently provide is inadequate. The US needs the following:

- |                                  |   |   |                                 |
|----------------------------------|---|---|---------------------------------|
| Universal health care            | 🌿 | 🌿 | Earned Income Tax Credit        |
| One-year paid parental leave     | 🌿 |   | extended farther up the income  |
| Universal early education        | 🌿 |   | ladder and indexed to average   |
| Increased Child Tax Credit       | 🌿 |   | compensation                    |
| Sickness insurance               | 🌿 | 🌿 | Social assistance with a higher |
| Eased eligibility criteria for   | 🌿 |   | benefit level and more support  |
| unemployment insurance           |   |   | for employment                  |
| Wage insurance                   | 🌿 | 🌿 | Reduced incarceration of        |
| Supplemental defined-            | 🌿 |   | low-level drug offenders        |
| contribution pension plan with   |   | 🌿 | Affirmative action shifted to   |
| automatic enrollment             |   |   | focus on family background      |
| Reduced cost of attending a      | 🌿 |   | rather than race                |
| public college                   |   | 🌿 | Expanded government in-         |
| Extensive, personalized support  | 🌿 |   | vestment in infrastructure and  |
| with job search and (re)training |   |   | public spaces                   |
| Government as employer of        | 🌿 | 🌿 | Increase in paid holidays and   |
| last resort                      |   |   | vacation time                   |
| Minimum wage increased           | 🌿 |   |                                 |
| modestly and indexed to prices   |   |   |                                 |



### 3. PRINCIPAL MEANS

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Modern social democracy consists, to put it simply, of market capitalism plus generous and employment-friendly social policy.

**Most of what we call *social policy* is actually public insurance. Social Security and Medicare insure against the risk of having little or no money in retirement years.**

Unemployment compensation insures against the risk of losing your job. Disability payment programs insure against the risk of suffering a physical, mental, or psychological condition that renders you unable to earn a living. Other public services and benefits also are insurance programs, even if we don't usually think of them as such. Public schools insure against the risk that private schools are unavailable, too expensive, or poor in quality. Special education services insure against the possibility of having a disability that inhibits participation in school. Retraining and job placement programs protect you if market conditions make it difficult to find employment. The Earned Income Tax Credit (EITC) insures against the risk that your job pays less than what's needed for a minimally decent standard of living. Social assistance programs such as SNAP (Supplemental Nutrition Assistance Programs or Food Stamps) and TANF (Temporary Assistance for Needy Families) insure against the risk that you find yourself unable to get a job but ineligible for unemployment or disability compensation.

Why rely on public policy rather than intermediary institutions such as families, civic organizations, and labor unions? It would be good if more American children grew up in intact families, if unions ensured stable jobs and rising wages for a significant share of workers, and if community organizations provided guidance and support to more people who are in difficult circumstances. But that's not likely to happen. Over the past half century, these institutions have been unraveling. Americans marry later and divorce more frequently. Fewer children grow up in a home with both of their original parents. Participation in local civic associations has been declining. **And barely one in ten employed Americans is a union member.** Even more problematic, these changes have a class tilt: families, community organizations, and unions have weakened most among those with less education and income. Advocates for revitalizing these institutions tend to



offer lots of hope, but little evidence that it can be accomplished. Nor do we find cause for optimism abroad; similar trends are evident in most rich nations.

Even if we could make some progress in reversing the decline of families, unions, and community organizations, it wouldn't be enough. **At their best, these institutions leave a significant portion of the population uncovered.** There has never been a society in which all children grow up in stable two-parent families, all workers enjoy union-negotiated wages and benefits, and civic associations serve the needs of all of the disadvantaged. **Only government has the capacity to help all persons.**

I mentioned earlier that modern social democracy embraces employment. This is partly as an end in itself, but it's also as a means. Employment imposes regularity and discipline on people's lives. It can be a source of mental stimulation. It helps to fulfill the widespread desire to contribute to, and be integrated with, the larger society. It shapes identity and can boost self-esteem. With neighborhood and family ties weakening, the office or factory is a key site of social interaction. Nonemployment tends to be associated with feelings of social exclusion, discouragement, boredom, and unhappiness.

Just as important, in countries that have made commitments to pensions for their elderly, health care for all, and assorted other services and transfers, there is **a need for additional government revenue as the population ages and family stability decreases.** Some of the money can come from raising tax rates, but that has become a tall order in a world with mobile capital. Increasing the share of the population in paid work can help to ensure the fiscal viability of a generous welfare state. It provides an increase in tax revenues without requiring an increase in tax rates. High employment eases the fiscal crunch another way too, by reducing the number of people fully or heavily reliant on government benefits.

## 4. Geographic Scope

Social democracy applies to the nation-state, though in some instances it could be practiced, at least partially, by a region within a country.



## 5. Temporal Scope

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On a spectrum from imminently practicable to purely speculative, social democracy lies very close to the imminently practicable end. It exists to varying degrees in the four Nordic countries. Many other rich nations have some of the policies already, and a number are moving in the direction of changing or adding policies to move closer to social democratic ones. I suspect the United States, which has perhaps the longest road to travel among the world's rich longstanding democracies, will have an array of policies similar to those of today's Nordic nations within about fifty years.

## 6. Theory Of Change

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The notion of a social democratic United States will strike some observers of US politics as a pipe dream. But consider this: in the realm of public social policy, the distance between the United States today and Denmark or Sweden today is smaller than the distance between the United States a century ago and the United States today. In the past one hundred years we've put in place a host of public programs that contribute to economic security, opportunity, and shared prosperity. Getting closer to the good society 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.

Policy makers, perhaps with a push from organized interest groups and the populace, will recognize the benefits of a larger government role in pursuing economic security, opportunity, and rising living standards and will attempt to move the country in that direction. Often they will fail. But sometimes they'll succeed. Progress will be incremental, coming in fits and starts. But it will have staying power. New programs and expansions of existing ones will tend to persist, because programs that work well become popular and because our policymaking process makes it difficult for opponents of social programs to remove them. Small steps and the occasional big leap, coupled with limited backsliding, will have the cumulative effect of significantly increasing the breadth and generosity of government social programs.



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

This is, in fact, an apt description of the history of US social policy over the past century. Some advances occurred when Democrats held the presidency and both houses of Congress, but not all. Some came during bad economic times, others in healthier conditions. In some instances labor unions were strong proponents, in others not. Sometimes support from key sectors of business was critical, but not always. Some changes hinged on inter-party compromise, while others didn't.

Two features have been common to all expansions of US social policy. One is problem-solving by policy makers: an attempt to figure out a useful course of action given needs, aims, resources, and available knowledge. The other is that policy advances tend to stick, partly because they become popular and partly because the US policy-making process is laden with “veto points” that make it easy for a minority to block proposed policy changes. Problem solving and policy persistence are likely to continue. Over time, they will produce a rise in the size and scope of government social programs in the United States.

There are potential obstacles. First, many Americans don't like the idea of big government. However, when it comes to specific programs, we tend to be strongly supportive. We're ideologically conservative but programmatically progressive.



Second, a significant expansion of public social programs in coming decades hinges on electoral success by Democrats, and some think the Democrats' fortunes are dimming. They have lost support among working-class whites, a key element of the New Deal coalition that dominated American government from the 1930s through the 1970s. Yet, Democratic presidential and congressional candidates have fared well with a new electoral base of urban professionals, women, African Americans, and Latinos. Will a flood of private money pouring into election campaigns, encouraged by the Supreme Court's 2010 *Citizens United* ruling, doom the Democrats? Maybe, but private campaign contributions have been growing in importance for several decades, and so far the Democrats have managed to keep up. And while demographics, electoral coalitions, and campaign funding certainly matter, the state of the economy tends to be the chief determinant of the outcome of national elections. If they manage the economy reasonably well when in charge, Democrats are likely to remain electorally competitive.

A third obstacle, according to some, is that the key determinant of US policy is the strength of organized interests outside the electoral arena, and there the balance of power has shifted to the right. Businesses and affluent individuals have mobilized, while the labor movement, the key organized interest group on the left, has steadily declined in membership and, arguably, in political influence. Yet this has slowed, not stopped, the advance of social policy. Unless the balance of power shifts farther to the right, the advance is likely to continue.

Fourth, as I noted earlier, the veto-point-heavy structure of America's political system makes it relatively easy for opponents to block policy change. Given this structure, the recent disciplined and obstructionist approach by congressional Republicans is a threat to the forward march of social policy. But only if it continues, and history suggests it won't.

If we extrapolate from the past century, the most likely course for American social policy is continued advance. Political obstacles old and new may slow progress, but they aren't likely to halt it.





## 7. Specifics: Economy

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There is a lot we don't know about how best to run an economy. We have virtually no evidence, for instance, about whether a large-scale democratically-planned economy could function effectively. The same is true of a basic income grant at a level high enough to make employment genuinely optional. One of the chief arguments in favor of social democracy is that we have real-life experience with this kind of model, and that experience offers reason for optimism that the model can do well in achieving a host of goals.

Here are some specifics:

A significant share of the productive assets and businesses are privately owned, though in some sectors, such as health care, most or all may be state-owned. Most investment decisions are made by firms. Private firms keep profits, but they are subject to a fairly high rate of taxation, as are individual incomes (and consumption).

Markets play the leading role in allocating not only investment but also the selling of goods and services and the allocation of labor. Government regulates these markets, extensively in some sectors. And government may be a large employer; in some of the Nordic countries it has accounted for nearly a third of employment. Planning of the national economy is limited mainly to *industrial policy* — the steering of resources toward certain sectors.<sup>2</sup>

Social democracy is compatible with a range of firm sizes and corporate governance arrangements. Firm ownership might be dominated by larger shareholders who provide patient capital or by small shareholders that favor shorter time horizons. Firm boards could be elected entirely by shareholders or by a mix of shareholders and employees (codetermination).

Labor unions play an important role in determining wage levels and wage differences in social democratic countries. Though their membership shares (unionization rates) remain among the highest in the world, they have declined in recent



decades. It isn't clear how critical this is to the social democratic model. For instance, if unions were to continue to weaken, eventually government might step in to take a more active role in wage determination, via a statutory minimum wage (none of the Nordic countries currently have one) or more. Most medium- and large-sized firms are required to have an employee-elected works council, which negotiates with management about working conditions, hours, and other non-pay matters.

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Consistent with their embrace of competition and their concern for the least well-off, social democratic countries have tended to favor economic globalization—particularly imports. They have been more ambivalent about immigration, though in recent decades Sweden has been a world leader in accepting refugees, and its foreign-born population share is now higher than the US.

Social democracy constricts economic freedom in one respect: government takes money from us and spends it to ensure economic security, expand opportunity, and enhance living standards. This isn't especially objectionable. Only diehard libertarians believe individual liberty should trump all other considerations. Virtually everyone supports government paternalism in the form of property protection, traffic lights, and food safety regulations, to mention just a few examples. And many people support public social programs. When basic needs are met, we tend to prefer more security, broader opportunity, and confidence that living standards will improve over time. We are willing to allocate some of our present and future income to guarantee these things, and we are willing to allow government to take on that task. That's why public social programs tend to expand in size and scope as nations grow richer.



At the same time, a social democratic approach to government can feature a relatively light regulatory touch. In the Nordic nations, government sets basic standards for employee and consumer protections, but it seldom tells economic actors how to meet those standards. The aim is to maximize individual opportunity and provide security for those who fail (consistent with the spirit of our limited liability and bankruptcy protections), while impinging as little as possible on competition and flexibility. It's big government in one respect and small government in another.

There are some areas in which the US economy would fare better with less government than it currently has, rather than more. For instance, we allow large pharmaceutical companies to monopolize provision of certain drugs via patents. Some are drugs they invent; others are drugs created by smaller companies whose patent the large firm buys. Because these drugs relieve pain, enhance pleasure, and prolong life, they are in high demand. The monopoly secured by patents allows pharmaceutical firms to charge extremely high prices for them. One estimate puts the above-market cost at 270 billion dollars a year, which is more than we spend on many of our public social programs. Also, the huge monetary benefit conferred by patent protection encourages pharmaceutical firms to give less attention to drugs that might be of considerable medical benefit but that won't qualify for patent exclusivity. Weakening patent protection and thereby exposing pharmaceutical providers to greater competition might significantly enhance well-being. We would need to ensure that companies continue to have a strong incentive to invest in research on new drugs, but there are ways to do so that don't rely on lengthy patent protection.

We have other government rules, regulations, and practices that inhibit competition or privilege particular firms and industries. Patent law limits competition not just in pharmaceuticals but also in computer software, entertainment, and a number of other product markets. Licensing, credentialing, and certification requirements for occupations or particular types of businesses dampen competition in product markets ranging from medical care to legal services to education to ground transportation to hairdressing and beyond. Zoning restrictions and



historic preservation designations limit expansion of housing units in large cities by imposing building height restrictions and preventing new construction on much of the land. Because the federal government has tended to treat large banks as “too big to fail,” investors and management know they are likely to be rescued by taxpayers if their bets go sour, which allows those banks to engage in riskier strategies, with potentially higher profit margins, and encourages investors to choose those banks over competitors.

**So, social democracy doesn't mean bigger government in all respects.** When it comes to social policy, however, the case for a bigger government in the United States is strong. How much will it cost to add or extend the various programs I listed earlier? As a rough estimate, we're looking at a rise in government spending in the neighborhood of 10 percent of GDP. If that sounds beyond the pale, note if our government expenditures rise from today's 38 percent of GDP to around 48 percent we will be only a little above the current norm among the world's rich nations. Moreover, an increase of 10 percent of GDP would be much smaller than the increase that occurred in the US between 1920 and today.

## 8. Specifics: Society

**The Nordic countries have, to this point, been very successful at keeping income inequality at a modest level, ensuring a high and rising income floor for the least well-off, and boosting opportunity for persons who grow up in less advantaged family and neighborhood circumstances.** Let me emphasize four points.

First, for keeping poverty and income inequality in check, it is government transfers rather than taxes that tend to do most of the work. All rich nations, including the Nordic countries, have tax systems that are roughly proportional: households up and down the income ladder pay approximately the same share of their pre-tax income in taxes. Consequently, taxes don't alter the distribution of income. But government transfers do. Countries that provide larger income transfers to low- and middle-income households tend to achieve more redistribution—more reduction of income inequality and poverty. In fact, pretransfer income for households on the lower rungs of the income ladder (those in the bottom fifth)



is about the same in Sweden and Denmark as in the United States. It's transfers that make the income of these households higher in Denmark and Sweden than in the US. If we were to count **the value of free or low-cost public services, the difference between the Nordic countries and the US would be even greater.**

Taxes play a role in redistributing income mainly by providing the funds for transfers. The key difference between America's tax system and those of highly redistributive countries such as Denmark and Sweden isn't that ours is less progressive. It's that our tax rates are lower, so our tax system raises less revenue. While it would be good to make America's tax system more progressive, we can't get the revenues we need—an additional 10 percent of GDP—solely from households at the top. We would have to increase the effective tax rate paid by the top 1 or 5 percent of households to a level far exceeding what it has been at any point in the past half century. **An American social democracy will require larger tax payments not just by the rich but by the middle class too.**

Second, **government transfers are important not only for securing a high income floor for the least well-off, but also for ensuring that, over time, the floor rises in sync with the economy—in other words, that economic growth is broadly shared.** 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 almost all of the world's affluent nations, 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 when they occurred. Sometimes increasing transfers requires no explicit policy change, **as benefit levels tend to rise automatically as the economy grows. This happens when, for instance, pensions, unemployment compensation, and related benefits are indexed to average wages.** Increases in other transfers, such as social assistance, may require periodic policy updates.

**Even if we value employment, as we should, we needn't bemoan the fact that employment and earnings aren't the key trickle-down mechanism for the least well-off. Some people have psychological, cognitive, or physical conditions that**



limit their earning capabilities. Others are constrained by family circumstances. At any given point in time, some will be out of work due to structural or cyclical unemployment. And others are retirees. We surely can do better at helping able adults get into (or back into) employment, but we shouldn't pretend that paid work is a realistic route to rising incomes for everyone.

A third point has to do with the kind of employment we should foster. In particular, how should we feel about low-end service jobs? Some on the left favor minimizing them. One way to do that is to set the wage floor at a very high level, perhaps supplemented by heavy payroll taxes, in order to reduce employer demand for low-end positions. I disagree with this approach. I believe we should welcome low-end service jobs. Manufacturing jobs have been declining steadily for decades, and that is almost certain to continue. Even if we were to do a superb job with schooling, high-end services won't employ everyone. Imagine a high-skill, high-employment economy of the future with 85 percent of the working-age population in paid work. Suppose 65 percent complete university and end up in high- or middle-paying service jobs. That optimistic scenario still leaves 20 percent in other jobs. A few will work in manufacturing or farming, but for the rest we need low-end services.

Not only do we need low-end service jobs; many want them. As we get richer, most of us are willing to outsource more tasks that we don't have time, expertise, or desire to do ourselves: changing the oil in the car, mowing the lawn, cleaning, cooking, caring for children and other family members, advising, educating, organizing, managing, coaching, and transporting. And, improved productivity and lower costs abroad will reduce the price we pay for food, manufactured goods, and some services, leaving us with more disposable income. So we'll want more people teaching preschool children, coaching and mentoring teenagers, helping adults find their way in the labor market or through a midlife career transition, caring for the elderly, preparing and serving food, cleaning public spaces, delivering packages, and so on. And we'll be better able to purchase such services. Low-end service jobs can be especially valuable for the young and immigrants, two groups who tend to struggle in the labor market.



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*“ We need high employment to ensure a tax base large enough to pay for generous social programs and government's other functions.”*

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What’s the right level for the federal minimum wage? I suspect fifteen dollars per hour, the goal of the “Fight for \$15” movement, is too high. At its peak, in the late 1960s, the minimum wage was about ten dollars in today’s dollars. A minimum wage of fifteen dollars is likely to have little or no employment-reducing impact in cities such as New York or San Francisco, but in Mississippi and Arkansas it very likely would. I favor a federal minimum for 2016 in the range of ten dollars to twelve dollars. That minimum should be indexed to prices, so that it doesn’t decrease in inflation-adjusted terms over time. States and cities would remain free to set their own minimum higher than the federal level, as many currently do. People employed in low-end service jobs need not have a low income. A subsidy such as the Earned Income Tax Credit (EITC) can boost household incomes while simultaneously encouraging employment.

Why not instead pay out a basic income grant—an annual transfer of, say, 12,000 dollars to every adult, not conditional on employment? This would significantly enhance people’s economic freedom. And if it replaced social assistance (TANF, Food Stamps, and related programs), it would reduce both the stigma attached to benefit receipt and government administrative costs. The problem is that a grant large enough to allow adults to live without earnings almost certainly would reduce employment, and we need high employment to ensure a tax base large enough to pay for generous social programs and government’s other functions. Moreover, the notion of reciprocity is strong among Americans, so a program that reduces employment might lead to a polarizing political divide, which could endanger other public social protections.



For some, a low-end service job might be a career. Others will want it to be merely a stepping stone. Government can help ensure that people have the capability to move up via health care, early education, elementary and secondary schooling, lifelong learning opportunities, retraining, job placement assistance, special services for the mentally or physically disabled, language assistance for immigrants, targeted programs for the young and the elderly, and assistance with transportation. Government can also help in organizing formal job ladders.

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“ *Information, coupled with the tendency for affluence to increase people’s desire for insurance and for fairness, may help push the United States toward expanded use of public social policy.*”

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Mobility between jobs need not be confined to upward moves. It’s difficult to predict at age eighteen or even twenty-two what kinds of interests and capabilities you will have at age thirty-five or fifty. Policy should facilitate people’s ability to change job, occupation, or entire line of work at various points in the life course, even if the switch is simply to something different, rather than something better. This calls for counseling, mentoring, and perhaps several sabbaticals (every adult, not just parents of newborn children, would have access to several one-year paid leaves). It also means eligibility for pensions, unemployment insurance, sickness insurance, parental leave, holidays, and other nonwage benefits should be contingent on employment, but not on the particular job or employer you have.

If most people are expected to be in employment, policy also ought to improve the quality of work-life. Low-end service jobs may offer limited mental stimulation or opportunity to participate in decision making, and some are stressful.





There is a limit to the amount of stimulation that some of these jobs will ever be able to provide, but most could do better, and we should push firms in that direction. Indeed, we should aim to improve working conditions in all jobs, rather than assuming that higher-skilled, better-paying positions automatically have decent work quality. I like the idea of an auditing procedure whereby government sets outcome standards for work conditions, leaves it up to firms to decide how to meet the standards, and monitors their efforts to do so.

Policy also ought to limit the degree to which job inequality spills over into social inequality and segregation. We want a society that is modestly rather than severely unequal. Jobs inevitably come with inequalities of status. If they also have large differences in pay, this can easily spill over into social segregation and inequality of respect. Policy should push against this. Neighborhoods should be designed or redesigned to encourage class mixing. Parks, beaches, libraries, and public transport ought to be attractive to all. And we might do well to consider a mandatory year of national service to ensure that everyone gets an experience of genuine social mixing as they embark on adulthood.

Fourth, what's the best way to reduce inequality of opportunity? While there are many institutions and policies that can help, evidence increasingly points to a key role for universal high-quality affordable early education. Schools help to offset the massive differences in capabilities caused by families.<sup>3</sup> 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.

The effects of three high-quality early education programs—the Perry Pre-school 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 a short-lived but large-scale childcare program put in place in the 1940s during World War II, funded by the Defense Public Works law. 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. 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.

The Nordic countries, particularly Denmark and Sweden, have had universal early education systems in place for a generation. This may help account for why opportunity is more equal—children's cognitive abilities, likelihood of completing high school and college, and labor market success depend less on their parents' education, income, and parenting practices—in these countries than in others. The most informative test is one that looks at differences across countries rather than changes over time. If early education helps to equalize opportunity, we would expect a greater equalization over the past generation in Sweden and Denmark than in countries that didn't adopt universal early education. That is indeed what happened.

## 9. Specifics: Environment

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Those who favor a social democratic model along the lines of what I propose are likely to care about the quality of the environment and to take climate change science seriously. However, the model has no distinctive approach to addressing these problems domestically or internationally.

## 10. Specifics: Polity

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A social democracy in the United States wouldn't require any constitutional change. However, two changes would be helpful: (1) a switch from our winner-take-all presidential-parliamentary system of elections and government to a single parliament with proportional representation elections; (2) an ability to tax wealth directly while wealth holders are alive (wealth tax) rather only when they die (estate tax).



Social democracy is compatible with varying degrees of political centralization, with some use of direct democracy (referendums), and with varying foreign policies.

An important question, particularly for the United States, has to do with sources of pressure for enhanced and sustained social policy—in particular, whether a strong union movement and a well-organized social movement are needed. I noted earlier that the historical pattern in the United States suggests reason for skepticism that these are necessary. Yes, differences in union strength help to account for why the United States lags well behind the Nordic countries in its array of public insurance programs and public services. But over the past century the US has nevertheless added a host of valuable programs, and only in some instances did unions or social movements play a key role in their creation. Public opinion is an important reason why such programs persist, along with the structure of the US political system (the abundance of veto points).

I'm optimistic about the likelihood that America will continue to advance in its use of social policy, even though unions are now very weak and there is no guarantee of large-scale social movements to press for programs such as universal early education, paid sick leave, or an expanded Earned Income Tax Credit. Even so, a revitalization of organized labor surely would help, as would better organized and more persistent social movements. The “Fight for \$15” movement may signal a shift in this direction.

Another reason for optimism has to do with the improvement in our understanding about how economies, societies, and polities function. Opponents of big government frequently contend that it fails to achieve its objectives, makes things worse, or jeopardizes other desirable aims. A generous public safety net, they say, makes the poor worse off in the long run by discouraging employment. High taxes weaken the economy. These arguments, termed the “rhetoric of reaction” by Albert Hirschman, can seem persuasive. But these claims are subject to empirical scrutiny, and their sway is likely to diminish as scientists amass more and better data.



Climate change is emblematic. Climate experts are in near-unanimous agreement that human-generated carbon dioxide emissions are causing the planet to warm. There is uncertainty about what impact this will have on the planet if left unchecked, and there is considerable room for debate about the appropriate policy response. But we are now past the point at which it is reasonable to deny that climate change is occurring or that humans are causing it. Yet a number of Republicans in the US Congress still espouse this view, hampering our government's ability to take action to reduce carbon emissions.

It's unlikely, though, that they'll be able to hold out for much longer. **The US Republican Party is now the only significant political party in the world's rich nations that maintains this stance.** Even the mainstream American media, which has a vested interest in pretending that opposing views on all issues are simply different, rather than more and less accurate, has now begun **to emphasize the degree to which Republicans are out of step with science.** This is an encouraging development, and it suggests reason to hope that information, whether via scientists or other sources, coupled with the tendency for affluence to increase people's desire for insurance and for fairness, may help push the United States toward expanded use of public social policy.

## 11. Real-World Examples, Experiments, And Models

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As I've noted, the contemporary Nordic countries embody the core features of the social democratic model. These four nations aren't identical, of course, and some of their features have changed over time. Still, they are reasonably representative actually-existing approximations of the model.

Critics or opponents of more generous social policy **often point to southern European countries such as Greece, Italy, Portugal, and Spain to argue that European welfare states have become unaffordable or ineffective. But these nations' institutions and policies differ sharply from those of the Nordic countries.** Two differences are particularly important. First, as I suggested earlier, **modern social democracy encourages employment.** This isn't just a cultural attitude. Social programs—from child care to work requirements for benefit recipients to assistance



with retraining and job placement—are structured so as to encourage and assist people to enter or reenter paid work. Second, the Nordic nations have been willing to fully pay for their expensive social programs via taxes. The Nordics consistently do better than most other rich nations at keeping their government’s budget balanced or nearly so. Greece and the other southern European nations have tended to be much less committed to high employment and heavy taxation.

Though the Nordic countries have gotten many things right, I don’t mean to suggest that they have been mistake-free, much less perfect. Each has made significant policy errors in recent decades, each has at one time or another gone too far with social policy generosity, and each has struggled to embrace and successfully manage large-scale immigration. Even so, their experience shows that adding public insurance and public services to a capitalist economy can help us to effectively pursue a number of valuable goals, and that doing so doesn’t require significant sacrifices in economic dynamism or freedom.

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*Notes:*

- 1 Lane Kenworthy, *Social Democratic America* (New York: Oxford University Press, 2014); Lane Kenworthy, “The Good Society,” [lanekenworthy.net/thegoodsociety](http://lanekenworthy.net/thegoodsociety).
- 2 Note that this is essentially what Bernie Sanders, Senator from Vermont and candidate for the 2016 Democratic presidential nomination, proposes. Sanders calls himself a “democratic socialist,” but he doesn’t favor a socialist economy in the standard sense of the term. He isn’t proposing to nationalize firms or industries. He doesn’t favor shifting from private ownership to public ownership. His chief proposals are to create some new public insurance programs (paid parental leave, sickness insurance) and expand some existing ones (Social Security, Medicare); to create some new publicly-funded services (early education) and expand some others (training and job placement); to reduce user fees for some existing services (public colleges); and to increase the minimum wage. This is social democracy, not socialism.
- 3 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. Also, during summer vacations, when children are out of school, those from lower-income families tend to fall farther behind.



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## About the Author: Lane Kenworthy

Lane Kenworthy is professor of sociology and Yankelovich Chair in Social Thought at the **University of California, San Diego**. He studies the causes and consequences of living standards, poverty, inequality, mobility, employment, economic growth, social policy, taxes, public opinion, and politics in the United States and other affluent countries. His books include ***How Big Should Our Government Be?*** (2016, with Jon Bakija, Peter Lindert, and Jeff Madrick), ***Social Democratic America*** (2014), *Progress for the Poor* (2011), *Jobs with Equality* (2008), and ***Egalitarian Capitalism*** (2004).



## New Systems: Possibilities and Proposals

Truly addressing the problems of the twenty-first century requires going beyond business as usual-it requires “changing the system.” But what does this mean? And what would it entail?

The inability of traditional politics and policies to address fundamental U.S. challenges has generated an increasing number of thoughtful proposals that suggest new possibilities. Individual thinkers have begun to set out-sometimes in considerable detail-alternatives that emphasize fundamental change in our system of politics and economics.

We at the Next System Project want to help dispel the wrongheaded idea that “there is no alternative.” To that end, we have been gathering some of the most interesting and important proposals for political-economic alternatives-in effect, descriptions of new systems. Some are more detailed than others, but each seeks to envision something very different from today’s political economy.

We have been working with their authors on the basis of a comparative framework-available on our website-aimed at encouraging them to elaborate their visions to include not only core economic institutions but also-as far as is possible-political structure, cultural dimensions, transition pathways, and so forth. The result is two-dozen papers, to be released in small groups over the coming months.

Individually and collectively, these papers challenge the deadly notion that nothing can be done-disputing that capitalism as we know it is the best and, in any case, the only possible option. They offer a basis upon which we might greatly expand the boundaries of political debate in the United States and beyond. We hope this work will help catalyze a substantive dialogue about the need for a radically different system and how we might go about building it.

James Gustave Speth, Co-Chair, Next System Project

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