

Social Democratic Capitalism: How to use Government to Make Lives Better

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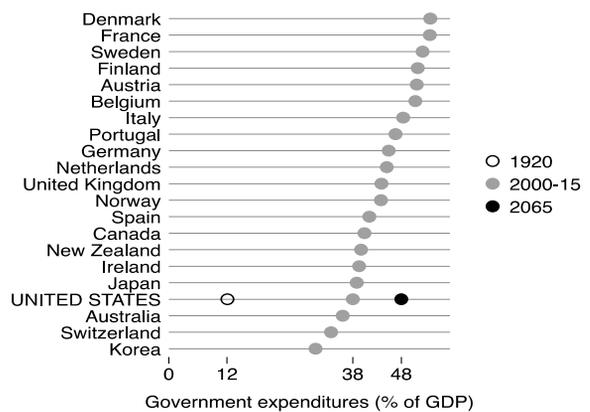
Social democratic capitalism features expansive and generous public insurance, employment-oriented public services, and light-to-moderate regulation of product and labor markets. The experience of the world's rich democratic nations suggests that this model is superior to alternatives at achieving economic security, low poverty, equality of opportunity, and high employment, and it is no worse than alternatives at achieving an array of other outcomes we desire in a good society, from economic growth to health to happiness and more. The United States has been moving toward social democratic model over the past century, in fits and starts, and likely will continue to do so.

What institutions and policies are most conducive to well-being in a rich, democratic society? The "social democratic" model, best exemplified by the Nordic countries, differs from other approaches in having expansive and generous public insurance programs, public services that promote employment, and light or moderate regulation of product and labor markets. The social democratic model has done as well as other models – not better, but not worse – at achieving an array of other outcomes we desire in a good society, including innovation, economic growth, household income growth, happiness, health, education, safety, low income and wealth inequality, family stability, civic engagement trust, openness to outsiders, environmental sustainability, and low government debt. This performance record offers a strong case for the desirability of social democratic capitalism. Could the US adopt this model? Could California?

Key Findings:

- ◆ The US has been traveling along the path toward social democracy since the 1930s. In terms of government expenditures as a share of GDP, America is closer to Sweden and Denmark than it is to the America of a century ago.
- ◆ Over the past half century, social democratic capitalism has achieved more economic security, lower poverty, more equality of opportunity, and higher employment than other models.
- ◆ While the US has moved toward social democratic capitalism, California has made further significant strides toward the social democratic model

Government Expenditures per Country



Implications for Policy

It is often said that full embrace of the social democratic model is only available to countries with small population, racial and ethnic homogeneity, strong unions, and citizens with high trust in government. So will we continue on the path toward a social democratic America? Though California has few similarities with the Nordic countries, the state certainly moved significantly in that direction. California adopted paid parental leave in 2004, paid sickness leave in 2015, a more generous Earned Income Tax Credit for the lowest earners in 2015, a supplemental defined-contribution pension program with automatic enrollment in 2016, a \$15/hour minimum wage to be fully phased in by 2022, and more. California could be a model for the nation, which keeps getting richer and caring more about insurance and fairness for all citizens.