

Would Democratic Socialism Be Better?

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Is Capitalism Not Good Enough?

Socialism is back in the conversation. In the United States, of all places, recent polls suggest the share of young people who have a favorable impression of socialism is about the same as the share that have a favorable view of capitalism.¹ A self-described democratic socialist, Bernie Sanders, was runner-up in the Democratic Party's presidential primary in 2016 and 2020. Think tanks and magazines devising plans for socialist policies and institutions have sprouted up.² The *New York Times*, a mainstream media outlet, has an avowed socialist among its op-ed writers.³ Since 2016, membership in the Democratic Socialists of America (DSA) has jumped from a few thousand to more than 80,000.⁴

Is there a compelling case for socialism? Should we aspire to shift, in the reasonably near future, from a basically capitalist economy to a socialist one?

Let's stipulate that socialism refers to an economy in which two-thirds or more of employment and output (GDP) is in firms that are owned by the government, citizens, and/or workers. Two-thirds is an arbitrary cutoff, but it's as sensible as any other. It connotes a subsidiary role for the private non-worker-owned sector.

Since the Bolshevik revolution in Russia in 1917, much of the debate about socialism has focused on lessons that can be drawn from the experience of the former Soviet Union, Cuba, and other actually existing self-styled socialist countries.⁵ I will ignore this almost entirely. Because each of those cases featured an autocratic political system, they are of little or no relevance to modern proposals for a democratic socialism. The contemporary Chinese model is attractive to some, particularly in poor and middle-income countries.⁶ However, my focus is on the kind of socialism currently desired by proponents in the world's affluent democratic nations. That socialism presupposes a democratic political system. That socialism would be a democratic socialism.

Some of the debate over democratic socialism concerns goals. The case for democratic socialism typically is motivated by goals such as opportunity, freedom, democracy, prosperity, equality, and solidarity, among others. While I have some quibbles — as I explain in later chapters, I think some attach too high a priority to equality of income and wealth and to a particular form of economic democracy — for the most part I endorse the outcomes democratic socialists say they want. The aim of this book isn't to question those goals.

To offer a realistic alternative, socialism must be workable. Socialism's proponents have put a good bit of effort into designing institutions and policies that might make a democratic socialist economy function effectively. I will draw upon these proposals. In doing so I'll assume they are indeed workable, though I'll also emphasize that there is considerable uncertainty, since evidence is thin or nonexistent.

A potentially significant consideration in evaluating democratic socialism is the possibility of a "transition trough" — a steep downturn in economic well-being during the shift from capitalism to socialism.⁷ There might indeed be a significant economic cost to transitioning if opponents stop investing or shift their assets to other countries. But maybe not. Perhaps the transition trough would be like an ordinary economic recession — painful but temporary. This too I will set aside.

My focus is on what has tended to be the centerpiece of the case for democratic socialism: the notion that capitalism is bad, or at least not very good. In reaching this conclusion, most have either analyzed a theoretical ideal-type of capitalism, as Karl Marx famously did in *Capital*, or used a single country, often the United States, as a stand-in for capitalism.⁸ A serious appraisal of democratic socialism's desirability requires a careful and thorough comparison with the best version of capitalism that humans have devised: social democratic capitalism, or what is often called the Nordic model.⁹ I try in this book to offer such an assessment. My conclusion is that capitalism, and particularly social democratic capitalism, has been better than many democratic socialists seem to think.

The Reference Point: Social Democratic Capitalism

Social democratic capitalism features a capitalist economy, a democratic political system, good elementary and secondary (K-12) schooling, a big welfare state, employment-conducive public services (childcare, active

labor market policy, and others), and moderate regulation of product and labor markets. This set of institutions and policies improves living standards for the least well-off, enhances economic security, and boosts equality of opportunity. It does so without sacrificing the many other things we want in a good society, from liberty to economic growth to health and much more.¹⁰

Figures 1.1 through 1.5 give a flavor of social democratic capitalism's success. On the horizontal axis in each of the charts is a social democratic capitalism index. Every affluent democratic country has a welfare state, but their expansiveness and generosity differ significantly. Employment-oriented public services and modest (rather than stringent) product and labor market regulations aim to boost employment, and these too vary widely across nations. The social democratic capitalism index captures these country differences.¹¹

The country ranking is consistent with what we would expect. The Nordic countries score highest (they are to the right on the horizontal axis). They are followed by five continental European nations that have big welfare states but less public spending on employment-promoting services and heavier regulation of product and labor markets: Austria, Belgium, France, the Netherlands, and Germany. In the lower half of scores are Switzerland, Japan, and the six English-speaking countries, which have smaller welfare states and limited public spending on employment-oriented services. They are joined by the three southern European nations and South Korea, which have medium-sized or small welfare states, little employment-promoting service spending, and heavy product and labor market regulation.

On the vertical axis in figure 1.1 is a measure of the living standards of the least well-off: the income of a household at the tenth percentile of the distribution (90 percent of households have larger incomes, and 10 percent have smaller ones). The incomes are adjusted for cost-of-living differences across countries. The chart shows that the incomes of low-end households tend to be higher in nations that make greater use of social democratic capitalism. And this income measure understates social democratic capitalism's benefits, because it doesn't take into account government services, such as early education and eldercare, which tend to be more plentiful under social democratic capitalism.

The vertical axis in figure 1.2 shows a measure of economic insecurity: the share of households that experience a large (25 percent or more) income decline from one year to the next. The share tends to be smaller in nations with more of a social democratic capitalist orientation. This is

partly because public insurance programs compensate for lost earnings. It's also because social democratic capitalism boosts employment, so if a household member loses his or her job, it's easier for another member of the household to become employed, increase work hours, or take on a second job.

In figure 1.3 we see that the employment rate tends to be higher with social democratic capitalism. This owes partly to its extensive use of employment-promoting government services: active labor market programs such as retraining and job placement and family-friendly programs like early education and paid parental leave. These kinds of services encourage more people, particularly women and parents, to enter employment, they help persons who lose a job to prepare for and find another one, and they serve as a direct source of jobs for teachers, trainers, caseworkers, and others. High employment rates also owe to social democratic capitalism's use of moderate, rather than stringent, regulation of product and labor markets. The easier it is to start up, operate, and shut down a business, and the more flexible firms can be in hiring and firing workers, the more private businesses are likely to be able and willing to boost employment.¹²

Figure 1.4 shows a strong positive association between social democratic capitalism and opportunity. We can think of opportunity as individuals' capability to choose, act, and accomplish — what Isaiah Berlin called "positive liberty" and Amartya Sen has labeled "real freedom."¹³ While critics of big government tend to assume that public social programs reduce freedom, many of these programs are capability-enhancing. They boost people's cognitive and noncognitive skills, increase their employment options, ensure that hard times do minimal damage, and reduce dependence on family and friends. More than a century ago, John Stuart Mill recognized that true freedom to lead the kind of life we want requires education, health, and economic security.¹⁴ More recently, Anu Partanen has highlighted this point in a comparison of her native Finland with her adopted country, the United States. Observing that many Americans don't have access to high-quality, affordable health insurance, childcare, housing in good school districts, college, and eldercare, Partanen notes that this diminishes not only Americans' economic security but also their freedom:

"Most people, including myself, assumed that part of what made the United States a great country, and such an exceptional one, was that you could live your life relatively unencumbered by the downside of a traditional, old-fashioned society: dependency on the people you happened to be stuck with. In America you had the liberty to express your individuality and choose your own community. This would allow

you to interact with family, neighbors, and fellow citizens on the basis of who you were, rather than on what you were obligated to do or expected to be according to old-fashioned thinking. The longer I lived in America ... the more puzzled I grew. For it was exactly those key benefits of modernity — freedom, personal independence, and opportunity — that seemed, from my outsider's perspective, in a thousand small ways to be surprisingly missing from American life today.... In order to compete and to survive, the Americans I encountered and read about were ... beholden to their spouses, parents, children, colleagues, and bosses in ways that constrained their own liberty."¹⁵

We have no direct measure of opportunity, but a useful indirect measure comes from a question asked by the Gallup World Poll: "Are you satisfied or dissatisfied with your freedom to choose what you do with your life?" We can treat the share responding "satisfied" as an indicator of opportunity, of the degree to which capabilities extend widely across the population. This share is on the vertical axis of figure 1.4. The pattern across countries is consistent with the hypothesis that social democratic capitalism enhances opportunity.¹⁶

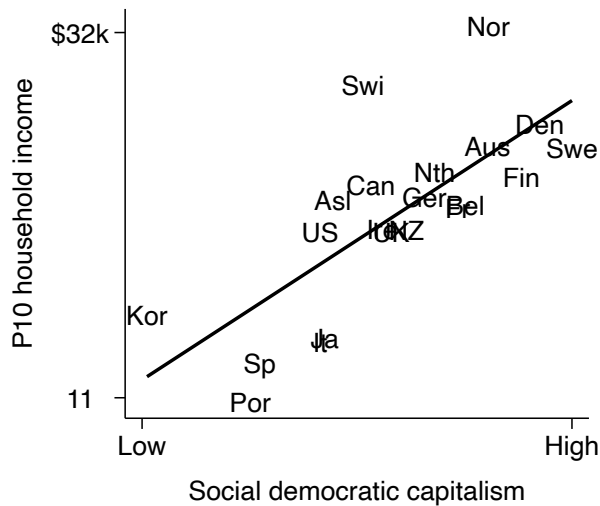


FIGURE 1.1 Social democratic capitalism and living standards of the least well-off

Tenth-percentile household income: posttransfer-posttax income. 2010-2016. 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. Social democratic capitalism: average standard deviation score on four indicators: public expenditures on social programs as a share of GDP, replacement rates for major public transfer programs, public expenditures on employment-oriented services, and modest regulation of product and labor markets. The data cover the period 1980-2015. Data source: Lane Kenworthy, *Social Democratic Capitalism*, Oxford University Press, 2020, pp. 39-40. "Asl" is Australia; "Aus" is Austria. The line is a linear regression line. The correlation is +.73.

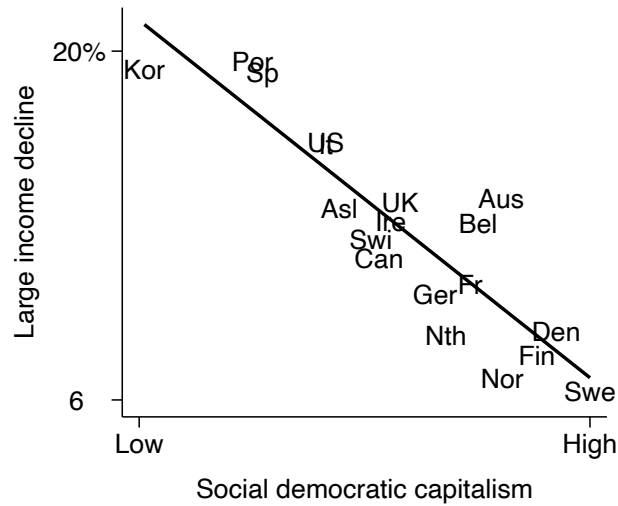


FIGURE 1.2 Social democratic capitalism and economic insecurity

Large income decline: Share of households experiencing a year-to-year income decrease of 25 percent or more. Average over the two-year periods between 1985 and 2015. Excludes households that enter retirement between one year and the next. Data source: Jacob S. Hacker, "Economic Security," in *For Good Measure: Advancing Research on Well-Being Metrics Beyond GDP*, edited by Joseph E. Stiglitz, Jean-Paul Fitoussi, and Martine Durand, OECD, 2018, table 8.4, using data from the ECHP, EU-SILC, CPS, and CNEF (BHPS, SOEP, HILDA, KLIPS, SHP, SLID). Social democratic capitalism: see figure 1.1. "Asi" is Australia; "Aus" is Austria. The line is a linear regression line. The correlation is -0.88 .

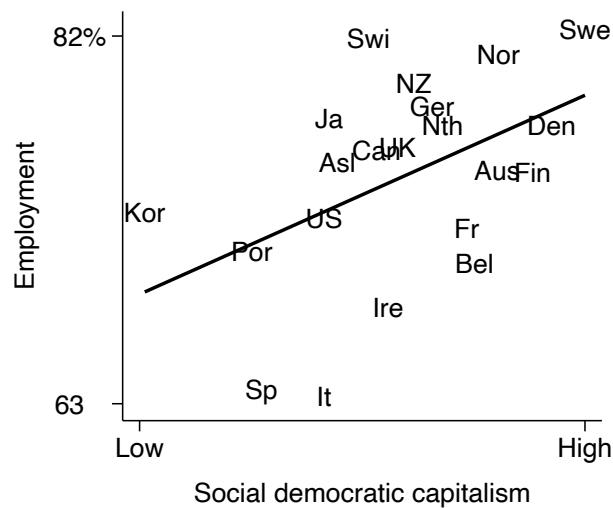


FIGURE 1.3 Social democratic capitalism and employment

Employment: employed persons age 25-64 as a share of all persons age 25-64. 2010-2016. Data source: OECD. Social democratic capitalism: see figure 1.1. "Asi" is Australia; "Aus" is Austria. The line is a linear regression line. The correlation is $+0.47$.

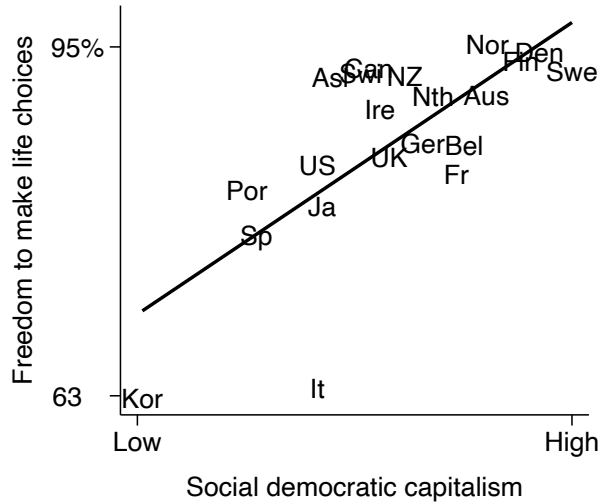


FIGURE 1.4 Social democratic capitalism and opportunity

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?" 2005-2019. Data source: Gallup World Poll, via the *World Happiness Report 2020*, online appendix. Social democratic capitalism: see figure 1.1. "Asl" is Australia; "Aus" is Austria. The line is a linear regression line. The correlation is +.72.

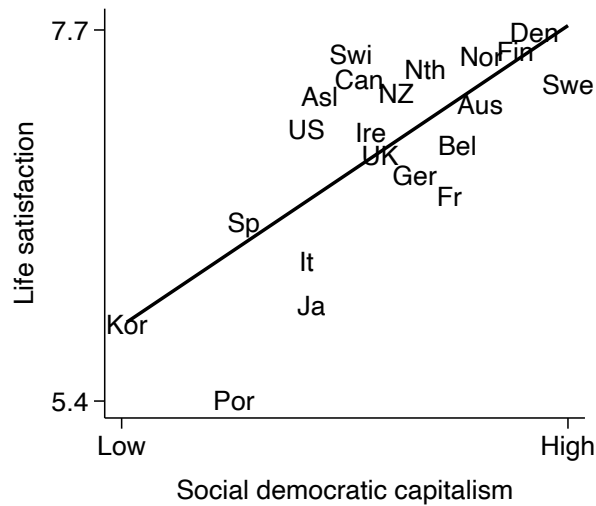


FIGURE 1.5 Social democratic capitalism and happiness

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?" 2005-2019. Data source: Gallup World Poll, via the *World Happiness Report 2020*, online appendix. Social democratic capitalism: see figure 1.1. "Asl" is Australia; "Aus" is Austria. The line is a linear regression line. The correlation is +.72.

Figure 1.5 looks at happiness, which some consider the ultimate prize.¹⁷ The Gallup World Poll regularly asks the following 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?" Across the rich democratic countries, we see a strong positive association between social democratic capitalism and life satisfaction.

Social democratic capitalism's chief practitioners have been Denmark, Finland, Norway, and Sweden. Critics on the left sometimes suggest that the model peaked in the 1970s, retreating since then in the face of a business offensive and economic globalization.¹⁸ This is true when it comes to income inequality, as we will see in a later chapter.¹⁹ But inequality is the exception rather than the rule. Among the five outcomes shown on the vertical axes in figures 1.1 through 1.5 above, we have over-time data for three. Figure 1.6 shows that incomes of households at the low end of the socioeconomic ladder have continued to rise rapidly in all four Nordic countries since the 1970s, both in absolute terms and relative to what's happened in the United States.²⁰ Figure 1.7 shows that the Nordics have maintained or improved their very high employment rates.²¹ And in figure 1.8 we see that life satisfaction has increased slightly in Norway and Finland while falling slightly in Denmark and Sweden. Here, too, all of the Nordics have performed a good bit better than the United States.²²

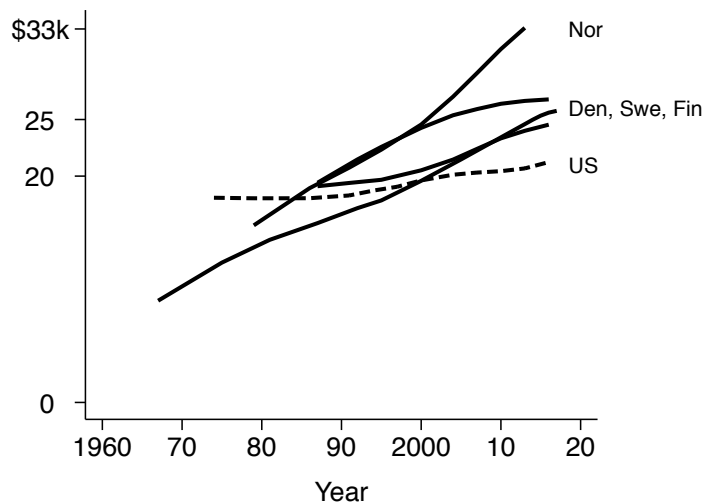


FIGURE 1.6 Living standards of the least well-off

Tenth-percentile household income. Posttransfer-posttax 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.

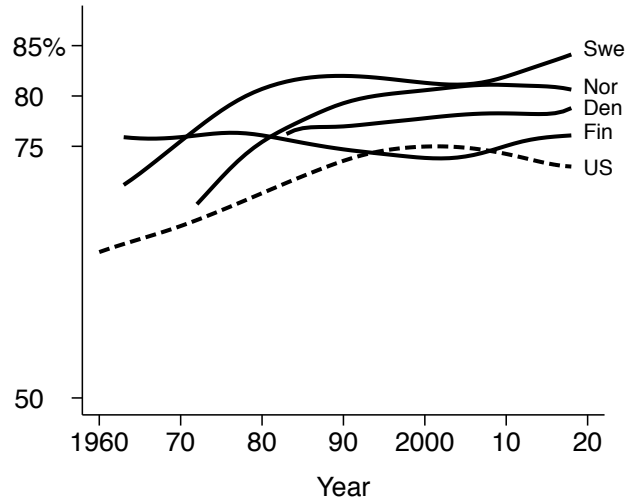


FIGURE 1.7 Employment

Employed persons age 25-64 as a share of all persons age 25-64. The vertical axis doesn't begin at zero. Data source: OECD. The lines are loess curves.

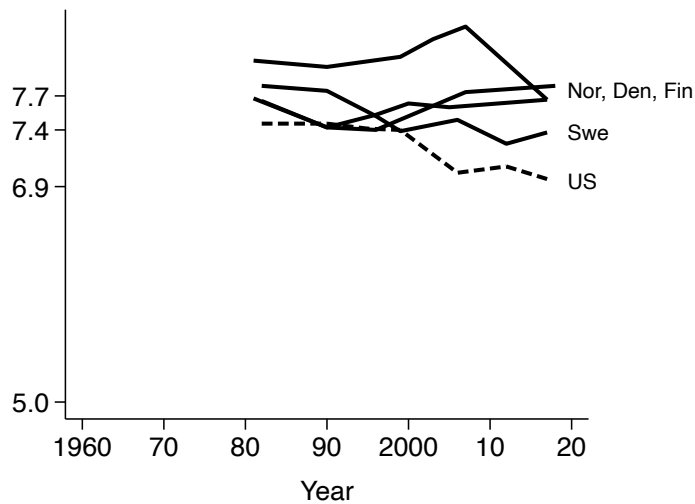


FIGURE 1.8 Life satisfaction

Average response to the question "All things considered, how satisfied are you with your life as a whole these days?" Scale of 0 to 10. The vertical axis doesn't begin at zero. Data source: World Values Survey.

Some observers believe the Nordic nations have unique features — culture, good government, small size, among others — that allow them, and only them, to achieve the good outcomes produced by social democratic capitalism without suffering tradeoffs. But a careful look at the evidence suggests this isn't true.²³ The model's success almost certainly is transferable to other affluent democratic nations. Indeed, all

of those nations already are partial adopters of social democratic capitalism, and they've benefited from that.

While the Nordic nations are, to this point, the only ones to have fully embraced social democratic capitalism, other countries have been moving in that direction.²⁴ Many of the continental European nations have long had expansive and generous public social programs. Over the past two decades, some of them — most notably Germany, the Netherlands, and Austria — have 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 capitalist 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 the Conservative governments since then have pulled back somewhat. Even the United States, long seen as the welfare state laggard among the affluent democracies, has continued its slow but fairly steady long-run movement toward social democratic capitalism.²⁵

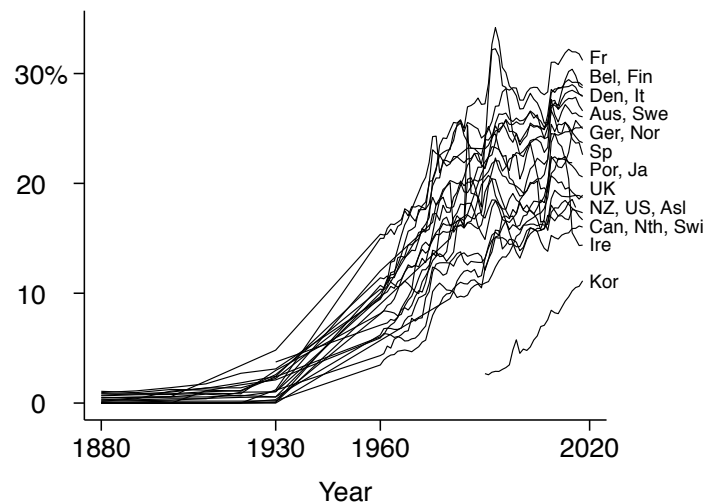


FIGURE 1.9 Public social expenditures

Share of GDP. Gross public social expenditures. Data source: Esteban Ortiz-Ospina and Max Roser, "Public Spending," *Our World in Data*, using data for 1880-1930 from Peter Lindert, *Growing Public*, volume 1, Cambridge University Press, 2004, data for 1960-1979 from OECD, "Social Expenditure 1960-1990: Problems of Growth and Control," OECD Social Policy Studies, 1985, and data for 1980ff from OECD, Social Expenditures Database. "Asi" is Australia; "Aus" is Austria.

One way to see this is via an indicator of the scope and generosity of public social programs. Figure 1.9 shows the amount governments in the rich democratic countries spend on social programs as a share of GDP.

The share has been rising in all of these nations for roughly a century. And the difference between the Nordic countries today and the United States today is much smaller than the difference between the US today and the US a century ago.

So when we ask "Would democratic socialism be better?," we should be asking not whether it would be better than capitalism per se, or better than American-style capitalism. Our question should be: In what ways would democratic socialism improve upon social democratic capitalism?²⁶ How would Danes, Swedes, Germans, Americans, Koreans, and people in other countries have better lives if they opted for democratic socialism rather than the Nordic model?

Before moving on, let me emphasize that the label "social democratic capitalism," which I'll use throughout the book, is shorthand for a set of policies and institutions: a capitalist economy, 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. It *isn't* intended to be shorthand for "the policies preferred by this or that social democratic political party."

What Is Democratic Socialism?

What might democratic socialism look like? Some advocates envision it, vaguely, as a society in which everyone has access to what they need, there is little inequality of income or wealth or power, and most behavior is cooperative.²⁷ Most proponents, however, think of democratic socialism mainly as a different way of structuring the economy. For many socialists in prior eras this meant government economic planning, but today nearly all socialist proposals rely heavily on markets.²⁸ The core distinguishing features of contemporary democratic socialist ideas are public ownership of firms and economic democracy.²⁹

Ownership of companies in democratic socialism would be mainly public rather than private. One straightforward version of this would involve government taking ownership of ("nationalizing") firms in a variety of industries. Jeremy Corbyn, the Labour Party candidate for prime minister in the United Kingdom in 2017 and 2019 and a self-described socialist, proposed to nationalize rail, water, electricity distribution companies, and mail, as well as some steel firms.³⁰ Getting two-thirds or more of the economy in government hands would require far more. Here, for example, is the current distribution of employment by industry in the United States³¹:

13.9%	Government
13.0	Professional and business services
12.4	Health care
10.2	Leisure and hospitality
9.8	Retail trade
7.9	Manufacturing
5.5	Self-employed
5.3	Finance
4.5	Construction
4.1	Other services
3.6	Wholesale trade
3.4	Transportation and warehousing
2.3	Education
1.8	Information
1.4	Agriculture
0.4	Mining
0.3	Utilities

Government (federal, state, and local) currently accounts for about 14 percent of employment. If all of health care, manufacturing, finance, transportation, education, and utilities were nationalized, that would bring public employment to only about 45 percent of the total. An additional 20 percent or so would be needed to get to two-thirds.

Another way to think about it is by size of firm. Here is the current breakdown in the US³²:

13.9%	Government
8.6	Private: 1 to 9 employees
21.7	Private: 10 to 99 employees
20.9	Private: 100 to 999 employees
35.0	Private: 1,000 or more employees

Nationalizing all currently private firms that have more than 1,000 employees and most that have more than 100 would bring two-thirds into the public sector.

A second approach to public ownership is to change the nature or the distribution of stock shares. For example, employees could own a large number of firms collectively. One version of this would gradually transfer stock shares in large companies to a fund controlled by unions or some other worker-elected representative body.³³

Another example here is John Roemer's "coupon socialism" plan.³⁴ Mid-sized and large companies would issue stock shares, just as they do today in capitalist economies. At age 18, each person is given a certain number

of coupons, equal to a per-capita share of the total value of the economy's stock shares, which she can use to purchase shares in particular firms (or in a mutual fund or index fund). Coupons can be used for this purpose only; they can't be sold for cash. Firms pay dividends, yielding an income flow to their owners. And ownership confers the right to vote as a shareholder in electing a firm's board of directors. If a person sells some or all of his shares in a particular company, he receives coupons, which can be used only to purchase shares in other firms. Share ownership can't be inherited or gifted; at death, a person's coupons go back to the common pool, to be redistributed among living citizens.

Because stock shares can be traded, the price (in coupons) of successful firms will increase. Thus, over the course of a lifetime, people who invest in more successful companies will end up with a larger ownership share than others. This may also yield them more income via the dividend payments of the companies (or mutual funds) whose shares they own. But this type of income inequality will be minor relative to what exists in contemporary capitalist economies, where a small share of the population own lots of stock shares and most people own few or none.

Firms can raise money by issuing new shares and sell them on the stock market for coupons. The government (central bank) determines the value of new stock shares, which gives it some influence over the direction of economic activity. If the government wants to encourage investment in, say, clean energy, it can increase the value of new shares of firms in that line of business. But otherwise a Roemer "coupon socialism" economy would operate similarly to existing affluent capitalist economies.

If one common vision of democratic socialism revolves around shifting from private to public ownership of firms, another sees it as the expansion of democracy to the economic sphere, both within firms and in the broader economy. Tom Malleson lays out a version of this:

"Democratic workplaces. Firms are run as worker cooperatives (except for those run by a single individual, or those of large capital-intensity or national importance, which are co-managed between worker representatives and state representatives). The majority of the workforce of each co-op must be full members with equal rights to participate in the governance of the firm, elect managers, and receive a share of the profits. Temporary workers could be permitted, but after a probationary period they must enjoy full rights to become members should they wish to do so. Each firm is free to remunerate as it sees fit....

"A democratized market system. Co-ops and consumers interact with each other and are coordinated by way of a market system. This is the

second component of the economy — a cooperative market system regulated by an interventionist state. The market system is regulated to improve consumer democracy by reducing inequality....

"Democratic finance and investment. Citizen democracy over economic development is protected by capital controls and promoted through public institutions that are both accountable and well-equipped to deal with market failures (such as externalities, public goods, etc.) These public institutions exist at different levels: accountable investment at the highest level is achieved through a National Investment Fund, while meaningful involvement occurs at the local level through Public Community Banks (ideal for dealing with local externalities) and participatory budgeting (ideal for dealing with local public goods). Public funds are allocated by the government to regions based on the share of their population; then municipalities direct funds to public community banks and participatory budgeting. Participatory budgeting decides on local investment priorities and the public community banks disperse their funds as loans to co-ops (and individuals) on the basis of criteria decided by the elected municipal government."³⁵

While there are other conceptualizations of democratic socialism, public ownership and economic democracy are the key features for most contemporary proponents.³⁶

Here I need to clear up a terminological confusion. The confusion stems mainly from Bernie Sanders, who came close to being the Democratic Party's presidential nominee in both 2016 and 2020. Sanders favors the Nordic model, but he labels it democratic socialism. It isn't only Sanders; some on the center left in Europe over the past century have called themselves socialists even though what they desire is essentially the Nordic model.³⁷ Throughout the book I'll stick to the more conventional usage: I'll refer to the Nordic model as social democratic capitalism, and I'll use the terms socialism and democratic socialism to refer the kinds of economic system I've described in this section.³⁸

What's Wrong with Social Democratic Capitalism? Would Democratic Socialism Be Better?

My aim in this book is to advance our thinking about what kind of economic system we want, and about whether democratic socialism should be a prominent part of the discussion. I hope to push this discussion in the direction of comparison, concreteness, and evidence.

The case for a modern democratic humane socialism typically has two parts. The first is that capitalism is bad, at or least not especially good. Is that correct? The bits of evidence I've shown you in this chapter suggest that the social democratic version of capitalism actually has done rather well. The rest of the book looks into this in much greater detail. Each chapter examines one of the things that we should want in a good society, that contemporary democratic socialists typically say they want, and that socialism might, conceivably, improve our ability to achieve: an end to poverty in rich countries, an end to poverty everywhere, more jobs, good jobs, faster economic growth, shared prosperity, more public goods and services, affordable health care for all, helpful finance, truly democratic politics, economic democracy, less economic inequality, gender and racial equality, more community, and a livable planet. I offer a close look at the evidence about how capitalist economies have performed on these outcomes, with particular attention to the performance of social democratic capitalism.

The second part of the case for democratic socialism is the notion that it would be an improvement. For each of these outcomes, I consider what, if anything, we can conclude about whether democratic socialism would do better than social democratic capitalism. There is no existing socialism along the lines of what present-day advocates tend to envision, so it's impossible to conduct an evidence-based comparison between democratic socialism and social democratic capitalism. Instead, we have to consider a hypothetical democratic socialism. But that shouldn't stop us from being as systematic and detailed as we can.