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Nordic exceptionalism? Social democratic egalitarianism in world-historic perspective

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ABSTRACT

In what respect, if any, are the Nordic economies exceptionally egalitarian when viewed from a world historical perspective? Our answer is based on archaeological, historical and ethnographic as well as contemporary evidence over the past three thousand years. The countries exemplifying the Nordic model are not exceptionally equal in the ownership of material wealth. Moreover, the advent of social democracy in the Nordic nations did not result in a more equal distribution of years of schooling. But intergenerational economic and social mobility appears to be exceptional in the Nordic nations, and by most measures, inequalities in living standards in the Nordic economies are less than in other advanced economies. The closest Nordic analogy in our data set is to the egalitarian distribution of well-being and limited intergenerational transmission of wealth found in some horticultural and (especially) forager economies.

1. Introduction

Nobody doubts that the Nordic economies are exceptional, and that among other things, they are exceptionally egalitarian.[1] We use archaeological, ethnographic, and historical data to ask in what respects are the Nordic economies exceptionally egalitarian when compared to the vast range of economic systems that humans have experienced over the course of our history and pre-history. While the Nordic economies are not exceptional in the degree of equality in material wealth or human capital, we find two exceptional aspects of Nordic egalitarianism: the limited relevance of differences in wealth on the distribution of living standards and greater intergeneration mobility in economic and social status.

The unusual nature of our data warrants a comment (the data set is described in detail in Fochesato and Bowles, 2014). Because we wish to compare the Nordic economies with a broad spectrum of other economic systems, in addition to contemporary evidence, we include historical data from land and tax records and wills, as well as archaeological data. As a basis for educated guesses about the degree of inequality in Late Pleistocene and early Holocene economies (before and after the domestication of plants and animals about 12 millennia ago) we also use data collected by ethnographers and archaeologists from societies of foragers, sedentary hunter gatherers, horticulturalists, herders and small scale farmers whose economies arguably resemble those of pre-historic humans (described in Borgerhoff-Mulder et al., 2009). (Foragers are mobile hunter gatherers; horticulturalists are low technology farmers loosely distinguished from farmers by the use of only hand tools, land abundance and/or the lack of draft animals.)

Our data set on wealth inequality complements that of Branko Milanovic, Peter Lindert and Jeffrey Williamson on ancient income inequality (Milanovic et al., 2011). We restrict our analysis to cases for which measures of the entire wealth distribution are available and hence we do not consider partial measures of inequality, such as the

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[1] We will see that the Nordic economies – Denmark, Finland, Norway, and Sweden – differ markedly one from another but share common elements sufficient to motivate our reference generically to the Nordic model. To avoid overlap with other contributions to this issue we do not describe the Nordic model here. Beyond the works cited below and the other papers in this symposium, we have been guided by Moene and Wallerstein (1993, 1995a, 1995b) and Anderson et al. (2007) among other works. We would include Iceland in the Nordic club, but lack adequate data. The term Nordic exceptionalism is associated with the models of welfare capitalism of Esping-Anderson (1990), while the idea of Nordic distinctiveness goes back at least to the representation of Sweden as "the middle way" in Childs (1936).

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share of wealth held by the very wealthiest. Where multiple estimates for a given area at about the same time period exist, we have taken averages, so as to avoid overweighting economies and time periods on which there are a large number of estimates of (approximately) the same quantity.

We consider three types of wealth. Somatic wealth is an individual's strength, cognitive ability, health status and other capacities to produce or provide the goods or services that contribute to well being. Relational wealth is a measure of the extent to which an individual's social connections contribute to well being, as could be measured by the individual's position in social networks or by group membership. Material wealth refers to such things as tools, livestock, and land, and is synonymous with the traditional economic meaning of wealth, measured by a stock of alienable property that contributes to a flow of well being. We focus on wealth rather than income because for most economies in the past we have more adequate measures of wealth than income (even measured for a single time period) and because we are interested in differences in permanent (rather than transient) economic status. Moreover, inequality in annual income may grossly overstate inequality in permanent income (by a factor of 50% comparing annual with total income in Sweden over 1951–1989 Björklund, 1993).

In the next section we provide a model of the dynamics of wealth inequality and its relationship to inequalities in living standards, allowing us to identify four mechanisms that may result in a highly egalitarian distribution of living standards. We then ask which, if any, of these mechanisms may account for Nordic egalitarianism. In Section 3 we consider material wealth inequality in the Nordic and other democratic societies as well as in autocratic societies of the past and the small scale economies of the type that characterized human societies though much of our history and prehistory. In Section 4 we compare inequalities in somatic wealth across a wide range of economic systems; and we ask whether the marked equality in human assets in the Nordic nations can be attributed to the social democratic model per se, or instead predated its emergence. Section 5 contrasts the degree of intergenerational transmission of economic success in the Nordic economies with similar data from other modern economies and small scale societies. Section 6 extends the analysis of intergenerational transmission to educational attainments; and, as in Section 4, we ask if the extensive intergenerational mobility in the Nordic nations today can be attributed to the social democratic model per se. In the penultimate section we use the theoretical results in Section 2 to show that a variant of Stephen Durlauf's membership model of inequality captures important aspects of Nordic egalitarianism, as well as the egalitarian forager and horticultural economies of human pre history (Durlauf, 1999). We conclude using the model of Section 2 to identify which of the four possible ways to be egalitarian might account for the relative equality of living standards in the Nordic nations.

2. Four ways to be egalitarian

To explore the possible distinctiveness of social democratic egalitarianism we offer an accounting framework that identifies four causal mechanisms that could contribute to a relatively equal long term stationary distribution of living standards. We first identify two proximate determinants of the stationary distribution of wealth, and then two (also proximate) determinants of the extent to which wealth inequalities result in inequality of the flow of the goods and services making up the living standard. The purpose of the model is taxonomic, not descriptive; we do not estimate it, but rather use it to define and illustrate the classes of distinct phenomena that impact on the degree of equality in living standards so as to clarify the importance of and relationships among the empirical measures of inequality to be introduced subsequently.

We refer to consumption units (for example, households) as individuals. There are two kinds of wealth, one of which is held equally and from which the flow of services is equal across households. The wealth that may be unequal ("wealth" hereinafter) is held in positive amounts by all members of the population, and is transmitted from parents to offspring to a degree which will vary according to demographic structure, type of wealth, and inheritance practices (including bequest taxation). (We could consider the different wealth types separately and in the aggregate, but this would add little to the insights of this exercise.) Members of each generation experience idiosyncratic wealth shocks that alter the holdings inherited from their parents. Under conditions to be specified presently, this economy will support a long term stationary distribution of wealth as in Becker and Tomes (1979). An individual's wealth produces a flow of services (called the individual's living standard) the extent of which will depend on first, the goods and services produced and the methods of producing them, which determines the extent to which the unequally held wealth generates the goods and services making up an individual's living standard; and second, the extent of redistributive policies affecting the flow of goods and services associated with privately held wealth, on which we impose an upper bound requiring that increased wealth not be associated with a reduced living standard.

Let an individual's wealth w_i vary with parental wealth w_i' and mean wealth $\underline{w}$ (all measured in natural logarithms, and normalized so that mean wealth is invariant across generations) according to

$$w_i = (1-\beta)\underline{w} + \beta w_i' + \lambda_i \tag{1}$$

where λ_i is a wealth shock uncorrelated with parental wealth, with mean zero and variance σ_λ^2. The parameter β is termed the intergenerational transmission elasticity and $(1-\beta)$ is the extent of regression to the mean. Taking the variance of w_i in Eq. (1) setting it equal to the variance of w'_i and solving to find the variance of the stationary distribution of wealth $\sigma_{w^*}^2$, we have

$$\sigma_{w^*}^2 = \sigma_\lambda^2/\left(1-\beta^2\right) \tag{2}$$

which means that (for $\beta < 1$) the degree of inequality in the stationary distribution is given by the magnitude of the wealth shocks, expanded by the intergenerational transmission multiplier, $(1-\beta^2)^{-1}$, reflecting the fact that where transmission is substantial, the inequalities introduced by wealth shocks in past persist and hence augment the inequalities induced by contemporaneous shocks.

An individual's per period flow of living standard Y_i acquired as a result of her wealth holding W_i is

$$Y_i = \alpha W_i^{\alpha-\tau} \tag{3}$$

where $\alpha \geq \tau \geq 0$ and $\alpha - \tau$ is the elasticity of the (after redistribution) flow of living standards with respect to the amount of wealth held. The exponent α measures the importance of wealth as a contributor to one's living standards in the hypothetical absence of redistribution, and τ measures effect of redistributive policies. Denoting y and w as lnY and lnW respectively, and using Eq. (2), our measure of stationary inequality of living standards is thus

$$\sigma_y^2 = (\alpha-\tau)^2\sigma_{w^*}^2 = (\alpha-\tau)^2\sigma_\lambda^2/\left(1-\beta^2\right) \tag{4}$$

Eq. (4) identifies four aspects of an economy that affect the degree of inequality in living standards:

i the extent of wealth shocks, σ_λ^2;
ii the intergenerational transmission multiplier $(1-\beta^2)^{-1}$ which varies with the degree to which wealth is transmitted across generations, β;

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