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Horizons of Social Democracy: Social investment or transcending capitalism?

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Horizons of Social Democracy.

Social investment or transcending capitalism?[1]

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Abstract

This article explores possible new horizons for social democracy, starting from the identification of two sets of proposals currently being advanced in policy debates: the social investment welfare state and Thomas Piketty's 'transcending capitalism' blueprint. When comparing the proposals, the article dismisses two possible interpretations of fundamental distinctions between them: (1) that they correspond, respectively, to redistributive and predistributive social policy styles; and (2) that they differ regarding their socially transformative daring. After establishing their common social democratic grounds, the article sets out the terms for a not-yet-contemplated conversation between them, with a view to assessing frontiers for social democratic ambition. The imagined conversation makes explicit their distinct emphases – one on labor strength (social investment); and the other on capital democratization (transcending capitalism) – and reveals that these are due to contrasting assessments of problems and possibilities. It also makes clear that the integration of the two proposals is both possible and desirable; but suggests that an all-encompassing social democratic agenda might offer possibilities surpassing even those of such an integration.

Keywords: social democracy; social investment; Thomas Piketty; democratization of capital; fair equality of opportunity; redistribution; predistribution

1. Introduction

In this article I explore possible new horizons for social democracy via an imagined conversation between two influential contemporary social democratic proposals. These are, firstly, the newest version of the welfare state, that is, the social investment welfare state (hereafter SI); and, secondly, Thomas Piketty's 'transcending capitalism' (hereafter TC). In contemporary academic debates, the survival of social democracy as a policy benchmark is taken to depend either on the sweeping reform of the good old welfare state, as envisaged by enthusiasts for the former; or on a direct assault on economic inequalities, as advocated by the latter. Currently, these perspectives talk past each other, creating an as-yet-unseized

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opportunity to assess potential collaboration with a view to fueling the social democratic imagination.

It might appear, from a distinction that has appeared in the literature on social states, that SI and TC differ in the way that the first aligns itself with a re-distributive, and the second with a pre-distributive, broad style of intervention. In this interpretation, SI, as an heir to the traditional post-war welfare state, would concentrate on (after-the-market) tax-and-transfer redistribution, and overlook the fact that inequalities were ingrained in the basic structure of capitalist economies; whilst TC, conversely, would concentrate on pre-distributive (before-the-market) interventions, such as market regulation and distribution of economic assets that respond to the basic structure, and would discount compensatory tax-and-transfer interventions as being of less importance.

Appearances are deceiving, though. SI is a different animal from the traditional welfare state, as it puts greater emphasis on ex-ante interventions geared to enhancing productivity; thus, the label 'redistributive' is not a good fit. More generally, the idea of a debate that pits redistributivists against predistributivists is somewhat misleading. When it comes to everyday policymaking, there is a growing sense that redistributive and predistributive interventions are complementary;[2] moreover, the same social policy may affect distributive outcomes before and after the market.[3] But even when the debate is framed as a normative contest regarding the potential for social transformation of two styles of social state, a debate initiated by the predistributive critique of the welfare state, [4] it relies on dubious caricatures. And while I shall refer to some arguments that have appeared in that debate, I have become convinced that translating the conversation between SI and TC into a conversation between redistributivists and predistributivists does not help.

The conversation here proposed will, instead, depart from the presumption of social democratic ground shared by SI and TC, which will then need to be made explicit and have their points of similarity and difference brought out. By social democracy, I mean both a set of political ideals and existing societies where these ideals approach realization. Among the ideals, I include

[2] See, for example, the contributions to *The Predistribution Agenda* edited by Chwalisz and Diamond (2015).
[3] For an early suggestion that social benefits influence decisions on economic participation, see Esping-Andersen and Myles (2011).
[4] See, for example, Thomas (2017) and O'Neill and Williamson (2012) for sustained normative debates.

social and economic equality, and the distinctive social democratic commitment to equality is here represented by adherence to a thick version of the principle of equality of opportunity. As for existing social democratic societies, I refer to those, such as Nordenland (my suggested name for an amalgam of Nordic societies), that harness market economies to achieve broadly egalitarian ends.[5] I then enlist both the political ideal of equality and Nordenland's flesh-and-blood social democracy to make a comparative analysis of the two blueprints. As I have stated, the ultimate purpose of the exercise is to shed light on possible horizons for social democratic ambition.

After comparing SI and TC, with the help of the yardstick provided by both a thick version of the political ideal of equality of opportunity and Nordenland's social policy, I conclude that the fundamental distinction between them, rather than being located in the redistribution versus predistribution opposition, or in the difference between SI's and TC's distinctive transformative ambitions, is to be found in their assessments of the range of possibilities open to societies today. Moreover, even though integration of the two perspectives seems to be within reach, and indeed to offer an enrichment of the social democratic imagination, there is an asymmetry between them that favors the more resourceful TC as the entry point for integration. Furthermore, I conclude that the horizons for social democracy may benefit as much from the articulation of commonalities, differences, and ingenious solutions to identified difficulties as from what is inadvertently left out of the conversational frame.

The organization of the article is as follows. I shall briefly present my take on the criticisms levelled at the (supposedly) redistributive welfare state by the adherents of predistribution in Section 2. In Section 3, I shall review the internal logics of SI and TC, and the two blueprints' distinct responses to the predistributive challenge raised in the preceding section. In Section 4, I shall rehearse a dialogue between the two with the help of my chosen social democratic benchmark, in particular by assuming that SI and TC share a commitment to fair equality of opportunity. Section 5 closes the paper with final remarks on integration and the horizons for social democracy.

[5] I assume that taking Nordenland as an embodiment of social democratic society is apt since the participating countries (Norway, Denmark, Sweden, and Finland) arguably fare better than any other advanced democracy in terms of their large array of social democratic achievements. For reference, see Kenworthy (2019 and 2020).

2. Redistribution, predistribution

Since the inception of social states, distribution – that is, how capitalist economies distribute through the market mechanism the fruits of riches they created – has been a central concern and a major normative justification for state intervention. And while social states have sought to smooth market (primary) distribution by means of various interventions, attention has often focused on direct taxation and cash transfers as the prime means whereby social states can deliver a less concentrated (secondary) distribution.[6] These interventions are then summed up under the label 'redistribution', and welfare states are identified with redistribution. A different social state orientation is represented by the deployment of interventions geared to influencing market distribution directly – interventions affecting the capabilities people take to the market and how the market rewards these – that is, predistributive intervention. A debate then ensues, starting from the criticism that those favoring predistributive intervention raise against the redistributive welfare state.

Criticisms of the redistributive welfare state that favor a state leaning more towards predistribution are made both by those who consider that redistribution has gone too far and by those who consider that it has not gone far (or deep) enough. It was the former who, in a public debate that took place in the UK after the Conservative Party formed a coalition government in 2010, advanced the idea that, in the face of both increasingly worrisome distributive issues (poverty and inequality), and — especially after the 2007-8 crisis — fiscal constraints, welfare states should focus not so much on collecting more revenue and delivering more transfers (a move likely to face increasing political resistance), but rather on policies that better prepared (as well as drove) people to engage in the labor market and also set living wages with which businesses would have to comply. So, instead of repair, the state would prepare; instead of socializing costs, it would direct them towards individuals and businesses.[7]

The original pre-distribution argument was different, though. Jacob Hacker - the American political scientist who introduced this perspective and coined the strange name, 'pre-distribution' – devised, in his 2011 seminal paper, a predistribution more in line with the second assessment mentioned above. For him, the welfare state does not go far enough: market

[6] In fact, OECD statistics measure redistribution as the difference between Gini indices before and after the welfare state tax-and-transfer to individuals.
[7] This discussion took place mainly in the British mainstream press. See, for example, *The Guardian* (2012, 2013).

economies and economic policies are, in fact, reproducing and amplifying inequalities to an extent that redistribution will never remedy; therefore, pre-distributive preventative measures become key. In Hacker's view, expansionary social states should also engage in modifying the rules of the market game, tilting the balance towards macroeconomic management, public investment, real investment in the creation of good jobs, and workers' bargaining power and participation in profits.[8]

In an even more critical vein, political theorists have mounted an attack on the redistributive welfare state for not going sufficiently deeply into the roots of the distributive problem, i.e., for not perceiving that it is the increasing concentration of property or capital that underlies the growing economic inequalities of contemporary capitalism, and that should be addressed. Much of this political theoretical criticism explicitly echoes the late John Rawls' disapproval of 'welfare state capitalism'.[9] The point made by Rawls (2001) is that the welfare state intervenes rather late, i.e., that it attempts to modify an already settled distribution of economic advantages. The timing of the intervention is critical, because if it is too late, it may endanger the real value of political freedoms: a concentration of capital in a few hands means a concentration of power and control over the lives of those who lack it, in the end condemning the majority to a politically dominated position. This also implies that what is left for redistribution is likely to be residual, not really life-transforming, let alone socially transforming.

Incidentally, this position of Rawls's has roots in James Meade's reflections on a socioeconomic system known as 'a property-owning democracy', in which democratization of capital occupies center stage.[10] Meade is also the reference for predistributive criticisms of the welfare state reported in O'Neill and Williamson's 2012 edited volume. Alan Thomas' 2017 book, in particular, offers a sharp criticism of the welfare state's ineffectiveness in view of the 'return of capital' as documented in Piketty (2014), and the author mounts the defense of an alternative social state, one centered on capital sharing, along Rawlsian lines.

[8] See Hacker (2011, 2015).

[9] Rawls (2001). It was a late disapproval because this was not explicit in Rawls' previous works, and most of the secondary literature had, since the publication in 1971 of Rawls' *A Theory of Justice*, worked on the assumption that the functioning of the welfare state accorded with Rawls' twin principles of social justice.

[10] Meade ([1964] 2013).

These criticisms of the welfare state from the pre-distributive camp, especially the feasibility one (from Conservatives) and the radical one (from political theorists), imply that the old redistributive welfare state and the socioeconomic system it engenders must give way to something else. In the terminology of the feasibility critic, the replacement should be an enabling (focus on preparedness) welfare state; in that of the radical critic, it should be a property-owning democracy.

Let us first consider the radical objection – the feasibility one will be addressed in the next section. Arguably, there are problems with the radical predistributivist assessment of what the welfare state is and does. To begin, while Hacker calls for a pragmatic updating of the welfare state, Rawls, in his more damaging criticism, calls for a complete replacement of the welfare state, with its tendency towards political domination. But the argument is hardly fair. In fact, Rawls compares existing welfare states (he seems to be talking about the American or liberal social-assistance vision of the welfare state, certainly not about Nordenland) with (a brief description of) an idealized property-owning democracy untroubled by real-life snags. Moreover, his criticism overlooks the resource-sharing nature of real-world welfare states which are, of course, more than just systems of cash benefits and income taxation, comprising as they do ample provision of key social goods through their many public services. In fact, following the tradition of social rights first advocated in the writings of T.H. Marshall and Richard Titmuss, the welfare state has been defended, and was in fact built up during the twentieth century, especially in Nordenland, not so much as a system for social assistance to the poor, but as a provider of resources for social protection and social promotion.[11] What is more, when it comes to the details of the alternative full-blown socioeconomic system described in Thomas (2017) (a relative of the property-owning democracy), much of the policy-mix, including education, public health services, and social security, coincides with what is already in place, e.g. in Nordenland - the main missing element being capital-sharing schemes. And, while the inclusion of such schemes is certainly relevant when it comes to transformative welfare states, as Thomas (2017) aptly points out (we shall come back to this in Sections 3 and 4), there are predistributive consequences of redistributive policies which should be acknowledged and duly assessed: e.g., cash benefits and tax-funded services affect not only the decision to supply work or participate in education and training, but even the ability to accumulate savings and wealth.

[11] See Marshall (2009) and Titmuss (1974).

All in all, the straw man of a welfare state mainly committed to after-the-market handing out of cash benefits is not a fit characterization of the welfare state, certainly not today, as will be discussed in the next section, and not, arguably, in the past either. We now see that even what looks like traditional redistributive social policy was key to building up social wealth and supporting economic participation: pension funds helped finance social housing, unemployment insurance helped increase wages and fostered innovation and productivity, maternal leave helped boost the economic participation of women, family allowances helped expand schooling, and these are only a few examples. Moreover, the Marshallian stipulation of universal participation in social wealth via universal access to public social services, Marshall's particular conception of social citizenship and equality, was a welfare state commitment from the start - especially so in the tax-funded universalist cradle of the twentieth century welfare state. The too-little-too-late representation of the welfare state by the property-owning-democracy camp is inaccurate.

3. Reviewing the blueprints

Talk of the need for a new welfare state arose in policy and academic circles in the 1990s and early 2000s as a consequence of the climate of austerity prevailing in policy-making in the 1980s. This new welfare state which, in the sobering circumstances of the time would reinvent itself as a consistent package of *productive* social policies, would be the response to widespread calls for retrenchment. In particular, it would address the feasibility criticism, the second predistributive criticism mentioned in the section above, that the welfare state was a financial and a political burden, by putting together a set of policies which would reconcile equity and efficiency concerns. While a number of variants claim to be the most appropriate answer to that call, the SI blueprint presented here is the social democratic variant, as discussed in *Why We Need a New Welfare State* (Esping-Andersen *et al.* 2002) and later developed as a coherent social policy *corpus* in other publications during the first two decades of the twenty-first century.[12] It includes a recalibration of traditional welfare state policies as well as the

[12] See Esping-Andersen *et al*. (2002). For a short selection of references including a perspective on varieties of social investment, as well as in-depth discussions of multiple aspects of the social democratic variant, see Morel, Palier and Palme (eds) (2012). For a detailed discussion of the social-investment paradigm of social policy, including conceptual, methodological, policy and political-economy aspects, see Hemerijck's monograph (2012) and Hemerijck (ed. 2017); the latter includes critical appraisal of the paradigm as well as uses of social investment. See also Plavgo and Hemerijck (2020) for empirical results of social investment policies.

advancement of a package of new – or seen under a new light – social policies, such as early childhood interventions, elderly care, lifelong learning, and active labor market policies. To an important extent, this blueprint coincides with a deep awareness — and the subsequent articulation — of the inner workings of the Nordenland socioeconomic experiment, increasingly perceived as a successful case deserving attention.

To start with, the SI, though different, is neither an abandonment of, nor a plain replacement for, the old 'repair' welfare state. If anything, it is a vindication of the old welfare state in new terms — new functions for old policies or new forms of integrating pre-existing policies and new interventions into larger arrangements to respond to new circumstances, as I discuss below. The general idea is to reconfigure the welfare state not so much as a public insurance scheme, its more visible function, but also as a dedicated engine of productivity- and solidarity-enhancing policies, operating through interventions which simultaneously perform pre- and redistributive functions, or, more in line with the SI's own jargon, 'pre-pare, bridging, and re-pair' functions.[13]

Among the 'pre-pare' policies are early childhood education and care (ECEC), education at all levels, and health care. Among the 'bridging' policies, those supporting transitions and connections, are ones contributing to an active labor-market, such as training and retraining programs, lifelong learning, active ageing, and ones ensuring family—work reconciliation, such as paid parental leave (including separate maternity and paternity leave), flexible work time, elderly care and, again, childcare and schools. Among the 're-pair' policies are social transfers, such as those that are integral to classic social security, including social insurance and social assistance. However, most, if not all, of these policies are *multifunctional*. For example, ECEC helps to boost children's cognitive and social skills and life prospects, female employment, fertility rates, and more balanced gender norms, as well as reduce family poverty and intergenerational inequality. Many of them are deliberately *complementary*. For example, unemployment insurance may be designed to work in tandem with active labor-market policies designed to help with upskilling, such as in flexicurity policies, while various transfers such as paid leave and family allowances smooth the way for many of the services provided. They are underscored by assumptions regarding the likelihood of their promoting highly productive

[13] See Morel, Palier and Palme (2012) for some of this terminology. Anton Hemerijck, in various publications, calls them 'stock, flow and buffer' interventions.

(with high levels of employment in well-paid jobs) and socially equitable societies, both on class and gender counts. Most of them are supported by empirical evidence. They embody the belief that there is no necessary tradeoff between efficiency and equity[14] — that the welfare state may promote both goals — and that reconciliation does not mean social justice at its cheapest: far from it. It is here that SI distinguishes itself from less ambitious versions of social investment, such as New Labor's[15] and meets the feasibility challenge without relinquishing its ambition to spearhead radical change.

Aiming at equality of life chances, the focus of SI is on labor. More productive workers will increasingly be able to claim better wages in bargaining with employers over the social surplus; wages resulting from diminished education or training premiums will deliver more balanced wage-distribution; inter-generationally, the diminishing importance of family background for life chances and the expected rewards from work will be promoted by early interventions and lifelong learning policies, especially those designed to undercut automatic disadvantage; lifelong learning may also be expected to boost intra-generational mobility and thus better the rewards offered along the way; a whole number of family policies will see to it that care is not an activity to be borne exclusively by women, thereby promoting for them a status as economic participants and wage-earners that can be expected to equal men's. There is also a solidarity component in that higher aggregate productivity will sustain a robust welfare state, in particular, a substantial social fund providing for social assistance.[16]

The problems for which this social investment welfare state blueprint claims to be a social democratic solution are the new social risks of post-industrial societies. These include: ageing societies (caused by increasing life expectancy and decreasing fertility rates, which diminish the size of the active population while increasing that of the inactive one); female employment (and challenges related to care supply, especially in view of increasing family demand); structural change towards the service sector and the knowledge economy (with their dual labor markets increasing jobs in both the low-paid, low-skilled subsector and the highly paid, highly skilled subsector); the technological revolution (fewer jobs in the manufacturing sector,

[14] The point is that tradeoffs may occur but are not inevitable. See discussion and evidence in Hemerijck and Ronchi 2019.
[15] Third way social investment focusses more on prepare policies than on bridging policies, and prepare policies are less encompassing and generous than those advocated by the social democratic version of social investment. For a discussion, refer to Morel, Palier and Palme (op.cit.).
[16] Hemerijck (2012) calls this normative feature of the new welfare state 'capacitating solidarity'.

persistent unemployment); and far-reaching changes in family structure (less reliance on traditional family solidarity). Globalization and fiscal pressures due to increased global competition and capital mobility are taken seriously: so seriously that the range of what is considered possible, in terms of social transformation, includes less labor market regulation as well as 'leave capital alone' decisions; and there is no talk of progressive taxation or capital sharing. The proposal is in a way an update of post-War capital—labor cooperation but, with labor now in a much weaker position, the task today is to increase the productive might of workers, which the new social policies are designed to facilitate.

Despite social investment also being a feature of Nordenland, the SI and Nordenland differ somewhat in terms of social policy. For instance, the key distributive role of labor-market institutions in Nordenland is omitted in the SI agenda – in this case, reality seems more ambitious than the ideal. Although labor markets in Nordenland have become more flexible since the 1990s — meaning that it has become easier to hire and fire workers — other institutions such as wage-setting ones are pretty much intact (and their distributive role cannot be underestimated)[17]. Unions are strong, collective bargaining is all-encompassing, and corporatist institutions, including labor organizations, are prominently involved in the design of policy reforms, including in ways of flexibilizing the labor market while keeping economic security, enhancing capabilities and formalizing labor contracts in the platform economy.[18] Other less visible micro-interventions which also reflect the power of labor organizations relate to within-firm mechanisms such as discretionary learning (whereby workers have autonomy in the work process to establish its goals and ways of reaching them)[19] and workers' participation in companies' boards, which among other things means the possibility of influencing investment decisions and executive pay (this potentially caps one of the forces causing income concentration at the top).[20]

To be sure, those institutions are, in principle, not incompatible with the focus of a social investment welfare state; they can be incorporated therein as 'beneficial constraints' pushing firms to invest in training and innovation to increase productivity.[21] But they are not included

[17] See, for example, Huber, Huo and Stephens (2015), Bazillier (2015), Jaumotte and Buitron (2020), Kenworthy (2019).
[18] See ETUC (2020).
[19] Eurofound (2009).
[20] *Idem*, Piketty (2020), Kenworthy (2020).
[21] 'Beneficial constraints' is an expression coined by Streeck (1997). According to *Oxford Reference* (2020): 'It refers to institutions that constrain employer behaviour, and which may initially be resisted as a consequence, but

among the core policies of the SI blueprint, which actually claims to be designed to support transitions (flexibility) in the labor market. Also, not even in Nordenland, which, as mentioned, mixes SI with enhancing labor's bargaining power by means of strong labor-market institutions, is capital the object of taxation; nor is progressive taxation key, or capital-sharing experimented with. These measures are not the focus of social policy — neither there, nor in the SI blueprint.

While strengthening labor muscle through complementary and multifunctional (re and pre) policies seems so central to SI, as its response to the combined feasibility-radical challenge, it is capital concentration that concerns TC most; and capital democratization (a typical pre policy) is what TC aims at. In a way, SI is the mirror image of Piketty's transcending capitalism: what TC lacks in detailed policies-complementarities-functionalities, it makes up for in attention to capital; and vice-versa, as far as SI goes.

TC's fixation on capital (or wealth – these terms are used interchangeably) is a consequence of its proponent's conviction that economic inequality is the main societal problem of our time and that (i) the engine of inequality is an unfettered concentration at the top of both income and (especially) wealth distributions.[22] Moreover, it assumes that (ii) this situation only gets worse if unchecked. In both the 2014 *Capital in the 21st Century* and the 2020 *Capital and Ideology*, Piketty offers overwhelming evidence of (i) and worrisome indications of (ii). His explicit concern is with the power that comes with wealth ownership - the power to command opportunities for improving one's life (to start a business, to own a house, to choose education and training trajectories), the power not to have one's life prospects under the control of others. This is a concern that resonates with the property-owning-democracy perspective - even though there is no direct mention of the Rawlsian attitude to this agenda in either book. Addressing

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which generate beneficial consequences for business in the longer term. Streeck's initial example was the system of codetermination in Germany, which inhibits employer freedom to restructure businesses and requires them to share information and consult with worker representatives. The effect of this restriction, Streeck argues, has been to encourage the development of a long-term cooperative relationship between German employers and their employees, which in turn has provided the basis for competition on the basis of quality enhancement and high value-added and allowed German manufacturing to thrive in world markets. Other institutions that might function as beneficial constraints are minimum wage laws, training levies, and union recognition procedures.'

[22] Wealth distribution is typically more concentrated than income distribution, as most people do not have any net wealth. Also, there is a mutually reinforcing dynamic between concentrations of income and those of wealth . For a discussion, refer to Piketty (2014 and 2020). Attention to top income and wealth shares has gained traction in the twenty-first century thanks to the work of Anthony Atkinson and Thomas Piketty as well as the latter's many collaborators.

this concern directly meets the radical challenge raised by the political theoretical criticism reviewed earlier.

Because of its emphasis on wealth concentration, TC is a plea for special attention to property rights, and it shows less concern with social rights and policy. Attention to property rights should be central to any fundamental critique of contemporary capitalism, as well as to any effort to design an alternative, more socially just, economic system, the argument goes. In his 2020 book, when Piketty discusses property rights, he objects to all of what he calls 'proprietarian' regimes; but capitalism is particularly objected to for generating unjustifiable inequalities. In an approach roughly in line with the Rawlsian social justice 'difference principle', Piketty claims that unjustifiable inequalities are those that do not work for the general good (and in particular fail to benefit the least advantaged) - which is the case in twenty-first century capitalism, where growing inequalities co-habit with meagre economic growth. Piketty also blames center-left parties in advanced democracies for not focusing on the problem of concentration of property, and for a failure of imagination when it comes to devising alternative forms of property beyond those experimented with in the failed socialist experiments of the twentieth century. Along with abandoning state ownership of the means of production, those parties surrendered to capitalist property. However implicitly, Piketty is here criticizing all variants of contemporary welfare states, Nordenland included, for exhibiting this oversight.

In both *Capital in the 21st Century* and *Capital and Ideology*, what Piketty terms the return of capital in the twenty first century is central. This is described as the combined effect of an increment in the stock of wealth (or capital) and a slow pace of economic growth (the infamous $r>g$ inequation) leading to an increasing concentration of wealth in a few hands (due among other things to the growing importance of inheritance) in recent decades. In Piketty's 2014 book, the main reform that is advocated to halt this process is the introduction of a progressive global wealth tax – a confiscatory tax levied on capital with a view to capping increasing returns. But in his 2020 book, a more extended blueprint is offered - though taxation still has a prominent place.

So, it is in *Capital and Ideology* that TC is presented in full. It is mainly a plan for social ownership and the circulation of property – the whole plan is underscored by a series of progressive taxes, including progressive inheritance, wealth, and income taxes. Social ownership or co-determination means workers' equal participation in firms' boards, including in taking decisions on investment plans and executive compensation. Circulation of property includes the provision of a sort of social inheritance, an equal amount of capital to be delivered to all citizens at a certain age. Progressive taxes would be levied on wealth with a view to funding the social inheritance; on income to fund the welfare state; and on inheritance to fund a minimum guaranteed income. But except for suggesting that the bulk of taxation should be used to fund the welfare state, the welfare state is mentioned only in passing. Rather, abundant details are provided on within-firm co-determination, the circulation of property (Piketty's name for Meade's social inheritance) and an education voucher that would be given to every student and would represent her fair (equal) share of public education expenditure.

The circulation of property, in particular, is the imagined solution to a long and problematic history of inequality and proprietarianism which is densely narrated in *Capital and Ideology*. The term circulation refers to the simultaneous recognition of private property as legitimate and of the need for limitations on it; and while these features are already enshrined in tax systems in capitalist economies, the point is that such limitations need intensifying. In this sense, TC is not an anti-capitalist blueprint, though the name 'participatory socialism in the 21st century', the one Piketty favors, might suggest otherwise. Rather, it is a plea for a mitigated, as well as a more democratic, conception of capitalist property - since there is a question of capping gains via taxation to halt the explosive tendency of economic concentration as well as turning property into shared opportunity. Just as in nineteenth century capitalism, the argument goes, property in the capitalism of our times is concentrated in the hands of the few; it accumulates thanks to higher returns accruing to higher amounts of it; and it remains in the hands of the few – ever fewer, by the way – via inheritance. Therefore, *transcending* (Cambridge dictionary: going further, rising above, being better) capitalism, a more apt term than socialism and one that Piketty also uses, means curbing concentration—accumulation—transmission, without abolishing private property and markets, i.e., capitalism itself.[23]

[23] In the literature, beyond the state ownership of the means of production typical of Soviet-style socialism, many other forms of democratization of property within the boundaries of capitalist economies have been conceived, e.g. workers' individual and collective ownership of shares, or participation in profits and in companies; workers' cooperatives; sovereign wealth funds held on behalf of citizens to whom they distribute dividends, the citizen's stake in social inheritance, which is the PTC favourite; not to speak of the citizen's partial control of privately-owned property in the form of what Piketty calls social ownership, which may include caps on control by large shareholders. Useful references on this topic include Thomas (2017), Piketty (2020), Atkinson (2015), Scheve and Stasavage (2016), Bowles and Gintis (1999), and Freeman (forthcoming).

TC recognizes that, to advance such a proposal and make sure capital flight is limited, transnational collaboration on information about wealth and global alignment in tax setting among countries or regions is key. But instead of being seen as problematic to establish, this collaboration is presented as an additional blueprint to be pursued to support progressive advances over property at home. This is TC`s way of addressing a possible feasibility challenge: to make the proposal feasible at home, we must turn our political attention to the transnational arena. Indirect evidence of the viability of the proposal is provided, first, on the rather vague grounds that history has on many occasions shown the impossible to be possible, and then, second, on the more specific grounds that there have been changes in international treaties on the exchange of information on the wealth ownership of nationals, and these may influence national decisions on taxing capital. TC also claims that, even at national level, there is some space on the tax-setting agenda to be profitably explored: the technology to better track wealth already exists; punitive taxes, like an exit tax, might extend the repertoire, at the discretion of the tax authorities. The politics of these changes is undeveloped - that of SI, by contrast, is more developed. And, as stated, SI is currently in place in Nordenland; so the empirics of coalition formation related to SI policies could be tracked to some extent, while TC exists only on paper.[24]

It is not hard to imagine, after this quick review, a brief exchange between advocates from the two camps in which the TC advocate criticizes SI for glossing over the real site of inequalities – wealth ownership – while the SI advocate criticizes TC for neglecting the crucial role of welfare-state policies in strengthening the position of labor under current conditions. It is questionable whether either side would accept the claims we have imagined for the other – the SI would retort, to the claim that capital should be a matter of concern, that the constraints imposed by globalization and tax competition are hardwired into contemporary capitalism; TC would reply, to the claim that strengthening the economic muscle of workers (men and women) should be key in a social-democratic project, that wealth-concentration plays a more significant role. Objections advanced on both sides of, say, lack of realism and relevance would quickly bring the dialogue to a dead end. So, in the next section, I shall approach the contrast between SI and TC in an indirect way, preparing common ground on which an extended conversation can start.

[24] See, for example, Garritzmann et al. (2018).

4. An imagined dialogue

Under the two opposed headline position statements mentioned above, the list of less salient differences between SI and TC may be extensive. In this section, I shall explore the possibility of a conversation, a dialogue that is yet to take place, starting instead from ground I suppose them to share, i.e., the pursuit of social democracy, and then try and make sense of the differences between them. My conjecture is that, since they share fundamental political aims, the differences between their perspectives emerge in the translation of general aims into specific ones, and into particular policies, and that this divergence can be clarified by examining their assumptions about the state of the world. The crux of the matter is how sensible these assumptions are, and where the politics stops making sense.

I assume that both SI and TC are intended as ways of promoting fair equality of opportunity – a notion famously articulated by John Rawls as his second principle of social justice, but arguably his most consequential principle of economic equality.[25] Roughly, and this is my take on it, the principle of fair equality of opportunity dictates that, in a fair social arrangement, jobs and positions are allocated to people on the grounds of their competence and, most importantly, irrespective of their social or family origins.[26] In order to observe the principle, it is essential to identify the points at which potential violations occur, and to design corrective interventions. In contemporary market economies, as the empirical literature makes abundantly clear, it is not enough to guarantee that everyone develops his or her competences in equally good schools, or that they are able to freely enter labor markets where they can get appropriate rewards for these competences: family background and inherited wealth may play, indeed do play, decisive roles. Moving successfully up the educational ladder, from one level of schooling to the next, turns on factors such as household material conditions, family configuration and stability, enriching family environments, and early investments in offspring. Equal access to quality higher education is especially elusive, given the opaque forms of horizontal stratification within higher education systems that hamper access for so many to prestigious schools and professions. In the same way, to secure good jobs, not only do family background and schooling histories directly matter, but so too do social connections, which are often associated

[25] The more famous ‘difference principle’ only rules out inequalities that do not benefit the least advantaged, after the freedoms and, especially, the opportunity principles have already done most of the equalizing job.
[26] Discriminatory differentiation is ruled out by the liberal freedoms.

with family and class background. And progressing through the job market and securing senior positions depends very much on those connections, rather than just on an individual's abilities and motivation. Even talent and willingness to develop skills — something beyond the purview of (though not incompatible with) Rawls' notion of fair equality of opportunity — are influenced by factors such as prenatal conditions and lived experiences within and outside the family. In the end, incomes accumulated by the advantaged turn into wealth, which is transmitted through the family and ends up finding ways of shifting the balance of power in favor of policies that disproportionately benefit wealth-owners. Moreover, if economic changes render competences either useless or overvalued, previous wealth can provide a precious shield against bad contingencies. Economic changes also create opportunities for contingent income differences to turn into durable wealth inequalities, as is happening nowadays e.g. with the dramatic advance of digitization.[27]

Characteristically, SI policies are designed to address most of the above-mentioned obstacles, especially by means of universalist preventive and bridging policies and a focus on family background and early intervention.[28] Decades of spending on universal education and generous unemployment insurance schemes in developed countries have shown that second-order earlier and more pro-active interventions are needed, and are in fact key, if the desired effects are to be achieved. So, the many guises in which, and the many moments in a life cycle at which, socially segmenting obstacles present themselves are identified, with a view to making up for the opportunity that is lacking. Thus, health care, early childhood education and care, and even prenatal interventions[29] are meant to increase the potential benefits of later schooling; lifelong learning is meant to make up for unseized opportunities in the labor market; and cash benefits of various kinds are calibrated to ensure that those policies are effective (e.g., adequate unemployment insurance supporting enrolment in training or retraining; adequate parental leave supporting economic or educational participation) — to recall just a few of the most important interventions. In short, the idea behind SI is that the social state should try and prefigure the need for, and the design of, such policies and ensure that they intervene before

[27] Refer, for example, to the review article on inequality of opportunity by Corak (2013). See also Tilly (1998) for the importance of lived experience. On family formation and stability, see Moullin (2015); on horizontal stratification in higher education, see Corak (2013) and Piketty (2020); on inequality and political outcomes, see Scanlon (2018); on the importance of luck associated with technological innovation, see, for example, Van Parijs (1997); on inequality and digitization, see, for example, Qureshi (2019).

[28] Let me by the way remark that, as far as I know, this is the first attempt explicitly to connect social investment policies with a reading of the Rawlsian principle of fair equality of opportunity.

[29] For more recent attention to prenatal environment, refer, for example, to Gluckman *et al*. (2008) and Almond, Currie and Duque (2018).

the obstacles leave irreversible scars; so, the policies should be robust, early, and ongoing – neither too little, nor too late

Yet, often the ultimate source of the multiple obstacles that lead to socioeconomic inequalities is economic inequality itself — and it is immaterial whether economic advantages were 'earned' or not: either way they will spill over into other domains, such as social opportunities and political life, where economic inequality feeds into processes that produce and reinforce economic advantages. Economic wealth is in itself an opportunity to access the most valuable positions, and a meta-opportunity to get the credentials for those positions – a fact that is plainly acknowledged by the fair equality of opportunity principle. So, leaving economic wealth and its intergenerational transmission free from the restraints imposed in the name of fair equality of opportunity runs the risk of badly weakening that principle's role in guarding against inequalities. This seems especially so in the face of the significant rise in top incomes and wealth over the last four decades,[30] which seems to be a problem even in egalitarian Nordenland. That the continued expansion of SI-like social spending in Nordenland barely stabilizes post-fiscal inequality might be a sign of the driving force of increasing concentration of income at the top. This is a conjecture that cannot be dismissed out of hand.[31]

In the face of the centrality of wealth to fair equality of opportunity, a principle SI and TC share, the TC advocate might ask why the SI glosses over this.[32]The SI advocate might point to the financial sustainability of the welfare state as the answer. Sustainability would be endangered by going-after-economic-capital strategies, whether these were implemented via progressive taxation or via outright circulation of property: tax competition under globalization would render both these moves self-defeating due to the threat of capital (read: investment) flight. Financial sustainability, to recall, is a core commitment of the SI, which is honored, as we have seen, not by deflating social policy but by intensifying its ability to boost capabilities and productivity, drawing on capital-labor cooperation to do this.

[30] On the rise of wealth and income inequality, see Atkinson (2015), Piketty (2014, 2020), Huber, Huo and Stephens (2015), Kenworthy (2019, 2020), OECD (2018).
[31] See Huber, Huo and Stephens (2015), Piketty (2014, 2020) and Kenworthy (2019, 2020). Kerstenetzky and Guedes (2020) document the increasing redistributive effort devoted to taming increasing market income-inequalities in Denmark in the aftermath of the Great Recession.
[32] That Piketty's concern with the return of capital is compatible with the justification for the two Rawlsian principles of justice is discussed in O'Neill. My discussion differs from his as I am not trying to demonstrate that compatibility, but rather assuming that concern with capital concentration is compatible with the requirements of (my reading) of the Rawlsian principle of equality of opportunity.

The TC advocate might reply that this reaction cannot be fully satisfactory, given that the compromise (to leave capital alone) would result in the aggravation of the first-worst problem – presumably inequality. The compromise struck between capital and labor by SI might then imply either an adjustment of aspirations to possibilities, i.e., 'the farthest we can go', as far as economic equality is concerned, or the outright abandonment of the war on inequality as a legitimate pursuit. Should the SI advocate have the first option in mind, this will mean that, due to the financial sustainability imperative (leading to leave-capital-alone strategies in the face of tax competition), SI will shift its target to promoting upward social mobility (e.g. via boosting labor strength) instead of directly attacking economic inequality. Studies, in fact, have shown intergenerational bottom-up mobility to be particularly high in Nordenland, and SI seems to be associated with this result. The same studies have also shown immobility to be persistent at the top of the earnings distribution, [33] where inherited wealth plays a key role. In other words, the social investment policy core, by weakening tight connections between social origins and destiny via a combination of active and passive policies, is paying off where it can, while succession at the top remains rigidly dynastic.

Now, the TC advocate, doubting the need to give up on the fight against inequality, might well ask how certain one can be that capital flight will take place as a consequence of progressive taxation and capital circulation policies; and how certain it is that 'capital stay' means real investment and more revenue. [34] He might go on to argue that, if we look at history, the post-WW2 '30 glorious years' saw progressive taxation, the emergence of a patrimonial middle class, and strong real investment, while the subsequent 'inglorious 40' have seen the opposite, i.e., the advancement of regressive taxation, the shrinking of the middle class, and a fall in real investment. Association is not causality, granted; and the international contexts were quite different. But both these two historical periods drew on supportive transnational backgrounds: the Bretton-Woods agreement on capital controls, and the globalization framework, respectively. Thus, the TC advocate might argue that attention to the transnational battleground is key: under globalization, for the war on inequality to be successful, it must surpass national frontiers and aim at a global agreement on tax regimes. The implication is that transnationally

[33] Corak (2013), Esping-Andersen (2014).

[34] The OECD (2018) reports mixed effects associated with progressive taxation, and the introduction of wealth taxes in particular, pointing to a more multidimensional problem concerning mobile capital, including the fact that capital may continue to be invested in the country from which the owner has fled. Matray & Boissel (2019) show a positive association between dividend taxes and real investment in France, following an increase in the tax dividend rate in 2013. Recently, over 80 of the world's most famous millionaires signed a letter publicly calling for higher taxes on the richest; see Oxfam (2020).

oriented policies and politics must be included in the social democratic agenda. Conversely, not engaging in transnational politics makes possible the rise of tax competition, while turning the threat to the financial sustainability of the welfare state into something real. Capital, while not delivering on expectations for real investment, as these have been times of financialization, including via public debt financing of government expenditure, gets addicted to low tax rates and bids for ever lower ones, setting ever lower caps on resources devoted to social transformation. To compensate for this, more should be extracted from labor - the valorization of which is the flagship of the SI - which is already under pressure from increasing global competition. So, this bringing of the transnational sphere into the social democratic agenda is arguably a social democratic existential imperative.

Now, still with the fair equality of opportunity principle in mind, we see that TC, while fulfilling the requirements of this principle as far as attention to economic inequality (concentration at the top of income and wealth distributions) goes, scores rather low regarding provision for other opportunities (or else relies on a simplistic view of a direct correlation between economic inequality and inequality of opportunity) – a point the SI advocate might well make. It is not so much that TC suppresses the need for this provision as that it treats it perfunctorily, black boxing it as part of an unspecified welfare state. The illustrative figure given in *Capital and Ideology* of what the socioeconomic system of TC would entail in resource terms is 50% of national income: 45% of national income would go to the welfare state; and 5% of it would go to capital democratization and providing a basic income. But that is all as concerns the welfare state, which is briefly referred to as an aggregate of health care, education, and social security. Attention to economic inequality, conversely, is detailed and is translated into property and control concerns, to be taken care of by various measures including progressive taxation. In the end, given that there is no discussion of how the welfare state might contribute to the decline of inequality, if at all, it is as though most of the distributive job is to be done directly by a progressive tax burden of 50%.

In an exchange with the SI advocate, the supporter of TC would be questioned on account of the superficial treatment given to such a financially robust welfare state. This is no small detail, the SI advocate would insist. To start with, of two countries with robust welfare states (35% of GDP), France (a more traditional, corporatist welfare state) and Denmark (where SI is in full swing), the latter fares much better on various counts, including unemployment, general employment and female employment rates, gender equality, relative poverty, and Gini inequality; so the nuts and bolts of the welfare state seem critical. This oversight by TC is probably related to an out-of-date view of the welfare state and an unclear sense of the Nordenland experiment. In *Capital and Ideology* there is no reference to SI, on which there exists abundant literature, at least from 2002 on (or even earlier, as in Esping-Andersen 1999). Moreover, TC's proposal for education, which is summarized as the distribution of an equal individual endowment, to be allocated for education or training according to the recipient's own preference, is unsatisfactory. Although the diagnosis presented in *Capital and Ideology* is certainly worrying, as it uncovers an unequal distribution of public educational resources among poorer and richer pupils, in favor of the latter, in France, it is not clear how this situation can be redressed by merely redistributing total resources as equal endowments. Again, resources are extracted and then reallocated. But why do poorer pupils exit the educational system after secondary education in the first place (family or school conditions? Lack of social policies? Which ones?), what are the barriers that impede progression, and what policies could be mobilized to counteract these factors? The voucher logic, i.e., the distribution of resources to individuals who then choose how to allocate them, is akin to market allocation; but then how can a public education or training system be planned beforehand? Moreover, how are complementarities between education and other policies to be pursued and designed, and what about those other policies to begin with? More generally, what are the views of TC about the new social risks of post-industrialization and the distributive risks these pose? This is the terrain of SI. The SI advocate would find it particularly odd that there is no mention in *Capital and Ideology* of the well-documented contribution of early childhood education and care, a flagship of SI, to the relatively low educational elasticity between parents and children observed in Nordenland, when compared with that recorded in other developed countries in Europe and elsewhere.

Here, the SI advocate could argue that a concern with opportunities other than those offered by economic capital is key, including opportunities that are instrumental to reducing income elasticity between generations, enhancing intra-generational social and occupational mobility, and gender equity. She could even claim, thus displaying a concern with capital that is a distinctive quality of TC, that social investment has a 'capital' quality that is glossed over in TC. In fact, Pierre Bourdieu famously suggested the use of the category capital to signify a sort of energy or power that materializes in different contexts, giving its owners advantages they may explore. Capital, in this sense, is plural in its many different manifestations.[35] Thus, arguably, many of the policies within the policy package of SI either directly promote or indirectly foster the spread of capital in this broad, power sense. The most conspicuous is educational capital – starting with early interventions such as ECEC and continuing throughout lifelong learning and training and retraining programs, with a view to enhancing the skills and real freedoms of workers. The same is true of the cultural capital that is usually transmitted within families, and which is spread more broadly, again, thanks to early public intervention in accordance with Nordenland's SI practice.[36] Moreover, the universalistic character of most SI policies, especially those related to a wide range of services, makes it easier for people to set up connections, that is, social capital, that are broader than those that might have been foreseen from the vantage point of social or family origin alone. There may also be spillover effects on public culture and the public sphere: for example, interpersonal trust tends to be higher, public institutions tend to be more trusted, and democracies tend to be more participatory in Nordenland than elsewhere; and SI institutions seem to have something to do with these outcomes.[37] In the end, TC's lapse in this area remains important, even if one considers economic capital-sharing to be a central strategy to rein in contemporary inequalities.

To conjure up additional rejoinders from both SI and TC would force us into deep speculation, in any case well beyond what textual evidence might support. Indeed, my bringing Bourdieu into the discussion is already a leap of imagination, though I do not think SI advocates would disagree with the point above. Is there an additional normative bedrock of SI, the message from which is that what happens at the top ought not bother us, provided there is plenty to be shared among the rest? Is there an unconfessed conviction on the part of TC that the inner operations of the welfare state are not really key to reducing inequalities, that the welfare state, in the end, is all about redistribution (while TC's self-image is that it is all about predistribution)? I cannot tell. Be that as it may, my main interest here is with how this dialogue may help identify key elements for a social democratic agenda. Assuming that, in accordance with the in-house version of fair equality of opportunity, what happens at the top as well as the specificities of the welfare state are both cardinal, how may we advance towards a more robust social democratic agenda? It is in that spirit that I will move to my final remarks.

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[35] Bourdieu (1979).
[36] For a thorough discussion, refer to Esping-Andersen (2009).
[37] See Sonderskov and Dinesen (2014) and Kenworthy (2020).

5. Wrapping up

I have argued that a fruitful conversation between SI and TC should not reproduce disputes around predistribution and redistribution. These features of particular social policies are hard to disentangle and, in any case, make no sense as wholesale social policy styles. Moreover, the conversation should not be framed in terms of a social transformation contest. Using a thick definition of the equality of opportunity principle as a lens through which to seek commonalities and distinctions between SI and TC, we see that both have transformative potential regarding that particular conception of equality – and that neither of them alone can accomplish the radical social change implied in that principle.

Therefore, a full-blown social democratic program must include a combination of SI and TC. To recap, SI's potential lies in setting the stage for strong social bonds and productive social solidarity to develop among the bulk of the population (say, the 90-99% of the population), while TC's potential lies in including the top (the 1-10%) as central to the social justice equation – with all the incompleteness and even self-defeating features, as far as effective social transformation goes, both choices may imply when taken in isolation. As discussed in Section 4, exclusive attention to solidarity among the majority may clash with the financial sustainability of SI, while exclusive attention to the top may inhibit the development of key drivers of societal transformation: in fact, a capitalism with many capitalists, whilst perhaps a good protection against big capital's bargaining power, must face the charge that it nonetheless leads to societies that are excessively individualistic and market-oriented.

Two additional comments are in order.

First, any effort to integrate these two agendas must start from the recognition of an asymmetry: that is, that while SI rules out the need for capital-sharing, as this denial is intrinsic to the sustainability version of their argument (a stronger one, to recall, would openly deny even the desirability of bothering with the concentration at the top of income and wealth), TC simply glosses over SI. TC thus leaves open the possibility of a fit, which SI does not. There is in TC a place, however unspecified, for the welfare state. The fit, anyway, seems to be crucial, if we bear in mind the thick version of equality of opportunity: it is there that the unique contribution of SI ('education-labor market-family' life course policies) to tame the new social risks and strengthen productive social solidarity and social bonds should be welcome. Also, bringing the transnational arena onto the social democratic agenda, as TC does, seems key if the aim is to curb the drivers of growing economic inequalities. Transnational politics appears to be a social democratic existential imperative. True, political viability is a challenge; but recent events, such as the joint setting of corporate taxes agreed on by the G20, and changes to the tax paradigms in place in the US, cannot be ignored. It would be no small feat if the above-mentioned agreement took account of arguments put forward by Piketty's group itself.[38] I can only speculate on this connection, but the conjecture by itself opens an interesting research avenue on where and how relevant transformative politics is being played out nowadays.

Second, the social democratic agenda can move even farther than this blending suggests. Nordenland provides an example of SI-cum-labor regulation which certainly contributes to softening the pressure put on workers by global competition. In this regard, TC retrieves regulatory capitalism from the ruins of twentieth-century mixed economies, although with much less emphasis than the proposals aimed at democratization of capital we reviewed here. Atkinson's 2015 book insists on the importance of market regulation to tilt the balance towards labor and provides many suggestions for a more active state and expanded public capital. As already stated, these ideas can be integrated into TC, as it provides an entry point for an enriched social democratic platform. I guess more critical attention needs to be given by social democrats to markets as mechanisms of resource allocation - and more constructive attention should be given to the potential of multilevel democratic arenas to provide such mechanisms, an agenda that may open up new ways of viewing property and sustainable wellbeing. A matter for future consideration, though.

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[38] Compelling arguments, and the design of solutions akin to those agreed on first by the G7, and later by the G20, can be found in the 2019 volume by Saez and Zucman, two close collaborators of Piketty.

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