

# The Modern Welfare State

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## *Overview of the Class*

In 2016, Denmark was the happiest country in the world according to a United Nations happiness report. Denmark, along with Sweden and Finland have shared 20 years of relative prosperity and now are among the wealthiest countries in the world in terms of GDP per capita. They are also “welfare states” with very high levels of taxation and redistribution—policies at odds with traditional views on the power of incentives to encourage prosperity. The influence of this model is evident in policy discussion in the US on issues ranging from educational subsidies to family-friendly workplaces. What can policy makers in other countries learn from the successes and failures of the Welfare State? This class has three goals: 1. to familiarize you with Welfare State taxes and subsidies, 2. to help you understand why these policies are successful (or appear to be successful), and 3. to give you the tools to critically evaluate suggestions for similar policy implementation in the US.

## *Text*

There is no required text. Instead, we will be sampling from a host of books and articles that will be made available on the University’s Library Course Reserves. A list of readings and associated dates is attached to the end of this syllabus. I must the material marked with a \*\* the day before class so that you can participate in the discussion.

## *Logistics*

This class meets on Wednesdays from 3:30-6:20 in Keller 0010. I will hold office hours on Mondays from 1:30-3PM in Keller 2045. A Chalk website for the class has been set up. I will post readings and handouts there, make announcements, etc.

## *Formal Requirements*

Formal requirements for this class 2 policy briefs, one short presentation, and one longer final project/presentation, as well as class participation. You will be given points based on the style and level of professionalism in your slides, as well as the content. Part of the goal of these projects is to get you practice in public speaking and writing, as well as presenting information effectively. To this end, I will make templates available and spend some time discussing expectations. Your final grade will be given by the following weights:

- Midterm presentation: 20%
- Policy briefs (2): 30%
- Final project: 25%
- Participation: 25%

## *Midterm Presentation*

Groups will be assigned a paper on the topic of family leave policy. You will be asked to present this paper for the class in 15-20 minutes. You will be graded both on the content of your presentation and on the quality of your slides. Making good slides will be important almost regardless of what career you choose and

graduate school is a good time to invest in this skill.

### *Policy Brief*

You will write 2 short policy briefs. After we have discussed employment protection and universal child care, you will be asked to present a clear, concise, and thoughtful summary of the evidence on the effectiveness of a proposed initiative in the US. Your brief should be no more than 2 pages long and you will be graded on your ability to interpret the evidence and apply lessons from another setting to this policy. I will provide you with feedback on the clarity of your writing and your arguments which I hope will be useful to you going forward.

### *Final Project*

Your final project will include a written summary due 9th week and a presentation during the last day of class. You will be able to choose from any topic which we did not discuss at length in class. When you decide on a topic, send me an email and I will tell you if this topic is feasible and available (no 2 people should be working on the same topic). You should aim to have something chosen by 4th week. You will work in groups of three. If your group is having trouble thinking of something, please email me. Some possible examples include:

- Retirement
- Paternity leave
- Shortened workday (France, Sweden)
- Education (the Finnish model, for example)
- Guaranteed sick leave (Sweden)
- State Educational Support Grants—SU (Denmark)
- Mandatory vacation time

Your written summary should begin with a 3-4 page description of the policy you are studying as it currently stands, as well as its history and a discussion of recent changes to the policy. You should spend an additional 2-3 pages discussing interest in applying a related policy in the US or another country of your choice (if any), how much this would cost, and whether it would be a good policy in that country, suggesting any modifications to make it so. I will give feedback on your written draft and expect that you incorporate the feedback into your presentations the following week. Your group will also be asked to present your findings and recommendations in class. Presentations will be 20-30 minutes long.

### *Participation*

You will be asked to come up with discussion questions ahead of each class after the first class. You must read the papers marked with \*\*. Generally there will be one or two such papers per class. I will occasionally do a short lecture where I summarize additional material. In addition to making discussion questions, we may do class activities such as debates on an issue, small group discussion, etc. Your participation and effort in these activities counts toward your grade. You will lose substantial participation points for missing class. Since this is a discussion class and there are only 10 meetings, absence is problematic.

*Tentative Outline and Reading List***Wednesday 1/9: Introduction: a brief history, globalization, and can we all be Nordic?**

- Clark, B. (2016). *The Evolution of Economic Systems*. Oxford University Press. Chapter 10, The Swedish Economic System.
- \*\*Acemoglu, D., Robinson, J. A., and Verdier, T. (2012). Can't we all be more like scandinavians? asymmetric growth and institutions in an interdependent world. Working Paper 18441, National Bureau of Economic Research **Only the introduction is required reading.**
- “The Changing Role of The National State” in Lindbeck, A. (1993). *The Welfare State*. Edward Elgar Publishing Limited
- Rosen, Sherwin. “Public Employment, Taxes, and the Welfare State in Sweden” in Freeman, R. B., Topel, R., and Swedenborg, B. (2010). *The Welfare State in Transition: Reforming the Swedish Model*. University of Chicago Press
- Andersen, T. M., Holmström, B., Honkapohja, S., Korkman, S., Tson, S. H., and Vartiainen, J. (2007). *The Nordic Model. Embracing globalization and sharing risks*. The Research Institute of the Finnish Economy Chapters 1-3
- Autor, D. H., Dorn, D., and Hanson, G. H. (2016). The china shock: Learning from labor market adjustment to large changes in trade. Working Paper 21906, National Bureau of Economic Research
- Audio discussion of the Autor, Dorn, and Hanson paper: [http://www.econtalk.org/archives/2016/03/david\\_autor\\_on\\_1.html](http://www.econtalk.org/archives/2016/03/david_autor_on_1.html)

**Wednesday 1/16: Taxes and Transfers**

- \*\*Kleven, H. J. (2014). How can scandinavians tax so much? *Journal of Economic Perspectives*, 28(4):77–98
- \*\*Heckman, J. J. and Landersø, R. (2016). The scandinavian fantasy: The sources of intergenerational mobility in denmark and the u.s. *IZA Discussion Paper Series*, (10000)
- \*\*Alesina, A., Glaeser, E., and Sacerdote, B. (2001). Why doesn't the us have a european-style welfare system? Working Paper 8524, National Bureau of Economic Research skip section 3
- Zingales, L. (2012). *A Capitalism for the People: Recapturing the Lost Genius of American Prosperity*. Basic Books. Preface.
- Stevenson, B. and Wolfers, J. (2008). Economic growth and subjective well-being: Reassessing the easterlin paradox. Working Paper 14282, National Bureau of Economic Research
- Becker, G. S. and Mulligan, C. B. (2003). Deadweight costs and the size of government. *Journal of Law and Economics*, 46(2):293–340

**Wednesday 1/23: Unemployment and Welfare Services**

- Course Notes
- \*\*Crpon, B., Duflo, E., Gurgand, M., Rathelot, R., and Zamora, P. (2013). Do Labor Market Policies have Displacement Effects? Evidence from a Clustered Randomized Experiment. *The Quarterly Journal of Economics*, 128(2):531–580
- \*\*Card, D., Kluve, J., and Weber, A. (2010). Active Labour Market Policy Evaluations: A Meta-Analysis. *Economic Journal*, 120(548):452–477
- Jespersen, S. T., Munch, J. R., and Skipper, L. (2008). Costs and benefits of danish active labour market programmes. *Labour Economics*, 15(5):859–884

- Parsons, D. O., Trans, T., and Liller, H. B. (2015). Voluntary Public Unemployment Insurance. IZA Discussion Papers 8783, Institute for the Study of Labor (IZA)
- Andersen, T. M., Holmström, B., Honkapohja, S., Korkman, S., Tson, S. H., and Vartiainen, J. (2007). *The Nordic Model. Embracing globalization and sharing risks*. The Research Institute of the Finnish Economy Chapter 6
- Blundell, R., Graber, M., and Mogstad, M. (2015). Labor income dynamics and the insurance from taxes, transfers, and the family. *Journal of Public Economics*, 127:58 – 73. The Nordic Model
- Andersen, T. M., Holmström, B., Honkapohja, S., Korkman, S., Tson, S. H., and Vartiainen, J. (2007). *The Nordic Model. Embracing globalization and sharing risks*. The Research Institute of the Finnish Economy Chapter 4-5
- For your reference, visit the SSA's summary of "Social Security Programs Throughout the World: Europe 2016" to get a summary of welfare and other benefits available across Denmark, Finland, Norway, and Sweden: <https://www.ssa.gov/policy/docs/progdesc/ssptw/2016-2017/europe/index.html>
- Homework 1 due

### Wednesday 1/30: Collective bargaining

- \*\*Lee, D. S. and Mas, A. (2012). Long-Run Impacts of Unions on Firms: New Evidence from Financial Markets, 1961–1999. *The Quarterly Journal of Economics*, 127(1):333–378
- Davis, S. J. and Henrekson, M. (2005). Wage-setting institutions as industrial policy. *Labour Economics*, 12(3):345 – 377
- Freeman, R. B., Topel, R., and Swedenborg, B. (1997). *Reforming the Welfare State: Recovery and Beyond in Sweden*. University of Chicago Press. Chapter 3, Wage Determination and Employment in Sweden Since the Early 1990s.
- Andersen, T. M., Holmström, B., Honkapohja, S., Korkman, S., Tson, S. H., and Vartiainen, J. (2007). *The Nordic Model. Embracing globalization and sharing risks*. The Research Institute of the Finnish Economy Chapter 7
- Kennan, J. and Wilson, R. (1993). Bargaining with private information. *Journal of Economic Literature*, 31(1):45–104

### Wednesday 2/6: Job market flexibility/policies towards firms

- \*\*Bjuggren, Carl Magnus (2015). "Employment Protection and Labor Productivity."
- Midterm presentations 1

### Wednesday 2/13: Family leave policies

- \*\*Dahl, G. B., Løken, K. V., Mogstad, M., and Salvanes, K. V. What is the case for paid maternity leave? *Review of Economics and Statistics*, (4):655–670
- Employment protection policy brief due
- Midterm presentations 2

### Wednesday 2/20: Universal child care

- \*\*Havnes, T. and Mogstad, M. (2011). No child left behind: Subsidized child care and children's long-run outcomes. *American Economic Journal: Economic Policy*, 3(2):97–129
- \*\*Kottelenberg, M. J. and Lehrer, S. F. (0). Targeted or universal coverage? assessing heterogeneity in the effects of universal child care. *Journal of Labor Economics*, 0(0):000–000

**Wednesday 2/27: The gender equality paradox**

- \*\*Bertrand, M., Black, S. E., Jensen, S., and Lleras-Muney, A. (2014). Breaking the glass ceiling? the effect of board quotas on female labor market outcomes in norway. Working Paper 20256, National Bureau of Economic Research
- Thomas, M. (2016). The impact of mandated maternity benefits on the gender differential in promotions: Examining the role of adverse selection. *Mimeo*
- Universal childcare policy brief due

**Wednesday 3/6: Immigration**

- Written draft of final project due
- \*\*Dustmann, C., Vasiljeva, K., and Damm, A. P. (2018). Refugee migration and electoral outcomes. *The Review of Economic Studies*, page rdy047
- Kleven, H. J., Landais, C., Saez, E., and Schultz, E. (2013). Migration and wage effects of taxing top earners: Evidence from the foreigners' tax scheme in denmark. *The Quarterly Journal of Economics*
- Aslund, O., Bohlmark, A., and Skans, O. N. Age at migration and social integration. Discussion Paper 4263, IZA
- Wadensjo, E. (2000). Immigration, the labour market, and public finances in denmark. *Swedish Economic Policy Review*, 7:59–83
- Dustmann, C. (2000). Temporary migration and economic assimilation. *Swedish Economic Policy Review*, 7:213–244
- Edin, P.-A., LaLonde, R., and Aslund, O. (2000). Emigration of immigrants and measures of immigrant assimilations: Evidence from sweden. *Swedish Economic Policy Review*, 7:163–204

**Wednesday 3/13: Final Project presentations**