



The happy variety of capitalism 2.0

Many commonalities

Quality of life is made up of many different elements that are often directly or indirectly related to each other. The 16 indicators for 25 countries used in this report show a clear picture of commonalities: In some countries, life is good along many dimensions – other countries have room to catch up in several places. Our cluster analysis identified six different varieties of capitalism:

The happy variety of capitalism: All Scandinavian countries (Denmark, Sweden, Norway and Finland) as well as the Netherlands and Switzerland plus Germany and New Zealand have achieved a high quality of life according to all 16 indicators considered.

The Anglo-Saxon variety of capitalism: Australia, Canada, the UK, the US and Ireland are also doing very well in many ways. However, the values for the effectiveness of government, freedom of the press, the working hours and income inequality of families are not as good as in the countries of the happy variety.

The less happy variety of capitalism with Belgium, France and Austria consistently shows lower values than the countries of the happy variety of capitalism.

The East Asian variety of capitalism includes Japan and South Korea. Some indicators show very good values there (e.g. unemployment), while others have rather poor values (press freedom, gender equity and the birth rate).

The southern European variety of capitalism with Portugal, Spain and Italy is clearly lagging behind the happy countries along all the 16 indicators used here.

The Eastern European variety of capitalism includes Hungary, Poland, Czechia and Greece.

The graphs on the following pages allow an analysis of the sometimes surprising commonalities between countries in the different varieties of capitalism. The strengths and weaknesses of individual countries can be analyzed and suggestions for future action can be derived. In Germany, for example, the opportunities of citizens to express their views in decision making processes should receive more attention. The same holds for the deeper reasons behind the low birth rate (page 12).

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1. Capitalism and satisfaction

The great debates about the good life are held in all societies. Sometimes they are linked to membership in the European Union, sometimes to labor market reforms or to the integration of immigrants. The role of capitalism and its relevance for life satisfaction of citizens are often discussed.

Over the past years, many indicators have been developed to measure how advanced different nations or cities are. Some, such as our own Progress Index or the OECD's Better Life Index, were created by scientists partly on the basis of research on life satisfaction. Others, such as the system of indicators of "Frankfurt, what counts!" or the indicators of the quality of life process in Jacksonville (USA), have been based more broadly on a wide participation of citizens.

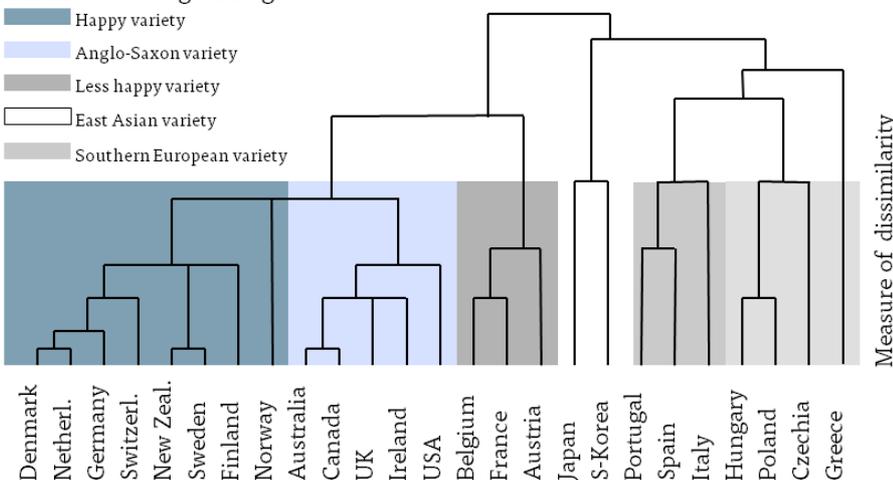
In this study, a different, complementary approach is taken: It searches for commonalities among different groups of countries. The starting point is the observation that across different indicators the same countries repeatedly do well: the Scandinavian countries, the Netherlands, Switzerland and others.

The search for commonalities had also been a focus in the discussion on the "Varieties of Capitalism" (see page 14) – but without the emphasis on quality of life. The first study which established a link between the different varieties and quality of life was "The Happy Variety of Capitalism" by Deutsche Bank Research in 2007. The present report is an update and extension of that study.

The cluster analysis (see box in the margin) for 25 countries and 16 indicators found clear linkages between countries that are represented in the dendrogram and explained on the following pages:

Dendrogram from the cluster analysis

Method of average linkages



Source: Center for Societal Progress, Frankfurt

Great debates about the good life

Many indicators are available

Search for commonalities

Method of cluster analysis

A cluster analysis combines elements that are relatively similar to form new elements. In our case, the elements are the 25 countries examined. The 16 indicators are used to find similarities.

In the graph on the left, called a dendrogram, you can see that Denmark and the Netherlands are quickly recognized as very similar and clustered together, as are Australia and Canada. Gradually, more and more elements are clustered together until there is only one element left. The researcher can then decide how many clusters to work with. The shading in the dendrogram on the left shows the six clusters selected for this study.

For a cluster analysis, the raw data must first be standardized as a deviation from the mean, expressed as the number of standard deviations. The method of average linkages was used for the clustering here.



2. Many commonalities

In the analysis of the different varieties of capitalism 16 indicators were included for 25 countries:

The 16 indicators in the cluster analysis

- 1. Subjective evaluation of life:** Since 2012 the World Happiness Report publishes annually answers to this question for more than 150 countries: "How do you evaluate the quality of your current life on a scale from 0 (the worst imaginable) to 10 (the best)?"
- 2. Corruption:** Transparency International publishes data for perceived corruption annually since 1995 for more than 150 countries on a scale from 0 (worst) to 100 (ideal).
- 3. Government effectiveness:** Since the late 1990s the World Bank annually compiles from dozens of sources an index measuring the effectiveness of governments for about 200 countries on a scale from -2.5 to +2.5.
- 4. The quality of democracy:** The Economist Intelligence Unit calculates since 2006 for 160 countries an index on a scale from 0 to 10 (best).
- 5. Gross Domestic Product per capita:** Figures from the Conference Board for 2015 take into account differences in purchasing power.
- 6. Press freedom:** Since 2013 Reporters Without Borders compiles an index on a scale from 0 (best) to 100 for 180 countries based on surveys.
- 7. Economic Freedom:** The Heritage Foundation calculates since 1995 an index for around 170 countries on a scale from 0 to 100 (highest).
- 8. Shadow economy:** Prof. Schneider of Linz University calculates since the late 1990s estimates of the size of the shadow economy in % of GDP.
- 9. Employment of older people:** The proportion of employees among all people aged 55 to 64 is calculated by the OECD.
- 10. Tolerance:** The OECD publishes for 150 countries figures taken from the Gallup World Poll about the tolerance towards three minorities.
- 11. Income inequality:** UNICEF compares the income of households with children in the middle and at the bottom (10th percentile) of the income distribution for 40 countries.
- 12. Birth rates:** These figures are published i.a. by the OECD.
- 13. Hours worked:** The Conference Board calculates for 128 countries actual hours worked per employee per year.
- 14. Education Level:** Figures for years of education are taken from the Human Development Index of the United Nations.
- 15. Unemployment rate:** Standardized data come from the OECD.
- 16. Gender Equity:** Since 2007 Social Watch calculates a measure of gender equity for almost 170 countries on a scale from 0 (worst) to 1 (best).

Example Netherlands

Some countries are famous for their top places in international comparisons of quality of life: Norway, Denmark and Sweden are among those. But the Netherlands with its 17 million inhabitants also has consistently found good solutions for their social challenges. The overall assessment shows an impressively balanced picture of the good life across all 16 indicators.

Particular strengths of the Netherlands are:

- Freedom of the press in the Netherlands is as high as only in Finland and Norway (see chart below).
- With 1419 hours per year Dutch employees work relatively little, leaving more time for other activities (chart on page 8).
- Because of the high productivity, gross domestic product per capita is higher than in most other countries – despite the low working hours (chart on page 6).

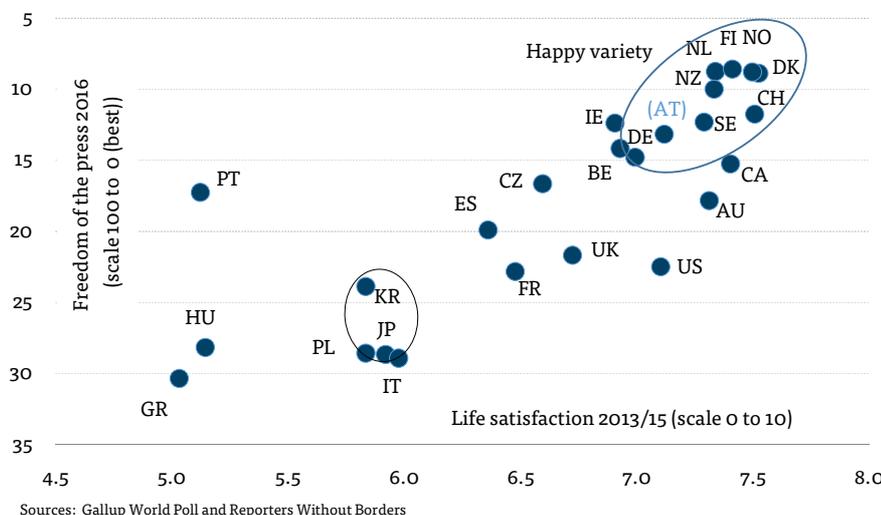
Smaller weaknesses imply ongoing societal challenges for the Netherlands:

- The number of years of education at 11.9 years is slightly below the average of the happy countries – assuming that those education data are reliable.
- At 6.7% the unemployment rate is not as low as it was in the early 2000s, when it stood at less than 3% (chart on page 10).
- And the employment rate of older people cannot keep up with the best countries (chart on previous page).

The Netherlands: often underestimated

High press freedom, high productivity and few hours worked

A free press and a good life



Statistically there is a close link between freedom of the press and satisfaction with life

4. The Anglo-Saxon variety

Most Anglo-Saxon countries report a high life satisfaction of their citizens, a lot of economic freedom, high income, a small shadow economy, much tolerance towards minorities, high education levels and high birth rates. These are all commonalities with the countries of the happy variety (chart below). However, the Anglo-Saxon countries show – sometimes surprising – weaknesses in the freedom of the press, the employment of older people and the effectiveness of government.

Australia has reached a very high quality of life, almost approaching that in the countries of the happy variety. Economic freedom, tolerance towards minorities and the education level are higher only in a few other countries. However, the effectiveness of government, the freedom of the press as well as the somewhat controversial indicators on inequality and hours worked are much weaker in Australia. This points to some challenges ahead. The many changes of government in recent years indicate an intensive societal search process going on down under.

Canada also shows the typical Anglo-Saxon strengths (freedom, tolerance, education) plus a well-functioning democracy. However, the new government under Prime Minister Trudeau should devote more attention to the high income inequality of families (chart on page 11) and work on new solutions for the labor market.

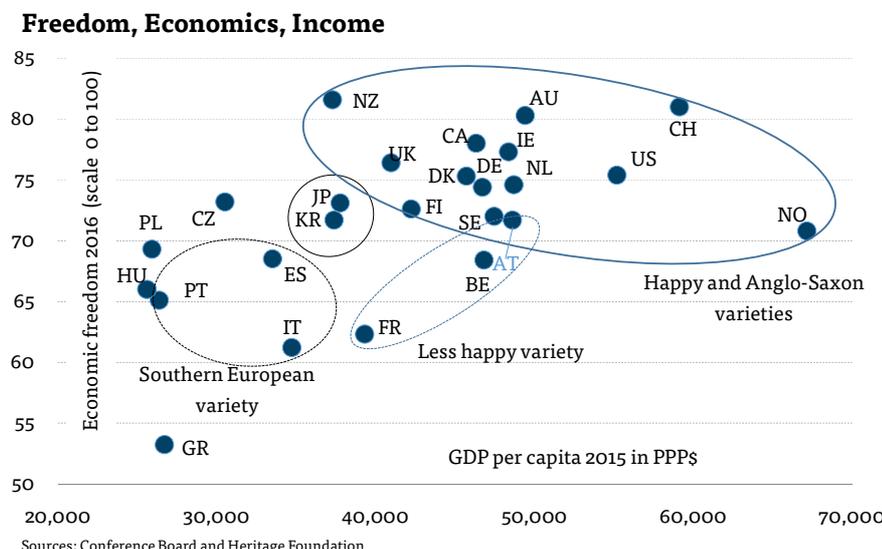
Britain has weaknesses in life satisfaction, press freedom, gender equity and the effectiveness of the government - all issues that are probably not controlled by the European Union.

Ireland shows weaknesses on the labor market and regarding the role of women (chart on page 10).

Many strength, but some weaknesses in the Anglo-Saxon countries

The search for higher quality of life continues in Australia

Some tasks for the new government in Canada



Freedom and income are high in both the happy and the Anglo-Saxon countries

Example USA

The pursuit of happiness is anchored in the constitution of the United States of America. However, many indicators suggest that this pursuit is not as successful as it could be.

Some American strength still exist: Life satisfaction, economic freedom, income, the birth rate and the level of education are all high. However, some weaknesses are visible and could burden the future of the 315 million inhabitants:

- Even before the current presidential election campaign, the quality of democracy was not among the best. In the Economist Intelligence Unit ranking the US lagged well behind the leading countries in 2015 (chart on this page).
- Freedom of the press is much more limited in the United States than in the happy countries (chart page 5).
- The low effectiveness of the government as ranked by the World Bank (chart page 11) could be closely related to the low quality of democracy and limited freedom of the press.
- Gender equity in the US is not as high as in the Scandinavian countries and is also below the level of Canada and Australia (chart on page 10).

Without well-functioning deliberation, it is difficult to set the right priorities for quality of life. The weaknesses of the United States seem to be most visible in areas where the basis for decisions about the future of quality of life is laid.

Considering also the high level of income inequality, the low life expectancy (not in the 16 indicators here) and the very high ecological footprint, worries about the future of the USA rise.

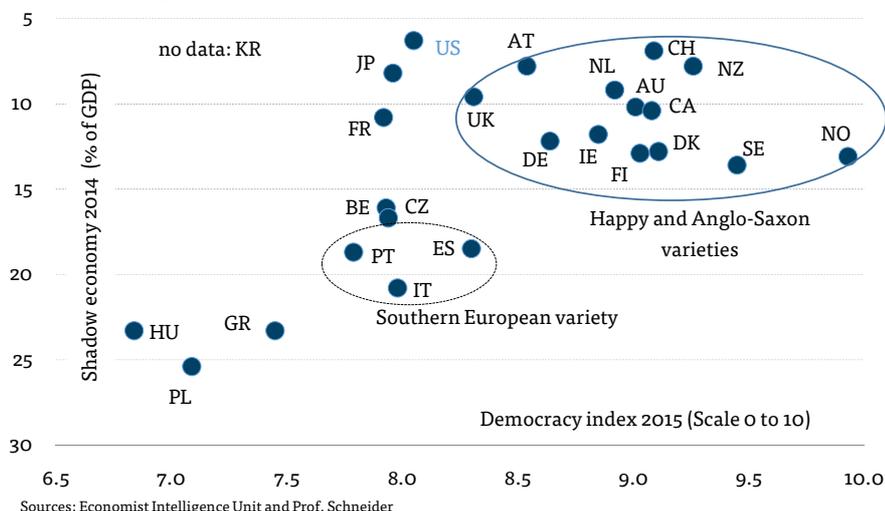
The US in the election year: weaknesses come to the surface

Action needed on democracy,...

...freedom of the press and ...

...effectiveness of the government

Functioning democracies with a small shadow economy



According to The Economist Intelligence Unit, the quality of democracy is not particularly high in the USA

5. The less happy variety

Some continental European countries have not developed as well as their geographical neighbors from the happy variety of capitalism in recent years.

The cluster analysis found several commonalities between these three countries: **Belgium, France and Austria**. In particular, the labor market prospects for older people are – possibly because of generous pension systems – still quite bad there as the chart on page 4 showed: The employment rate of the 55 to 64 age group averages 45% and is 30 percentage points below the leading countries. Economic freedom, corruption, the level of education and the effectiveness of the government are all not as good as in the countries of the happy variety.

On the other hand, the working hours and the birth rate (except Austria) come close to the levels of the happy countries. In the graph below this results in a clear separation from the other countries.

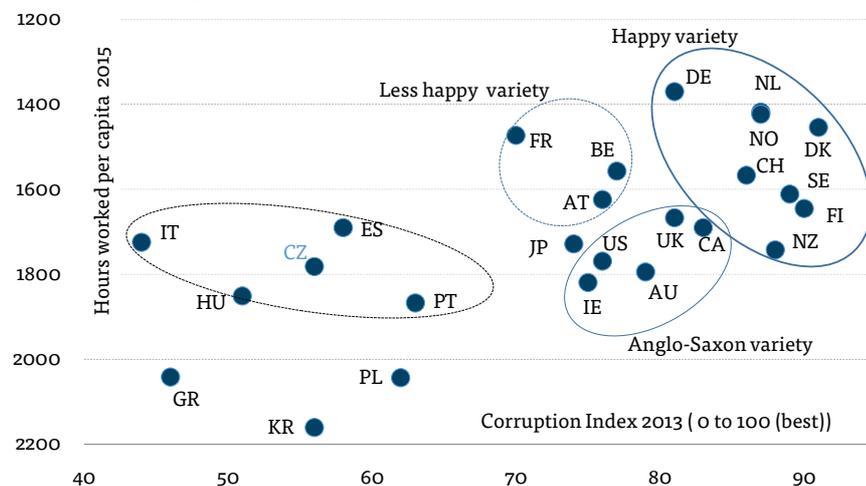
In **Belgium**, the birth rate and the freedom of the press are relatively high and the working hours are relatively low. On the other hand, the country shows weaknesses in several areas which are directly related to the economy: the unemployment rate is high and the shadow economy is large (chart on page 7), while economic freedom and the employment rate of older workers are low.

Austria's relative strengths lie in the freedom of the press, the low income inequality of families, the small shadow economy and low unemployment. On the other hand, the birth rate and the tolerance towards minorities are relatively low (chart on page 9).

Different developments in geographic neighbors

Belgium, France and Austria with commonalities

Short working hours and low corruption



Sources: Transparency International and The Conference Board

France, Belgium and Austria show differences to their happy neighbors

Example France

France is a country with a few strong indicators, but several weaknesses. The most visible strength is the high birth rate of close to 2.0 children per woman (chart below). This is the highest rate of all the countries considered here and probably partly due to many decades of active state family policy. The Gender Equity Index on the other hand is well below the level of the Scandinavian countries (chart on page 10).

The relative weaknesses of France indicate a variety of challenges:

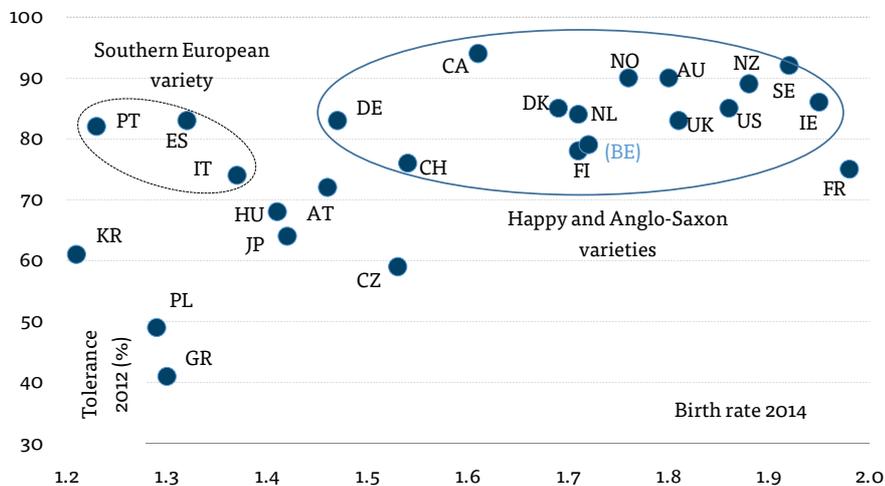
- According to Reporters Without Borders the freedom of the press in France is at the level of Britain and the USA (chart on page 5). A primary criticism is the ownership structure, which is dominated by large industrial groups.
- Economic freedom in France is significantly lower than in the happy countries (chart on page 6). According to the Heritage Foundation, only Italy and Greece give even less freedom to their economies among the 25 countries considered here.
- At 47% the employment rate of older people is around 25 percentage points lower than in Sweden or Switzerland (chart on page 4). A central task for the future seems to still await a solution. The steadily increasing life expectancy implies increasing pressure to act here.

Other indicators, such as the effectiveness of the government, the level of education, the gross domestic product and life satisfaction also show France lagging behind the happy countries. It remains to be seen whether the current conflicts over labor market and integration issues can be resolved in favor of more quality of life in the future.

France: the highest birth rate of all 25 countries, but....

The weaknesses of France: Freedom of the press and the economy - and the labor market

Lots of babies in happy societies - and in France



Again commonalities between the happy and the Anglo-Saxon countries

Sources: OECD and Gallup World Poll

6. The East Asian variety

Japan and South Korea, the two East Asian countries considered in this report have specific characteristics that lead the cluster analysis to clearly identify them as a separate group: the East Asian variety of capitalism. The graph below shows a clear separation from the other countries.

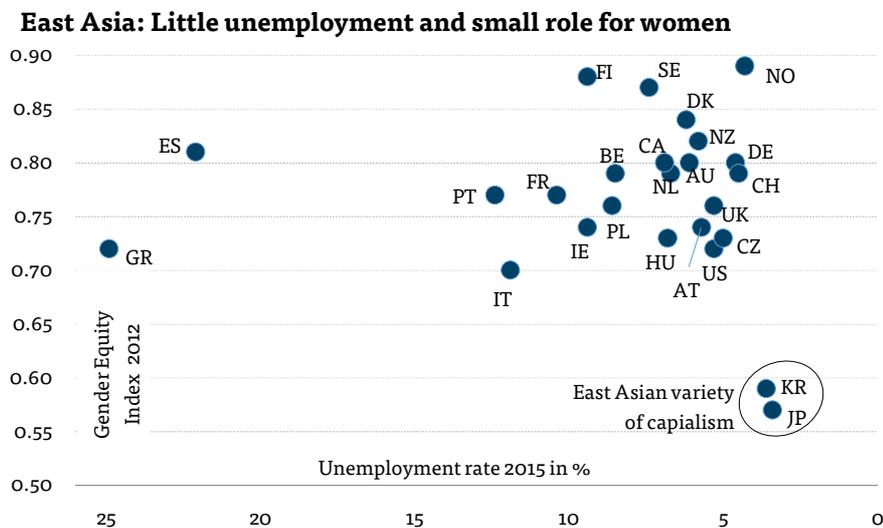
Japan and South-Korea are special in some respects

Some indicators are significantly lower than in the other countries analyzed here:

- Women still do not enjoy equal opportunities in Japan and Korea. The Gender Equity Index shows the lowest values among the 25 countries (see chart below).
- The low birth rate of the two countries is well known. South Korea stands out with only 1.2 children per woman (chart on page 9).
- The freedom of the press is severely restricted (chart on page 5). Reporters Without Borders criticize that the possibility of reporting on some state issues is limited in Japan. In South Korea, criticism of government decisions seems to be unwanted.
- Life satisfaction is also rather low in Japan and South Korea.

At the same time, there are two indicators that see Japan and Korea among the leading countries: The low unemployment rate of around 3.5% and the high employment of older people of nearly 70% - even though those values come with a low productivity of labor.

In other indicators, the two countries are somewhere in the middle: income, economic freedom, quality of democracy etc.



Clear differences between Japan and South Korea and all the other countries

Sources: OECD and Social Watch

7. The South and the East of Europe

Three southern European countries were clustered together by the data analysis: **Portugal, Spain and Italy**. They have a lot of sunshine, but a relatively low quality of life based on the 16 indicators considered here.

Life satisfaction, the birth rate, the effectiveness of government (graph below) and the income level are particularly low. Meanwhile, the tolerance towards minorities and gender equity show solid levels.

Spain was part of the "less happy variety" in the 2007 study "The happy variety of capitalism". The great crisis after 2008 has worsened many indicators significantly, especially the unemployment rate which was still above 20% in 2015. The long search for a new government in 2016 does not make the situation any easier. It is hoped that a policy for better quality of life is possible again soon.

Italy shows the worst levels of government effectiveness, corruption and (apart from East Asia) gender equity among the 25 countries analyzed here.

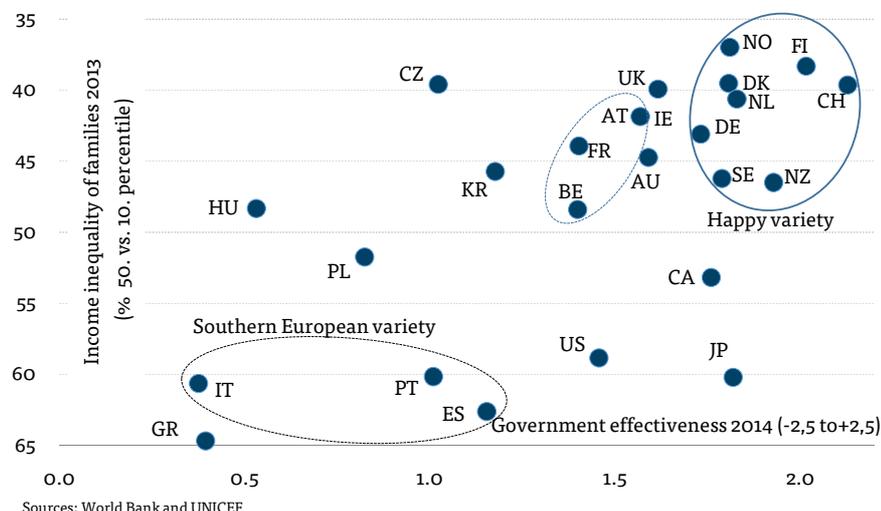
A lot of need for catch-up can be seen in the central and eastern European countries **Poland, Czechia, Hungary and Greece**, the members of the Eastern European variety of capitalism: a lot of corruption and relatively large shadow economies come along with low government effectiveness (chart below), little tolerance towards minorities and a relatively poorly functioning democracy as well as low income, low life satisfaction and low birth rates.

Czechia shows some relative strengths with an unemployment rate of 5%, a high level of education and a low income inequality of families. Perhaps a further movement towards the happy variety of capitalism is possible there in the next years.

The southern European variety of capitalism

Many challenges in central and eastern Europe

Effective governments and low inequality



Again a clear difference between the happy countries and the others

8. The rise of Germany

In "The happy variety of capitalism" of 2007, Germany was still – together with Spain, France, Belgium and Austria – among the countries of the less happy variety of capitalism. This result provided an important impetus for the creation of the Center for Societal Progress. A lot has happened since then.

Germany is now a member of the happy variety of capitalism according to the cluster analysis. In the dendrogram on page 2, it is clustered together with the group formed by Denmark and the Netherlands. Many indicators now show Germany in the top group of the 25 countries:

- The improvement on the labor market stands out in particular: The unemployment rate of around 5% in 2015 is well below the peak of 11% in 2005. The employment rate for older workers of 66% is not far from the rate of the best countries (New Zealand, Sweden) and is 20 percentage points higher than in 2005.
- At the same time hours worked per employee are the lowest among the 25 countries in this analysis. The number of years of education is among the highest in the world.

Taken together, these indicators paint a picture of well-trained workers, many of whom work to a relatively high age, but still have time for other things in life.

Germany is slightly behind the leading countries in corruption, press freedom, the quality of democracy, the effectiveness of government, economic freedom and gender equity. This group of indicators appears to be linked to the opportunities of citizens to express themselves. Society and politics might want to focus on this area in the coming years, strengthening the basis for high quality of life in the future.

Two indicators show relatively low values in Germany and thus a need for action in the coming years:

- The birth rate has hardly increased despite the efforts of the past years. At 1.5 it is below the values of 1.7 to 1.9 in other countries of the happy variety of capitalism such as Sweden and the Netherlands.
- In addition, Germans evaluate their lives not as favorably as people in other countries. With 7.0 there is a clear distance to Denmark, Switzerland and Norway with values around 7.5 out of 10 according to the Gallup data. The causes of this discrepancy between some very good objective indicators and the not so good subjective evaluation should be investigated further in the coming years. Data from German sources already point to a clear increase in life satisfaction between 2009 and 2013.

In 2007 Germany was still a member of the less happy variety

Major improvements on the labor market

Action needed on the deeper reasons for the low birth rate and the low satisfaction with life



9. Other indicators

The 16 indicators used in this study do not cover all the relevant aspects of successful societies. There are many other measures that relate to the varieties, but there is not enough space and time for them here.

And there are measures that probably also have a high relevance for the needs of present and future generations, although they do not fit into the selection criteria of correlation and clustering used here. Some examples:

- The ecological footprint as a measure of the burden that we impose on our planet is important for our future. The numbers show, however, that many countries with high quality of life today also have a large footprint. These countries have a special responsibility to identify ways in which a high quality of life can be brought in line with environmental considerations.
- Life expectancy hardly correlates with the other variables in this study: it is quite high in Japan, Italy and Greece, but low in the United States. This makes life expectancy no less important for quality of life.

Other variables also do not fit into the analytical framework used here and their relationship to quality of life is not so clear:

- The share of government expenditure to GDP correlates only with economic freedom.
- The size of the countries does not correlate with quality of life. So it is not the case that small countries are happier.
- The OECD indicator for the legal protection of workers (a variable from the 2007 study) does not correlate with the other indicators.

Data for interpersonal trust (social capital) are unfortunately only available for a few countries, too few for our analysis.



Sources

In addition to the sources mentioned on page 3 for the indicators, these four studies on the different varieties of capitalism are important sources (in chronological order):

Esping-Andersen, Gøsta (1990): The three worlds of welfare capitalism. Cambridge, Cambridge University Press. This influential book distinguishes three varieties of capitalism, depending on the role of the welfare state: the liberal (e.g. USA), the conservative corporatist (e.g. Germany) and the social democratic variety (e.g. Sweden).

Hall, Peter A. and David Soskice (2001): Varieties of capitalism: the institutional foundations of comparative advantage. Oxford, Oxford University Press. In the time of the "New Economy" there was a discussion about why some countries (e.g. the USA) are particularly successful in the markets for high technology and others (e.g. Germany) in incremental innovations. The authors derive five features that distinguish liberal market economies and coordinated market economies, including the financing structure and internal decision-making processes.

Panuescu, Mihai and Martin Schneider (2004): Wettbewerbsfähigkeit und Dynamik institutioneller Standortbedingungen: ein empirischer Test des "varieties-of-capitalism"-Ansatzes. Schmollers Jahrbuch: Zeitschrift für Wirtschafts- und Sozialwissenschaften. Bd. 124.2004, 1, S. 31-59. Based on Hall and Soskice they investigated the "competitiveness" of various countries using a cluster analysis. A preference for the liberal, Anglo-Saxon model became visible, which seems to allow competitive advantages for pioneering industries.

Bergheim, Stefan (2007): The happy variety of capitalism - characterized by an array of commonalities. Deutsche Bank Research Current Issues 380. This study links the idea of different varieties of capitalism to insights from happiness research. The focus was not on commonalities among particularly "competitive" countries, but between countries with high life satisfaction and quality of life. This study was the basis for the present update.

About the “Zentrum für gesellschaftlichen Fortschritt” (Center for Societal Progress)

Objective: The Center for Societal Progress develops new ways and methods that can help improve the quality of life of people – with a special focus on Germany. We build bridges between disciplines, topics, institutions and individuals.

People: Founder and honorary director of the think tank is Dr. Stefan Bergheim, who holds a doctoral degree in economics. He has led the working group "Prosperity, quality of life and progress" in the Federal Chancellor's Dialogue on Germany's Future in 2011/12 and advised the German federal government's National Wellbeing Strategy in 2015/16. He also teaches at St. Gallen University. The four additional board members, an interdisciplinary Ideenrat, the volunteer staff of the center, and a large informal network share the common goal of developing new ideas for societal progress.

Products: Our “Progress Index” provides a measure of quality of life beyond gross domestic product. Our “Progress Studies” offer sound and clearly understandable analyses relevant to cross-cutting issues around quality of life, education, health and work. The event series “Progress Factory” combines dialogues with work on quality of life. The process “Positive Futures – Forum for Frankfurt” tests a quality of life process in practice. Our manual on “Quality of Life Processes” offers suggestion on how to implement such a process.

Resonance: Since June 2009, the Center for Societal Progress has been the first German correspondent in the OECD's global project on progress. In March 2010, it was named a "Selected Landmark 2010" in the "365 Landmarks in the Land of Ideas". The first issue of the Progress Index was reported in late 2010 in many newspapers.

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The study was carried out to the best of our knowledge and belief. But no responsibility is accepted for the accuracy or completeness of the information or assessments.