

How Denmark's welfare program has narrowed its wealth gap to one of the smallest in the world ^[1]

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Source: Financial Post ^[2]

Format: Article

Publication Date: 24 Jun 2014

EXCERPTS

This is what it's like to live in Denmark, a nation with a narrower wealth gap than almost anywhere else: You've been jobless for more than a year. You have no university degree, no advanced skills. You have to pay a mortgage. And your husband is nearing retirement. You aren't worried.

If you're 51-year-old Lotte Geleff, who lost her job as an office clerk in January 2013, you know you'll receive an unemployment benefit of 10,500 kroner (US\$1,902) a month after taxes for up to two years. You're part of a national system of free health care and education for everyone, job training, subsidized child care, a generous pension system and fuel subsidies and rent allowances for the elderly.

And high taxes.

Denmark's sturdy social safety net helps explain why its wealth gap - the disparity between the richest citizens and everyone else - is second-smallest among the world's 34 most developed economies, according to the Organization for Economic Cooperation and Development, surpassed only by the much smaller economy of Slovenia.

Behind its slender wealth gap are factors ranging from the highest tax burden in the European Union to a system that helps laid-off workers find new jobs and re-training. They are factors that depend on a level of government involvement - financial and otherwise - that would be politically unacceptable in some areas of the world.

Cause and effect would be impossible to prove, but Danes appear more content than people in most other industrialized nations. Eighty-nine per cent of Danes reported having more positive experiences in an average day than negative ones, according to the OECD - the highest figure among the organization's 34 countries.

"We don't have steaks on the table every night, but we're OK," says Geleff, who has a house near the city of Roskilde.

While the gap between the wealthy and everyone else is widening in much of the industrialized world, a large chunk of Danes remain firmly middle class. Forty-two per cent of the working population of 4.6 million have annual disposable incomes between 200,000 and 400,000 kroner (US\$36,700-US\$73,300). Just 2.6% earn more than 500,000 kroner a year (US\$91,383).

According to the OECD, the top 20% of Danes earn on average four times as much as the bottom 20%. In the United States, by contrast, the top 20% earn about eight times as much as the bottom 20%. The idea of a generous government-provided cushion for ordinary people is deeply rooted in a nation with few outward signs of a pampered elite. Members of the royal family often bike to drop off their children at a public daycare centre. Last winter, Prime Minister Helle Thorning-Schmidt was seen shovelling snow outside her home in Copenhagen.

With a solid safety net in place, the government has persuaded unions to accept a flexible labour market. Under a model known as "Flexicurity," companies can quickly lay off staffers during downturns. Laid-off workers, in turn, receive training and guidance in pursuing new careers.

Such training is part of Denmark's approach to education, which is free for everyone of all ages in this country of 5.6 million. Students of any age over 18 who live on their own can receive a stipend of 5,839 kroner (US\$1,028) a month. Those living with their parents can receive about half that.

So widespread is education that one byproduct has been something unfamiliar elsewhere: A shortage of unskilled labour. Denmark has no mandated minimum wage. But unions and employers' organizations have agreed on a minimum of 111 kroner (US\$20.3) an hour.

Torben Andersen, an economics professor at Aarhus University, sees political unity as a factor in Denmark's narrow wealth gap. "There are not the same strong conflicts and very strong parties and views like you will see, for instance, in U.S. politics," he said.

Some issues do tend to fan tensions in Denmark. One is immigration. With net immigration of about 2.25 people per 1,000 citizens, Denmark welcomes nearly as many as the United States. Many come from war-torn Middle East countries with few qualifications. Some of them struggle to find jobs, leaving some Danes to complain about immigrants benefiting from the welfare system without contributing to it.

Such anxieties have lent support to the anti-immigration Danish People's Party. Its influence has led to a tightening of immigration laws. It's become harder for foreigners to obtain residence permits and for refugees in Denmark to bring relatives into the country.

Despite the heavy tax burden, public support for the social security system remains high. In a Gallup poll published this month, 38% of people who were asked whether they were happy to pay their taxes said they "fully" agreed. Fifty per cent "partly" agreed. A poll last year showed that 66% opposed cuts to the welfare system.

Kay Xander Mellish, a Wisconsin native who's lived in Denmark for 13 years, says one reason Denmark's system enjoys public support is that pretty much everyone, regardless of income, shares in its benefits.

"If you are a high earner in the U.S., you can pay a lot for social services that you will never use, and I can see why that upsets people," says Mellish, who's enjoyed a year's paid maternity leave and subsidized daycare. "At least when I pay for social services, I can see what I get back."

In Copenhagen, teacher Per Broenholt ticked off the government benefits he values. A father of two, he has six weeks' vacation a year, which he uses to visit a summer home or foreign destinations such as Thailand or Turkey. He cycles to work and uses the family car mainly to drive to the grocery store on weekends.

Still, he acknowledges, taxes are a burden. Income tax rates in Denmark range from 30% to 51.5%. There's little incentive to work toward a promotion, Broenholt says, because "the taxman would take half" the additional money earned. And gas is expensive, at around 12 kroner (US\$2.18) for a litre (0.3 gallon), a result of environmental taxes. Advocates of low taxes, in the United States and elsewhere, have long argued that high taxes act as a drag on economies, stifling investment, hiring and spending. As with many countries with high taxes, Denmark's long-term growth has trailed the pace of expansion in the United States and some other major economies.

Among Danes, though, distaste for ostentatious wealth tends to outweigh dissatisfaction with taxes.

"Elite is a dirty word here," Mellish said. "The whole idea of ambition is embarrassing in Denmark. It's like being gay in the 1960's: Everybody knows it exists, but no one talks about it."

Wealthy Danes make up a lower proportion than in many other countries. About 0.3% of Danes earn more than US\$370,000 a year. In the United States, a full 1% had income over US\$394,000 in 2012, according to Internal Revenue Service data.

As the cost of their social welfare systems has grown, Denmark and other Nordic nations have embraced work incentives - a trend that's led to a slight widening in income disparities. Sweden has gradually cut income taxes for the employed by up to US\$330 a month. Denmark has pushed to lower the maximum period for full unemployment benefits from four years to two.

Prime Minister Thorning-Schmidt said she's committed to helping businesses stay competitive.

"We need to continue to take decisions to ensure that our model is sustainable and preserves prosperity," she said in an email to The Associated Press.

In the end, there's an economic trade-off, says Danske Bank's chief economist, Steen Bocian.

"You could probably have higher growth in Denmark, allowing for more income inequality," he said. "But it's a political question whether you would pursue that."

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