

European Tax Systems: Denmark

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Themes

- Public revenues and public spending in Denmark
- Equality and redistribution: The political logic of the model
- Public opinion on taxes, social security and redistribution
- Recent tax policy and welfare reforms
- Contemporary debates and future challenges

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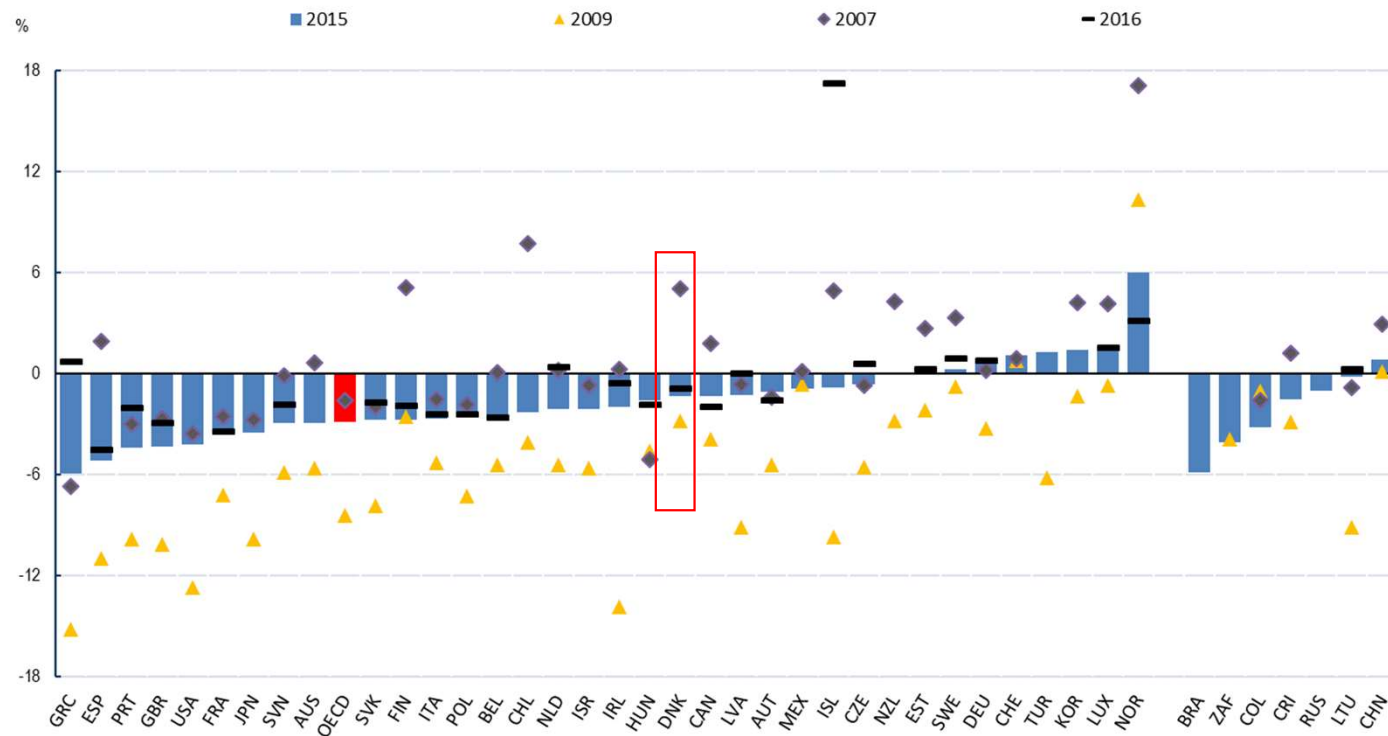
”Getting to Denmark”

- A metaphor for well-functioning societies
 - Stable institutions, social security, high-trust societies, low levels of corruption
- Dominating political philosophy: Flexible adjustment
 - From the brink of the abyss to economic miracle: 1980-1990s
 - Labor market and social policy reforms: 1990s
 - Responding to the financial crisis: 2008-2011
- Government capabilities to adjust, innovate and manage
 - Power is concentrated with the central government
 - But moderated by
 - Proportional representation
 - Coordination with and inclusion of societal interests
 - Strong (but not constitutionally independent) local governments



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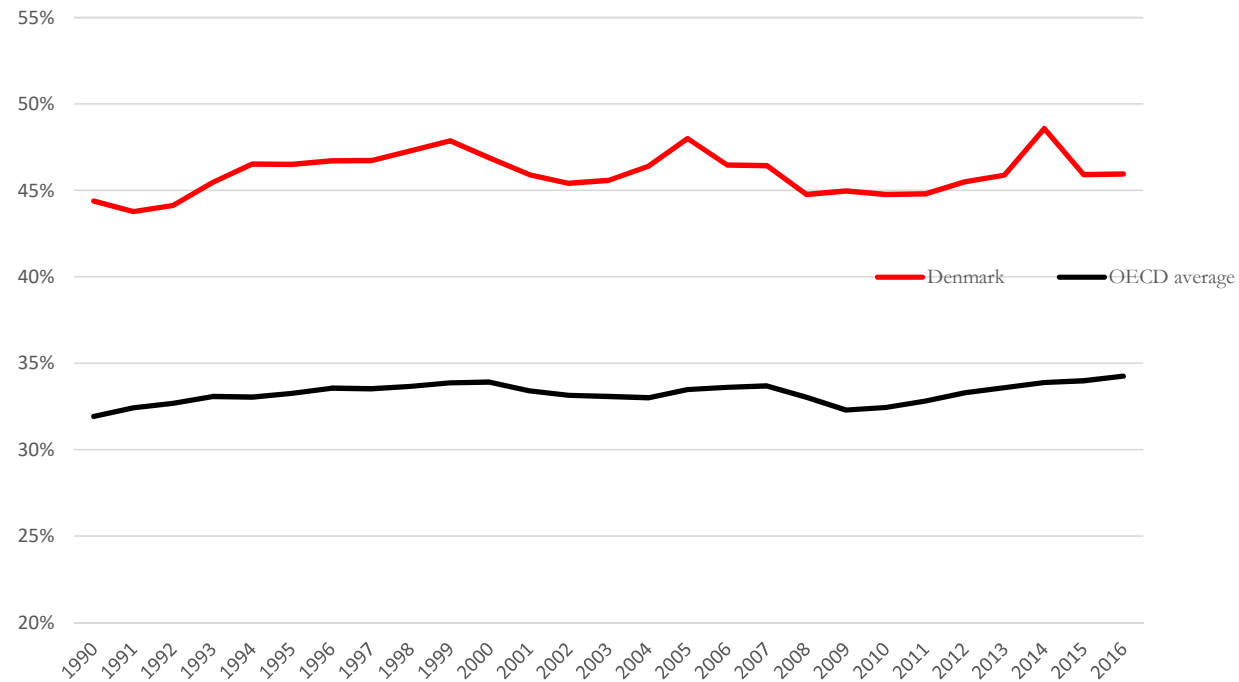
General government fiscal balance as a percentage of GDP



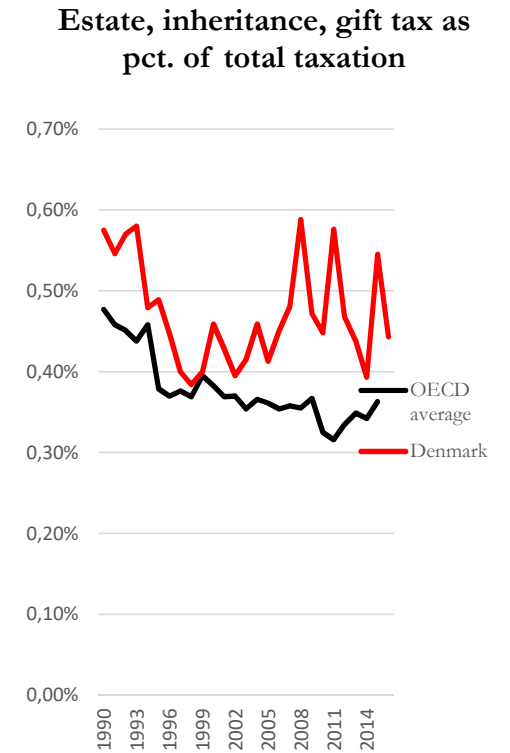
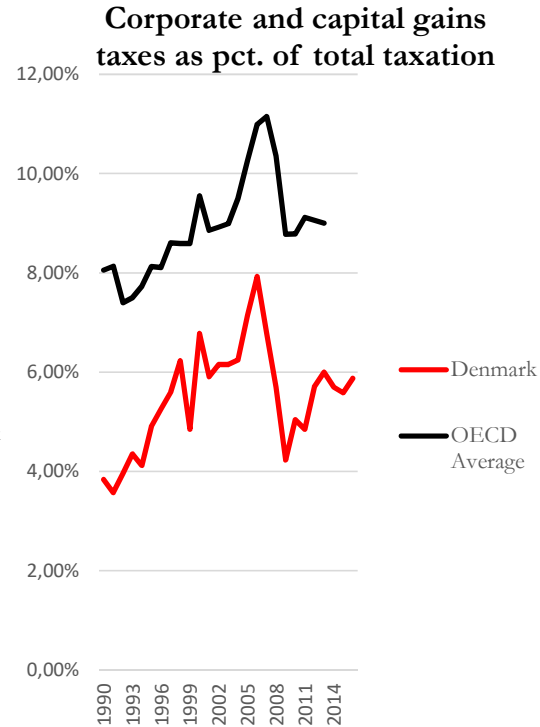
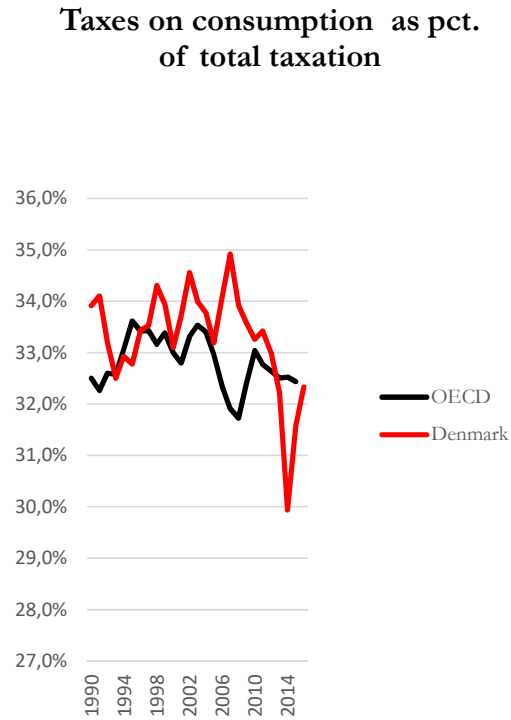
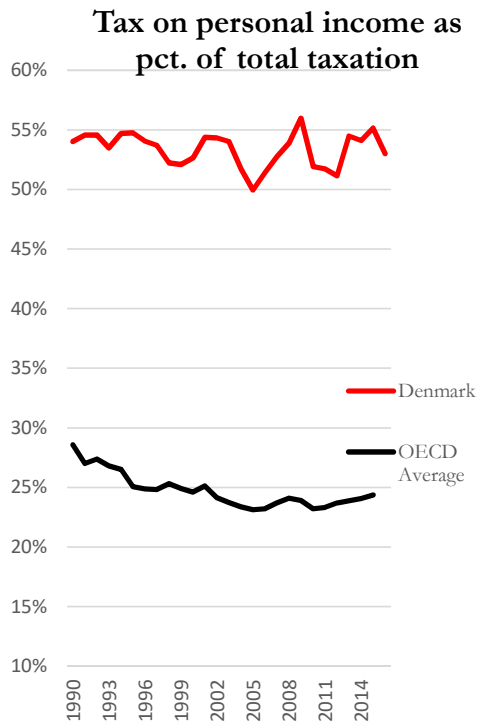
Public Revenues in Denmark I

Don't like taxes...go somewhere else!

Tax revenue as pct. of GDP

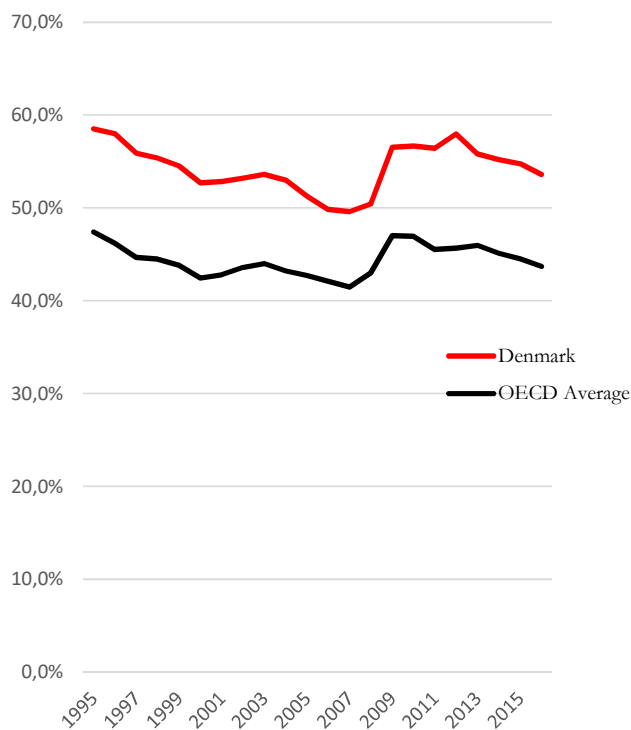


Public revenues in Denmark II

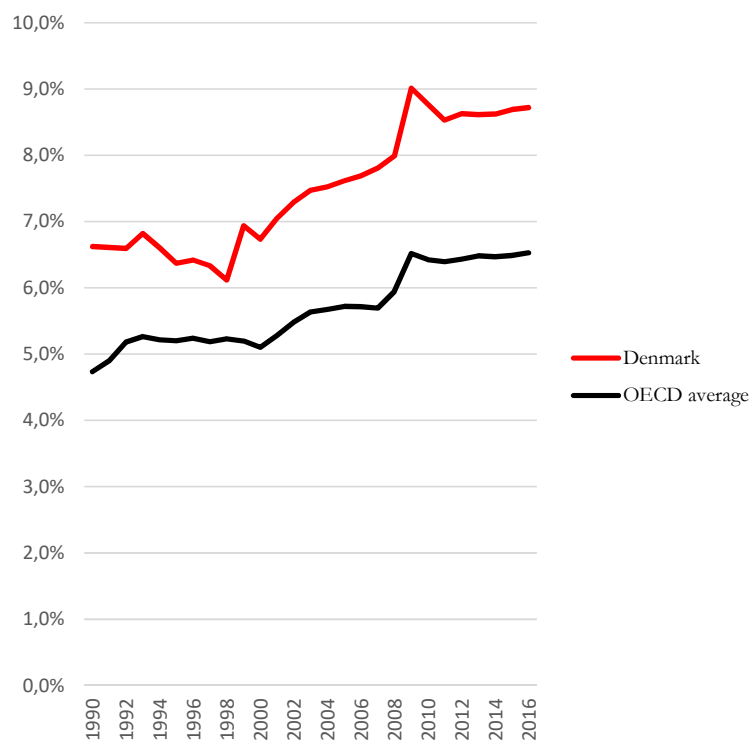


Public spending in Denmark I

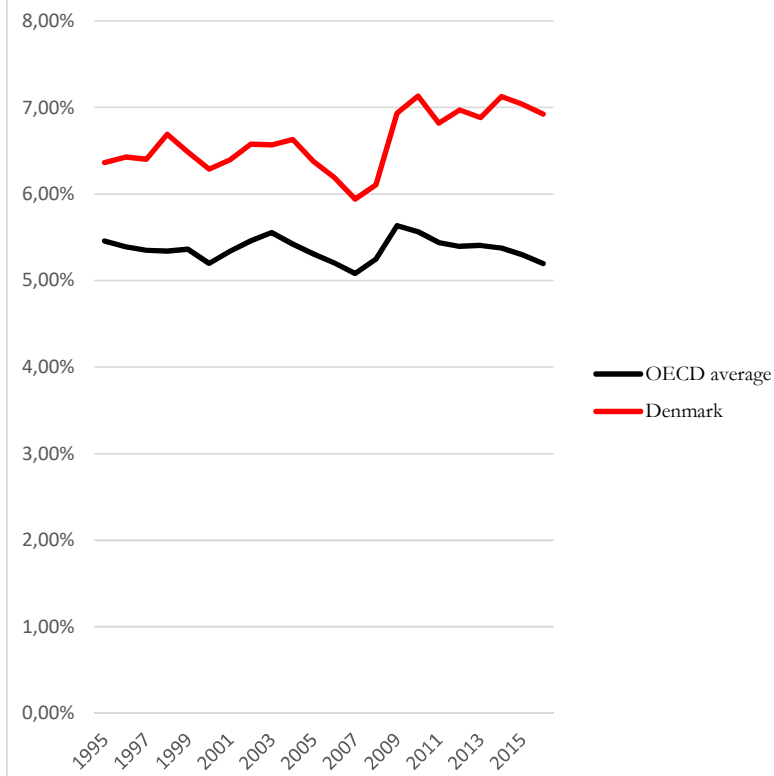
Public spending as pct. of GDP



Expenditure on health as pct. of GDP (government/compulsory schemes)

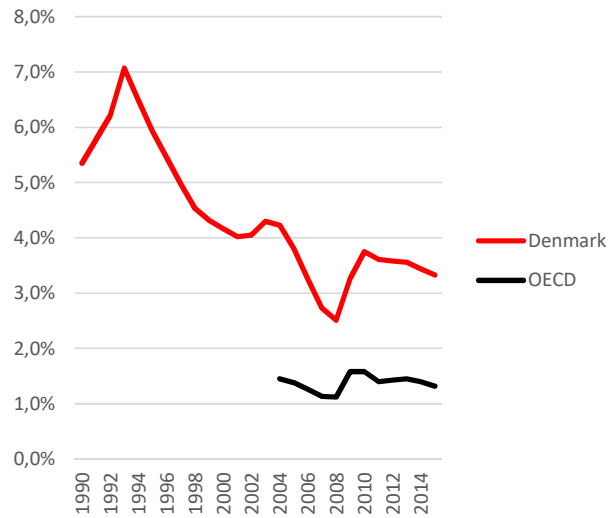


Spending on education as pct. of GDP



Public spending in Denmark II

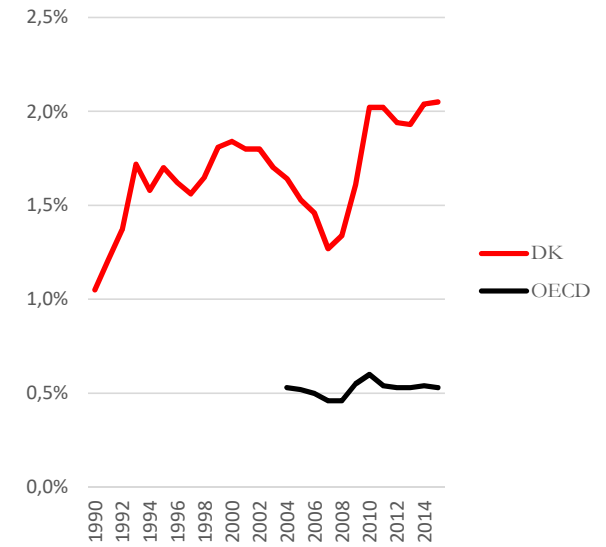
Total labor market spending as pct. of GDP



Passive measures as pct. of GDP



Active measures as pct. of GDP



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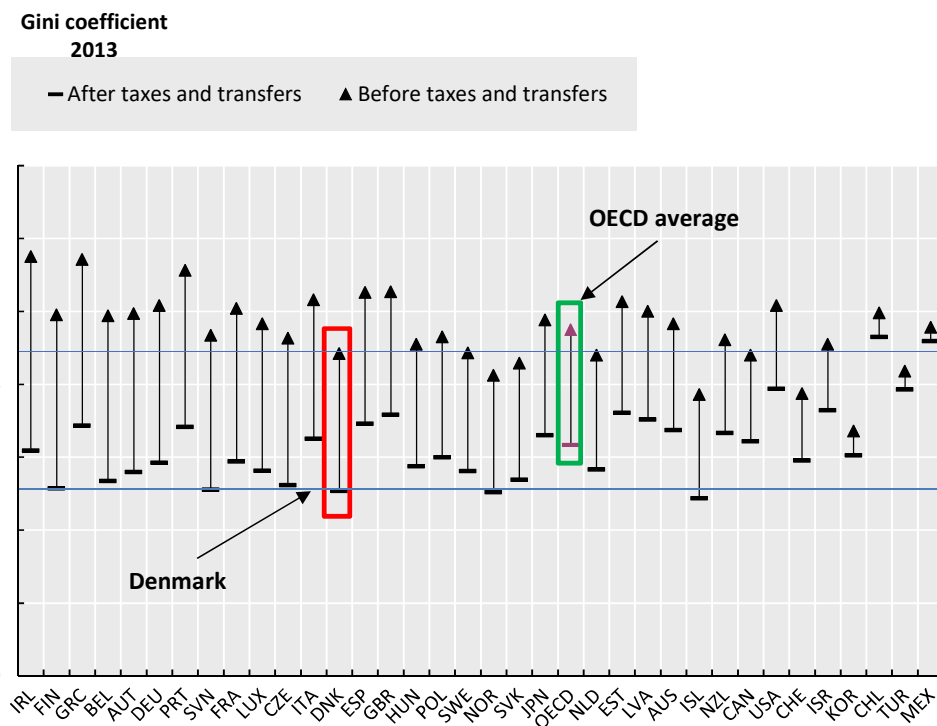
Public revenues and spending in Denmark: Some key take-aways

- Large revenues from mildly progressive income taxes
 - Marginal tax rate affect around 20 pct. of the workforce
- Large revenues from regressive taxes
 - Goods, services, consumption
- Few revenues from strongly redistributive taxes
 - Corporate taxes
 - Capital gains taxes
 - Inheritance and wealth taxes
- Most resources allocated to middle-class programs
 - Health care
 - Education
 - child-care facilities

The logic of the model

Why is inequality low: The political logic of the model

- Regressive tools on the *revenue* side
 - Class-compromise between labor and capital
 - Labor: Wage moderation and social peace in return for generous welfare policies
 - Capital: Stable investment and economic growth in return for low taxes on their benefits
- Middle class orientation on the *spending* side
 - “The more we target benefits at the poor (...), the less likely we are to reduce poverty and inequality” (Korpi and Palme 1998)
 - Welfare benefits for the middle-class encourage pro-welfare coalition formation
 - Generate support for large public budgets and mildly redistributive policy solutions
 - ...so forget Robin Hood



Public attitudes

Danish National Electoral Study 2015 (n=2078)

Public expenditures are	To high	Appropriate	To low	Dont know
Public health care	4	34	60	2
Education	2	31	65	2
Public pensions	3	57	36	4
Unemployment insurance	10	63	22	5
Social Assistance	18	49	22	11
Refugees and immigrants	27	49	16	8
	Agree	Neither agree/disagree	Disagree	Dont know
Can't afford to increase welfare expenditures	51	19	28	3
Can't afford to lower the tax levels	77	10	10	2
Top income groups should be taxed harder	46	17	36	2
Too many receive undeserved social benefits	55	18	22	6
Economic inequality is good for society	28	22	43	6

Taxes and expenditures: Public attitudes

Danish National Electoral Study 2015 (n=2078)

	Prefer A	Prefer B	Don't know
Lower taxes (A) vs. improved social services (B)	31	67	2
Lower income taxes (A) vs. lower taxes on consumption (B)	36	59	4
Tax reliefs at the top (A) vs. for all income groups (B)	18	78	4
Rich person with 100 DKR; poor person with 100 DKR. How much should they pay in taxes?			
Rich person pay 60 DKR, poor person pay 10 DKR		12	
Rich person pay 50 DKR, poor person pay 20 DKR		39	
Rich person pay 40 DKR, poor person pay 30 DKR		28	
Rich person pay 30 DKR, poor person pay 30 DKR		18	
Don't know		4	

Recent tax policy and welfare reform

Revenue side

- 2001: The tax stop -- a game changer in Danish tax policy
- 2004, 2007, 2009, 2012, 2018
 - Relief of income taxes in the middle
 - Marginal tax rates imposed at higher income levels – no change in statutory tax rates
 - Lower car taxes, lower inheritance tax
 - Higher green taxes

Spending side

- 2001-2017
 - Reforms of social assistance benefits
 - Immigration benefits
 - Student allowances
 - Unemployment insurance

Key take away

- Policy reforms consistent with the "work & welfare agenda" framing are most likely to succeed

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Contemporary challenges and debates

- **Unintended effects of administrative reforms**
 - Centralizing the tax authorities
 - Digitalization of tax auditing
 - New model to estimate the value of private properties
- **Implications**
 - Questions the overall legitimacy of the model
 - Can we trust that everyone pays their fair share?
 - Can we trust our democratic institutions?

