

There are two ways of cutting the deficit

Nobel Prize-winning economist

Joseph Stiglitz

is visiting Denmark May 13th 2011

Joseph E. Stiglitz is a leading economist and professor at Columbia University. He won the Nobel Prize in economics in 2001 for his analyses of markets with asymmetric information. He is author of numerous books and articles for example "Economics of the Public Sector" read by many students in Denmark. Professor Stiglitz has previously served as Chairman of President Clinton's, Council of Economic Advisors and then as Senior Vice President and Chief Economist, World Bank. Professor Stiglitz has also served on the faculties of Stanford, Yale, Princeton and Oxford.

Fact sheets regarding the economic situation and the plans for the Danish economy

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Drafted by:

The Economic Council of the Labour Movement

The Economic Council of the Labour Movement (ECLM or in Danish abbreviated "AE") is a Danish economic policy institute and think-tank. ECLM is aiming at a society where economic growth and wealth do not result in increased inequality and new social divisions. Our vision is a society where the economically strong as well as economically weak have the same opportunities when it comes to taking an education and follow their personal goals.

ECLM's main objective is to devise and communicate social and economic knowledge which can qualify and widen the public debate and guide policy makers. See www.eclm.dk.

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Further information: Chief economist Martin Madsen | phone +45 20 95 64 05 | mm@ae.dk

Fact sheet no. 1: Introduction to the two ways for the Danish economy

Two ways for the Danish economy have been proposed. Both the Danish Government (right-wing coalition consisting of Venstre – the Liberal Party of Denmark – and Conservative) and the Opposition (consisting of the Danish Social Democrats (S) and Socialist People's Party (SF) in the following abbreviated as S-SF) have proposed an economic plan to secure long term sustainable public finances.

The Danish Government's economic plan:

- Public sector cuts from 2011.
- Education and research cuts.
- Freezing of tax limits and planned cuts of the top marginal income tax is postponed until 2014.
- Unemployment benefit period is reduced 2 years.
- Increase retirement age. The partly self-financed voluntary early retirement pension scheme will be abolished and the old-age pension age will increase earlier than agreed in 2006.

Furthermore, the Danish Conservative Party, which is one of the two government parties, has proposed that transfer payments are to be adjusted more slowly, the tax – among other things the top marginal income tax – has to be reduced by DKK 35bn (2% of GDP) and that the corporation tax has to be reduced from the present 25% to 20%.

S-SF's economic plan:

- Public investments increase in 2011.
- Further growth initiatives such as an investment window which activates considerable private savings from 100% depreciation on machinery until the end of 2012.
- Tax increase of 1% of GDP on the financial sector, the agricultural sector and millionaires in order to finance a moderate public service growth.
- More extensive contributions to the educational sector.
- Reforms of the labour market and increase in working hours which have to be agreed with the social partners.

The Danish debate is focusing on creating a balance in the general government balance in 2020. The Danish Ministry of Finance assesses that this requires an improvement of the public finances of DKK 47bn equal to 2.5% of GDP in 2020. Even though 2020 is a arbitrary choice of year and even though the public deficit in 2020 depends on a range of unsure assumptions, the parties of the Danish Parliament have acknowledge the extent of the challenge.

The chance of success by securing the objectives in 2020 is biggest if you: (1) in the short run, ensure that Denmark gets through the crisis, (2) in the medium run, ensure education to all young people so that the qualifications match the demands of the future's labour market, and (3) in a slightly longer run, make some reforms of the labour market which ensure labour supply, prosperity and long-lasting public finances.

Firstly, getting through the crisis

Following a decrease in Danish GDP of 1.1% in 2008 and of 5.2% in 2009, there was an economic growth of 2.1% in 2010. The consensus estimate of Denmark's GDP is a slowdown in the growth rate to 1.6% in 2011. This is in part caused by the Danish Government's austerity plan and tightening in countries within the EU, which we do business with. In the light of the downturn that the Danish economy has been through a growth rate of 1.5-2% is not impressive.

It is positive that there are now more signs that the bottom of the labour market has almost been reached. We do not expect any further decrease in employment in 2011. However, when we compare Denmark to other countries, it is evident that Denmark has gotten through the crisis badly. Therefore, it is only the countries in crisis, Ireland and Spain, which have experienced a more extensive decrease in employment than Denmark. Even a country like Greece has not experienced such a considerable decrease in employment as Denmark. On the other hand, countries like Sweden and Germany now have a higher level of employment than when the crisis started (see fact sheet no. 2).

The question is if the Danish economy has weathered the crisis so well and is in a self-sustaining economic recovery, which can justify that the fiscal policy is being tightened in 2011, which the Danish Government is suggesting, or if you should continue to abstain from tightening the fiscal policy before we have seen a turn on the labour market which S-SF suggests.

The Danish Government's Finance Act for 2011 is contractive and withdraws the demand and growth from the economy in spite of a big unexploited capacity and a big negative output gap. The Government is referring to the fact that EU's recommendation to Denmark is to reduce the deficit by 2013 (see fact sheet no. 3) and that the financial markets can lose confidence in the Danish economy which has been the case in Greece and Ireland.

S-SF wants to bring the public investments forward in 2011. S-SF is planning to pursue a neutral fiscal policy in 2011 which is however often pointed out as being a growth package compared to the Danish Government's austerity plan. Furthermore, S-SF wants to "kick-start" the economy by activating the record high private savings surplus by a temporary investment window with 100% depreciation on private investments in machinery until the end of 2012. The objective is to increase the investments here and now and create private jobs. Moreover, the education and research cuts will be reversed.

Subsequently, education to all young people

In spite of a general consensus regarding the objective that in 2015 95% of the young people shall have completed an upper secondary education when they have finished the primary and lower secondary school and in spite of the prospect of skilled manpower shortage and a surplus supply of unskilled manpower, the level of education has remained at close to 80% since 2000 (see fact sheet no. 4).

The Danish Government has chosen the austerity package. DKK 5bn will be saved on education and research by 2013. 87% of the Danish Government's specific cuts affect education and research. S-SF will on the other hand increase the education investment which will be financed by tax increases. Education and research are in fact often described as two of the most important engines of growth for the economy. Therefore, it is hardly suitable to make education and research cuts if you want to create growth.

Finally, reforms ensuring an increased labour supply, prosperity and fiscal sustainability

In order to meet the demographic challenge with more elderly, who live longer, a wide majority of the Danish Parliament made the so-called Welfare Agreement in 2006 which raises both the statutory old-age pension age and the voluntary early retirement pension age substantially from 2019 and onwards. The voluntary early retirement pension scheme is allowing persons with long-term labour market attachment (now 30 years' membership of an unemployment insurance fund and paying contributions to the voluntary early retirement pension scheme) to retire and receive a mainly publicly financed allowance between the age of 60 and 64 today. The voluntary early retirement pension and the statutory pension age of 65 are both as part of the Welfare Agreement raised gradually and indexed to life expectancy (see fact sheet no. 7).

In the Welfare Agreement (2006), it is stated: "The changes of the retirement system will secure the financing of the Danish welfare society many decades ahead". However, the statement only lasted five years.

The Danish Government has proposed an abolition of the voluntary early retirement pension and an increase of the old-age pension age earlier. The advantage of changing the retirement rules is that they can be changed by the Danish Parliament while the disadvantage is that only five years after the Welfare Agreement in 2006 there is this time no prospect of a wide majority of the Danish Parliament passing such a key reform of the labour market which it is to weaken the retirement rules.

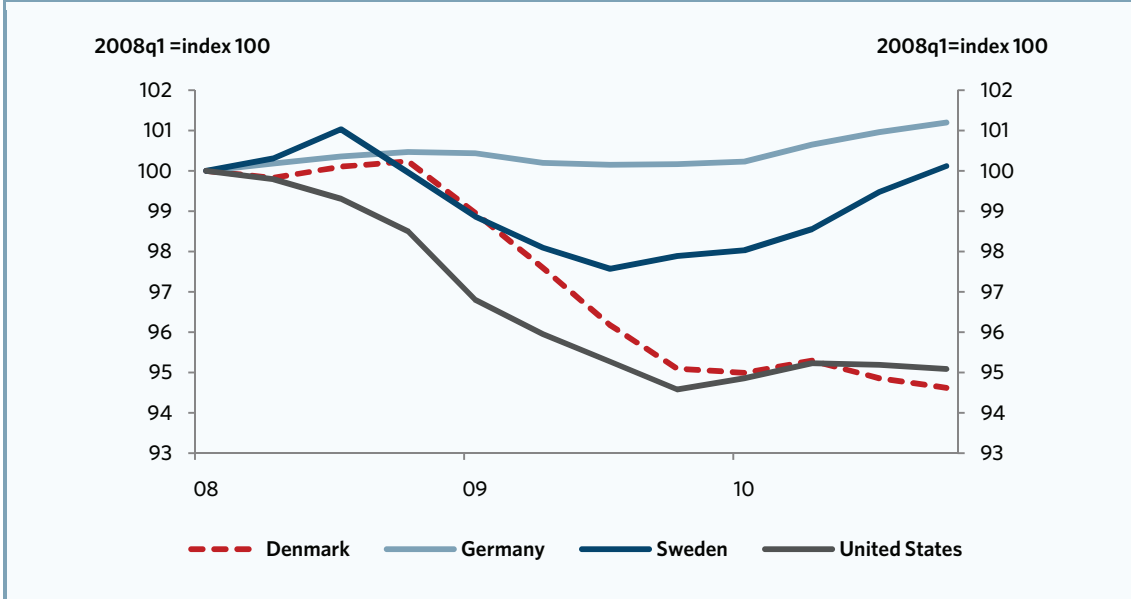
S-SF has chosen an unconventional way and proposed that a tripartite agreement has to be concluded with the social partners – unions, employers' associations and the state – to secure a labour supply and a permanent improvement of the public finances of DKK 15bn approximately equal to 1% of GDP. The specific framing of the agreement has to be agreed with the social partners. The logic of the agreement is evident. The more reforms directed at getting people into employment that can be implemented, the less the average working hours have to rise.

However, tripartite agreements are not more unconventional in relation to bigger reforms than the fact that the Danish pension system with the structure of the labour market pension schemes, covering the majority of wage earners, was also concluded by a tripartite agreement (see fact sheet no. 8).

Fact sheet no. 2: Danish employment affected severely by the crisis

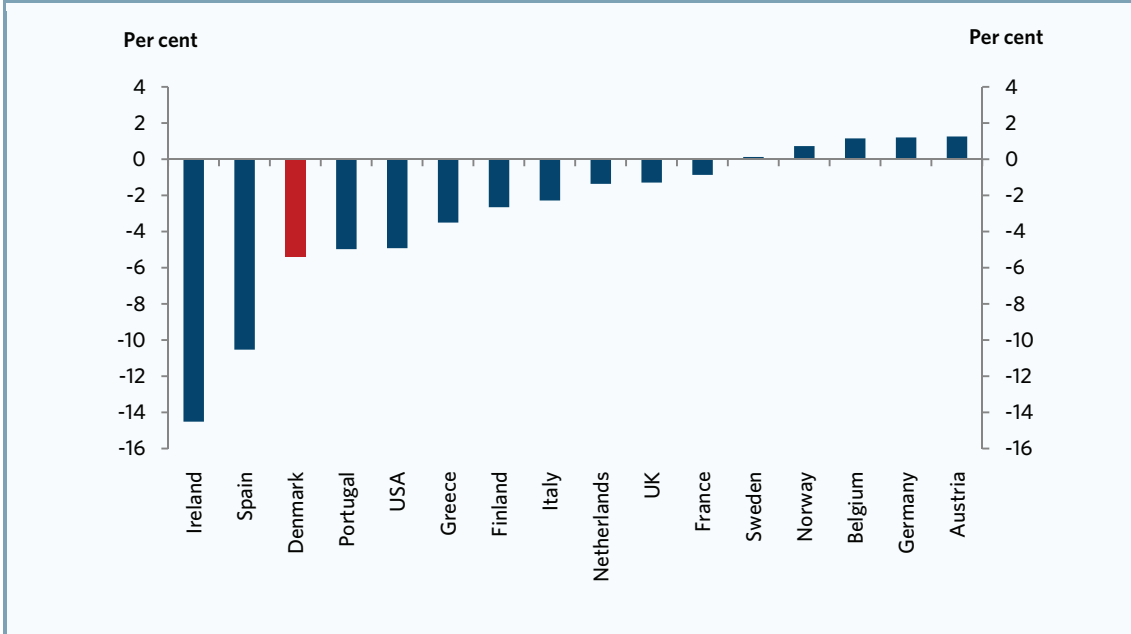
When looking at the employment, Denmark has gotten through the crisis worse than other comparable countries. Only Ireland and Sweden have experienced a larger downturn in the employment than Denmark. Even countries like Portugal and Greece have not experienced such a considerable employment downturn as Denmark. On the other hand, countries like Sweden and Germany now have a higher level of employment than when the crisis started. The Danish and the US employment situation is, however, much alike, employment has dropped 5% since the crisis started and has remained at this level over the past year (Charts 1 and 2).

Chart 1. Employment loss from 1st quarter 2008 to 4th quarter 2010



Source: ECLM based on EUROSTAT and OECD.

Chart 2. Employment in the 4th quarter 2010 compared to before the crisis



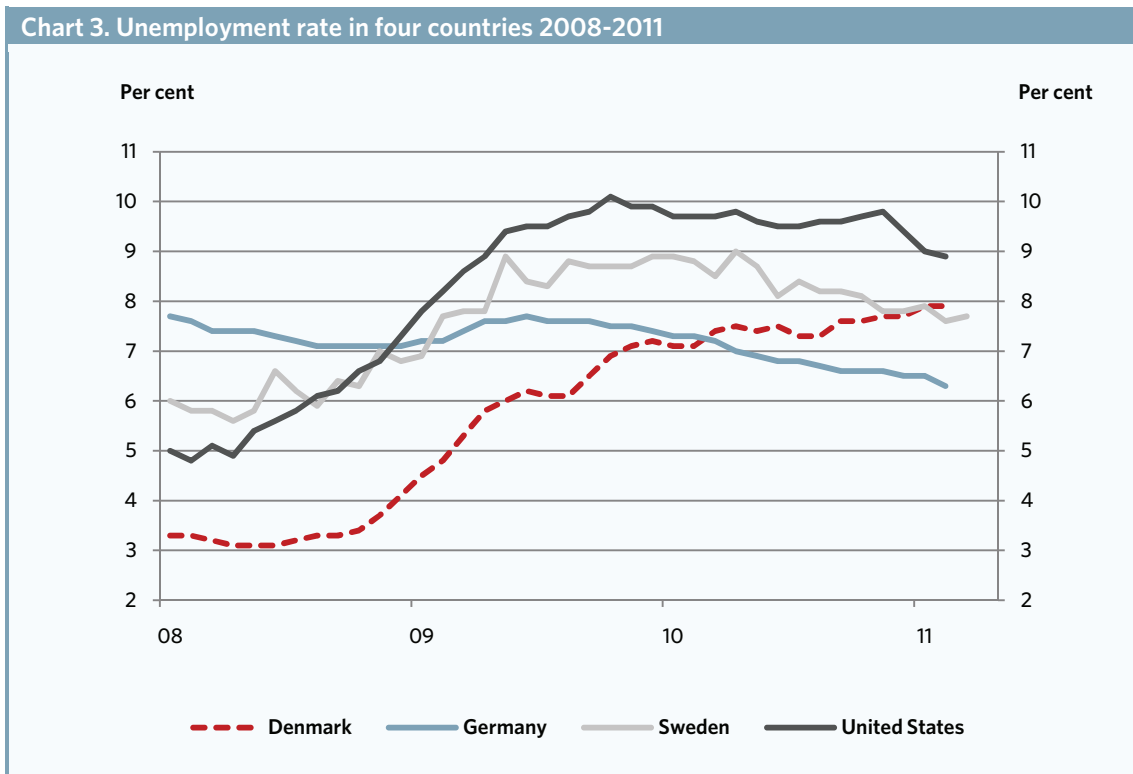
Source: ECLM based on EUROSTAT and OECD.

The challenges for the Danish economy will be considerably more extensive if the labour market will suffer from a longer period with a deadlock on the labour market. A sluggish turn of the economy can in other words result in serious damages to the Danish economy which enhances the challenges in the longer run.

In EU-15, the unemployment rate increased by 2.7 percentage points on average from the first quarter 2008 to the first quarter 2011. The unemployment rate in Denmark has increased by more than 4 percentage points according to the harmonised international statement and the unemployment rate is now close to 7.5%. Thus, Denmark's increase in unemployment rate is more than 1.5 larger than the EU-15 average and is for the first time since 1994 higher than Sweden and Germany.

Denmark had the lowest unemployment rate by far among the four countries Denmark, Sweden, Germany and USA, when the crisis started, see chart 3. At the end of 2008, this changed dramatically. The unemployment rate increased noticeably in Denmark, Sweden and USA and the increase in Denmark continued for quite a long time. While both Sweden and USA experienced a turn and a decreasing unemployment rate in 2010, the Danish unemployment rate continued to increase.

Germany's unemployment rate only increased quite slightly and has overall declined during the crisis. The situation is now that the Danish unemployment rate is now slightly higher than Sweden's and somewhat higher than Germany's unemployment rate but lower than the US unemployment rate.

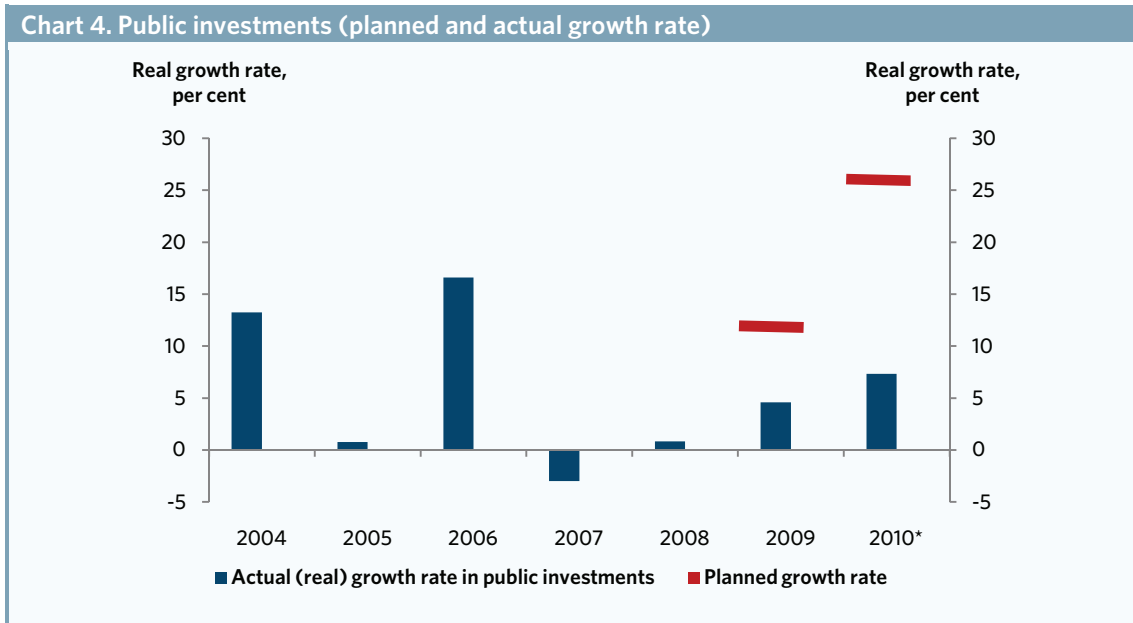


Source: ECLM based on EUROSTAT and OECD.

All in all, both the employment and unemployment rates show that Denmark has been one of the absolutely most affected countries among the countries which we normally compare us to. By and large, Denmark is only exceeded by the countries which have been affected by speculation and debt crisis that is to say the Southern European countries and Ireland.

Fact sheet no. 3: Unsuccessful crisis management

A part of the Danish Government’s strategy to get out of the crisis was to boost the public investments. However, this has turned out to be something of a flop. In 2009 and 2010, the public investments have only increased by one third of what the Ministry of Finance informed it to be as late as August 2010. The growth in 2008-2010 was, when the crisis was at its highest, on average less than during the boom 2004-2007 (Chart 4).



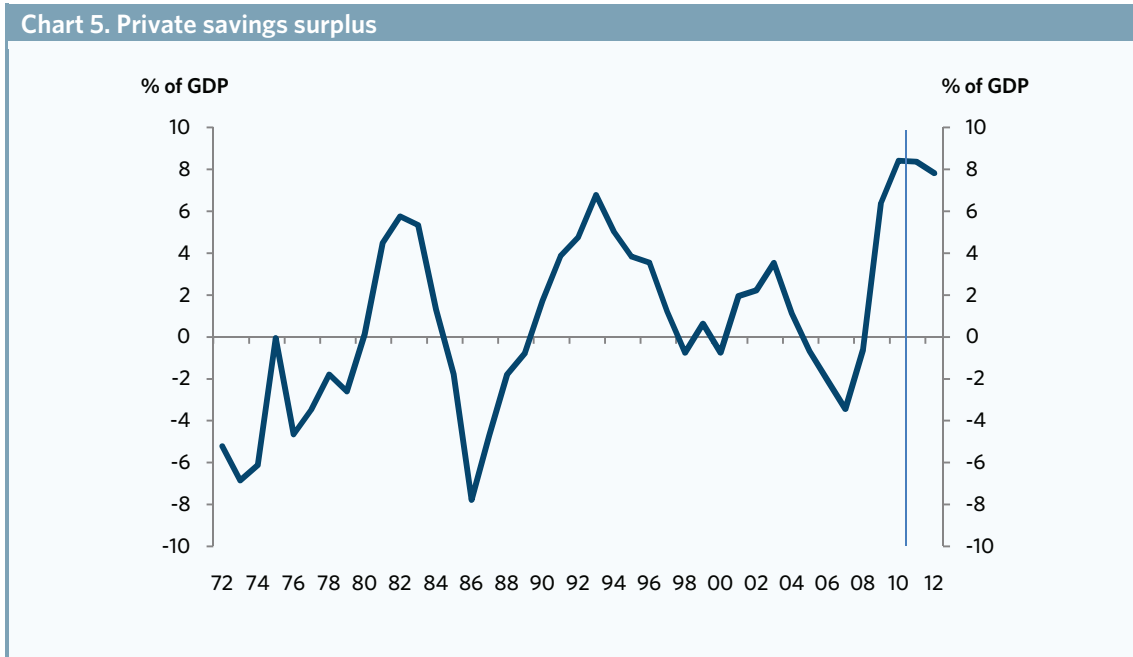
Source: ECLM based on Statistics Denmark.

In spite of the fact that the Danish Government’s growth package with increase in public investments has not been put into action and that the employment has not increased, the Government still wants to pursue a contractive fiscal policy in 2011 with cuts in the public sector, which have not been seen alike in 20 years. These cuts also include substantial education cuts.

A tightening of the fiscal policy in 2011 seems very early in the light of partly Denmark’s employment situation and negative output gap and partly that our neighbouring country Sweden, which is experiencing a huge growth, pursues an expansionary fiscal policy in 2011 according to the Swedish National Institute of Economic Research (NIER).

The Government has for a long time referred to the fact that Denmark has, contrary to Sweden, become part of EU’s excessive deficit procedure and has received a recommendation from EU to bring the deficit below 3% of GDP before 2013. However, EU’s recommendation to Denmark was based on a huge forecast error of the 2010 budget deficit as it has turned out to be far better than expected and below 3% of GDP already in 2010 (see fact sheet no. 4).

S-SF has proposed that public investments should be brought forward. S-SF is referring to the fact that Denmark ought to follow Obama’s investment plan to a higher degree instead of the EU Member States’ general austerity plans. Furthermore, S-SF proposes a growth package consisting of an activation of the record high private savings surplus by a temporary investment window of 100% depreciation which shall increase the investments here and now and create jobs in the private sector (Chart 5).



Source: ECLM based on Statistics Denmark.

In the light of the biggest financial crisis since the 1930's, the economic risks of tightening too fast seem to be significant larger than the economic risks of tightening too slowly. This is especially the case for Denmark seeing that the sound public finances in an international perspective and the low interest rate differential involve a very low risk of the financial markets reacting negatively toward Denmark.

The slow recovery, the actual situation on the labour market and the prospect of a minor turn do not receive much attention in the domestic economic debate. Instead, the focus is on the challenge of securing balance on the public finances by the year 2020.

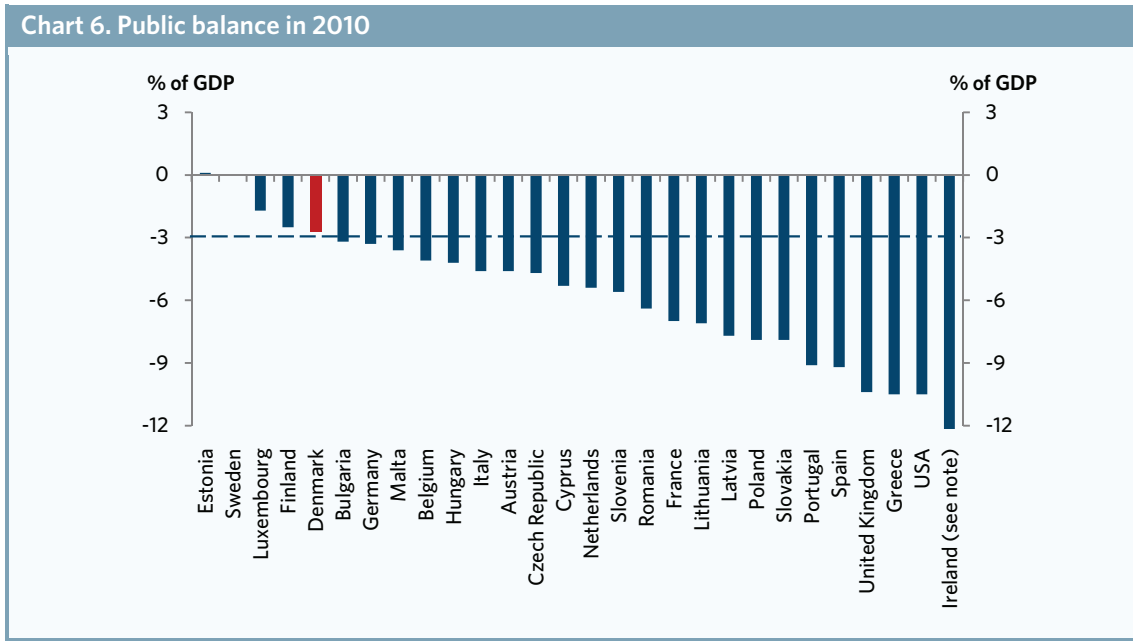
The problem of having to go through a longer period of a deadlock on the labour market is that the long-term unemployment can start to get fixed at a higher level, a considerable part of the newly graduated young people does not use their education, and that more people from the weak groups become marginalised from the labour market. With a slow economic turn, we risk causing damages to the labour market which can increase the challenges in a longer term.

Nobel Prize winner in economics, Joseph Stiglitz, touched on the same topic in an interview to Irish radio on August 24th 2010. He said:

“Of course, in the long run, governments have to make sure that their accounts balance – but, in the short run, if you cut back your spending prematurely, you can wind up with a weak economy, growing unemployment and tax revenues that are disappointing. So what I have been arguing is, what you need to do, is to focus your spending on investment – if you spend your money well you stimulate the economy in the short term, you promote growth in the long term”.

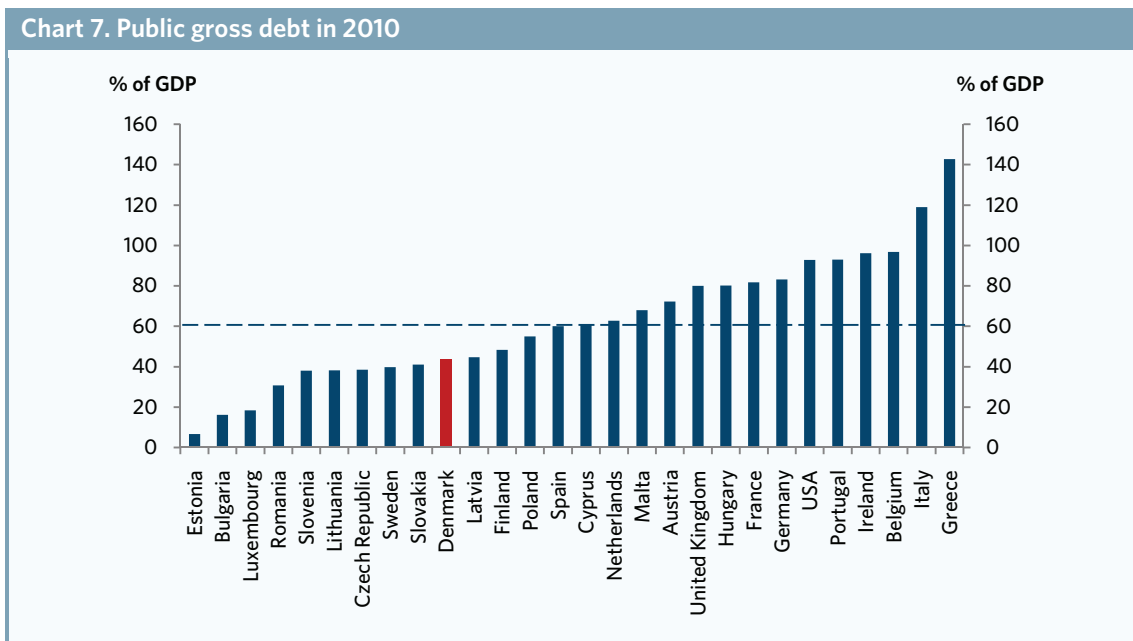
Fact sheet no. 4: Denmark's public finances in an international perspective

Denmark has received a recommendation from EU to quickly bring down the deficit from 2011-2013 because it was assessed to exceed EU's limit of 3% of GDP in 2010. Subsequently, it has been proven that the recommendation to Denmark was made on an incorrect basis. The Danish Ministry of Finance estimated the deficit to be 5.5% of GDP (DKK 94.5bn) in 2010 but it has turned out to be "only" 2.7% of GDP (Chart 6).



Note: Ireland's public deficit in 2010 is 32.4 % of GDP.
 Source: ECLM based on EUROSTAT and OECD.

Denmark is the star pupil within the EU. The public gross debt is also below EU's limit of 60% of GDP, see chart 7. In fact, Denmark does not have a net public debt but actually a net fortune at the end of 2010. Finally, the European Commission assesses that Denmark has the most long-term sustainable public finances within EU.



Source: ECLM based on EUROSTAT.

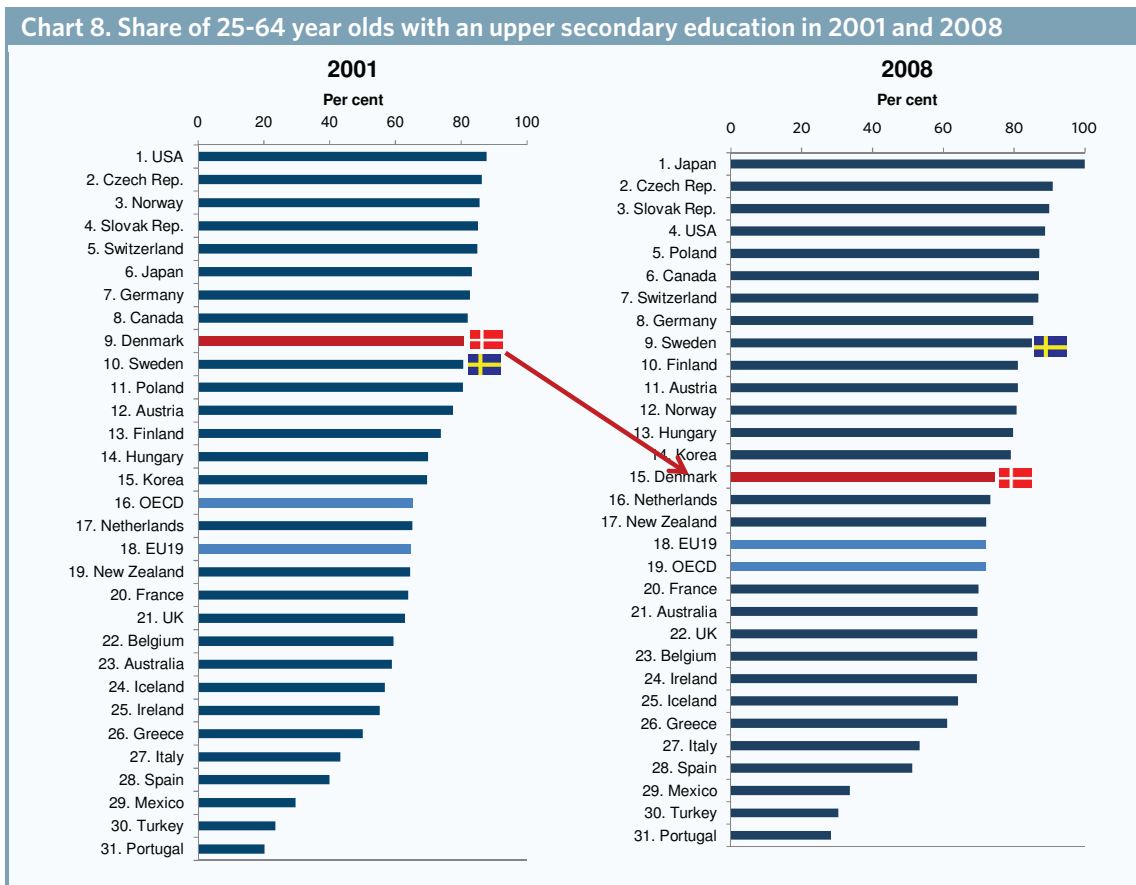
Fact sheet no. 5: Education is lagging behind

A projection of the labour market and education patterns towards 2020 shows, that Denmark will have a substantial skilled manpower shortage within the next 10 years. There will by 2020 be more than 180,000 people (6%) in excess on the Danish labour market only have completed the primary school or an upper secondary education. At the same time, there will be a shortage of 30,000 skilled workers and of more than 150,000 people with a higher education. The skilled manpower shortage can affect the development of the Danish economy severely.

Education is an important engine of economic growth. Every person, who completes an upper secondary education after the primary and lower secondary school, will on average be working effectively for eight more years. This is due to a lower risk of unemployment, early retirement and later retirement from the labour market. Today, 20% of the young people will not get an upper secondary education. Therefore, the potential of all young people completing an upper secondary education is big and absolutely necessary in order to tackle the challenge of globalisation and the challenge of skilled manpower shortage.

On top of this, an education increase is a golden investment for the individual due to a higher wage income over a lifetime and good business for the public finances as well due to higher tax revenues and lower income transfers.

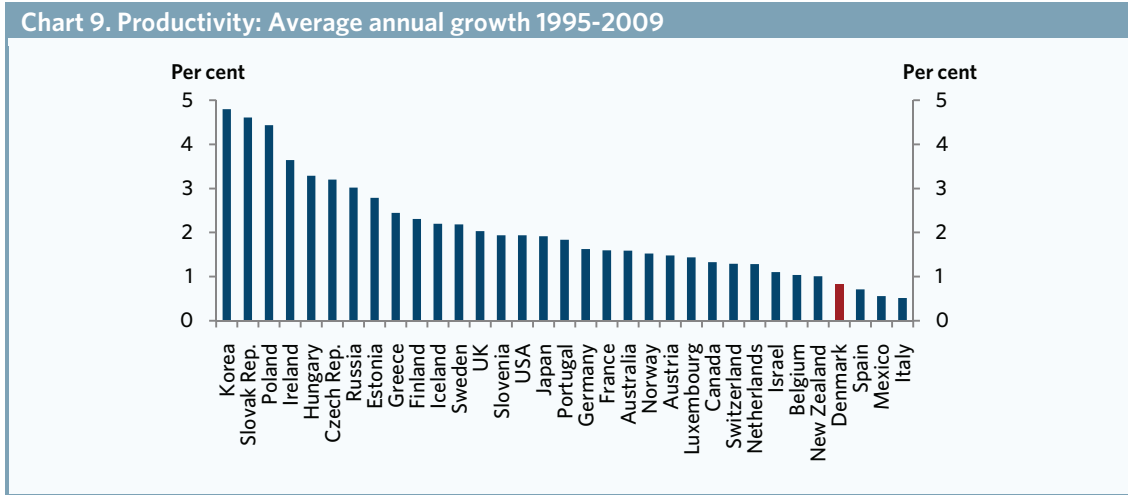
The Danish Government has as a part of their economic plan chosen to save on education and research. At the moment, Denmark is lagging behind internationally in relation to ensuring that young people get an upper secondary education. Thus according to OECD's Education at a Glance 2010, Denmark has dropped from 9th place in 2001 to 15th place in 2008 (Chart 8).



Source: OECD Education at a Glance 2010.

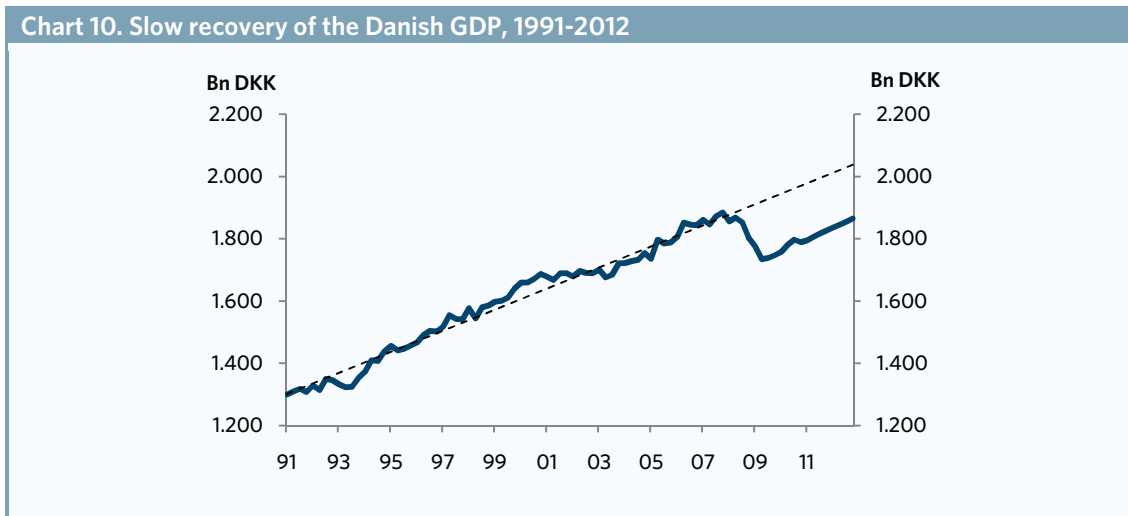
Fact sheet no. 6: Too little focus on productivity

In 1998, Denmark ranked fifth in OECD in wealth measured as GDP per inhabitant but has dropped to tenth place in 2010. A poor development of productivity from the mid 1990's and until 2009 is the main reason for this decline. This is shown in Chart 9.



Source: OECD.

And due to the crisis, Denmark seems to suffer from a permanent loss of potential GDP in level terms. This is shown in Chart 10 which shows Denmark's GDP level from 1991-2012. This illustrates that the price of an unsuccessful crisis management can be very costly.



Source: ECLM based on Statistic Denmark and own April-forecast.

In a historic view, the labour market has not contributed positively to the growth in Denmark in the last 40 years. Although employment has actually increased considerably this contribution has been equivalent to the average shorter working hours of the employed. During the period 1970-2009, the GDP has increased by close to 2% annually which have been entirely driven by the productivity growth. Thus productivity growth is decisive for ensuring future GDP growth.

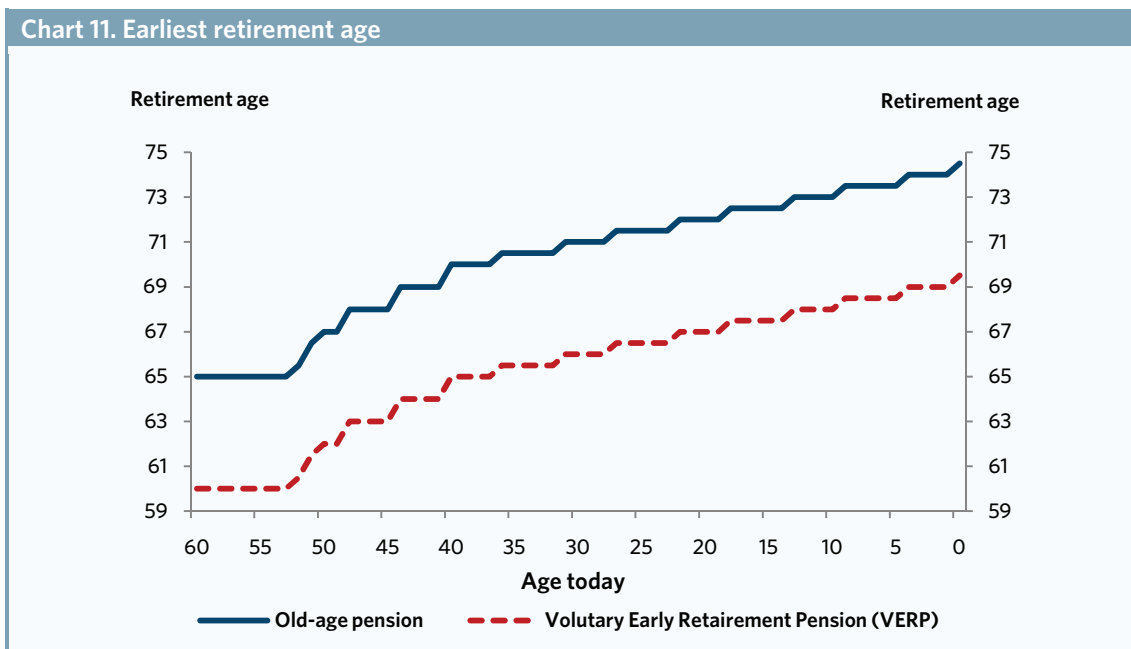
An important question is why the productivity has developed so poorly. One explanation is that the education level of the employed has come to a standstill unlike the 1980's and the 1990's, where the education level of the employed increased on average approximately 0.6% annually. However the Danish debate focus almost entirely on increasing the labour force (the number of hands) and too little focus is given to the labour force qualifications (the number of bright heads) and productivity.

Fact sheet no. 7: Significant Welfare Agreement of 2006

In order to meet the demographic challenge with more elderly, who live longer, a wide majority of the Danish Parliament concluded the so-called Welfare Agreement in 2006 which increases both the old-age pension age and the voluntary early retirement benefit age substantially from 2019 and onwards. This is shown in Chart 11, which compares your age today and the earliest retirement age in Denmark.

It shows that a newborn can expect to retire on old-age pension at an age of 74½ with the possibility of retiring on the voluntary early retirement pension at an age of 69½ if the person has been paying contributions to the scheme for 30 years.

The indexation mechanism to longevity means that each year that we live longer, we have to work one more year. With the former fixed old-age pension age, the increased life expectancy resulted in more years on retirement and thereby substantially increasing expenditures to pensions. With the indexation mechanism, the pension system is robust to life expectancy increases. This mechanism has received international attention.



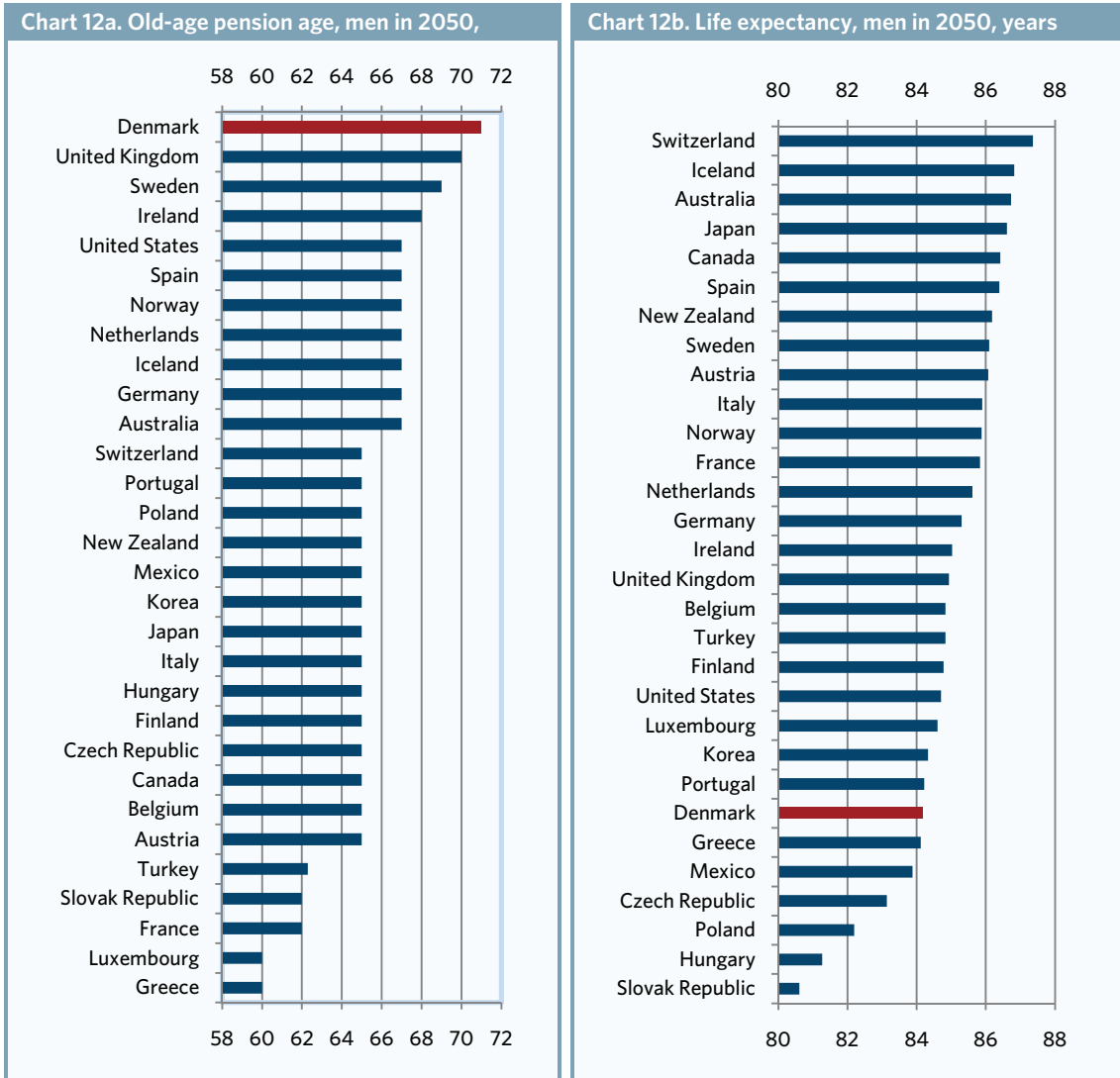
Source: ECLM based on the Danish Ministry of Finance.

The Welfare Agreement is significant and, according to the Danish Ministry of Finance, secure long-lasting public finances by strengthening the public finances permanently by 3% of GDP equal to DKK 63bn and by increasing the employment by as much as 100,000 persons (4% of the employment) in 2025 and 300,000 in 2055 (10%).

In the Welfare Agreement of 2006, it is stated: “The changes of the retirement system will ensure the financing of the Danish welfare society many decades ahead”. However, this statement only lasted half a decade.

In the debate, there is often referred to the fact that there will be more elderly needing care and less employed. The Welfare Agreement of 2006 precisely solved the challenge of an increasing number of elderly and increasing longevity. But now the Government is ready to abolish the early retirement benefit and increase the old-age pension age earlier.

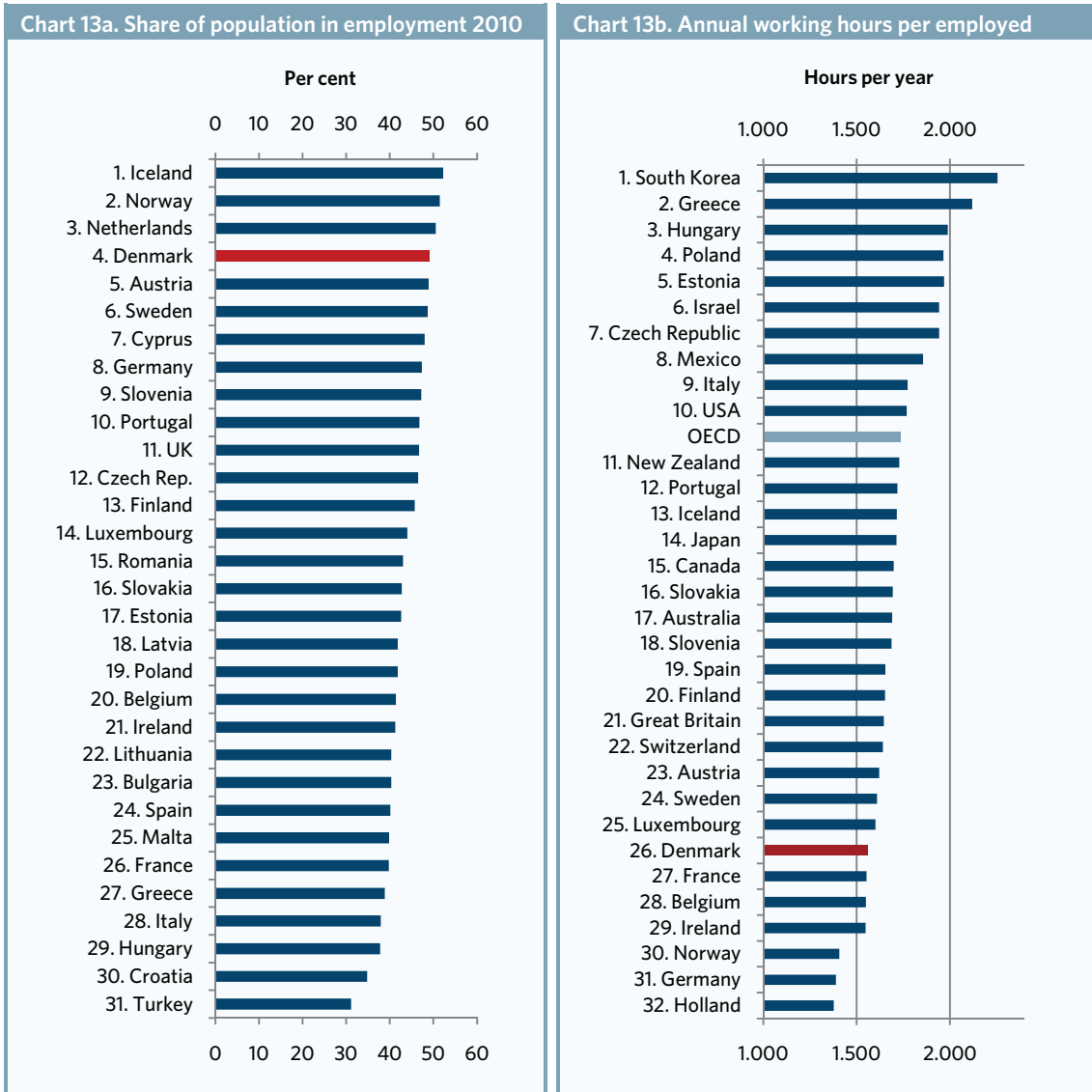
An abolition of the early retirement benefit means that more young Danes can look forward to a later retirement pension. The fact is that Denmark will have an internationally exceptional high retirement old-age pension age (Chart 12a). In combination with the fact that Danes at the same time live shorter than in many other countries (Chart 12b), there are indications that young people nowadays will have considerably fewer years as pensioners compared to all other OECD countries. Thus, young people of today can look forward to the absolutely shortest retirement in the Western World.



Source: ECLM based on OECD.

The potentials for increasing the labour force

Denmark is already in top four among OECD countries concerning the share of the population who is employed (Chart 13a). On the other hand, the annual number of working hours per employed is low in Denmark meaning that Denmark is ranked 26th out of the 32 OECD countries (Chart 13b).



Source: ECLM based on EUROSTAT and OECD.

Besides working hours, there is still potentials for increasing the labour force with regard to disability pension, sickness absence, active labour market policies, integration of immigrants on the labour market etc.

Joint acceptance of the 2020 challenge but two different solutions

Denmark has had medium-term action plans for the public economy since 1997 and, in April 2011, the Government presented its proposal to a new 2020-Plan. The objective of the plans has been to secure the long-term fiscal sustainability and to point out the prioritisations which should secure the balance between the government revenue and the government expenditure. The plans have included more or less specific objectives.

In the new proposal for a 2020-Plan, the finishing line with sustainability of the public finances has been replaced by the objective of a budget balance by 2020. The objective and thereby the challenge are widely accepted even if there is no economic rationale of choosing precisely 2020 as a point of reference.

Fact sheet no. 8: The Danish Model and the substantial long-term solutions

Denmark has found a successful combination of economic dynamic and social security. On one hand, Denmark shares a range of features with other Scandinavian welfare states by way of a high degree of economic equality and security for the citizens. However, on the other hand, Denmark has a flexible and dynamic labour market and is very adaptable to changing external conditions which are traditionally associated with liberal market economics. Internationally, there has especially been an interest in “the Danish Model” after Denmark succeeded to have an unemployment rate far below the European average. The model is often marketed under the heading “Flexicurity”, i.e. a good security net in return of making it easy or flexible to fire and hire workers.

The balance between flexibility and security, which characterise the Danish society, must constantly be adjusted if it is to be maintained. Reforms can be well-founded. But they can also cause damage if they are implemented in a rush or on ideological grounds without respecting the interaction between the different parts of the model.

The strength of the Danish Model is partly the substantial agreement between the social partners – among other things with the construction of the occupational pensions, already in the 1980’s, ensuring a sustainable pension system that is based on the World Bank’s recommendations of a three pillar pension system – and partly the Danish Parliament’s wide majority agreement regarding the big labour market reforms such as the Welfare Agreement passed in 2006.

However, this wide and solid cooperation is increasingly replaced by bloc politics and settlements on the annual Finance Acts with narrow majorities. Furthermore, the Government and the supporting party Dansk Folkeparti (Danish People’s Party) are ready to jeopardize the well-known Welfare Agreement in order to make narrow political settlements on the important pensions system just before an election in 2011. To a great extent, this seems to be gambling with the Danish Model.

S-SF wants to find the reform solutions by a tripartite agreement with the social partners. The Government has over and over again implied that only reform initiatives, which can be passed at the Parliament, are reliable and can contribute to solving Denmark’s challenges. However, this is a far too single-minded approach to evaluate possible effects of different reform initiatives and a lack of respect to find joint solutions. A good idea is not going to be less good just because it has been agreed jointly with the social partners. It can on the contrary ensure a wider consolidation and more long-lasting reforms. The decisive factor is that a labour market reform is being implemented to the benefit of the Danish economy.

The major unions have accepted S-SF’s offer to find reform solutions by a tripartite agreement which deals with an increase of the working hours by one hour every week on average in return for a new economic agenda with investments in growth, education and public welfare instead of the Government austerity plan.

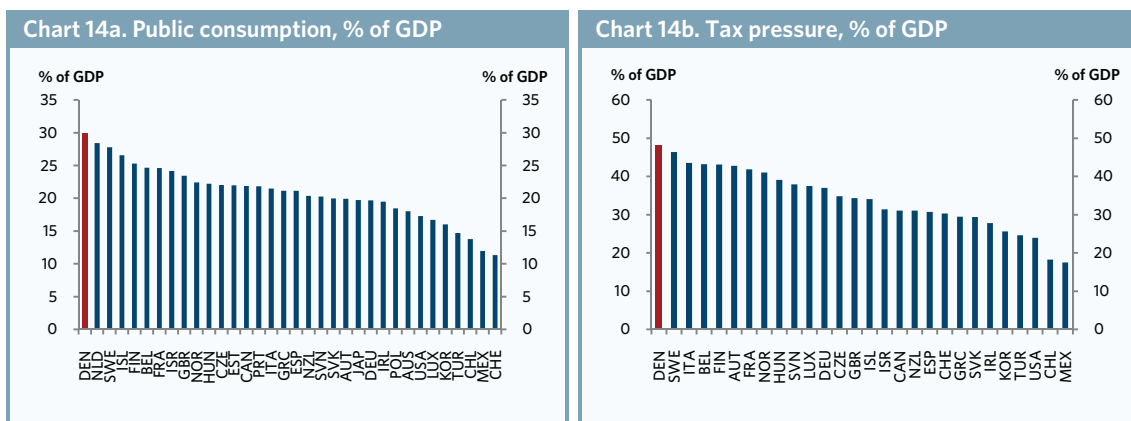
Fact sheet no. 9: Why can the Danish Model survive?

Denmark is among the world's ten richest and most competitive countries in spite of the fact that Denmark is also world champion in collecting taxes. According to economic text books, this is not possible. However, the text books do not take into account that the tax revenues are being used on government expenditures which in line with tax have an effect on people's opportunity and wish to work as well as the value of work. This applies to government expenditures on education, research, childcare and infrastructure but also to unemployment benefits which creates the security and the counterpart to the big flexibility on the Danish labour market with regard to firing.

Free education - from primary school to universities - is one of the productive investments, which the tax revenues contribute to. Every person, who completes an upper secondary education after the primary and lower secondary school, is on average eight more years on the labour market. Furthermore, education is the most important source of productivity increase.

Expenditures on childcare increase the employment. When parents can send their children to an institution, manpower will be available. In a typical kindergarten, one person will take care of ten parents' children which make nine persons available for the labour market. Denmark has low prices on childcare compared to other countries as the state pays 75% of the expense. The government grant to childcare, which is being financed by the tax revenues, means that it is financially worthwhile to almost all Danes to make use of childcare and take part in the labour market. Therefore, Denmark has one of the highest share of children being taking care of in institutions and women and men on the labour market in the western world.

Traffic jams and train delays alone cost tens of thousands of lost working years and they are a loss which will continue to rise year by year if we do not invest in infrastructure. The employment potential by increasing the public investments in infrastructure is also considerable. The Confederation of Danish Industry (DI) assesses the time wasted in traffic jams or slow traffic to being nine minutes on average every day equivalent to a loss of two-digit billions as to prosperity.



Source: OECD.

Nobel Prize Winner in economics, Joseph Stiglitz commented on why the Danish model can survive on Danish television January 17th 2008. He said:

“Scandinavia is known for its high taxes. The Bush Government says short-sighted: “Tax cuts solve all problems”. If this is correct, Scandinavia should be on the ropes and down and out. But in my opinion the high taxes are an important reason to Scandinavia’s success because the high taxes have contributed to financing a safety net and some investments which create a successful society”.

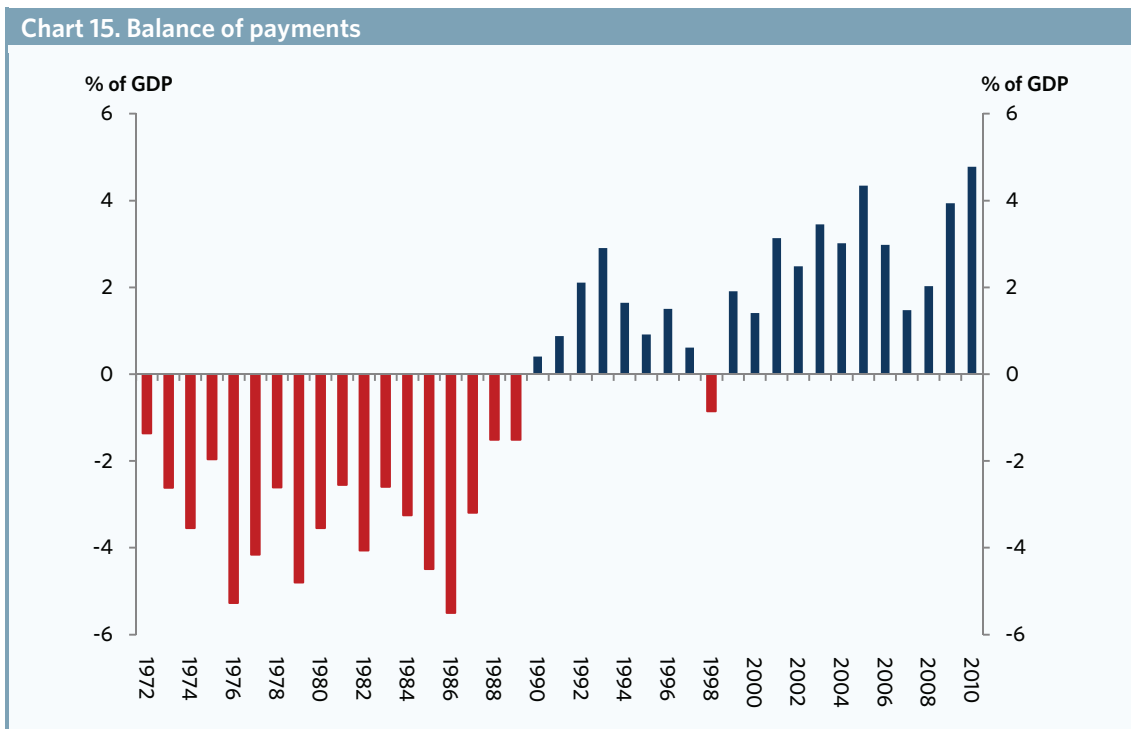
Fact sheet no. 10: Record high balance of payments surplus

The balance of payments remains at a record high level just short of DKK 100bn equal to 5.5% of GDP. There has been a surplus on the balance of payments during 20 of the latest 21 years and Denmark's external debt has been turned into a fortune (Chart 15).

Seeing that the balance of payments by definition is equal to the sum of the public balance and the private net saving, and seeing that there is a big public deficit of 2.9% of GDP, it means that private savings surplus is very, very big, i.e. approximately 8.5%. In the light of these facts, there is a big potential to increase the private demand of the economy and create growth and jobs if the private savings surplus can be activated. The Opposition has proposed to open an "investment window" of 100% depreciation on private investments in machinery for companies until the end of 2012.

In connection with the latest figures, the chief economist from Danske Bank pointed out:

"It is an extremely high level. We have to be happy about the impressive balance of payments surplus because it also allows more degrees of freedom in the economic policy... the balance of payments surplus is to a large extent a consequence of the fact that the Danish economy has come to a standstill more than the other economies that we do business with".



Source: Statistics Denmark.

Fact sheet no. 11: Two ways of cutting the deficit

The title on the front page of this paper: "There are two ways of cutting the deficit", is a quotation by professor Joseph Stiglitz made in an interview April 7 2011 (see below). It reflects the Danish debate of the two ways proposed by the Danish Government and the Opposition respectively.

"There are two ways of cutting the deficit.

- *One is raising revenue.*
- *The other is cutting expenditures.*

Well, what's the best way of getting tax revenue up? It's to put America back to work.

If you start cutting budgets now, spending now, before the economy is back to health... we're going to suffer again from the thoughtless deficit reduction. That means people are going to be out of jobs. That means revenues are going to be lower, and our economy is going to be weaker."

http://www.democracynow.org/2011/4/7/nobel_economist_joseph_stiglitz_assault_on

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AE - The Economic Council of the Labour Movement
Reventlowsgade 14, 1. floor
1651 Copenhagen V.
Phone: +45 33 55 77 10
E-mail: ae@ae.dk
www.ae.dk / www.eclm.dk