

CEPOS-NOTE ABOUT THE WHITE HOUSE REPORT: “THE OPPORTUNITY COSTS OF SOCIALISM”

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BY CHIEF ECONOMIST MADS LUNDBY HANSEN (+45 21 23 79 52), SENIOR ECONOMIST CARL-CHRISTIAN HEIBERG AND ECONOMIST THOMAS DUE BOSTRUP

SUMMARY

The White House's Council of Economic Advisors (CEA) has published a report: “The Opportunity Costs of Socialism”. It is an interesting report with many relevant findings and conclusions. Its primary focus is describing the (negative) economic consequences of socialism as it was practiced in for example the Soviet Union. The report also includes a section about the Nordic countries including Denmark. Our main comments are:

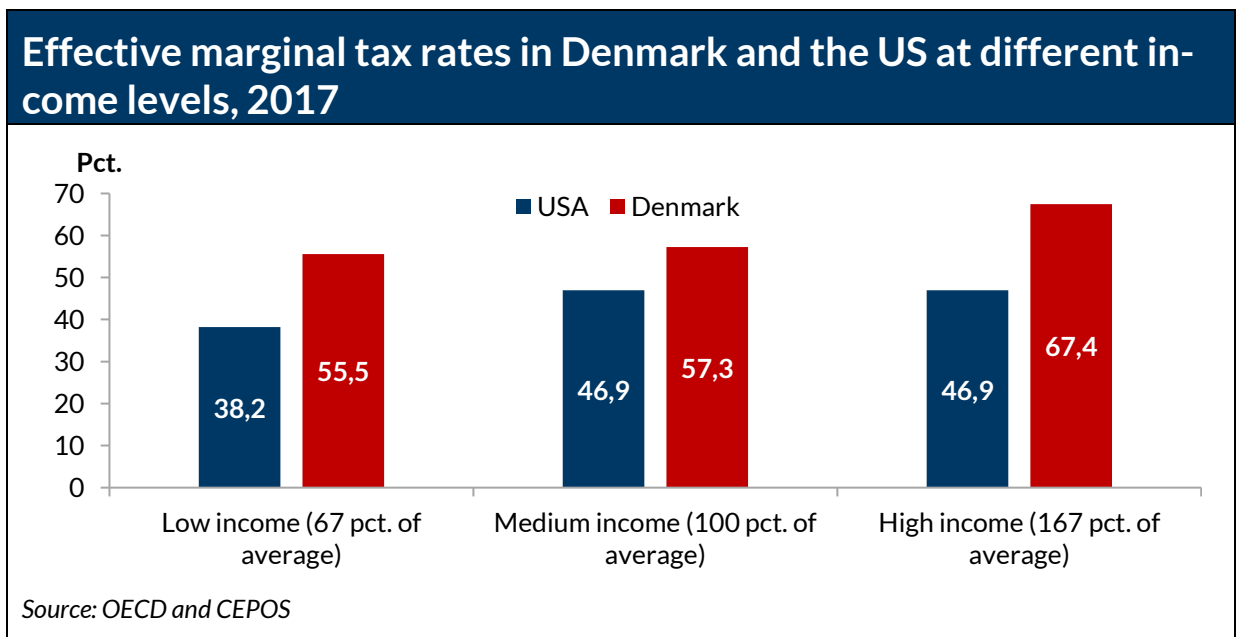
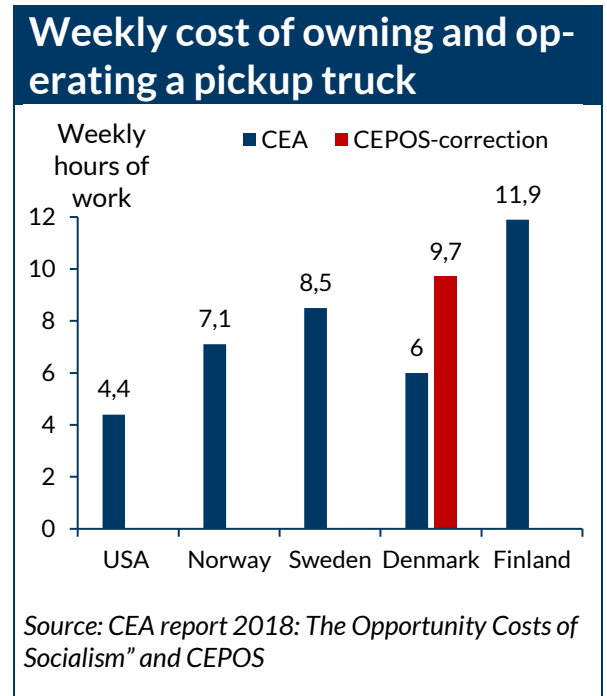
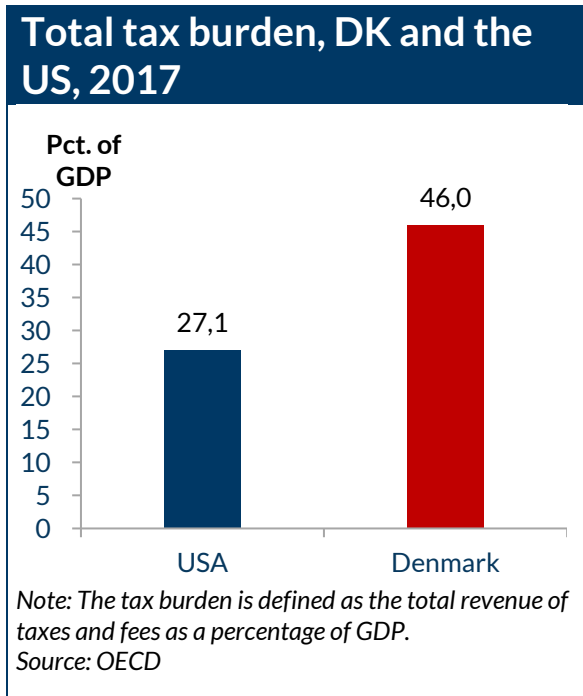
- It is relevant to include Denmark in the report since American socialists like Bernie Sanders often refers to Denmark as a role model. The report says – rightly so - that you cannot characterize the Nordic countries (and Denmark) as socialist countries. In a socialist country the state owns the means of production. This is not what characterizes the Nordic countries. Denmark and the other Nordic countries are market economies with high taxes and a high level of government spending.
- On Economic Freedom indexes (capitalism-index) Denmark gets a high score. The Fraser Institute's Economic Freedom of the World index ranks Denmark 16th (out of 162 countries). According to the Heritage Foundation's Index of Economic Freedom, Denmark (ranked 12th out of 180 countries) ranks higher than the US (18th). Denmark generally ranks high on regulation, protection of private property, fighting corruption, flexibility of the labor market and trade, but ranks low on taxes and public spending, which are very high in Denmark compared to other countries.
- The report correctly concludes that GDP (in US-dollars corrected for PPP) in the US is higher than in Denmark. The gap is around 15 per cent. One reason for this gap is that government spending and the tax burden is bigger in Denmark than in the US. The high taxes in Denmark distorts work-effort, savings and investments. Bergh & Henrekson (2011)¹ found that a reduction of taxes by 10 per cent of GDP in OECD countries increases yearly GDP-growth by ½-1 per cent per year. The OECD found that increasing taxes' share of GDP by 2 per cent could reduce GDP by 1-1½ per cent.
- In general, the CEA report presents the Danish tax system in a light that underestimates the tax burden. Reading the report, one could easily get the impression that taxes in Denmark are only slightly higher than in the US. The fact is that the tax burden (taxes to GDP) is the second-

highest in the OECD and 70 percent higher than in the US (46 vs. 27 per cent of GDP). Despite many reforms, the tax burden has not been reduced since 1987. In the period 2002-2016, Denmark had the highest tax burden among the 36 OECD countries.

- Income taxes are higher than in the US. The top marginal tax rate is 56 percent (kicks in at around 80.000 dollars) compared to 46 percent in the US. The capital gains tax is up to 42 percent in Denmark and up to 29 per cent in the US.
- The biggest difference between the Danish and the American tax systems is that consumption taxes are much higher in Denmark. VAT is 25 per cent in Denmark while the average sales tax is 6 per cent in the US. Furthermore, there are specific taxes on many goods in Denmark for instance cars, coffee, chocolate, beers etc.
- Including the effect of consumption taxes, the top marginal tax rate on labor income is 67 per cent in Denmark. For low and middle-income workers, it is 55 per cent. This is significantly higher than in the USA. It's important to include consumption taxes when you calculate the effective marginal tax rate. High consumption taxes means that you can buy fewer goods for one extra working hour.
- The CEA reports that in Denmark it requires 6.0 hours of work per week to finance a Ford Ranger XL while it requires only 4.4 hours of work in the US. It is a very illustrative way of showing the tax burden, but the calculation isn't complete. The CEA calculations incorrectly excludes car taxes in the price of a pickup truck. Denmark has some of the highest car taxes in the world. The first 30.000 US dollars (approximately) in value is taxed at 85 percent. For all value above 30.000 US dollars you pay 150 per cent in tax. On top of this you pay 25 per cent in VAT. Furthermore, in Denmark you pay 1.200 USD yearly in car-ownership tax for a pickup truck. These taxes should be included in the calculations. When you include all the taxes it takes the average worker in Denmark approximately 10 hours of work per week in order to finance a pickup truck. In the US it is 4.4 hours, less than half.
- Low income people in Denmark have a higher disposable income than in the US. This isn't clear in the CEA report. According to data from the OECD, the 10th percentile in Denmark has a yearly disposable income of 17.000 US Dollars corrected for PPP. The corresponding number for the US is 12.000 USD. Thus, a low-income person has 41 per cent higher disposable income in Denmark compared to the US. The median American has 10 per cent higher disposable income than the median Dane. And the average American has 27 per cent higher income than the average Dane, reflecting both lower GDP per capita and higher taxes in Denmark.
- Since 2001, the long-term sustainability of public finances has been improved primarily through labor market reforms (higher retirement age and indexing the retirement age to life-expectancy as well as a reduction of the period you can receive unemployment benefits from 4 to 2 years). Today the public finances are more than sustainable.
- The public sector is relatively big in Denmark compared to the rest of the OECD. Public consumption is around 25 per cent of GDP, compared to 14 per cent of GDP in the US.
- In Denmark, almost all the hospitals are run by the welfare state and financed by taxes. There are no user fees when you go to the hospital (as opposed to the other Nordic countries). There are however user fees when you buy medicine (when you are not at the hospital. When you are at the hospital medicine is provided free of charge). Only 1 per cent of the publicly financed hospital production is contracted out to private hospitals. There are private health insurances (and

some private hospitals), but their market share is very small as the public sector is reluctant to outsource services to private providers, even when they are cheaper and better.

- Primary health care (i.e. general practitioners) is provided by privately run enterprises. But they are heavily regulated which means that the access to primary health care is rationed. There are no user fees. The local practitioners are financed by the tax payers.



The White House's Council of Economic Advisors (CEA) has published a report: "The Opportunity Costs of Socialism". It is an interesting report with many relevant findings and conclusions. Its primary focus is describing the (negative) economic consequences of "true" socialism as it was practiced in for example the Soviet Union.

The report also contains a section about the Nordic countries including Denmark. This is relevant since American socialists like Bernie Sanders often refer to Denmark as a role model. The report says – rightly so - that you cannot characterize the Nordic countries as socialist countries. In a socialist country the state owns the means of production. This is not what characterizes Denmark and the other Nordic countries. The Nordic countries are market economies, with high taxes and a high level of government spending, see below.

DENMARK IS NOT A SOCIALIST COUNTRY

Denmark is not a socialist country. The Fraser Institute's Economic Freedom of the World index ranks *Denmark* 16th (out of 162 countries). This is comfortably in the best quarter of the world's countries. According to the Heritage Foundation's Index of Economic Freedom Denmark (ranked 12th out of 180 countries) ranks higher than the USA (18th). Denmark ranks high on regulation, protection of private property, fighting corruption, flexibility of the labor market and trade, but low on taxes and public spending, which are very high in Denmark compared to other countries. Denmark is a market economy with a big welfare state and high taxes. The high level of economic freedom is an explanation for the relatively high level of income in Denmark, in spite of the high level of taxes and the big welfare state.

Top20 - Fraser Institute's Economic Freedom of the World, 2018		
1	Hong Kong	8,97
2	Singapore	8,84
3	New Zealand	8,49
4	Switzerland	8,39
5	Ireland	8,07
6	United States	8,03
7	Georgia	8,02
8	Mauritius	8,01
9	United Kingdom	8,00
10	Australia	7,98
10	Canada	7,98
12	Taiwan	7,89
13	Estonia	7,86
13	Lithuania	7,86
15	Chile	7,80
16	Denmark	7,77
17	Malta	7,73
18	Cyprus	7,71
18	Netherlands	7,71
20	Germany	7,69
160	Argentina	4,84
161	Libya	4,74
162	Venezuela	2,88

Source: Fraser Institute

Top20 - Heritage Foundation's Index of Economic Freedom, 2018		
1	Hong Kong	90,2
2	Singapore	88,8
3	New Zealand	84,2
4	Switzerland	81,7
5	Australia	80,9
6	Ireland	80,4
7	Estonia	78,8
8	United Kingdom	78,0
9	Canada	77,7
10	United Arab Emirates	77,6
11	Iceland	77,0
12	Denmark	76,6
13	Taiwan	76,6
14	Luxembourg	76,4
15	Sweden	76,3
16	Georgia	76,2
17	Netherlands	76,2
18	United States	75,7
19	Lithuania	75,3
20	Chile	75,2
178	Cuba	31,9
179	Venezuela	25,2
180	Korea, North	5,8

Source: Heritage Foundation

THE REFORMS SINCE THE MID-1970S

CEA concludes that if the US implemented the Nordic welfare state as it was in the mid-1970s then GDP per capita in the US would be at least 19 per cent lower. This seems plausible although we think the income decline in the US would be more than 19 per cent. Today the gap is 15 per cent and Denmark as well as the rest of the Nordic countries have implemented many market-oriented reforms since the 1970s.

Many reforms since the mid-1970s have been implemented by various governments because it was acknowledged that the Danish model at that time wasn't sustainable: For instance, the public finances were unsustainable. In 1979 the former social democratic Minister of Finance characterized the situation as "looking into the abyss". It culminated in 1982 when the public deficit

reached around 10 per cent of GDP². Since the early 1980s the public deficit has been removed. In the 1980s the public finances improved due to significant tax increases implemented by the center-right government led by conservative Poul Schlüter (1982-1992). In the mid-1980s the top marginal tax rate was reduced from 73 to 68 per cent (in a tax reform which increased tax revenue). The tax value of interest deductions was reduced from 73 to 50 per cent.³

In the 1990s the functioning of the labor market was improved by the center-left government of Poul Nyrup Rasmussen (1992-2001). The top marginal tax rate was reduced further from 68 to 63 per cent, the period you can receive unemployment benefits was reduced from indefinitely to first 7 years and then to 4 years. The unemployment benefits for young people were reduced by 50 per cent. The wealth tax was abolished in 1997⁴.

Since 2001 (with center-right governments, except for 2011-2015 where there was a center-left government) the long-term sustainability of the public finances has been improved primarily through labor market reforms (higher retirement age and indexing the retirement age to life-expectancy as well as a reduction of the period you can receive unemployment benefits from 4 to 2 years). Today the public finances are more than sustainable. According to the Ministry of Finance⁵, the sustainability indicator is +1.2 per cent of GDP. That means that Denmark can reduce the tax burden by 1.2 percent of GDP or increase government spending by 1.2 per cent of GDP and still have sustainable public finances with the Government able to finance all current welfare programs indefinitely. Today, Denmark is among the countries in the OECD with the most solid public finances.⁶

The corporate tax rate has been reduced from 50 per cent in 1989⁷ to 22 per cent today. This has improved the incentives to invest in Denmark. The reduction in the corporate tax rate is also a reaction to international tax competition. On average the corporate tax rate has been reduced by approximately 1 percentage point per year since 1989.

In the late 1980's the government made an agreement with the employers' associations and labor unions to implement mandatory savings accounts for people in employment who are members of labor unions. Since then many non-union members have voluntarily chosen to make significant pension contributions due to tax incentives. A typical worker today pays around 12 per cent of his earnings into an individual savings account⁸. This makes most Danes more self-reliant

² Source: Statistics Denmark

³ Ministry of Taxation: <https://www.skm.dk/aktuelt/temaer/1987-skattereformen>

⁴ Ministry of Taxation: <https://www.skm.dk/skattetal/statistik/tidsserieoversigter/centrale-skattesatser-i-skattelovgivning-1994-2001>

⁵ Ministry of Finance: "Opdateret 2025- forløb: Grundlag for udgiftslofter 2022, august 2018"

⁶ An indicator of the sound public finances is that Denmark is one of the few OECD-countries who has an AAA-rating at both Moody's, Standard & Poor's and Fitch according to the Ministry for Economic Affairs and the Interior: "Economic Survey, august 2018"

⁷ Ministry of Taxation: <https://www.skm.dk/skattetal/statistik/tidsserieoversigter/centrale-skattesatser-i-skattelovgivning-1987-1993>

⁸ According to the Family Type Model of the Ministry for Economic Affairs and the Interior

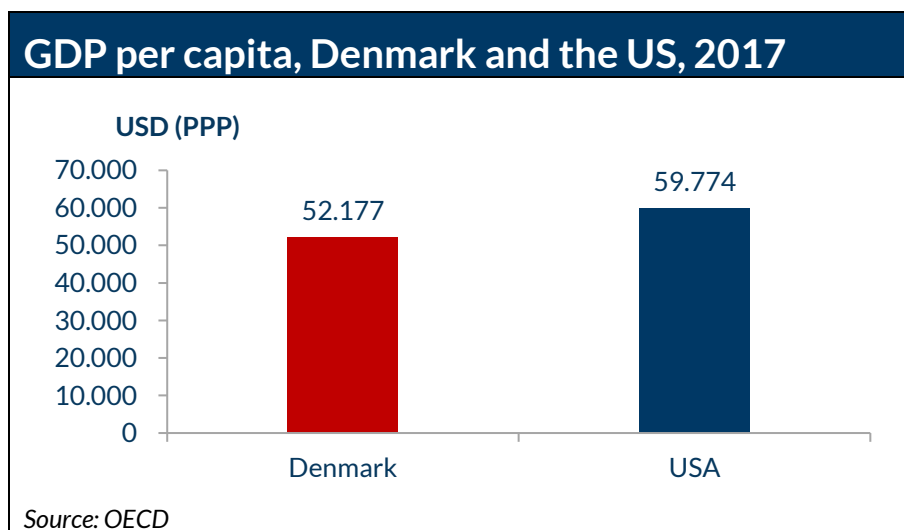
after they reach retirement age. Pensioners with private pension income lose eligibility to part of the public pension and to other kinds of public aid.

Besides improving the public finances, the labor market reforms have increased structural employment. The Ministry of Finance⁹ estimates that the tax- and labor-market-reforms since 2006 will have increased the structural employment by 9 per cent and structural GDP by 10 per cent in 2025.

GDP PER CAPITA IS 15 PER CENT HIGHER IN THE US THAN IN DK

Denmark has the 9th highest GDP per capita in the OECD (PPP corrected). If you look at GNI (GDP corrected for income from abroad), Denmark is no. 7 out of 36 OECD countries. This is because the Danes have accumulated a significant amount of net foreign assets. This is partly because of the accumulation of pension wealth (200 per cent of GDP¹⁰) which to a large degree is invested abroad. This generates income (dividends and capital income) for the Danes.

The CEA report correctly concludes that GDP per capita in the US is higher than in Denmark. The gap is around 15 per cent.



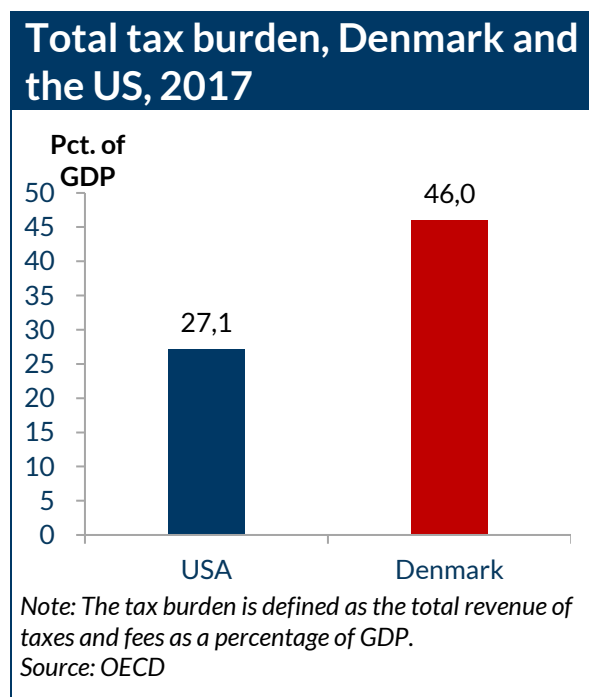
One reason for this gap is that government spending and the tax burden is bigger in Denmark than in the US. The high taxes in Denmark distort work effort, savings and investments. Bergh & Henrekson (2011)¹¹ found that a reduction of taxes by 10 per cent of GDP in OECD countries

⁹ Ministry of Finance: "Økonomisk Analyse: Reformer har styrket dansk økonomi", november 2018

¹⁰ Ministry of Taxation: <https://www.skm.dk/skattetal/statistik/generel-skattestatistik/pensionsformuen-1984-2015>

¹¹ Bergh, A. & M. Henrekson (2011). Government Size and Growth: A Survey and Interpretation of the Evidence, Journal of Economic Surveys, vol. 25, Issue 5, pp. 872-897.

increases yearly GDP growth by ½-1 percentage point per year. The OECD¹² found that a 2 %-points increase in the tax/GDP-ratio could reduce GDP by 1-1½ per cent. The Ministry of Finance and the independent Economic Council in Denmark agree that a reduction in the marginal tax rate increase employment and economic growth. Several micro data studies¹³ on specific Danish reforms find that lower marginal tax rates and lower transfer incomes increase taxable income and/or employment. The size of the effects varies, but the direction is unambiguous.



MODEST GROWTH POTENTIAL IN THE COMING DECADE

In the years 2019-2030 the Ministry of Finance¹⁴ expects GDP per capita to grow by 1.0 per cent per year. This is around half the growth rate in the period 1971-2007 (1.9 per cent per year).

¹² Source: OECD Economic Outlook No. 86, November 2009

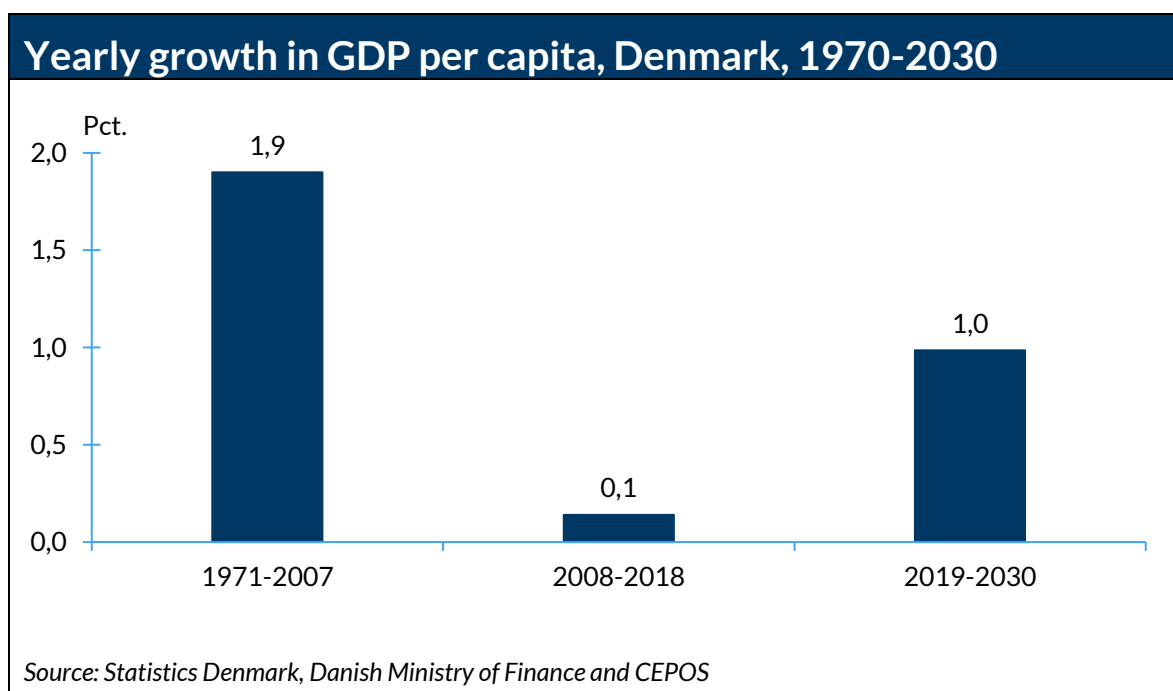
¹³ C.T. Krenier, J.R. Munch og H.J. Whitta-Jacobsen: "Taxation and the Long Run Allocation of Labor: Theory and Danish Evidence". IZA Discussion Paper No. 8246 (June 2014).

H. Kleven og E. Schultz: "Estimating Taxable Income Responses Using Danish Tax Reforms". WP August 2013

R. Chetty: "Bounds on Elasticities With Optimization Frictions: A Synthesis of Micro and Macro Evidence on Labor Supply". Econometrica vol. 80. No. 3, May 2012.

Commission on Unemployment Benefits: "Dagpengemodellen, teknisk analyserapport," October 2015

¹⁴ Ministry of Finance: "Opdateret 2025- forløb: Grundlag for udgiftslofter 2022, august 2018"



The low expected growth rate in the period 2019-2030 is due to a low expected growth rate in the labor productivity at 1.2 per cent per year.

The challenge for the Danish economy in the coming decade is modest growth potential. This can be increased by new labor market reforms. The government could abolish the early retirement scheme (unemployment benefits for seniors who are 3 years younger than the formal pension age). And the government could reduce unemployment benefits by 10 per cent. The difference between the maximum unemployment benefits and a low-paying job is only around 50 US dollars per month¹⁵. These two proposals would increase structural employment by 1½ per cent by 2025¹⁶. Furthermore, the growth in productivity could be increased by lowering the corporate tax rate and by deregulation.

WORKING HOURS AND PRODUCTIVITY

Denmark has a slightly higher level of productivity (5th highest in the OECD) compared to the US (6th highest). There are several reasons for this. First of all, Danes are well educated and Denmark has a relatively well functioning market economy with a flexible labor market. However, the high productivity is also due to the fact that the high de facto real minimum wages exclude low productive workers from the labor markets, among them refugees and other non-western

¹⁵ CEPOS: "Indkomster, fordeling og incitamenter 2017"

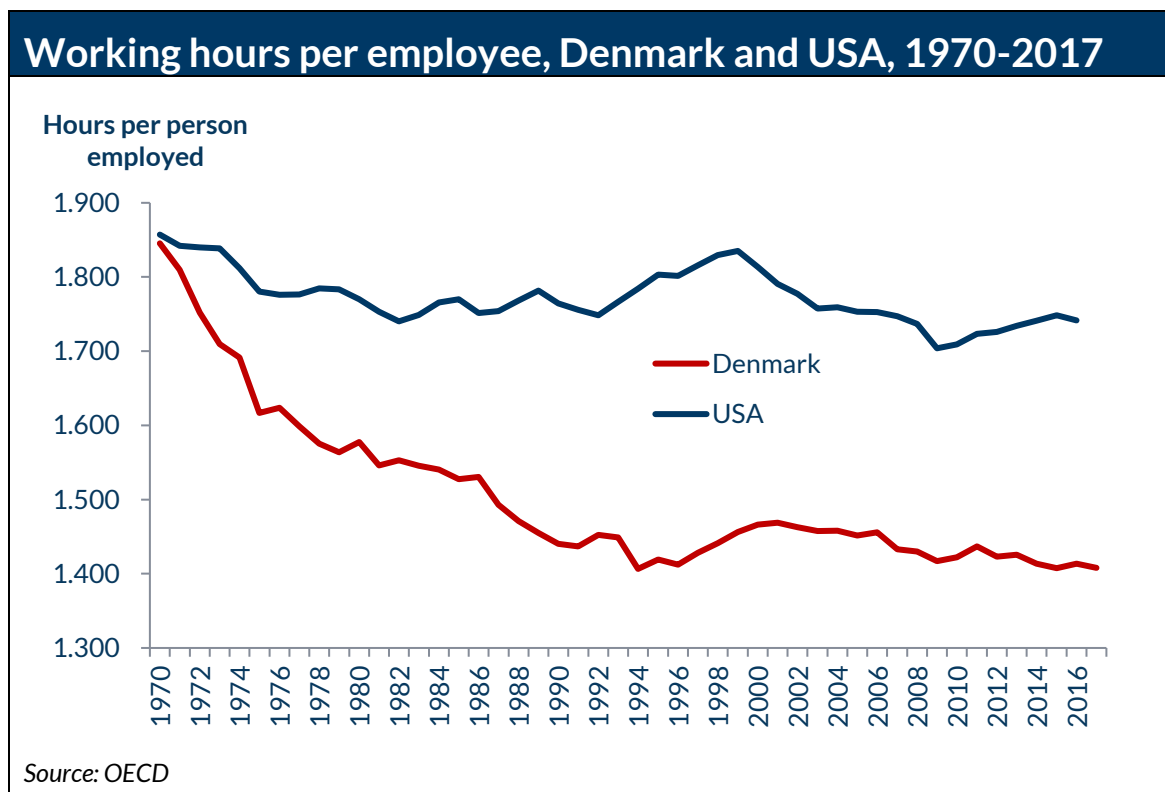
¹⁶ Ministry of Finance: "Svar på Finansudvalgets spørgsmål nr. 284 af 21. marts 2017" and Commission on Unemployment Benefits: "Dagpengemodellen, teknisk analyserapport," October 2015

immigrants. The number of working hours per capita is low in Denmark. One reason for this is that Denmark is a relatively rich country and Danes in general have decided to spend some of this wealth on long vacations and short working hours per week. This decision is influenced by high effective marginal tax rates and relatively generous transfer incomes.

Prosperity, productivity and hours worked, OECD, 2017						
GDP pr. cap., US dollars (PPP)		=	GDP pr. hour		x	Hours worked pr. cap.
1 Luxembourg	104.027	1 Ireland	97,5	1 Luxembourg	1.091	
2 Ireland	75.304	2 Luxembourg	95,3	2 Korea	1.049	
3 Switzerland	64.842	3 Norway	82,3	3 New Zealand	939	
4 Norway	61.576	4 Belgium	74,7	4 Switzerland	930	
5 United States*	59.774	5 Denmark	73,4	5 Mexico	910	
6 Iceland	54.079	6 United States*	72,3	6 Israel	910	
7 Netherlands	52.799	7 Germany	69,8	7 Estonia	905	
8 Austria	52.512	8 Switzerland	69,7	8 Japan*	903	
9 Denmark	52.177	9 Netherlands	69,3	9 Czech Republic	901	
10 Germany	50.879	10 France	67,8	10 Lithuania	885	
11 Australia	50.762	11 Austria	64,7	11 Australia	882	
12 Sweden	50.032	12 Iceland	63,7	12 Portugal	877	
13 Belgium	48.140	13 Sweden	62,4	13 Chile	873	
14 Canada	46.705	14 Finland	59,7	14 Canada	870	
15 Finland	44.956	15 Australia	57,6	15 Latvia	862	
16 United Kingdom	43.402	16 Italy	55,5	16 Poland	860	
17 Japan*	43.301	17 Spain	53,8	17 Iceland	849	
18 France	42.858	18 Canada	53,7	18 United States*	826	
19 New Zealand	40.546	19 United Kingdom	53,5	19 Austria	812	
20 Italy	39.621	20 Japan*	48,0	20 United Kingdom	811	
21 Israel	38.540	21 Slovenia	44,1	21 Hungary	807	
22 Korea	38.350	22 New Zealand	43,2	22 Sweden	802	
23 Spain	38.116	23 Turkey*	42,5	23 Slovenia	790	
24 Czech Republic	36.350	24 Israel	42,4	24 Greece	787	
25 Slovenia	34.886	25 Slovak Republic	42,2	25 Ireland	772	
26 Estonia	32.585	26 Czech Republic	40,4	26 Netherlands	762	
27 Lithuania	32.411	27 Lithuania	36,6	27 Finland	754	
28 Portugal	31.905	28 Korea	36,6	28 Norway	749	
29 Slovak Republic	31.575	29 Portugal	36,4	29 Slovak Republic	748	
30 Poland	28.782	30 Estonia	36,0	30 Germany	729	
31 Hungary	28.215	31 Greece	35,5	31 Italy	714	
32 Greece	27.967	32 Hungary	35,0	32 Denmark	711	
33 Latvia	27.813	33 Poland	33,5	33 Spain	709	
34 Turkey*	27.092	34 Latvia	32,3	34 Belgium	645	
35 Chile	24.013	35 Chile	27,5	35 Turkey*	637	
36 Mexico	19.093	36 Mexico	21,0	36 France	633	

Note.: GDP in current prices, current PPPs. "*" the hours worked are from 2016 and GDP pr. cap. from 2017. GDP pr. hour for 2017 is calculated assuming hours worked are constant in these cases.
 Source: OECD and CEPOS

In 1970, the number of working hours per employee was the same in the US and Denmark. Since then the number of working hours per employee per year has dropped significantly in Denmark from app. 1850 hours per year to app. 1400 hours per year. In the US the number of working hours per employee has been relatively constant. The drop in working hours per employee in Denmark since the 1970s coincides with a significant rise in the tax burden and an expansion of the welfare state. The increase in women's participation rate in the formal labor market in the same period (helped by an expansion of partly publicly funded child care) has contributed to the fall in working hours since secondary earners typically work fewer hours. It should be noted that women's participation rate also rose in the US and here it happened without a noticeable decline in hours worked.



HIGH LEVEL OF TRUST

The level of trust is very high in Denmark compared to other countries. The high level of trust improves the economy. It facilitates trade and lowers transaction costs between businesses and between employer and employees.

Average trust in other people by birth year, selected European countries							
Before 1945		1946-1965		1966-1980		After 1980	
1 Denmark	6,88	1 Denmark	7,20	1 Denmark	7,11	1 Finland	6,52
2 Finland	6,84	2 Norway	6,84	2 Norway	6,86	2 Denmark	6,52
3 Norway	6,62	3 Finland	6,80	3 Finland	6,81	3 Norway	6,36
4 Sweden	5,99	4 Sweden	6,35	4 Sweden	6,60	4 Sweden	6,18
5 Israel	5,92	5 Netherlands	6,18	5 Switzerland	6,14	5 Netherlands	5,80
6 Netherlands	5,91	6 Switzerland	6,04	6 Netherlands	6,12	6 Lithuania	5,57
7 Switzerland	5,84	7 Estonia	5,66	7 Estonia	5,71	7 Estonia	5,37
8 Estonia	5,62	Western Europe	5,45	Western Europe	5,53	Western Europe	5,36
9 United Kingdom	5,54	8 United Kingdom	5,42	8 United Kingdom	5,33	8 Ireland	5,33
Western Europe	5,25	9 Israel	5,15	9 Ireland	5,30	9 Switzerland	5,31
10 Germany	5,04	10 Germany	5,09	10 Israel	5,28	10 Austria	5,30
11 Ireland	4,87	11 Ireland	5,04	11 Germany	5,08	11 Germany	5,14
12 Austria	4,83	12 Belgium	5,02	12 Belgium	5,07	12 Belgium	5,09
13 Belgium	4,79	13 Austria	4,88	13 Spain	4,98	13 Israel	5,08
14 France	4,58	14 Spain	4,82	14 Austria	4,95	14 United Kingdom	5,02
15 Czech Republic	4,35	15 France	4,76	15 Lithuania	4,83	15 Spain	4,93
16 Spain	4,29	16 Lithuania	4,49	16 France	4,58	16 Czech Republic	4,78
17 Lithuania	4,15	17 Czech Republic	4,31	17 Czech Republic	4,46	17 France	4,71
18 Slovenia	3,88	18 Hungary	4,07	18 Slovenia	4,43	18 Hungary	4,46
19 Hungary	3,65	19 Poland	3,98	19 Hungary	4,38	19 Slovenia	4,23
20 Poland	3,59	20 Slovenia	3,88	20 Portugal	4,01	20 Poland	4,19
21 Portugal	3,16	21 Portugal	3,61	21 Poland	3,76	21 Portugal	4,03

Note: Score 0-10, 0 = "You can't be too careful" and 10="Most people can be trusted". Western Europe is the simple average of the average trust in people in Belgium, Finland, France, Netherlands, Ireland, Portugal, Norway, Switzerland, Spain, United Kingdom, Germany and Austria.

Source: European Social Survey 2014 and CEPOS

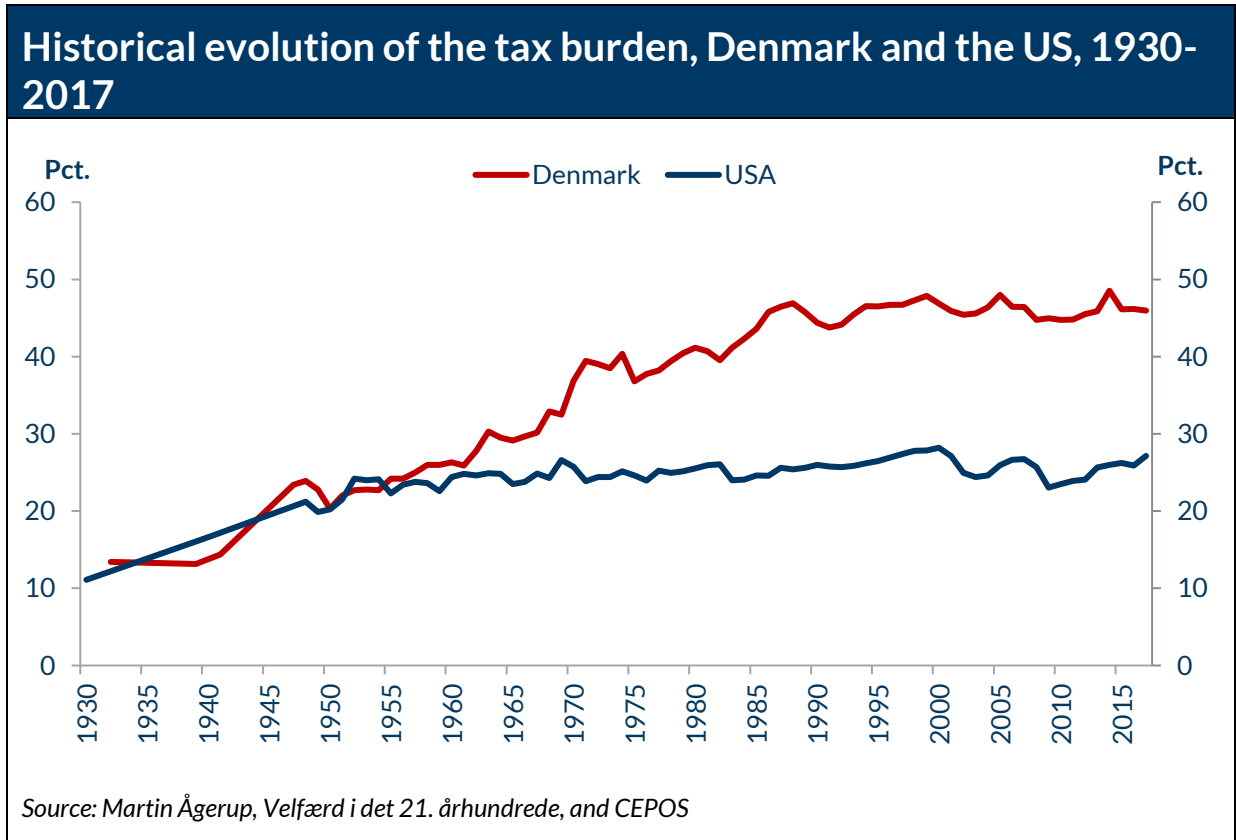
Before 1960 Denmark had a tax burden at the level of the US (or even lower) and Denmark was also then among the wealthiest countries in the world¹⁷. Along with the expansion of the welfare state the tax burden rose significantly from the 1960s and onwards. The table above shows that among people born before 1945, Danes have the highest amount of trust. If general attitudes towards other people is formed relatively early in life as research suggests, then this suggests that the high level of trust was present before the expansion of the welfare state.

THE DANISH TAX SYSTEM

In general, the CEA report presents the Danish tax system in a light that *underestimates the tax burden*. Reading the CEA report, one could easily get the impression that taxes in Denmark are only slightly higher than in the US. The fact is that the tax burden (taxes to GDP) is the second-highest in the OECD and 70 percent higher than in the US (46 vs. 27 per cent of GDP). Today the tax burden is the second-highest in the OECD and the tax burden has not been substantially reduced since 1987. In the period 2002-2016 Denmark had the highest tax burden among the 36 OECD countries¹⁸. Americans should know this when Bernie Sanders talks about Denmark.

¹⁷ The Maddison Project

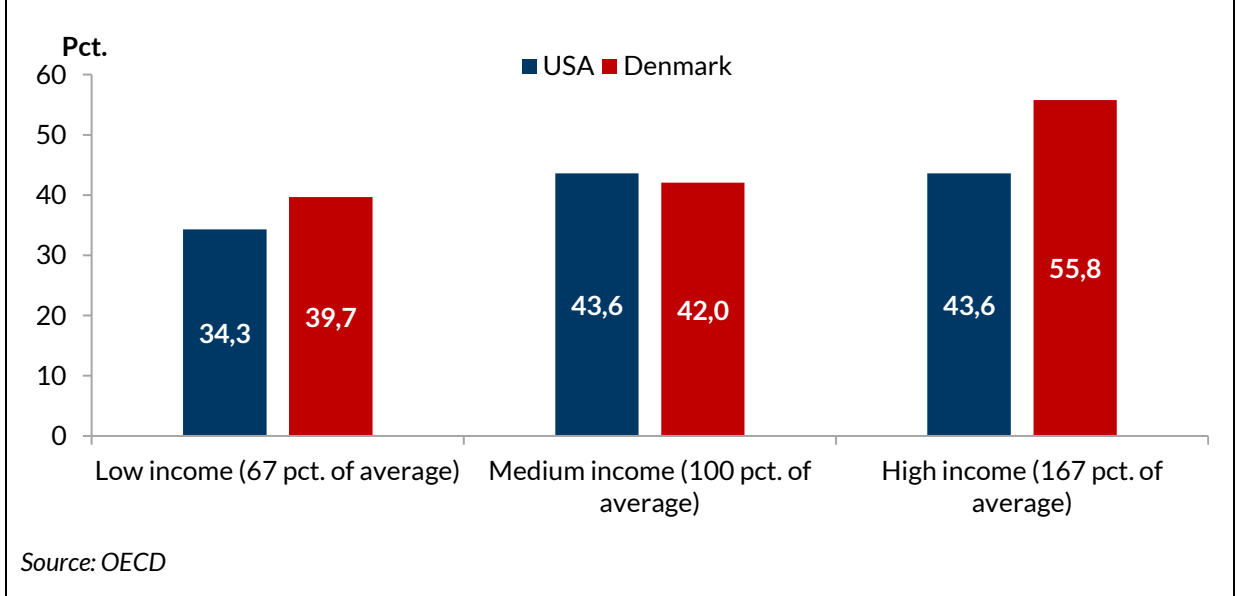
¹⁸ Iceland experienced a one-year temporary hike in the tax burden by 15 per cent of GDP (from 36.3 % to 51.6 %). This was due to a one-off tax payment from the banking system.



The income taxes are higher than in the US. The top marginal tax rate is 56 percent (kicks in at around 80.000 dollars) compared to 44 percent in the US for a high-income person (167% of the average wage)¹⁹. CEA mentions in their report that the top marginal personal income tax rate in the US is 46 per cent. The capital gains tax is up to 42 percent in Denmark and up to 29 per cent in the US. The biggest difference between the Danish tax system and the American is that consumption taxes are very high in Denmark. VAT is 25 per cent while the average sales tax is 6 per cent in the US. Furthermore, there are specific taxes on many goods for instance cars, coffee, chocolate, beers etc.

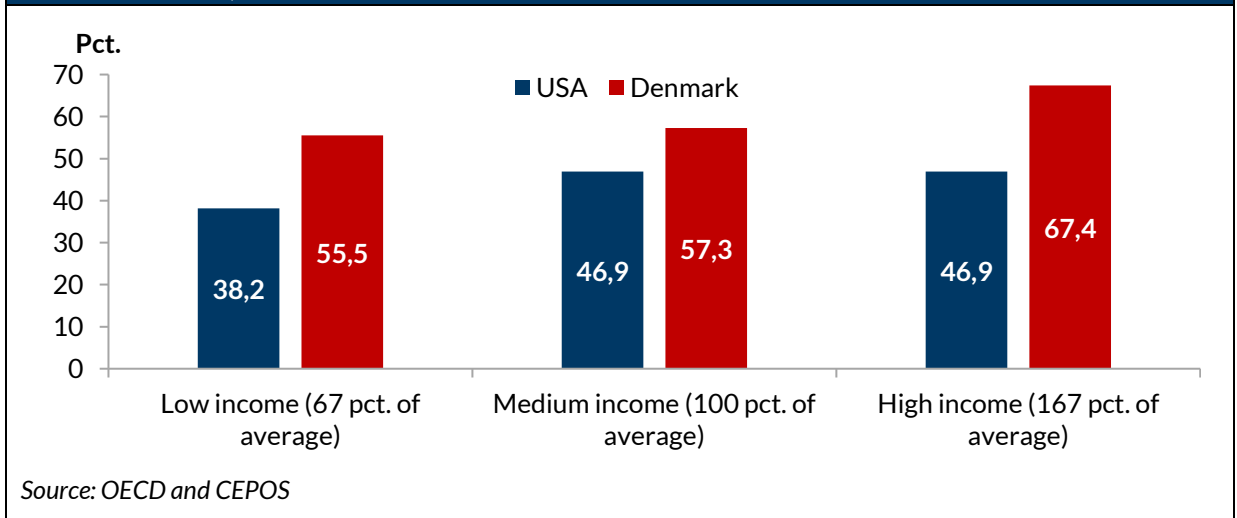
¹⁹ Income tax plus employees' and employers' social contributions, OECD taxing wages

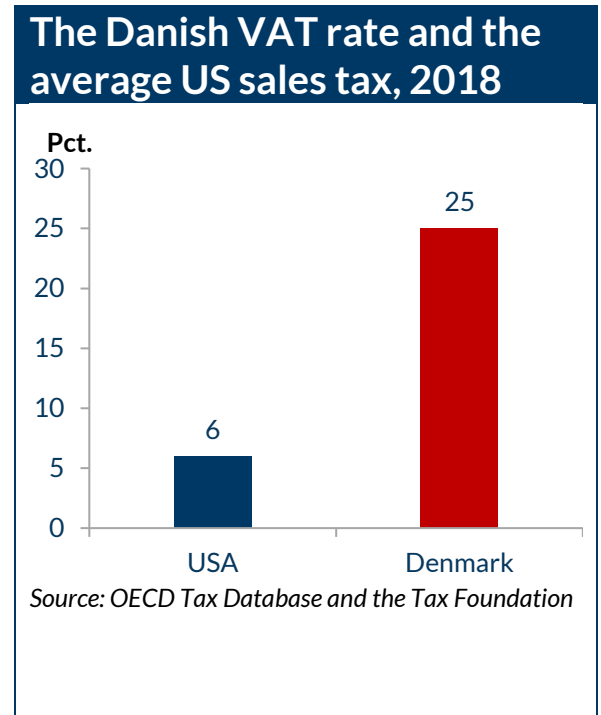
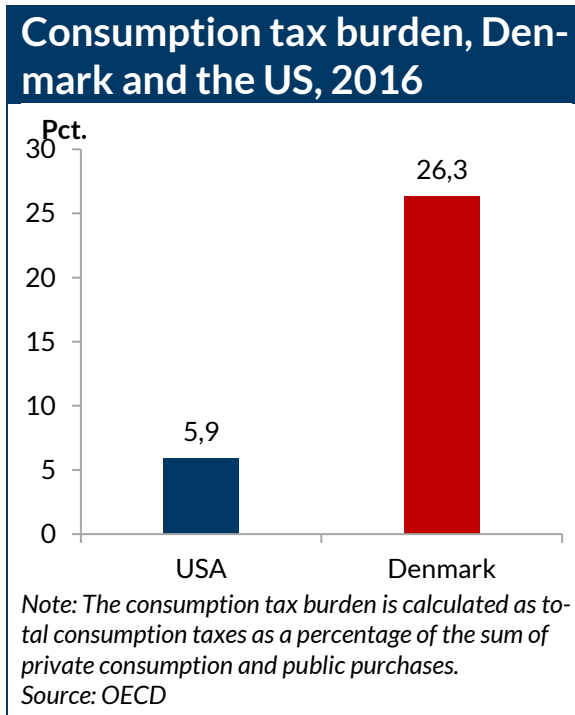
Marginal tax rates in Denmark and the US at different income levels, 2017



Including the effect of consumption taxes, the top marginal tax rate on labor income is 67 per cent. For low and middle-income workers, it is 55 per cent. It's important to include consumption taxes when you calculate the effective marginal tax rate. High consumption taxes mean that you can buy fewer goods for one extra working hour. Therefore, consumption taxes distort the labor decision. The effective marginal tax rates (including consumption taxes) are a lot higher in Denmark compared to the US.

Effective marginal tax rates in Denmark and the US at different income levels, 2017

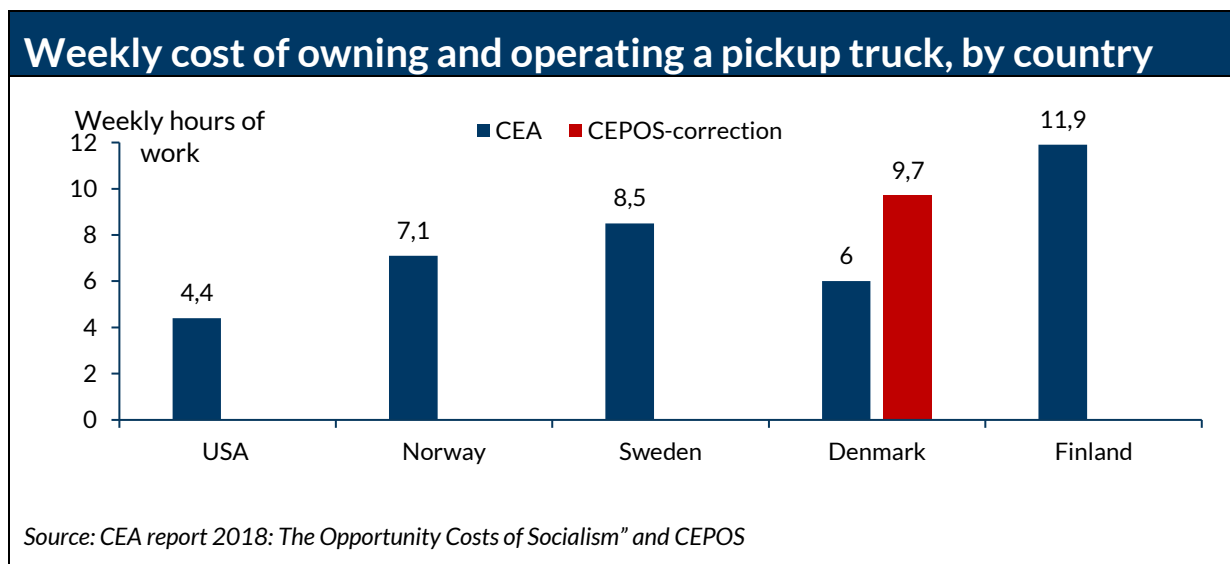




THE COST OF A PICKUP TRUCK

The CEA reports that in Denmark it requires 6.0 hours of work per week to finance a Ford Ranger XL while it only requires 4.4 hours of work in the US. It is a very illustrative way of showing the tax burden, but the calculation isn't complete. The CEA calculation doesn't include any car taxes in the price of a pickup truck. Denmark has some of the highest car taxes in the world. The first 30.000 US dollars in value is taxed with 85 percent. For all value above 30.000 US dollars you pay 150 per cent in tax. On top of this you pay 25 per cent in VAT. Furthermore, in Denmark you pay 1.200 USD yearly in car-owner tax for this particular pickup truck. These taxes should be included in the calculations. When you include all the taxes it takes the average worker in Denmark approximately 10 hours of work per week in order to finance a pickup truck²⁰. In the US it is 4.4 hours according to the CEA.

²⁰ This calculation is entirely based on the assumption used by the CEA (fuel costs, depreciation, income etc.). Regarding depreciation CEA assumes that a lifespan of a car is 7 years. If you assume a longer lifespan, then the required number of working hours will decrease.



Denmark has some of the highest car taxes in the world. In Sweden there is no extra car tax when purchasing a car (besides VAT at 25 percent). The Economic Councils²¹ in Denmark has concluded that the car tax is one of the most distortive taxes. The degree of self-financing is very high – 75 percent according to the Ministry of Finance²².

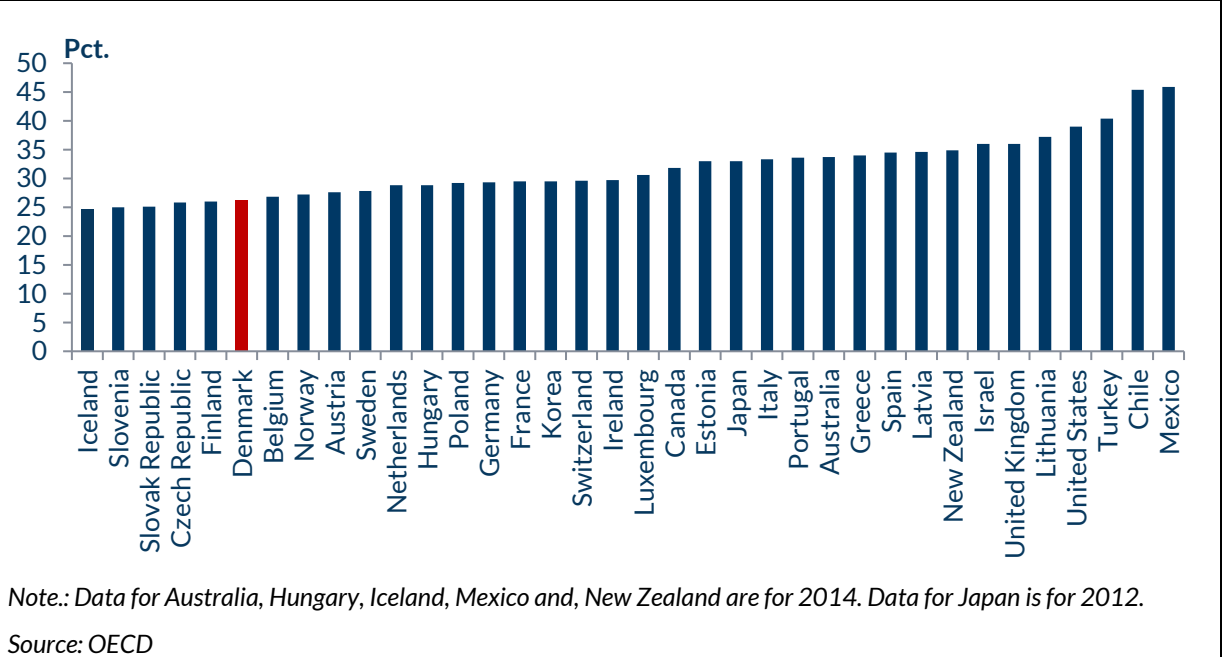
POVERTY AND INEQUALITY

The report correctly concludes that Denmark has one of the lowest Gini-coefficients in the World. This is due to relatively high taxes, high transfer incomes and low wage dispersion. When the OECD calculates Gini-coefficients it uses disposable income. This measure of income doesn't include public consumption, which in Denmark is the second highest in the OECD. If you include public consumption (service from public schools, hospitals, elderly care etc.) the Gini-coefficient would be even lower since public consumption is somewhat targeted towards low-income people.

²¹ The Economic Councils: "Økonomi og Miljø 2018"

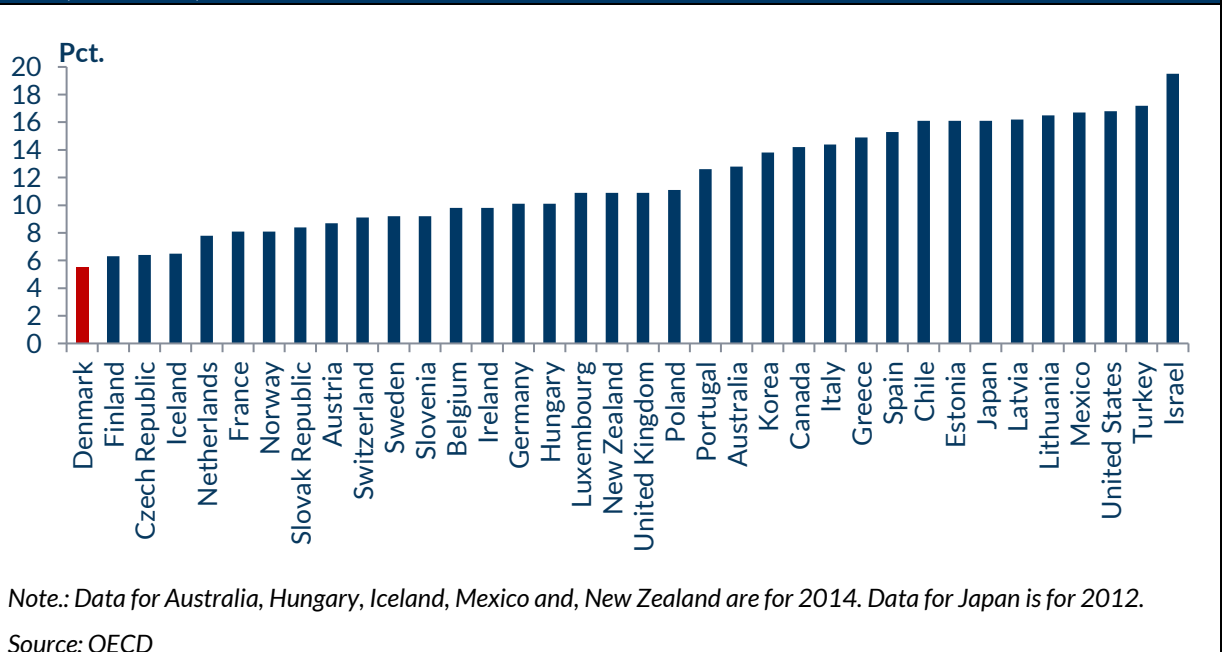
²² Ministry of Finance: "Svar på Finansudvalgets spørgsmål nr. 268 af 16. marts 2017"

Income inequality measured by the Gini-coefficient, OECD, 2015



According to the OECD Denmark has the lowest share of low-income people (disposable income less than 50 per cent of median disposable income) in the OECD. In the US the share is 17 per cent, which is 3 times larger than in Denmark.

Share of population with income below 50% of median income after tax, OECD, 2015



Low income people in Denmark have a higher disposable income than in the US. This isn't clear in the report. According to data from the OECD, the 10th percentile in Denmark has a yearly disposable income of 17.000 US Dollars (PPP). The corresponding number for the US is 12.000 US Dollars. Thus, a low-income person has 41 per cent higher disposable income in Denmark compared to the US. In Denmark a single, childless person on social assistance receives approximately 17.000 US dollars a year after taxes from the government as long as he has no other income or wealth - without any time limit. This exceeds the amount you get in the US. The unemployment benefit in Denmark is at maximum around 2.800 US dollars per month.

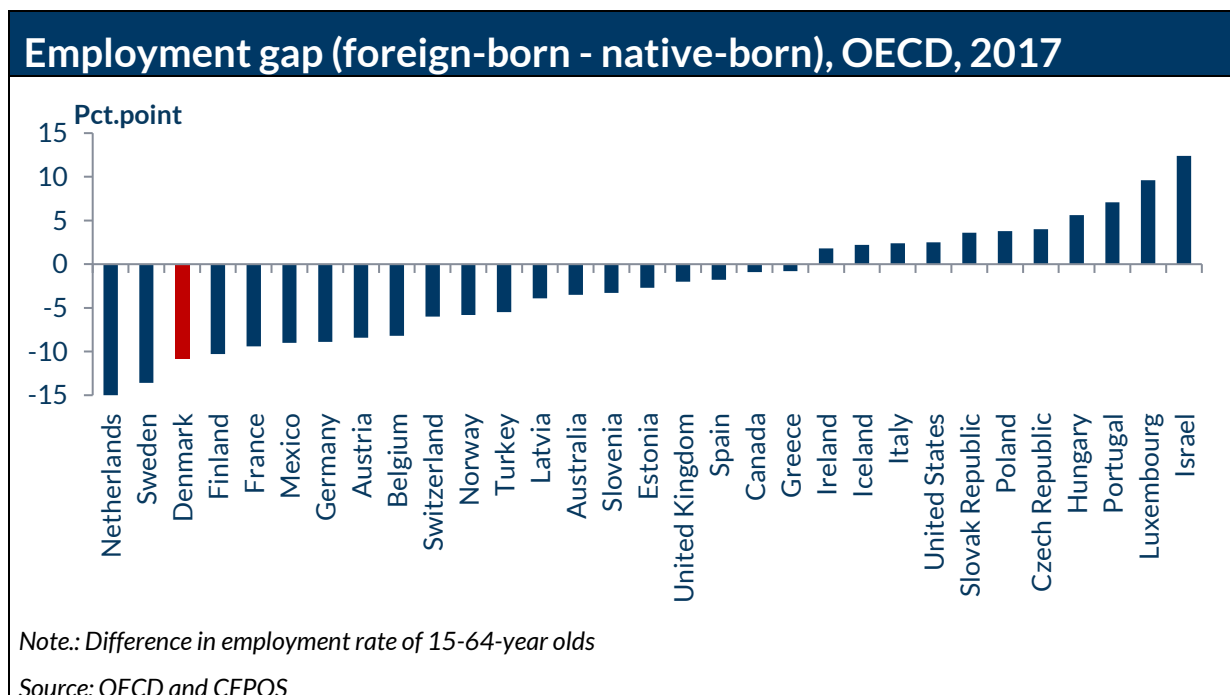
The median Dane has 11 per cent lower disposable income than the median American. And the average Dane has 21 per cent lower disposable income than the average American, reflecting both lower GDP per capita and higher taxes in Denmark.

Income percentiles and average disposable income in Denmark and USA, USD (PPP)			
	Denmark	USA	DK/USA
P10	16.760	11.880	1,41
P50	28.492	32.075	0,89
P90	48.436	73.773	0,66
Average income	31.565	40.091	0,79

Source: OECD

HIGH REAL MINIMUM WAGES — EXCLUDES MANY REFUGEES FROM THE LABOR MARKET

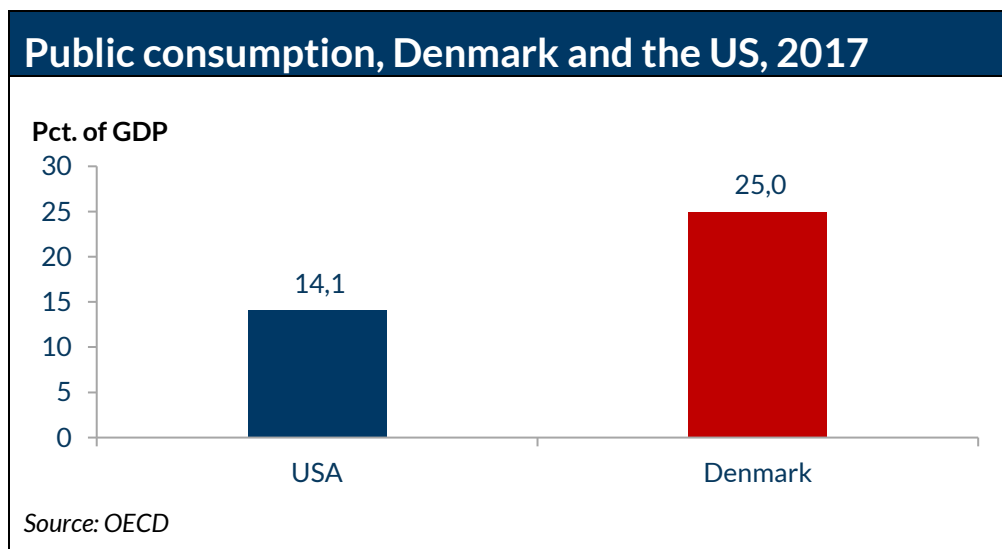
In Denmark there is no national legislated minimum wage. However, the labor unions and the employers' organizations have agreed to minimum wages in various sectors. This "real minimum wage" is around 18 US dollars per hour. This "real minimum wage" excludes low productivity workers from the labor market. Especially refugees and other non-western immigrants often have difficulties finding job opportunities since their current productivity is lower than 18 US dollars per hour. Denmark has one of the largest gaps in employment rate between natives and foreign-born. One major explanation for this is the high de facto real minimum wage. The Danish Ministry of Finance has calculated that non-western immigrants worsen public finances by 1½ per cent of GDP, despite non-western immigrants constituting less than 10 per cent of the population. This is mainly due to their low employment rate.



THE PUBLIC SECTOR

The public sector is relatively big in Denmark compared to the rest of the OECD. Public consumption is around 25 per cent of GDP. Thus, the public sector controls around 25 per cent of the production in Denmark. In 2013 the former government established the Productivity Commission chaired by professor Peter Birch Sørensen, University of Copenhagen. It concluded that there was a big potential for increased productivity in the public sector. This could be achieved by improving incentives and increasing competition, including outsourcing more activities to private firms. The commission²³ concluded that only 25 per cent of the public services are outsourced. This means that 75 per cent of the public sector is pure monopoly production.

²³ Productivity Commission: "Offentlig-privat samarbejde, analyserapport 6", 2014



In Denmark, almost all hospitals are run by the welfare state. And they are financed by taxes. There are no user fees when at the hospital (as opposed to the other Nordic countries). There are however user fees when you buy medicine (when you are not at the hospital. When you are at the hospital, medicine is provided free of charge). Only 1 per cent of the publicly financed hospital production²⁴ is contracted out to private hospitals, because the public sector is reluctant to outsource services to private providers even when they are cheaper and better. There are private health insurances (and some private hospitals). But their market share is very small.

Primary health care (i.e. local practitioners) is provided by privately run enterprises. But they are heavily regulated which means that the access to primary health care is rationed. There are no user fees. The local practitioners are financed by the tax payers.

When you go to the dentist you pay most of the bill yourself. However, schoolchildren have fully taxpaid dental services (without any user fee). And pensioners and people on social assistance can also get subsidies for their dental expenditures. But the bottom line is that when you go to the hospital or your private doctor there are no user fees.

²⁴ Ministry of Health