Denmark, Finland, Netherlands and Sweden: the four Nordic countries?

Jenni Blomgren
Senior researcher
The Social Insurance Institution of Finland (Kela)

GINI concluding conference, Amsterdam, 4–5 June 2013
Finland
Sweden
Denmark
The Netherlands
This presentation

• The presentation is based on those facts that were highlighted in the country chapters (not on the 442 pages of the big reports…)

• Each country chapter is structured slightly differently, and only few things are presented exactly similarly – therefore some comparative data from Eurostat (concerning some issues treated in the country reports) are also used

• Similarities and differences between the country experiences
Context of the four countries

- Traditionally strong welfare states, with benefits and services to guarantee means for living for those who are unable to provide for themselves
- Even after retrenchment of the welfare state, high level of redistribution through taxes and transfers
- Also traditionally low inequality – but substantial increases during the last decades
- Universal access to education, strive for equality of opportunity

Source: Eurostat

Source: Eurostat
Context: Social spending, % of GDP

Source: OECD SOCX database
Gini of equivalized disposable income, 1980–2010

** Series break in 2000
Rise in Gini – slower or steeper

- **Netherlands**: rise in inequality particularly in the second half of the 1980’s, then rather stable
  - Total rise of Gini from lowest to highest point: 19 % (+0.05)

- **Denmark**: slow but steady rise from the mid-1980’s
  - Total rise of Gini from lowest to highest point: 28 % (+0.07)

- **Finland** and **Sweden**: steep rise especially after the recession of the early 1990’s
  - Total rise of Gini from lowest to highest point:
    - Finland: 42 % (+0.08)
    - Sweden: 54 % (+0.11)

- These countries are now on the same level of Gini as the Continental European welfare states
Reasons for growing income inequality

• Countries emphasize different things – but it is difficult to compare the relative role of the explanations
  • To which extent are there real differences
  • Or do the country chapters just reflect differences in the effort to quantify things

• For example: The Netherlands chapter (also Denmark to some extent) mentions changing household structure as a key driver – possibly this is a key driver also in other countries but they have not tried to quantify it
Points that the countries emphasize (1)

**Sweden**
- Tax reform in 1991: flat-rate tax on capital income
- Increasing share of income to the top
- Decreasing coverage of social policy programmes after the recession of the 1990’s, and later in the 2000’s
- Lowest deciles lagging behind also relative to the median
- The gap between the insiders and outsiders of the labour market has increased

**Finland**
- Tax reform in 1993: flat-rate tax on capital income → shift of income from earnings to capital income
- Increasing share of income to the top
- Cut-backs or lagging behind of the levels of social security benefits after the recession of the 1990’s
- Persistently high unemployment rate
Points that the countries emphasize (2)

**Denmark**
- Growing share of students and young people taking up low-paid jobs
- Higher labour market participation of women in full-time jobs
- Increasing proportion of singles
- Recent increase due to changes in tax system: marginal tax of top incomes decreased

**Netherlands**
- Wages are a core determinant of rising income inequality: top incomes
- Policy changes: lower the minimum wage and social benefits after the recession of the 1980’s
- Government’s ”work work work” strategy
- Tax reform in 1990: higher effective tax rate on low incomes
- Household formation patterns affect equivalization
Common to all countries

- Increase in inequality fuelled by increase of top incomes – either by earnings or capital income

- Changing policies are key reasons of rising inequality, for example:
  - Benefits are left lagging behind
  - Changes in taxation
  - The pro-work attitudes of the governments

- Changing demographics, though this is not always documented
At risk of poverty (60 % of median), 1995–2011

Source: Eurostat
EU2020 indicator:
% persons at risk of poverty or social exclusion *

* At risk of poverty / severely materially deprived / lives in a low work intensity household
Educational attainment

- Educational attainment has increased in all countries → more equality in education

- However, returns to education have increased – the employment rates of those with only compulsory education are more and more lagging behind

- One further reason of this may be increasing selection to the groups with only basic education
Social and cultural impacts of increasing inequality?

• No clear and unambiguous effects of inequality on social and cultural issues such as family formation, health, trust, life satisfaction and social participation

• Some outcomes seem to be more affected by economic cycles than inequality (for example: fertility in Finland, trust in Denmark)
Total fertility rates 1970–2011

Source: Eurostat database
Health: life expectancy at birth, years

Source: Eurostat database
Life satisfaction: very or fairly satisfied

Source: Eurobarometer
Political participation: voter turnout in general national elections

Source: Country reports; Eurostat
Trust in government (% who tend to trust)
However: widening differences between socioeconomic groups

- Effects are not visible in the averages but they may be hidden in the margins of the society.
- Trends of increasing socio-economic differences can be observed (especially in health and mortality), but not sure whether these are caused by increasing inequality.
- Socioeconomic gap in the level of trust is increasing at least in Finland and in Sweden.
- General polarization, lack of trust and satisfaction in some groups.
- Consequences: rise of anti-immigration political parties.
Role of politics

- Changing policies are key drivers of rising inequality: less redistributive policy through cutting back social benefits and changing taxation

- Despite cuts of the welfare benefits, support for a strong welfare state remains high in (at least) Finland and in Sweden

- In Finland and in Sweden, shift in political power have taken place in favour of right-wing policies favouring the well-off strata and employers

- Demands to increase incentives for work – especially Sweden has cut back benefits and tightened eligibility rules
Summary

• Traditionally strong and equal welfare states but moving towards higher inequality – speed of change among the highest in OECD

• Simultaneous retrenchment of the welfare state

• However, social and cultural consequences are difficult to see: what is the role of inequality?

• Some polarization of the society may have occurred: increasing socio-economic gradients observed in many phenomena

• However, inequality is still on a comparatively low level; satisfaction is high; the countries still fare well as welfare states
Paradises in the world?

Source: Google images search, first page search results for country name

Thank you!