Exam A - December 2010
"The Danish Welfare Model"

Exam question no. 1

1.

According to the UN's Population Prospect's in 2004 the Danish population grows to almost 5.9 million. inhabitants in 2050. But life expectancy increased to 80 years for men and 85 years for women with a TFR of only 1.85, this implies a growth in population over 65 years from 15% of the total population to 27.8% while the population aged over 80 rises even more from 4.2% to 8.4%. Lastly, the UN continued net immigration to Denmark.

2.

An analysis of the economic consequences for Denmark must start in the workforce. Already in these years, the inflows into the workforce much less even the exit and the trend are likely to continue for the next several decades. This will have several consequences. The Danish total production that goes a long way controlled by the size of the workforce will go into a low-growth scenario. Simultaneously, a growing proportion of the population outside the workforce. This creates significant pressure on public expenditure in the form of increased payouts of public universal tax-funded retirement schemes, as pensions and retirement. Moreover specially spending health care, help and treatment, especially for those over 80 years. Although we expect a healthy aging which implies that the future elderly stay healthier and live independently higher up in age, the fact that there are several very old, that a growing number of elderly will be in the terminal phase and therefore costly for the health sector.

The shortage of labor in society as a whole could mean upward pressure on wages, a phenomenon the labor intensive public sector will be particularly sensitive and economically to will strain public budgets and thus tax rates.

3.

The social consequences may be an uneven economic distribution between generations, if development leads to increased deficits and government debt sent the bill to the next generations.

Increased tax contrast here and now, the labor supply is reduced and welfare is limited.

If transfer payments are reduced and services limited hit the sick and the vulnerable and those wholly or partially dependent on transfers. This means redistribution of social and health risks from high income groups to low income groups and redistributing wealth from poor to rich.

4.

The strength of the universal Danish welfare is precisely that it can redistribute the “here and now” from rich to poor. Simultaneously goes out from the large public sector, important automatic stabilizers, which can smooth the growth effects of cyclical fluctuations, thus limiting the worse consequences of unemployment.

5.

Three major commissions have been working on "sustainability" problem. Most importantly Welfare Commission (2003-05), whose conclusions are mentioned in the book. This led to a widespread consensus in the Danish parliament with welfare settlement (2006). This implies that the retirement age is successively increased by 2 years from 2010 for the salary and for 2023 the state pension. An adjustment mechanism is then introduced so that the retirement age is following developments in life expectancy. This mechanism, however, is not legal because the constitution does not allow the opportunity to legislate into the future - it involves a significant interference in retirement patterns, with effect from about 8 years.

The workforce is significantly increased compared to baseline without settlements and public spending is considerably lower. This structural reform is thus unique in the world. The financial crisis has removed the focus on long-term sustainability and put the spotlights on the large government budget deficits and growing debt. During one year (2008 - 2009) was changed from a sizeable surplus to a substantial loss, especially in the next 8 years, the public economy under pressure.

The continued indebtedness would mean sending a bill to future generations. The ongoing public bleeds (except health), affects a broad range of public welfare. Their effects are still uncertain.

Other suggestions: It is over a wide range that Denmark should seek increased manpower. In this part of the answer may include a proposal that intends to stimulate a faster completion of proposals to get more seniors to stay several years in the labor market, a permanently lower unemployment, increased working hours, or increased immigration.

In addition, proposals to increase productivity in the public sector should be made. Whereas general improvements in productivity only increases welfare but will not solve the structural sustainability problem. Please note the equation in “The Social Contract between the generations”, p197. Please also refer to the same book p. 199th

Exam Question 2

Both the German and Danish public pension plans are "here and now" schemes. There is no question of savings funds. This means that the funding of pension schemes taken out of production for the year. In Denmark, financed through taxes, in Germany through a funding contribution by 3 thirds: Workers, employers and government.

The long term effect is that future generations burdened with, respectively, higher taxes or higher contributions, due to the increase in old people. Both countries have decided to find the effects of demographics through a sequential / onetime increase in the retirement age. In Denmark it beings in 2010 and in Germany it begins in 2029.

The universal Danish system covers all citizens of the country. Meanwhile, both through the progressive income taxation and through the allocation criteria for additional benefits (pension supplement) there is a substantial redistribution from rich to poor.

In the German system there is no greater redistribution. In return, the pension is calculated, sickness and unemployment benefits relative to income level.

In Denmark all citizens are covered. In Germany only the employed are covered.

In Denmark, all systems had immediately and quick effect. Ex. pension benefits could be paid immediately. In Germany, citizens had to undergo a significant vesting period.

The Germans could easily find consistency between "grant and enjoy". Tit for tat principle, reinforced by their own taxes. In Denmark, they had to resort to special rules as citizens should stay clear of poor relief in 10 years to get pension benefits.

The administration of the schemes was carried out in Denmark by the municipalities. In Germany they had to build a large administrative system in pension and health funds, unemployment insurance and so on.

Retirement age was 60 years in the Danish system, but 70 years in the German system. Both countries followed a continua line. In Germany, Bismarck took over an already existing and tested system from miners and widespread the scheme to all workers. Denmark used existing administrative structures in the municipalities.