



ECONOMIC & SOCIAL POLICIES: A BRIEF EXPLORATION OF THE NORDIC MODEL

REFLECTIONS ON THE 57TH COMMISSION FOR SOCIAL DEVELOPMENT

FOREWORD

At the recent United Nations Commission for Social Development's *Interactive dialogue with senior officials of the UN Systems on the priority theme*, panelists Ms. Alicia Bárcena, Executive Secretary, UN Economic Commission for Latin America and the Caribbean (ECLAC), Mr. Mounir Tabet, Acting Executive Secretary, UN Economic and Social Commission for Western Asia (ESCWA), Mr. Kaveh Zahedi, Deputy Executive Secretary for Sustainable Development, UN Economic and Social Commission for Asia and the Pacific (ESCAP), and Mr. Abdoulaye Mar Dieye, Assistant Administrator and Director of the Bureau for Policy and Programme Support (UNDP) covered themes including tax evasion, corporate taxation, unemployment, tax models, and social protection. Mr. Abdoulaye Mar Dieye in particular discussed Nordic tax models as an example of how fiscal policies can be used for equity and efficiency. The following is a basic look into the Nordic Model: what it is, how it works, and why it may not be applicable everywhere.

THE NORDIC MODEL

AT A GLANCE

What is the Nordic Model?

According to Livingston (2016), there is some debate over what exactly constitutes the Scandinavian or Nordic Model, however it is generally characterized by the following three elements: 1) *creation and maintenance of a universal welfare state in which education, healthcare, retirement and basic services are paid for or provided by the state, irrespective of the recipient's economic status;* 2) *private ownership of a majority of the most productive assets;* and 3) *coordination and negotiation at the national level and widespread cooperation among unions and management interests.*

A TRADE OFF?

High Taxes & Social Protection

Nordic countries have some of the highest individual income taxes in the world standing at about 60% in Denmark, 57% in Sweden, 51% in Finland, and 39% in Norway, compared to 46% in the United States. Although taxes in these countries are technically progressive - meaning higher taxes are levied against those with a greater income - they are not so to the same degree as the United States. Maximum or near-maximum tax rates are levied against moderate income levels, therefore the average Danish, Swedish or Norwegian individual pays substantially higher taxes than the average American taxpayer.

Most people do not like high taxes. Nevertheless, many feel that Nordic tax systems are actually preferable to those elsewhere in the world as high taxes enable these nations to provide a wide range of social protection services. Depending on the country, these include free or heavily subsidized healthcare, education, childcare, maternal and paternal leave, retirement savings and other benefits. It has been suggested that this system is in fact more cost effective for individuals as they may ultimately spend less money than in the United States or other countries where these benefits must be paid for separately; a sentiment echoed by the Finnish Representative during the discussion portion of the Interactive dialogue, who acknowledged that while those in Finland knowingly pay high taxes, most do so willingly as they feel the benefits outweigh the costs.

BEYOND SCANDINAVIA

If the Nordic Model is "better" can it be applied elsewhere?

According to panelist Mr. Abdoulaye Mar Dieye, eliminating poverty requires expanding fiscal space by 30%. The Nordic Model's high taxes provides this space and are justified by the benefits they support and provide. However, it is unlikely this model would be as applicable or effective across all national contexts. Briefly,

- The Nordic Model assumes a high degree of redistribution between classes and regions thereby favouring small homogenous countries over larger, more diverse nations like India or the United States, for example.
- The Nordic Model, historically falling between American-style capitalism and Soviet-style socialism, is rooted in the shared history and development of Scandinavian people. A long history of established trust in its governments, common behavioural and cultural traits such as emphasis gender equality, environmental policy, and technology and innovation, and a high degree of political consensus towards social democracy have all been linked to its success in Nordic countries.
- The model is not without fault - fiscal pressures imposed by an aging population and the integration of immigrants in recent years compromise its effectiveness, and in some cases have already triggered benefit reductions. This model is optimized when the population of taxpayers generating tax revenue is greater than or equal to the population of individuals requiring services and benefits - the opposite of current trends in many countries.

Ultimately, an effective system must be reflective of the culture, economics, politics and history of a nation. Therefore, while the Nordic Model is an excellent example of how fiscal policies can be used for equity and efficiency - especially in terms of social protection - it may not be a universal solution.