




# THE NORDIC GIVE & TAKE

 State welfare that provides for citizens from cradle to grave is its big draw, but taxes and costs are

among the world's highest. In the second of a two-parter, **Robin Chan** reports on lessons the Nordic model holds for Singapore.

MR HENRIK Ziegler left Denmark for Singapore with a dream. He wanted to build his own business.

He founded Dantech Food Systems, a maker of advanced freezers for the food industry, in 1997.

In 2005, the firm had expanded to become a market leader in the region, and it was bought by a larger Danish firm for a hefty sum.

This would not have been possible if he had stayed in Denmark, Mr Ziegler says, where high taxes on the successful preserve equality but make it difficult for individuals to make a lot of money.

Businesses and businessmen in Denmark pay some of the world's highest taxes - companies pay 25 per cent and personal income is taxed as high as 48 per cent.

In Singapore, corporate tax is 17 per cent, and individuals pay only up to 20 per cent, to the taxman on their income.

Mr Ziegler, 51, says: "I have no plans to go back. Singapore is my home now, it is the place in which I feel I belong and can succeed."

This feeling is not shared by all Scandinavians who have experienced life here. One who feels that Singapore ought to move to the more equitable Nordic system is Norwegian Knut Egeberg, a former sailor.

He came here on a tanker in the 1980s, stayed and started his own ship management firm in 2005.

That year, he had an encounter with an old lady which haunts him still. She looked to be in her 70s and was hunched over almost 90 degrees, such that her eyes could only look down at the floor. He met her outside the office he

was looking to rent.

"Can I clean for you?" she asked him. Mr Egeberg, 59, was taken aback that such an old woman was still looking for work. He said yes and, for the next year, she cleaned and emptied the rubbish bins in his small office.

He moved to Bencoolen Street a year later, leaving the old woman behind. One day, several years later, near Lau Pa Sat hawker centre, he spotted the unmistakable silhouette of the hunchbacked old woman, pushing a trolley across the road. He ran over to ask her if she was still working.

She replied: "Yes! No work, no food." It struck a chord with him, coming as he did from Norway where the old and unemployed are supported by a comprehensive welfare system.

He recalls: "I thought, she looks like she is going to topple over and is still looking for work. And here we are in one of the richest countries in the world?"

That would never happen in Norway, he says.

"In Norway, when you are working, the government taxes you a lot. But once you grow old, the government takes care of you and pays you a pension."

In comparison, Singapore's approach to welfare has long emphasised the importance of self-reliance. Help is targeted at those who most need it. That means the old who cannot work and have no family to support them are put on the public assistance scheme.

Even as the citizens of Nordic countries disagree among themselves on the merits of their tax and welfare system, a significant

group in Singapore has of late been looking to the likes of Norway, Sweden and Denmark for inspiration to address the country's rising income inequality.

In countries like Britain and the United States, where unbridled capitalism has brought about protests and unhappiness, the Nordic model has also found admirers.

At last year's World Economic Forum in Davos, the model was widely discussed. Economist Klas Eklund wrote in a paper presented at the forum: "The Nordic model entails what can seem like paradoxes: the combination of prosperity with equality, productive capitalism with comprehensive welfare arrangements, collectivism with individual freedoms."

But is this model really all it is made out to be? What can Singapore, which lacks the wealth of natural resources and long histories that Nordic countries have, learn from it?

## Equality and growth for all

WHERE the Nordic model succeeds is in keeping inequality low compared to the rest of the world.

The wage gap between the top and the bottom earners is much smaller than in Singapore. Looking at the Gini co-efficient, Singapore's, at 0.46, is almost double that of Sweden and Norway. Zero represents complete equality of incomes.

Singaporean Diana Samuel, 31, says that in Norway, where she has lived with her husband for the past year, "the garbage collector earns as much as a teacher here".

The software programmer adds: "I hear it is even getting difficult to get a job as a garbage collector, because they work short hours and you don't have to work every day."

Professor Tommy Koh pointed out in a recent column in this paper that the average monthly wage of a cleaner is \$5,502 in Denmark compared to \$800 in Singapore. In Sweden, it is \$3,667.

What accounts for the difference?

These countries have higher productivity and do not have the same liberal foreign worker inflow Singapore does, which pushed down wages, Prof Koh argued.

What also serves as a social leveller is the Nordic states' aggressive redistribution of taxes. The state takes from the rich and gives to the poor through the provision of social services across child care, basic and advanced education, health care and elder care.

Access to these welfare services is provided independent of income and employment status, from cradle to grave.

How does this relate to growth? It has paved the way for high employment and high productivity, economists say.

University of Michigan professor Linda Lim says: "Their growth is moderate but well distributed through government policy - investments in the health, education and well-being of locals - so the net result is that the well-being of their citizens is much better than (Singapore's) at similar per capita income levels."

And studies have shown that because the Nordic welfare sys-

tem favours gender equality, it provides child-care facilities and generous benefits so women can combine careers and child raising, which in turn has boosted labour supply, employment and output.

At the same time, the Nordic countries remain open and market-oriented, and thus are able to attract investments in technology that create well-paying jobs.

But to fund this generous welfare system, the Nordic states have the world's highest tax rates, as high as 57 per cent in Sweden, where public spending is 52 per cent of gross domestic product.

Ms Denise Lee, 24, a master's degree student living in Stockholm, says: "They don't feel that it is unfair. There is the understanding that one day it will also help me. And they value this sense of security."

At the heart of it is a social contract based on expectations and trust, say Mr Torben Andersen and five other economists in the

book *The Nordic Model*. "Those currently active agree to pay taxes because they trust that future active generations will do the same. The system is based on social cohesion... a perception that we are all, in one way or another, in the same boat."

What helped this model trench itself in the Nordic countries was the small and ethnically homogeneous populations at the time the welfare state developed.

"Ethnic homogeneity is conducive to the emergence of trust, the key ingredient in 'social capital', which is widely believed to improve the efficiency of society by facilitating coordinated action,"

Mr Andersen writes.

In fact, surveys have shown that the level of trust is higher in the Nordic countries than elsewhere, he adds.

## Headwinds

BUT while the Nordic model has proven to work, its sustainability amid globalisation and an ageing population is being questioned.

With increased immigration from poorer countries in Africa, and a liberal approach to asylum seekers, the social fabric that was based on strong trust forged in a homogeneous society is under threat.

There are indications that more and more foreign immigrants are seeking unemployment benefits, putting a strain on the system.

Swedish historians Henrik Berggren and Lars Tragarth, in a paper presented at the Davos forum last year, wrote that ethnic, racial and religious diversity linked to the influx of immigrants is posing a "deep challenge" to social cohesion. A telling sign is the rise of anti-immigrant political parties.

"Insofar as immigrants and minorities are perceived as both burdens to the welfare system and a threat to national culture, questions are also raised as to whether broad support of a tax-based system of social services can be sustained," they added.

Globalisation has also enabled higher labour mobility, resulting in an erosion of the tax base as workers flock to lower-tax nations to reap the social benefits without paying the costs.

These include graduates of state-funded universities who move overseas and pay taxes abroad, or Scandinavians who spent most of their working lives abroad and then return home to collect the benefits, wrote Mr Andersen.

WHO'S BETTER?				
Selected indicators	Singapore	Sweden	Denmark	Norway
<b>Competitiveness</b> World Competitiveness Index (Rank in 2011)*	2	3	8	16
<b>Inequality</b> Gini co-efficient (2010)**	0.46	0.24	0.27	0.24
<b>Growth</b> Average annual GDP growth (%) (2002-2011)	6.4	2.4	0.6	1.5
<b>Income</b> Per capita GDP (2011)***	59,711	40,393	37,151	53,470
<b>Giving</b> Public spending (% of GDP)	15	52.3	57.8	45.5
<b>Taking</b> Top personal income tax rate (%)	20	57	48	40

\*From the World Economic Forum Global Competitiveness Report  
 \*\*Measures the difference between the incomes of the top 20 per cent and bottom 20 per cent. The closer to 0, the more equal.  
 \*\*\*Measured on a purchasing power parity basis.

Source: Statistics compiled from Singapore Department of Statistics, Eurostat and IMF databases.

ST GRAPHICS

The competition to attract and retain foreign talent is so intense that Nordic countries need to offer lower taxes for the first few years of their employment.

Professor Hoon Hian Teck of the Singapore Management University says that soon, the Nordic model will start to be strained by the burden of an ageing population.

"The Nordic countries expanded their welfare state in the three decades or so after World War II when their old-age dependency ratio was generally low, so their social insurance systems... were healthy."

"Despite having higher total fertility rates compared to Singapore's... the decline in birth rates and increased life expectancy are nevertheless placing a strain on the Nordic social insurance systems."

## Lessons for Singapore?

ONE lesson to draw from the Nor-

dic experience is that investments to educate and train a workforce yield high dividends. Their heavy subsidies mean barriers to entry to upgrade skills are low and educational quality is high.

In the Singapore context, this approach could help spur a much-needed rise in productivity, and wean companies off dependence on cheap foreign labour.

NTUC deputy secretary-general Ong Ye Kung says: "That is fundamentally how some Scandinavian countries can afford to opt for the model they are in today. The depth of expertise is there. It is not easy to overtake the Danish in design or the Swedish in research and development or certain segments of heavy machinery (manufacturing)."

A second lesson is on the use of society-wide risk pooling to provide a stronger social safety net that more people can access easily. In health care, for example, the Nordic countries use taxes to fund subsidies for everyone.

Professor Basant Kapur of the National University of Singapore suggests doing more of this here, to enhance schemes like the MediShield insurance scheme, so family members do not end up emptying their Medisave accounts to care for aged parents.

The third lesson is that no model is perfect. Wages are high in the Nordic countries but so is the cost of living.

If Singapore follows suit, the cost of services - from bus and taxi fares to the price of food at restaurants - will also rise. Will Singaporeans be willing to accept that trade-off and pay higher prices?

And even if they did, how will workers here remain competitive against its neighbours which continue to operate at lower cost? Singapore also lacks the natural resource wealth that Norway has, and thus is more economically challenged.

United Overseas Bank economist Jimmy Koh warns of going "too far to the left" in raising taxes, for example, to fund greater social spending.

He believes that could make Singapore lose its competitive edge.

"We are who we are today because of our ability to attract foreign investment and foreign talent. If we increase taxes too much, we will become less attractive, and, as a country, do we want to take a bet on that?"

The fourth lesson is that history matters, but so does trust. Singapore's history of self-reliance and competitiveness is just as vital to its new social compact as the Nordic way of state-reliance and social equity is to its own.

Barclays Capital economist Leong Wai Ho says this culture of self- and family-reliance means most Singaporeans may prefer more help incrementally rather than the Nordic-style approach.

Singapore is going through soul searching about how to re-make its social compact in the face of globalisation and an ageing society. Striking the right balance between growth and inclusiveness will be a critical challenge, as will forging a consensus on the path to take.

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