Henrik Christoffersen • Michelle Beyeler •
Reiner Eichenberger • Peter Nannestad •
Martin Paldam

The Good Society

A Comparative Study of Denmark and Switzerland

Springer

Chapter 1
Two Good Societies: Switzerland and Denmark

What makes a good society? This question is one of the oldest in political economy. While widely different answers have been suggested over time, [1] the answer given by Aristotle still seems to us to have a strong intuitive appeal: “A good society is a society that enables its members to lead a good life”. This definition begets the next question: What makes a good life? The next section gives a first look at two answers:

A basic condition for having a good life is a ‘good’ income, and Switzerland and Denmark do have relatively high incomes. Income is a mean to the goal of happiness: Many polls have been taken throughout the world asking people if they are happy with their life. They show that Denmark and Switzerland are unusually ‘happy’ countries.

1.1 Similar Outcomes: High Income and Happiness

The most widely used objective measure for the possibility of having a good life is income, defined as (the logarithm to) GDP per capita.[2] The data are discussed in Chaps. 2 and 3.

Figure 1.1 shows the development of income in Switzerland and Denmark in the postwar period up to 2008, compared to GDP per capita in the EU-15 countries (without Denmark) – and at the end EU-27. Through most of the period GDP per capita has been higher in Switzerland than in Denmark and both countries have been higher than the average EU-country. During the last part of the period the gap has decreased substantially.

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[1] In economics the original question has developed into the field of welfare theory where the answers given are very abstract.

[2] The reason to take the logarithm is that welfare theory claims that relative differences count more than absolute differences. If you are poor, it matters a lot to get an income raise of € 100 per month, but if you are rich, such a raise is less important, but it may increase welfare the same if you get a 10 % increase in the wage.

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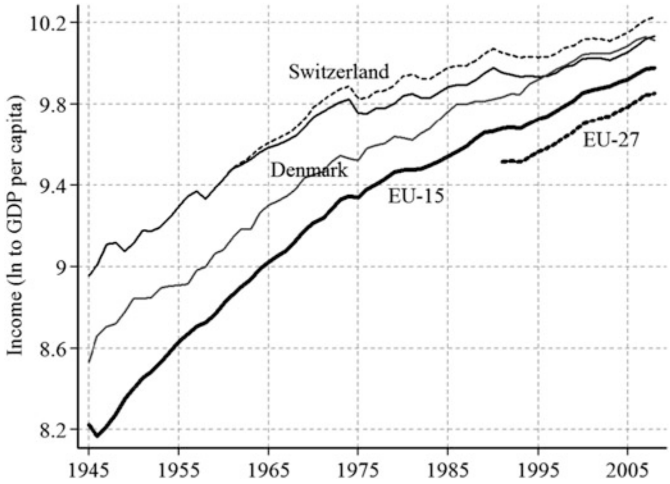

Fig. 1.1 Development of the average income since World War II (Note: The data used are from Maddison (2003); see also Appendix to Chap. 2. The two EU-lines do not imply that all countries in the sample were members all years. The *dotted line* for Switzerland is an attempt to assess the upper range for the Swiss income. Switzerland has had strong movements in its real exchange rate, giving large movements in relative prices. This makes it difficult to calculate the real GDP, and as discussed in Chap. 2 a range of estimates exists – hence the two series for the Swiss income)

The three lines on Fig. 1.1 move closer together throughout the period considered. At the start the range is 0.8–0.9. It means that Switzerland is twice as wealthy as EU-15. At the end the range is only 0.2–0.3. Here Switzerland is 'only' 25–30 % ahead. The reduction in the gap is part of the convergence process that has happened throughout the West due to increased integration. It will be discussed in Chap. 2.

The European Social Survey (ESS)[3] asks the respondents: "How happy are you with your life?" The respondents are given a scale of possible answers from 0 ("extremely unhappy") to 10 ("extremely happy"). This measure of happiness is further discussed in Chap. 4 below.

Figure 1.2 shows the average happiness levels for all countries that participated in the five ESS-rounds between 2002 and 2010[4]. The Danes stand out as the happiest people, and Switzerland is number 6. The difference is significant but rather small. Individuals may be happy or unhappy for many reasons, but the average happiness in a country must reflect 'the society' which all citizens have in common.

[3] A similar question is used in both the World Values Surveys (WVS) and the European Social Survey (ESS). The pattern in the results is the same: Denmark and Switzerland always stand out as very happy countries. This is also the case when the sample of countries is extended to other Western countries and to the rest of the world.

[4] The pattern is stable across the five surveys, so we just report the aggregate for all polls for each country.

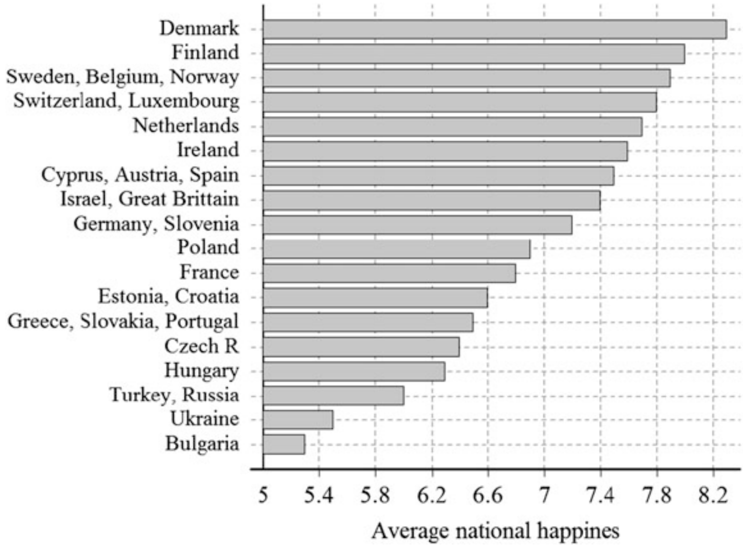

Fig. 1.2 Average national happiness scores 2002–2010 (Note: Calculated from the 223,255 valid answers to the European Social Survey. Only 1,732 respondents failed or refused to answer this item. Though large efforts are made to translate the question to mean the same across countries, some strange observations still emerge; i.e. notably the low score of the French)

Judged by our two criteria, Switzerland and Denmark thus stand out as two remarkable success stories, both absolutely and relative to comparable European countries. The countries are approximately equally rich per capita, and the populations are found to be almost equally happy. From that perspective both countries certainly deserve the label "good society".

In many ways the two countries are similar: They are small Western countries, they are economically open capitalist market economies, and both countries are economically and politically stable. At the same time most observers looking at the two countries agree that both the economic and political *systems* in the two countries are different.

It is a recurrent theme in the book that the two countries *differ* from the rest of the West, but that a strong *convergence* pulls them toward the other countries, and hence each other. As the two countries have been relatively successful we shall concentrate on the differences. An important pattern is that the institutions have not converged, see Chaps. 4 and 5, but the outcomes have converged: This not only applies to income, but also to the welfare states and the immigration policies; see Chaps. 8 and 9 respectively.

1.2 Different Economic and Political Systems

Due to the strong convergence in the West much is similar in the two economies. We concentrate on the unusual traits in the economic model of the two counties in Chap. 3:

The unusual trait in the Danish economic model is that Denmark is the most developed *welfare state* in the world. Both taxes and general government expenditures are higher than everywhere else.[5] What is less well known is that in order to remain competitive Denmark has been forced to be a more 'market oriented' capitalist country in other fields. Denmark has few state owned enterprises, very free trade, and the Danish labor markets are relatively flexible.[6] It is obvious that the policy of being a capitalist welfare state has worked very well till now. The welfare systems in the two countries are compared in Chap. 8.

The unusual trait in the Swiss economic model is that the country is the largest offshore banking center in Europe, and many large multinational companies have their headquarters in Switzerland. International investors consider Switzerland to be *a safe haven*, and it is one of the few countries that have maintained the top triple A rating by the international credit rating companies throughout the periods during which such data have been published. This is due to low taxes and a stable economy. When a financial crisis occurs that causes exchange rates to devalue in other countries the Swiss Franc revalues, and it has actually revalued substantially relative to all other currencies.

Both countries are old and stable democracies. However, the political systems are very different, as discussed in Chap. 6.

Denmark is a representative parliamentary democracy with a unicameral parliament. In principle the 97 Danish municipalities are quite powerful: They have the right to tax and they administrate about 60 % expenditures. However, in practice the Danish state is rapidly limiting the space of municipal decisions, making the country increasingly centralized. Voters influence politics at the national parliamentary elections, where participation is high.

Switzerland, on the other hand, is a decentralized federal state with extensive direct democracy at all levels, a bicameral legislature and a convent-type central government with limited competences. Strong constitutional safeguards and traditions have kept the local governments rather independent. Voters influence policies via the many referenda, and much less at elections, where participation is comparatively low.

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[5] Denmark is now ahead of Sweden that has a rather similar welfare system. The difference to other EU-countries and Switzerland seems large at first, but it is smaller than it appears: Expenditures that are public programs in Denmark are often parts of (more or less compulsory) insurance schemes in other western countries.

[6] One aspect of the market orientation in Denmark is well known. It is the Danish flexicurity model. The discussion of the model started on the political plan, and Wilthagen (1998) is as the first academic paper; see also Jørgensen and Madsen (2007).

Table 1.1 Ethnolinguistic and cultural divisions in Switzerland and Denmark

Groups	Denmark	Switzerland
Ethnic/linguistic	90 % Nordic, Western 5 %, others 5 %	German 65 %, French 18 %, Italian 10 %, Romansch 1 %, other 6 %
First language	Danish 90 %, others 10 %	German 63.7 %, French 20.4 %, Italian 6.5 %, Romansch 0.5 %, others 10.7 %
Religion	Lutheran 85 %, other, Christian 1 %, Muslim 4 %, none 10 %	Roman Catholic 41.8 %, Protestant 35.3 %, Muslim 4.3 %, Orthodox 1.8 %, other Christian 0.4 %, other 1 %, unspecified 4.3 %, none 11.1 %

Source: CIA Factbook; Statistics Denmark

Civil societies also differ in the two countries. Compared to many other European countries, both Switzerland and Denmark have a rich associational life as well as high levels of institutional and general trust. However, in all three respects Denmark seems to (slightly) outperform Switzerland. Also, Swiss and Danes seem to rank some basic values differently, with the Swiss in general exhibiting a more conservative value orientation than the Danes, for instance with respect to attitudes towards work and to gender and family roles. These aspects of the civil societies in both countries are analyzed in Chap. 7.

1.3 Structural Differences

At the basic societal level Switzerland is a multicultural society with several religions, confessions and languages, while the Danish society is quite homogeneous; cf. Table 1.1. Thus the social fabric is fundamentally different in the two countries.

Immigration plays a much greater role in Switzerland than in Denmark. Immigrants make up about 10 % of the Danish population, but about 25 % of the Swiss population. The immigration to Switzerland has been dominated by immigrants from developed Western countries, while more than half of the Danish immigrants originate from less developed countries. These differences reflect immigration policies in both countries: Swiss immigration policy was for long driven mainly by labor market needs, while the rationale behind Danish immigration policies has been rather unclear; see Chap. 9.

1.4 How Do Small Countries Succeed?

The West has about 770 million inhabitants of which Western Europe has slightly above 400 million and the 4 overseas western countries are almost as big. Switzerland has 8 million and Denmark 5.5 million inhabitants, so both countries are rather small. They have a narrow resource base and hence they have to trade. Both economics and political science have seen large discussions of the consequences of the size of nations.

For the economist the concept of economics of scale suggests that large countries should do better. However the data does not support that notion. Alesina et al. (2005) survey the literature on the economic effect of the size of nations: It is quite clear that small countries tend to do as well as large ones provided that they are open.[7]

The political science discussion of the size of nations has been dominated by Katzenstein (1985), who presents data showing that the average small Western state is economically more successful than larger ones. It is argued (Katzenstein, 1985: 30–37) that the economic successes of small states are due to *corporatism*. Thus the successful outcomes in the two countries should be similar because both countries are corporatist. Chapters 5, 6, 7, 8 and 9 below compare the institutions in the two countries. They are found to be very different. Hence, for Kazenstein's conclusion to hold the term 'corporatist' has to be defined differently in the two countries.

In a broader sense political scientists and many economists argue that 'institutions' are crucial for development. This leads to the hypothesis that small states may do relatively well as it is easier to build good institutions in small states.

We shall argue that the only sense in which the institutions are similar is that they seem to work relatively well: They are handling internal and external imbalances relatively well. The key to success is thus that countries may manage to generate high levels of mutual trust and solidarity that allow them to be relatively flexible when problems occur. Small countries may be better at building such institutions. The causal links are thus from small to better steering to success.

1.5 The Puzzle: Different Systems and Similar Outcomes

This puzzle can be looked at from different angles. We believe that it is puzzling to the average Dane that the Swiss system with much smaller public welfare payments does not cause a big and seriously deprived underclass. It is probably similarly puzzling to the average Swiss that a country can collect well over 50 % of GDP in taxes without collapsing.

We think that the solution to this double puzzle is that the different institutions in the two countries perform much the same functions. In many ways the different institutions are *functionally equivalent* as regards the outcome they produce.

An example is the way the two different sets of institutions deal with the problem of differences in preference intensity. Imagine an issue where a majority with low preference intensity votes down a minority with high preference intensity, so that the result is an aggregate welfare loss of the majority. Thus under certain circumstances majority decisions may be inefficient (in the economic sense).

The Danish version of corporatism is to give privileged access to the political decision making process for organized interests in policy areas that are salient to

[7] A special part of the literature looks at microstates. They normally do significantly better than their neighbors as they specialize in safe haven activities; see Paldam (2013).

them. This can be seen as an institutional recipe for dealing with the problem of differences in preference intensity.

The Swiss institutions of federalism and of direct democracy can perform the same function. If preference intensity varies over groups that are spatially separated, the institution of federalism can insure that differences in preference intensity are taken into account in the decision making process. The institutions of direct democracy can achieve the same thing by endowing groups with a credible threat of demanding a plebiscite if their (strong) preferences on a certain matter are not taken into account.

From that perspective, (Danish) corporatism and (Swiss) federalism and direct democracy perform the same function – to integrate differences in preference intensity into the democratic decision making process.

1.6 The Perspective of This Book

Our analysis of Switzerland and Denmark as "good societies" does not proceed from the expectation that there is one common institutional recipe for creating income and happiness that both countries have discovered and successfully followed in the past, and hence it cannot be our ambition to find and describe this recipe. Rather it is our ambition to argue that Switzerland and Denmark have in fact developed and followed different institutional recipes that both turned out to be successful in terms of bringing about high levels of average income and happiness. In short we are going to describe and analyze two different institutional pathways to the "good society".

This does not imply that we think institutions do not matter for outcomes. Most likely neither Switzerland nor Denmark would have become rich and happy with the institutional setup of, say, North Korea. We are, however, keenly aware of the point stated forcefully by Rodrik (2007: 15): "There is no unique correspondence between the *functions* that good institutions perform and the *form* that such institutions take" (emphasis in the original).[8] Thus, our analyses corroborate Rodrik's point: Institutions count, but they need not be decisive.

In keeping with our reasoning above, we do not pretend that our analysis of Switzerland and Denmark provides a recipe for achieving high levels of income and happiness ready for use by those countries that have not quite made it there yet. We do not think that this is possible for two reasons. In the first place, as argued already, we do not believe there is a one-to-one correspondence between a particular institutional set-up and its outcomes. In the second place, even if there were, institutions are

[8] The idea that different institutions can fulfill the same function(s) is, of course, not novel in economics. Just consider two famous contributions: Coase (1960) and Ostrom (1990).

time-, country- and culture-specific. They are the product of particular choices made at particular points in time under particular circumstances.[9] That means that one country's institutional set-up cannot simply be grafted onto another country. Thus, we do not concur with the prophecy offered by the Swiss writer Friedrich Dürrenmatt (which in any case most likely should be read as ironic at some level, cf. Barkhoff (2010: 200–202)): "Die Welt wird entweder untergehen oder verschweizern" (The world will either perish or become Swiss-like). Nor do we believe that the Danish system is a promising export article. When it comes to how to achieve income and happiness – the good society by our definition – our analyses have convinced us that one has to be very circumspect when proclaiming that "big lessons" can be learned from the two countries under scrutiny here.

What can be gained from a comparative study of Switzerland and Denmark is a healthy skepticism towards some cheap generalizations and truisms in political economy and the politics of the welfare state. Yes, it is possible to have a society with a huge public sector, imposing what some would consider an excessive tax pressure on its members, and still have high levels of wealth and happiness. Yes, it is possible to have a rich and happy society with a relatively minor public sector and low taxes, relying more heavily on private but state regulated and subsidized services as well as on the family (women) for welfare production, without having the old, the sick or the disabled dying in the streets. And no, it is not necessarily true that the growth performance of a country with a huge public sector and high taxes is worse than the growth performance of a country with a lean public sector and low taxes! What these and other examples tell us is that the palette of choices of how to achieve a good society is considerably broader than is often envisaged. That is the basic message in this book, and we consider it an optimistic one.

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[9] For a broad introduction to the institutional development of the Danish model see for instance Campbell et al. (2006).

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Chapter 8
Two Variants of the Welfare State

The two countries we analyze in this study differ markedly with regard to the size of the public sector. Taxes collected in Switzerland amount to less than a third of GDP while Denmark, which approaches the 50 % mark, displays the highest tax revenue of all OECD countries (OECD 2011a). One would therefore expect considerably less social welfare spending and more inequality in Switzerland than in Denmark. But, as this chapter will show, income inequality in Switzerland is not much higher than in Denmark and social expenditures in Switzerland are almost as high as in Denmark.

Certainly, there are important differences. First, the Danish welfare state heavily relies on tax-funded schemes while in Switzerland social and health expenditures are financed through general government to a much smaller degree. The Swiss pay for their welfare benefits through contribution-based schemes largely run by private funds. Second, in Denmark a higher share of public money is spent on universal services. Welfare services such as child or elderly care that are provided by public institutions and can be consumed by the households at comparatively low personal costs. In Switzerland out of pocket payments for welfare services, including health care, are high, but households get financial support through the social insurance system, means-tested tax-financed subsidies or tax deductions. The means-tested subsidies ensure that poor and rich households can afford a relatively similar – and comparatively high – service standard, while at the same time the amount of tax-money that has to be collected to achieve comparatively high levels of equality is minimized. Denmark is a typical welfare state, with a very large share of benefits and services provided directly through the general government. In Switzerland the role of the state in welfare provision is less direct but it has increased considerably since the 1980s.

At the end of the day, it might be almost the same whether one pays money through the tax bill to the government or whether one is obliged to pay it to private, but highly regulated, insurance funds or spend it directly on services that are again highly regulated and subsidized depending on the income. Does this mean that the differences between Switzerland and Denmark are primarily a consequence of different financing systems with little or no impact on equity or household budgets?

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Are these just two different roads to Rome? The answer is yes and no. Yes, because partially, the different social policy instruments implemented in the two countries can be seen as functional equivalents. No, because there are important differences – especially regarding the universal provision of care services – that do affect individual incentives and thereby also have distributional consequences.

The chapter is structured as follows: The next section gives an overview on the two welfare systems. First, the main social policy instruments, as well as major differences in social expenditures and financing modes in the two countries are discussed. To assess the generosity of the two systems replacement rates are also compared. Furthermore, we illustrate the effects of the two different welfare systems by showing the impact on household budgets. In the second section, we discuss consequences of the differences between the two cases. Thereby, the focus is on the effects on equality and poverty in two rich countries as well as on the implications for the labor market and the societal distribution of paid and unpaid work. In the third section, we discuss the reasons for the major differences by looking at the history of the two welfare systems and by pointing at functional, political, and institutional explanations for policy development. The chapter concludes by drawing some lessons from a comparison of the two welfare systems.

8.1 Two Welfare Systems

Modern welfare systems are characterized by complex configurations of social policies, employment and tax policies. Often a specific social policy goal can be achieved through very different policy instruments and there are complex interactions between the different policies. In one system, for instance, protection of the breadwinner might be achieved through labor market regulation by establishing strict dismissal rules. In another system, firms might be free to hire and fire while relatively generous unemployment benefits protect the employee and his family from poverty during the process of looking for a new job. The two solutions can be seen as functional equivalents with respect to their primary target (Estevez-Abe et al. 2001: 163). They do, however, have different implications: Unlike labor market regulations, generous unemployment benefits lead to social transfer payments and thus increase the size of the public sector. Employment regulation, while not having direct effects on transfer payments, may nevertheless come at high social costs as strict dismissal rules make firms reluctant to hire new employees and therefore such regulations tend to lower the level of employment, especially among young people and women.

When analyzing and comparing welfare systems it is therefore not only important to keep an eye on different but functionally equivalent solutions to social problems, but also on the unintended consequences of the chosen solutions.

8.1.1 A View from Social Expenditures

How different are the two countries we compare in regard to social welfare spending? International statistical agencies such as those of the EU and the OECD have put a lot of effort into the compilation and construction of internationally comparable social expenditure data. From these data we get a first impression of the very different ways to organize social policies. If we look at the conventional measure for the size of the welfare state, i.e. the share of gross domestic product (GDP) devoted to public social spending (Adema and Whiteford 2010: 122), Switzerland with 18.5 % and Denmark with 27 % display great variation.[1] The difference between the two countries is greatly reduced if one applies a broader definition of social spending and includes all expenditure programs where participation is compulsory as well as all voluntary schemes that involve interpersonal redistribution. According to the definition used by the OECD or the EU, Danish social expenditures amounted to almost 30 % of GDP compared to Switzerland with 27 % of GDP in 2007 (cf. Table 8.1). In Switzerland a much larger share of the expenditures are employment related mandatory private social benefits, while on the other hand in Denmark voluntary private social contributions are more common. As will be explained below, these are primarily contributions to the Danish occupational pension (second pillar of the old age system). These payments are classified as 'voluntary' because they are not mandated by law. For the employee there is, however, often little voluntariness, as the occupational pension system is regulated in collective agreements.

The differences in social expenditures between the two countries are even further reduced, if one does take the tax system into account. There are two important effects of the tax system that affect the final, or net, social spending of a country (Adema and Ladaique 2009; Mattonetti 2009). On the one hand, one should take into account that transfer incomes may also be taxed. At the aggregate level, taxing social benefits means that the net amount of transfers to households is lower than what one expects from simply looking at social spending data. On the other hand, governments may also directly support households via tax deductions. Because there is no money exchange, tax deductions never appear in social spending statistics. Nevertheless, tax deductions for social purposes should be treated as de facto social spending. Such tax credits result in a higher income for the eligible household without visibly affecting the size of the public sector. In fact, tax deductions reduce the amount of tax money collected by the state.

[1] The data for the year 2007 is shown because this figure represents the share of social expenditures before the economic downturn due to the financial crises. In the years 2009–1011, the shares were increased in both countries due to a reduction of the GDP on the one hand and an increase of spending on unemployment at the other. Projections suggest that public social expenditures shares grew strongly in 2009 and stabilized thereafter.

Table 8.1 Social expenditures in Denmark and Switzerland in 2007 (in percent of GDP)

	Denmark	Switzerland
Public	27.06	18.52
Mandatory private	0.26	7.19
Voluntary private	2.41	1.06
Total	29.73	26.78

Source: OECD 2010a

While tax breaks for social purposes are very common in the Swiss taxation system, they are almost nonexistent in Denmark.[2] Denmark on the other hand levies taxes on most social benefits. According to the calculations of Adema and Ladaique (2009), net costs of total social expenditures for 2007 amount to 24 % of GDP in Denmark. In the mentioned study Denmark displays the largest difference between gross and net social expenditures in international comparison. The reason is that the high tax levels in this country also apply to social benefits.

Unfortunately, none of the studies on net costs of social expenditures include Switzerland. Due to the lower taxation levels, leading to a smaller difference between gross and net social expenditures, and the frequent use of tax breaks for social purposes, which increases net social expenditures, it could however well be that net social expenditure levels are as in Denmark around 24/25 % of GDP or even higher.

Despite these remarkable similarities in spending levels, there are very important differences between the two welfare systems. These differences concern, among others, the distribution of expenditures on the different sectors of the welfare state, which will be discussed below, and the sources of financing the welfare system. Table 8.2 shows the types of social security receipts in the two countries. To give an impression of the distinctiveness of the two systems, the table also displays data on Germany and Sweden.

Total social protection receipts are of comparable size amounting to 32 or 34 % of GDP. In Denmark the largest share of social protection is financed through general (central and local) government, i.e. in the year 2007 this was 63 % of total receipts. This share of tax-financed social security is very high in international comparison. Even in Sweden, the classic example of a universal welfare state, the share of tax financing is lower than 50 % of total receipts (cf. Table 8.2). The Swiss taxpayers, on the other hand, only contributed about 23 %. They primarily pay for the welfare state through income related social security contributions as well as flat-rate per capita premiums to health insurance. Out of the four states covered in Table 8.2, the share of welfare financing directly through protected persons is the highest in Switzerland with over one third of total social protection receipts.

Employer contributions to social expenditures in Denmark are very low compared to the other welfare systems presented in Table 8.2. They amount to about only 10 % of total social protection receipts, which is one reason for the very high Danish income taxation levels. While in other countries, and particularly in Sweden, employers directly finance a large part of the social security transfers, in

[2] One exception are child support payments (alimonies), which are tax-deductible and which are not taxed with the receiver.

Table 8.2 Social protection receipts by type in 2007 (as a percentage of total receipts)

	DK	CH	GER	SWE
Employers' social contributions	10.3	30.1	34.96	40.3
Contributions by the protected persons	18.5	34.0	28.01	9.5
General government	63.2	23.3	34.94	47.4
Other (interests, etc.)	8.0	12.7	2.10	2.8
Total	100.0	100.0	100.0	100.0
In million units of national currency	548,810	167,290	711,997	1,047,486
In percentage of GDP	32.4	32.1	29.4	33.6

Sources: Eurostat. ESSPROS (European System of integrated Social Protection Statistics), online database (Accessed on June, 24 2011)

Denmark employers primarily pay wages, which are then strongly taxed to get the public resources to finance social expenditures. Especially basic old age pensions are to large degree tax-financed, which is not the case for Sweden. Moreover, Danish employers do not have to contribute to unemployment insurance.

In Switzerland unemployment insurance is mandatory for all dependent employees and it is financed through equal contributions by employers and the employees. Only about 5 % of the costs have to be carried by the central government. The Danes are free to join a voluntary unemployment insurance fund. If they choose to do so, they have to pay a relatively modest membership fee as well as an administrative fee, which depends on the chosen fund. Since unemployment benefits are highly subsidized by the government, the Danes have strong incentives to join an insurance fund, especially in occupations with lower levels of job security. In fact, as Clasen and Viebroch (2008: 438) show, unemployment insurance coverage rates in countries operating with a Ghent system are as high or even higher as in countries with mandatory systems.

8.1.2 Welfare State Sectors and Welfare Generosity

The second important difference between the Danish and the Swiss welfare systems concerns the emphasis that is given to different branches of welfare (cf. Fig. 8.1). The Swiss welfare state is still primarily designed to address the so-called old social risks such as old age, invalidity, sickness and unemployment (Bonoli 2004, 2007a). The Danish welfare state has in addition implemented large programs on active labor market policies and family policies that are considered new social policies. Denmark has established quite far-reaching policies facilitating the reconciliation of family and work. After 18 weeks of maternity and 2 weeks of paternity leave the Danish parents are entitled to 32 weeks of paid parental leave and additionally have the individual right to 8 unpaid weeks of leave. In Switzerland on the other hand, reconciliation policies are quite limited. There are no statutory provisions for parental leave except for a few days per year in case the child is sick. And it was as late as 2004 that all mothers who had been employed for at least 5 months during

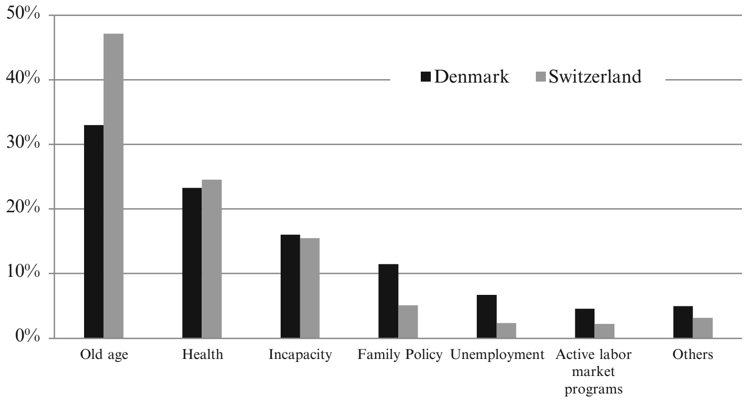

Fig. 8.1 Distribution of welfare expenditures over different welfare sectors (in percent) (Source: OECD 2010a)

pregnancy became entitled to an 80 % replacement wage for 14 weeks after giving birth (maternity insurance).

Unemployment is the only traditional welfare state sector where Denmark spends a substantially higher share of its social expenditure than Switzerland. The difference in aggregate spending figures is partly a consequence of very low unemployment levels in Switzerland. But Denmark also has a more generous system, especially when it comes to the duration of benefit payments. At the initial phase of unemployment, the benefit levels of unemployment insurance are similarly generous. In Switzerland replacement rates are even higher than in Denmark especially for medium and higher wages. But, since in Switzerland duration of the benefits is shorter and has been even cut back to 18 months recently, overall the Danish unemployment benefits, which are paid for up to 4 years, are more generous.

Although both countries dedicate the largest part of social expenditure to old age programs, the importance given to old age compared to other welfare state sectors is much higher in Switzerland (cf. Fig. 8.1). Denmark and Switzerland have both established a three-pillar pension system. The first pillar, the public pension system, is of similar relative size in the two countries: around 6 % of the GDP. While in Switzerland about 80 % of the public pension program is financed through social security contributions by employees and employers, Denmark has a tax-financed basic pension scheme that is supplemented by a contribution based labor market pension (ATP). In both countries this first pillar of the pension system has strong redistributive implications. In Switzerland contributions are directly related to income, while the maximum pension is only twice the minimum one. People with insufficient contribution records or very high living costs, e.g. because of strong dependency on care, may claim additional means-tested benefits (Ergänzungsleistungen). In Denmark, a small basic pension is paid to everybody and supplemented with means-tested benefits for those with no or only low benefits from the labor market pension. Also in Denmark individual supplements are available as well as preferential housing benefits to prevent poverty.

In both countries the public system is complemented by an occupational pension system (second pillar). In Switzerland, as in Denmark, the social partners and collective agreements play an important role for the structure of occupational pensions. While in Switzerland the second pillar became mandatory in 1985, in Denmark it remained a matter of collective agreements and therefore is still counted as private by the OECD. In Switzerland this second pillar is considerably larger than in Denmark which accounts for the higher level and share of old age expenditures in Switzerland (see Fig. 8.1). Since the pensions are directly related to the contributions, these systems involve lower levels of redistribution. The main goal of the occupational pension system is to guarantee her previous standard of living to the insured person. The third pillar of the pension system in both countries consists of tax-incentivized personal pensions.

The second largest block of social expenditures concerns health. In both countries social expenditures in this domain were about 6 % of GDP in 2007. Despite the similar levels of social expenditures, it is important to repeat that the total health care costs in Switzerland are considerably higher than in Denmark (cf. Chap. 3). Out-of-pocket spending on health in Switzerland sums up to over 3 % of GDP. The Swiss privately finance over 30 % of total costs of the heath care system while out-of-pocket payment in Denmark is around 14 % of total expenditures on health (or 1.3 % of GDP) (OECD 2011c).

8.1.3 Care Services

One important characteristic of the Danish welfare is its strong focus on public, universal services in the domain of elderly care and childcare. This strong reliance on public services in Denmark is the primary reason for the high level of public sector employment. With regard to long term care for the elderly and people with disability the Danish system is largely funded by public tax money. Only around 10 % of total expenses for long-term care are out-of-pocket payments. People in need of care are eligible for a wide range of social services, including home adaptation, assistive devices and home help. A central focus of these services is to allow people to manage in their own homes for as long as possible. If people have to move to a nursing home, they pay the rent for living there but not the caring costs (OECD 2011b).

Also, childcare is offered as a universal service. Parents have to pay part of the caring costs but only to a certain ceiling. The maximal out-of-pocket payment amounts to 25 % of total caring costs for the first child in daycare and a substantial discount of 50 % for additional siblings. A Danish family with two small children and both parents earning a standard income pays around 7–9 % of the gross income for the nursery. For very low incomes there is a further reduction of up to 30 % of the childcare fee.

In Switzerland, childcare is considered to be in the responsibility of the parents. Childcare subsidies are primarily a means for redistribution and an instrument to support the employment of single parents. As a consequence, no ceiling to parental contributions is set. In the first place, subsidies are paid dependent on the availability of a place in a subsidized nursery, which are not provided in all municipalities and if they are provided often involve a long waiting period of up to 2 years. Secondly, subsidies are also strongly dependent on household income. For instance in the city of Bern, parental fees for two children in day care will vary between 10 % of the gross income, for very low income levels, up to 30 %, if the income is only slightly above the ceiling that qualifies for subsidies.[3]

The majority of care providers in Switzerland, especially in the domain of long term care for elderly or disabled people, are private and the care-workers therefore do not count as public sector employees.[4] Nevertheless, various regulations at different state levels (mostly cantonal and communal, but also national) set the standards for the care services as well as for living conditions, room and catering services, so that in general the differences between privately or publicly run institutions are only marginal. The financing system is complex and varies between different cantons and municipalities. Overall, about 40 % of long-term care in Switzerland is financed through a complex system of public support and social insurance. 60 % has to be paid by the households, which can claim supplementary benefits to old age and invalidity pensions if they cannot carry the expenses themselves. Through this support, the financial burden of the households in long term care is reduced to about 36 % in the Swiss average (OECD 2011b). The supplementary benefits are means-tested and therefore again have a strongly redistributive effect. Richer and poorer people in need of care can therefore afford about the same amount and quality of care services, yet their contributions will vary considerably.

Effective from 2010, a new national law on the financing of care services states an upper ceiling of 20 % of the costs for care services that can be imposed on the individual regardless of its income. Although this ceiling does not include the fees that have to be paid for living, meal and room services, it can be seen as a small step in the direction of the universality principle, bringing the Swiss system closer to the Danish one. Concerning the childcare regime, there is little movement towards a more universal system. Recently, some municipalities shifted from paying subsidies to the institutions to a voucher-system. This system reduces inefficiencies related to the former waiting list system and improves the situation of private nurseries, but the system of financing is not changed.

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[3] These percentages have been calculated based on the calculation-tool for child care fees provided by the city of Bern (www.bern.ch).

[4] Only 52 % of the hospitals, 30 % of the social-medical institutions such as nursery-homes for frail elderly and 4 % of the home-care providers are public institutions (Source: http://www.bfs.admin.ch).

8.1.4 Comparing Standard Household Budgets

How do the different welfare systems affect the household budgets in the two countries? This is a tricky question to answer. Household budgets depend very much on the type of household that is considered and vary greatly depending on income, occupational status, caring-burden, housing situation, etc. Furthermore, both countries are decentralized, and thereby display strong variation in taxation levels, income levels and housing prices. Since there are complex interrelations between these different aspects, countrywide averages will not provide a meaningful picture of the real situation of a household. Displaying the standard case is particularly difficult for Switzerland, since many social policy instruments, such as the amount of subsidies offered for child-care services, vary greatly between cantons and also municipalities. We therefore proceed in two steps to illustrate the effects of the welfare regime on households. We first present the average, aggregated budgets for all households in the country (Table 8.3). Then, we show the situation of model families in Denmark and Switzerland (Table 8.4).

Table 8.3 shows the average household budget in the two countries. The data supports the argument that the Swiss and the Danish welfare systems are more similar than one would expect from the crude comparisons of public sector sizes. The share of the gross income of the Danes that stems from public transfers is on average only five percentage points higher than the Swiss share. This difference is mainly due to differences in social security benefits and allowances. For instance, Switzerland has no parental leave system. The difference between the shares of the gross income that has to be paid for taxes, social security and health insurance is of similar magnitude (around 4.8 percentage points). Remember, that in the Swiss case, employers pay a higher share of social security contributions directly to the insurance funds. This money does not appear in the individual household budget in the Swiss case.

The Swiss save a larger percentage of their gross income than the Danes. Since the data gives no clue on how comparable the average living standards are, it is difficult to say whether this means that the Swiss on average are better off than the Danes, or whether they simply have a stronger preference for savings and therefore consume less.

Since the average over all households is a very abstract measure, which does not describe any real-life household situation, we present in Table 8.4 two hypothetical families. For both countries the model family is a married couple (male: 35 years old, female 32 years old) with two children (2 and 9 years old). The Danish family owns a house while the Swiss family lives in a rental apartment in Bern. In both cases, the male is privately employed and the female publicly. In Denmark, both earn the average income based on sex and working sector. The salary is based on a working week of 37 h. The Danish male has a life annuity and an installment pension, while the Danish female has a labor market pension, to which the employer contributes 10 % of the wage and the employee 5 %. The Danish

Table 8.3 Average monthly household budgets in 2009 (amount of national currency and percentages of gross household income)

	Denmark		Switzerland	
	Krone	Percentage	Francs	Percentage
Income from employment and investments	27,487	75.0	7,452	80.6
Income from pensions	6,416	17.5	1,448	15.7
Social security benefits, allowances	2,724	7.4	346	3.7
Gross household income	**36,627**	**100.0**	**9,246**	**100.0**
Social security contributions	−2,049	−5.6	−896	−9.7
Taxes	−9,655	−26.4	−1,126	−12.2
Compulsory health insurance			−495	−5.4
Disposable income	**24,923**	**68.0**	**6,730**	**72.8**
Other insurances, fees	−1,148	−3.1	−569	−6.2
Consumption expenditures	−22,974	−62.7	−5,375	−58.1
Savings	**1,158**	**3.2**	**787**	**8.5**

Sources: www.bfs.admin.ch (HBS) and www.statbank.dk (INDKF1 and FU5)
Notes: The table is based on household budget surveys data, using averaged data for all households in the country. The average number of persons per household is 2.2 for Switzerland and 2.1 for Denmark. Other sporadic incomes, such as gifts or personal sells as well as transfers within households (e.g. alimonies), are disregarded, as there are no comparable data available for both countries

Table 8.4 Household budgets for model families (percentages of gross household income)

	Denmark	Switzerland (100/100)	Switzerland (100/40)	Switzerland (100/0)
Gross salary male	58.1	49.7	69.0	93.1
Gross salary female	38.8	45.2	25.1	0.0
Family and care allowances	3.1	5.0	5.8	6.8
Gross household income	**100.0**	**100.0**	**100.0**	**100.0**
Social security contributions	−11.1	−11.9	−11.9	−11.8
Taxes	−32.9	−9.5	−6.4	−4.8
Compulsory health insurance	–	−4.9	−6.8	−6.9
Disposable income I	**56.0**	**72.2**	**74.9**	**76.5**
Voluntary insurances	−2.3	−2.9	−3.8	−5.1
Child care	−3.9	−23.4	−6.2	0.0
Disposable income II	**49.8**	**45.9**	**64.9**	**71.3**
Consumption expenditures	−44.8	−41.3	−57.4	−77.4
Savings	**5.0**	**4.6**	**7.6**	**−6.1**

Notes: Consult the chapter's appendix for a more detailed table that also displays the concrete amounts in Krone or Francs and information on the sources. The social security contributions include for the Danish family contributions to unemployment insurance (2.3 % of gross income) as well as the private pension plan of the male (6.4 % of gross income). Other sporadic incomes, such as gifts or personal sells, are disregarded, as there are no comparable data available for both countries

2 year old is in daycare, while the 9 year old attends school and after school club (SFO).

In Switzerland, the adults earn the median income based on sex, working sector and region (Bern). The salary for a full-time job is based on a normal working week of 42 h. For the Swiss family three different household budget models are calculated based on different working-time schedules of the female. In the first model (100/100) she works as in the Danish example 100 %. In the second model (100/40), she works, as is typical for such a family in Switzerland, for 2 days a week. In the third model (100/0), she is a housewife. In the 100/100 model family, both children are assumed to be in full-time day care (Kindertagesstätte for the infant and Tagesheim for the pupil). In the 100/40 model family, the infant is attending day care for 2 days, while the pupil attends an after school club (Tagesschule). Household consumption is based on national averages for the assumed family situation. For the Swiss family, taxes, childcare fees and subsidies towards health insurance have been calculated from simulations based on the parameters for the city of Bern.

If the Swiss family would choose a model where both parents work full-time, as would be the normal way to do so in Denmark, the household would be able to save about the same share of its income as the Danish model family. While the Danish household uses a very substantial part of its income on taxes and other compulsory charges, the low taxes in Switzerland are compensated by high contributions to health insurance and very high child-care costs. It should also be noted that for a relatively similar standard of living, the Swiss couple would have to work more hours than the Danish couple. Assuming that the Danish parents have flexible working hours, allowing one of the partners to leave the house late and the other one to be at home early, they can together easily manage to spend 10 h a week more with their children than the Swiss parents of our 100/100 model family.

The comparison of the three different working-models of the Swiss family illustrates quite nicely why many Swiss mothers do work, but do so only for short part time hours (cf. Sect. 8.2.3). Taxation and subsidy systems are set in a way that benefits the part-time employment of the second earner. If the women would choose to stay at home, the single median income of her husband would not suffice to pay for an average living standard. On the other hand, the household is better off if she works 40 % instead of 100 %. The high child-care fees, together with the additional taxes that have to be paid, lead to a marginal "tax rate" of the second income of over 100 %.

8.2 Distributional Consequences

It has been argued that the central differences between the two welfare systems lies in the higher level of tax/public-financing of social benefits as well as in the stronger emphasis on public services and new social policies in the Danish welfare state. In this section three types of distributional implications of these differences are discussed. Firstly, the degree of redistribution between rich and poor is assessed, i.e. the focus is on the effects of the welfare systems on social inequality. Secondly, the distribution of work between different societal groups, i.e. the effects of the welfare systems on employment is discussed. Thirdly, we show how these systems relate to the distribution of paid and unpaid work among the sexes, i.e. the effects of the welfare systems on gender roles.

8.2.1 Redistribution, Social Inequality and Poverty

Conventional wisdom is that universal, tax-financed welfare states perform better in redistribution from rich to poor. Indeed, the Gini coefficient of income distribution after taxes and transfers for the working age population in Denmark is lower than in Switzerland. With a Gini coefficient of 0.23 Denmark heads the list of the most equal nations of the (OECD) world (cf. Table 8.5, column [3]). But Switzerland is not far behind Denmark. Its Gini coefficient of 0.27 places the country at par with Finland, Austria, and Belgium, and even before France and Germany. All mentioned countries have much larger welfare states in terms of public spending than Switzerland.

The Gini coefficient before taxes and transfers is higher in Denmark than in Switzerland (cf. Table 8.5, column [4]), indicating that the Danish welfare system is more redistributive than the Swiss one. Still, income in Switzerland is distributed quite equally despite the small size of the public sector. There are several reasons for this. First, due to very high participation rates in the labor market and very low unemployment rates (cf. Chap. 3), the share of households with working-age household members that have no income from work is small. Second, wage levels are relatively equal. As the decile ratios indicate (cf. Table 8.3, column [1] and [2]), wage dispersion in Switzerland is comparatively low – much lower than in the liberal United States but also lower than in Denmark.

Third, in Switzerland subsidies to households are frequently 'paid' in the form of tax credits rather than through direct transfer payments. This means that redistribution is achieved without large money transfers. Low incomes are taxed at very low levels. The tax wedge for lower incomes in Switzerland is around 18 %, which is among the lowest in the western world.[5] The tax wedge amounts to around 38 % in Denmark, 27.5 % in the U.S.A. or even 47.4 % in Germany. Furthermore, in the Swiss system an important share of transfer payments (e.g. subsidies for health care premiums, subsidies towards elderly care or childcare) are highly contingent on

[5] The tax wedge is defined as income tax on gross wage earnings plus the employee's and the employer's social security contributions, expressed as a percentage of the total labor costs of the earner. The given percentages are based on a single person without children earning 67 % of the average wage. (Source: EUROSTAT. Net earnings and tax rates)

Table 8.5 Income distribution in Switzerland and Denmark

	5th-to-1st decile ratio [1]	9th/1st decile ratio [2]	Gini coefficient after taxes and transfers [3]	Gini coefficient before taxes and transfers [4]
Denmark	1.55	2.69	0.23	0.37
Sweden	1.38	2.34	0.24	0.37
Belgium	1.38	2.33	0.27	0.43
Finland	1.45	2.55	0.27	0.38
Switzerland	1.47	2.65	0.27	0.35
Austria	1.75	3.37	0.27	0.39
France	1.47	2.91	0.28	0.41
Germany	1.93	3.35	0.30	0.43
Australia	1.71	3.26	0.32	0.42
United Kingdom	1.81	3.59	0.34	0.41
United States	2.11	4.85	0.37	0.43

Notes: Ratio 5th-to-1st and 9th-to-1st deciles, where ninth, fifth (or median) and first deciles are upper-earnings decile limits of gross earnings of full-time dependent employees. For Switzerland 2007 data is shown (Source: OECD 2010b). Gini coefficients are shown for income distribution for the working-age population 18–64 in the mid 2000s (Source: OECD 2010a)

income level and therefore these measures have a strongly redistributive impact as well.

Although Switzerland and Denmark are both rich societies and have a relatively equal distribution of income, poverty is still an issue. According to the relative measure defined by the EU, 12 % of the Danish and 14.6 % of the Swiss households count as at-the-risk-of poverty households as they live on an income that is below 60 % of the median income. Relative poverty measures are often not considered to be reliable indicators of poverty, since it is difficult to assess how problematic the real situation of a household living from a comparatively low income is. These measures are nevertheless informative with regard to the distribution of income among household types, since they provide information about who is profiting in relative terms from the system and who is not. We therefore look at this indicator to get a clue about the differential impact of the welfare system on different household situations.

Figure 8.2 shows the relative poverty measures for different household types for our two countries and Germany. Germany, the largest neighbor of both countries, has been included, as it has a large welfare state, and until the 2007 reforms, shared with the Swiss a the relatively strong emphasis on family care. While the highest share of households at-the-risk of poverty in Denmark is among single households (cf. Fig. 8.2), in Switzerland and Germany households with children are more frequently exposed to poverty. In Switzerland, one out of four families with three or more children live on an income that is below the risk-of-poverty line. This proportion is high compared to Denmark, where one out of eight families with three siblings or more face poverty risks.

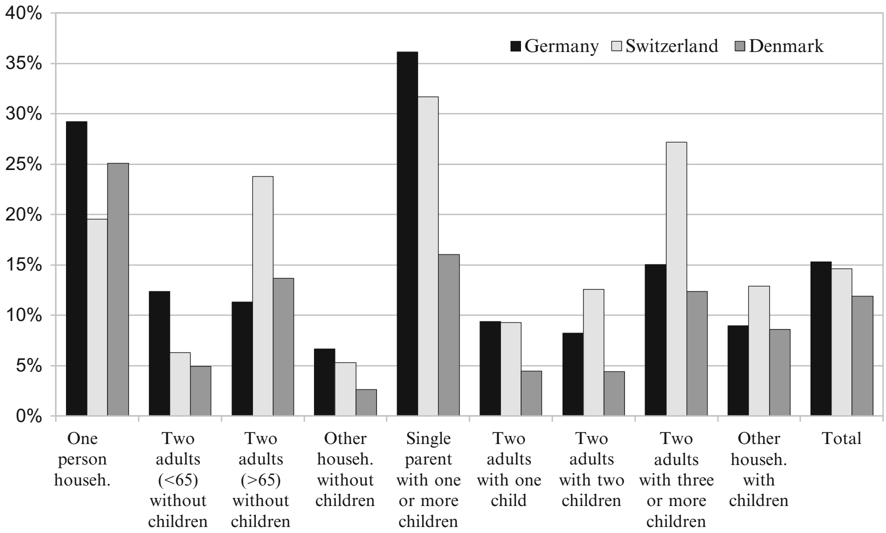

Fig. 8.2 At-risk-of-poverty (=relative poverty 60 % of median income) by household composition, 2007 (Source: EU-SILC 2008)

Single parents face the highest risk of being poor. In Switzerland, over 30 % of the single headed families are at risk of poverty. Almost half of these families live in harsh conditions, since they not only suffer from relative poverty, which is based on a statistical definition, but also from severe material deprivation, which is an absolute poverty measure (cf. Fig. 8.3). Also in Denmark, the highest risk of absolute poverty is among families headed by a single parent. But the incidence, 6 % of these households, is much lower than in the case of Switzerland where it is over 12 %. Overall, the Danish service-oriented family policy seems to be more successful in reducing poverty among families than the Swiss approach that still strongly focuses on guaranteeing a breadwinner-income to the main wage earner while only providing residual support in the domain of family-work reconciliation.

On the other hand, single households in Denmark are more likely to suffer from relative and absolute poverty than single households in Switzerland. A plausible explication for the pattern lies in the distribution of employment and wage-levels in the two societies. In Switzerland, the male breadwinner ideal is still widespread, therefore wages are generally high and, as has been shown in Table 8.2, relatively equal even before taxes. Singles earning a full, average income can live well from a wage that is conceptualized as a family wage. On the other hand, in Denmark, where dual-earner couples are almost the norm, a single income might often not be enough for an independent household.

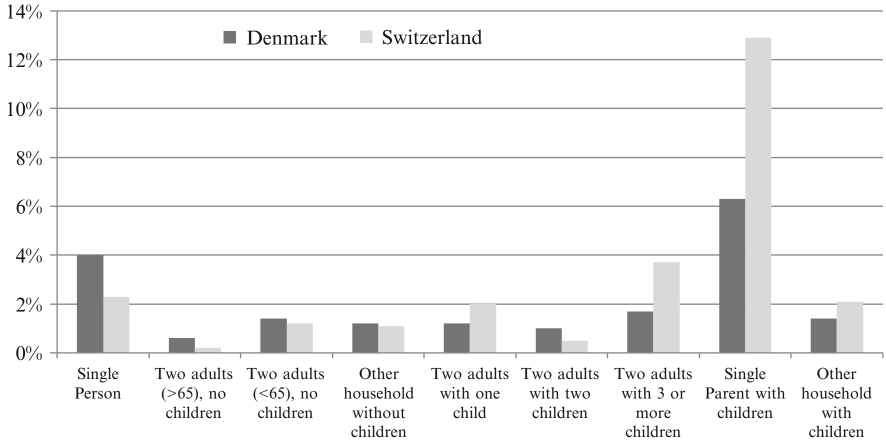

Fig. 8.3 Absolute poverty (severe material deprivation (A household is considered to suffer from severe material deprivation if four or more out of the following nine are lacking: (1) a telephone (including mobile phone); (2) a color TV; (3) a washing machine; (4) a car; (5) 1 week's annual holiday away from home; (6) a meal with meat, chicken, fish (or vegetarian equivalent) at least every other day; (7) keeping the house adequately warm (8) able to pay mortgage or rent payments, utility bills, hire purchase installments or other loan payments. (9) Capability to face unexpected financial expenses (of 60 % of the national median monthly income.)) by household composition, 2007 (Source: Eurostat, EU-SILC 2008)

8.2.2 The Distribution of Employment Among Different Age Groups

Conventional wisdom has it that large welfare states will result in lower employment rates, since state welfare will reduce the dependence of people on paid work. For our two countries, the conventional wisdom once more is wrong. As has been shown in Chap. 3, and further discussed in Chap. 5, despite the relatively comfortable safety nets, employment rates in Denmark and in Switzerland are very high by international standards.

There are various factors that contribute to this. First, in both countries relatively liberal labor markets allow firms to adapt flexibly to the market situation. While lower labor market regulations might cause some short-term unemployment, such policies are positively related to job creation and employment in the long run. Second, in both welfare states widespread policy incentives for taking up employment have been established. In particular, passive unemployment and invalidity benefits are complemented by active labor market policies aiming at reintegrating people in the labor market. The combination of liberal labor markets, with generous unemployment benefits and strongly developed active labor market policies adopted in Denmark, is known under the acronym 'flexicurity'. The flexicurity model became a benchmark model promoted by the OECD and the EU. Third, the