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An Exploration of the Nordic Model

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Abstract: In this paper I examine the social and economic system which is generally known as the Nordic Model and compare this with the Irish case. The analysis is limited to Denmark, Finland and Sweden as Norway and Iceland may be regarded as special cases due to their non-membership of the EU and their heavy dependence on oil and fishing respectively. One of the important advantages claimed for the Nordic model is that high levels of security go hand in hand with flexibility and a willingness to change. In Ireland it seems that the reverse is often the case. The most radical changes are accepted by those with the least security while the pace of reform is slow in the public sector and the most secure parts of the private sector. Given our current difficulties it is reasonable to expect that those in secure employment show the greatest willingness to embrace change and that is something we should insist on.

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1. INTRODUCTION - *'A SPIRIT OF EARNEST INQUIRY'*

In researching this topic I have tried to approach it in the manner prescribed by Dr John Kells Ingram (1823-1907) one of the most distinguished Presidents of this Society (1878-1880) who in his address to the Society at the opening of its seventeenth session on 18 November 1863 said that the Society from its inception "applied itself, in the spirit of earnest inquiry, to the most important questions affecting the condition of the country".

When I began work almost 40 years ago in the Revenue Commissioners and made suggestions for improvements to the tax system, much to my frustration, the inevitable response was "What do the British do?" It became clear to me that due to language and the similarity of our systems we were condemned to introduce changes a few years after similar changes were made in the UK. My experience was not unique. As Professor Joe Lee (1989) has noted "Reliance on the English model allowed a seductive economy of intellectual effort in Ireland". (Lee p.628)

Lee has also remarked that small countries import most of their ideas. "Most of our ideas are imported. They have to be - with so small a population and with so relatively few research resources...we can hardly expect to be at the cutting edge of the best thought about everything all the time". (*Sunday Tribune* 10 February, 2002)

The experience of small open European economies is, I believe, more relevant to us than that of our nearest neighbour. The Nordic countries are among the most successful societies in the world and therefore it seems worthwhile to try and increase our understanding of their economic and social models and see what we may learn from them.

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I am glad to say that we are more outward looking- thanks mainly to our membership of the European Union. But we still need to look beyond our nearest neighbour for ideas and inspiration. (On Professor Frances Ruane's suggestion I have included data in relation to the UK in the tables). This is a vast subject and it is not possible to deal with it comprehensively in this short paper, which I regard as nothing more than an initial exploration of the topic.

2. THE IRISH SOCIAL AND ECONOMIC MODEL IN CONTEXT

Some argue that Ireland should move the direction of its social and economic model to adopt that which exists in Nordic countries. One statement of the argument was provided by Brendan Hayes of SIPTU in his letter of 10 August, 2009 to the Chairman of the Commission on Taxation setting out the reasons why he could not support the Commission's report including the following:-

" [The Irish] social and economic model gives rise to structural pressures that increase income and wealth disparities --. Those disparities, together with the current national economic framework, have made ours a profoundly unequal society. The tax and social security systems, strategic state involvement and well financed public services are normally deployed, in advanced European countries, to moderate such inequalities to achieve social cohesion and promote economic growth. However, where the state adopts a low tax policy, in the manner in which this state has, the result is an underfunded set of public services, including health, education and local government, and an inadequate social security infrastructure which further exacerbates inequality, reduces social cohesion and retards economic growth". (Report of the Commission on Taxation p 474).

The Nordic Model

The main features of the Nordic model are:-

- A comprehensive welfare state with an emphasis on transfers to households and publicly provided social services financed by high income and consumption taxes;
- Relatively high public and/or private spending on investment in human capital, including child care and education as well as R & D;
- Relatively generous unemployment benefits and active labour market policies;
- Openness to globalisation (Indeed an important benefit attributed to the Nordic model is that the use of collective mechanisms for sharing risks has made it easier for citizens to embrace both globalisation and competition); and,
- A high rate of labour force participation.

Nordics Are Successful Societies

The Nordic countries are clearly successful societies with high per capita incomes and their citizens have high levels of satisfaction about a number of very important items.

This is clearly shown by data from the European Quality of Life Survey 2007 (Table 1). Ireland does not do too badly; we are ranked 7th in life satisfaction and 5th in happiness but clearly have an issue in relation to the perceived quality of some public services notably health (where the only countries ranked below us were Bulgaria and Macedonia), child care services and public transport. In relation to housing the main Irish problem was that 17 % of households said they were short of space.

An equitable income distribution and strong emphasis on equal opportunities are the central features of the Nordic model. The distribution of disposable income among individuals is the flattest in the OECD in Denmark followed by Sweden. Table 1 shows that the distribution of income in Ireland is more unequal than in the Nordic countries.

Table 1: Data from European Quality of Life Survey 2007

	Denmark	Sweden	Finland	UK	Ireland
Difficulty Making Ends Meet %	4	3	3	6	4
Gini Coefficient	24	26	24	32	32
Life Satisfaction (1-10)	8.5	8.2	8.3	7.3	7.6
Happiness (1-100)	8.3	8.3	8.2	7.8	8
Employment Rate 15-64	77	72	76	71	70
Av Working Hours Men	39.3	41.3	39.8	40.7	41.8
Accommodation Satisfaction (1-10)	8.5	8.2	8.4	7.8	7.6
% in Poor Health	10	8	8	9	3
Health Service (1-10)	7	7.6	7.6	6.5	4.9
Child care Services (1-10)	7.4	7.9	7.6	6.3	5.6
Elderly Services (1-10)	6.5	6.7	6.1	5.8	5.6
Quality of State Pension System (1-10)	6.4	7	5.6	4.9	5.7
Public Transport (1-10)	6.8	7.3	6.8	6.3	5.7
Education System (1-10)	7.6	8.4	7.4	6.6	7.3
Trust in Public Institutions (1-10)	6.6	6.2	5.8	4.2	4.8
At Risk of Poverty after Social Transfers	12	14	12	19 (2005)	16

Items are measured on a 10 point scale, in which 1 means very dissatisfied or very unhappy and 10 means very satisfied or very happy. Source : European Quality of Life Survey 2007

It should be noted that the Gini coefficient based on net income may not fully reflect differences in wealth. For example, Sweden has a low Gini coefficient for income distribution but a significantly higher Gini coefficient for wealth.

Ireland is ranked 12th on Trust in Public Institutions significantly behind the leading country Denmark. Given developments since the survey was completed, it is reasonable to assume that we have fallen further behind on this important measure. (See "Public Trust in Institutions Has Collapsed" : *Irish Times* 29/4/10). The poor rating of the health service is particularly interesting given the relatively low percentage of Irish people (3%) who consider themselves to be in poor health. I will explore this further later when discussing the health service in more detail.

It should be noted that the latest European Quality of Life survey predates the current international recession which has hit many countries, including the Nordic countries very hard. As a result, the reported levels of satisfaction with public services may have declined in all countries from 2007 levels.

In 2009, GDP in Sweden is estimated to have fallen by 5.2 per cent compared with falls of 7.6 per cent in Finland and 4.3 per cent in Denmark. The recession has been deeper in Ireland with a fall in GNP of 10.7 per cent in 2009. The recession has put the public finances in all countries under pressure. Estimated general government deficits for 2010 are Denmark (5.3 per cent), Finland (3.6 per cent), Sweden (3.4 per cent) and Ireland (11.6 per cent) excluding the costs associated with the recapitalisation of Anglo Irish Bank and Irish Nationwide Building Society. This may make it difficult to finance the current level of public services unless there is an increase in the tax burden or substantial increases in public productivity.

GNP v GDP

In this paper, I express tax and public expenditure aggregates for Ireland as a percentage of GNP. OECD publications conventionally express these aggregates as a percentage of GDP. For most countries there are relatively very small differences between the two aggregates. However, in Ireland (and Luxembourg) GNP is substantially smaller than GDP due to the importance of foreign direct investment in Ireland. In 2006, GNP in Ireland was about 86 per cent of GDP.

One may argue that the tax paid by multinationals should be deducted from the total taxation in looking at the burden of taxation. However, the costs of providing public services in Ireland are a function of GNP. Therefore using GNP as the denominator gives an appropriate measure of the volume of public services which could be financed in Ireland on an internationally comparable basis.

Basic Facts

The Nordics and Ireland are small open economies (Ireland being the most open) with high per capita incomes (all rich by international standards) and comparable life expectancies. (Table 2). The Nordics have significantly higher tax and public spending ratios. A major difference is the relatively low proportion of the population in Ireland which is over 65; a fact that has implications for public spending particularly in the areas of health and pensions.

Table 2: The Nordic Model: Basic Statistics

	Denmark	Finland	Sweden	UK	Ireland
Population	5.434	5.266	9.080	60.587	4.239
GNI per head US$	36139	35139	37323	36617	38299
Life Expectancy	78.4	79.5	80.8	79.5	79.7
% population 65+ 2005	15.1	16	17.3	16.0	11.1
Trade / GDP %	51.2	43.2	48.7	30.1	74.1
Labour Comp per hour	23.4	21.8	25.2	NA	NA
Av hours worked	1577	1710	1615	1673	1631
Public social EXP	27.6	22.5	31.3	21.9	18.4
P/Exp on health	8.1	6.2	7.4	6.7	6.8
Public Exp: law order & defence	2.6	2.74	3	5.1	2.2
Tax/GDP ratio (Irl GNP)	48.9	43.3	48.8	37.1	36.7

Nordics are Competitive Economies

The Nordics are also competitive economies. In the latest rankings Sweden (no 4), Denmark (no 5), Finland (No 6) and UK (no 13) all rank ahead of Ireland (no 25). (World Economic Forum, 2009, Global Competitiveness Report 2009-2010)

Ireland's health and primary education systems rank tenth in the world compared to Finland (no 1), Denmark (no 6), Sweden (no 12) and UK (no 23) but we have significant deficits in infrastructure, macroeconomic stability and financial market sophistication (mainly soundness of banks, access to equity and loan financing).

The three Nordic countries are all in the top three in the world for Higher Education and Training. Other top three rankings are for Institutions (Denmark and Sweden) , Innovation (Finland) and Technological Readiness (Sweden).

Tax Structure

Ireland's tax structure (Table 3) differs significantly from the Nordic countries.

Table 3: Tax structure 2006 as % of GDP (IRL GNP)

	Denmark	Finland	Sweden	UK	Ireland
Income & Profits	29.5	16.6	19.4	14.5	14.7
Social Security	1	12.1	12.5	6.9	5
Payroll	0.2	0	2.7	0	0.2
Property	1.9	1.1	1.4	4.4	3.4
Goods & Services	16.3	13.5	12.8	10.6	13.4
Total	48.9	43.3	48.8	36.6	36.7
Total of which Corporation Tax	4.3	3.4	3.7	3.4	4.4

Source: Revenue Statistics 2007

Even taking account of the GDP/GNP difference, the tax burden in Ireland is substantially lower. The tax structure is also different. Income tax and social security contributions are very significantly lower. While property taxes are higher (or at least were higher before they collapsed) this is particularly related to stamp duties. Indirect taxes in Ireland are similar to Finland and Sweden but substantially lower than in Denmark where the single rate of VAT is 25 per cent on all items (including food).The direct tax burden (Table 4) is very substantially lower in Ireland.

Table 4: Tax Burdens 2008

							Ireland differential	
		Denmark	Finland	Sweden	UK	Ireland	Lowest	Highest
Single	67 % AW	38.9	38.3	42.5	29.7	16	22.3	26.5
Single	AW	41.2	43.5	44.6	32.8	22.9	18.3	21.7
Single	167% AW	49.7	49.3	52.6	37.5	34	15.3	18.6
AM +2C	AW	29.5	38.0	38.9	26.9	5.5	24.0	33.4
AM +2C	167 % AW	34.3	36.1	38.6	28.6	8.8	25.5	29.8

Source :Taxing Wages

The most striking feature is that generally taxpayers in Ireland pay in the order of 20 % less of their incomes in tax and social security contributions than their Nordic counterparts.

Table 5: Tax Differences Between Single and Married +2c

	Denmark	Finland	Sweden	UK	Ireland
AW	11.7	5.5	5.7	2.8	17.4
167% AW	15.4	13.2	14	8.9	25.2

Source :Taxing Wages

Ireland treats families at all income levels relatively more generously (Table 5) which may be partly explained by the relatively high levels of child benefit paid in Ireland. (It should be noted that all the Nordic countries have relatively long periods of paid parental leave and schemes of cash grants for childcare. (Eydal and Rostgrad, 2009)

Table 6: Marginal Rate of Tax 2008

							Ireland differential	
		Denmark	Finland	Sweden	UK	Ireland	Lowest	Highest
Single	67 % AW	42.6	42.8	30.4	38.8	24	6.4	18.8
Single	AW	49.4	48	51.4	38.8	26	22	25.4
Single	167% AW	63	48	56.4	47.7	47	1	16

Source :Taxing Wages

Marginal tax rates in Ireland are significantly lower than in the Nordics though the differential is less marked on those with higher incomes particularly in the case of Finland. Since 2006 marginal tax rates have risen very substantially in Ireland and the top rate for a self-employed taxpayer is now 54.5 per cent.

3. PUBLIC SPENDING

Some ascribe the perceived shortcomings in Irish public services to a shortage of funding. We now turn to examining the main headings of public spending to try and explore the extent to which this may be the case.

Health Spending

A superficial analysis sometimes made is that because spending on the health services in Ireland is a smaller percentage of GDP than elsewhere, this is conclusive proof that the health services here are underfunded. In addition to the GNP/GDP point raised earlier in this paper, this analysis fails to take account of the vital impact of demographic structure on demand for health services. Because Ireland's population is significantly younger than the Nordic countries, we are much healthier. For example, a survey carried out by the CSO in 2007 on health service utilisation shows that on average 25 per cent of those aged 18-55 years accessed hospital services in the previous 12 month period with the figure rising to over 40 per cent for those aged over 70 years (See Figure 3.3 'Health in Ireland: Key trends 2009' http://www.dohc.ie/publications/pdf/keytrends09.pdf?direct=1)

The Fraser Institute in Canada has attempted to quantify the impact of demography on health expenditure (Esmail and Walker, 2008). In Canada, (those aged 65 and over) accounted for 13.2% of the population in 2006, yet consumed over 44% of provincial government health expenditures that year (CIHI, 2008). Further, per-capita provincial health expenditures for those over age 85 were more than seven times higher than the average spending for all age groups in Canada (CIHI, 2008; calculations by authors). Data from the OECD confirms that health expenditures on seniors are significantly higher than per-capita spending in general (Dang, Antolin, and Oxley,2001).
If we apply the Fraser Institute demographic adjustment to the figures for health spending to Ireland and the Nordic countries, we find that instead of having the lowest spending on health Ireland has the highest. (Table 7)

Table 7: Health Spending in OECD 2005(Demographic Adjustment)

% GDP (Irl GNP)				
Denmark	**Finland**	**Sweden**	**UK**	**Ireland**
9.4	8	8.4	7.9	11.8

Source : Fraser Institute Canada

We noted earlier the poor perception of the Irish health service shown in the results of the European Quality of Life Survey 2007. A somewhat better perspective emerges from the 2009 Euro Health Consumer Index (EHCI) of EU healthcare systems which ranked Ireland 13th out of 33 countries with a score of 701 points a significant improvement on our score of 592 points in 2007. The authors of the survey conclude that Ireland "generally performs rather well at outcomes but quite poorly when it comes to e-Health. (E-health includes items such as electronic transfer of medical data between health professionals, lab tests communicated directly to patients electronically, electronic prescriptions, on-line access to book appointments and to check charges billed to insurers). It is worth exploring the results of this survey in more detail (Table 8)

Table 8: Euro Health Consumer Index 2009

Sub Category	Denmark	Finland	Sweden	UK	Ireland
Patient rights & information	175	143	117	123	110
E – Health	63	50	54	54	42
Waiting time for treatment	120	93	93	80	120
Outcomes	202	226	250	179	202
Range and reach of services	121	121	136	121	114
Pharmaceuticals	138	88	113	125	113
Total score	819	721	763	682	701
Ranking of 33 countries	2	12	9	14	13

Source :2009 Euro health consumer index

Denmark ranks 2nd, Sweden 9th and Finland is just above Ireland in 12th place. However, if we look at what might be considered the critically important issues of waiting times and outcomes (Table 9), we see that Ireland's health service is on a par with both Denmark and Finland and behind Sweden but significantly ahead of the UK.

Table 9: Euro Health Consumer Index 2009

sub category	Denmark	Finland	Sweden	UK	Ireland
waiting time for treatment	120	93	93	80	120
Outcomes	202	226	250	179	202
Total	322	319	343	259	322

Source: 2009 Euro health consumer index

Outcomes measure items including heart infarction case fatality, infant deaths, ratio of cancer deaths to incidence of the disease, preventable years of life lost and MRSA infections.

In these circumstances it is interesting to note the comment of Dr. Arne Björnberg, the Euro Health Consumer Index Director that "Ireland has been climbing steadily in the EHCI. However, the Irish healthcare system seems to have a domestic 'marketing' problem – the responses to the patient organization survey, which is part of the EHCI research, give a much less positive picture than the official data".

In summary, the data suggest that the health service in Ireland is very well funded and improving rapidly. Better value for money is essential and achievable. While there is still an unresolved issue in relation to equity of access, we rank much higher on important outcome measures than public discourse would suggest.

Education

Turning to Education, a measure of education outcomes is provided by the OECD Programme for International Student Assessment (PISA). This programme examines 15-year-old students' performance in reading, mathematics and science in surveys every three years. The data in relation to PISA scores is set out in Table 10.

Table 10: Education Pisa Scores

	Denmark	Finland	Sweden	UK	Ireland	Nordic AV	Irl %
Pisa 2006 Reading	494	547	507	495	517	516	100.2
Pisa 2006 Science	496	563	503	515	508	521	97.6
Pisa 2006 maths	513	548	502	495	502	521	96.4
Average	501	553	504	502	509	519	98

Source: OECD education at a glance 2009

Ireland ranks significantly behind Finland in these surveys but is on a par with Sweden and Denmark. The figures in relation to third-level educational attainment for the critical 25-34 age group are in Table 11.

Table 11: Tertiary attainment 25-34 years old 2007

Denmark	Finland	Sweden	UK	Ireland
40	38	40	37	44

Source: Education at a Glance 2009 OECD

Again Ireland does relatively well here and is among the top performing countries in the OECD in terms of third level attainment. While the number of graduates says nothing about their quality, a recent EU study (St Aubyn et al, 2009) found that recruiters regard universities in Ireland (and UK) as providing highly employable graduates and that Finland, Sweden and Ireland (considering their size) were the countries with more universities pointed out by their peers as excellent.

It is interesting to compare these measures of outcomes with the data on spending per student which is shown in Table 12

Table 12: Spending per student 2006 US$ PPP

	Denmark	Finland	Sweden	UK	Ireland
Primary	8798	5899	7699	7732	6337
Secondary	9662	7533	8496	8763	8991
Tertiary	15391	12845	16991	15447	11832

Source: OECD Education at a glance 2009

These figures suggest that Finland gets a better return from its investment at primary and secondary level than Denmark, Ireland and Sweden. Spending per student on third level education is well below that of Denmark and Sweden, about 8 per cent below that in Finland and over 23 per cent below the UK.

Social Spending

As noted earlier (Table 2) public social expenditure in Ireland is significantly lower than in the Nordic countries. The headline numbers (Table 13) are significantly behind those in Sweden and Denmark. We are also behind Finland but not by as much.

Table 13: Public social expenditure as % GDP/GNP 2006

Denmark	Finland	Sweden	UK	Ireland
26.7	22.5	31.3	21.9	18.4

Source : OECD

Unemployment Benefits

The OECD has developed a tax benefit calculator which shows how taxes and social benefits in OECD countries affect incomes of people in and out of work. The calculations take into account the taxes and social security contributions due on earnings and benefits. Benefits such as unemployment benefits, social assistance, family benefits, housing benefits and in-work benefits are all included in the calculations. The data is shown in Table 14

Table 14: Income consequences of becoming unemployed in 2008
(Single person & avg earnings replacement rates)

Denmark	Finland	Sweden	UK	Ireland
60.9	50.7	50.3	37.8	53.6

Source :OECD

Note : The replacement rate is the proportion of pre-unemployment income received when unemployed.

At first glance the figures are somewhat surprising in that with the possible exception of Denmark, the net position in Ireland is comparable. The explanation appears to be that while gross unemployment payments are significantly higher in the Nordic countries, the unemployed continue to pay substantial income tax and social security contributions. In the examples above, these amount to 47.7 per cent of net unemployment benefit in Denmark, 36.4 per cent in Sweden and 28.5 per cent in Finland. The corresponding figures for a one earner married couple on average earnings with two children are in Table 15.

Table 15: Income consequences of becoming unemployed in 2008 (married+2children+1earner on avg earnings) replacement rates.

Denmark	Finland	Sweden	UK	Ireland
97.7	75.1	64.5	69.1	76.7

Source: OECD

Again Denmark is an outlier while the Irish figures are comparable with Finland and Sweden. Again significant amounts of income tax and social security contributions are payable by the unemployed in the Nordic countries. These amount to 38.1 per cent of net unemployment benefit in Denmark, 25.7 per cent in Sweden and 19.9 per cent in Finland.

It is clear from these examples that there is considerable overlap in the tax and benefit systems in the Nordic countries and that the levels of social expenditure are significantly lower in net (after tax) terms than in gross terms.

Public Pensions

Table 16 shows public pension net replacement rates at normal retirement date for a single male who enters the labour force at age 25 and has average earnings. The figures assume real earnings growth of 2 per cent per annum.

The pension entitlements covered are those currently legislated in OECD countries. Changes in rules that have already been legislated but are being phased in gradually are assumed to be fully in place from the start. The values of all pension parameters reflect the situation in 2007. The calculations show the pension entitlements of a single worker who enters the system today and retires after a full career.

The results include all mandatory pension schemes for private sector workers, regardless of whether they are public or private. For each country, the main national scheme for private sector workers and special professional groups are excluded (See Pensions at a Glance, 2009)

Table 16: Public net replacement rates 2007

	Denmark	**Finland**	**Sweden**	**UK**	**Ireland**
Net replacement rate %	85.4	57.6	58.9	40.9 (2006)	40.1
Public pension spending %	9.1	10.0	9.5	5.7 (2006)	5.2
Over 65's % of working age	25.3	26.9	29.4	26.8 (2006)	17.7
Demographic adjusted spend	10.6	10.9	9.5	6.3	6.7

Ireland does not have an earnings related state pension scheme which accounts for the relatively low net replacement rate. In addition public spending on pensions in Ireland is also lower at present due to the younger population here. The final row in the table shows pension spending on the basis that the proportion of over 65's was the same in each country as in Sweden.

The Irish system relies much more on private pension provision and it is important to take account of the cost of tax relief for pension contributions in making comparisons. The Green Paper on Pensions (2007) estimated that the gross cost of the various tax reliefs for pension contributions was about €3.2 billion (2007). (Commission on Taxation Report, p309). A review of this costing carried out for the Irish Association of Pension Funds by Life Strategies Consultants questioned this number and suggested that €2 billion was a more credible estimate. This figure is still substantial amounting to 1.2 per cent of GNP and takes no account of the costs relating to unfunded pension arrangements.

The tax relief on pension contributions mainly represents a deferral rather than an exemption from tax as income tax is payable on the pensions when paid. The Green Paper on Pensions estimated that the estimated tax yield from payment of tax on pension benefits was €320 million.

Appendix 1 contains Revenue Commissioners data on the income distribution of persons in receipt of age allowance (ie those aged 65 years or over) in 2007. This shows that this category had a total income of €6.6 billion and paid tax of €0.7 billion. At least part of this tax payment should be set against the cost of the tax relief since if the tax relief were abolished, the pensions should be free of tax.

When account is taken of these factors, it appears that the resources devoted to pension provision in Ireland are less than in the Nordic countries and that we need to devote more resources to funding of pensions if people are to enjoy adequate pensions in the future. The changes announced in the National Pensions Framework (in particular the auto-enrolment proposal) should go at least some way to achieving this in addition to improving the distribution of the current system of tax relief.

Public Sector Salaries Compared

Exchequer pay and pensions accounts for 35 per cent of gross voted current expenditure (McCarthy Report, p5). It may be useful to look at data which compares pay in Ireland with that in the Nordic countries. Comparable international data is not easily available and clearly needs to be improved. Some limited data available in relation to substantial numbers of public sector employees is in Tables 17 and 18.

Table 17 has data in relation to teachers' salaries on a PPP basis. The table shows that starting salaries are roughly comparable with those in the Nordic countries but maximum salaries are significantly above the Nordic average. (46 per cent for primary teachers, 42 per cent for lower secondary teachers and 24 per cent for upper secondary).

This, of itself, is not conclusive evidence that teachers' salaries are too high. but it is reasonable to expect that in return for relatively high pay by international standards there is maximum flexibility in work practices.

Table 17: Teachers salaries US$ PPP

	Denmark	Finland	Sweden	AV Nordics	UK	Ireland	Ireland %
Primary starting	35691	28201	27498	30463	30172	31977	105.0
Primary max	40332	46003	36750	41025	44507	60025	146.3
Upper secondary starting	35011	31846	29554	32137	30172	31977	99.5
Upper secondary max	49264	55778	39813	48285	44507	60025	124.3
Lower secondary starting	35691	31282	28055	31676	30172	31977	101.0
Lower secondary max	40332	49534	37200	42352	44507	60025	141.7

Source : Education at a Glance 2009

In considering this question it is important to note that one of the characteristics of an effective educational system identified by Michael Porter (Competitive Advantage of Nations, p 629) is that "teaching is a prestigious and valued profession. Quality education is simply not possible without a cadre of well-prepared and competent teachers".

Information from the International Council of Nurses (a federation of national nurses' associations, representing nurses in more than 128 countries) database on nurses salaries in 2008 is in Table 18.

Table 18: Nurse salaries in public sector 2008 (US$ PPP)

Starting salaries	Denmark	Sweden	UK	Ireland
Clinical nurse hospital	29641	24738	31020	30398
Community nurse	30097	27330	31020	30398
Nurse manager hospital	38381	33596	36968	47775
Nurse manager community	37173	34568	36968	46505

Source : International Council of Nurses http://www.icn.ch/sew_wff_data_sum08.pdf

The table shows that starting salaries in Ireland are above the averages in Sweden and Denmark by amounts ranging from about 6 per cent for community nurses to about 30 per cent for nurse managers.

Differences appear to be much greater for medical specialists (consultants). In Denmark and Finland their remuneration is 2.5 times average earnings (Fujisawa and Lafortune, 2008) while in Ireland the multiple is over 6 (and this excludes significant private fees in Ireland which are earned in addition to public salaries).

The available evidence suggests that public pay in Ireland compares well with Nordic levels. While the adjustments that have taken place recently have reduced premiums in Ireland, it is unlikely to have eroded them entirely at least in relation to certain positions. This makes it all the more important to focus on increasing productivity in the public sector as well as across the economy. It is also desirable to collect more data on a wider range of occupations than I have been able to do in this paper.

4. CHALLENGES FACING THE NORDIC MODEL

A report by the Research Institute of the Finnish Economy (ETLA), argues that present economic and social trends, including globalization and demographic change, pose significant challenges to the Nordic model as it stands. They argue that globalisation may undermine the financial viability of the welfare state by increasing international factor mobility and tax competition between nations as well as by opening up the possibility of "social tourism" for eligible groups.

Demographic change – in the form of an ageing population – increases the size of the passive population (retirees), while tending to decrease the size of the active population (workers). The result is a dramatic rise in the dependency ratio and a strong pressure towards increased social spending and higher tax rates. The combination of ageing populations and high ambitions for welfare services will strain public finances, even more so if globalisation increases the mobility of jobs and labour. The report argues that sustainability of present tax-transfer systems and public systems of care for the elderly are being seriously put into question.

The OECD Economic Survey of Finland (2009) states that Finland will increasingly face the demographic challenge of a declining labour force and rising old age dependency ratios. The consequent fall in employment poses a sustainability threat to the welfare system, which couples high taxation with a generous social security net. Increasing participation in the labour force is one way to address these challenges and the Government has set a long-term employment rate target of 75 per cent.

The ETLA Report emphasises that a high rate of labour force participation is an indispensible ingredient of the Nordic model. There must be sufficient incentives – in the form of financial rewards and/or workfare elements – to participate in the labour force and to work. Lengthening working careers must go hand in hand with increasing longevity. The "social contract", including the public pension system, should not be based on the assumption that the tax burden can be passed on to future generations in the form of rising tax rates.

Finally, investment in human capital should not be the victim of increasingly tight budget constraints; what is good for the young is good for the future of society.

The Case of Ireland
McArdle and de Buitleir (2003) argued that when account was taken of special factors Ireland could have a relatively low tax burden without having to sacrifice the quality of important public services. These factors included

- Differences in debt service costs
- Differences in unemployment rates
- Differences in defence spending
- Capital spending requirements
- Differences in the way pensions are funded
- Demographic differences
- Payments to the National Pensions Reserve Fund.

When these factors were taken into account the resources devoted to public expenditure in Ireland were sufficient to ensure European standard public services (assuming equal efficiency in public administration).
The advantages that Ireland had in relation to these special factors are now being eroded due to the substantial increase in both debt service costs and unemployment that has and will take place since then and the increase in the costs of ageing. Allied with the very large deficit in the public finances, it is inevitable that the burden of taxation will have to increase significantly over the next few years. Indeed, the most recent update to Ireland's Stability Programme projects an increase in the share of GNP raised in taxes of 4.6 per cent of GNP between 2009 and 2014.

However our demographic structure still gives us very significant advantages at the present time. The figures in this paper suggest that this may amount to about 7 per cent of GNP in the area of pensions and health. European Commission projections on age-related spending are shown in Table 19. These indicate an increase of over 4 per cent of GNP over the next 25 years. Potential savings from educational expenditure may only contribute a small offsetting amount.

Table 19: Age-Related Spending Projections (as % of GDP) Ireland

	2007	**2035**
Pensions	5.3	8.0
Health	6.6	7.9
Other	5.4	5.0
Total	17.2	20.9
% GNP	20.2	24.6

Source: Ireland Stability Update December 2009 (Table 14)

Differences due to rounding

The European Council opinion of 10 March 2009 on Ireland's stability programme noted that "the long-term budgetary impact of ageing in Ireland is well above the EU average, mainly as a result of a relatively high projected increase in pension expenditure over the coming decades" and advocated "reform measures that curb the substantial increase in age-related expenditure would contribute to reducing the *high risks to the sustainability of public finances*."(emphasis added).

5. CONCLUSIONS

From this analysis, I conclude that Ireland's public services have higher quality outcomes than we are frequently led to believe. We face significant challenges to maintain these at the levels attained during the "boom" period, given the fall in our national income, the new pressures on our public finances and the costs of a progressively ageing population.

In his important *Studies* article in 1953, Patrick Lynch referred to the importance of the "quality of the official mind" in obtaining the confidence of citizens in the institutions of State. A major challenge for all in the public realm is the work that needs to be done to increase trust and confidence in public institutions. This is likely to require radical change in the way we govern ourselves.

One of the excesses of the Celtic Tiger period was the gross distortions that occurred at the top of the income distribution. Those charged with the responsibility of determining remuneration at the top levels in both the public and private sectors need to avoid the excesses of the past.

It is necessary to achieve and maintain high employment rates in the long-term in order to generate sufficient resources to provide high quality public services. An important enabling factor here identified by the National Competitiveness Council is a low tax wedge. While the tax burden will have to rise to meet at least part of the costs of ageing and eliminating the structural deficit, it is unlikely that further large increases in public spending will be sustainable in a competitive world of increasing factor mobility. If we cannot achieve higher productivity in the provision of public services, the alternative may be substantial reductions in the quality and extent of provision.

One of the important advantages claimed for the Nordic model is that high levels of security go hand in hand with flexibility and a willingness to change. In Ireland it seems that the reverse is often the case. The most radical changes are accepted by those with the least security while the pace of reform is slow in the public sector and the most secure parts of the private sector. Given our current difficulties it is reasonable to expect that those in secure employment show the greatest willingness to embrace change and that is something we should insist on.

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APPENDIX 1

INCOME TAX 2007

Distribution of incomes for persons aged 65 (2007)

Range of total income		Totals					
From €	To €	Number of cases	% of total	Income € ' m	% of total	Tax € ' m	% of total
-	10,000	22,809	12.05	100.52	1.51	0.08	0.01
10,000	12,000	9,855	5.21	109.10	1.64	0.03	0.00
12,000	15,000	14,913	7.88	200.58	3.02	0.05	0.01
15,000	17,000	8,738	4.62	139.78	2.11	0.04	0.01
17,000	20,000	15,457	8.17	286.35	4.31	0.13	0.02
20,000	25,000	23,788	12.57	532.23	8.02	4.34	0.62
25,000	27,000	7,727	4.08	200.80	3.02	3.55	0.51
27,000	30,000	10,900	5.76	310.28	4.67	6.87	0.99
30,000	35,000	15,424	8.15	500.13	7.53	13.24	1.91
35,000	40,000	12,661	6.69	473.48	7.13	15.77	2.27
40,000	50,000	16,423	8.68	731.43	11.02	48.56	6.99
50,000	60,000	9,572	5.06	521.94	7.86	53.06	7.64
60,000	75,000	8,266	4.37	551.07	8.30	72.64	10.46
75,000	100,000	6,129	3.24	524.21	7.90	91.85	13.23
100,000	150,000	3,730	1.97	445.44	6.71	99.31	14.30
150,000	200,000	1,207	0.64	207.31	3.12	52.41	7.55
200,000	275,000	767	0.41	177.93	2.68	46.79	6.74
Over	275,000	919	0.49	626.32	9.43	185.67	26.74
Totals		189,285	100	6,638.89	100	694.37	100

Source: Revenue Commissioners

DISCUSSION

Frances Ruane: I would like to congratulate the President on a very stimulating lecture this evening. He has taken an interesting starting point for his paper, namely, that where in the days of John Kells Ingram the starting point for comparison would have been the UK, over the past decade, we have moved to using the Nordic countries as reference points when making public expenditure comparisons - a move that has considerable logic given their similar scale to us and similarities of some of our stated government objectives to theirs.

What is of course important is that while aspiring to Nordic objectives in terms of social spending, we have operated on the taxation side more like the UK - in effect, we have referenced Nordic on the spend side, but Anglo on the taxation side. This apparent contradiction was possible to operate when we were in an economic bubble with tax revenues growing by the year so that it was not necessary to tax more in order to spend more.

In these changed times, this easy option is no longer possible - if we follow the social spending norms of the Nordics, we will have to begin to tax like the Nordics. I would like to suggest to the President that, to contextualise what he has done on the expenditure side, he might include a column to cover the UK also. This would link his paper back to his Kells Ingram starting point and should not be too onerous a task as most of the data needed to extend the excellent tables in the paper should also contain UK figures.

One further point - Paul Walsh indicated his concern that the adjustment in the paper (for example Table 7) for demographics may not mean that it is possible to compare these findings with the European Quality of Life Survey (EQLS) used in Table 1. I may be mistaken, but if the EQLS data in Table 1 are based on good survey principles, and I suspect they are, then they are already demographically weighted, so the President's comparison should stand.

Noel O'Gorman:- I commend the President for drawing to the Society's attention so many pertinent comparisons between Ireland and the Nordic countries. I agree with the suggestion to broaden the comparison to include the UK and also the average of EU-15 (or a representative large continental state).

Turning to the relevance of the paper for Irish economic policy, I note that the Nordic countries had generally attached a high importance to macroeconomic and price stability. In considering Ireland's situation, it was imperative to take full account of where we were starting from! We had a budgetary deficit that was clearly unsustainable, with a major gap between public expenditure and associated revenues. The scale of this structural deficit was such that, even if public expenditure could be frozen in real terms, there was a high probability that the tax burden would still have to rise significantly over the coming years.

In my view, an issue of central importance was *how* we should go about raising such additional revenues. Recalling OECD analysis of how taxation impacted on economic growth, I suggest that extra revenues should be sought mainly through broadening the tax base (so avoiding increases in tax rates). There was, he argued, considerable scope for such base-broadening – right across the taxation code, Ireland's tax-base being relatively narrow by international standards.

Dr FitzGerald had properly drawn attention to the erosion of the base of income taxation, including social insurance contributions, though improvements in tax credits and exemptions. Though many of these changes had been beneficial, we could no longer afford to exempt entirely such a high proportion of potential taxpayers. I also agree that a much more critical view should be taken of the wide range of tax reliefs and concessions.

The case for base-broadening was not confined to the income tax code. It could be made with no less force in respect of the VAT base. There was no compelling economic or social rationale for the zero-rating of food and children's clothing (both widely-defined), or for the concessionary VAT rate for energy. The tax treatment in Ireland of real property was also exceptionally favourable. The' use-value' of residential property was virtually untaxed, most of the capital gains on housing escaped taxation, and most inheritances of property were not subjected to tax.

AUTHOR RESPONSE (Donal de Buitleir)

I am very grateful to all who spoke for their constructive suggestions.

In particular I am very happy to accept Professor Ruane's suggestion to include the data in respect of the UK. We have experienced a golden age in recent years when due to a variety of temporary factors (such as a favourable demographic structure) a relatively low tax burden in Ireland was sufficient to finance a relatively high level of public services. Unfortunately that era is coming to an end and if we are to sustain high quality public services the tax burden will have to rise and public productivity will also need to increase.

I strongly endorse Mr O'Gorman's view about the direction of tax reform. Indeed his approach is very much in line with the Reports of the Commission on Taxation (1980-85). As Secretary to that Commission I still believe that the approach adopted in those reports is the correct one. We should broaden the tax base by cutting tax expenditures thereby keeping tax rates lower than they otherwise would be, adopt a single rate of VAT on a broad base and restore taxation of residential property.