S A L
International liaison, dialogue and research
Reg no: 2006/020285/08

The Southern African Liaison Office (NPC)
Liesbeek House, River Park,
Gloucester Road, Mowbray, Cape Town 7700
Tel: +27 (021) 680 5306
Email: info@salo.org.za
www.salo.org.za
@salo_info

Dialogue Online
No. 10/2015

The Nordic Welfare Model: Lessons for South Africa

By Showers Mawowa*

Wednesday 8 July 2015

This article is inspired by a seminar hosted by the Swedish Embassy in Pretoria on 17 June 2015. The seminar was on the "Nordic Welfare Model as a Transformative Tool" and possible lessons for South Africa. This is a relevant topic for South Africa given the ongoing debates and frustration over the perceived lack or slow pace, of transformation and growing inequality. What, if anything, can South Africa learn from the Nordics? Below, Showers Mawowa shares some reflections.

On the basis of its GDP, South Africa has been classified as a middle-income country. According to most developed countries, this means that South Africa does not require official development assistance (ODA), but rather a new relationship based on trade. Some, especially within South Africa's policy making circles have argued against this conclusion, citing high levels of poverty and inequality and the argument, popularized by former president Thabo Mbeki, that South Africa is two economies within one country, one rich and advanced and another poor and typical of a developing economy.

Indeed the gap between the rich and the poor is most worrying in South Africa. The World Bank's Income Data for 2014 shows the country to be the most unequal in the world.

When speaking to one Nordic diplomat, she presented a rebuttal to the 'two economies' argument as justification for South Africa qualifying for ODA. Her argument was simple: South Africa has enough resources to lift its millions out of poverty and create a more equal society. She argued that, prior to

taxation and income redistribution, income inequality in most if not all Nordic countries is just as bad as in South Africa. With a total GDP slightly higher than that of Denmark, SA could like the Nordics rely on income redistribution.

The Nordic countries - Sweden, Denmark, Finland, Norway, Iceland, Greenland and the Faroe Islands – are renowned for their tax-financed universal welfare model that includes free education and health and unemployment and early retirement benefits, among other measures. Finland, Denmark and Norway are all in the top five of the world's most equal societies.

What has been remarkable is the system's ability to enhance individual autonomy, promoted social mobility and achieve income redistribution through social transfers, but still maintain economic growth. *The Economist* magazine in February 2013 observed: "They have avoided both southern Europe's economic sclerosis and America's extreme inequality. Development theorists have taken to calling successful modernisation 'getting to Denmark'". Not only do Nordics have impressive human development indicators, they are ranked high in World Happiness Report 2013.

Of course how this could actually work for South Africa is more complicated and comparing South Africa to the Nordic countries may be unfair. Though the country's GDP is comparable to theirs, its GDP per capita is much lower: while ranking the world's 33rd largest economy, South Africa ranks only 87th on GDP per capita. It may well be that there is not enough wealth per person to afford the largesse of the Nordics. The history of economic policy cautions against wholesale importation of foreign economic models as no one size can fit all.

But is there something that South Africa can learn from the Nordic Welfare Model?

Though South Africa's welfare system is not universal, the country spends a considerable amount of money in social transfers targeting children from poor households, the elderly and the disabled.

A common characteristic of the three of the world's most unequal countries – South Africa, Namibia and Botswana – is they are all rich in mineral wealth. A look at the world's income disparity data suggests a greater propensity for inequality among resource-based economies. However this generalization is challenged by the fact that Norway has been able to create a far more equal society in spite of oil and gas constituting 22% of the country's GDP and 67% of its exports. This has been achieved partly through the state's direct ownership of this strategic sector and a $600 billion sovereign-wealth fund. It is common cause that states with direct stake in the extractive sector derive more revenue than those relying on taxation.

With over 16 million South Africans on social grants and a high public sector wage bill, questions have been raised about the sustainability of South Africa's social spend. The Nordic countries like South Africa are characterized by a large public sector, constituting over 30% of the total workforce. With one of the highest tax burdens in the world (45-50% of GDP) and public spend exceeding 50% of GDP public spending, the Nordic states' Welfare Model has confounded critics. As the Nordic Centre for Welfare and Social Issues notes (2013): "Its (the Nordic Welfare Model) demise has been predicted more than once. It would not survive, it was too expensive with its generous universal solutions funded by the public purse. So said the sceptics. Now their voices have fallen silent. The model is in fashion."

In comparison to the Nordic countries, South Africa's public spend hovers around only 30% and so does the tax burden.

It is fair to question the financial sustainability of income redistribution, but a far more important question is what the alternative is to cutting spending on the poor. How sustainable is the oppulence in Sandton when thousands are looking over the fence? With 16 million South Africans dependent of social grants, the socio-political risks of cutting spend on the poor appear to far outweigh the fiscal risks. An attempt at liberal reforms in the early 2000s saw Sweden experiencing the fastest growth of inequality in any OECD economy.

On the whole, the South Africa Treasury is known to have developed a sophisticated system to forecast budget deficits and expenditure sustainability over time. Notably, social grants as a percentage of GDP are not increasing in SA.

There has been a question about whether social grants are really working. That, in spite of spending billions (4% of GDP) in social grants benefiting over 16 million people, South Africa still ranks high in poverty and inequality can be discouraging. However, the history of the Nordic countries shows that the desired socio-economic change does not happen overnight.

Ensuring low levels of corruption, perceived or real, and open govenance is necessary to build public trust, secure buy in, encourage social solidarity and ensure high levels of tax compliance. Studies conducted in the Nordic countries show that people are generally happy to pay tax in spite of the high tax burden. Transparency International's Corruption Perception Index of 2014 ranked all five Nordic countries among the twelve least corrupt in the world. *The Economist* (Feb 2013) had this to say about the Nordics: "Governments are forced to operate in the harsh light of day: Sweden gives everyone access to official records. Politicians are vilified if they get off their bicycles and into official limousines."

A perception persists among some economists that South Africa is over unionized and that labour rights can stand in the way of economic growth. Despite having some of the most unionised labour forces in the world, the Nordic countries have maintained decent levels of economic growth, sustained partly through strong partnerships between employers, trade unions and the government, and are ranked highly by the ITUC Global Labour Rights Index.

Perhaps the most important lesson from the Nordic Welfare Model is that while financial transfers are important, employment creation, education, skills development and job creation is equally important. Unemployment in most of these countries is as low as 3% compared to around 25-30% in South Africa. This perhaps explains why South Africa remains a most unequal country. While social transfers are targeted at the poor children and elderly there is hardly any provision for the unemployed. The wage gap among the employed further compounds the inequality.

That close to 80% of jobs created in South Africa are either skilled or semi-skilled and that there are often skills shortages affirms that the labour market needs to be skilled. According to Rhodes University Associate Professor Gavin Keeton nearly 50% of South Africans with less than a matric qualification are unemployed, compared to around 30% overall unemployment. Unemployment for those with a matric and some tertiary education is 14% and reduces to 5,2% among university graduates.

It can therefore be concluded that justice and equality are not incompatible with economic progress. To reduce inequality in South Africa three things are important: social transfers, job creation, and investment in human capital to facilitate access to skilled and semi-skilled employment.

*****Showers Mawowa*** *is SALO's Research, Development and Coordination Manager based in Pretoria. He is also a Post-Doctoral Fellow of the Political Science Department at the University of Pretoria.*

The Dialogue Online, is an online extension of SALO's national, regional and international consensus-building dialogues (typically workshops, seminars and small meetings) on Peace and Security, Development, SA Foreign Policy, Gender (including LGBTI rights), Natural Resource Governance, Human Rights and the rights of migrant communities through *weekly written articles and/or commentary*. It is a channel through which critical issues raised during dialogue events are synthesised and shared with wider audiences. By taking the dialogue 'online', the conversation is enabled to continue beyond the limits of space and time and to a wider audience.

Since SALO's central focus is peace and security, *Dialogue Online* articles focus primarily on this theme, but drawing attention to the nexuses with development, natural resource governance, human rights and gender, mediation, environment and climate change. Preference is towards articles that speak to international development and peace building policy and practice, raise awareness about conflict situations and the gender dimensions thereof and provoke fresh thinking and policy debate. Contributions are drawn from SALO's pool of experts, peace building and development practitioners, activists, academics, former and current diplomats and workshop participants.

Please note that the articles represent views of respective contributors and do not necessarily reflect SALO's view or position.

Interested contributors are welcome to email articles of 750 to 1000 words in length to info@salo.org.za for consideration.

Please follow us on twitter @salo_info and #DialogueOnline SALO for comments.

SALO would like to thank
(in alphabetical order) the European Union; Irish Aid and the Embassy of Ireland, Pretoria; the Royal Norwegian Embassy, Pretoria; The Olof Palme International Centre; Open Society Foundation; the Open Society Initiative for Southern Africa (OSISA); the Southern African Trust and UK aid, among others, for their for their ongoing support of our Policy Dialogue Series.