Jens Thomsen: Brief overview of the Danish economy

Statement by Mr Jens Thomsen, Member of the Board of Governors of the National Bank of Denmark, at the meeting of the Danish Economic Council, Copenhagen, 30 November 2004.

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The cyclical analysis of the Chairmanship of the Danish Economic Council is in line with other analyses: the Danish economy is in an upswing, driven by strong growth in domestic demand. This contributes to bringing down unemployment and raising labour force participation. The latest national accounts figures indicate that growth is slowing down, but these figures are often revised significantly and thus uncertain. It goes without saying that it is prerequisite to Danish economic development that the international cyclical scenario does not weaken markedly.

Danmarks Nationalbank agrees with the Chairmanship that fiscal relaxation is not required. Fiscal policy must be formulated for the medium term, based on the 2010 plan. Short-term fiscal adjustments tend to have unwanted effects.

Obviously, structural measures must be taken to keep the surplus on public finances at 1½-2½ per cent of GDP. Here, the report points out that the lack of new employment-policy initiatives gives cause for concern.

Chapter 1.4’s discussion of wage competitiveness scarcely touches on the issue of productivity development. How can it be that Danish wages have been rising faster than those of our competitors for a number of years and the effective krone rate has risen, while the employment level has been high, and has recently begun to rise again, and we have enjoyed a sound (and rising) surplus on the current account? This combination is worthy of a few comments, including the issue of productivity growth, even if it is not obvious what is cause and what is effect.

As far as excise duties are concerned, it should be emphasised that some of these are highly sensitive to cross-border trading. Therefore, changes in relative prices may have great consequences. The same applies to duties on pesticides. A ban on pesticides would be most effective if accompanied by a similar ban in our neighbouring countries.

The proposal to introduce a tax allowance for maintenance and repair of one’s own home seems to conflict with the efforts to expand the tax base and reduce tax rates.

The views advanced on the Stability and Growth Pact are pertinent. Clearly, the task is to increase the incentive to consolidate in the good times in order to avoid easing fiscal policy as seen in Germany and France in 2001 and 2002.

Introduction of exceptions for certain expenses, such as investments, will add to the already significant technical calculation problems. Moreover, not all investments are equally appropriate for strengthening the future potential for growth.

While the proposal on tradable deficit permits is interesting, it may be difficult to put into operation.