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High taxes don't pay [1]

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Denmark is often looked at as a society that is somewhat fairer and more equal than ours. This view is mainly due to an economic system fundamentally based on very high levels of taxation and generous welfare payments. However, the Danish system is sometimes referred to as "flexicurity" since it has a uniquely liberal approach to hiring and firing which has allowed the country to produce growth figures of some 3.5 percent in 2006 whilst approaching full employment. Nonetheless, this approach still isn't without its problems. There seems [3] now to be a brain drain occurring, with Denmark having to face up to European (as well as global) tax competition.

In key areas such as the highly skilled they are suffering from a shortage. This is highlighted by The Confederation of Danish Industries' estimation that through the end of 2005, the workforce had shrunk by around 19,000 Danes, mainly through them leaving the country. This outflow is not being matched by the inflow of foreign workers, which tends to lower levels of skill. One of the key reasons for this brain drain is the high taxation that highly skilled workers have to pay to keep the lavish welfare system going. Faced with paying 63 percent of their own income to the government, many understandably decide to leave and take advantage of the lower rates around Europe.

Unless something changes, the Danes may be facing growth figures of only around 1 percent for the 5 years from 2009 onwards. The obvious approach to this problem is to lower the tax rates to more competitive levels, attracting Danes back and enticing in others as well. The Danish only need to look to London to see how lower taxation on high earners can promote growth. Alternatively though, we could always ship over those on the left who love the Scandinavian model of taxation and welfare. Then they can pay the tax bills.

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