The Nordic models in turbulent times: Can they weather the storms?

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Tammerfors
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From crisis to crisis – can the Nordic models survive?

- 1990-93  Severe Nordic crisis - topping rankings on efficiency and equity in the 2000s
- 2008-… Financial crisis: austerity & «structural reform» -> end of the welfare state?
- 2013-… Nordics «Top-15» on Global Competitiveness Index (WEF) (FL no 2!) & Top of «Least bad jobs» Index (Euro-Found)

How did the Nordics overcome their financial crisis in the 1990s?

How has it affected their ability to ride off the recent crisis?

Prospects and challenges for the future?
The traditional Nordic models – in small, open market economies

Macroeconomic and industrial policy

Markets

The social partners

Collective bargaining and local cooperation

International markets

Welfare state; social security; education/training; active labour market policy

"Politics with markets"

Equality, restructuring, collective risk-sharing, retraining & mobility…
The Nordic «puzzle»: How can the humblebee fly?

- Our best answer:
  - (1) The institutional conditions for comprehensive coordination among the actors of working life, the welfare state and economic policies («the triangle model»)
  - (2) Such coordination depends on even power relations and constructive conflict partnership between strong collective actors – both centrally and locally
  - (3) This has paved the ground for broad, long-term investments in human resources, knowledge and mobilization of labour («social investment»)

Credo:

- Trust, coordination, coherence, and complementarity – no «à la carte»-menu
  - capacity for joint adjustment, handling crisis, and high legitimacy
    - Hard to achieve if not ALL contributing get their fair share of the cake

«Do your duty, demand your right»
The crisis in Finland, Sweden and Norway in the early 1990s

Figure 1. GDP growth per year Nordic countries 1987-2007

- Huge banking & building bubble burst → deep slump → record high unemployment, interest rates, budget deficits, and currency instability

- Self-inflicted economic policy failures after credit market liberalization

→ How and why did they recover so fast?
1994-2000: unemployment halved & wage inequalities almost unchanged – a trend that largely continued until the 2008-crisis

By 2000 the Nordic models were basically consolidated & renewed

**Table 1 Earnings decile ratios (full time)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Den, P90/P10</td>
<td>2.5</td>
<td>2.5</td>
<td>2.69</td>
</tr>
<tr>
<td>Den, P90/P50</td>
<td>1.7</td>
<td>1.7</td>
<td>1.74</td>
</tr>
<tr>
<td>Fin, P90/P10</td>
<td>2.4</td>
<td>2.5</td>
<td>2.55</td>
</tr>
<tr>
<td>Fin, P90/P50</td>
<td>1.7</td>
<td>1.7</td>
<td>1.76</td>
</tr>
<tr>
<td>Nor, P90/P10</td>
<td>2.0</td>
<td>2.0</td>
<td>2.23</td>
</tr>
<tr>
<td>Nor, P90/P50</td>
<td>1.4</td>
<td>1.4</td>
<td>1.46</td>
</tr>
<tr>
<td>Swe, P90/P10</td>
<td>2.2</td>
<td>2.3</td>
<td>2.34</td>
</tr>
<tr>
<td>Swe, P90/P50</td>
<td>1.6</td>
<td>1.7</td>
<td>1.67</td>
</tr>
</tbody>
</table>

**Figure 2. Unemployment rates**

Source: OECD Online Employment Database;
Nordic model adjustments after the 1990s crisis

1) From fixed to floating currencies → huge depreciations (exc DK)
2) Surge in exports pulled off growth - «small, open economy advantage»
3) Fiscal consolidation - mainly after recovery took hold (Sw)
4) Wage restraint - renewed coordination by strong social partners

5) Product market liberalization & tax- and pension reforms, -- very little change in labour market regulation
6) Change in social policies → cuts, but welfare state largely retained, geared more towards work, activation and education

«No magic bullet»:
Relatively balanced power relations, partnership & Social Democratic come-backs enhanced coordination, coherence and legitimacy

→ Prosperity and shift in political winds in the 2000s
The 2008 financial collapse – most Nordic countries hard hit...

Table 2 - GDP growth and demand components of the recession 2008–2009

<table>
<thead>
<tr>
<th></th>
<th>Real private consumption 2009</th>
<th>Export volume 2009</th>
<th>GDP growth 2008-9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>-4.5</td>
<td>-9.7</td>
<td>-6.6</td>
</tr>
<tr>
<td>Finland</td>
<td>-3.1</td>
<td>-18.7</td>
<td>-8.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>-0.3</td>
<td>-13.3</td>
<td>-5.1</td>
</tr>
<tr>
<td>Norway</td>
<td>0.2</td>
<td>-4.0</td>
<td>-1.7</td>
</tr>
<tr>
<td>Euro-zone</td>
<td></td>
<td></td>
<td>-4.0</td>
</tr>
</tbody>
</table>

- Collapse of export markets, shrinking private consumption
- Response: Counter-cyclical fiscal policies, large automatic stabilizers & reduced interest rates – but did it work?
YES, four of five Nordic countries rebounded strongly 2010-11, In Denmark the asset bubble collapse created prolonged contraction

Figure 3 GDP growth rates 2007-2012, Nordic vs other EU countries

- Quicker recovery than eurozone average, Sweden & Norway «in the lead» benefitted from currency depreciation & tougher interest rate policy («euro-outsiders»)
- Second dip from 2012 – but clear signs of recovery early fall 2013
- Finland struggles with structural export decline, stagnant labour force, and fiscal tightening -- bodes for protracted recovery?
Diverging Nordic performance during the crisis

Figure 4 Cumulative GDP change during the crisis (2007-2012)

- Sweden & Norway on top – longer term effects in Finland & Denmark due to domestic problems & failures of different kinds
- Employment rose 2.5% in Sweden, 6% in Norway, 1.2% in Finland, but dropped 1.6% in Denmark and 1.4% in euro-zone (2007-2012)
Adjustment in Labour Market Institutions

PRIOR to crisis:
- Change in Ghent UEB systems (DK, SW) --> drop in members, density & benefits (SW)
- Sweden liberalized fixed-term work (2007)
- Divergent responses to low wage posting («Laval-quartet») - extension, CA, law…

DURING the crisis:
- No tripartite incomes policies, but wage restraint, «opening clauses», WT flexibility
- Laxing of temporary lay-off schemes – Sweden exceptionally had no such scheme
- Danish UEB cut from 4 to 2 years, requalification doubled + phased out «efterløn»
  → Unions obtained higher severance pay -- bye-bye «flexicurity»? UEB-stop postponed…
- Differentiation of Swedish UEB-fees to be reversed in 2014 (‘tripartite deal’)

Unionisation stabilized – TU weakened, BUT still alive & influential –
governments depend on union votes & crisis solutions…
“Death knell” of the collective agreement model?

Figure 4. CB coverage and union density

- Lowered union density, but CB-coverage remains high
- Except in Norway – especially in private services
- Nordic unions can still bite & CB shapes wage formation

Source: Nergaard 2013.
LABOUR MARKET EFFECTS OF THE CRISIS:
Labour supply changes influence «observed unemployment»

- Swift rise, then SW & FL down 2010-11, up 2012-13, down fall 2013…
- Norway & Denmark «special cases» - «masked» Finnish problems, due to age-driven labour force stagnation?
**Long-term UE (< 1 year) still modest …**

### Table 5 Long term unemployed in Nordic and selected EU countries

<table>
<thead>
<tr>
<th></th>
<th>2007 % of UE</th>
<th>2012 % of UE</th>
<th>2009 Eurostat % of labour force</th>
<th>2012 Eurostat % of labour force</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Denmark</strong></td>
<td>16.1</td>
<td>28.0</td>
<td>0.6</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Finland</strong></td>
<td>23.0</td>
<td>21.7</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Norway</strong></td>
<td>8.8</td>
<td>8.7</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td>13.0</td>
<td>17.5</td>
<td>1.1</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>56.6</td>
<td>45.5</td>
<td>3.5</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Netherlands</strong></td>
<td>39.4</td>
<td>33.7</td>
<td>0.9</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>EU 21</strong></td>
<td>31.6</td>
<td>(ca 45)</td>
<td>3.0</td>
<td>4.6</td>
</tr>
</tbody>
</table>

…but rising fast in Denmark, leading to postponed shortening of UE-benefit duration…
Employment and employment rates:

*Increase among seniors, decline among youth & core age*

- Employment rise in Sweden & Norway, decline in Finland & Denmark
- Employment rates - sharp drop in Denmark (6 pps), -2-3 points FL, N, & EZ
- Norwegian puzzle: strong job growth but falling empl-rate – labour immigration?

Figure 6: Change in employment, 2008=100.

Figure 7: Change in employment rates 2008-12
The «youth puzzle»: Differences in education enrolment disturb the picture

Table 3  Changes in youth (15-24) unemployment rates (UER), employment rates (ER) and NEETs 2008-2012

<table>
<thead>
<tr>
<th></th>
<th>UER Q1-08 %</th>
<th>UER Q4-12 %</th>
<th>UER as share of population (15-24) 2011</th>
<th>ER 2012 %</th>
<th>Change ER 07-12 pps</th>
<th>NEETs 2011-Q1 (OECD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>7.4</td>
<td>13.3</td>
<td>9.6</td>
<td>54.8</td>
<td>-9.3 pps</td>
<td>5.7</td>
</tr>
<tr>
<td>Finland</td>
<td>15.6</td>
<td>19.0</td>
<td>9.9</td>
<td>42.3</td>
<td>-2.8 pps</td>
<td>8.6</td>
</tr>
<tr>
<td>Norway</td>
<td>7.1</td>
<td>9.6</td>
<td>4.9</td>
<td>51.7</td>
<td>-6.7 pps</td>
<td>9.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>19.0</td>
<td>24.2</td>
<td>12.0</td>
<td>40.2</td>
<td>-2.1 pps</td>
<td>6.8</td>
</tr>
<tr>
<td>Eurozone</td>
<td>14.5</td>
<td>23.9</td>
<td>(ca 10)</td>
<td>31.5</td>
<td>-6.0 pps</td>
<td>13.2</td>
</tr>
</tbody>
</table>

- Modestly shrinking youth labour market in Finland (-2.8 pp), ca 10% in risk of marginalization – more or less the same in other Nordic countries.
- Swedish paradox: High youth unemployment, BUT low NEET-rates («Not in Employment, Education or Training»)
Impact on inequality in 1. phase of the crisis (2007-10):

<table>
<thead>
<tr>
<th>Country</th>
<th>2007</th>
<th>2010</th>
<th>Change in points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>2,69</td>
<td>2,79</td>
<td>0,10</td>
</tr>
<tr>
<td>Finland</td>
<td>2,55</td>
<td>2,52</td>
<td>-0,03</td>
</tr>
<tr>
<td>Norway</td>
<td>2,23</td>
<td>2,29</td>
<td>0,06</td>
</tr>
<tr>
<td>Sweden</td>
<td>2,34</td>
<td>2,23</td>
<td>-0,11</td>
</tr>
<tr>
<td>Germany</td>
<td>3,26</td>
<td>3,33</td>
<td>0,07</td>
</tr>
</tbody>
</table>

Table 4  Earnings differentials in 2007 and 2010 (D9/D1, full-time)
Source: OECD 2013.

- Wage differences stable – fell in Finland & Sweden - bargaining works…
- Income inequalities stable in Finland & Norway (07-10)– marked rise in Denmark & especially Sweden – reflecting prior benefit tightening..?
- Swedish incomes rose fast in the top (+4%), slow in the bottom (+1%)…

→ Likely widening inequalities in the crisis’ 2.phase
Challenges ahead:

- Increasing European & Global uncertainty – absent monetary policy FL & DK must rely in «internal devaluations» (social & wage policies)

- Increasing strains on Social Models – aging, inclusion of marginal groups, immigrants, school drop outs, low wage competition, outsourcing …
  - Pressures for more differentiated social policies, erosion of legitimacy
  - Deepened divisions - «insider majority» vs «outsiders» -- in the labour market
  - Increased conflicts with EU free movement & social coordination rules

- Shifting political winds & power relations favour Centre-Right coalitions?
  - Welfare chauvinists in tipping positions → growing dilemma especially for Labour

- Uncertainty about the future path of Nordic model change has grown
Two scenarios

1) «Growing dualization» - withering & cuts on the margins lead to more segmented, two-tiered models («German Light»-scenario)

2) «Pendulum swings back» – broad popular support for the Model makes «radical breaks» politically risky, may easily boomerang…
   - Especially for Centre-Right coalitions claiming to defend the Model and being dependent on welfare chauvinists & labour votes?

In hindsight, gravitation towards the «middle-ground» of cautious stabilization & renewal appear the most likely pathway…
   - BUT social scientists are weak on prediction and history seldom repeats itself, except, said Marx, as tragedy and then as farce…
End – some extra slides behind
Stability in Finland & Norway (07-10) – marked rise in Denmark & especially Sweden – reflecting prior policy changes (benefit tightening)?

- Sweden – solid income rise in the top (+4%), low in the bottom (+1%)…

→ Likely widening inequalities in 2.phase of the crisis

Source: OECD 2013
In a world of rising UNCERTAINTY, the Nordics prize solid public households, low debt, and (mostly) sound current accounts...

Figure 7. Public debt 2007 and 2011

Still ammunition to fight future shocks – but less «ammo» left in Finland – and what about the political priorities?
Declining willingness to tax & secure public budgets?

Figure 8 Tax revenues as share of GDP, 1980-2010

(Source; Christensen 2013, NordMod-2030)

Needs for care will increase

But the Tax Share of GDP fell 5 percentage points in Finland & Sweden 2000-10
Changes in taxes on labour 2000-10 - on different wage levels

Christensen 2013, NordMod-2030

Finland & Sweden – evenly distributed, most in the bottom - Denmark more to top earners, Iceland the opposite
Re conclusions:
With their big welfare states & strongly regulated labour markets the Nordics have weathered the storm reasonably well

- Thanks to the adjustments made in the 1990s they have not been «forced to» roll back the welfare state or pursue «structural reform» of the labour markets
  - On the contrary, the social models have been important in cushioning the crisis
  - The Danish slump stems from macro-economic failures, not the social model
- Any lessons to be learnt from the Nordic recovery from crisis in the 1990s?
  - Mostly macro-economic story – huge depreciations, export growth & tax reforms enabled fiscal consolidation without killing domestic demand or dismantling the social models
  - SM calibration, social investment and rise in domestic demand enabled job growth
  - Balanced power relations & social partnership enabled coordinated, coherent solutions

- Challenges ahead – can the models withstand the pressures of
  - Prolonged High unemployment?
  - Cross-border low-wage competition & rising dualisation?
  - The euro-links in Finland & Denmark?
  - Rising disenchantment among immigrant youth?
  - Political responses – polarization, welfare chauvinism, social democratic decline?