

Economic policy during and beyond the pandemic in the Nordic countries

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Topics

1. Fiscal-policy decision-making during the pandemic
2. Job retention schemes
3. Fiscal-policy challenges
4. Monetary policy
5. Active labour market policy
6. Remote work
7. Energy costs, green transition, and economic policy

Tuulia Hakola-Uusitalo et al.: Fiscal-policy decision-making during the pandemic

- Inter-Nordic group with six researchers
- Similar macroeconomic developments in four large Nordic economies
 - Sudden and deep contraction Q2 2020
 - Swift and strong recovery
 - Small deteriorations in public finances
- Similar fiscal support programmes in order to insure against income losses
 - Extensive support to firms
 - Excessive support to firms, especially in Finland and Sweden

Tuulia Hakola-Uusitalo et al. – Fiscal-policy decision-making during the pandemic cont.

- Existing fiscal rules sufficiently flexible in Denmark, Norway and Sweden
 - Government expenditure ceiling abandoned for a time in Finland
- Normal legislative processes were followed but at much faster-than-usual speed
- High degree of political consensus on measures adopted
- Important role for labour market organisations in design of measures in Denmark and Finland
- Common-pool problems in Finland despite high government debt
 - pandemic support programmes used to raise spending in line with political parties' pre-pandemic priorities when not reined in by expenditure ceiling

Tuulia Hakola-Uusitalo et al. – Fiscal-policy decision-making during the pandemic cont.

- Involvement of outside experts
 - **Norway:** government committee headed by Steinar Holden
 - **Denmark:** Economic Council and special academic expert group
 - **Finland:** group of four economists with background in research and as government officials
 - **Sweden:** Advisory reference group to Minister for Finance but no government mandate or resources to write solicited reports
- Long-term consequences
 - Thresholds for support likely lowered in Finland, Norway and Sweden
 - Reductions in fuel taxes and electricity support schemes there
 - Denmark likely more immune to such changes in economic policy

Almut Balleer: Job retention schemes

- Income protection like unemployment insurance but in addition protection of existing employment relationships (job matches)
- Not self-evident that the government should provide such insurance as there are strong private incentives to maintain employment relationships in the case of temporary adverse shocks
- Case for government intervention
 - Financial constraints (and incomplete private insurance markets)
 - Legal obstacles
 - Externalities

Almut Balleer: Job retention schemes cont.

- Trade-off between insurance and efficient reallocation of labour
- Job retention schemes more motivated in deep and short contractions if risk of large skill losses
- Job retention schemes more problematic in protracted downturns and during periods with rapid structural change
 - but may still be motivated with low labour-market flexibility and low job-finding rates
 - then risks of large human-capital losses and discouraged-worker effects

Almut Balleer: Job retention schemes cont.

Risk of deadweight losses can be countered in several ways

- Only 100% reduction in working hours (Finland) or high threshold (Norway)
 - But good to spread adjustment burden among workers
- Sufficiently high co-financing from employers (Denmark, Norway and Sweden)

Almut Balleer: Job retention schemes cont.

Recommendations for the future

- Automatic activation in severe crises
- Unions and employer associations should be involved in the design of schemes
- Sufficient co-financing by firms to prevent overuse
- Flexibility regarding the extent of working-time reductions
- Targeting of the most vulnerable industries, firms and workers
- Coverage also of workers with temporary employment
- Extend schemes so that time off work can be used to upgrade skills

Torben Andersen: Fiscal policy challenges

Adequate stabilisation of the economy and insurance against income losses

- Strong public finances to that there is enough fiscal space
 - This is the case in Denmark, Norway and Sweden
 - More precarious situation in Finland and Iceland
- Need for strong automatic stabilisers
 - Generous social safety nets
 - Business-cycle contingent unemployment benefits
 - Job retention schemes
 - Mechanisms to avoid procyclical spending of local governments
- Public intervention (subsidisation and regulation) to enhance private insurance arrangements and insurance role of government against catastrophic events

Torben Andersen: Fiscal policy challenges cont.

Need for temporary increases in public investment

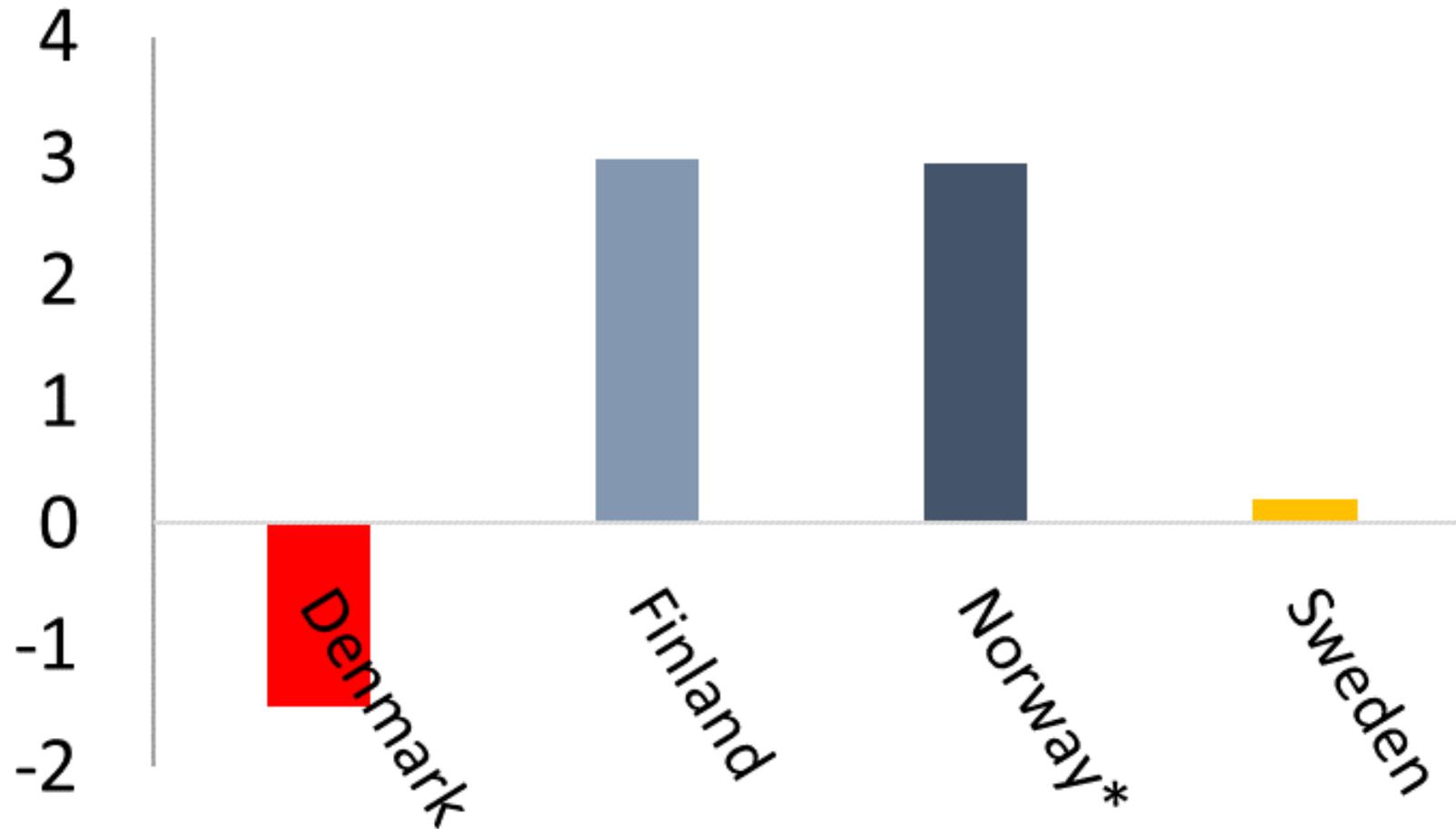
- Fiscal rules designed to counter deficit bias from short-termism
- But short-termism may then manifest itself as bias against investment
- Avoid complex golden-rule solutions
 - Risks of creative accounting
 - Discrimination of human-capital investment
 - Socially efficient investments may not generate fiscal revenues
- Allow temporary deviations from current rules to create space for investments directed towards climate, military and energy provision
- Private investment can substitute for public investment if clear signals of future policy and regulation

Torben Andersen: Fiscal policy challenges cont.

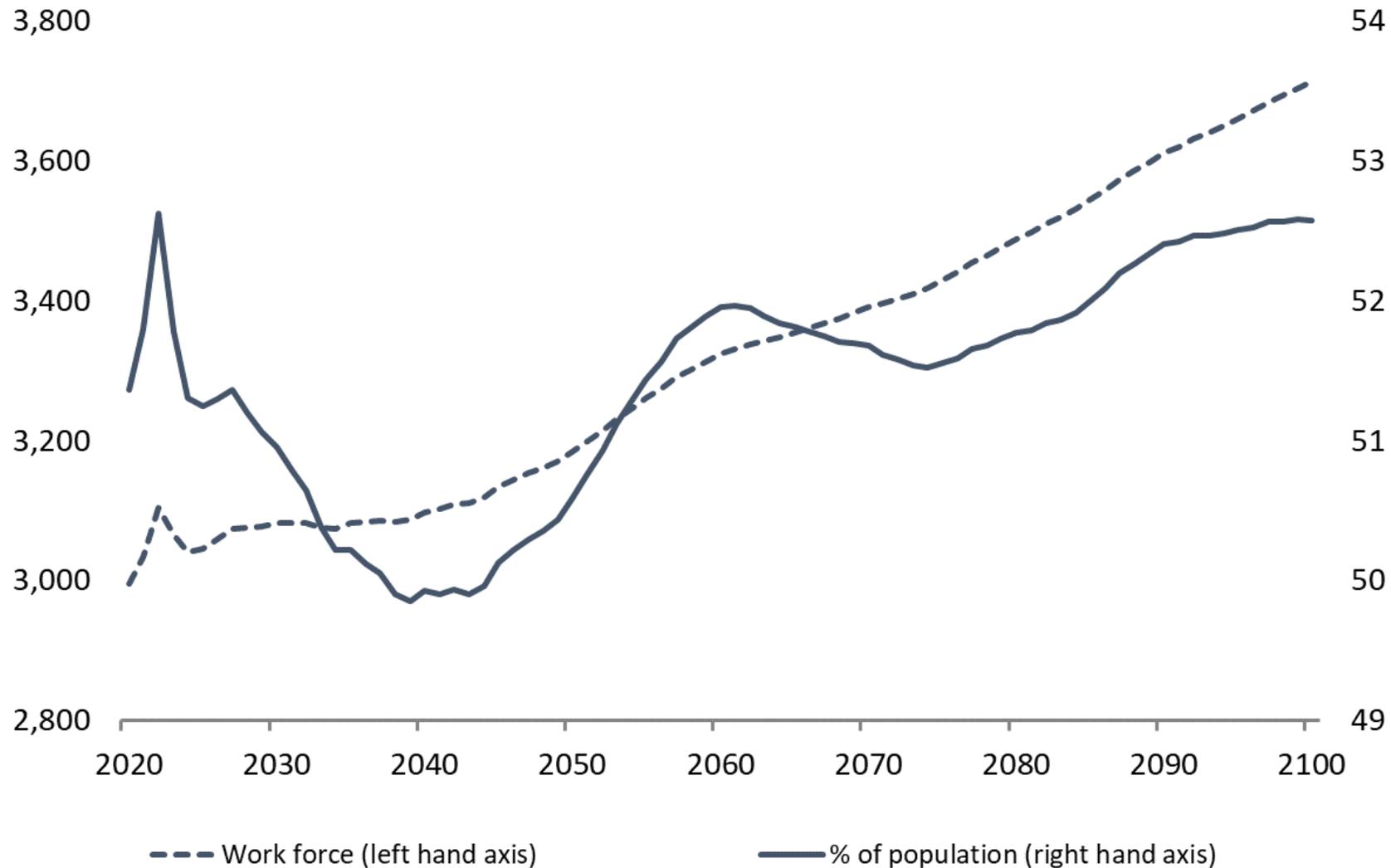
Handling of ageing populations

- Projected fiscal sustainability problems in Finland and Norway
- Projected fiscal sustainability in Denmark and Sweden
- Also a labour constraint side to the problem in all Nordic countries
 - Recruitment needs in health and old-age care
 - Stagnating labour supply

Fiscal sustainability indicator for the Nordic countries (required permanent budget change), percentage of GDP



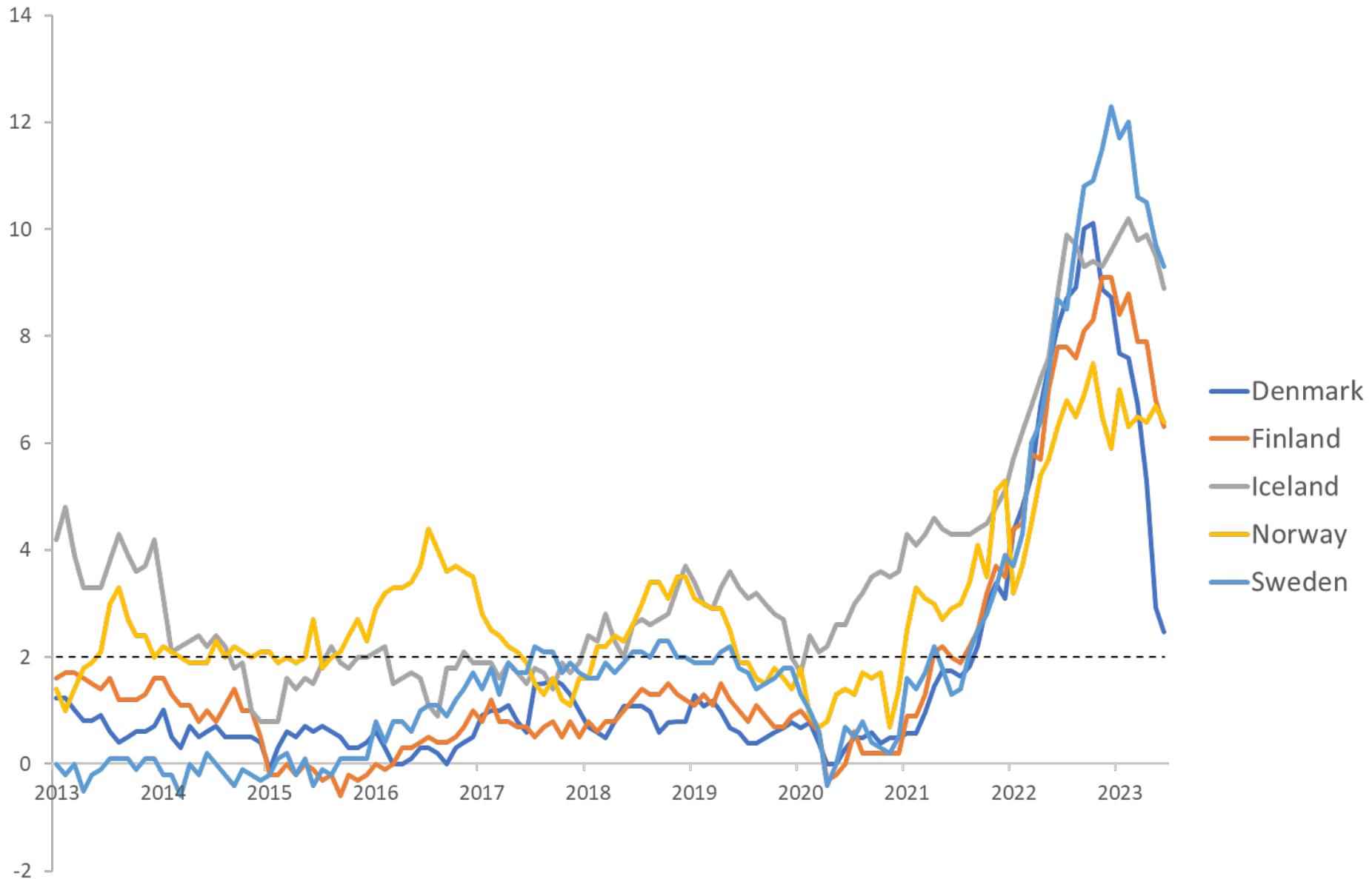
Projection for the labour force in Denmark, 2020–2100



Jesper Rangvid: Monetary policy

- Different monetary regimes
 - **Finland**: euro membership
 - **Denmark**: fixed exchange rate to the euro
 - **Iceland, Norway** and **Sweden**: flexible exchange rate and inflation targeting
- Still similar inflation experiences
- Large QE in Sweden did not give lower long-term bond yields than in Denmark without QE

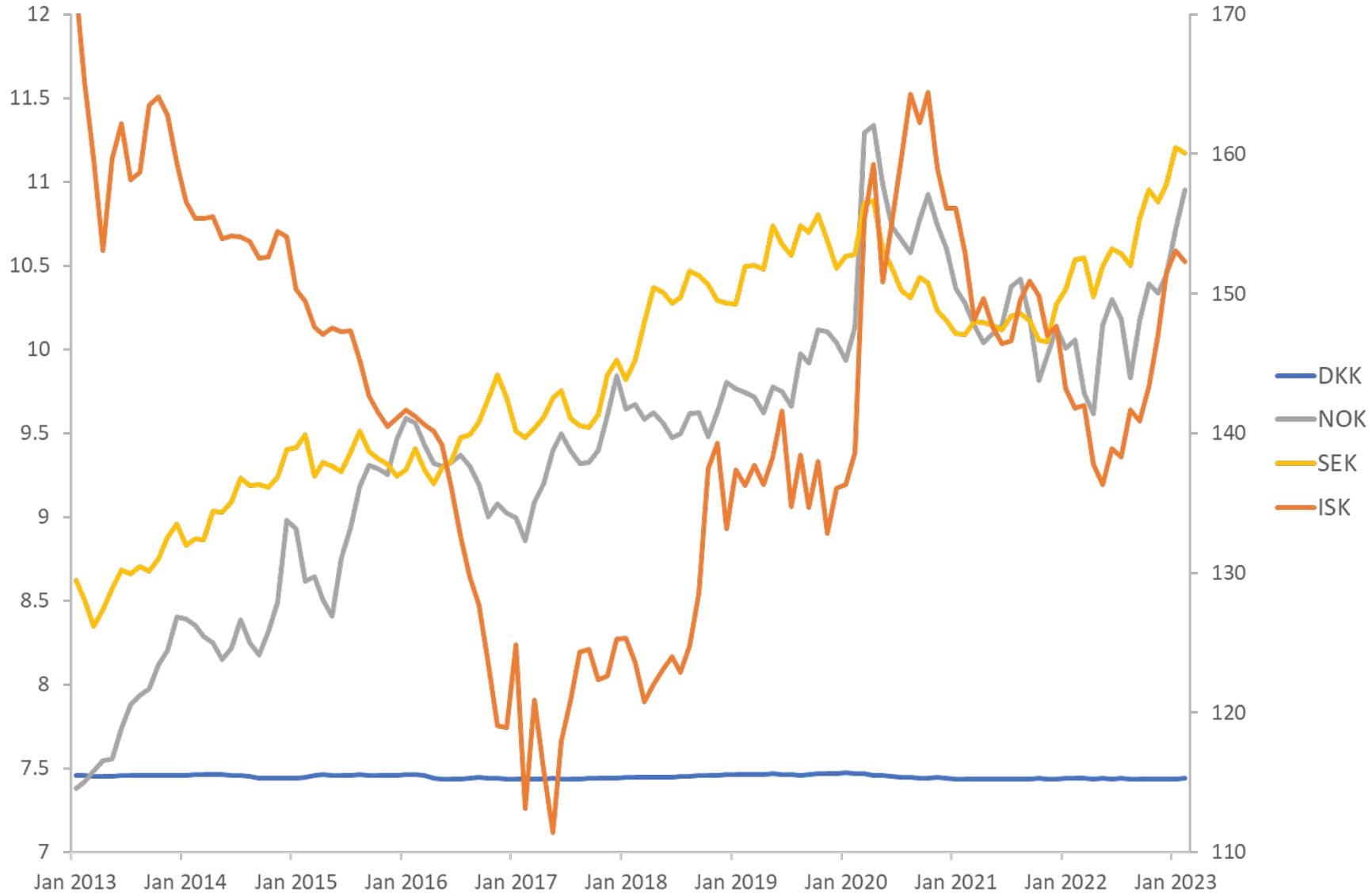
Inflation in the Nordic countries, 2013–23, percentage



Jesper Rangvid: Monetary policy cont.

- Not less output variability with flexible exchange rate
 - **Iceland** has the highest variability in output growth
 - **Norway** has the lowest variability in output growth
 - **Denmark** and **Sweden** have had about the same output growth variability
- But more exchange rate variability with flexible exchange rate
 - The variability has been *very much* larger
 - Strong depreciations of Norwegian and Swedish currencies
 - Large swings in the Iceland currency
- **Provocative question: Is there any upside of having a flexible exchange rate?**

Number of DKK, NOK, ISK and SEK per euro, 2013–23

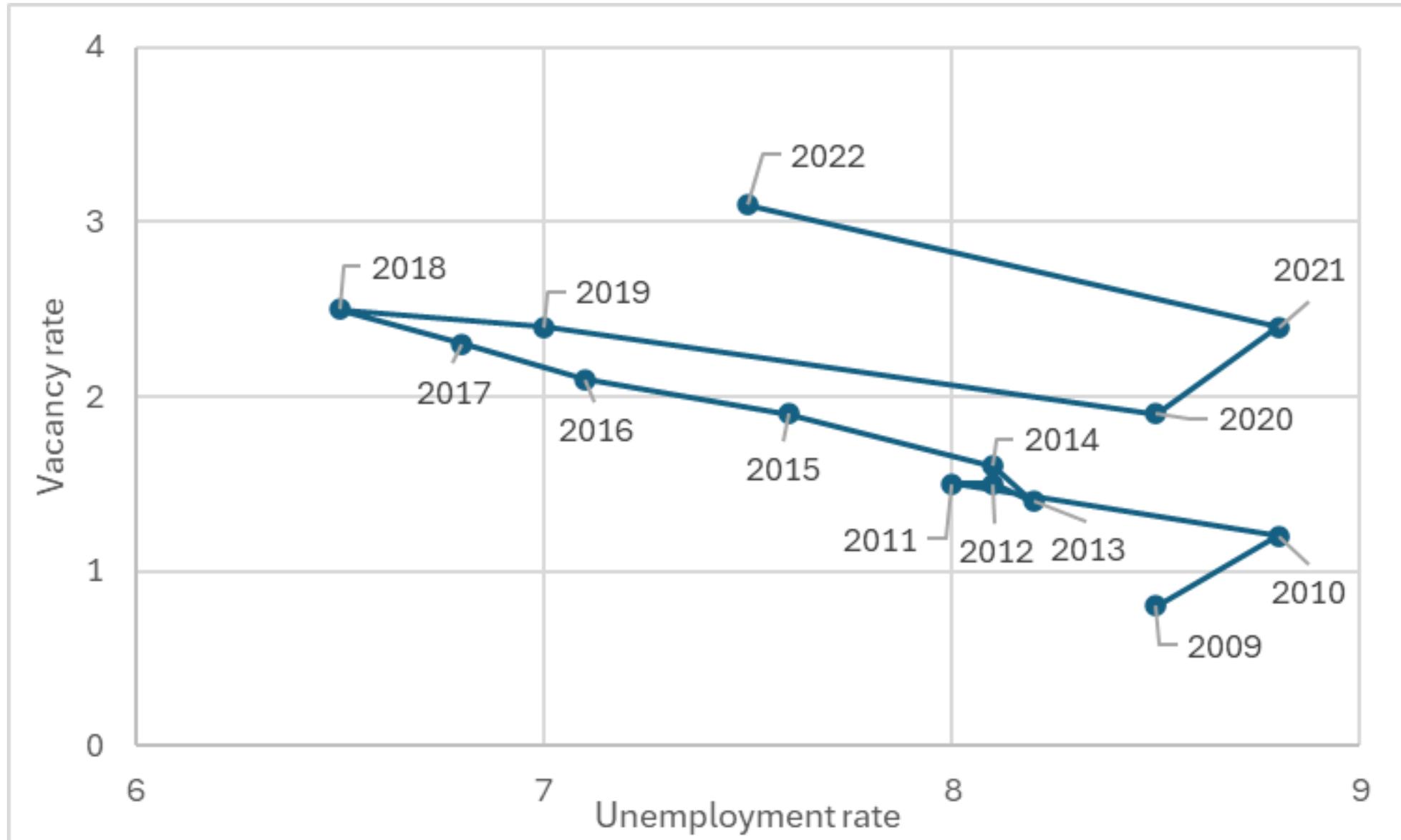


Anders Forslund: Active labour market policy

Mismatch problems in the Nordic countries

- Examination of Beveridge curves and matching functions
- Indications of increased matching problems after the pandemic only in Sweden
 - Beveridge curve but not matching function

The Swedish Beveridge curve, 2009–22



Anders Forslund: Active labour market policy cont.

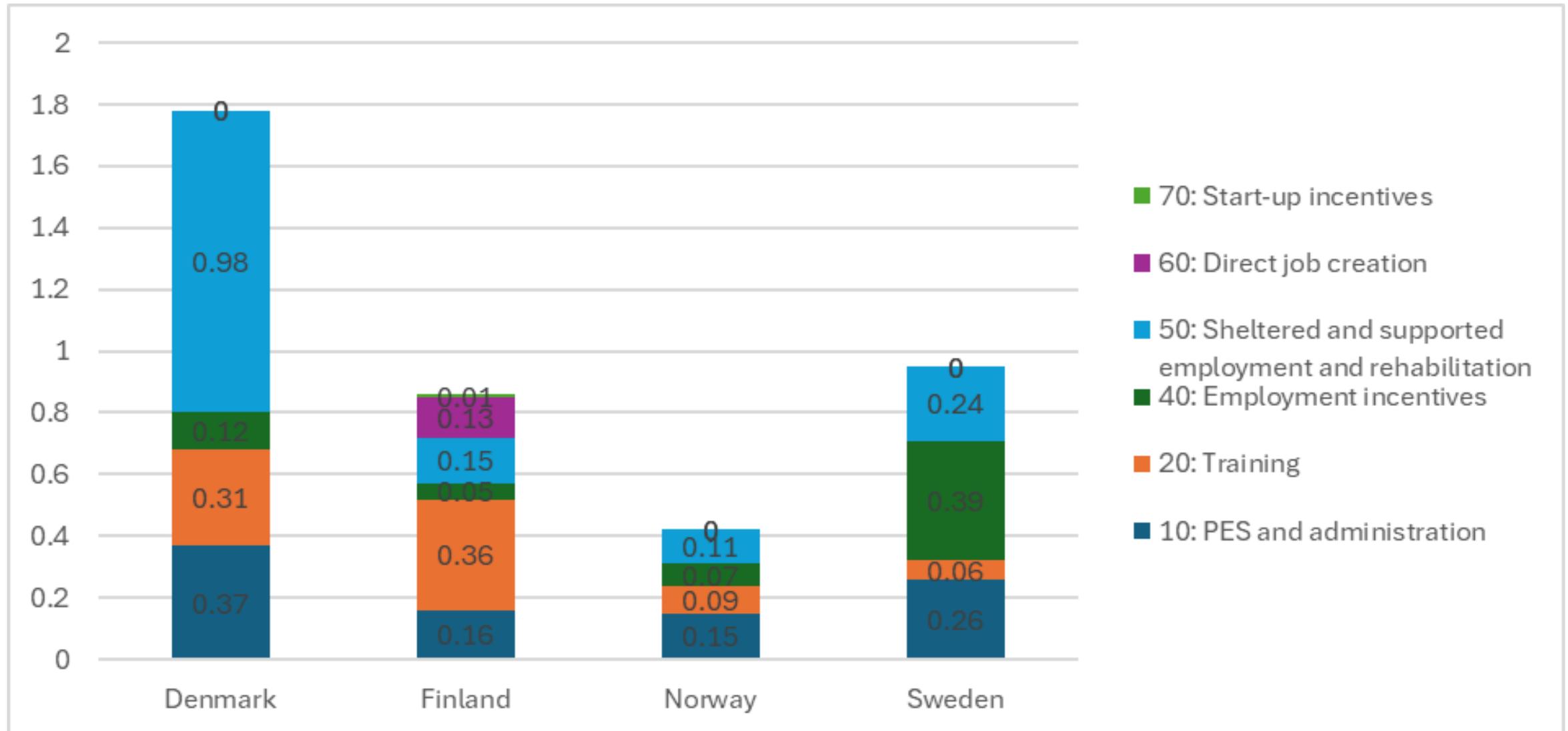
Different ways of organising active labour market policies in the Nordic countries

- **Denmark:** Decentralisation of implementation to municipalities but expertise and following-up by STAR
- **Norway:** Centralised implementation by NAV but integrated one-stop offices with NAV case workers and municipal social service workers
- **Sweden:** Private provision of matching services but allocation of job seekers to various processing streams by the PES. Municipalities have their own programmes as well as labour market organisations.
- **Finland:** Three ministries involved. Municipalities have their own programmes.
- Little knowledge of what works best

Anders Forslund: Active labour market policy cont.

	Spending on ALMPs 2020, percent of GDP
Denmark	1,8
Finland	0,9
Norway	0,4
Sweden	1,0

Spending on different active labour market policy measures in the four big Nordic countries, 2020, percentage of GDP



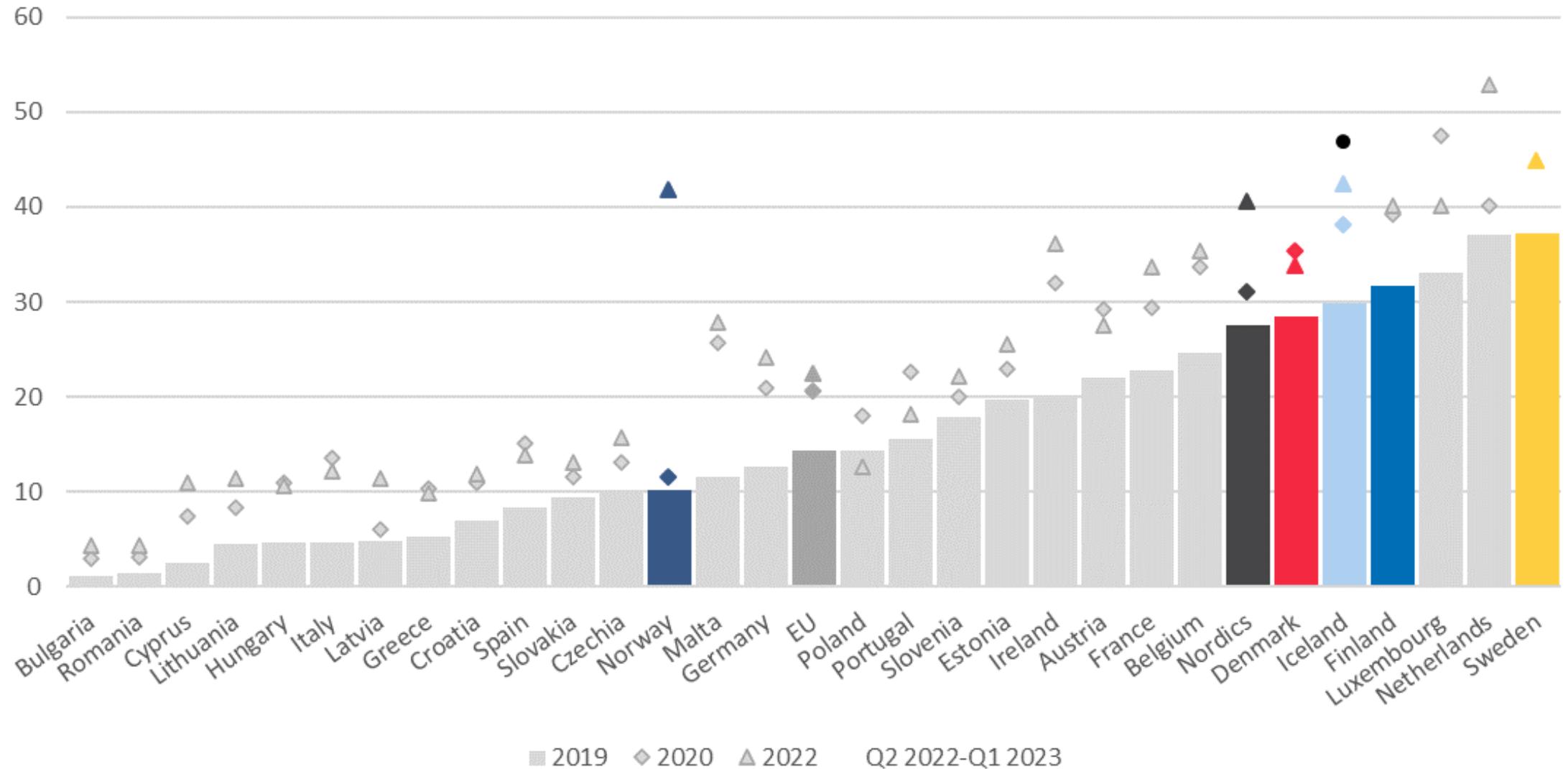
Anders Forslund: Active labour market policy cont.

- Evidence that subsidised jobs and vocational training are the best-performing programmes
- All Nordic countries except Sweden spend little on subsidised jobs
- Norway and Sweden spend little on vocational training
- Denmark, Finland, and Sweden could benefit from a more balanced composition of their programmes
- Norway could benefit from increasing expenditures on all programmes

Adam Gill and Oskar Nordström Skans: Remote work

- Remote (hybrid) work more common in the Nordics before, during and after the pandemic
 - internet access
 - digital skills
 - trust
- Why was the pandemic a watershed moment?
 - New private insights about benefits and costs
 - Compounded by a change in social norms
 - New technological infrastructure
 - Together change from one social equilibrium to another

Percentage of at least some working from home, 2019–22



Adam Gill and Oskar Nordström Skans: Remote work cont.

Effects of remote work

- Net positive gain for employees
 - saving on commuting time
- Mixed results on labour productivity
- Main employer benefits:
 - Economise on office space
 - Lower labour turnover
- But lower willingness of employees to accept wage cuts than the cuts employers expect

Adam Gill and Oskar Nordström Skans: Remote work cont.

Distributional effects

- Increased inequality in terms of welfare
- Decreased inequality in terms of income
- More job opportunities for disabled persons

Mads Greaker and Knut Einar Rosendahl: Energy costs, green transition and economic policy

Households

- Most generous electricity price support to households in Norway
 - 90% of price above limit subsidised
- Finland and Sweden: Amount of support decided ex post
- Denmark: least generous support with lump-sum transfers to low-and middle-income households

Businesses

- Most generous support in Norway and Sweden
- Loan guarantees in Denmark and targeted support in Finland

Mads Greaker and Knut Einar Rosendahl: Energy costs, green transition and economic policy cont.

Analysis of ex-ante support scheme as in Norway

- Rise in both renewable and non-renewable production
- This is socially inefficient
 - marginal cost for producers exceed marginal benefit for consumers
 - socially inefficient allocation between consumers
- Ex-post support as in Finland and Sweden is less harmful
 - Only to the extent that expectations effects are created
- Adoption of more energy-efficient technology is slowed down

Mads Greaker and Knut Einar Rosendahl: Energy costs, green transition and economic policy cont.

Optimal design of support in the case of energy price hikes

- Lump-sum transfers do not distort incentives
- Limitation to low-income households would hold down costs
 - More resources to green transition
- Transfers should be taxable
- Better targeting with transfers based on historical energy consumption
 - Trade-off between targeting and adverse expectation effects

Our main take-aways

- Increasing relative importance for income insurance role of fiscal policy rather than demand stabilisation role
 - More targeting of low-income households
- Avoid over-generous support to firms in order not to impede desirable structural change
- Job retention schemes should not be in permanent use and incentivise human-capital accumulation
- Fiscal policy should play a larger role for aggregate-demand stabilisation
 - Problems with overemphasis on monetary policy
 - Strengthen automatic stabilisers
- Lump-sum transfers instead of price support in the case of price hikes
 - Counteract income effects but not substitution effects
- Strengthen semi-automatic stabilisers in the form of pre-defined policy packages to be activated in crises

Our main take-aways cont.

- Less stringent fiscal objectives in the years to come to provide room for more public investment
 - Political commitments to increase some public investments based on *solid cost-benefit analyses*
 - Following-up by fiscal councils (also in Norway)
- Need for relative-wage changes in welfare services
 - How square this with current pattern-bargaining systems?
- Less of organisational restructuring of active labour market policy and more focus on programme mix
 - More overall spending in Norway
 - More spending on training in Sweden, and more on subsidised jobs in Denmark and Finland