

# 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**

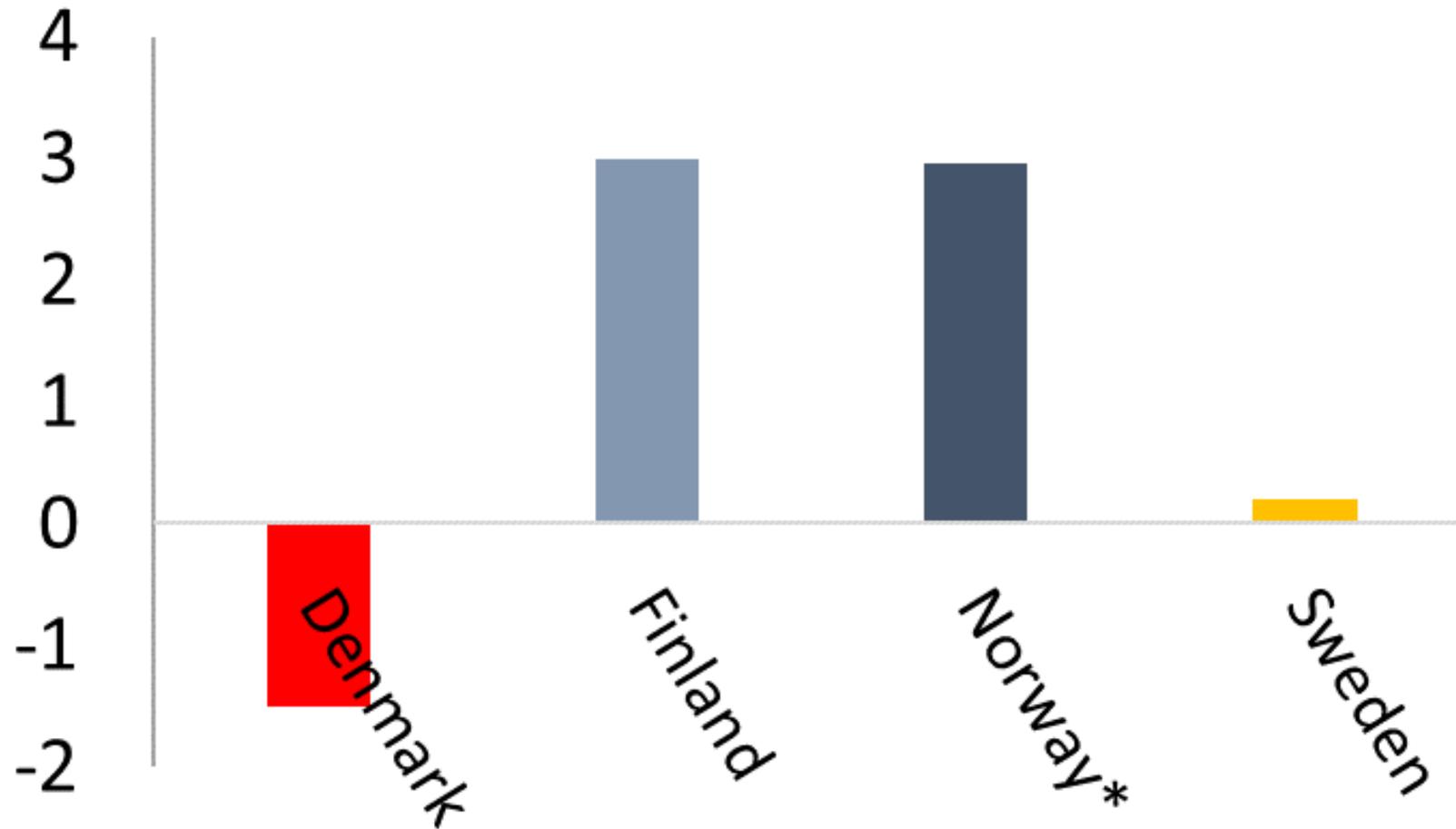
- Fiscal rules designed to counter deficit bias from short-termism
- But short-termism may then manifest itself as bias against investment
- Avoid complex golden-rule solutions
  - Risks of creative accounting
  - Discrimination of human-capital investment
  - Socially efficient investments may not generate 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.

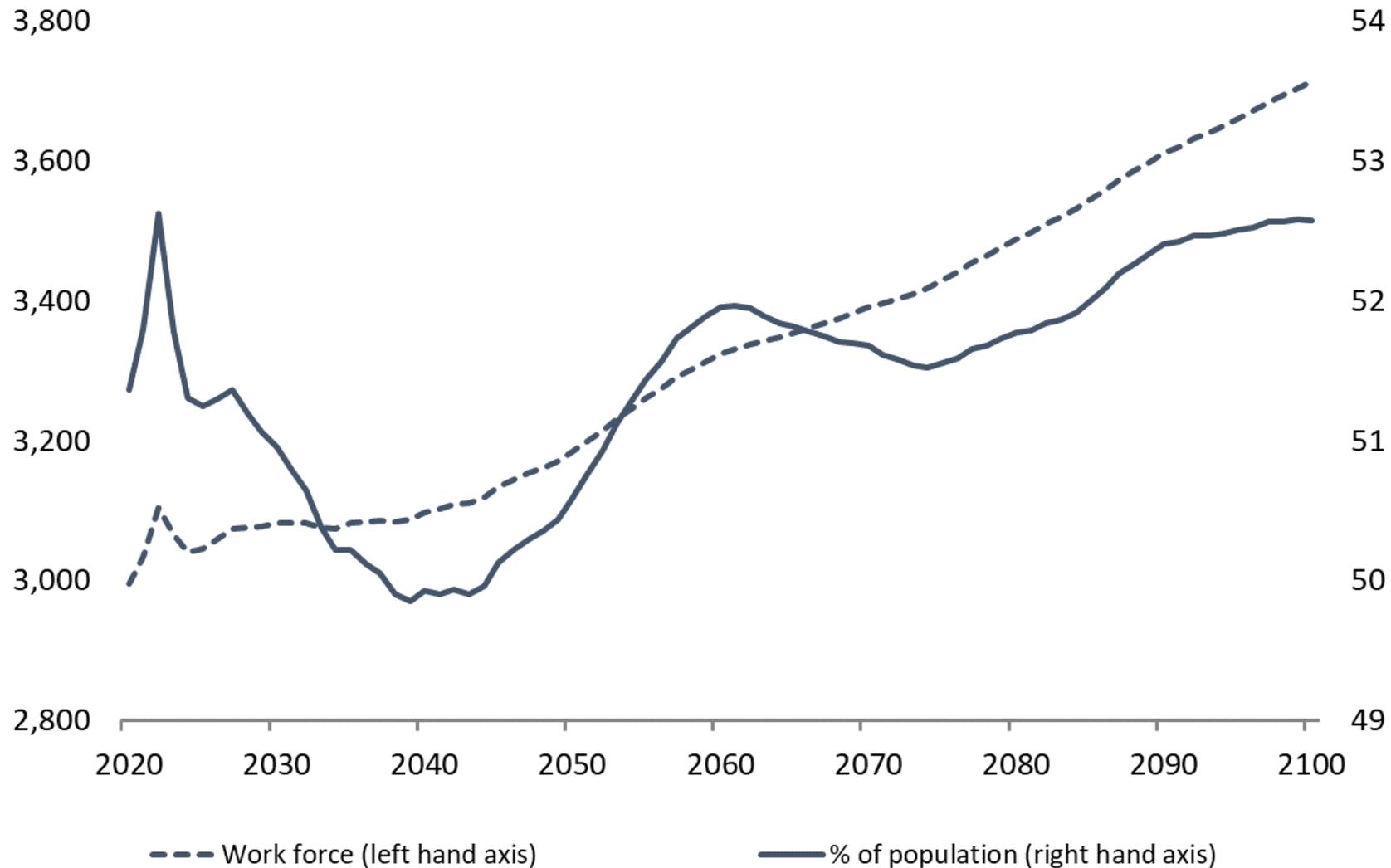
## **Handling of ageing populations**

- 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



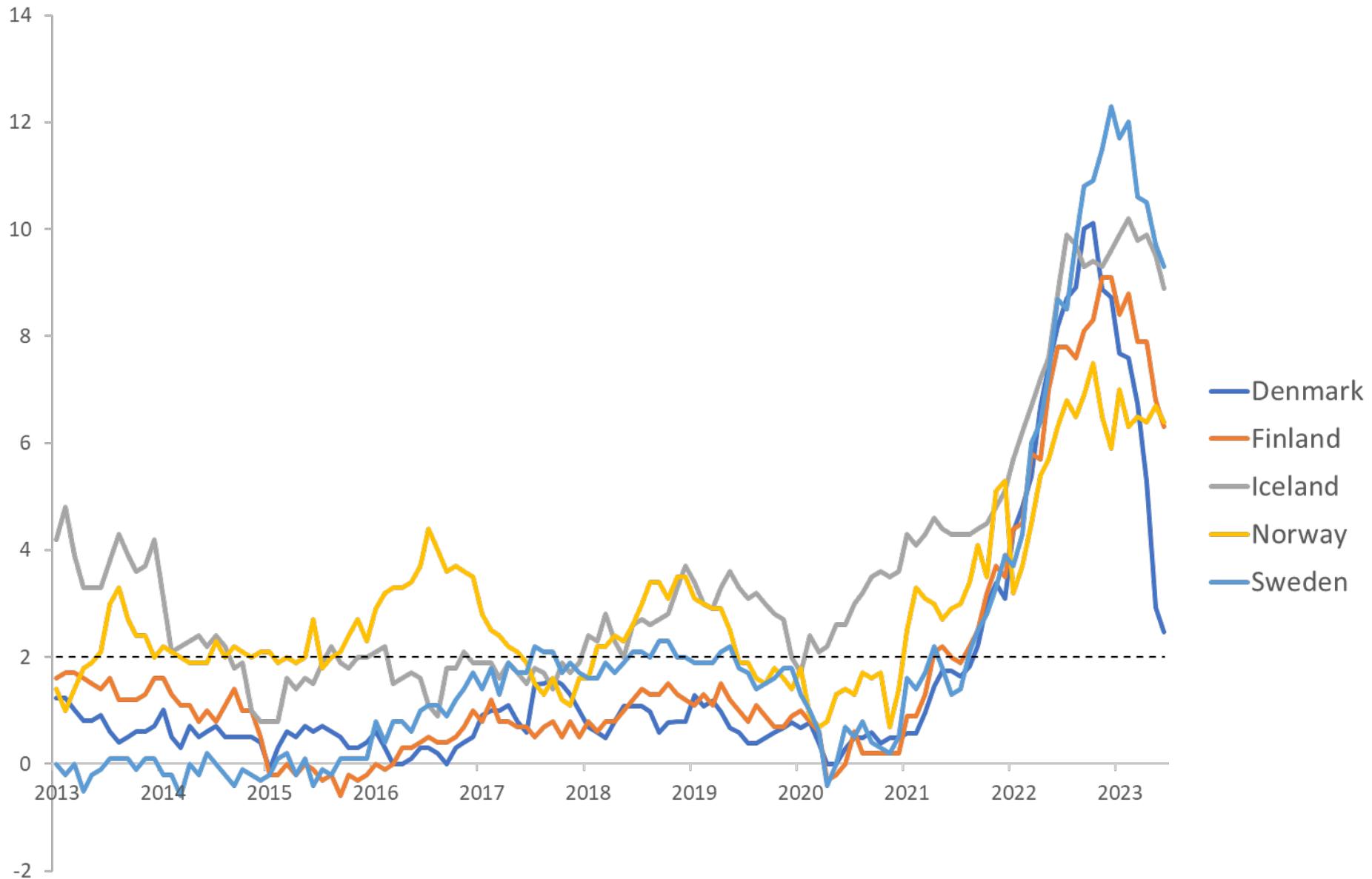
# Projection for the labour force in Denmark, 2020–2100



# 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

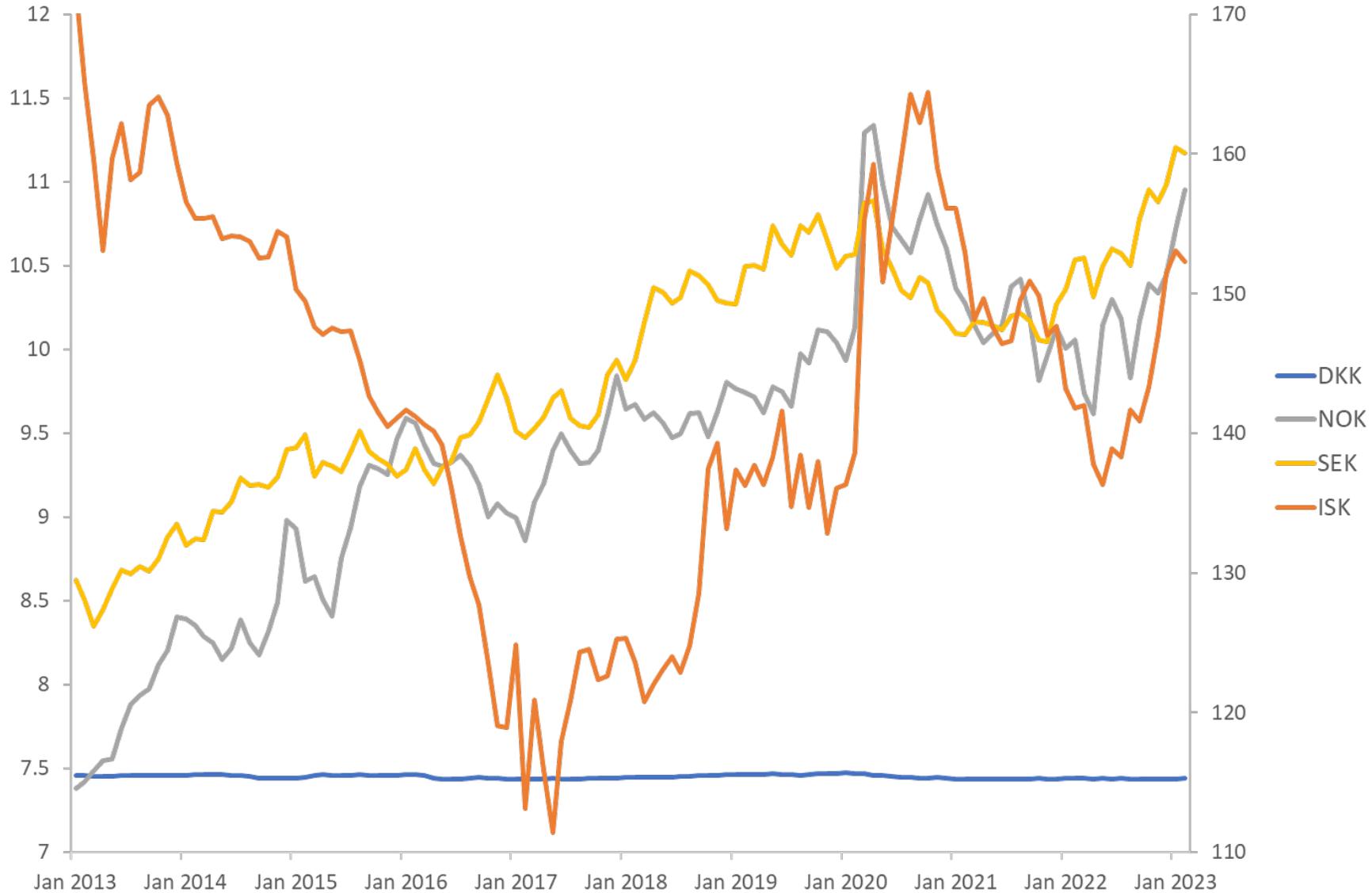
# Inflation in the Nordic countries, 2013–23, percentage



# 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

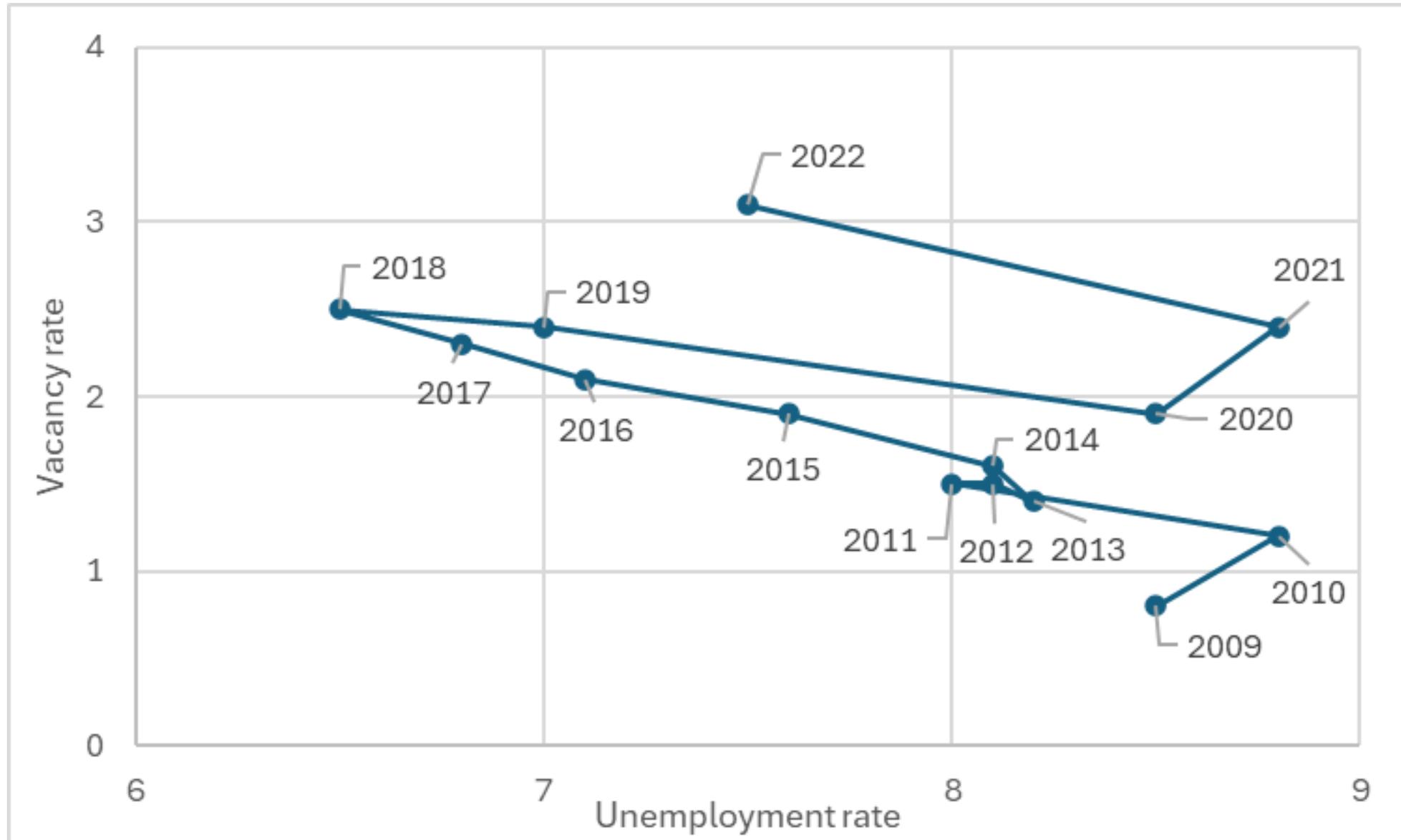


# Anders Forslund: Active labour market policy

## **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.

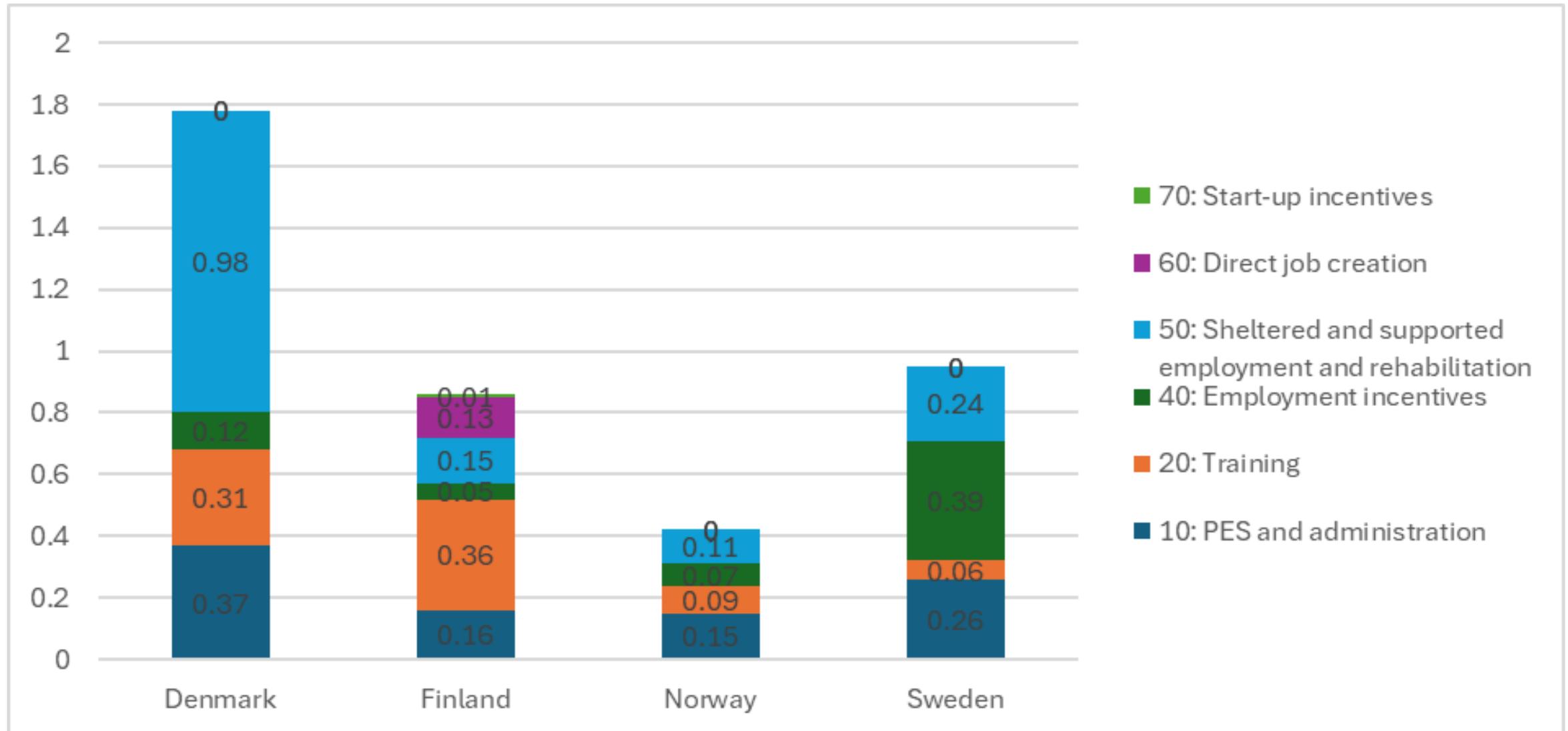
## Different ways of organising active labour market policies in the Nordic countries

- **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



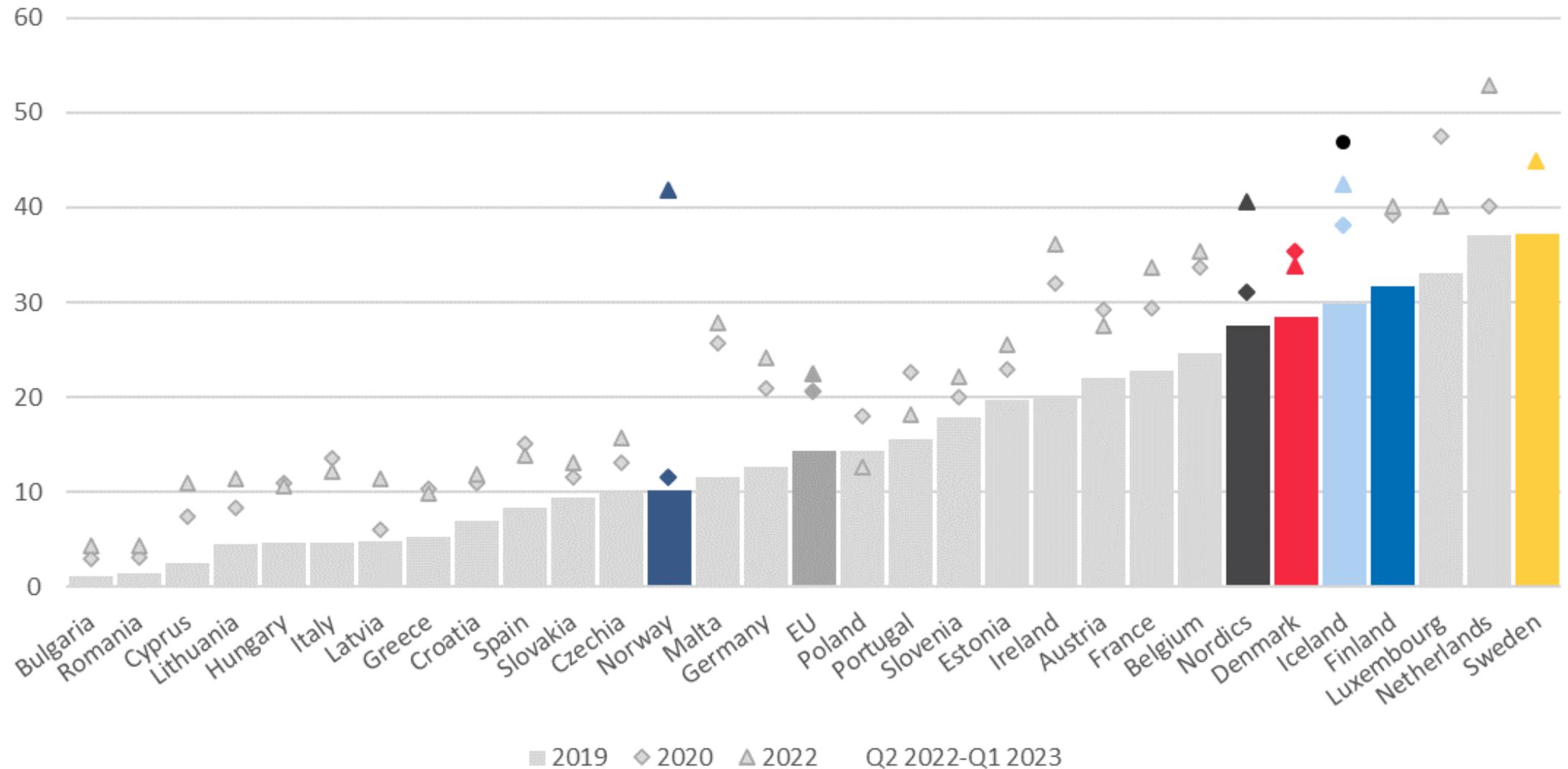
# Anders Forslund: Active labour market policy cont.

- 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