

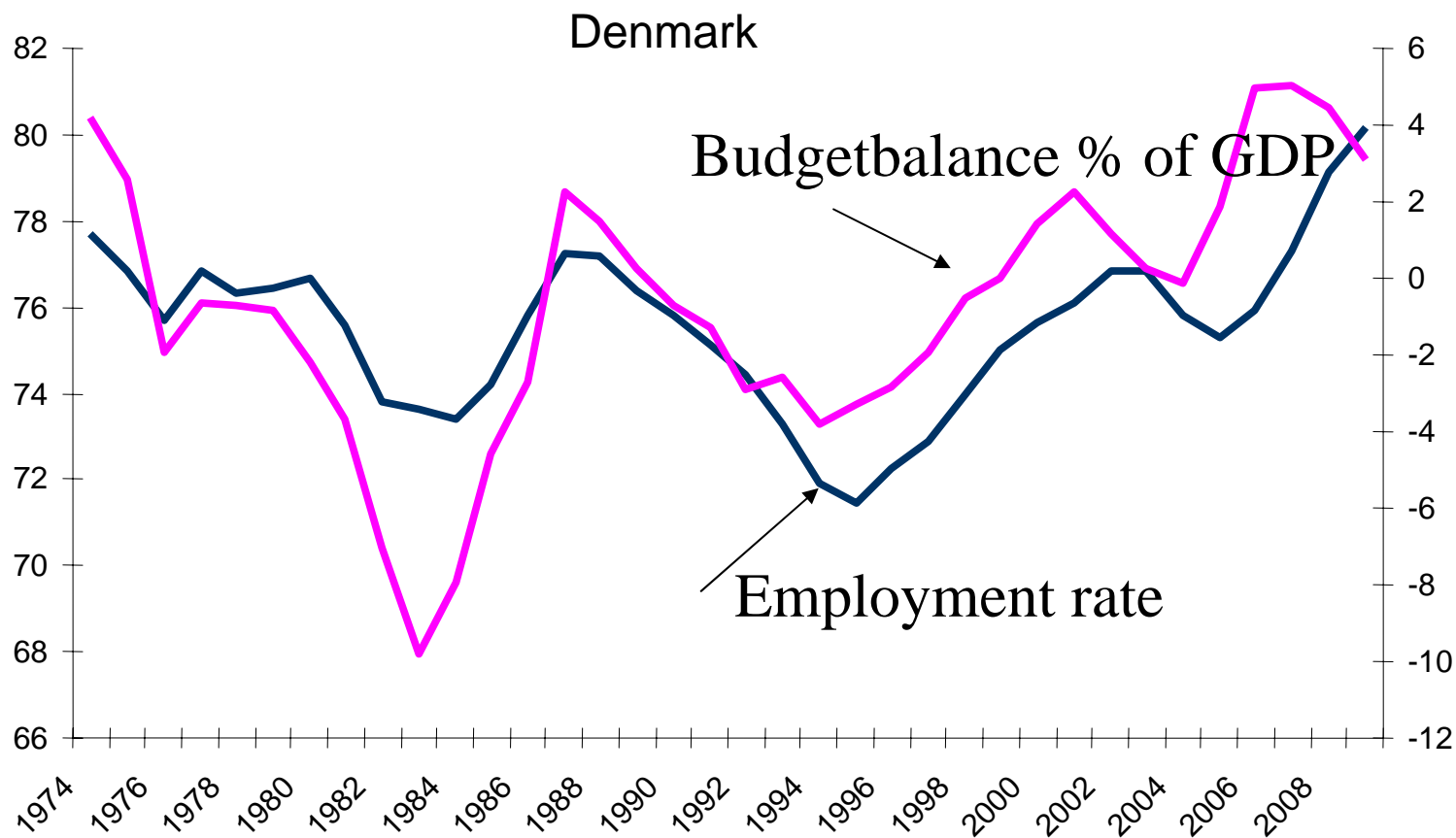
Financial crisis and the Nordic model

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Global crisis:

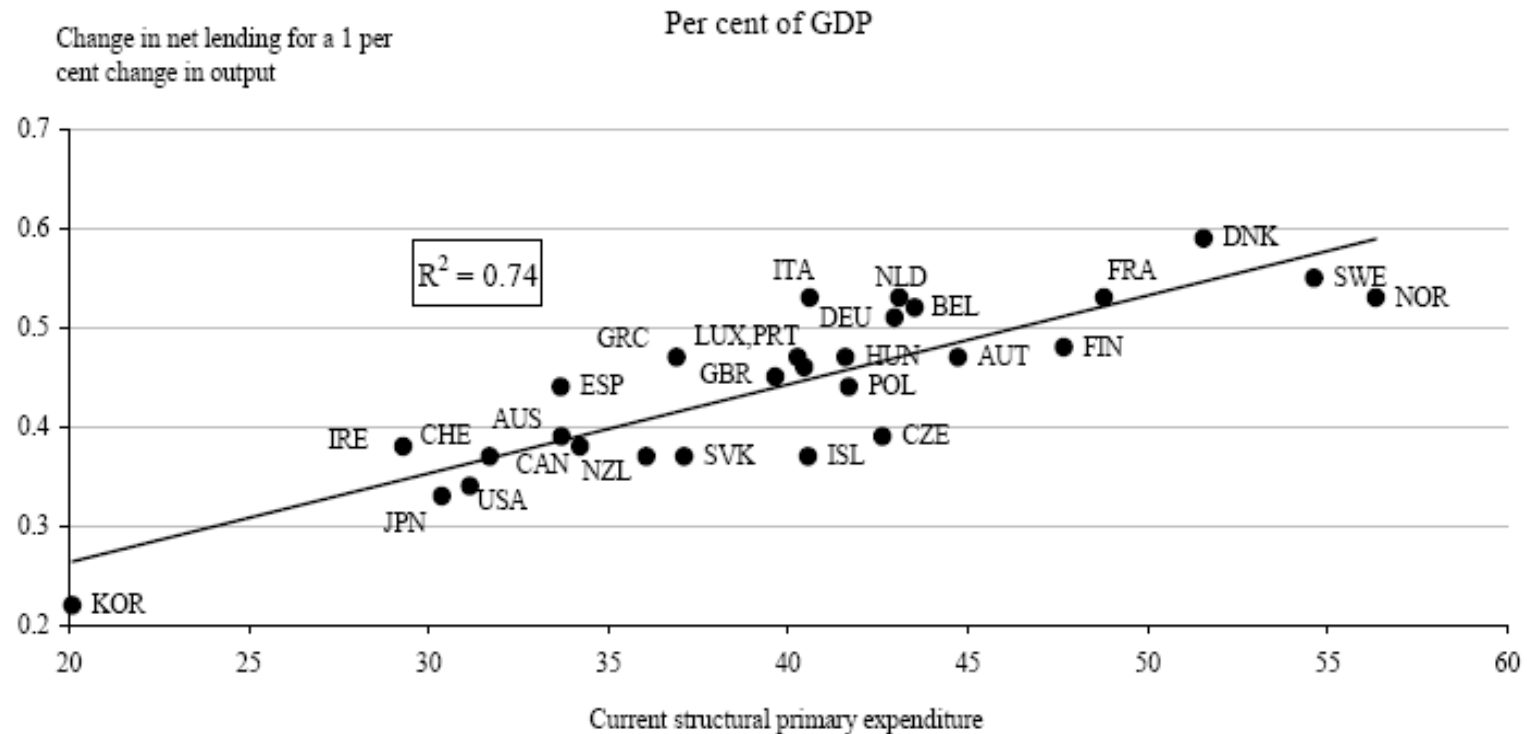
- **Financial sector problems**
- **Falling aggregate demand (domestic and foreign)**
- **Policy responses: fiscal and monetary policy**
- **Any specific Nordic challenges?**

Budgetposition and employment rate are twins



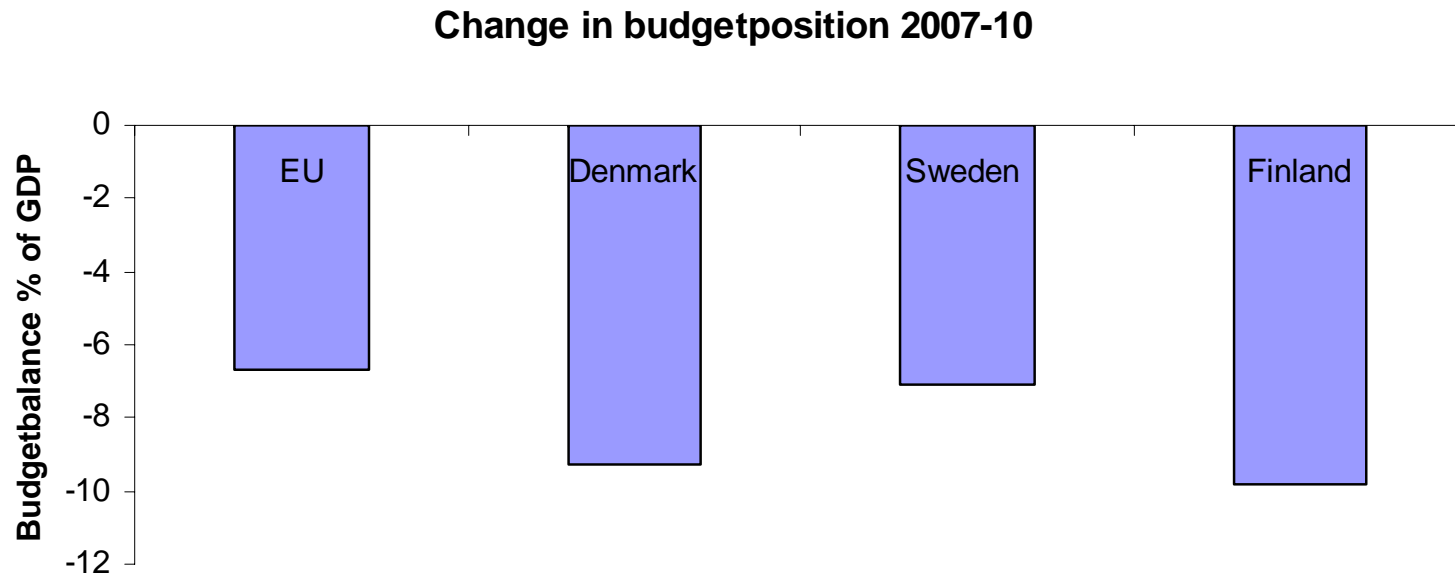
Automatic stabilizers and the size of the public sector

Figure 3. Cyclical sensitivity of the fiscal position and government size



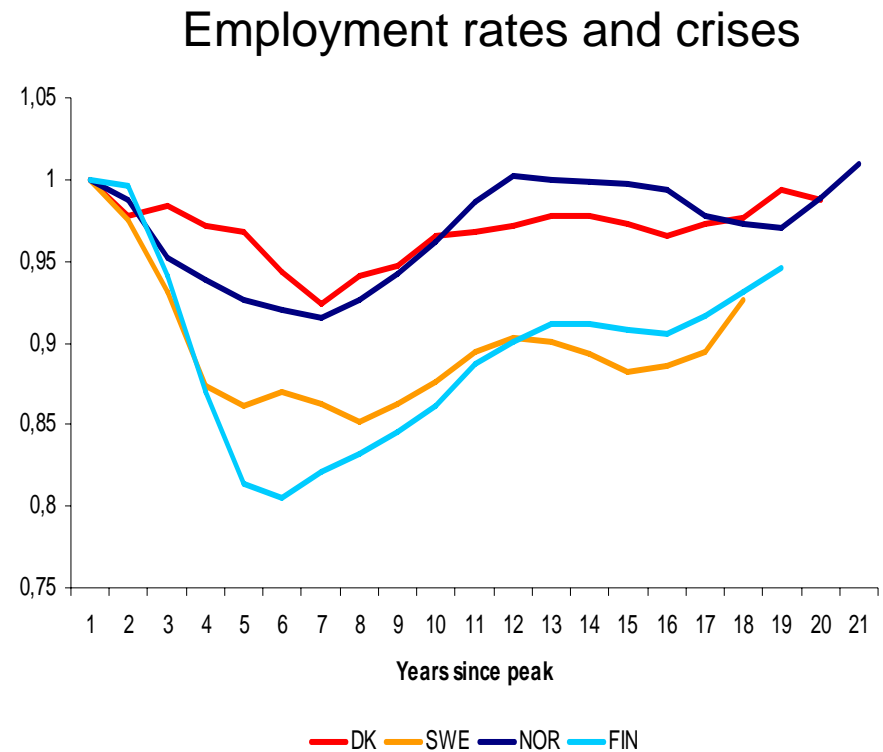
Source: OECD Economic Outlook 76 database and OECD estimates.

Financial crisis and the budget



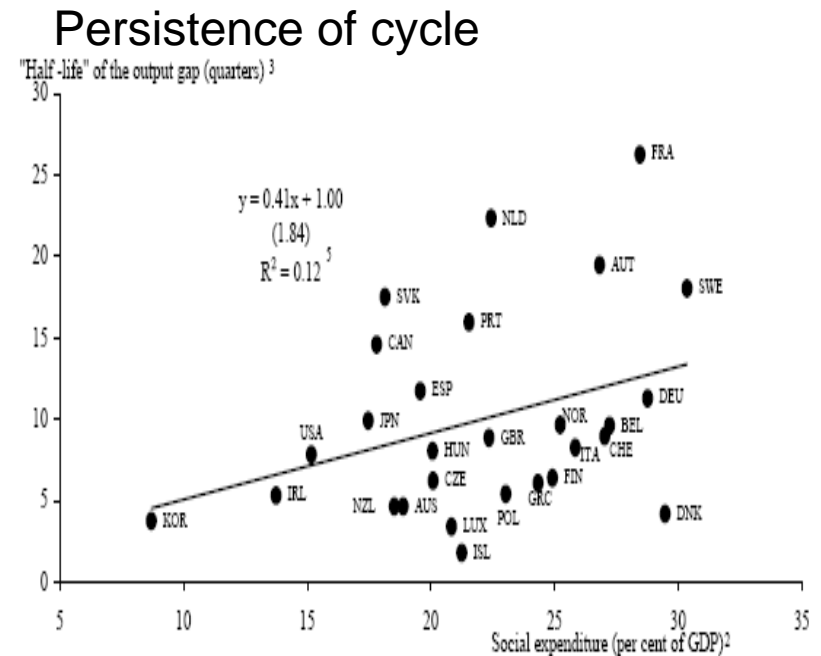
Major crises in the Nordic countries

- Associated with persistent declines in the employment rates
- Labour market problems – long term unemployment
- Public finance problems – large deficits and needs for consolidation



Social safety net

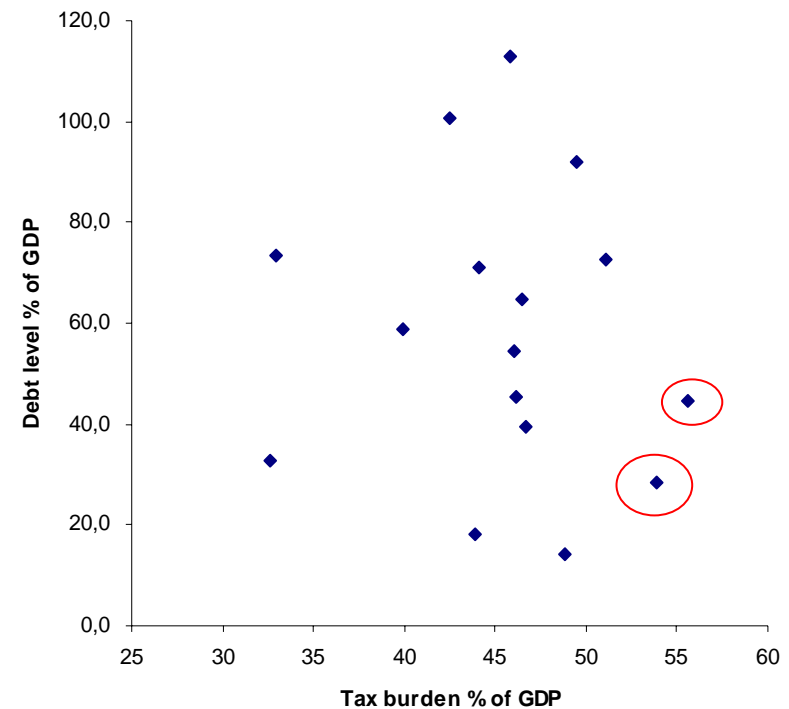
- Lowers short run costs of fluctuations
- At the costs of more persistence?
- Major challenge!



Social expenditures
% of GDP

Public sector and prudent fiscal policy

- Large public sector = high budget sensitivity
- Public finances are significantly affected by crisis
- In the past – also stronger consolidations efforts!



Specific Nordic challenges

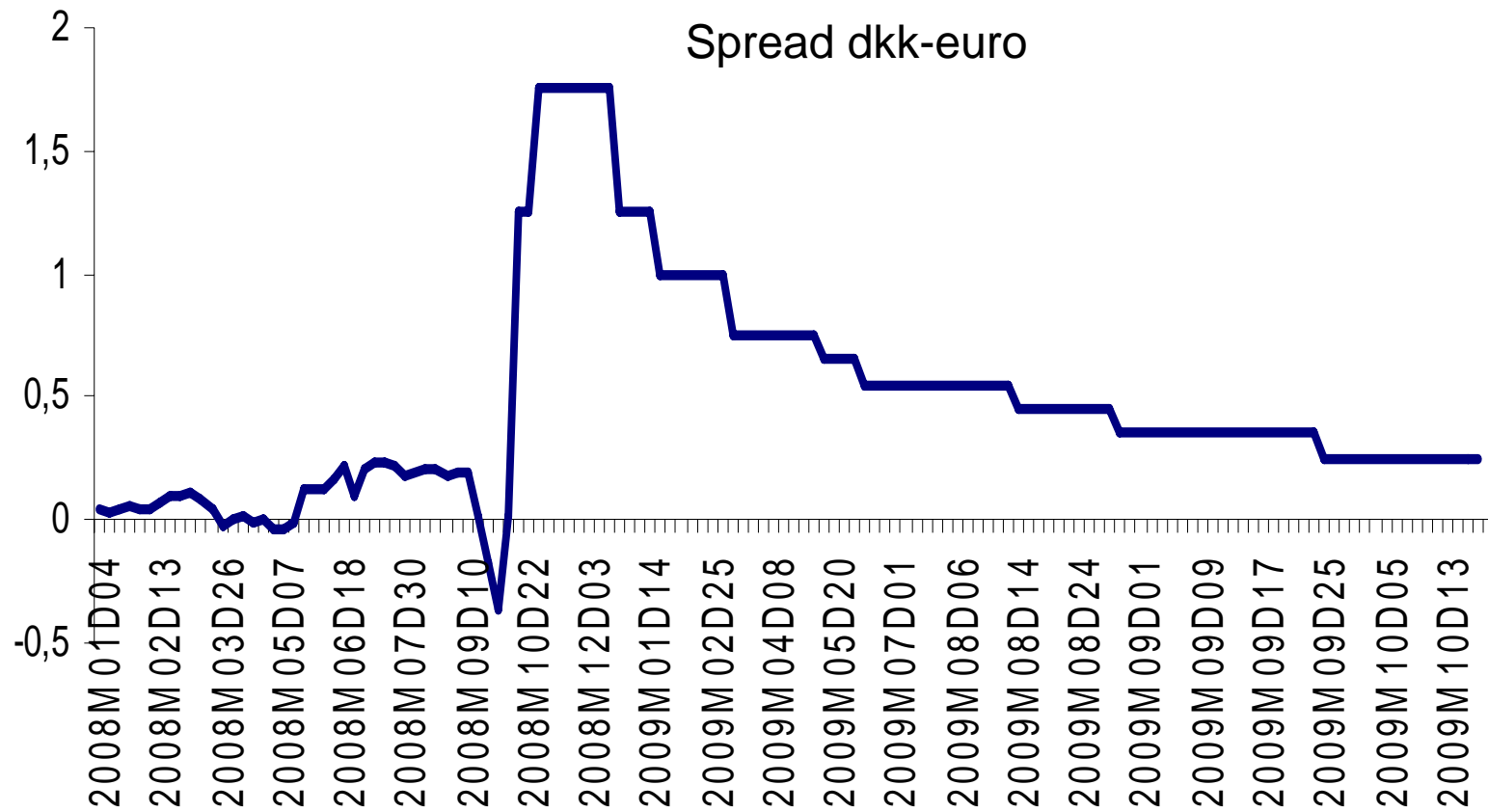
Labour market:

- **Maintain high employment rate**
- **Avoid increase in long term unemployment**
- **Can active labour market policy deliver this?**

Fiscal policy:

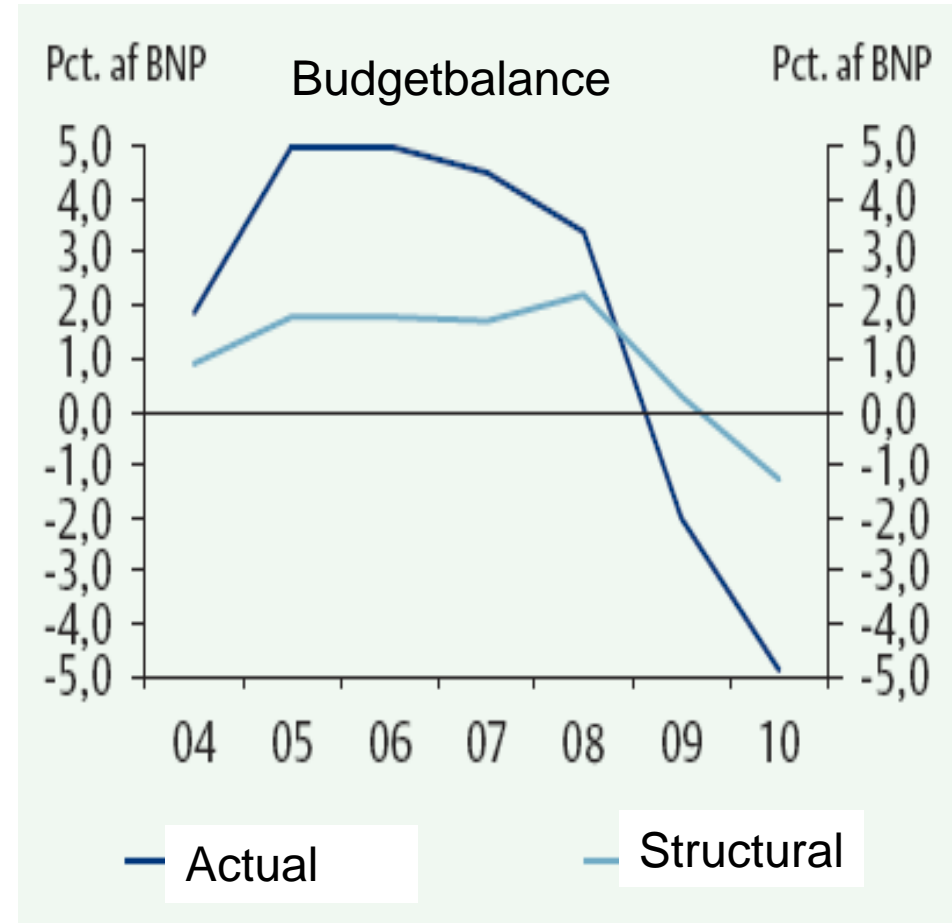
- **Maintain fiscal responsibility**
- **Ensure fiscal sustainability**
- **Are current fiscal frameworks able to deliver this?**

Denmark: interest rate spread during the crisis



Fiscal policy

- **Expansionary measures**
 - Tax reductions
 - Public investments
- **Budget effect**
 - 2009: 1.9 % of GDP
 - 2010: 3.2 % of GDP



Reform-momentum lost?

- **Prior crisis – strong public budget**
- **Reforms to ensure fiscal sustainability**
- **Strategy: increase labour supply and employment**
- **Post crisis:**
- **Reforms postponed**
- **Fiscal sustainability problem is larger**
 - **Crisis**
 - **Previous underestimation**

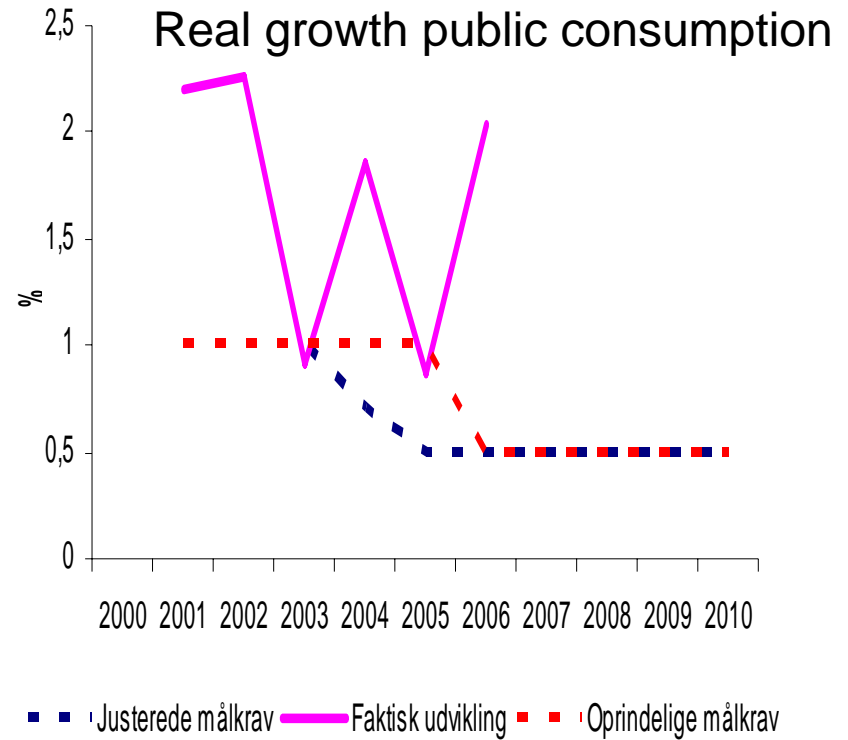
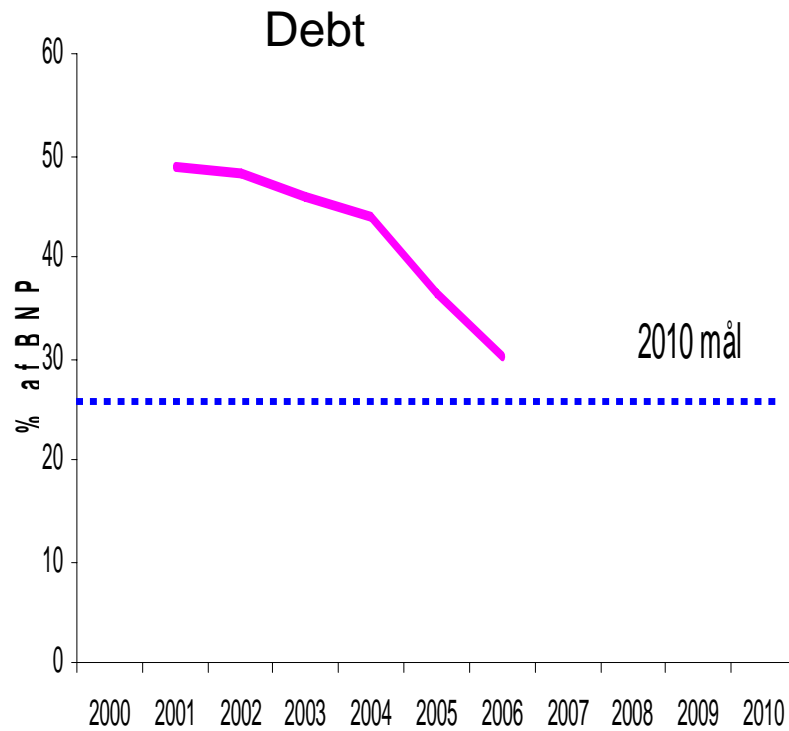
Fiscal policy

2010 – and 2015 plans

2010 plan:

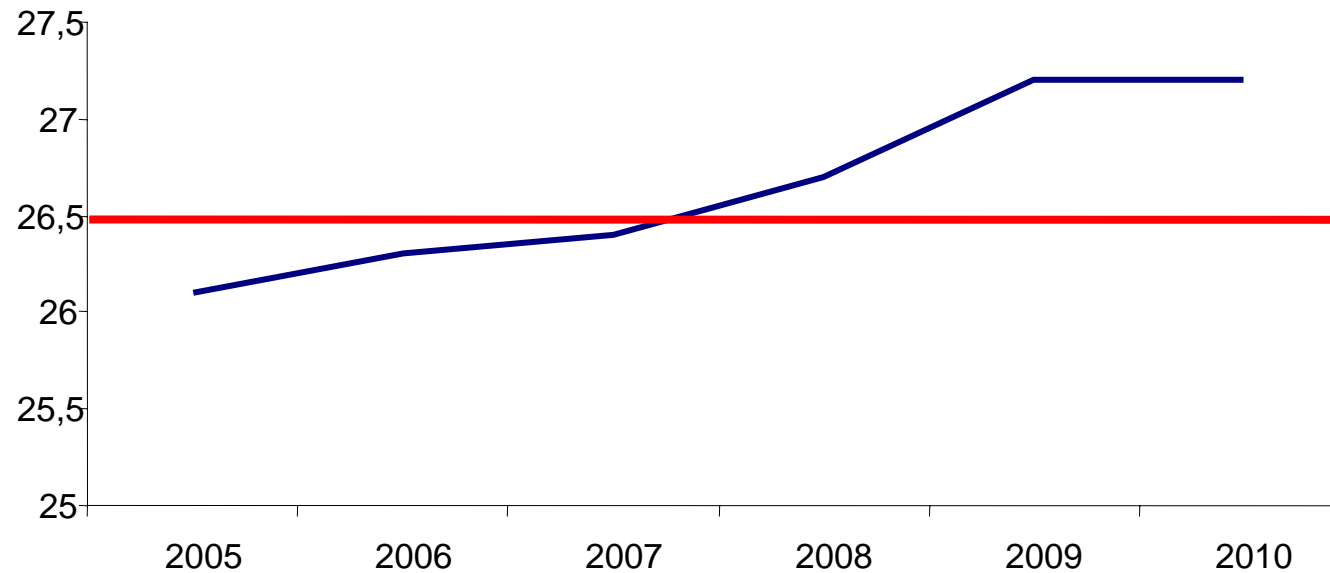
- **Public surplus: 2-3 % of GDP (debt to be halved by 2010)**
- **Growth targets for real public consumption**
- **Reform needs in terms of employment: + 100.000**

2010 planen



2015 plan

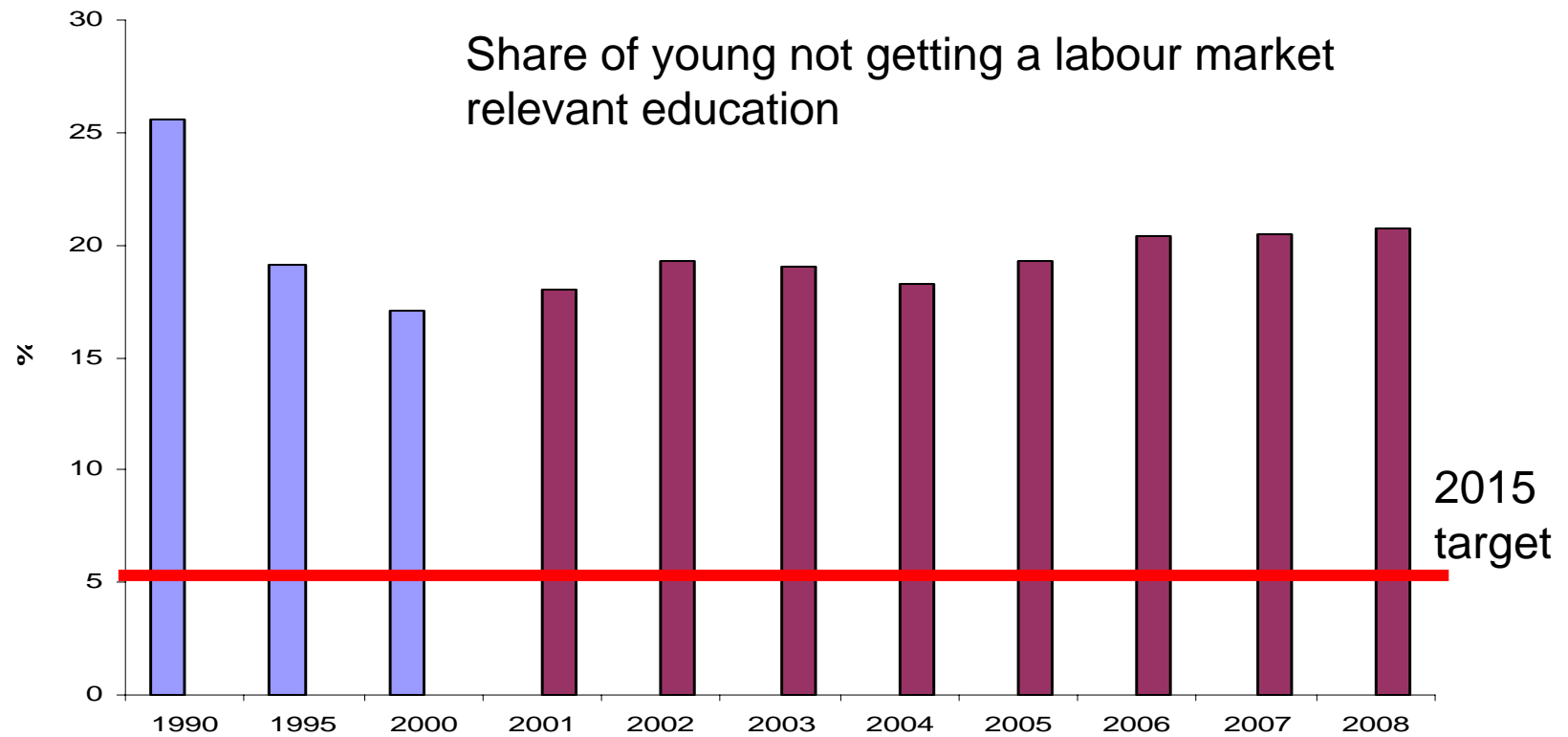
Public consumption % of GDP



2015 plan – if excess: a commitment to reconsider the priorities in economic policy with the aim of bringing expenditures in accordance with target

Education target

Andel af ungdomsårgang, som ikke får en ungdomsuddannelse



Crisis and economic policy

- **Need to exit expansionary fiscal policy**
- **Fiscal sustainability problems to be addressed**
 - **Strengthen credibility of current policies**
 - **Postponing reforms worsens the problem**
- **Labour market challenge – avoid increase in long term unemployment**