Social Policy & Administration issn 0144–5596
DOI: 10.1111/j.1467-9515.2010.00760.x
Vol. 45, No. 2, April 2011, pp. 131–145

Nordic Employment Policies – Change and Continuity Before and During the Financial Crisis

Sven Jochem

Abstract

The Nordic countries serve as models for successful employment and labour market policies. In this article, Nordic employment and labour market policies are analyzed from a comparative point of view. It is argued that Nordic employment and labour market policies have lost some of their distinctive features. Active labour market policies, for example, are now at the centre of policy priorities in many countries of the EU. And in some other respects, the Nordic countries have converged towards political patterns characteristic for states in central Europe, for example, de-centralized patterns of wage bargaining and the partial lack of corporatist concertation. During the current financial crisis, specific patterns of crisis management can be observed in Scandinavia that make these countries distinct from many other countries in Europe.

Keywords

Employment policies; Nordic model; Financial crisis; Comparative analysis

Introduction

In many respects, the Nordic countries serve as models. Beyond the broad field of social security, the Nordic model of employment is the one mostly referred to in the literature. In Scandinavia, full employment, i.e. low open unemployment and high labour force participation or employment rates, is a central political goal – politically independent of incumbent parties. At the beginning of the 1990s, the Nordic countries suffered from a banking crisis and a steep decrease in employment (or increase in open unemployment) (Jochem 2000). However, in the aftermath of this Nordic downturn, governments in Scandinavia gradually restored full-employment – albeit with differing success rates. Until the outbreak of the current global financial crisis, Scandinavian countries were able to successfully recalibrate their welfare states and consolidate public budgets.

Address for correspondence: *Sven Jochem, University of Bamberg, Feldkirchenstraße 21, D-96045 Bamberg, Germany. Email: Sven.Jochem@uni-bamberg.de*

It is argued in this article that, on the one hand, the Nordic model has lost some of its traditional peculiarities in labour market issues, i.e. centralized wage bargaining has gradually vanished and active labour market policies, once dominant in the Nordic countries, have been gradually extended to other OECD countries. On the other hand, however, there is still a distinctive Nordic pattern in employment policies, such as high rates of public sector employment or lifelong learning policies intended to enhance labour force skills and economic growth.

This article is divided into six sections. After a short introduction, an overview of labour market profiles and employment developments in Scandinavia compared to other OECD countries is provided. In the following two sections, Nordic employment and labour market policies are analyzed respectively. In the fifth section, Nordic crisis policies targeted to combat the current global financial crisis are presented and comparatively discussed. The final section concludes.

Nordic Employment and Labour Market Profiles

In Scandinavia, the high integration of the population into the labour market is exceptional. As can be seen from the figures in table 1, the Nordic countries rank high in regard to employment–population ratios. Iceland, with 84.2 per cent employed compared to the population (aged 15–64), is at the top of the range of the classical OECD countries. Only in the UK or Switzerland do employment ratios reach Nordic levels. Finland is the country of the Nordic 'family of nations' (Castles 1993) with the lowest ratio, being rather similar to countries in the mid-range, such as Germany or Japan. At the bottom of the range, Italy, Belgium and France represent examples of the 'conservative welfare state' (Esping-Andersen 1999), where 'welfare without work' still seems to be a correct description for comparatively low employment rates (Eichhorst and Hemerijck 2008). Additionally, we can observe how impressive the increase in Nordic employment was after the economic crisis in the early 1990s. All five countries were able – from an already high level – to further increase employment.

With regard to the spread of part-time employment, it becomes obvious that the 'Dutch Miracle' (Visser and Hemerijck 1997) is built on the pillar of part-time employment expansion. In the Nordic countries, part-time employment is lower, as in the Netherlands. In the Netherlands – and in most other OECD countries – part-time employment is concentrated mainly on the female labour force. In this respect, Finland and Iceland are prominent examples of overall low part-time employment and a (relatively) low share of female part-time employment. Therefore, the low employment ratio for Finland should be interpreted from this perspective. In this country, full-term employment is dominant, even for women.

Full employment in the Nordic countries is more or less the attempt to integrate most people into the labour market. As the figures for the standardized unemployment rates show, low unemployment is a feature of the Danish, Norwegian and Icelandic path (until the outbreak of the global financial crisis). In Finland and Sweden, however, open unemployment is in

Table 1

The Nordic employment profile

	Employment/population ratio		Standardised unemployment rate	Long-term unemployment		Part-time employment (percentage share)	
	1994	2008	2008	1994	2008	Total 2008	Female 2008
Australia	66.0	73.2	4.2	36.1	14.9	23.8	71.7
Austria	68.4	72.1	3.8	18.4	24.2	17.6	80.4
Belgium	55.7	62.0	7.0	58.3	52.6	18.7	82.9
Canada	67.0	73.7	6.1	17.9	7.1	18.4	67.8
Denmark	72.4	78.4	3.4	32.1	16.1	18.0	61.7
Finland	60.7	71.9	6.4	–	18.2	11.5	63.0
France	58.4	64.6	7.8	38.5	37.9	13.4	79.5
Germany	64.5	70.2	7.3	44.3	53.4	22.1	79.9
Greece	54.1	62.2	7.7	50.5	49.6	7.8	67.4
Iceland	78.5	84.2	3.0	15.1	4.1	15.1	71.2
Ireland	51.9	68.1	6.3	64.3	29.4	21.0	79.0
Italy	51.5	58.7	6.8	61.5	47.5	16.3	75.8
Japan	69.3	70.7	4.0	17.5	33.3	19.6	70.4
Luxembourg	60.2	64.4	4.9	29.6	38.6	12.7	91.9
Netherlands	63.9	76.1	2.8	49.4	36.3	36.1	75.5
New Zealand	68.0	74.9	4.2	32.7	4.4	22.4	72.3
Norway	72.2	78.1	2.5	28.8	6.0	20.3	71.7
Portugal	64.0	68.2	7.7	43.4	48.3	9.7	68.5
Spain	47.4	65.3	11.4	56.2	23.8	11.1	80.6
Sweden	71.5	75.7	6.2	25.7	12.4	14.4	64.6
Switzerland	75.6	79.5	3.5	29.0	34.3	25.9	81.2
UK	68.7	72.7	5.6	45.4	25.5	22.9	76.1
USA	72.0	70.9	5.8	12.2	10.6	12.2	68.1
Mean	64.4	71.1	5.6	36.7	27.3	17.9	74.0

Source: OECD 2009, Statistical Annex.
Notes:
Employment/population ratio = percentage of employed persons compared to population aged 15–64.
Long-term unemployment = percentage of individuals unemployed for 12 months or longer compared to all unemployed persons.
Part-time employment (percentage share total) = percentage share of part-time employment compared to total employment.
Part-time employment (percentage share female) = percentage share of female part-time employment compared to total part-time employment.
– = value not available.

the mid-range for all OECD countries. Of special interest for the Nordic employment model is the comparatively low rate of long-term unemployment. Even from a longitudinal perspective, the decline of long-term unemployment is impressive for the Nordic countries. While in most countries of the OECD long-term unemployment was already high in the early 1990s, in some countries this share has increased even more since then – Germany being a concise example of countries with severe labour market problems. In contrast, long-term unemployment decreased significantly in Denmark, Iceland, Sweden and, most impressively, Norway. Hence, we can conclude that the Nordic welfare states not only provide encompassing social security, they also enable – or at least do not inhibit – dynamic labour markets.

Welfare state institutions shape the structure and the dynamics of labour markets. In the Nordic countries, welfare policies frame employment patterns in a specific way. One example is the integration of employees between 55 and 64 years into the labour market (cf. figures in table 2). The highest share is reported for Iceland, and the other Nordic countries are at the top of the range (with Finland having the lowest share of the Nordic countries). Hence, early-exit routes from the labour market to the social security system exist even in the Nordic countries, but they are not used to the extent as in, for example, Belgium, Italy or France.

A 'social investment strategy' implies the presence of activating labour market measures and encompassing education schemes (Morel *et al.* 2009). In this respect, the Nordic countries also rank at the top of the OECD countries. One reason for this is the spending on active labour market policies. Denmark and Sweden spend more than any other OECD country on measures that are designed to re-integrate unemployed into the labour market or to upgrade their employment-specific skills, and Norway and Finland are in the mid-range. This 'social investment strategy' is complemented by intensive education measures. Not only do Nordic countries spend more money than other OECD countries on education, if we measure the participation of citizens in lifelong learning schemes, the Nordic countries are at the top of the sample, too (Eichhorst and Hemerijck 2008: 16).

The final aspect of labour market profiles is wage formation. The policies are analyzed in detail below, however, the figures in table 2 show that wage increases in the Nordic countries were generally, since the early 1990s, in line with those in the OECD countries. Recently, wage increases in Sweden and especially in Norway exceeded the OECD average significantly. In Norway, this development may be explained by wage-driving oil industries in the economy and leapfrogging strategies of social partners in the industrial sectors.

Given the data at hand, the Nordic employment patterns are to a certain extent different from most of the other OECD countries. An encompassing integration of the citizens into the labour market, low rates of long-term unemployment, activating labour market policies and intensive investments into lifelong learning schemes are the cornerstones of the Nordic model.

Table 2

The Nordic labour market profile

	Employment ratio 55–64	EALMP	Average annual growth rates of real average wages (percentage)			
	2008	2007	1990–1995	1995–2000	2000–2005	2006–2007
Australia	57.4	0.32[a)]	1.0	2.1	1.2	1.1
Austria	41.0	0.68	1.2	0.6	0.9	−0.1
Belgium	32.8	1.30	2.1	1.3	0.3	−0.1
Canada	57.5	0.29[a)]	−0.2	2.0	1.1	2.6
Denmark	57.7	1.31	0.8	1.6	2.0	0.3
Finland	56.4	0.86	−0.1	1.4	2.4	1.3
France	38.2	0.92	1.1	1.3	1.4	1.0
Germany	53.8	0.77	2.1	0.8	0.3	0.0
Greece	42.9	–	3.2	2.4	2.8	2.2
Iceland	83.3	–	–	–	–	–
Ireland	53.9	0.62	2.5	2.2	2.7	3.2
Italy	34.4	0.46	−0.7	0.8	0.3	0.1
Japan	66.3	0.16[a)]	1.3	0.5	0.3	−0.4
Luxembourg	38.3	0.48	1.9	1.2	1.1	1.9
Netherlands	50.7	1.09	0.3	0.0	0.4	3.3
New Zealand	71.9	0.35	–	–	–	–
Norway	69.3	0.56	1.2	2.2	3.2	6.0
Portugal	50.8	0.53	1.1	2.6	0.3	1.0
Spain	45.6	0.80	1.9	−0.5	−0.1	0.2
Sweden	70.3	1.12	−0.3	3.3	1.4	3.7
Switzerland	68.4	0.60	1.0	0.9	1.1	0.3
UK	58.2	0.32[a)]	1.0	2.6	1.6	1.4
USA	62.1	0.13[a)]	1.0	2.9	0.4	1.0
Mean	54.8	0.7	1.1	1.5	1.2	1.4

Source: OECD 2009, Statistical Annex.
Notes:
Employment ratio 55–64 = employment ratio of employees aged between 55 and 64 compared to respective population.
EALMP = expenditure for active labour market policy as a percentage of GDP.
a) = fiscal year 2007–08.
– = value not available.

Employment Policies – Openness, European Integration and Institutional Inertia

Most of the Nordic economies are highly competitive, as comparative investigations report (World Economic Forum 2010). Out of 139 countries analyzed in the study, Sweden, Finland and Denmark rank 2nd, 7th and 9th, respectively, whereas Norway ranks 14th and Iceland 31st. Hence, the Nordic economies are robust and even in respect of growth performance, the Nordic countries are at the top of the OECD countries.

In contrast to the 'golden age' perception of the Nordic model, today all Nordic economies are highly integrated into the political frame shaped by the European market project – with the partial exception of Iceland (until the outbreak of the global financial crisis). Hence, the monetary policy-frame embedded into the EU becomes imperative even for the Nordic countries. Quite in contrast to many countries in central, southern or eastern Europe, the Nordic countries were successful in combining economic openness with financial consolidation. After the economic crisis in the early 1990s, governments in the Nordic countries implemented strict fiscal policy rules. These countries entered the crisis with sound public finances – in contrast to most of the other European countries (cf. European Commission 2009b). Therefore, Nordic employment growth during the past decades has rested on the foundation of sound public finances, and comparative data show that this 'employment puzzle' was not enabled by increasing income inequality. Since the mid-1990s, inequality in the Nordic countries has slightly increased (OECD 2010: 49). However, compared to other OECD countries, equality of income is still a distinctive feature of the Nordic model. These observations question the well-known 'trilemma argument' put forward by Iversen and Wren (1998). According to this argument, Nordic employment policies would enable full employment and equality but would violate against the goal of sound public finances. At least since the mid-1990s, this argument cannot explain Nordic employment patterns as all Nordic governments switched to a framework of sound public finances without sacrificing high employment patterns.

Nordic employment patterns rest on a mixture of different economic policies and historic path dependencies (Becker and Schwartz 2005; Becker 2008). Beyond the high share of public employment (cf. below), private sector employment is highly dynamic and has benefited from the strategies of Nordic firms in exploiting strategic niches in the international economy. While Finland and Sweden are contemporary IT champions in the Western world, Danish firms were able to successfully exploit niches in manufacturing, handcrafted products and food production (Becker 2008). Beyond this success story lies the fact that Nordic economies tend to facilitate structural change in a special way – by the highly skilled labour force, dynamic and activating labour market policies, and various structural policies implemented by the governments to enable research and development as well as innovations.

The Nordic economies are small and open towards world markets (and global crises). Therefore, the employment success is dependent on the ability of wage bargaining partners to ensure wage policies that do not harm national export industries. During the 'golden time', it was possible for Nordic social partners to follow strictly domestic wage bargaining goals, given the (implicit) leeway for monetary policies. Frequent strategic devaluations of Nordic currencies to defend the competitiveness of Nordic products on world markets is an example of this monetary freedom. However, the monetary framework of European integration does effectively impede such strategies.

Nordic wage bargaining is judged to be highly corporatist and centralist (Kenworthy 2000; Siaroff 1999). However, since the 1980s, wage bargaining institutions and patterns have gradually changed in Scandinavia (Elvander 2002). Danish social partners reacted to pressures from the bourgeois government in the mid-1980s by anchoring explicitly national wage developments to those in the main trading countries. The new social pacts ensured wage moderation and enabled labour market reforms. Additionally, the social partners implemented a gradual decentralization of wage bargaining. Today, centralized wage bargaining in Denmark covers basic pay schemes, but main wage negotiations take place at the local level. To ensure moderate wage growth, coordination is intensive in the camps of employers and trade unions, respectively, which circumvents strategies of leapfrogging. As a consequence, wage bargaining in Denmark is highly de-centralized but nevertheless coordinated. The last tripartite social pact from 2007 emphasized this wage bargaining pattern and strengthened some policies of paternity leave and on the job training (EIRO 2007). During the global financial crisis, tripartism was challenged – work-sharing schemes were widely used, but the government was not willing to extend these schemes or to combine them with further educational measures (EIRO 2009a).

In Finland, centralized wage bargaining patterns have dominated since the 1970s. Even during the economic crisis of the 1990s, social partners and (oversized) governments could successfully strengthen tripartism, thereby enabling moderate wage growth and encompassing welfare state reforms. Even if the Finish wage bargaining system may be judged as rigid, some flexible wage negotiations at the local level have taken place. Nevertheless, centralized (and long-time) agreements have prevailed until today. In the last bargaining round, concluded in April 2008, most effective wage negotiations took place at the industrial sectors level, wage increases were comparatively high and the collective agreements last until 2010/2011. This departure from the centralized pattern was accompanied by working time changes and the introduction of reforms concerning sabbatical leave schemes. Currently, the financial crisis and the crisis policies implemented by the government are highly disputed between the trade unions and the employers' federation. The ambition of the government to raise the retirement age is, especially, highly contested (EIRO 2009b).

The Norwegian development is dominated by central agreements which fix minimum wage increases and additional wage negotiations at the industrial sectors or local level. During the past wage round, the highest wage increases in recent history were negotiated and the banking sector could negotiate the highest wage increases compared to other industrial sectors. Norwegian manufacturing is faced with declining competitiveness because of higher national wage growth than in the main trading countries and a strong national currency. Nevertheless, even during the global financial crisis, unemployment increased only slightly as the Norwegian economy could rely on the wealth of Norwegian oil industries and an encompassing public sector. Added to which, the government strengthened the rules for temporary layoffs in 2009, thereby reducing lay-offs during the crisis – a scheme that is quite similar to the German system of '*Kurzarbeit*' (EIRO 2009c).

Finally, the Swedish development resembles the Danish one to a certain extent, but in contrast to Denmark, tripartite negotiations have generally failed during the recent past. Bi-partite negotiations could restore the wage leading function of wage bargaining partners in the industry (*Industriavtalet* from 1997 to date), but wage competition between different industrial sectors remains intense. It is telling that, despite several attempts, the Swedish social partners could not agree to reformulate the historic compromise from Saltsjöbaden (1938) and neither to agree on tripartite social pacts, such as those in Denmark or Finland. During recent years, wages have increased steadily and undermined the competitiveness of Swedish export industries. The 2010 wage round is still not finished. Many open conflicts between trade unions and employers' federations occurred, and most importantly, the Association of Swedish Engineering Industries, the largest employer organisation in Swedish industry, decided to leave the agreement (EIRO 2010). The fate of the *Industriavtalet* is undecided. Given the high uncertainty because of the deep recession and the disputes over labour market policies – and especially the government reforms of unemployment insurance (see below) – the climate between the social partners (and the bourgeois government) is frosty.

In sum, wage bargaining institutions of the 'golden age' model changed significantly. Only in Finland is the centralized tripartite pattern still observable, albeit under pressure. In the other Nordic countries, decentralization has taken place, and while social partnership is alive in Denmark and in Norway, Swedish social partners are involved in intensive disputes over wage formation institutions, labour market policy and crisis policies. Therefore, Scandinavia is no longer the region of tripartite social pacts. While these policies work elsewhere (Hassel 2009; Natali and Pochet 2009; Siegel 2005), Nordic corporatism has lost some of its archetypical charisma.

The employment success of the Nordic countries depends further on the specific tax regimes. High tax burdens result in the prize of encompassing welfare states in Scandinavia (Ganghof 2006; 2007). During the past, right-wing populist parties have challenged the Nordic tax systems in Denmark and Norway. In Sweden, the incumbent bourgeois coalition avoided a strict policy of overall tax reductions but introduced an earned income tax credit scheme in 2007, which reduces the tax burden for low income groups. Given the necessity to finance the public sector (and the crisis packages, cf. below), it is evident that the Achilles' heel of the Nordic model is still the capacity to tax the population more than in other European countries. During the electoral campaign in Sweden, the Social Democrats claimed increasing taxes were necessary to manage the challenges ahead (and restore the quality of the public sector), whereas the bourgeois parties defended their policies of moderate tax reductions.

Another cornerstone of the Nordic employment model, and highly dependent on the tax regime, is the broad share of public employment. Starting in the 1960s, public employment increased in all five Scandinavian countries. This trend was induced by the expansion of public welfare services, a prominent feature of the Nordic model (Sipilä 1997). Due to the complexity of different forms of public sector employment and the difficulty in drawing the borderline between public and private employment spheres accurately, there are only few comparative data available (OECD 2008; Derlien and Peters 2008). Nevertheless, the available figures show that the Nordic countries have still one of the highest public employment shares of all OECD countries – for Norway and Sweden, approximately 30 per cent of total employment is in the public sector (2005), while in Germany or Austria it is approximately 10 per cent (OECD 2008). However, due to political decisions, mainly of bourgeois parties in government – and partly due to new dynamics and challenges of intensified European integration (Höpner and Schäfer 2010) – the public sector was deregulated and partially privatized. It is noteworthy that the deregulation and the partial decline of public employment – especially in social services – were also introduced by social democratic parties in Denmark and Sweden during the 1980s and 1990s (Klitgaard 2007). Hence, the public employment share of total employment still seems to be decisive for the Nordic employment model. However, this employment reserve is challenged by European integration, the erosion of tax compliance and the ambitions of bourgeois and even social democratic parties to deregulate the public sector.

Labour Market Policies and Danish 'Flexicurity'

Active labour market policies are a cornerstone of the Nordic model. Historically, Swedish active labour market policies were an important part of the Rehn-Meidner model of economic policies (Milner and Wadensjö 2001). Especially during the crisis in the 1970s, Swedish governments invested huge amounts of money to activate the labour force. Today, the Danish model of 'flexicurity' is the main archetype of active labour market policies in the OECD countries (Dingeldey 2007). However, in all Nordic countries – with the partial exception of Norway – spending on active labour market policies is still above the OECD average (cf. table 2, above).

Active labour market policies are nothing new to the Nordic model. However, in recent times the activation approach has changed somehow. While in the 'golden age' Nordic model, active labour market policies were framed to enhance regional flexibility of the unemployed, to offer direct wage subsidies or job offers in the public sector, nowadays they are mainly targeted on further training and education (Bonoli 2010). It is argued that these policies improve the matching of demand and supply of labour on the labour market. Critics, however, argue that intensified spending on active labour market policies intervenes into the wage bargaining process and strengthens revolving door effects as participants of active labour market schemes re-enter unemployment schemes after further training. Hence, not only in Scandinavia but in all OECD countries there is a widespread debate about the efficiency of active labour market policies. Furthermore, it is difficult to assess the degree of activation of different policies normally subsumed under the heading of active labour market policies. Bonoli (2010) shows how different policy instruments have different impacts on the activation of unemployed job-seekers. He argues convincingly that the capacity of active labour market policies depends on the interaction of activation measures and passive labour market policies, i.e. how unemployment benefits are designed in each country. This interaction effect mirrors the degree of 'conditionality' of labour market policies, as Clasen and Clegg (2007) have termed it.

This is the nucleus of the Danish model of 'flexicurity'. During the 1990s, several reforms increased the activation potential of Danish labour market policies (Schwartz 2001; Madsen 2006). While activation measures were implemented, they were tightly linked with unemployment benefits. As unemployment benefit is rather generous in Denmark, the unemployment compensation reduces after certain periods of time or when the unemployed person is not willing to co-operate with local labour market authorities (now mostly privatized). In effect, the Danish system includes security as well as conditionality, as the activation effort is directly linked with unemployment benefits. This flexicurity is integrated into a system of low employment protection, which is a historical feature of the Danish labour market, agreed upon already in the historic compromise between labour and capital in 1899. Other Nordic countries, such as Sweden and Finland, oriented policy-making more and more in line with the Danish model, and in Sweden, especially, labour protection has been reduced during the recent decade. These reforms should accomplish the 'flexicurity' approach and enhance the flexibility of domestic labour markets. It should be emphasized that the capacity of Nordic active labour market policies to be implemented counter-cyclically depends on the financing of these schemes through taxes. This ensures the expansion of these measures when the economy enters a downturn, layoffs increase and social insurance contributions decrease. This might be one institutional reason that many countries – for example, Germany – could not implement an effective flexicurity package, as active labour market policies are financed out of social insurance contributions and therefore the institutional design aggravates counter-cyclical policy initiatives.

The new design of activation measures in the Nordic countries has not altered the traditional organization of national unemployment schemes. In Denmark, Finland, Iceland and Sweden, unemployment insurance is voluntary, while it is obligatory in Norway. In the first group of countries the unemployment schemes are administered by the trade unions (the so called 'Ghent-System'). This kind of organization is currently highly disputed in Sweden. While the bourgeois government could abolish the Ghent System after several legislative attempts in 1994, the social democratic government after 1994 re-established the traditional scheme, explicitly to protect power resources of trade unions. The current bourgeois government cut public subsidies to the voluntary unemployment schemes, and in consequence many Swedes cancelled their insurance – and their trade union membership. During the financial crisis, many Swedes are therefore without unemployment insurance; and Swedish trade unions have had to witness extreme membership losses during the past five years (Kjellberg 2009).

The Nordic Model and the Financial Crisis

The Nordic 'family of nations' (Castles 1993) has been hit harder by the global financial crisis than many of the other OECD countries – with the exception of Norway. This is not surprising, as economic policies in these countries are targeted towards openness and the exploitation of globalization. The bust in GDP for 2009 was: for all 27 EU countries on average −4.2 per cent, Finland −7.8 per cent, Iceland −6.5 per cent, Sweden −5.2 per cent, Denmark −4.9 per cent and Norway −1.5 per cent (Eurostat 2010). The high level of openness of Nordic economies enforced this rapid downturn. To date, Nordic banks –

with the well-known exception of Iceland – are in a sound position (Gylfason *et al.* 2010). It is remarkable, especially for Swedish banks, that the financial turmoil in the USA had no immediate impact on the balance of Nordic financial systems (except Iceland). Intensive linkages of Swedish and other Nordic banks to eastern European banks and the insecure position of the latter, however, do still impose financial risks (Jochem 2010).

The story of the Icelandic bust is a story of its own (Schwartz 2010; Gylfason *et al.* 2010: 137–66). Political actors in Iceland changed very abruptly their policy stance on the issue of European integration. Iceland is currently preparing for EU membership, despite some problems originating from the financial crisis and popular reservations on membership – a development that was unbelievable only a few years ago.

The comparative research on the politics of crisis management is still in its infancy. However, the first comparative accounts are available (OECD 2009; European Commission 2009a; ILO 2009; Bertelsmann Stiftung 2010; Gylfason *et al.* 2010). Although it is too early to state the consequences of the financial crisis on national economies in the medium and long term, immediate measures following the financial crisis to stabilize financial systems were similar in most countries; however, measures to stabilize domestic demand and to foster national export industries differed.

First, most central banks co-ordinated their measures to slash interest rates rapidly. As short-term rates approached zero, not only the Federal Reserve but many central banks in the OECD expanded their balance sheets by 'quantitative easing', which included hitherto unconventional purchases of securities. In this respect, even Nordic central banks not integrated into the EMU framework followed the steps taken by the European Central Bank. If necessary, central banks, in close co-ordination with national and European authorities, safeguarded individual domestic financial institutions.

Second, monetary policies differed. Member countries of the Eurozone could not use monetary policy tools to stabilize exports, which is the situation for Finland. In Sweden (and of course Iceland), the national currency was devaluated after the financial crisis started. However, whether this will, in fact, stabilize or even foster exports, remains to be seen (Gylfason *et al.* 2010: 167–96).

Third, the global bust in trade immediately influenced domestic employment and consumption. In this respect, Nordic welfare states have the largest automatic stabilizers in the OECD. This means that budget elasticity and fiscal sustainability are the highest in Denmark and Sweden; Finland, Norway and Iceland range in the upper mid-field. Therefore, automatic stabilizers of economic swings are working and are supplemented by discretionary policy packages (FinanspolitiskaRådet 2009; OECD 2009).

Fourth, the Nordic countries implemented various stimulus policies. In the EU, most countries implemented policy packages with fiscal stimuli. Preliminary accounts show that the fiscal leeway for such measures is high in all Nordic countries; but only in Sweden and Finland did stimuli packages reach approximately 1.5 or 1 per cent of GDP for 2009, while the figures for Denmark and Norway were lower. The highest stimuli were implemented in Spain, Austria, the UK and Germany (European Commission 2009a: 66–9).

Fifth, most countries in the EU or the OECD invested in the public infrastructure or implemented tax cuts to stabilize household income and consumption. It is noteworthy that some countries even tried to subsidize important export industries – such as the automotive industry in Germany. This policy stance is not observable in the Nordic region. In contrast, investments into active labour market policies or education dominate in the Nordic countries. As a consequence, open unemployment increased sharply in Iceland, Denmark, Sweden and Finland. A working-time policy like the German '*Kurzarbeit*' is not observable in Scandinavia (with the above mentioned exception of Norway). Swedish social partners, however, agreed on voluntary working time reductions negotiated at company level without wage compensation (EIRO 2009d).

Sixth, financing the welfare state in times of economic crisis management becomes a salient issue. The Nordic welfare states are still oriented towards services, and these services are administered by local or regional authorities. It is noteworthy that the Swedish government transferred huge amounts of money to these authorities to circumvent layoffs – a policy that has not been implemented in Denmark until now, despite broad claims from several trade unions.

Seventh, it is too early to evaluate contemporary crisis policies. The mid-term projections depend on the strategies of central banks and continuing insecurities on global financial markets. However, it is already clear that the Nordic countries – except Norway – have to tackle high unemployment in the near future. The low rates of long-term unemployment, however, seem to be a good indicator in assuming that unemployment may be reduced when the global economy picks up again (and the growth forecasts for the Nordic countries are rather prosperous). The good financial position of the Nordic countries further indicates a great potential to further implement efficient employment policies.

The Nordic countries were hit hard by the global recession. Immediate crisis reactions followed the international mainstream and were targeted at stabilizing the national financial systems. Moreover, monetary policy is no longer available to counteract economic downturns, and if so, as in the case of Iceland or Sweden, the medium-term effects are highly contested in the literature. But in one respect, Nordic countries differ still from the rest of the OECD – the encompassing welfare states and invasive tax systems provide huge automatic stabilizers. In the short run, they undermine fiscal stability in economic hard times and imply high taxation pressures for the work force. But at the same token, they stabilize domestic demand via social security transfers. And in the medium term, when the upswing arrives, the automatic stabilizers and especially invasive tax policies provide automatically to consolidate public budgets.

Conclusions

The Nordic employment model is changing. Beyond the impact of the financial crisis, certain features of the 'golden age' model have changed significantly since the 1990s. While the high share of public employment is in most Nordic countries stable (but under pressure), centralized corporatism is vanishing gradually. Recently, these changing wage bargaining patterns allowed for wage growth in some Nordic countries clearly above the OECD average. Active labour market policies, once the centre-piece of the Nordic model, are 'best practice' for the EU and, hence, some European governments intend to expand these policies. Nevertheless, most Nordic countries still spend far more money on these measures than most other OECD countries. What is still a distinctive Nordic pattern of employment policies is the high investment in education policies and the attempts to continuously upgrade the skills of the labour force.

In the aftermath of the global financial crisis, governments in Scandinavia esteemed the encompassing welfare states with huge inbuilt automatic stabilizers. And in contrast to Central Europe, labour market policies focusing on activation were further expanded. In the Nordic countries, we can observe only a few initiatives to subsidize firms and industries directly, which is different to crisis policies in Germany, for example. Despite increasing rates of open unemployment in Scandinavia, the historical policy pattern remained stable not to subsidize particular firms but to help the unemployed to re-enter labour markets after structural changes of the economy. Given the fiscal solidity and sustainability in the Nordic countries, the leeway to counteract the current crisis is greater than in most other OECD countries. But how the different governments will use this leeway and which policy priorities they will prefer, depends largely on how long the current crisis will impact the small and open economies in Scandinavia.

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