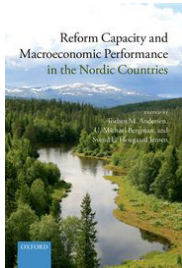


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COMPLUTENSE

Reform Capacity and Macroeconomic Performance in the Nordic Countries

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“In fact, the demise of the Nordic model has been predicted several times in the past, but the model has always proven to have a strong survival capacity. The Nordic model does not escape economic crises, but it is resilient. From this perspective, it seems important to focus on the lessons that might be learned from Nordic economies.” This statement can be read right on the second page of this book and perfectly summarizes the key message of the editors. Nordic countries have been somewhat neglected in the Spanish economic literature and press, as emphasis has traditionally been placed on Spain’s neighbors and the core economies of the European Union. However, the experiences of these relatively small countries undoubtedly deserve more attention due to their capacity to adapt to new circumstances and remain resilient concerning the core features of the so-called “Nordic model”. The book, edited by three professors belonging to Danish universities and business schools, would be a highly recommendable read for those interested in the recent economic developments within the five Nordic countries (three Scandinavian: Denmark, Norway, Sweden; and Finland and Iceland), especially regarding their policies during the financial crisis and their performance compared to other European countries.

Each of the 13 chapters was written by different authors, who hold an academic background and work at higher education institutions, central banks or ministries. These chapters can be classified into four blocks. The first one comprises Chapters 1, 2, 3 and 4 and gives an overall view of the “Nordic model” and its transformation throughout the last decades. It features not only the welfare state, but deeply rooted labor market institutions as well. The second block encompasses Chapters 5, 6 and 7, focusing on the variety of monetary policies applied in these countries, which is a reflection of their different approach towards European integration. Additional financial topics are also included, as banking sectors and real estate markets. The third block, containing Chapters 8 and 9, highlights the fiscal consolidation process in Denmark and Sweden following the 90s’ banking and exchange crisis, meant to gradually improve public finances and to strengthen the economies against negative external shocks. The last block comprises four chapters on general studies in a country-specific context. Namely, Chapter 10 outlines Norway’s monetary and fiscal reform after the crisis of the early 90s in a context of intense terms of trade shocks owing to the country’s dependence on large hydrocarbon exports. Chapter 11 compares the evolution of fiscal and monetary policies in Sweden and Finland in conjunction with their macroeconomic performance since the 90s. Then Chapter 12 focuses on a fifth Nordic country, Iceland, which is undoubtedly located in the north of Europe, but is an outlier both in terms of its economic perfor-

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mance and governance issues. Last but not least, Chapter 13 overviews the challenges faced by the Finnish economy due to its specific export profile, which is responsible for its weaker performance after the financial crisis' outbreak, and demands deep structural reforms.

One of the most outstanding features of the book is its historical and structural approach towards each topic. Although its major study period starts in the early 90s, the authors refer to the origins of several institutions and policies that date back to the post-war era. Furthermore, not only do the chapters provide a comparative assessment on performances among Nordic countries, but also weight them up against other EU members that were severely hit by the latest financial crisis. Despite the fact that each chapter is written by different authors and focuses on one or two country experiences, readers are able to get a whole picture of the differences and resemblances between Sweden, Denmark, Norway and Finland, particularly regarding fiscal, monetary and exchange rate policies, as well as their integration into global markets — Chapters 5, 6, 8, 9, 10, 11 and 13 perfectly complement each other.

The book includes a wide range of charts and tables for empiric evidence and also some more complex econometric tests. Nonetheless, it is highly suitable for social researchers other than economists who are eager to learn more about these countries, as it comprises issues such as social cohesion and insurance, wage equality, demographic challenges and life quality.

Let us step back to the book's main aim, which is no other than analyzing the Nordic model's developments during the last decades and future challenges. The authors stress that this model does not only entail a large and generous welfare state (with a robust social safety net and services directly offered by the State) funded by high tax rates on labor that could lead to many inefficiencies. On the contrary, the social safety net is meant to reduce market fails for risk-averse citizens and is extremely dependent on high labor participation rates for the sake of tax collection. Therefore, the social safety net has means testing and features a number of conditionalities, such as active job search, job training, medical checks, etc., that is to say, active labor market policies. Services directly provided by the State, such as child-care, education and healthcare, are also destined to enhance employability of the workforce.

On the other hand, the authors point out a key feature of the Nordics: the fact that they are small, open and thus vulnerable to external shocks. These economies have always been aware of this and designed a set of institutions in order to foster their capacities when adapting to new global market developments: centralized collective wage bargaining where tradable industries set the pace of wage increases for the rest of the sectors, high degree of unionization and wage compression between blue and white-collar employees. Perhaps these features are less broadly known about the Nordic countries in Southern Europe, which makes the book noticeably suitable for readers willing to discover these economies' characteristics. Furthermore, it is worth mentioning that the authors downsize monetary policy regimes' role concerning outstanding economic performance and also that of the degree of integration into the EU institutions. They defend the existence of fiscal independence in Denmark, Sweden and Finland despite having transferred part of their sovereignty to supranational institutions. However, they are rather skeptical about the replication of the Nordic model in other EU members due to the institutions' historical deep roots.

Despite a relatively successful management of the financial crisis and swift recovery (except in Finland and Iceland), the book puts emphasis on current challenges against which the Nordics ought to struggle. These include tradable manufacturing industries' loss of weight in GDP and total employment, which reduces tradable sectors' negotiating power in collective bargaining, lowers wage coordination and increases wage disparity, apart from leading to Baumol disease's symptoms related to diminishing international competitiveness. When tighter fiscal rules are added, it is clear that equality is put in jeopardy, as it is reflected in Chapter 3. In fact, the authors could have dug deeper into distributional aspects across the Nordics as higher inequality trends have been registered in these countries since the 90s, even though they still remain equal societies in comparison with the rest of the OECD members.

All in all, *Reform Capacity and Macroeconomic Performance in the Nordic Countries* is a warmly recommendable book to all those who wish to get an overall picture of these particular European economies and learn about their peculiarities.