

Equity and growth – the Nordic experience

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Recipe for trouble

Too much X

- ▶ But: Performance
- ▶ Growth
- ▶ Equality
- ▶ Welfare provision
- ▶ Low unemployment
- ▶ International competition

Institutions and policies that fit together

Institutions

- ▶ Markets
- ▶ Organizations (employers, employees)
- ▶ Routine consultations
- ▶ Welfare state

Policies

- ▶ International competition
- ▶ Solidarity negotiations – wage compression
- ▶ Full employment
- ▶ Universalistic spending

Complementarity

- ▶ Impossibility (left and right)—Erosion
- ▶ Doing it twice — Inefficient
- ▶ Institutional reciprocity — Cumulative processes

Equality in the labor market

- ▶ 1930s— Crisis— Conflict between sheltered and exposed workers
- ▶ Substitutes vs complements
- ▶ supporters
- ▶ Magnitudes of wage compression (variance of log wages – 1/4 of what it was 20 years before)
- ▶ consequences:
 - ▶ elimination of industrial conflicts,
 - ▶ export orientation,
 - ▶ productivity enhancement—innovation,
 - ▶ political support for welfare spending

Equality and creative destruction

Joseph Schumpeter and wage equality

- ▶ promotion of development
- ▶ capitalist dynamics
- ▶ fueling structural change
- ▶ Beauty and reality
- ▶ Export orientation

How equality multiply

- ▶ Equality magnifying effect
- ▶ Wage equalizing effect
- ▶ the equality multiplier

Inequality gets noticed when it's small

- ▶ Stability
- ▶ Calibrated incentives

A recipe for trouble?

- ▶ Evolution not intelligent design
- ▶ General equilibrium a great idea
- ▶ institutional complementarity and social spill-overs