

Redefining flexibility

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I thought [an article on the Real World Economic review blog](#) by Merijn Knibbe fascinating, He began saying:

Unemployment in Norway is 3%. Unemployment in Spain is 20%. This difference is remarkable, even exotic. Why did the Norwegian labor market do so much better than the Spanish one?

His answer (in a nutshell):

The answer is: flexibility. But in this case 'another kind of flexibility'. Generally, economists tend to equate 'flexible labor markets' with USA style 'easy fire and (so they hope) easy hire' policies which are supposed (despite the dismal post 1999 job creation record of the USA) to increase the number of jobs. But in the Norwegian case, not the number of jobs, but the number of hours has been flexible.

One of the hallmarks of the GFC has been that in some countries declining demand led to an increase of firing and a decrease of hiring, with rising unemployment as a result. Spain is an extreme example (see graph below). In some other countries, the problem was solved by decreasing the average number of hours worked. Norway is an extreme example. But in Germany the average number of hours also decreased so much that the number of people at work actually increased!

I'm not saying this solves all problems: it doesn't. But it's miles better than 20% unemployment.