Nordic labour market models in open markets

Søren Kaj Andersen, Jon Erik Dølvik and Christian Lyhne Ibsen

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Christian Lyhne Ibsen is Assistant Professor and Søren Kaj Andersen is Associate Professor and Director at FAOS (Employment Relations Research Centre), Department of Sociology of the University of Copenhagen. Jon Erik Dølvik is a senior researcher at the Fafo Institute for Labour and Social Research in Oslo. Contact: ska@faos.dk
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Abstract

This report reviews the main common traits and variations of the Nordic models of labour market regulation, how they were adjusted after the crises in the 1980-90s, and how recent labour market developments have faced the actors with new challenges. The Nordic labour markets are still marked by comparatively strong, encompassing unions and employer organizations, multilevel bargaining systems, and broad coordination of wage setting at sectoral or peak level, but declining union density, especially at the lower ends of the labour market, combined with growing low-wage competition and cross-border work, raise questions about the unions’ ability to maintain collective agreement coverage and stem erosion of their local power bases. With higher unemployment in the wake of the crisis, easier exit opportunities for employers, and widening downward inequalities, the Nordic unions face difficult choices over how to bolster national wage floors. Views vary on whether they are still strong enough to rely solely on collective bargaining or whether they will need more state support to enforce and extend collective minimum wages to the sprawling flora of unorganized firms. While the latter view is adopted by Finnish, Icelandic and many Norwegian unions, the former view predominates among Danish and Swedish unions, and it remains to be seen how keen the employers’ associations and the politicians will be to support union calls for shoring up the system.
Preface

After their deep crises in the early 1990s, the Nordic economies recovered strongly and received praise for their ability to reconcile efficiency and equality. Renewal of the systems of collective bargaining and wage coordination was central in the Nordic revival in the 1990s. In combination with changes in macroeconomic and social policies, this contributed to strong job growth and a decline in unemployment. However, during the past decade’s economic boom and bust, the Nordic countries have exhibited a mixed performance. Iceland, Denmark and eventually Finland were hard hit by the crisis, inequalities have widened and unemployment is higher than it used to be. Together with shifting political currents, ‘reforms’ to the Ghent system of unemployment insurance, union decline, growing low wage competition and the Laval quartet of rulings by the European Court of Justice have raised questions about the viability of the Nordic collective bargaining systems.

This report was written as part of the NordMod-2030 project. Commissioned by SAMAK – the cooperation committee of the main Nordic trade union confederations and social democratic parties – and co-funded by FEPS (Foundation for European Progressive Studies), the aim of the NordMod project is to provide critical analyses of the viability, vulnerabilities and need for renewal of the Nordic social model in the coming decades. The project is organized by the Fafo Institute for Labour and Social Research, and is conducted in cooperation with a broad network of researchers from all the Nordic countries and beyond. A range of comparative, thematic reports and country studies have been published and the final synthesis reports will be presented at the Nordic Labour Congress in November 2014.

Søren Kaj Andersen and Christian Lyhne Ibsen at FAOS, University of Copenhagen, have been in charge of preparing this report in cooperation with Jon Erik Dølvik, Fafo. A Danish version of the report was launched at a conference held by LO Sweden in Stockholm, 27 February 2014, and has been subject to broad debate in the Nordic labour movements. The Friedrich-Ebert-Stiftung then kindly offered to fund a translation of the report into English so that it could feed into the broader European debate, and invited us to present it at a seminar in Berlin, 10 March 2014 – ‘Nordic Models – still riding the waves?’ – organized together with FEPS and SAMAK. The report was indeed written with the aim of stimulating debate among Nordic trade unions, employers and politicians. As Nordic experiences evidently form an important and sometimes controversial part of the European policy debate in this realm, we were delighted that the ETUI wanted to publish the English version in its report.
series. In this critical phase of industrial relations in Europe there is obviously a need for exchanges of experiences and knowledge about developments in different parts of the European labour market.

We would like to express our gratitude to Gero Mass at the Stockholm Office of the Friedrich-Ebert-Stiftung, who enabled the translation of the report, and to Maria Jepsen, ETUI, who enabled publication for a wider circle of readers engaged in European industrial relations. In compiling the report we have benefited greatly from the discussions and the country studies that have been prepared in the NordMod research group and from comments and input from members of the NordMod reference group at seminars in Helsinki, 18 February 2013, Copenhagen, 8 October 2013, and Reykjavik, 3 December 2013. Our thanks go to everyone, and especially to Halldor Grønvold, ASI, and Tapio Bergholm, SAK, who have been very helpful in providing information and expertise regarding Icelandic and Finnish developments. Many thanks also to Kristine Nergaard, Fafo, for valuable ideas, suggestions and financial support from the Fafo project ‘Industrial relations and collective bargaining in a comparative Nordic, European perspective’, funded by LO Norway; Anna Christine Schmidt and Carsten Jørgensen, FAOS, for proof-reading; Bente Bakken and Jon Lahlum, Fafo, for skilful and quick preparation of the manuscript; Jon Jay Neufeld for translation; Aïda Ponce, ETUI, and James Patterson for bringing the manuscript into shape for international publication. Finally, we would like to thank Inger Segelstrøm and SAMAK for the funding and energetic support of the NordMod project. As always, it should be noted that any errors or omissions are the sole responsibility of the authors.

Copenhagen/Oslo, June 2014

Søren Kaj Andersen, Jon Erik Dølvik and Christian Lyhne Ibsen
1. Introduction

The labour market regimes in the Nordic countries are characterised by the crucial role of collective bargaining systems in the regulation of wages and working conditions. These bargaining systems are based on strong trade union movements that historically have pressured employers to organise and enter into negotiations and agreements with their union counterparts. As the Nordic economies faced deep crises, increasing globalisation and deepening European market integration in the 1980s and 1990s, many predicted that the days of the encompassing Nordic bargaining systems were numbered. In these decades, it became clear that the Nordic bargaining systems did need adjustment, but the basic labour market institutions remained intact; and as far as economic development, inequality and employment are concerned, the Nordic countries were consistently at the top of global rankings in the 2000s (Dølvik, Goul Andersen and Vartiainen 2012).

Even though the institutions of collective bargaining proved their resilience the patterns of bargaining coordination underwent significant changes in the various Nordic countries. A common denominator was that the wage-setting systems were adapted to the new economic context of low inflation and fiercer international competition in order to ensure productivity and job creation.

The first objective of this report is to describe and analyse the changes made to the Nordic bargaining systems: what are the common features in these changes and what are the differences?

The recent financial crisis and subsequent euro-crisis hit the Nordic economies differently. Iceland suffered a historic downturn that to a large extent was self-inflicted. Prior economic overheating leading to a real estate bubble and banking crisis also resulted in a prolonged recession in Denmark, together with contracting employment. Sweden and Finland also suffered, although their problems were different, whereas the oil-based Norwegian economy escaped the crisis relatively unscathed. The financial crisis and its repercussions have thus far not had salient effects on the institutions of collective bargaining or raised basic questions regarding their future. On the contrary, one might argue that the bargaining systems have demonstrated their robustness; collective agreements have been renewed and the local ac-
tors have in many instances struck agreements enabling flexible adjustment at the company level.¹

Nevertheless, the crisis has drawn attention to the increasing external and internal pressures that the Nordic collective bargaining systems have faced over the past decade. Fiercer cross-border competition has not only challenged the export-oriented industries but also traditionally home market-oriented sectors. EU enlargement and the financial crisis have triggered a shift in the course of European integration that has affected national economic policies and labour market regulation in new ways. The trade unions have lost members and in many instances also bargaining clout in relation to their employer counterparts. At the same time, changes in the political balances of power have raised questions about the central role of the collective actors in the regulation of labour markets, as well as in social policies. The issue now arising is how widespread such tendencies are in the various Nordic countries and how they might influence Nordic collective bargaining systems, should they continue.

The second objective of this report is to identify and discuss the challenges and pre-conditions for the continued development of coordinated collective bargaining systems in the Nordic countries. Towards this end, we ask whether Nordic employers are likely to retain their commitment to further developing the bargaining systems; whether they would prefer to reduce the significance of collective agreements; or whether they simply want to abandon the bargaining systems altogether. The background for raising this question is the development observed in recent decades in Germany and other European countries, where the bargaining systems have been eroded in large segments of the labour market. During the crisis, the European Central Bank and the European Commission have also argued for limiting the significance of bargaining systems. This includes proposals such as increased decentralisation, the right to opt out of central agreements and reduce the use of extension mechanisms linked to collective agreements (European Commission 2013; Schulten and Müller 2013). In the Nordic context, we will in particular highlight development of the coverage of collective agreements in those segments of the labour market in which coverage has been low and continues to decline. This pertains in particular to private services, such as cleaning, hotels and restaurants and the retail sector.

The answer to these questions depends on the development of the trade unions and their choice of strategies. Will they continue to be able to organise the majority of wage earners and thereby be able to press the employers in order to maintain and expand collective agreements? The trade unions in the Nordic countries are still characterised by a high level of organisation, but this level has fallen in all of the countries. Will this declining tendency conti-
ue? And will it affect bargaining coverage? Will increasing competition from companies that are largely based on (cheaper) foreign labour make organisation and regulation based on collective bargaining even more difficult – and over time increase the risk of entire branches falling outside the collective bargaining systems?

The report is structured as follows: The introductory chapter places the Nordic collective bargaining systems in a broader historical and international context (Section 2), followed by a presentation of the significant common features and differences in the construction and effect of the bargaining systems in the Nordic countries (Section 3). Despite the differences, there are a number of important functions that the bargaining systems in the Nordic countries share, which we draw out (Section 4). Next, we describe and discuss the reforms that have been carried out and the subsequent development of the collective bargaining systems observed in recent decades (Section 5). This is followed an examination of the impact of these changes on a number of key indicators for the economy, employment, wages and so forth (Section 6). We then account for and discuss the development of the organisation of wage earners and employers alike in the Nordic countries. Here, questions related to the decline in unionisation are discussed together with questions concerning employers’ motivation to organise (section 7). This in turn leads to questions regarding the consequences of European integration for Nordic collective bargaining systems (section 8). The intensified competition flowing from the integration of markets within the EU and globally has consequences for labour markets. Addressing this issue, we ask whether it may lead to a dualisation of the otherwise comprehensively organised Nordic labour markets (Section 9). Finally, we discuss the main challenges facing the Nordic collective bargaining systems in the future (Section 10).
2. **Background**

The outside world and collective bargaining systems – a historical overview

In order to analyse the challenges facing the collective bargaining models in the Nordic region, we must examine the deep historical roots of these bargaining models, as well as their development in close relation to international – predominantly European – changes. The lengthy history of the bargaining models has created frameworks, norms and modes of operation in the labour market that will affect development in the years to come. Similarly, we must expect international developments to have an impact on how the models will develop. Decisive, however, will be how central political actors and the social partners – that is, employers and trade unions – themselves interpret and understand the challenges they face. This is about how political actors in the broadest sense – including governments, as well as the social partners – choose to react to developments. This is apparent in different areas of politics, where in recent years we have seen that several Nordic governments have raised questions about the social partners’ central role in areas of labour market regulation and in some cases have even challenged important institutional conditions that enable the high level of unionisation in the Nordic countries.

Characterising the traditional Nordic models, three institutional pillars – and thus areas of politics – should be emphasised. First, there has been broad political support in the Nordic countries for objectives such as ensuring work for all, basic income security, paying taxes according to one’s ability, equal rights to education and broad investments in social systems that support these objectives. Secondly, the ability to realise these objectives through comprehensive coordination between (i) welfare policy, (ii) the bargaining systems and labour market policy and (iii) macroeconomic policies (Dølvik 2013). Fundamentally, policy development within these three pillars is closely intermeshed, for which reason the objectives that are ultimately formulated, the actions taken and the results achieved are conditioned upon the development of the other areas. In other words, these policy areas interact with and support one another in different ways, something which – via the strategic significance of wage formation – has given the social partners a key role, also with regard to broader socio-political development.

This report is about one of these cornerstones – labour market regulation – and the relationships between the social partners. The objective is to de-
scribe and analyse the changes in relations between the trade unions and the employer organisations, as well as their relations with the state and government. The focus is therefore on the collective bargaining systems, which is primarily the social partners’ prerogative; despite the ‘bargaining autonomy’ characterising these systems, however, the state plays an important role in their functioning and stability (Traxler et al. 2001). Along the way, we will also touch on macroeconomic conditions, particularly periods of economic boom and bust, because they have direct consequences for employment, wage development and the balance of power between the bargaining partners. For the same reasons, aspects of welfare state policies will also be included, because the so-called ‘reservation wage’ and companies’ social costs affect the conditions of employer–employee bargaining.

The historical beginnings of class collaboration and ‘conflict partnership’2 behind the Nordic collective bargaining systems dates back to the conflicts that led to the establishment of the Basic Agreements that define the rules of the game for the relations and dispute resolution between the social partners. This occurred at the dawn of industrialisation, when the workers began to organise themselves, thereby putting pressure on business and factory owners. The development of these Nordic workers’ movements were inspired in different ways by, for example, European communist, socialist and anarchist thinkers such as Karl Marx, Eduard Bernstein, Mikhail Bakunin and the various movements inspired by their writings. The employers’ response to the pressure from the trade unions was to gather their own interests in central employer organisations. The Danish Basic Agreement, the September Settlement (Septemberforliget), was reached as early as 1899, followed by the Norwegian Basic Agreement in 1935, the Swedish Saltsjöbadsaftalen in 1938 and a similar agreement in Finland after the Second World War. In Iceland, corresponding provisions were written into legislation in 1938. The course of events leading to the Basic Agreements was marked by a turbulent period in which, after extensive conflicts, the first country-wide collective agreements were reached in Sweden in 1906 and in Norway in 1907. In Denmark, the sequence was different; after the pioneer Basic Agreement was settled, the employers started pushing for nationwide collective agreements. In Finland and Iceland, the agreement systems expanded in the post-war period. Despite the uneven timing, there were strong mutual influences, inspiration and learning across Nordic borders, as could be seen in connection with the Scandinavian Workers’ Congresses first held in the 1880s and the parallel cooperation in SAMAK3 and mutual conflict support, as in the case of the Danish General Strike of 1885 (Andersen et al. 2003).

The basis for the collective bargaining systems was thus established in different sequences in the respective Nordic countries, but it developed over

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3. SAMAK – Joint Committee of the Nordic Social Democratic Labour Movement
the decades in a turbulent context marked by industrialisation and political upheaval, the First World War, the Russian Revolution and, eventually, the Great Depression in the 1930s, which set the stage for the spread of fascism in Europe and the Second World War. Thus, the development of the ‘conflict partnership’ between labour and capital in the Nordic countries did not occur independent of European developments; rather, it can be seen as a distinct Nordic response to the political and ideological impact of European events. Then as now, the Nordic countries were small, open economies, depending on trade relations with the rest of Europe and highly vulnerable to economic instability in the interwar period.

In the course of the three ‘golden’ decades after the Second World War, the traditional Nordic welfare states evolved. This evolution was enabled by stable economic growth, which created the basis for the expansion of welfare state services and public employment, which brought women into the labour market in large numbers. On the basis of steady manufacturing growth, these decades supported the expansion and institutional foundations of the trade union movement and collective bargaining systems; simultaneously, the coordinating role of the confederations was strengthened. Politically and ideologically, new tensions developed towards the end of the 1960s and especially in the 1970s. Various radical, left-wing currents and movements in Western Europe challenged the established power structures, and the trade unions played important roles in the toppling of dictators in Spain, Greece, Portugal and, somewhat later, in Poland (Solidarność). Similar currents were seen in the Nordic countries – as they were manifest in, for example, the growth of the environmental and feminism movements. The Nordic trade unions were also affected by these currents, which in addition to triggering increased strike activity also created support for union demands for participation, democratisation of financial institutions, gender equality and improvements in health and safety legislation. Perhaps most symbolically, this was illustrated by the demand for economic democracy, which expanded the agenda of the trade union movement to encompass more than wages and working conditions. The demand for a share of ‘capital’ and influence over the use of profits emerged from the Swedish trade unions and was also taken up by the Danish unions. The other Nordic unions concentrated on strengthening workers’ democratic influence on the basis of their work rather than on ownership. Unsurprisingly, the Swedish and Danish demands met massive resistance from the employers, who considered their property rights and right to manage and distribute work to be threatened. The limited wage earner funds, which were established in Sweden, were phased out at the beginning of the 1990s, and the Danish debate segued into discussions focusing on labour market pensions and the establishment of pension funds (Due and Madsen 2003).

In the course of the 1970s, the Nordic countries, too, were hit by the oil crises and the subsequent economic and labour market stagnation throughout Western Europe. In different sequences and ways, economic turbulence and crises marked the Nordic countries until the beginning of the 1990s. While some of the Nordic problems in this period were the result of their own faulty policies – in Sweden, Finland and Norway, tied to the liberalisation of the banking
and financial sector (Dølvik and Vartiainen 2002) – they were reinforced by the economic instability in Europe. It was in light of these problems that the plans for the single market and monetary integration evolved in Europe and economic-political integration gained pace, culminating with the introduction of the euro. These developments ran parallel with the neoliberal ideas that came to dominate economic policies – in Europe as well as in the United States – which were accompanied by the liberalisation of financial markets and deregulation, privatisation and the introduction of market mechanisms in a number of different areas. Alongside economic integration, however, European cooperation in this period was also marked by a political will to promote ‘social integration’, also in the form of social dialogue concerning social and labour market directives, which led to the enactment of a number of EU directives on working conditions and the working environment. The development of this ‘social dimension’ primarily occurred up through the second half of the 1980s and into the 1990s but did not apply to the regulation of strikes, lockout and wages, which were to remain a national matter. Despite these social initiatives, the predominant dynamics were related to economic integration, such that development, overall, has been characterised by ‘asymmetrical’ integration (Martin and Ross 1999; Stroby Jensen 1995; Dølvik 1998); in other words, social integration has limped after economic integration.

At the beginning of the 1990s, the thesis was widely held that the various European labour market models would come under pressure and converge (Baglioni 1990). The Nordic models, which in contrast to the other European countries were built less on legislation, were in the firing line. There was widespread concern that the broad Nordic collective bargaining systems, with relatively high and compressed wages, and high productivity and skill requirements, would not be able to adapt to the open international markets, with their free movement and ever-more intense regime competition (Due et al. 1993; Dølvik 1993). In addition to the integration of European markets, the liberalisation of global trade within GATT/WTO, China’s ‘open door’ policy, which has turned China into a driving force in global manufacturing, the collapse of Soviet communism and the (re-)introduction of market economics in eastern Europe all contributed to increased insecurity regarding the future of the Nordic collective bargaining models.

Up through the 1990s and into the 2000s, however, it became apparent that the systems of labour market regulation in the Nordic region and many of the other European countries were more robust than had been expected. Despite employers’ demands for radical decentralisation, especially in Sweden and Finland, the Nordic collective bargaining systems underwent important adjustments designed to meet the new challenges. Here, it is worth emphasising that the Nordic bargaining systems have never been static, instead being continuously adjusted in response to shifts in international and national frameworks. Some of the Nordic countries have thus chosen to introduce statutory extension mechanisms linked to collective agreements, whereby they become generally applicable for, for instance, specific branches. Finland, for example, passed legislation to generalise collective agreements in the 1970s; Iceland introduced legislation prohibiting wages under agreed-upon minimum levels;
and Norway introduced legislation on generally applicable collective agreements upon joining the European single market in 1993. Even more central in this context, however, is that the social partners made important adjustments to the collective bargaining systems in the 1980s and 1990s. These adjustments strengthened overall coordination and provided the actors in export-oriented industries with the front-runner role as key-bargaining sector, which was supplemented to varying degrees with increased leeway for negotiations at company level, especially in Denmark and Sweden. The shape, extent and processes behind the changes varied from country to country, but there are still important features in common between the bargaining systems in the Nordic states.

In the second half of the 1990s and up until the 2008 financial crisis the Nordic economies and labour markets performed strongly. GDP growth was stable, employment levels high and wage inequalities lower than in most other countries, even though wage differences increased over the course of the 2000s, especially in Denmark and Norway (OECD 2013). The Nordic countries featured at the top of international rankings of competitiveness and favourable conditions for businesses and commercial activity (World Economic Forum 2005; Doing Business 2006). The Danish ‘flexicurity’ model became a popular buzzword and Nordic experiences became models for the rest of Europe (EU Commission 2007; Madsen 2008; Magnusson et al. 2009). Similarly positive labour market developments were also observed in other small, open economies in Europe, typically the Netherlands, Austria and Switzerland.

With the exception of Norway, the financial crisis in 2008 and 2009 had harsh immediate consequences for the export-oriented Nordic economies, especially Finland and Sweden. Besides collapsing export markets and frozen financial markets, the fall in domestic consumption after the bursting of the housing bubble in Denmark brought a surge in unemployment and prolonged recession there. Iceland suffered an even more dramatic financial crash. The Icelandic economy improved, nevertheless, at a remarkable rate from around 2010, after the Icelandic krona had been devalued by roughly 50 per cent. From 2012, a downturn in the paper and ICT industries alongside more restrictive fiscal policies pushed Finland into renewed recession and unemployment continued to rise well into 2014. The Nordic economies were thus affected very differently by the crisis. The Icelandic and Danish downturns were to a large extent the result of national blunders – extensive liberalisation of financial activities in Iceland and expansive economic and credit policies, with a resulting housing bubble in Denmark – which contributed to a fairly hard landing after the many good years (Ólafsdóttir and Ólafsson 2014; Rangvind 2013).

The essence of this brief historical account is that the Nordic pattern of labour market regulation and the collective institutions it is built upon has evolved through reactions and adaptations to changes in the international surroundings, while being shaped by factors specific to the Nordic countries. Although the small, open Nordic economies are highly dependent on developments in
the world around them, there has still been room for national political choices concerning the path to be pursued when it comes to social policies and national labour market regulation. National policy choices, including the strategies adopted by the social partners, are thus decisive for the future development of labour market regulation. This pertains in particular to choices regarding the institutional framework and functioning of the collective bargaining systems, including the balance between central and local negotiations, but also to the regulation of wages and working conditions.

The affluent Nordic countries have been characterised by relatively compressed wages and limited income inequalities. These features of the Nordic labour and welfare regimes have largely been maintained despite the pace of globalisation and European market integration in recent decades. The pattern of labour market regulation through collective bargaining has played a decisive role in shaping these favourable developments. Against this background, we raise two questions: first, how have the collective bargaining systems developed and been adjusted in recent decades, and what prospects are there for the future? Secondly, will the employers continue to support the collective bargaining models, including in sectors in which collective agreement coverage is now relatively low?
With the aim of providing a detailed picture of the Nordic collective bargaining systems, this section describes a number of important commonalities. Despite the basic similarities, however, there are also important differences in the construction and functioning of the national bargaining systems.

Because there are considerable differences between the collective agreement models in the respective countries, it is difficult to claim that there is a single Nordic bargaining model. Here, there is talk more of a ‘family of systems’ (see Dølvik 2013), as there are clearly common features between the Nordic agreement systems that distinguish them from labour market regulation in the rest of Europe. The following section examines the collective bargaining systems and labour market regulation. Here, the point of departure is that the collective bargaining systems are the cornerstones in the respective models, but that the systems are at the same time woven together with and often also supported by other institutions, such as the mediation systems, within national labour market models.

Central common features and differences are briefly listed in Box 1.

<table>
<thead>
<tr>
<th>Box 1 The Nordic collective bargaining models: Overview of main commonalities and differences</th>
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<td><strong>Commonalities:</strong></td>
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<td>- High union density; relatively strong labour and employer organisations, and (except Norway) high collective agreement coverage; multi-level bargaining models built on centralised coordination, a strong tier of company bargaining (except in Finland), where the parties in the export manufacturing sector set the pace.</td>
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<td>- A strong peace obligation as long as the agreement is in force; collective agreements are legally binding and comprise all employees in the relevant employee group at the workplace; solidaristic union wage policies have raised wages on the lower rungs and contributed to relatively compressed wage structures.</td>
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<td>- The mediation institutions play a central role in preventing conflict and promoting coordinated negotiated outcomes; disputes over rights are resolved in the labour courts.</td>
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In what follows, particularly important institutional similarities and differences between the Nordic labour market models will be described briefly.

**Important similarities**

With slight reservations with regard to Norway, the trade unions in the Nordic region can be called ‘the world’s strongest’: no other trade unions are capable of mustering the same level of wage-earner support. This is still the case even though the Nordic organisations have lost members in recent years. On the employer side, the density level is also high, but not as distinct internationally as that of the trade unions. Overall, this provides a sense of relatively strong labour market organisations capable of reaching collective agreements that enjoy very wide coverage. As shown in Table 1, the collective agreements cover 70–80 per cent of the private labour markets (although the Norwegian agreements cover somewhat less, at around 50 per cent).

The collective bargaining systems in the Nordic countries can be characterised as multi-level models, understood to mean that negotiations take place at the national peak level as well as between the parties at industry/sector and company levels. The collective agreements are usually made at the sectoral level. Here, the export-oriented businesses in manufacturing will typically be the area of negotiations that set the pattern for the rest of the labour market.
When the country-wide collective agreements are renewed via negotiations and passed in the respective assemblies, strikes are prohibited for the period covered by the agreement (peace obligation), contrary to regulations in some continental European countries. The agreements are legally binding and, in principle, cover everyone in the relevant occupation or trade at the workplace. All of the Nordic countries have relatively strong mediating institutions, which play a key role in preventing conflict and promoting agreements. Conflicts of rights are solved in the labour court (Arbejdsretten). In Denmark and Norway the government has traditionally been able to intervene in deadlocked negotiations and resolve them via legislation or binding arbitration. This is not the case in Sweden.

**Important differences**

**Collective agreements versus legislation:** One of the fundamental aspects distinguishing the Nordic countries from many other European countries is the dominant role played by collective agreements in labour market regulation. This is seen partly in the relatively high coverage of collective agreements, partly in how they cover a relatively broad range of topics and regulate many important conditions in the labour market. The relevant legislation often comprises framework regulations and leaves considerable leeway to the partners, which can often negotiate exemptions from the law. This is seen in a World Bank index illustrating labour market legislation in the respective countries. Here, ‘conditions of employment’ relate to legal requirements concerning working hours, paid holidays, paid leave and minimum wages.

Table 2 presents the 10 EU countries (including Norway) with the lowest scores on the index. In other words, these are the ten countries with the most ‘flexible’ legal regulation of the employment conditions referred to here. The point is that the World Bank has ignored collective agreements. Questions regarding working hours, paid vacation, sabbaticals and minimum wages are largely regulated in the collective agreement systems in the Nordic countries. In other words, it is scarcely the case that regulation is weaker in Denmark than in the United Kingdom (see Table 2). Here, the collective agreements make the difference. One might argue about whether working hours, paid vacation and leave, together with minimum wages are suitable areas of regu-
RATION when constructing such an index. At any rate, this can be seen as an illustration of how collective agreements in the Nordic countries regulate a number of important aspects of employment conditions, which in comparable countries are typically regulated via legislation.

The World Bank index also illustrates that there is a difference in terms of how widespread legislation is in the individual Nordic countries. Denmark registers the lowest score as far as legal regulation is concerned. Again, this is not because Denmark has the most flexible regulation in the EU in these areas; rather, collective agreements in Denmark cover very large parts of the regulation of wages and employment conditions and, conversely, the legislation covers relatively little. Norway and Sweden are at the same level, well below Denmark, while Finland has slightly tighter legislation (see Table 2). As opposed to the World Bank, the OECD has developed indexes building on legislation, as well as collective agreements and judicial decisions. The index in Figure 1 deals with the strictness of employment protection in relation to dismissal (collective and individual) and fixed-term employment (including temporary work). Despite differences, this account provides a more homogeneous picture of the Nordic countries when it comes to permanent employment, whereas there are significant differences with respect to fixed-term employment.

Table 2  Index of legislation on employment conditions, 2004

<table>
<thead>
<tr>
<th>Country</th>
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<tr>
<td>Denmark</td>
<td>25</td>
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<td>Norway</td>
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<td>Sweden</td>
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<td>Austria</td>
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<td>United Kingdom</td>
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<td>Italy</td>
<td>62</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>63</td>
</tr>
</tbody>
</table>

Note: Most flexible regulation, EU top 10 (+ Norway), Index (0–100). Source: Doing Business database, World Bank, 2004.
Generalisation of collective agreements: One striking Nordic difference pertains to legislation enabling the generalisation of collective agreement terms (Stokke 2010). Since the early 1970s, Finland has had legislation that stipulates that all collective agreements with a coverage rate of at least 50 per cent be routinely made universal. All provisions that affect individual workers’ wages and working conditions are made universal (Seip 2010). Since the 1980s, Iceland has had legislation prohibiting wages below the minimum rates in the collective agreements; and since 2004, Norway has in some branches made use of the legislation on extension of collective agreement terms, which was passed in 1993 when entering the single market. The specific objective of the law was to prevent foreign workers from receiving poorer wages and working conditions than Norwegian workers. In keeping with the EU Posting of Workers Directive, only a few individual minimum conditions are universally applicable, as is now the case in construction, shipbuilding, cleaning and agriculture and horticulture (Eldring et al. 2011). The Norwegian experience in particular has stimulated debate in Sweden and Denmark, but it has not led to any change as these two countries have no statutory provisions enabling extension of parts of collective agreements. This stands in contrast to most of the rest of the EU, where the use of universally applicable agreements and to some extent also a statutory minimum wage is widespread.

Tripartite cooperation: Concertation between the social partners and the state has deep roots in the Nordic context. There is generally close coopera-
tion, although there is considerable variation in how it has developed over the past few decades in the respective countries.

In Sweden this cooperation was close until the 1990s, when the employers in SAF, the main organisation, first chose to abandon the central collective agreement negotiations (in 1990) and subsequently withdrew from all corporatist cooperative bodies, such as the Labour Market Board (Arbejdsmarkedsstyrelsen) in 1992. The background for this included the trade union movement’s unilateral action with the Swedish Social Democrats, who from the 1970s introduced laws on participation, worker protection and wage earner funds in order to benefit from rising business profits. The employers saw this as a virtual declaration of war. The result has ultimately been a ‘de-corporatisation’, whereby both employers and trade unions are far less represented in advisory organs in the labour market area (Berglund and Esser 2014). Although the Danish trade unions were inspired by the Swedish trade union movement in the 1970s, they never achieved the same results, primarily because the Social Democrat-led governments were broad coalitions without any particular will to satisfy the interests of the LO trade unions. On the other hand, this made it possible for more pragmatic relations with the employers, who from time to time in recent decades have been part of larger tripartite agreements, primarily about employment policy, pensions and education. Moreover, the partners are permanently represented in the employment and education policy areas.

In the cases of Norway, Finland and – partly – Iceland, tripartite cooperation has also involved incomes policy; much more so than in Denmark and Sweden. In Norway, the so-called Solidarity Alternative (Solidaritetsalternativet) offers an example of this. Key objectives were to ensure wage moderation, improved competitiveness and increased employment (Hippe et al. 2013). The first incomes policy agreement in Finland was negotiated in 1968. Since then, the social partners’ negotiations on wages and working conditions have often been linked with income policy agreements, in which the government has supported development of various public goods (for example, pensions, sick pay, maternity) (Kangas and Saloniemi 2013). In Iceland, it has become the norm, especially in recent years, that the government actively participates in the negotiating frameworks for setting wages and working conditions. On the other hand, the trade unions and employers have gained considerable ground with regard to the development of occupational welfare provisions (Ólafsdóttir and Ólafsson 2014).
4. Collective bargaining systems – main functions

While there are some important institutional differences between collective bargaining systems in the Nordic countries, they have developed a number of key societal functions that have helped to maintain support and legitimacy in the political system and with the public.

The collective bargaining systems in the Nordic countries are characterised primarily by well-developed coordination between sectors and branches and between the central and local levels of negotiation (Kjellberg 1992). This coordination is driven by the LO organisations and their counterparts, working together to solve a number of collective action problems. The collective action problems arise when the community of workers or employers has an interest in cooperating on a certain theme, but individual members or associations have an incentive not to cooperate in pursuit of their own interests (Stokke 1992). This is the classic challenge facing all organisations with regard to coordinating and prioritising their internal interests. Additionally, the so-called free-rider problem emerges when unorganised actors on the worker or employer sides can enjoy the goods provided by the collective actors (the social partners) without incurring the costs associated with the development and maintenance of these goods. For example, an unorganised worker can benefit from a trade union’s collective agreement without being a member or a company can free-ride on other companies’ collective agreements and win a competitive advantage by avoiding a number of obligations and expenses tied to membership, such as paying into common funds and pension arrangements. If enough actors decide to free-ride, competition becomes distorted; other members can be tempted to do the same, and the collective bargaining system risks crumbling. In what follows, we summarise a number of the key functions that the coordinated collective bargaining systems exercise in the Nordic labour markets and economies.

Conflict resolution and industrial peace

The relationship between wage-earners and employers includes elements of both cooperation and conflict. The partners have a shared interest in ensuring growth, revenue and jobs, but opposing interests in terms of the distribution of profits. Nordic working conditions are traditionally regarded as consensual; but it is more appropriate to talk of a ‘conflict partnership’ built around dealing with conflicts of interest tied to the distribution of the created value and the relationship between work efforts, wages and other aspects (Døl-
The collective bargaining system deals with a number of conflicting interests in the labour market – also between wage earners and between employers, respectively – by establishing a level playing field for competition and procedures for conflict resolution. Basically, in contrast to some continental bargaining systems, the Nordic systems are characterised by a consistent peace obligation between the partners in the agreement period; that is, strikes and lockouts are permitted only in connection with negotiations on a new/renewed agreement. In local negotiations, there is no right to strike. The systems are thus built on a principled distinction between conflicts of interest and conflicts of rights. The former deals with conflicts over wages and working conditions that are yet to be determined or are to be renewed. Interest conflicts typically arise in connection with the renewal of collective agreements or when a business is approached by a trade union demanding a collective agreement. In such situations, in accordance with specific rules and procedures for notification and conflict, the partners can deploy instruments of conflict (strike, lockout) as a weapon to exert pressure on the opposing party.

In the Nordic countries, the authority to engage in a conflict has traditionally been strongly centralised – and for a long time was something only the top level in the peak organisations on both the employer and the employee sides could decide – which was an important tool for creating the strong central coordination of negotiations in the Nordic countries (Due et al. 1993; Stokke 1998). All five countries have institutions for mediation capable of helping the partners reach agreement should they be unable to do so via negotiations. The other type of conflict – conflicts of rights – concerns disputes about violation or interpretation of collective agreements. These conflicts do not give the right to take collective action, but must be resolved through the appropriate labour law channels, such as the Labour Court or industrial arbitration bodies. In principle, the Nordic bargaining systems emphasise solving legal disputes as closely to the direct parties to the conflict as possible. In other words, the parties to a conflict should first attempt to solve the conflict at the workplace. If the conflict is not solved locally, the partners’ central organisations become involved, and ultimately the Labour Court and possibly arbitration bodies.

Solving conflicts and ensuring labour peace is a central aspect of the agreement system, which has in particular been in the interest of the employers, as it helps to ensure predictable conditions for business, reduce the number of lost workdays and avoid expensive court cases, as can be observed in countries such as the United Kingdom and the United States, where individual court cases have increasingly become the dominant form of conflict resolution since the collective bargaining systems broke down. Additionally, the labour court system gives the partners control, ownership and trust in procedural fairness; in other words, that each part in a conflict is heard and that the solution will be based on objective criteria, grounded in the collective agreement.

**Collective agreements and representation create security for the individual employee**

A basic and important function of collective agreements is, according to the Webbs (1910), to even out the fundamental power imbalance in the employer–
employee relationship, thus protecting the individual employee from possible injustices and discrimination from their employer. Via collective representation and common rules and procedures for dealing with workplace grievances, the trade unions step in and serve as the advocate for the individual worker – either directly or by taking the case to the labour court system. According to Freeman (1984), ensuring the rights of the employee and opportunities for exercising ‘voice’ is the most fundamental element in collective bargaining systems. In this sense, the collective organisations promote democratisation of the workplace, and the rights to organise and to free negotiations are thus recognised internationally as an important condition for democratic government (see the ILO conventions, the EU’s Charter of Fundamental Rights and the European Human Rights Declaration). Democratisation of the workplace also creates more parity between the parties to the employment relationship. Collective representation via works councils (samarbejdsudvalg) and the institutionalisation of conflict resolution via negotiations help to even out the inherent asymmetry in the employer–employee relationship. This equalisation of power can also mean that employers see a long-term interest in developing cooperative relations with the unions, aimed at ensuring the survival of enterprises through joint efforts to develop productivity and hence profitability.

‘Take wages out of competition’ – between employees and employers alike

The Nordic collective bargaining systems are based on multi-employer agreements that set wages and working conditions for the majority of companies or the dominant companies within the same branch, industry or profession or trade. Unorganised employees at a workplace are also covered by the so-called mandatory principle (uførgivelighedsprincip – område-overenskomster, or area agreements). For workers, collective agreements mean that they cannot underbid one another to find work or better jobs. The main function for employers is that wages and working conditions are set more or less uniformly for all companies, meaning that they cannot compete on wage costs. At the same time, they save on a number of transaction costs associated with having to negotiate with every individual employee. This means that companies cannot underbid one another in order to obtain a comparative advantage; rather, they must compete in terms of productivity and quality. In the Nordic labour markets, where there have often been labour shortages, this also means that collective agreements define the norm (the ‘going rate’), which prevents businesses from outbidding one another to attract labour. The spread of collective agreements built on minimum wage systems, which include local wage bargaining, makes local wage differentiation possible. Typically such differentiation is negotiated together for groups of employees in an enterprise, but can also entail individual differentiation. As many branches are becoming ‘internationalised’, the norm-setting function of agreements is coming under fire, as companies compete with foreign companies that are not subject to the same collective regulation, as well as with an increased supply of unorganised businesses that are making use of the expanded opportunities to recruit foreign labour working under inferior conditions.
Coordination can ensure sustainable wage increases and contribute to high employment

Macroeconomically, the coordination of collective bargaining is decisive in being able to ensure reasonable wage increases, which can form the basis for full employment and counteract inflation, loss of competitiveness and jobs. Throughout the 1970s and 1980s, the Nordic collective bargaining systems were criticised for having lost their capacity to ensure a sustainable rate of wage increases. This was due to high inflation, lost competitiveness and jobs, while the nominal wage supplements were eroded by price inflation. Real wage growth was therefore limited. A major reason for this was that the central agreements between the peak associations were not respected at the sectoral and company levels, which led to considerable wage drift. Similarly, there were instant demands for compensation between wage earners; as soon as wage drift was discovered in one sector, the other sectors demanded compensation in order to avoid falling behind. Throughout the 1980s and 1990s, the agreement systems in the Nordic countries were therefore reformed in different ways (see Section 6), and they managed – in the context of more restrictive financial and monetary policy – to regain coordinating capacity in order to ensure responsible wage increases, forming the basis for stable real wage growth and increased employment. A recurring feature of the changes made to bargaining systems was, as earlier emphasised, that the sectors most affected by international competition again set the standard for wage increases.

Securing a just and productive distribution of value creation

Compared with most other countries, the Nordic countries have been characterised by a high degree of wage and income equality. One of the reasons for this has been the broad collective bargaining coverage, the strength of trade unions in negotiations and their emphasis on even, ‘solidaristic’ wage development. This has meant that, together, wage earners are able to negotiate a reasonable share of the creation of value in the economy. One of the main criteria in this regard is that wage increases more or less follow productivity increases, and that the real wage is improved or defended continuously. This contributes to businesses with low productivity and revenue being knocked out by the competition – while more productive enterprises achieve extra earning and investment capacity – such that labour and capital move to the most future-ready enterprises. In line with the Swedish Rehn-Meidner model (LO 1950), ‘solidaristic wage policy’ thus became a driving force behind restructuring, innovation and increased socio-economic productivity and welfare (see Vartiainen 2014; Fagerberg and Fosaas 2014), while the trade unions got a strong incentive to participate in local cooperation with management on skill and productivity development (Dølvik 2009). This has contributed to less conflict-ridden relations between the parties in Nordic workplaces than, for example, in the Anglo-Saxon countries, where all questions – regarding both the creation and distribution of added value – are to be solved in local negotiations alone (Nergaard et al. 2009). In countries such as the United
States, where collective negotiations have almost disappeared outside the public sector, wage formation has become de-coupled from economic growth (and wage differentials have widened even for equal jobs). In continental European countries in which the trade unions are not represented in companies – and the employees are represented by ‘works councils’ (in the so-called ‘dual system’) – it is far more difficult to obtain such a productive interplay between central coordination and locally negotiated flexibility (Ilsøe 2010; Nergaard et al. 2009).

**Contributing to ‘social investments’ in collective goods**

Collective agreements are not just about wages and working hours. Over time, many issues have been addressed in collective agreements, thereby ensuring wage earners a number of goods that they otherwise would have had to demand from the state or finance themselves. This enables social investments in collective goods that also contribute to the productivity of society as a whole and are not financed by taxes. Pensions as part of collective agreements are a good example of a social benefit that complements the tax-financed arrangements, which otherwise might not have been sufficient to maintain employees’ income levels after retirement. Without collective agreements, this type of social benefit – or postponed pay – is difficult to maintain. By solving the collective action problems tied to, for example, pensions via the bargaining system – as seen in Denmark and Sweden – employer and employee organisations can strengthen their legitimacy and influence by also using their shared powers to negotiate with insurance companies in order to improve the welfare benefits enjoyed by members and employees. The same logic pertains to leave arrangements and education and training, where the cooperation on training and education and apprenticeship arrangements – particularly in Denmark – has been exemplary. Moreover, pensions, education and skill development are not just an expense for businesses, they are also an investment in the future that can provide incentives to wage restraint (for example, exchanging wage increases today for higher pensions in the future). By paying into pension funds and reinvesting these funds in companies, the employees’ savings also provide a basis for the creation of new jobs. Further along these lines, Iceland, where the social partners provide a significant part of the social benefits, offers a particularly clear example of how collective bargaining systems can be a useful tool for developing collective goods and promoting social investments.

**Creating frameworks for negotiated flexibility and adjustment**

Collective agreements are described in some quarters as inhibiting the ability of private enterprises to compete and adapt, but they serve the important function of creating frameworks and rules that promote negotiated flexibility within companies. Particularly in Sweden and Norway, labour market legislation has traditionally provided the negotiating parties at local level with the right to negotiate deviations from central provisions, for example, on working
hours and other questions. Inspired by the Nordic experiences, such mechanisms have also been developed in a number of EU rules, for example, the Working Time Directive. This allows the local partners to play an important role and creates an extra incentive to organise on the employer side. In recent decades, collective agreements in most Nordic countries have increasingly changed from including detailed regulation to being framework agreements, in which centrally defined objectives, procedures and criteria leaves space – to varying extents – for the local partners to determine wages, working conditions and other questions. In many cases, the organisation of working hours has been decentralised, especially in Danish manufacturing, such that the workplace partners can negotiate solutions that are appropriate for their business and employees. In contrast to full decentralisation, as seen in the United Kingdom and the United States, the process is under central control in the sense that the industry agreements set frames, objectives and procedures for local negotiations, which help to even out the unequal power balance that otherwise often marks local negotiations. In so doing, a balance can be reached regarding the need for central coordination and local leeway to find balanced solutions that take account of company needs for more efficient production, as well as employees’ interests and need for time autonomy. At the same time, it is typically possible to include the central partners if local parties cannot agree. This helps to equalise power relations at the local level.
5. Development and change of Nordic collective bargaining systems

As described in the introduction, the five Nordic bargaining systems have undergone fundamental changes against the background of significant political and economic problems in the 1980s and 1990s. Here, we merely want to emphasise the most important challenges, which – although they were comparable – were dealt with differently in the five countries.

The first challenge was the struggle with wage inflation and the adjustment of wage formation to the international shift to low-inflation economies. As already mentioned, in the 1970s and 1980s it looked as though the capacity of the centralised Nordic bargaining systems to provide wage restraint and contribute to price stability, competitiveness and employment had been reduced. The other challenge to the bargaining system was the increased demand from employers for more flexibility in collective agreements. Increasing competition, shifting markets, new technology and new forms of work organisation resulted in demands from employers and politicians for more flexible labour market regulation.

The two challenges might initially appear to be in conflict with one another. Wage restraint in countries with powerful trade unions demands strong coordination between branches and sectors as well as between the respective levels of negotiations. Total decentralisation to the workplace level in order to increase flexibility could trigger new wage spirals and wage gaps – particularly in times marked by labour shortages. And the trade unions were not prepared to allow market forces to determine wages – especially not for the disadvantaged groups in the labour market.

In contrast to other countries, where the coordination of negotiations broke down and collective agreements were replaced entirely by workplace HR (for example, the United Kingdom), the Nordic countries have maintained a high level of coordination concomitantly with considerable decentralisation, particularly in Denmark and Sweden. This has been referred to as ‘centralised decentralisation’ (Due et al. 1993) or ‘organised decentralisation’ (Traxler 1995). This section describes the respective national solutions to the tension between decentralisation/flexibility and coordination, as well as their significance for developments in negotiation processes and results.
Denmark: centralised decentralisation

The 1970s was a particularly contentious decade, with four government interventions in collective bargaining by a Social Democrat-led government. In the 1980s, this led to a shift in Denmark whereby the partners – responding to pressure from the authorities – sought out new solutions to the balance problems in the agreement model (Due et al. 1993). Manufacturing employers in particular wanted to do away with negotiations at the confederate level, as they saw this as an element pumping up costs when negotiations at the branch and workplace levels led to significant wage drift (Ibsen and Stamhus 1993). In the wake of the Conservative government’s intervention in collective bargaining in 1985, the confederations of labour and employers – LO and DA – got together with the government to find a solution. Since coming to power in 1982, the Conservative government had signalled that fighting inflation was a primary objective and a condition for being able to bring down high levels of unemployment – and now the partners had to prepare themselves for this course. This resulted in a tripartite declaration of intent, the Joint Declaration (Fælleserklæringen) of 1987, where the unions committed themselves to wage moderation in return for promises of increased employment and investments. Part of this statement also dealt with increased private savings by developing occupational pensions for private sector employees. The motto was ‘job feast instead of wage feast’, within the framework of which wage developments were to be brought in line with developments in neighbouring countries, especially Germany, in order to ensure Danish competitiveness and jobs.

Next, the so-called regulation device (reguleringsordningen) was intended to ensure roughly parallel wage developments between the private and the public sector. Wages in the public sector were thus meant to increase by 80 per cent of private wage increases. This was to ensure that the public sector does not set the pattern for wage developments. This also establishes the principle that it is the businesses exposed to international competition that should set the pattern for labour costs in other branches.

Since the 1980s, negotiations in Denmark have taken place at the branch level with multiple-employer agreements that set wages and working conditions within a specific trade or profession or economic area. The confederations, LO and DA, coordinate negotiations in the private labour market but are not direct agreement parties. Against the backdrop of the major conflict of 1998 in particular, the confederations have taken it upon themselves to ensure tightly coordinated bargaining in order to avoid conflicts (Due and Madsen 2006). This is achieved via so-called climate agreements or road maps that establish the timetable for negotiations, common notification concerning conflicts and joint statements in relation to bargaining results in order to avoid any doubt about the bargaining results.

Bargaining in each branch is spearheaded by the parties to the manufacturing agreements for employees with hourly wages and whitecollar workers. Here, a framework for wage and labour cost increases in general is negotiated as part of the agreements, which then sets the pattern for the other bargaining areas.
This principle has been in force since the beginning of the 1990s and there has only been a single instance – in 1995 – when other areas have reached a collective agreement first. This ensures the coordination of the areas in the private sector – and because of the regulation device, the public sector also follows along (Ibsen 2013).

One of the main reasons for the strong coordination has been the centralisation of the employers over the past three decades: the number of associations in DA has been reduced from 150 to 13. The strongest organisation is the Confederation of Danish Industry (DI – Dansk Industri), representing more than 60 per cent of the total payroll in the Confederation of Danish Employers (DA – Dansk Arbejdsgiverforening) (DA 2012). The DA executive committee must approve the renewal of collective agreements, and because of DI’s size, it is very difficult to break DI’s pattern with respect to labour cost increases. On the trade union side, centralisation has also been reinforced, as the LO associations in manufacturing have developed the bargaining cartel CO-industry. Other branches have also developed negotiation cartels, but they are not direct parties to agreements. Moreover, LO – in contrast to DA – does not have the capacity to ratify the collective agreements of its affiliates.

The mediation institution (forløgsinstitutionen) plays a key role in Danish bargaining (Galenson 1955). If the negotiations at the branch level do not result in renewed agreements, the mediation institution convenes. If the parties are not able to reach a settlement, the agreement is transferred to a so-called linkage procedure (sammenkædning), involving negotiations between LO and DA and the mediator. Here, the non-renewed agreements are linked and made part of a total settlement proposal, which is then sent to the parties for their approval. This mediation proposal will be made only if none of the parties objects. In other words, LO and DA can oppose proposals that are out of sync with what manufacturing has received (Ibsen 2013). Additionally, the trade union ballots must produce a qualified majority in order to reject the proposed renewal. This means that the linkage procedure ensures a high degree of coordination. Conversely, the direct agreement parties lose some of their autonomy in bargaining, and individual trade unions voting ‘no’ usually have to live with the result of the proposal nevertheless as they are swept up by the majority vote.

Within the DA area, 80–85 per cent of the employees now have minimum wage agreements with local wage bargaining; some have figureless agreements without wage provisions, while 15–20 per cent have so-called normal wage agreements, where wages are set at the sectoral level (DA 2013). The content of bargaining coordination has thus changed with the decentralisation of wages and working hours to the workplace level. In other words, most collective agreements have become ‘framework agreements’, in which the wages and working hours are set at the workplace, though with the increase in minimum wage or minimum pay rates as a (standard) minimum. The length and arrangement of working hours is also largely set at the workplace and can vary considerably over the course of the year as long as the annual norm is maintained (Ilsøe 2009). Company management and union shop stewards
have become the main actors in the Danish model. In the public sector, the scope for local bargaining is still negotiated as part of central collective bargaining agreements, and the implementation of decentralised wage setting can often be modest in relation to the collective agreement pay scale.

In return for the decentralisation of wages and working hours, the Danish trade unions in the private sector have developed a number of social benefits in the branch agreements. This has applied to the occupational labour market pension since the late 1980s and early 1990s, maternity leave benefits in 2004, continued education in 2007, the so-called free-choice account (\textit{fritvalgskontoen}) in 2007 and the severance pay arrangement reached in 2010. These benefits are also found in the public sector – where pensions are often higher. Due to this centralised decentralisation, the breadth of the collective agreement has increased, while decentralisation has provided greater flexibility.

\textbf{Sweden: coordinated decentralisation}

Sweden’s centralised negotiations between the confederations – LO (for workers), PTK (for salaried workers in the private sector), SACO (for academics) and the Swedish Employer’s Association, SAF (\textit{Svenska Arbetsgivareföreningen}) – were put under serious pressure in the 1980s and ultimately broke down in 1990, when SAF withdrew from all forms of collective agreement negotiations (Kjellberg 1998). Previously, the metalworking industry parties, IF Metall (LO) and Verkstadsföreningen (SAF), had left the centralised negotiations in 1983, and there was a sense of internal tension, within both the trade union movement and the employer organisations. As in other countries, the background was the widespread wage drift at the sectoral and workplace levels, which undermined the coordination in the central negotiations (Elvander 2002; Kjellberg 1992). This led to wage rivalry between the various trades and professions, which demanded higher wages and salaries as compensation for the wage drift in other branches – in other words, an ascending wage spiral (Ahlén 1989). The parties in the metalworking industry wanted to solve this by undermining the confederations’ negotiations and re-introducing negotiations at the branch level; which in their opinion could make the parties more accountable, while at the same time linking productivity and wages more closely (Stokke 1998).

The lack of coordination between the confederations in central wage bargaining led to more chaos, and in the wake of the economic crisis in the early 1990s the government stepped in, first, with a failed attempt at income policy, thereafter with the Rehnberg Commission, which assisted the parties with mediation and coordination in order to restore wage restraint across branches and sectors in line with wage development abroad (the so-called ‘Edin norm’).

\textit{Fritvalgskontoen} is an individual account, where part of the wage or salary is deposited and can later be withdrawn either in the form of extra pension, extra paid vacation or wages.

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4. \textit{Fritvalgskontoen} is an individual account, where part of the wage or salary is deposited and can later be withdrawn either in the form of extra pension, extra paid vacation or wages.
The Commission was a success from 1991, but coordination broke down in 1995, when bargaining was plagued by conflict and led to higher wage increases than abroad, despite high unemployment and continued economic problems.

The 1995 breakdown led to new ideas about reforming the collective bargaining system, both in the government and among the social partners. The breakthrough came from the latter in the form of an initiative from the manufacturing trade unions across LO, TCO and SACO, which in 1996 invited its employer counterparts to draft a new bargaining arrangement based on wage restraint, synchronised negotiations and a strong mediation institution. This resulted in the Industry Agreement (Industriavtalet) of 1997, which firmly established new principles for the Swedish collective bargaining system (Elvander 2002).

First, competitiveness was to be restored via reasonable wage development in line with developments among trade partners abroad. This was to be ensured by the export-oriented industries setting the pattern for other branches and sectors, notably in the sheltered domestic market. Secondly, the partners established arrangements for cooperation, debate and joint assessments of the economic situation rather than negotiating on the basis of clout. The Industrial Economic Council (Industrins Ekonomiska Råd) was established, which provides a joint account of the economy prior to negotiations. Thirdly, the negotiations were to be synchronised with consideration of the expiry date and length of collective bargaining agreements in order to avoid wage spirals. Fourthly, impartial mediators (opartiska ordföranda) were entrusted with helping the parties reach agreement and ensuring coordination across collective agreements in manufacturing. The impartial mediators enter into bargaining during the last month of negotiations before collective agreements expire. The coordination between the manufacturing parties was also strengthened by the establishment of the Swedish Unions in Manufacturing (Facken inom Industrin) and cooperation on bargaining between the trade unions, while the employers in manufacturing also increased their coordination, in which Teknikföretagen (previously Verkstadsföreningen) assume the most important role (Ibsen 2013).

Agreements on cooperation and negotiations were also established in other branches in the wake of the Industry Agreement, and the state established the Swedish National Mediation Office (Medlingsinstitutet) in 2000, including obligatory mediation for parties unable to reach agreement and lacking their own bargaining agreement with built-in mediation. The National Mediation Office was entrusted with ensuring labour peace and socio-economically sustainable wage development based on pattern-setting manufacturing agreements. This means that the mediators never present a settlement proposal that would exceed the manufacturing pattern, even if the employers might be willing to accept it. This ensures wage restraint in the mediation procedure (Ibsen 2013). However, the parties themselves can engage in conflict and end up over or below the manufacturing pattern, as neither LO or SN (previously, SAF) have to ratify collective agreements or conflict measures. Swedish me-
Nordic labour market models in open markets

Mediation does not involve any type of linkage across branches and sectors, as in Denmark, and ballots were done away with in the 1940s (Stokke 1998).

Since decentralisation from the central to the branch and sectoral levels, the new Swedish collective bargaining system has increased coordination significantly, while at the same time more agreements have become framework agreements with respect to wages and working hours. In the private sector, 83 per cent of agreements include local wage formation, whereas 17 per cent include central wage determination (Medlingsinstitutet 2013). However, the collective agreements in the private sector still include minimum guarantees and clauses guaranteeing wage increases in local and individual negotiations, also for civil servants (tjenestemænd) and academic groups. Wages are set locally to a much higher degree in the public sector. The Swedish LO trade union uses this control over wage development to extend the solidarity wage policy, where special groups are taken care of in order to compensate for their lower pay. In a number of cases, this has meant that individual poorly paid branches have broken with the manufacturing pattern in order to obtain relatively higher wage increases, to the great dissatisfaction of the employer organisations. Swedish negotiations are still largely about wages, while at the same time – for example, in connection with restructuring – efforts to deal with the crisis through short-time working and regulating the use of temporary employment agencies have been central issues in recent years. Other issues, such as continued education, have, on the other hand, not become widespread in collective agreements (Ibsen 2013).

Norway: tripartite cooperation and reinforcing the front-runner model

Like the other Nordic countries, Norway was plagued by considerable economic fluctuations in the 1980s, meaning high levels of conflict together with wage and price inflation that threatened growth and jobs. Rivalry between trades and professions and erosion of the confederations’ control of wage development led the employers to demand decentralisation of collective bargaining and more flexible agreements (Stokke 1998). In 1986, the employers opted for a lockout in order to resist the Norwegian Union of Iron and Metal Workers’ (Jern og Metall) demands for equal working hours for blue- and white-collar workers in industry. This was a complete failure, and the Norwegian Employers’ Confederation (Norges Arbeidsgiverforening) and the Norwegian Industry Confederation (Norges Industriforbund) were merged in 1988 to form NHO (Næringslivets Hovedorganisasjon). After the oil price fell to USD 10 per barrel, the Norwegian financial and real estate bubble burst and the right-of-centre government lost hold of the reins of power. The Social Democratic government and the social partners then took the initiative in 1988 to restore wage moderation via tripartite cooperation; the very modest pay increases in the 1988 agreement between LO and NHO was made into a ceiling for pay rises in the labour market as a whole via legislation (lønnsreguleringsloven). This was intended to break the wage spiral. In order to counteract wage drift in local negotiations, the metalworking agreement (Verkstedsoverenskom-
sten) had already been reformed in 1982, meaning that local wage formation was to be based on a company’s economic situation, competitiveness, productivity growth and future prospects. As the statutory wage regulation was repealed in 1990, these principles – the so-called ‘four criteria’ – were firmly established in an agreement between LO and NHO (Stokke 1998).

Central tripartite cooperation was further reinforced in the Solidarity Alternative of 1992 (NOU 1992: 26). This was based on a strategy for strengthened competitiveness, macroeconomic stability and full employment, whereby the parties were to ensure wage restraint via central coordination, the central bank was to ensure a fixed exchange rate and the government was to conduct an employment-friendly fiscal policy. The social partners did their duty in this division of labour based on manufacturing setting the pattern for the rest of the labour market until 1996, when there was a strike on the pattern-setting agreement (Verkstedoverenskomsten) and wages increased much more than abroad. After the Asian crisis in 1998 created new uncertainty about the prospects of the Norwegian economy, a number of committees were established in order to restore bargaining coordination – including how to calculate wage increases among white-collar workers when determining the ‘framework’ decided by the pattern-setting agreement in metalworking.5

The reforms of the Norwegian collective bargaining system meant more centralisation than in Denmark and Sweden. Collective agreements, typically running over two years, have a number of built-in centralised elements. First, the export manufacturing parties, Fellesforbundet/LO and Norsk Industri/NHO, negotiate a pattern-setting agreement, which other branches and sectors are expected to follow. Secondly, the bargaining rounds in the private sector can occasionally be carried out at peak level between LO and NHO, which is always the case in the so-called mid-term negotiations after the first year of the two-year collective agreement. LO and NHO additionally adopt joint platforms for negotiations by their affiliate organisations, in which the export industry is the spearhead. In accordance with their statutes, LO and NHO must ratify and sign all agreements entered into by their member organisations and they must also ratify an affiliate organisation’s decision to launch industrial action. Thirdly, the Norwegian mediation institution contributes to centralised coordination in line with the Danish conciliation institution (Stokke et al. 2013).

In addition to voluntary mediation, the public mediator (Riksmekler) can call parties that have not reached agreement to participate in mandatory mediation (Stokke 1998). Here, the mediator is able to present proposals for the parties to adopt. Additionally, a practice has developed in connection with so-called damaging conflicts (samfunnsskadelige) by means of which the Parlia-

5. The list of committees and reports referred to in Norway as the Arntzenutvalget (Arntzen Committee, NOU 1999) and the Holden committees I, II and III (NOU 2000, 2003 and 2013), are typical. In Norway, tripartite commissions are used to update, consolidate and anchor the actors’ shared sense of how things stand and ensure support for adjustments in the organisation of the coordination model.
ment (Storting) – at the invitation of the government – can end conflicts via compulsory arbitration. Here, Rikslønnsnemnda, the National Wages Board, determines the outcome, which hardly ever deviates from the pattern set in manufacturing. This prevents the parties from speculating on better results via arbitration.

Norwegian agreements are fundamentally based on three different wage systems: agreements with minimum wages (and additional company bargaining), agreements stipulating a precise ‘normal wage’ and agreements without specific wage rates (Stokke et al. 2013). Thus workers either receive a minimum wage, supplemented by increments set in local negotiations, or a ‘normal wage’ set in the sectoral agreements. For white-collar workers in the private sector, collective agreements typically do not include wage rates. In the public sector, most agreements are based on minimum wage regulations, but some agreements (for highly skilled employees) do not contain specific rates. In the state sector, agreements normally follow the minimum wage system, whereas both systems are used in the municipal sector. In the public sector collective agreements also include ‘occupational pensions’ (tjenestepensjoner), while social benefits, such as paid time off in connection with illness and maternity leave, are common in many sectors. In contrast, rights to paid education via education funds are not widespread despite LO’s interest in the matter.

**Finland: Centralised income policy**

Since 1968, wage formation in Finland has been the result of centralised income policy, whereby the export industry has set the standard for the rest of the labour market (Lilja 1992). In the early 1990s, Finland was hit by a massive economic crisis. Against the background of a financial bubble, an overheated economy and the loss of trade with the Soviet Union, the bottom fell out of the economy and unemployment soared to over 17 per cent in 1991–94 (Vartiainen 2011). This led to the right-of-centre Aho government and the STK employers wanting to do away with the national income policy. The objective of decentralising wage formation was to stem inflation and the wage and price spirals that had created towering expectations with regard to wage formation and wage drift. However, there was never talk of a genuine decentralisation of wage formation, and Lipponen’s ‘rainbow’ government managed to resume income policy and coordinate national agreements in order to regain control over wage inflation, increase employment and ensure that Finland could join the euro in 1999.

As of the mid-1990s, as opposed to the situation in Sweden and Denmark, it therefore appeared that the unique income policy model for negotiations in Finland, with agreements between the peak confederations and the government, had survived. Moreover, Finnish competitiveness and the economy in general had improved considerably, with strong productivity development and growth in branches with high value creation, best exemplified by Nokia, the mobile telephone company (Vartiainen 2011). The income policy was based on the situation in the export industry and meant – together with some
local wage formation – strong control over wage development in the domestic branches and the public sector. The trade unions also accepted maintenance of the wage structure by limiting higher wage increases to low-wage groups. In the 1990s and 2000s, Finland, together with Sweden, experienced unit labour cost developments in manufacturing, which were comparable with those of Germany (whereas the unit labour cost increases in the other Nordic countries were far higher).

It was therefore somewhat surprising when the employers’ confederation EK (previously TT and PT), withdrew from income policy cooperation in 2008 against the background of demands from the export industry employers’ association, Teknologiateollisuus. The export industry employers had successfully demanded local negotiations in 2007 (Bergholm and Bieler 2013). The employers were interested in more flexible wage formation, with wage differentiation for each sector, company and individual, as in Sweden and Denmark. EK marked this decision by – as SAF did in Sweden in 1990 – dissolving the negotiating unit in the confederation. Upon this move, there was increased instability in connection with wage setting, with growing deviations from the standard-setting agreement in the export industry. Some low-wage areas have drawn higher percentage raises from the negotiations, and there have been numerous threats of labour disputes (Bergholm and Bieler 2013).

Nevertheless, sector-specific negotiations are still coordinated, while local wage setting is poorly developed. Due to the increasing crisis in the Finnish economy and renewed calls for an income policy round in 2011 from the new Katainen government, the employers were pressured into signing a new income policy settlement in 2011. EK accepted this on condition that the agreement on wage moderation was implemented widely and that the agreement was regarded as a framework that left open opportunities for local agreements. Conversely, the SAK, STTK and AKAVA unions accepted the agreement, because it restored income policy and improved a number of conditions, such as education, parental leave and conditions for atypical employment (EIRO 2011).

In 2013, the Finnish government encouraged the bargaining parties to reach a new central income policy agreement to obtain control over wage formation and restore competitiveness and the purchasing power of wage earners – again, in the light of the severe Finnish economic downturn. This came about towards the end of October, when STTK, SAK and EK signed a new central agreement on very moderate wage increases for two years.

It is still difficult to assess the consequences of developments since the crisis for the Finnish agreement model. Some trade unions welcome increased local wage setting – particularly the unions and professional associations for well-educated groups with strong union representatives. Even the employers have admitted that the union representatives ought to be a more important actor in local wage formation. The confederations for workers (SAK), white-collar workers (STTK) and academics (AKAVA) have argued against decentralisation and announced that coordination on the employee-side must be upgrad-
ed if income policy is going to be abandoned once and for all. At the time of 
writing, it is therefore too early to determine whether the trend in 2011 and 
2013 signals a permanent return of income policy or merely a brief re-visit.

Decentralisation in Finland has been modest. Agreements at the branch level 
allow for setting wages locally on the basis of guaranteed wage increases in 
the case of local disagreements, similar to Sweden and Norway. Roughly 44 
per cent of Finnish workplaces have local wage negotiations (Sippola 2012), 
which is limited in comparison with the other Nordic countries. Here, it is 
also possible to conclude that the employers’ support for more flexible wage 
setting has been far from unanimous and stable.

Iceland: between centralisation and fragmentation

Throughout the 1970s and 1980s, Iceland was marked by a number of la-
bour conflicts and high inflation, which led to discussions in the 1980s about 
stronger regulation of Icelandic wage formation. In 1983, the Icelandic gov-
ernment went so far as to prohibit all wage negotiations, which led to massive 
protests from the trade union movement. However, there was a sense that 
something had to be done. In 1986, the first attempt was made at reaching a 
national consensus between the parties and the government on stable wage 
formation on the basis of moderate improvements to purchasing power rather 
than sporadic, high wage increases. This was followed by a tripartite income 
policy agreement in 1990, where the objective was real wage increases with 
low, nominal wage increases together with price controls (Ólafsson 2011: 17).
The agreement was the first that covered most of the economy and firmly es-
stablished a new agenda for negotiations, focusing on low inflation and con-
sensus-based negotiations between the trade union movement, the employ-
ers and the government. The agreement meant that the level of conflict also 
decreased in Iceland.

While the development is similar to that in the other Nordic countries, Ice-
land’s bargaining system is unique in the sense that it contains a number of 
strong elements of centralisation while at the same time it has a fragmented 
character. Legislation from 1980 on the extension of collective agreements 
means that the degree of coverage is almost universal in Iceland. Moreover, 
membership of the agreement-bearing trade union is obligatory. Conversely, 
the Icelandic trade union is fragmented, as the member associations often 
ignore the central recommendations; that is, the vertical coordination of bar-
gaining is weak (Isleifsson 2012). The confederation Alþýðusamband Íslands 
– ASI (organises both blue-collar and white-collar workers) and the Confed-
eration of Icelandic Employers (Samtök atvinnulífsins – SA – formerly VSI) 
do not own the collective agreements, but they negotiate – often together with 
the government – recommendations to their member organisations, which 
are expected to implement them in their agreements. This has resulted in a 
high degree of centralisation in Icelandic wage setting as long as the members 
have followed the recommendations (Ólafsdottir 2010). In the public sector, 
BSRB (wage earners) bargain with the state and municipalities on wages and
working conditions. Through the centralised agreement form, the social partners have negotiated agreements and further developed existing agreements on pensions, sick pay and further training.

Under ASÍ, a relatively large number of trade unions are divided according to trades and geography, and they often do not stick to the confederations’ recommendations in negotiations because of their specific labour market situations. This has contributed to a high degree of wage differentiation in Iceland – but at times also very high wage inflation when the economy is good and the actors at the union and workplace level make use of the opportunity to agree to high bonuses. The dispersion of earnings between branches, trades and professions and individuals has therefore also been larger than in the other Nordic countries.

The pattern in Iceland has subsequently been for the trade unions to fall back on the central recommendations during recessions, whereas during periods of growth and high activity, they use the increased room for negotiations and reinforced local powers to negotiate for local wage adjustments for productivity gains and higher employment. As mentioned above, this has caused problems for central coordination in the past. In combination with the reforms that favoured investors, employers and high-income groups towards the end of the 1990s, the Icelandic bubble economy began and wage increases skyrocketed and income inequality increased sharply (Ólafsson 2011: 19).

The intense financial and real economic crisis in 2008–2009, which triggered a huge devaluation of the krona (approximately 50 per cent) and a dramatic fall in real wages, reinforced the need for the coordination of economic policy and collective agreements. In 2009 and 2011, this resulted in tripartite agreements covering policy areas ranging from employment policy to investment and monetary policy. Moreover, there have been attempts to keep wage increases entirely out of these agreements, which in 2012 and 2013 meant a renewed focus on the part of the trade union movement on wage increases and regaining lost purchasing power (Ólafsdottir and Ólafsson 2014).
### Table 3  Overview of collective agreement models in the Nordic countries, 1990–2013

<table>
<thead>
<tr>
<th>Country</th>
<th>Early 1990s</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>Multi-level negotiations. Negotiations at the sectoral level, where the agreement reached by the export industry sets the pattern. Coordination via LO and DA’s coordination and via linkage by the mediating institution and statutory coupling of private and public wage development via regulation. Government intervention in prolonged conflicts. Local negotiations in many branches.</td>
<td>Multi-level negotiations. Negotiations at the sectoral level, where the agreement reached by the export industry sets the pattern. Coordination via LO and DA’s coordination and via linkage by the mediating institution and statutory coupling of private and public wage development via regulation. Government intervention in prolonged conflicts. Considerable leeway for local negotiations on wage and working hours in most branches.</td>
</tr>
<tr>
<td>Sweden</td>
<td>Multi-level negotiations. Sector-level negotiations supplemented by local agreements. Some coordination in LO; SAF has withdrawn. The Rehnberg Commission steps in to ensure coordinated wage increases in line with the export industry agreements.</td>
<td>Multi-level negotiations. Sectoral level negotiations, with the export industry agreements setting the pattern according to Industriavtalen. Coordination via LO and SN. The mediating institutions ensure coordination in line with the export industry agreements. Increased leeway for local negotiations on wages and working hours. Norway</td>
</tr>
<tr>
<td>Norway</td>
<td>Multi-level negotiations. Combination of sectoral level and main organisation negotiations according to the front-runner model, with the export industry setting the pattern. The mediating institution contributes to coordination in line with the export-industry agreements. The government can ask Rikslønnsnemnda for binding arbitration in disputes. The solidarity alternative and the front-runner model continue to govern the bargaining system. The central criteria for local agreements are retained, and there is an extension mechanism for minimum wages thus far in four branches.</td>
<td>Multi-level negotiations. Combination of sectoral level and main organisation negotiations, with the export industry setting the pattern (so-called front-runner model). The mediating institution contributes to coordination in line with the export-industry agreements. The government can request Rikslønnsnemnda for binding arbitration in disputes.</td>
</tr>
<tr>
<td>Finland</td>
<td>Income policy tripartite negotiations between confederations and government with the export industry’s situation as the basis for sectoral level agreements, which are made universal (if 50 per cent coverage or more). After significant conflicts, coordination was reinforced towards the end of the economic crisis. Limited leeway for local wage bargaining in most sectors.</td>
<td>EK withdrew from income policy in 2007–2008, because the Federation of Finnish Technology Industries (Teknologiateollisuus) wanted local negotiations and increased flexibility. In 2011 and 2013, new income policy agreements were reached at the confederation level. The question is whether this is permanent. Limited leeway for local wage bargaining in some sectors.</td>
</tr>
<tr>
<td>Iceland</td>
<td>Tripartite income policy negotiations between the labour market parties and the government led to recommendations on wage increases. ASI and VSI cannot bind the member organisations. Agreements at the organisation or local level set the actual wage increase and minimum pay rates, which are statutory.</td>
<td>Tripartite income policy negotiations between the labour market parties and the government intensified in light of the crisis in order to re-store macroeconomic governance, but also wage earners’ purchasing power. Agreements at the organisation level set the actual wage increase and minimum wage, which is extended by law</td>
</tr>
</tbody>
</table>
6. Are the changes in bargaining models reflected in improved labour market results?

This section presents individual indicators for the trends in wages and labour market outcomes, which the changes in the collective bargaining models have contributed to in the Nordic economies since the 1980s. First, we will cast light on the degree to which the changes in bargaining coordination since 1990 have coincided with changes in Nordic labour costs (unit labour costs) compared with significant European trade partners, and the degree to which the bargaining parties have managed to adjust wage formation to shifting economic conditions and trends. Next, we will illustrate the extent to which the negotiations have helped to counteract the general trend towards increased wage and income inequality in Western countries (Atkinson 2008; OECD 2011). Finally, we will examine the degree to which the adjustments made to the bargaining models have been followed by improvements in employment and unemployment over the past 25 years, which was the overall aim of the changes, namely, ‘to exchange a wage feast for a job feast’.

Developments in Nordic labour costs

A key objective for the changes to the Nordic collective bargaining systems in the 1980s and 1990s was to restore the competitiveness of export-oriented industry. An important parameter for competition – although by no means the only one – is unit labour costs, which can be seen as an expression of how competitive labour is in relation to productivity and exchange rates. Figure 2 shows the average percentage changes in unit labour costs in manufacturing – which is at the forefront of Nordic wage negotiations and the sector in which most export-oriented companies find themselves – in selected countries in the period 1990–2010.

Clearly, the adjustments to bargaining systems in the 1980s and 1990s led to improved cost development and competitiveness. After the very high cost increases in the 1980s, we see a significant change in the 1990s in all four countries. Swedish and Finnish manufacturing could even benefit from significantly falling unit costs. In addition to wage restraint, this also attests to the impact of the major devaluations and strong productivity gains after the crisis in the 1990s. Overall, Nordic manufacturing exhibited cost developments that were entirely comparable with those in German manufacturing in the 1990s.

6. Data for Iceland were not available in the OECD database.
and — with the exception of Norway — clearly lower than in the United Kingdom, where wage bargaining had been completely decentralised. This is consistent with the results from a number of comparative studies that find that labour cost growth, ceteris paribus, is usually lower in countries with strong, coordinated bargaining systems than in weakly coordinated systems (OECD 2006; Traxler et al. 2001). During the boom in the 2000s, development stabilised until the crisis in 2009–2010, when again it is remarkable how the Nordic bargaining systems contributed to much faster adjustments in cost levels than, say, in the less coordinated systems in the United Kingdom and Germany. In Denmark and Sweden, this adaptation took place promptly, which reflects how companies were able to adapt the workforce and working hours faster than in the other countries. Collective dismissal protection is more

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7. The changes in wage formation are also reflected in the wage share of incomes in manufacturing (and the economy in general) which in all of the Nordic countries, with the exception of Iceland, fell markedly in the first part of the 1990s – especially in Finland and Sweden – and more than in the United Kingdom and Germany. One must be careful when interpreting the background of the changes in wage shares, as they are affected by changes in capital intensity in economic branches, restructuring, investment levels, product prices, use of sub-contractors and other input factors, and thus not only wage negotiations or the strength of the trade unions. Similarly, differences between countries will be strongly affected by the structure of industry, in which branches with high capital intensity, such as chemicals, wood and paper products and electrometallurgy have low wage shares and labour-intensive branches such as textiles, furniture, food and so forth have high shares. This is reflected in the differences between the Nordic countries, where the wage share was generally highest in Denmark and lowest in Finland. In the 1990s and 2000s, the wage share stabilised in all of the Nordic countries before increasing dramatically during the boom prior to the financial crisis and fell heavily at the beginning of the crisis, particularly in Iceland.

8. In Sweden, this presumably had to do with the ‘crisis agreement’ (krisaftalet) between IF Metall and Teknikföretagen (2009), which enabled the local parties to agree on up to 20 per cent reductions in working hours and pay, whereas it is reasonable to assume that the liberal employment protection in Denmark provided companies with considerable leeway to adjust workforce in accordance with falling demand (Svalund et al. 2013).

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Figure 2  Average annual change in manufacturing unit labour costs, 1985–2010 (%)

Source: OECD.stat

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liberal in the Nordic countries, especially more so than in the continental European countries, whereas individual employment protection is relatively strict, with the exception of Denmark (Svalund et al. 2013). In Denmark, increases in unit labour costs, particularly as the result of declining productivity growth, have been seen as a problem, which harmed cost competitiveness in the decade before the crisis (Andersen and Ibsen 2013). During the crisis years 2008–2012, however, costs fell by as much as 19 per cent (OECD.stat), which attests to strong productivity gains, which is highly unusual in such a deep crisis. In Finland and Norway, the adjustments were less marked, but it is worth noting that also here costs increased far less than in Germany and the United Kingdom. As in Germany, where short-time working (Kurzarbeit) and working time accounts were used extensively in order to retain labour, Finland also made extensive use of work sharing (temporary lay-offs) in order to counter the rise in unemployment after the country experienced the strongest decline in industrial production in Europe in 2009.

The shift in wage formation in the 1990s is also reflected in the labour costs in the economies as a whole (Figure 3): all the Nordic countries, Iceland excluded, were characterised by very low increases in the first part of the 1990s. This indicates that the reinforced coordination between the export industry and the other branches and sectors worked according to plan. The strong growth in costs in Iceland and, gradually, Norway through the 1990s and 2000s reflects general features of development in the economies of these countries, as-

Figure 3  Average annual change in unit labour costs in the entire economy, 1990–2012 (%)
associated with high inflation and financial liberalisation in Iceland and strong growth in the Norwegian economy, the offshore sector specifically. In this context, it is important to bear in mind that the opportunities for productivity gains in most service sectors, where the gains in employment have primarily occurred in the Nordic countries, are considerably lower than in industry (Baumol 2012). The nominal wage increases are thus more directly reflected in unit labour costs in countries with a relatively small industrial sector and growing, labour-intensive service sectors. In the 2000s, this was reflected in increasing differences between the Nordic countries: the large industrial sectors in Sweden and Finland contribute to lower overall cost increases than in the other Nordic countries.

It is also interesting to note the diverging development in Germany, which underwent a dramatic restructuring of the labour market, bargaining system and welfare schemes from the mid-1990s and up to 2005. A sharp decline in unionisation and the coverage of collective bargaining agreements, combined with strong growth in non-standard, short-term work, led to the emergence of a large, poorly paid sector in Germany, dramatically increasing wage differences (see Figure 6.3 below). It is therefore hardly surprising that labour cost levels in Germany increased far less in this period than in all the other European countries, the Nordics included. The German export and employment miracle is thus not primarily the result of lower cost increases in manufacturing – where labour costs actually fell as much in Sweden and Finland 1990–2008 – but rather stems from the growing low-wage sector which made sub-contractor services and other support functions ever cheaper (Dustmann et al. 2009, 2014). At the same time, cuts in the welfare system (the so-called Hartz reforms) and deregulation of employment protection in parts of the labour market reinforced development towards a dual labour market, where some industrial jobs in Germany indeed pay well, whereas other jobs on the periphery of the production chain are lagging further and further behind. This ‘internal devaluation’ improved German wage competitiveness considerably in relation to the other European countries, including the Nordics, where the coordination of wage formation across industries has counteracted such inequalities and the emergence of an extensive low-wage sector.

Increased wage inequalities – but still the smallest in Europe

A central objective of the coordinated Nordic bargaining systems has been to ensure a relatively even distribution of wages across industries and professions. In recent decades, almost all countries have experienced substantial increases in wage and income inequalities. Globalisation, new technologies, higher qualification requirements and the growing financial sector are often highlighted as the drivers of this development; according to a number of OECD studies, however, the most important causes contributing to the growing inequalities are still found in the organisation of labour markets and social security systems (Atkinson 2008; OECD 2011).
Figure 4 illustrates the relationship between wage deciles for full-time work in the Nordic countries versus the Netherlands, France, Germany and the United Kingdom in the period 1995–2011. The figure presents two measures of inequality; first, the relationship between the ninth and first deciles in the wage distribution – that is, the 10 per cent second best paid against the 10 per cent lowest paid. Clearly, the Nordic countries – with the exception of Iceland – still have less wage inequality than most other European countries, but the Nordic wage differentials have increased considerably over the past 20 years (except Iceland during the crisis). As regards wages for full-time employment, Sweden has the smallest differences, where the second highest 10 per cent in 2011 earned 2.3 times as much as the 10 per cent who earn the least, compared with 3.6 times more in the United Kingdom. This is a clear indication of the effect of the Swedish bargaining model compared with the market-based regulation of wages in the United Kingdom. Wage inequality is almost as wide in Germany. Particularly noteworthy is the fact that the inequality between the mean-high wage earners (fifth decile) – and the lowest paid (first decile) has grown considerably in Germany and is now higher than in the United Kingdom. In 2011, the fifth decile in Germany earned 1.9 times as much as the first decile, while the differences vary between 1.4 (Sweden) and 1.7 (Denmark) in the Nordic countries. It is worth noting that the wage spread in the lower half of the distribution is now greater in Denmark than in France and the Netherlands and that is it also higher in Norway than in France. In Finland and Sweden, the inequalities in the lower part of the wage distribution have increased less. Iceland has even seen a fall in the relatively

9. Comparable OECD data for the period 1985–1995 are found for only some of the countries, revealing stability in Denmark, some reduction in Finland and considerable increases in Sweden and the United Kingdom (1990–1995).
high wage inequality during the crisis. A picture begins to emerge of Denmark in particular developing higher wage inequality, which is reminiscent of the situation in other European countries, while Norway in particular has seen increased inequality at the bottom of the wage ladder.

In countries such as the United Kingdom and the United States there has not merely been an increase in inequality between the wealthiest and the poorest, but also between the wealthiest and the middle class, which has been 'left behind'. This development is interesting, because it shows how the trade unions’ core member groups are managing. Figure 5, which shows the relationship between the ninth and fifth deciles, confirms that the middle class in the United Kingdom and the United States have been left behind, with differences much larger than in the Nordic countries and Germany. We also see that there have not been major changes in the Nordic region, even though there is a tendency to slightly greater inequality between the middle class and the best paid in Norway and Finland. In Germany we see an almost unchanged relationship between the middle class and the best paid. This confirms that the growing inequality in Germany is occurring predominantly at the bottom of the pay structure.

Generally speaking, we can conclude that the Nordic collective bargaining models still help to hold wage inequalities at lower levels than in most other European countries but that the pay structure in the Nordic labour markets is becoming less different compared with neighbouring countries on the continent. It should be underlined, of course, that there are a number of other
factors that affect wage distribution. Employment and unemployment levels, the generosity of unemployment insurance and other benefits, which affect the so-called ‘reservation wage’, and the bargaining power of the employees, have an effect. Furthermore, it would appear that the more equitable distribution of education and skills in the Nordic countries – more than in most other Western countries – helps to reduce inequality (OECD 2011). Econometric studies have also shown that coordination of bargaining contributes to a lower degree of wage and income inequality, even when controlling for other factors (Calmfors and Driffl 1988; OECD 2006, 2011). This effect might be weakened as a result of wage decentralisation, declining unionisation and the hollowing-out of bargaining systems in parts of the labour market, due to which wage earners might find themselves in a weaker negotiating position in their respective firms (Ibsen et al. 2011). More recent comparative studies also show that wage inequality, ceteris paribus, increases when the share of fixed-term employees and the proportion of employed immigrants grow (Koeniger et al. 2007; OECD 2011; Rossvold 2013). With higher unemployment, an increased immigrant population facing higher competency barriers (Djuve et al. 2014) and political pressure on welfare benefits, it therefore cannot be taken for granted that the tendencies towards increased pay differences in the Nordic countries will be easy to reverse.

**Household income inequality**

While collective bargaining systems have a direct impact on the pay structure, income distribution between households is also affected by inequalities in capital gains, taxes and transfers, and not least access to paid work among the household’s members. At the same time as increased capital gains among the highest income groups have contributed to greater inequality in all the Nordic countries, whereas the tax and transfer system makes a considerable contribution to evening out income differences (Kvist et al. 2011), employment and unemployment levels undoubtedly have an important influence on income distribution. Even with limited pay gaps, income inequality between a family with one – as opposed to two – full-time employed members quickly becomes significant. Kenworthy (2009) has shown that there is a systematic connection in Western countries between development in employment levels and in income inequalities, summarised as ‘the high employment road to lower inequality’.

A typical indicator of income spread is the Gini coefficient, which measures deviations from a perfectly equal distribution of incomes in society. Figure 6 confirms that the Nordic countries still have a relatively high degree of income equality, but that inequalities are growing, with Norway as the partial exception in the 2000s and Iceland during the financial crisis.

A striking feature of Figure 6 is that the long-term increase in income inequality – despite high employment – would appear to be stronger in the Nordic countries, especially Sweden and Denmark – than in most of the other countries featured. In Denmark, it occurred together with growing wage differ-
entials and cuts in social benefits for certain groups (Andersen and Petersen 2014). Because the wage differences in Sweden were relatively stable and employment increased steadily, the growing differences must have other causes. Berglund and Esser (2014) thus suggest that increased inequality of access to stable employment, capital gains and changes to the tax and transfer systems in Sweden have contributed to larger income gaps. Finland would appear to be following in the same direction (Kangas and Saloniemi 2014). Norway is an example of the opposite, where income differences fell in the 2000s despite increased pay inequality – mainly as the result of changes to capital gains taxes and a smooth and strong increase in employment (Hippe et al. 2014). Iceland is an interesting special case in the Nordic region, as the country has far greater pay gaps than the other countries but less income differences. This reflects the high employment, not least among women and seniors. Inequality increased markedly during the Icelandic financial adventure, but as an exception in Europe, inequalities have fallen after the financial crisis, partly resulting from fewer capital gains, partly from political targeting of social transfers to the most vulnerable groups after the financial crisis (Ólafsdóttir and Ólafsson 2014). Compared with other European countries, the evening out of inequality in the Netherlands and the United Kingdom (from the highest levels in Europe) was related to the solid increases in employment prior to the crisis; the same was seen in Germany in 2008–2011 despite the increased pay inequality.

Figure 6  Income inequality for households of working age, 18–65 years, Gini coefficient-index (numeric value for 2010)

Note: Household income after taxes and transfer payments
Source: OECD.stat
Employment and unemployment

A general objective of the coordinated bargaining models in the Nordic countries is to maximise growth in employment rather than nominal wages. Critics of the Nordic collective bargaining models often emphasise, however, that the high, compressed Nordic pay levels contribute to reducing employment levels, particularly by excluding potential workers with limited qualifications or low productivity. Figures 7 and 8 show development in the employment rate for the 25–64 age group and unemployment rates in the Nordic region and selected European countries since the 1990s. By focusing on employment among the working age population (25–64), the effects of the differences in the selected countries’ education systems are reduced. At the same time, the higher employment frequency among seniors in the Nordic countries is excluded and contributes to an underestimation of the real differences in employment. By referring to the figures in 2008, the short-term effects of the different ways in which the countries were hit by the financial crisis are eliminated.

Nevertheless, there is little to indicate that coordinated wage formation has hindered Nordic efforts to boost employment. Compared with other European countries, the Nordic countries still have the highest employment frequencies in the EU/EEA-area, which is particularly owing to the high employment rates among women. The differences are amplified when one controls for the far lower employment among seniors (65+) and the greater shares in part-time work in other European countries (Hemerijck and Eichhorst 2007). Furthermore, the changes in the bargaining systems following the crisis in the 1990s coincided with a steady increase in the employment rate up to the financial crisis in 2008. Even compared with the liberal labour market in the

![Figure 7](image-url)
United States, the collectively regulated Nordic labour markets fare pretty well with respect to employment rates; in 2012, Sweden actually achieved a higher number of working hours per person of economically active age (25–64) than the United States (Freeman 2014). During the crisis, employment has declined in all countries, except Sweden and Germany, where most of the employment growth in the 2000s has occurred in various types of atypical, short-term work, whereas the share of full-time employed persons has fallen (Carlin et al. 2014). Even when examining the rate of employment among low-skilled persons (those with little education) it has systematically been higher in the Nordic countries than in the other OECD countries (Barth and Moene 2012; Salverda and Mayhew 2009). Since the financial crisis, however, Finland and Denmark have been lagging behind the other Nordic countries, but these fluctuations appear to have much more to do with macroeconomic policy errors in the lead-up to the crisis – nationally and at the European level – than with the coordinated bargaining systems, which in the 1990s proved to be an important lever for bringing employment back up.

Scrutinising the development of unemployment, it is striking how it fell sharply in the Nordic countries after their deep crisis in the 1990s. Compared with the decline in the other countries, the reinforced coordination of wage formation, ceteris paribus, clearly was no handicap to reducing unemployment levels. In percentage terms, unemployment fell most – from the peak in the 1990s to the bottom prior to the financial crisis – in Finland, Denmark and Norway, and in the Netherlands, where the ‘Dutch miracle’ was built on centrally coordinated wage moderation (Visser and Hemerijck 1997). It is worth noting, however, that Sweden and Finland have never managed to return to the employment and unemployment levels they had in 1990, although
these might also have been artificially high due to the financial bubble, just as the Danish, Dutch and Icelandic levels were in 2008. These were also the countries that endured relatively the strongest setbacks during the financial crisis. These setbacks had very little to do with developments in the bargaining systems in these countries, but they were closely related to the lack of coordination of monetary and fiscal policies that marked these countries prior to the crisis, which made it impossible for the social partners to counteract the bubbles, which eventually burst. There is thus a striking parallel with the developments in Sweden, Norway and Finland in the 1980s, when coordination of monetary and fiscal policy, welfare policy and income policy also collapsed (Dølvik and Vartiainen 2003). This time, the authorities and social partners in the Nordic countries were able, eventually, to find a way out of the problems drawing on a variety of approaches — including devaluations — on which it would have been difficult to reach agreement without close cooperation and coordination between the social partners. Whether the same will to find overall solutions indicating a path out of the crisis are present today appears uncertain. In order to examine the organisational and institutional conditions more closely, we will now look in detail at the state of the main actors in the Nordic collective bargaining models, the trade unions and the employer organisations.

10. These experiences illustrate how both economic failure and success in the Nordic countries are closely linked to the ability to ensure comprehensive coordination between macroeconomic policy, welfare policy and income policy — which the NordMod 2030 project has termed ‘the triangle’, which provides the foundation for the Nordic model (Dølvik 2013).
7. Development in organisation

The trade unions in the Nordic countries are the strongest in the world measured in terms of union density (see Figure 9). The unions have thus been able to promote the collective interests of wage earners with great efficiency, in relation to both employers and the government. Underpinned by a high degree of collective bargaining coverage, we therefore also find some of the most favourable working conditions for ordinary wage earners in the Nordic countries, as well as the smallest percentage of ‘bad jobs’ (Eurofound 2012). But union organisation is under pressure and the ‘Nordic exception’ to the fall in union density seen in other countries may soon be a thing of the past. This would undermine collective interest representation, particularly in workplaces, in which union representatives depend on having enough members behind them. As a knock-on effect, decreasing union density might lead to lower employer density. This section highlights the organisation of wage earners and employers in the five Nordic countries, with emphasis on the former.

The world’s strongest trade union movement under pressure

Since the peak years in the 1990s, the rate of union organisation in the Nordic countries has fallen somewhat. Norway is the Nordic ‘exception’, as Sweden, Finland and Denmark – together with top-scorer Iceland – can count over two-thirds of the labour force as union members, whereas this figure is only slightly more than 50 per cent for Norway. This difference is often explained with reference to the absence of unemployment insurance funds administered by the trade unions (the ‘Ghent system’) in Norway, which has led to consistently lower density rates there (Due et al. 2010). The top scores are owing largely to an almost uninterrupted increase in the rate of organisation since 1960. Particularly the development from the 1970s to the mid-1990s is interesting. Then, many countries experienced a dramatic fall in the rate of organisation, typically in the 1980s, due to increasing unemployment. In countries with a Ghent system, however, the rise in unemployment was converted into increases in union membership. The past 15–20 years, by contrast, have seen a general fall in union density throughout the Nordic region. Sweden, Finland and Denmark have experienced relatively the biggest fall, whereas Iceland has seen a rise, and Norway has experienced only a minor decline, albeit from a lower starting point. This means that the gaps between Norway and Sweden, Finland and Denmark are now down to 12–20 percentage points, as opposed to over 20 percentage points in the 1980s and 1990s.
Figure 9 leaves no doubt that the Nordic trade unions remain the best at organising wage earners in developed Western economies. The figure provides a clear picture of the large differences in the rates of organisation between the OECD countries, ranging from 5.8 per cent of the labour force in Turkey to 90 per cent in Iceland. The Nordic countries – together with Belgium – are in a class of their own, with more than half the labour force being unionised compared with the OECD average of 28.5 per cent. The differences in union density between the OECD countries attest to the great diversity in the strength of trade unions in the Western economies.

As already mentioned, we also see a fall in union density in the Nordic countries since 1990. Iceland is the sole exception, having experienced a marked increase in union density since 1990. In Denmark, however, it is important to bear in mind that the trade unions responsible for the collective bargaining agreements – excluding so-called ‘yellow’ organisations – now organise only about 60 per cent of the labour force (Ibsen et al. 2013).

In what follows, we consider some of the main traits in the development of unionisation in the Nordic countries in order to arrive at possible explanations of this decline, together with some ideas on the trends we can expect in the future regarding unionisation in the Nordic region.

**Trade union peak organisations in the Nordic countries**

The division of labour between the main trade union confederations in the Nordic countries with regard to recruitment no longer creates much tension.
Denmark is the only country to have experienced in earnest the phenomenon of ‘yellow unions’ and competition over members. In Sweden and Norway, as well as Denmark, the trade unions were originally built up around the LO confederations – in Finland, SAK. With the exception of Norway, where LO attempts to organise all types of trades and occupations, these confederations comprise unions for blue-collar workers. In Iceland, ASÍ is clearly the largest confederation, with unions for blue-collar and white-collar workers.

Thus the dominant actors in Nordic industrial relations have traditionally been the strong confederations of blue-collar unions. Besides comprising the dominant unions in collective bargaining, they have also had the breadth to act as a political actor in relation to the government and parliament. Part of the strength of LO, SAK and ASÍ has emanated from the high degree of union concentration; that is, a high percentage of those organised belonged to unions within the main confederations.

In recent years, changes in the structure of industries and occupations have reduced the recruitment base for the LO unions. Increasing numbers of people are employed as white-collar workers and civil servants in trades and professions organised by unions in other confederations. This is reflected in the main confederations’ share of total union membership, in respect of which the traditional blue-collar confederations are losing terrain. The growing shares of white-collar and professional employees are predominantly organised by unions belonging to other confederations.

In Sweden, TCO organises most white-collar employees and public servants, while academic professions organise in Saco. The counterparts in Finland are STTK for white-collar employees and AKAVA for academics. In Iceland, BSRB organises a large share of those employed in the public sector. In Norway, there are three confederations besides LO: YS primarily comprises unions organising white-collar employees with short or mid-length educations in both the private and public sectors; Unio comprises unions organising educated semi-professional groups in the public sector; and Akademikerne gathers unions organising professional academic groups. Unions belonging to LO and YS are sometimes in direct competition with one another, but there is also a certain competition in other areas, as LO in principle aims to organise all groups (see Nergaard and Svalund 2009). A common feature of the Nordic

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<th></th>
<th>1990</th>
<th>2012/13</th>
<th>Change</th>
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<tr>
<td>Denmark (LO)</td>
<td>64</td>
<td>49</td>
<td>-15</td>
</tr>
<tr>
<td>Finland (SAK)</td>
<td>57</td>
<td>47</td>
<td>-10</td>
</tr>
<tr>
<td>Iceland (ASÍ)</td>
<td>71 (1980)</td>
<td>66</td>
<td>-5</td>
</tr>
<tr>
<td>Norway (LO)</td>
<td>58</td>
<td>50</td>
<td>-8</td>
</tr>
<tr>
<td>Sweden (LO)</td>
<td>58</td>
<td>45</td>
<td>-13</td>
</tr>
</tbody>
</table>

Note: Latest figures for Finland and Iceland are from 2009 and 2007, respectively.
countries is the high rate of organisation among white-collar employees and academics. Besides the effects of the Ghent system in Sweden, Finland and Denmark, this must be seen in light of the early establishment of independent white-collar confederations, which were able to coordinate the interest representation of these groups very efficiently. While many white-collar employees and academics have viewed joining a union or professional association via their unemployment insurance fund as natural, the unions of these groups have also been good at promoting themselves with regard to matters other than wages and working conditions, such as professional identity, skill development and individual wage negotiations. Finally, one must also keep in mind the normally constructive cooperation with the LO, which is seen, for example, in the agreements on the demarcation lines between organisations in LO, FTF and AC in Denmark.

**Gender differences in unionisation: women in the lead**

One explanation of the high union membership in the Nordic countries is undoubtedly the high propensity of Nordic women to unionise and, in fact, higher than among men. The high rate of organisation is also related to the high employment rates among women who often work in the large public sector, which is particularly well organised. Conversely, the sectors in which unionisation among men is high – such as manufacturing – have a declining share of overall employment, which also helps to explain why the rate of organisation among men has been falling more rapidly than among women.

Table 5 shows that the rate of organisation among men has fallen by almost 10 percentage points – although in Iceland by only 6 percentage points – whereas the fall among women is only 3–4 percentage points in Denmark.
and Finland. In Norway, density among women has actually increased. Here, Sweden is an exception, female union density having declined steadily in the period 1995–2008, by 9 percentage points. The decline is even more dramatic for Swedish men, at 15 percentage points. Part of the explanation is probably the weakening of the Ghent system from 2007, which meant that some unemployment insurance funds dramatically increased their membership dues at the same time as many of the male workers who belonged to the funds were at high risk of unemployment and therefore faced higher increases in dues (Kjellberg 2010b). Combined with reduced tax deductions for union fees, these changes prompted a sharp drop in union membership from 2007.

Generally speaking, the differences in rate of organisation between men and women have widened in the Nordic countries. The largest differences for men and women in 2008 were found in Norway, reflecting the combined effect of a modest rise in density among women (often working in the public sector) and a major decline among men, who are employed predominantly in the less organised private sector. The smallest differences in the rates of organisation among men and women are found in Iceland and Denmark. However, there is reason to believe that these differences continued to grow after 2008 (Due et al. 2010).

**Age variations in unionisation: age or generation effect?**

Previous studies have shown that there is a considerable gap in the rate of unionisation between the youngest and the oldest wage earners. There is thus evidence that it is very difficult for trade unions to recruit young people, whereas retaining persons with many years of membership behind them has proven easier. This gives cause for concern with regard to the future of the trade union movement, which might face growing difficulties in maintaining high rates of unionisation when the older generations retire.

This situation is recurring throughout the Nordic region. In 2008, there was a 40-percentage point gap in unionisation between the youngest and the oldest groups of employees in Finland. Denmark has the smallest gap – 22 percentage points – but this is still a substantial difference, particularly given that the Danish figures exclude students with part-time employment. Norway and Sweden also have large differences between young and old, at 32 and 27 percentage points, respectively. Previous studies showed that it is the youngest employees in particular – the 18–24 age group – who refrain from becoming union members. It should be remembered, however, that this is probably influenced by the fact that the share of part-time working students in this group is probably higher than in the past (Nergaard 2010).

Looking at developments over time, a decline in the unionisation of young people is observable in all countries with the exception of Norway, where union density in that group was very low as early as 1995. Thus, it is only in Norway that the intermediate group (30–44 years of age) has experienced a larger decline in unionisation than young people. Conversely, older workers
have remained highly organised in all countries. Swedish unions experienced the biggest decline with regard to the youngest group in the period – 23 percentage points – but the decline was almost equally strong in Denmark and Finland.

As there is still some measure of uncertainty concerning whether or not the decline in the unionisation of young people will continue when they get older and find themselves with family responsibilities and so on, there is reason for trade union concern that the organisation rate has also fallen as much as it has among the 30–44 age group (ranging from 7 percentage points in Norway to 15 in Sweden). This may indicate that a disinclination to join a union is something many take with them after they have settled into the labour market.

Table 6 Rates of union organisation (density) in the Nordic countries by age (%)

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<td>&lt;30 years*</td>
<td>75</td>
<td>58</td>
<td>−17</td>
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<td>62</td>
<td>37</td>
<td>−25</td>
<td></td>
<td>93</td>
<td>80</td>
<td>12</td>
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<tr>
<td>30–44**</td>
<td>84</td>
<td>76</td>
<td>−8</td>
<td></td>
<td>84</td>
<td>72</td>
<td>−12</td>
<td></td>
<td>94</td>
<td>90</td>
<td>4</td>
<td></td>
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<tr>
<td>45–64**</td>
<td>80</td>
<td>80</td>
<td>0</td>
<td></td>
<td>82</td>
<td>77</td>
<td>−5</td>
<td></td>
<td>96</td>
<td>94</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Younger vs. Older</td>
<td>+5</td>
<td>+22</td>
<td>−17</td>
<td>+20</td>
<td>+40</td>
<td>−20</td>
<td>+3</td>
<td>+14</td>
<td>−11</td>
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<tbody>
<tr>
<td>&lt;30 years*</td>
<td>37</td>
<td>35</td>
<td>−2</td>
<td></td>
<td>76</td>
<td>53</td>
<td>−23</td>
<td></td>
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<tr>
<td>30–44**</td>
<td>63</td>
<td>56</td>
<td>−7</td>
<td></td>
<td>89</td>
<td>74</td>
<td>−15</td>
<td></td>
</tr>
<tr>
<td>45–64**</td>
<td>68</td>
<td>67</td>
<td>−1</td>
<td></td>
<td>88</td>
<td>80</td>
<td>−8</td>
<td></td>
</tr>
<tr>
<td>Younger vs. Older</td>
<td>+31</td>
<td>+32</td>
<td>−1</td>
<td>+12</td>
<td>+27</td>
<td>−15</td>
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</table>

Note: * Denmark and Norway refer to 18–29 year-olds, Sweden to 16–29 year-olds, but excluding students. Finland refers to 15–24 year-olds and Norway to 16–24 year-olds, including students.
** Finland refers to 35–44 year-olds, **Finland to 45–54 year-olds.
Source: Denmark: AE against the background of Lovmodellens registers; Finland: Ahtiainen (2006); Sweden: Kjellberg (2010a); Norway: Nergaard and Stokke (2010). Iceland: based on ESS (2004) and ESS (2012), where the populations are defined as persons in paid work, corrected for the self-employed and those working in family-

Studies of low unionisation among young people give a number of different explanations. Some emphasise that low unionisation indicates a generation that opts out of trade unions for ideological reasons, an attitude that will probably remain with them throughout their working lives. Conversely, others argue that young people are likely to join unions in the course of their working lives to the same degree as past generations. We are not able to pro-
vide a clear answer on the basis of the above. However, it would seem that age – and to a lesser extent, generation – has significance for membership. There is therefore reason to expect that a substantial share of unorganised young people will join unions over time. This is partially confirmed by the large difference in how organised the youngest group is (18–24 years of age) compared with those who have just entered the labour market (24–30 years of age). Conversely, it is striking that the Nordic ‘Ghent’ countries (Sweden, Finland and Denmark) have all experienced dramatic declines in the organisation of young people, which could indicate that institutional changes have affected young people adversely, making it less relevant for young workers to be members of unemployment insurance funds and, consequently, less relevant to become a union member. This certainly is the case with regard to the tightening of eligibility criteria and unemployment benefits for young workers in Denmark (Due et al. 2010). An alternative hypothesis is that the low unemployment rate during the 2000s made unemployment insurance less relevant for young workers who entered the labour market during these years.

**Variations across sectors and industries**

The rate of unionisation is higher in the public sector than in the private sector in all the Nordic countries. Union density among public sector employees is around 80–85 per cent, whereas in the private sector it varies from 38 per cent in Norway to 61–69 per cent in the other countries. Denmark shows the smallest gap in density between public and private employees in 2008, 17 percentage points. At the same time, the differences have become greater over the course of time and in Norway – which may serve as a ‘benchmark’ for developments in the other countries – it was 42 percentage points in 2008. One explanation for the fact that the total union density fell least in Norway is that the growth in public sector employment has compensated for the falling density in the private sector. In fact, union density in the Norwegian public sector is almost the same as in the Nordic countries with Ghent systems. This emphasises that the ‘Ghent effect’ is less significant in the public than in the private sector. Conversely, other explanations – such as professional identity and collective values within the public sector – are more important for union membership than the unemployment insurance funds (Nergaard 2010). At the same time, this highlights that the differences in unionisation in Norway and the ‘Ghent’ countries are largely a result of the limited unionisation in the Norwegian private sector. Similarly, it underlines the significance of the unemployment insurance funds for the trade unions in ‘Ghent’ countries, as the risk of unemployment in the private sector has been a primary motivator for union membership, especially in periods with high unemployment.

Examining developments over this period, it is also clear that the private sector has undergone the greatest membership decline. Only Sweden has also had a substantial decline (10 percentage points) in unionisation in the public sector in this period. In Sweden, the difference between private and public is
therefore also more stable. Kjellberg (2010b: 47) finds the sweeping changes in unemployment insurance fund membership among public sector employees – particularly doctors and nurses, with an almost 20 percentage point decline between 2006 and 2008 – to be owing to their low risk of unemployment and therefore limited incentive to be members of an unemployment insurance fund. When also considering that the tax deduction for trade union dues was removed, such that the total cost of unemployment insurance and union membership increased substantially, it is hardly surprising that this had a contagious impact on union membership rates among public sector employees in Sweden.

In order to understand how the changes in industrial and sectoral structure affect wage earner organisations – and, next, the support for trade unions in the various bargaining areas – Table 8 shows developments in the respective sectors. In all the Nordic countries (the figures for Iceland are missing) manufacturing and construction score highest, whereas retail together with hotel and restaurants score low. Transport and finance are somewhere in between, with the exception of Denmark, where the latter sector scores practically just as high as industry and construction. It also becomes apparent that the differences in levels between the sectors in each country are fairly similar; in all the countries the difference between the best and the poorest organised sectors is in the range of 20–30 percentage points – with the exception of Sweden,

Table 7  Rate of union organisation in the Nordic countries, sector and years

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<tr>
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<tbody>
<tr>
<td>Private</td>
<td>78</td>
<td>76</td>
<td>69</td>
<td>–9</td>
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<tr>
<td>Public</td>
<td>89</td>
<td>89</td>
<td>86</td>
<td>–3</td>
</tr>
<tr>
<td>Difference</td>
<td>11</td>
<td>13</td>
<td>17</td>
<td>–6</td>
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</thead>
<tbody>
<tr>
<td>Norway</td>
<td>43</td>
<td>40</td>
<td>38</td>
<td>–5</td>
</tr>
<tr>
<td>Public</td>
<td>79</td>
<td>80</td>
<td>80</td>
<td>1</td>
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<tr>
<td>Difference</td>
<td>36</td>
<td>40</td>
<td>42</td>
<td>–6</td>
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<tbody>
<tr>
<td>Sweden</td>
<td>78</td>
<td>74</td>
<td>65</td>
<td>–13</td>
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<tr>
<td>Public</td>
<td>94</td>
<td>92</td>
<td>84</td>
<td>–10</td>
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<tr>
<td>Difference</td>
<td>16</td>
<td>18</td>
<td>19</td>
<td>–3</td>
</tr>
</tbody>
</table>

Note: ** SE = 1993; NO/FI = 1995; DK = 1996; **SE/FI/DK = 2000; NO = 2001
Source: Denmark: AE against the background of Lovmodellens registers; Finland: Ahtiainen (2006); Sweden: Kjellberg (2010a); Norway: Nergaard and Stokke (2010).
where the difference between manufacturing and hotel and restaurants is almost 40 percentage points.

All the sectors have experienced significant declines in the rate of unionisation. It is worth noting, first, that the decline is high in manufacturing (5–10 percentage points), which is the frontrunner in collective bargaining in all five countries; the decline is greatest in Finland and Sweden, and somewhat lower in Denmark and Norway, where the level was the lowest to begin with. We also see a strong decline in construction, which has traditionally played an important role in negotiations in the domestic sectors.11

Table 8 Rate of unionisation in the Nordic countries, selected industries in the private sector

<table>
<thead>
<tr>
<th>Industry</th>
<th>Denmark 2000</th>
<th>Denmark 2008</th>
<th>Difference</th>
<th>Finland 2000</th>
<th>Finland 2008</th>
<th>Difference</th>
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</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>85</td>
<td>80</td>
<td>–5</td>
<td>82</td>
<td>72</td>
<td>–10</td>
</tr>
<tr>
<td>Construction</td>
<td>82</td>
<td>76</td>
<td>–6</td>
<td>72</td>
<td>58</td>
<td>–14</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>68</td>
<td>62</td>
<td>–6</td>
<td>56</td>
<td>53</td>
<td>–3</td>
</tr>
<tr>
<td>Hotel and restaurants</td>
<td>57</td>
<td>49</td>
<td>–8</td>
<td>60</td>
<td>56</td>
<td>–4</td>
</tr>
<tr>
<td>Transport</td>
<td>79</td>
<td>71</td>
<td>–8</td>
<td>69</td>
<td>62</td>
<td>–7</td>
</tr>
<tr>
<td>Finance</td>
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<td>78</td>
<td>–4</td>
<td>71</td>
<td>70</td>
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</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>60</td>
<td>55</td>
<td>–5</td>
<td>86</td>
<td>79</td>
<td>–7</td>
</tr>
<tr>
<td>Construction</td>
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<td>33</td>
<td>–3</td>
<td>85</td>
<td>71</td>
<td>–14</td>
</tr>
<tr>
<td>Retail trade</td>
<td>25</td>
<td>2</td>
<td>0</td>
<td>65</td>
<td>57</td>
<td>–8</td>
</tr>
<tr>
<td>Hotel and restaurants</td>
<td>26</td>
<td>24</td>
<td>–2</td>
<td>52**</td>
<td>41</td>
<td>–11</td>
</tr>
<tr>
<td>Transport</td>
<td>54</td>
<td>48</td>
<td>–6</td>
<td>73**</td>
<td>66</td>
<td>–7</td>
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Note: * Including primary sectors, such as oil and gas in Norway and Sweden, but not in Denmark, for which reason the Danish figure is possibly high.  
** 2006 used due to a lack of data for 2000.  
Source: Denmark: AE på baggrund af Lovmodellens registre; Finland: Ahtiainen (2006); Sweden: Kjellberg (2010a); Norway: Nergaard and Stokke (2010).  

The dramatic decline in the Swedish construction sector in this period can be explained, according to Kjellberg (2010b), by the considerable increases in membership dues in this sector. However, one might also speculate about how

11. Although density in Norwegian construction was more stable until 2008, there has been a marked decline also in Norwegian construction in recent years.
the increased use of foreign sub-contractors, posted workers and agency work will affect unionisation in the sector in the future. It is also worth noting that the low Norwegian levels in private services, such as hotels and restaurants and retail, closely correspond to tendencies in other European countries without Ghent systems (Dølvik and Waddington 2003). Most countries have also witnessed a decline in transport, which has been marked by widespread outsourcing from public to private operators and increased internationalisation in recent years (Dølvik and Løken 2003; Steen Jensen et al. 2014). Combined with the marked decline after the reforms of the unemployment insurance funds in the Ghent countries and the fact that these are sectors that increasingly employ hard-to-organise migrant labour, the trade unions have reason to fear a continued downward trend in these sectors. Even though the rate of private sector unionisation in the Ghent countries has declined strongly, there is still a considerable gap compared with the Norwegian levels, where density in many parts of the private sector is very low. One might expect that some of the factors stabilising union membership in addition to the unemployment insurance funds – such as the widespread presence of union shop stewards – will mean that Sweden, Finland and Denmark will not fall to the Norwegian levels, where these stabilising factors are not as widespread in the private sector (Nergaard 2010b). Despite the decline, it is notable that the level of union density in all the countries remains solid in manufacturing, which is the cornerstone in the coordination of collective bargaining.

**Summary: unionisation**

The institutional conditions – and particularly the Ghent system – evidently explain many of the differences and changes in unionisation we have witnessed in the Nordic countries, but not everything. First and foremost, we see the large difference between Ghent countries Iceland, Sweden, Finland and Denmark, which still have high rates of unionisation, on one hand, and Norway, with state-provided unemployment insurance, on the other hand. As the Nordic industrial relations institutions are otherwise quite similar, it seems clear that the Ghent system has given Iceland, Sweden, Finland and Denmark generally higher levels of unionisation. The Ghent system has possibly also had a stifling effect on the negative consequences for unionisation of structural shifts in employment in recent decades. Unions with high membership rates will – for example due to a stronger local union presence and greater resources – usually be better prepared to counter the impact of structural shifts on membership. Despite the institutions, there has been a general fall in the rate of unionisation in the Ghent countries since the mid-1990s. Structural change evidently played a role. This is seen most clearly in the strong decline in membership in the traditional workers’ unions, which is reflected in the LO’s falling share of the total number of union members. Increasing education levels also imply that the other union confederations’ increase their membership shares at the expense of the LO unions. Conversely, the Norwegian unions are probably more used to having to organise actively than the unions in the Ghent countries where the members have ‘come on their own’. As membership of unemployment insurance funds has been waning and wage
Earners have become more instrumental in their approach to unionisation (Ibsen et al. 2013), the automatic recruitment dynamic in the Ghent countries has apparently been weakened. The trade unions in the Ghent countries are therefore forced to start organising more actively, which some of them already started doing in the mid-2000s (Arnholtz et al. 2013). If the decline in union membership is to be halted, the trade unions must use their privileged position in the workplaces (Kjellberg 2010) to recruit and maintain members better than they are doing at present.

There are several interacting reasons for the decline in unionisation since the mid-1990s. First and foremost, the pace of structural change increased in the aftermath of the crisis in the 1990s and more people were being hired in sectors with lower union presence. Next, as Kjellberg (2010a) points out, there have been more fundamental changes in working life associated with new forms of organisation, outsourcing, LEAN and so-called atypical employment, which make it more difficult for union representatives to recruit at the workplace. The increased cross-border mobility of workers and providers of services has reinforced these challenges. These general structural tendencies have evidently weakened the trade unions, whose traditional members are typically full-time employees with a clearly defined employment relationship. Nevertheless, the Nordic unions have been more successful than most other unions in organising atypical workers – mainly part-time workers – possibly a result of the unions’ proactive attempt at embracing some of the new forms of employment instead of opposing them. For the other forms of atypical employment – particularly temps and fixed-term employees – the picture is more mixed. Additionally, the strong economic recovery and fall in unemployment in the course of the 2000s meant that many younger employees saw membership of unemployment insurance funds as less relevant, as already mentioned, weakening the Ghent effect and thus also the influx of new union members in the new millennium. As a result, while the risk of unemployment maintained demand for the security provided by unemployment insurance funds and unions in the preceding decades, the boom in the 2000s apparently contributed to a greater sense of security and individual opportunism in parts of the workforce, perhaps especially for young employees, who had not – or at least for long – experienced mass unemployment. Another factor was that the marginal, new groups that tend to be drawn into the labour force during economic booms are often less familiar with unionisation and harder to recruit. On top of this came the effects of the institutional changes in the unemployment funds. In Finland, this came with the establishment of the independent unemployment insurance fund, Loimaan kassa, in 1991 (now, Yleinen työttömyyskassa, the Loimaa Fund); in Sweden with the Alfa-kassa in 1998; in Denmark particularly with the law on cross-sectoral unemployment insurance funds; and finally in Sweden again, towards the end of the 2000s with the setting of dues on the basis of unemployment risk. These institutional changes reinforced the existing tendency towards decline in unionisation in the Ghent countries.

Despite the institutional changes and weakening of the ‘automatic’ recruitment effect, the Ghent system has not been dismantled. One could therefore assume that the rate of unionisation picked up again during the crisis from...
2008. From Denmark, we know that this did not happen – on the contrary, the decline in union density continued. In Sweden, the dramatic decline flattened out in 2009 and density has stabilised, but the trade unions have not reconquered lost terrain. Data for recent years are missing for Finland and Iceland, while density remained stable in Norway from 2008 (Stokke et al. 2013: 37–38). The development in the Swedish and Danish unions during the crisis does not indicate that the trend has turned. The Ghent system may have contributed to stemming the decline during the crisis, but the effect is weaker than in the past, when high unemployment led to increased unionisation. Against that background one would, ceteris paribus, expect that economic recovery will prompt further decline in unionisation, as seen prior to the crisis in the 2000s. Finally, it is worth recalling the stabilising effect of the large and highly organised public sectors. Union identity and community thrives in the public sector, also among highly educated groups which in the Nordic region is associated with higher rates of unionisation. There is thus reason to believe that the large public sectors in the Nordic countries will help to keep the rate of organisation higher than in other countries also in the years to come, but as seen in Sweden, it cannot be taken for granted that the public sector will continue to grow at the same rate (Berglund and Esser 2014).

Conversely, one might wonder whether the Nordic unions – as in other countries – are developing towards a situation in which strong unionism is found almost exclusively in the public sector and large industrial companies. This might perhaps provide a basis for continued coordination of wage setting in the organised core of the labour market, but such a scenario entails the obvious risk that around these core areas will emerge a growing segment with inferior wages and working conditions, that is, greater inequality. Combined with the fact that highly educated groups are disproportionately represented in the membership of Nordic unions there is therefore a risk of the trade unions becoming weakest where they are needed the most, among low-skilled workers in the private sector. Should this be the case, declining unionisation and bargaining coverage in the private sector could, in the long run, weaken the coherence of labour market regulation – particularly if this comes along with a weakening of the employers’ rate of organisation.

Employers’ organisations and support for collective agreements

Contrary to the trend in unionisation, the rate of organisation among employers has been increasing over the past decade. With almost 100 per cent organisation in the public sector, the question is what is happening in the private sector. Here, it is notable that the employers’ rate of organisation has either increased or remained stable in all the Nordic countries.

This is positive for the Nordic systems of collective bargaining, as we know from other countries that employers’ support, via their organisations, is essential for collective agreement coverage (Visser 2013). In many continental countries with declining unions, coordinated bargaining systems have, as il-
Table 9 Employers’ rate of organisation, measured in terms of member companies’ share of employment

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<td>Denmark</td>
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<td>100</td>
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<tr>
<td>Iceland</td>
<td>–</td>
<td>100</td>
<td>72</td>
<td>100</td>
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Illustrated by the Netherlands and Austria, been maintained as a result of high organisation rates on the employer side, widespread extension of collective agreements and institutionalised systems for tripartite cooperation. In such a comparative perspective, the Nordic rates of organisation among employers are not particularly high, and, for instance, the Danish levels are under the EU average of 58 per cent in the private sector (European Commission 2013).

Besides the stable or increasing employer organisation rates in the Nordic countries, we also see tendencies towards a greater concentration of employer organisations in fewer sectoral and branch associations. This typically occurs via mergers, which reduce the number of sectoral associations within confederations. The greatest concentration in the main confederation is found in Iceland and Denmark, where there are only seven and 13 member organisations, respectively; the least concentration is found in Sweden, where SN (Svensk Näringsliv) has 49 member organisations. In Iceland’s SA (Samtök atvinnulfsins), the dominant association is SI (Samtaka íðnaðarins), which has its origins in manufacturing and comprises over half the companies within SA’s member groups. In Denmark, the Confederation of Danish Industry (DI) accounts for 62.3 per cent of the total payroll of DA (Dansk Arbejdsgiverforening) and this concentration has meant that DI sets the course in many ways for DA – not the other way around. The number two in DA – the Danish Chamber of Commerce – accounts for only 15.8 per cent of DA’s total payroll. Conversely, a large number of Danish private sector companies are not part of DA and FA (Finanssektorens Arbejdsgiverforening) – approximately 29 per cent (DA, 2013). There have also been some mergers of smaller confederations, for instance SALA for Danish agriculture was incorporated in DI in 2012.

In Finland, EK (Elinkeinoelämän keskusliitto) is the result of a large merger of the main confederations TT (Teollisuuden ja Työntajain Keskusliitto) and PT (Palvelutyönantajat) in 2004. Such dynamics have increased the concentration of Finnish employer organisations.
In Sweden, SN is the predominant confederation, organising roughly 79 per cent of the private labour market. Conversely, SN is more diffuse than its Nordic counterparts, embracing 49 member organisations. No sectoral association can be said to dominate the others, as seen in, for example, Denmark. Teknikföretagen, which holds a key position in the coordination of bargaining, is the largest member organisation but accounts for only 16.5 per cent of employees in SN’s domain. Number two – Svensk Handel – accounts for 12.4 per cent. In the past, this has meant that Svensk Handel has occasionally – for example, in the 2000s – challenged the manufacturing employer organisations with respect to ‘setting the pace’ in the collective bargaining round (cf. Section 5).
In Norway, there is a different kind of fragmentation. Compared with its Nordic counterparts, the leading Norwegian confederation, NHO, organises the smallest share of the labour force. Even though NHO and Norwegian Industry, affiliated to it, are the dominant bargaining agents reaching the decisive agreements with LO, there is some measure of competition over members with Virke (formerly HSH, Handels- og servicenæringens hovedorganisasjon) and Spekter (formerly NAVO, Norges Arbeidsgiverforening for Virksomheter med Offentlig Tilknytning). NHO accounts for 37 per cent of the private labour market, Virke accounts for 13 per cent and Spekter for 4 per cent, and thus NHO controls the norm-setting agreements in the private sector. In individual areas, especially in the interface between the private and public sectors, the competition over members led to some coordination problems in the 1990s. This prompted a debate on closer cooperation or even mergers, but the latter were abandoned in the mid-2000s. Some measure of cooperation regarding the renewal of collective agreements now lies with ASAM (Arbeidsgiverorganisasjonenes Samarbeid), in which all the confederations have a seat (Stokke et al. 2013: 35).

**Employer associations: discussion and perspectives**

It is well known that such overall figures for the organisation rates of employers include considerable variations between sectors and branches (Traxler and Huemer 2007). The Nordic employer organisations have traditionally had a dual role; on one hand, they have attended to their members’ business interests, while on the other they have attended to their interests as employers (Strøby-Jensen 2000). Large and small companies will often have very different interests with regard to industrial policies and to wages and working conditions. Small companies can benefit greatly from the many services that the employer organisations provide, while large companies do not have the same needs. It is also well known that it is especially the larger companies that tend to be involved in the associations’ employer policies – possibly in order to influence the organisation and ‘control’ the smaller companies. Conversely, the trade unions have an easier time organising and mobilising in relation to large companies. Thus larger companies often see a greater need for coordination with other companies, whereas smaller companies can often get ‘under the radar’ of the unions and have less need for support in bargaining and employer issues.

Generally speaking, there are many reasons for the organisation of employers; here, we will point out two (Strøby-Jensen 2000). First, the organisation of employers in the Nordic countries can be seen mainly as a response to the mobilisation and organising of the workers. In response to demands for collective agreements and the sense of the proverbial screw being tightened on individual employers hit by individual conflicts, the employers organised themselves in order to strengthen their position. According to this explanation, the employers’ rate of organisation largely reflects the strength of the trade union challenge. The second explanation puts more emphasis on companies seeing a collective interest in organising to ensure effective representation of their
interests in relation to the political system – nationally and at the European level – whether dealing with issues of taxation, social security, industrial policies and environmental requirements or in order to counteract or influence the authorities’ regulation of the labour market (Martin and Swank 2012).

In other words, the motives for joining employer organisations are usually not merely representation in relation to the labour market. In all the Nordic countries, companies are organised in sectoral or branch organisations, which in addition to employer issues also attend to their broader interests concerning development of the sector, including industrial and economic policies. In other countries, the representation of business interests and employer interests are typically divided in separate organisations. One of the consequences of gathering these functions in the same organisation is that the companies become members for other reasons in addition to their role as employers, such as representation in relation to the state and the EU. Inasmuch as membership automatically means being bound by collective agreements, a number of companies will be involved in collective bargaining, even if they have not been subject to pressure from any trade union. This means that the employers can become a kind of lifesaver for the collective bargaining system in periods of declining unionisation. Another mechanism pulling in the same direction is the principle that collective agreements cover all workplace employees in the relevant trade. This explains why the collective agreement coverage in Norway is 50 per cent in the private sector, even though only 38 per cent of those employed are union members. Particularly in Denmark and Sweden, the widespread tradition for trade unions entering into agreements with individual companies has boosted collective agreement coverage.

An extreme example of high collective agreement coverage not depending on union organisation is found in Austria, where membership of employer organisations and compliance with collective agreements are compulsory and therefore apply to all employees. This makes for almost 100 per cent coverage despite declining unionisation. Another mechanism contributing to high agreement coverage without correspondingly high levels of unionisation is to make collective agreements generally binding by law (so-called extension mechanisms or erga omnes clauses). This provides incentives for employers to organise, as they see an interest in influencing the agreements that they will have to follow regardless of membership (Traxler et al. 2001).

In the Nordic countries, however, many employer organisations have moved in the opposite direction. In order to distinguish the members’ commercial policy interests from their employer interests, Norwegian NHO and Swedish SN now offer the possibility of being a member without participating in the organisation’s collective bargaining activities and without being bound by its agreements. In Finland, where most agreements are generalised, this is not an issue. Also in Denmark, it is formally possible to distinguish membership from the collective agreement dimension, but this has yet to become widespread.

Examining the rate of employer organisation and collective agreement coverage in selected EU countries (plus Iceland and Norway), it becomes clear that
it is the organisation of the employers, not of the wage earners, that explains collective agreement coverage best in most countries. Denmark is actually the only country in which union density is higher than that of employer organisations; however, if the degree of organisation is adjusted for yellow organisations (Ibsen et al. 2013), then the Danish organisation of workers also scores lower than the organisation of employers.

Conversely, a split between the employer and business dimensions, as seen in Norway and Sweden, can weaken collective agreement coverage. In Germany, it recently became possible to become a member of DAG (Deutsche Arbeitgeberverband – the Confederation of German Employers’ Associations) without being bound by an agreement, ‘ohne Tarif’ (EIRO 2010). Together with other factors, this has contributed to a slide in collective agreement coverage in recent years, even though it remains higher than in Norway. According to Franz Traxler (1998), this illustrates a general point: that maintaining broad, coordinated collective bargaining systems is hardly possible without the state participating as an active third party supporting the institutional prerequisites for bargaining systems. Such support can range from mechanisms for extension, incentives for organisation and mediation to giving the parties privileged access to participating in the development of labour market policy.

As shown, the organisation of employers remains stable, but not particularly high in the Nordic countries (with the exception of Sweden). This can – as seen in other countries, such as Austria – keep collective agreement coverage up. However, the employers’ rationales for organising do not have to include
union pressure for collective agreements and are likely to include business interests, for which reason it is not possible to draw a straight line from the employers’ rates of organisation to the coverage of collective agreements. Anyway, the collective agreements tend so far, except in Norway, the Netherlands and the United Kingdom, to reach further than the employer organisations and much wider than the union organisations. Nevertheless, the decentralisation of bargaining to the workplace level seen in Nordic countries in recent years means that the local strength of trade unions is becoming even more decisive for employees’ bargaining power in their interaction with management.

All in all, there are many reasons why the ties between employer organisations and collective agreement coverage are becoming weakened. Besides increased access to being a member without joining the organisation’s agreement obligations, a major reason is the growing tendency for companies to outsource more work to unorganised companies the further down the production chain one looks. This mechanism is further reinforced by the increasing mobility of goods, labour and services across national borders, such that a growing share of the work in some branches is carried out outside of the agreement system. Typical examples are construction and shipbuilding. In the Norwegian shipbuilding industry, which forms an important part of the pace-setting collective agreement, this kind of external labour – which is primarily foreign – accounts for almost 50 per cent of the work carried out (Ødegaard 2014). Another factor is the increasing delegation of wage setting to the

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Note: * Finland 2009, **Germany plans to introduce a statutory minimum wage in 2015.
Source: AIAS, ICTWSS database 2013. Delvik, Eldring and Visser 2012.)
workplace level in collective agreements, where the bargaining power of the local trade unions depends on having sufficient support among the employees. High rates of employer organisation will not help with this.

Table 11 indicates the connection between the rate of unionisation and collective bargaining coverage in various European countries and whether the countries have mechanisms for extension of agreements and a statutory minimum wage. As can be seen, the Nordic countries have no statutory minimum wage but are marked by a relatively high degree of collective agreement coverage, which in Finland, Iceland and Norway is bolstered by mechanisms for extension.
8. European integration and the Nordic collective bargaining models

Denmark joined the European Community in 1973, Sweden and Finland in 1995, while Norway and Iceland have participated in the Internal Market via the EEA Agreement since 1994. This means that, despite the differences in their ties to the EU, the Nordic countries largely share the consequences of European market integration.

The following analysis of the consequences of European integration for the collective bargaining models in the Nordic countries addresses three main issues. First, economic integration in the EU has meant that the system for negotiations and wage formation has attained more strategic significance for national economic policy development. The monetary union in particular puts increased pressure on the bargaining systems in the euro countries and those with currencies pegged to it. Secondly, we discuss the significance of EU labour law directives for the regulation of the Nordic labour markets and the interplay with the collective agreement systems. It deserves mention that, in addition to the directives (hard law) there is also the so-called ‘open method of coordination’ (soft law), one example of which is the European Employment Strategy, in respect of which the common European approach has had limited consequences in the Nordic region. Here, the Nordic countries have functioned more as role models for the rest of the EU and thus we shall not deal with this aspect further. Thirdly, we focus on the increased labour migration and cross-border activities of service providers within the EU/EEA area. The relatively large number of eastern European labour migrants and service providers who have come to the Nordic countries has triggered an intense debate, especially in Norway and Denmark, on social dumping and tendencies towards employers circumventing collective agreements in various ways. This highlights a conflict between the right to free movement and national systems of labour market regulation, particularly in the Nordic region, where regulation is largely based on collective agreements.

The increased significance of collective bargaining systems for economic development and adjustment

With regard to regulation of the markets for capital, goods, services and labour, the first important point is that all the Nordic countries are members of the EU or the EEA. Regarding euro affiliation, however, the Nordic countries differ substantially. Finland introduced the euro in 1999, while Denmark has followed a fixed-rate policy with the krone pegged to the euro. In countries
without monetary instruments or fixed-exchange rate policies, adjustments in wage development and budget and welfare policy (so-called ‘internal devaluation’) have become more important for tackling economic shocks and fluctuations. Bargaining systems and the resulting wage and cost control therefore attain a more central role in economic adjustment, also because there is limited leeway for fiscal policies. The relations between EU regulation and national regulation of micro- and macroeconomic conditions can be presented schematically, as shown in Table 12 (Sapir 2005).

At the macro level, monetary policy is determined centrally for the euro zone, including Finland. As already mentioned, however, Denmark, Sweden, Norway and Iceland are ‘on the outside’ in this regard. Fiscal policy lies in national hands, but the convergence criteria behind the Economic and Monetary Union with regard to budget deficits, public debt and so forth are binding for the euro member countries and set the bar for fiscal policy in the other EU countries. During the financial crisis, the EU Stability and Growth Pact was supplemented with a number of pacts obliging all the member states to strengthen competitiveness, budget discipline and trade balances, and emphasis was also placed on ensuring that wage formation corresponds to developments in productivity.

At the micro level, the capital and product markets and the free movement of labour and services are regulated by EU rules, while labour market legislation remains primarily a national matter. But the integration has had a converging effect in the form of lower inflation, increased wage restraint and stiffer competition and have put national labour market models under pressure. This is not just the case in the euro countries, but also in the EU member states that are outside EMU. And in the wake of the euro crisis, the EU has promoted a number of measures intended to alter national bargaining systems to improve competitiveness and establish more flexible wage formation (Visser 2013). The countries that are outside the EU but participate in the single market, such as Norway and Iceland, are also affected by such converging effects. In all the Nordic countries, wage and cost increases among the EU trade partners have been attributed increased weight in collective bargaining, especially in the norm-setting export industries. As the regulation of these policy areas is grounded both at the national and EU levels (as shown in Figure 12), there is an increased need for coordination, both within and across national borders.

### Table 12 Division of policy responsibilities in the EU/EMU

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Regardless of what one might think about the EU or EEA, there is thus much evidence indicating that the development of European integration will largely set the framework for developments in the Nordic labour market models in the years to come. Since the collective bargaining systems are the cornerstones of Nordic labour market regulation and a central pillar of the broader economic-political coordination, increased cooperation between the Nordic organisations is necessary if they want to be able to influence the processes determining the rules of the game in the European single market.

**EU regulation of workers’ rights: the ‘social dimension’**

The Maastricht Treaty, which came into effect in 1993, expanded the EU’s mandate to enable it to adopt minimum directives on workers’ rights, as they could to some extent now be passed by a qualified majority. At the same time, the Treaty states that the EU cannot resort to legislative intervention in strikes, lockouts or wage determination. The European social partners (labour market organisations: the European Trade Union Confederation [ETUC], the Union of Industrial and Employers’ Confederations of Europe [UNICE, now BusinessEurope] and the European Centre of Employers and Enterprises providing Public services [CEEP]) also received the right to negotiate European framework agreements, which could replace proposed directives and become binding EU law. This led to new agreements and directives that strengthened EU labour law in the 1990s. By raising standards in the competing countries with weakly developed workers’ rights, such as the United Kingdom, the partners in the Nordic countries had a generally positive view of the common rules, as they tend to strengthen the competitiveness of Nordic workplaces. There was a sense of unrest, however, concerning what the implementation of the directives would mean for Nordic collective bargaining systems.

The forms of regulation in the EU are based on legislation (directives) and individual rights. Especially in Denmark, where the parties prefer to regulate most matters through collective agreements, this triggered worries about how regulation via collective agreements could be reconciled with EU labour law. Would it lead to a creeping ‘legalisation’ of the Nordic models, which over time could undermine people’s interest in union organisation and displace the current bargaining systems? Uncertainty in this regard became a contentious issue in the Danish debate following the ‘No’ delivered by the popular referendum on the Maastricht Treaty in 1992, but the EU Commission gave assurances that the bargaining system was an acceptable means of implementing labour law directives. Correspondingly, Sweden managed to have a provision introduced into its accession agreement in 1995 that emphasised that collective agreements were compatible with EU law. After Denmark attempted to implement EU directives in the 1990s solely via collective agreements – which created ongoing conflicts with the European Commission – the country eventually had to accept that agreements must be supplemented by legislation, which ensured that wage earners not covered by collective agreements had the same rights. This was reminiscent of what was being done in the other Nordic countries, where legislation is more widespread.
Legal studies of this development often emphasise the pronounced and principled changes resulting from the fact that the social partners’ collective agreements have to respect supranational European regulation (Ahlberg 2005; Bruun and Malmberg 2005; Nielsen 1992). Changes have undoubtedly been made to national legislation and agreement-based regulation in order to ensure that EU directives are implemented correctly and are in accordance with the rules on free movement, but bargaining systems continue to enjoy a key position in Nordic labour market regulation (Andersen 2003; Kristensen 2013; NOU 2012: 2; Tällberg et al. 2010).

Many of the EU labour law directives (see Box 2) have had a limited effect on the actual regulation of the Nordic labour markets. Certain directives on, for example, business takeovers, equality, European works councils, working hours and the temporary agency work directive, have – with certain national variations – strengthened Nordic workers’ rights, while other rules, such as the agreement on parental leave, have had little impact, as the Nordic countries have generally had higher standards. The directives on the equal treatment of workers in part-time and in fixed-term jobs have also led to certain improvements and somewhat more homogenous regulation in the Nordic countries (Andersen 2003). Another aspect of the EU directives is that the differences in the rights enjoyed by employees in companies with and without collective agreements have diminished.

While most of the mentioned minimum directives deal with what can be regarded as general conditions of employment, other directives are genuine
consequences of European integration. The directive on European works councils was regarded as an important victory by the European trade union movement, ensuring employees across national borders certain rights concerning information and consultation in multinational companies. This gave the Nordic union representatives the right to participate in the corporation-wide dialogue in foreign-owned companies and to demand corresponding arrangements for the employees in foreign branches of Nordic companies (Blomquist and Murhem 2003) – a right that the Nordic trade union movement had fought in vain to have introduced via the Nordic Council in the 1980s. In 2013, there were 163 Nordic companies that had a European works council (EWC), of which 51 were in the metal industry and 30 in chemicals (ETUI EWC database).

The social dialogue has given the Nordic employer and employee organisations an opportunity, via their participation in the European social partner organisations, to take part in the ongoing consultations with the European Commission on labour market policy initiatives at the EU level. As already mentioned, particularly in the 1990s, this led to more framework agreements resulting in EU directives and later to a number of ‘voluntary’ agreements concluded between the social partners. In recent years, the social dialogue has largely stalled, and EU expansion, the *Laval* case (see below) and the European economic crisis are among the causes. Overall, it can be concluded that the EU regime of labour market regulation has to date had limited consequences for the national collective bargaining systems in the Nordic states.

**Increased tensions between the EU’s free movement regime and national labour market regulations**

The effects of EU law have turned out to be fairly different when it comes to relations between the EU principle of free movement and national collective bargaining systems. This became particularly apparent with the so-called ‘Laval quartet’ (Dølvik and Visser 2009; Evju 2010a), a series of four ECJ rulings. The tensions primarily concerned the free movement of services, in respect of which workers’ rights are regulated by the Posted Workers Directive (EC 96/71). This directive was adopted in 1996 after protracted negotiations. In brief, the Posted Workers Directive states that the employment conditions of the home country are to form the basis of regulation (including taxes and social contributions). The exception to this is a core of working conditions (Article 3.1 in the directive) in respect of which the host country’s rules apply (for example, working hours, working conditions and minimum wages set out in law or generally applicable collective agreements).

Posting created no special challenges for the Nordic bargaining systems as long as the EU/EEA market consisted of western European countries with comparable wages and working conditions and low mobility across borders. The expansion of the EU in 2004 and 2007 to encompass a number of central and eastern European states, however, led to Nordic companies – initially
in construction – beginning to hire foreign subcontractors that could compete with lower labour costs. Without a statutory minimum wage and without rules capable of rendering collective agreements generally applicable – with the exception of Finland and Iceland – this meant that it was entirely legal to hire posted central and eastern Europeans on wages, social contributions and taxes in accordance with home country rules (Dølvik and Eldring 2008; Eldring and Alsos 2012). This led to controversial court cases – such as the abovementioned European Court of Justice (ECJ) rulings in the Laval quartet – and sparked widespread debate about the capacity of the Nordic models to mitigate dumping of wages and working conditions.

The Nordic countries have pursued different strategies in order to counteract this type of low-wage competition. As already mentioned (Section 3), Finland has had generally applicable collective agreements since the 1970s, while Iceland introduced legislation in the 1980s prohibiting paying labour less than the minimum rates. Norway from 2004 followed the same track by activating its sleeping law on extension of collective agreements making provisions about minimum wage and a number of other minimum conditions in the agreements in construction, shipbuilding, agriculture and cleaning generally applicable (Eldring et al. 2013). Denmark and Sweden, in contrast, when implementing the Posted Workers Directive, chose to continue their traditional collective agreement-based regulation, in which the trade unions have the right to make agreements with foreign companies, if necessary with the help of union action (for example, blockades, sympathy action). In these countries, the trade unions must therefore ensure that posted workers receive a wage in keeping with the collective agreements.

In the Laval case, the Swedish construction workers’ organisation started a blockade against a Latvian contractor, Laval Partner, to sign a Swedish collective agreement, but the Latvian company took the case to the labour court on the grounds that the EU’s free movement rules were being contravened. The labour court sought advice from the ECJ, which concluded that the conflict violated the posting directive, on the grounds that the agreement that the trade union demanded did not have sufficiently clear provisions regarding minimum wages and included conditions that went beyond the directive’s ‘hard core’ (Malmberg 2010).

The ECJ emphasised that measures against social dumping that restrict free movement are legitimate only if they are proportionate and in accordance with the Posted Workers Directive, which the Court did not find to be the case here. This meant that the Swedish and Danish way of implementing the directive was declared in conflict with EU law. For the Nordic and European trade unions, this was seen as a clear message from the ECJ that the Treaty rules on free movement de facto trumped the Treaty provisions on collective labour regulation as a national matter and the right to industrial action established in the EU Charter of Fundamental Rights. In addition to leading the EU into a situation in which the principles regarding fundamental labour rights and free movement were in obvious conflict (Dølvik and Visser 2009), this meant that union action aimed at supporting bargaining demands beyond those es-
established by the directive minimum were regarded as illegal. In practice, it can be claimed that this meant discrimination against national companies in Denmark and Sweden, which do not enjoy such protection against union bargaining demands and actions (Evju 2010a).

In response, Denmark and Sweden revised their posting legislation. A tripartite agreement was reached in Denmark, which meant minimal changes to the rules and aimed, in principle, at continuing the equal treatment of domestic and foreign companies. The new Swedish law, on the other hand, only allows collective action against foreign companies in order to achieve the directive’s minimum rules and minimum wages stipulated in country-wide collective agreements. In reaction to this, the Swedish unions started negotiating minimum wage clauses, wage setting having previously been left to local negotiations, an ironic example of EU rules resulting in less flexibility and increased centralisation. Otherwise, the EU, as we know, has been putting pressure on the member states to promote decentralisation and flexible wage setting (Dølvik, Eldring and Visser 2014).

On top of these conflicts linked to the relationship between the EU’s posting rules and Nordic labour market regulation, another question concerns the requirements regarding wages and working conditions that Nordic governments can impose when offering public contracts. In Denmark, this has led to a debate on so-called labour clauses, including the opportunities available to municipal authorities to impose demands concerning wages and working conditions in connection with public tenders. In this context, the Norwegian government has been brought before the European Commission’s counterpart in the EEA, the ESA, because of demands made regarding adherence to conditions laid down in collective agreements in connection with such tenders. After a great deal of controversy, the case was put on hold. In 2014, the EU adopted new tendering rules providing more opportunities to make demands regarding social and environmental conditions in connection with such tenders. This is potentially of significance in the Nordic region, as Nordic authorities have usually followed a fairly restrictive line in relation to the interpretation of EU rules in this area (Ahlberg and Bruun 2012; NOU 2012: 2).

An interesting example of how broader international changes in interaction with European regulation can have opposing and diverse consequences for Nordic bargaining systems is the liberalisation of temporary employment agencies over the past decade (Alsos 2013). After the ILO adopted a convention on temporary employment in 1997, all the Nordic countries followed up by liberalising this sector, but in very different ways. In Sweden, the social partners reached an agreement ensuring most employees in temporary employment agencies the same wages and working conditions as in the user companies, supplemented with guaranteed compensation between temporary jobs. In Norway, by contrast, neither agreements nor legislation were developed capable of ensuring agency temps of the right to decent conditions. In Denmark, the conditions in many sectors were regulated via the user companies’ collective agreements; and in Finland and Iceland, the general applicable agreement provisions enabled temporary employees to demand the same mini-
minimum wage as in the user companies. In the 2000s, and particularly after EU enlargement towards the east, agencies provided growing numbers of foreign labour, and the sector grew rapidly in most countries. This development was particularly rapid in Norway, where the sector had no collective agreements. This loophole was closed, however, by the implementation of the EU agency workers directive, whose purpose is to ensure hired workers – both domestic and foreign – the same conditions as workers in the user company. This illustrates how increased labour market integration in Europe does not merely create the basis for new types of cross-border mobility and competition that give employers new hiring opportunities, but also in some instances enables laws and regulations across borders that can support local trade union efforts to ensure equal treatment in this common European labour market.

**Volume of labour migration flows**

In 2004–2011, 336,000 labour migrants from the new EU states were registered as residing in the Nordic countries for a certain length of time. Adding to this persons with short-term work contracts (non-residents), the number almost doubles, as more than 600,000 eastern European workers were working in the Nordic countries during this time. In addition it is likely that a substantial number of unregistered posted workers arrived. Figure 11 shows how the total annual inflow of workers from the new member states increased sharply in 2004, flattened out somewhat during the financial crisis, only to begin rising quickly again, especially as a result of Norwegian developments.

**Figure 11** *Gross increase in residents from EU8+2 to the Nordic countries per year, 2000–2011*

Source: Tronstad and Joona (2013), built on data from Nordic Statistics.
Figure 11 covers only residents of Nordic countries. In Denmark, labour migrants must report having moved (found residence) if the stay lasts longer than three months, in Norway six months and in Finland, Iceland and Sweden within 12 months. This means that the numbers cover a higher percentage of short-term migrants in Denmark and Norway than in the other countries.

Most of the labour migrants come from Poland, the Baltic countries, and Romania and Bulgaria, which joined the EU in 2007. Over time, there have also been migrants from the crisis-plagued southern European countries. The recruitment of labour migrants has been particularly concentrated in sectors such as construction, shipbuilding (in Finland and Norway), the food industry, agriculture and horticulture, as well as private service industries such as cleaning, hotels and restaurants. Until the financial crisis, Iceland had received the greatest percentage of eastern Europeans relative to national population; in absolute figures, however, Norway has clearly received the most – approximately the same number as the other four countries together. This reflects the high wages and strong demand growth in the Norwegian economy, which was also only marginally affected by the financial crisis (Friberg and Eldring 2013). Norwegian figures indicate that almost half of the labour migrants leave the country in the course of a year or two. Even though there is a considerable element of circular short-term migration, many persons also settle more permanently and bring their partners and children. This has meant that the strong domination of men among labour migrants in the first years has gradually been supplemented by a growing number of women, more of whom find work in the public sector, caring for the elderly and children, working in stores and so forth (Friberg et al. 2013a, b).

The increased inflow of workers from the new EU member states has contributed to growth in the labour supply in the Nordic countries, especially in Norway, where labour migrants have accounted for more than two-thirds of net employment growth since 2004 (Friberg et al. 2013a, b; NOU 2013: 13). In a Europe marked by crisis and record-high unemployment levels – which have also hit countries that attracted many job-seekers prior to the crisis (for example, the United Kingdom and Ireland) – this illustrates how high demand, low unemployment and relatively high wages can act as a ‘magnet’ for European job-seekers and companies seeking work.

It is difficult to estimate the number of workers posted by foreign subcontractors, temporary employment agencies and independent service providers (sole proprietorships). Recent Danish figures based on the compulsory registration of posted workers provide an interesting indication of the relative proportions of people finding a job in a Danish company and those who have been posted. With the new statistics, which since 2011 have included posted workers, the number of central and eastern Europeans working in Denmark increased by 36 per cent, from around 50,000 in 2008–2010 to 67,000 in 2011 and 79,000 in 2012, corresponding to a total increase of 58 per cent. In this period, the Danish labour market was still marked by stagnation. Even though the ordinary labour migration would likely have increased somewhat under any circumstances, there is reason to believe that a considerable amount of
the growth reflects the increased registration of posted workers. The Danish figures are similar to the Norwegian estimates, which indicate that 20–30 per cent of labour migrants in sectors such as construction, shipbuilding and cleaning were posted workers in 2010 (Dølvik and Eldring 2013).

We know little about the work patterns and working conditions of eastern European labour migrants in the Nordic region, but joint Nordic surveys of Polish citizens in Copenhagen, Oslo and Reykjavik (the so-called Polonia studies) indicate that significant numbers of them have poorer wages and working conditions than the norm in the respective Nordic labour markets, especially in Oslo and Copenhagen (Friberg et al. 2013b). Many labour migrants are likely to be integrated in the labour market and find stable jobs covered by collective agreements. A Danish study suggests that many central and eastern Europeans are probably covered by collective agreements, but at the same time the study indicates that the foreigners are receiving lower wages than Danes in corresponding jobs; this can relate to various bonuses and supplements in local wage negotiations that foreigners do not receive (Andersen and Felbo-Kolding 2013). The rise in labour supply has clearly been beneficial for the Nordic labour markets, where several branches are suffering from labour shortages despite higher unemployment. Many migrants work in the Nordic host country for a limited period of time, often doing seasonal work, such as the Lithuanian women working in the Norwegian fishing industry. Some are daily or weekly commuters, such as those from Estonia working in the Helsinki region. Some move around between various short-term jobs and unemployment. Some work a few hours per week, for example, cleaning or delivering newspapers. In principle, the posted workers are only allowed to be in the country while they are performing the task for which they were hired, but many of those posted to a Nordic country remain for quite a long time by switching between various employers and assignments. In this manner, a major market for short-term work has developed, a market often characterized by atypical working conditions and poorer conditions than is the norm. It is also a market in which employees have poor knowledge of their rights. The distinction between being a labour migrant and a ‘posted’ or a ‘short-term rental’ is often unclear, as more of the foreign sub-contractors and temporary employment agencies, which exclusively recruit labour migrants, become established in the host country. Most of them are unorganised and many of them adapt outside the rules and regulations stipulated in the collective agreements and can – unless there are generally applicable agreements – therefore perfectly legally offer wages that are a fair distance below the Nordic norm.

In some of the most vulnerable sectors, therefore, one can see the contours of a new, volatile and unregulated market for hiring labour at the periphery of the labour market, which in the long run can provide a basis for a sharper centre/periphery division in parts of the Nordic labour markets. The vast majority will continue to find themselves within the well-organised core; the risk, however, is that a minority will grow in a number of sectors who are at the mercy of bogus employers, poor working conditions and illicit employment, characterised by low wages, low job security and occasionally even sliding into organised economic crime. The volatility and intransparency in sub-
contractor chains and corporate structures in parts of these market segments make it very difficult for social partner organisations and the authorities to get to grips with this phenomenon. At the same time, decent companies struggle to survive in the face of such competition. Even though these trends are for now apparent in only a few sectors – typically in parts of construction, cleaning, agriculture, transport and hotels and restaurants – they raise new, demanding challenges for labour market organisations and collective bargaining, which in the long run may be in danger of being marginalised in such sectors. Unless the social partners and authorities work together to develop effective measures capable of halting such developments, the collective bargaining system may crumble and its competition-regulating function cease in these parts of the labour market.

**Borderless labour markets – new tools for labour market regulation?**

Faced with the pressure from European regulations and increased low-wage competition since the EU’s eastern enlargement and the economic crisis, it has become clear that developments have to some extent taken the actors in the Nordic labour market systems by surprise. In all the Nordic countries, with the possible exception of Sweden, the external liberalisation of the labour market has triggered sharper internal regulation in order to defend against the violation and circumvention of national rules. In some sectors, this has required considerable resources and time, not least in Denmark and Sweden, where efforts to ensure compliance with collective agreements and enforce agreed-on wages and working conditions depend on the trade unions. This forces them to assume a control function that makes it difficult for them to win the confidence of – for not to mention the ability to assist and organise – foreign workers (Eldring and Hansen 2009). The actors in the Nordic bargaining models therefore appear to be seeking new solutions to counteract wage dumping and adjust the bargaining systems to open European labour and services markets. In order to avoid bogus companies, undeclared work and activities in the grey zone blighted by the emergence of economic crime in Nordic working life, voices on the employers’ side – particularly in Sweden and Norway – have spoken up for the introduction of a statutory minimum wage, formerly taboo among Nordic labour market organisations. This has triggered suggestions from prominent union representatives to introduce or expand the opportunities to render collective agreements generally applicable via legislation. Such thoughts are also being aired increasingly in Sweden and Denmark, which would involve a massive U-turn in the trade unions’ position on state intervention in – and the legal basis for – setting minimum wages (Andersen and Pedersen 2014; Berglund and Esser 2014; Eldring and Alsos 2012). Some employers are more reserved regarding these challenges – presumably because some of them have an interest in hiring cheaper and more docile foreign labour in order to improve competitiveness, weaken the trade union movement and avoid agreements – which indicates that these issues may lead to sharper conflicts in the Nordic labour markets (Dølvik, Eldring and Visser 2014).
9. Market integration and increased mobility: risk of a dual labour market?

The increased market integration and internationalisation of production and supply chains means that more and more workplaces are being affected by international competition, not just those in export manufacturing.

While manufacturing industry in the Nordic countries continues to ‘stick to the high road’ in terms of high productivity and relatively high pay, for a number of years we have seen companies outsourcing labour-intensive parts of manufacturing to countries with lower costs. There are also examples of companies in the Nordic countries recruiting cheaper foreign labour or subcontractors for work in the home country, ostensibly to compensate for high Nordic costs and avoid outsourcing.

A new feature is that the labour market in typically home-market industries is increasingly being internationalised. This is the case in construction and private services – for example, cleaning, hotels and restaurants, transport – where the increased recruiting of subcontractors and labour from abroad is creating job and wage competition. With the limited productivity increases in such labour-intensive sectors, the question becomes whether the pressure that such developments put on bargaining systems will lead to greater differentiation in pay and benefits between sectors. And what will this mean for coordination between sectors and industries in the Nordic countries?

Market integration in different sectors

Manufacturing – particularly export-oriented manufacturing industry – has been the driving force behind changes in collective bargaining systems in the Nordic countries. Increased international competition and new production methods in the 1980s were the motivation for employers’ calls for change. As we have seen, the bargaining systems are still intact, but undergoing transformation. Across the Nordic countries, industrial structures vary and different types of industry dominate in different countries. Overall, however, manufacturing companies and their exports play an important role in national economies. At the same time, manufacturing has also experienced accelerating internationalisation in recent decades. Not only does this mean that important Nordic industrial corporations, such as Volvo, Nokia, parts of Norsk Hydro and others, have been taken over by international owners, but also that parts of the companies’ chains of production have become international, longer and more complicated. Specifically, many manufacturing jobs have been out-
sourced. This has again increased competition for the remaining workplaces and led to debates on whether parts of Nordic manufacturing industry are close to critical levels concerning what is required to maintain a national infrastructure for innovation and competence development that is essential for new job creation in manufacturing.

Moreover, since the EU’s expansion into central and eastern Europe, companies in some sectors – typically shipbuilding, the food industry, slaughterhouses, agriculture and horticulture – are exploiting the free movement of labour and services to use cheaper subcontractors and temporary employment agencies. Some employers argue that this is necessary to compensate for high Nordic labour costs with a view to avoiding increased outsourcing or simply closing down activities in the host country, which they claim is the alternative. However, in certain branches companies have been bringing production back home that had been transferred abroad, such as the Norwegian shipbuilding industry, which employs a considerable proportion of foreign labour. Here, the pattern is that foreign labour is not mixed with domestic labour, rather being grouped in teams that work separately, sometimes even in their own independent company. This is also going on at construction sites in Denmark – and presumably also elsewhere. Seen in relation to domestic workers, there are two possible consequences of this development. Either foreigners will substitute competing domestic labour or the foreigners can be used for special, peripheral or less attractive jobs separate from the core tasks. This can in some instances make cheap foreign labour, which often is not subject to collective agreements, the basis for higher wages for domestic core labour. This raises difficult dilemmas for the trade unions, as it leads to the de facto acceptance of a two-tier labour market, as well as for employers, as domestic subcontractors see their market share shrinking.

While internationalisation is a long-observed trend in manufacturing, it is a more recent feature in most domestic market-oriented businesses. Construction of course cannot be outsourced, but the manufacturing of building components and semi-finished products has for the past 20 years been outsourced to the Baltic countries, for example, where numerous Nordic corporations in the construction industry have established themselves. Furthermore, the large inflow of foreign workers and foreign service providers with their own posted workers, who are involved in the domestic production process, is regarded as a ‘functional equivalent’ to the similarly cost-driven outsourcing. At the same time as this has led to sharper competition on prices for work and jobs for many smaller domestic contractors and construction companies, the development that was the subject of the Laval case introduced a new type of low-wage competition in the labour market. This is a major dilemma for the employer organisations, because large companies can exploit the advantages of free mobility, while many smaller companies often struggle merely to survive (Afonso 2014).

Market integration and internationalisation have also progressed rapidly in the transport industry, where large-scale international logistics and transport companies operate trucks and drivers in complex systems exploiting
different wage and cost levels in different European countries to maximise returns (Dølvik and Løken 2003; Steen Jensen et al. 2014). As with manufacturing and construction, road transport is a part of the internal market, but there are still rules – the so-called ‘cabotage rules’ – on how many trips a foreign truck or bus may make in another EU country with national goods or passengers. Nevertheless, international road transport in and out of the Nordic countries has largely been taken over by foreign drivers, often from central and eastern Europe, and in domestic road transport there is a debate on the difficulties of monitoring compliance with the cabotage rules and the increased low-wage competition.

But it is not just the politically initiated changes in the EU rules that are driving this market integration. Technological development also plays a decisive role, for example, in relation to a typically domestic market sector, such as retail, which has also experienced increasing international competition in recent years. One survey found that the Nordic countries purchased goods via the internet (so-called e-commerce) worth SKK 100 billion in 2012, a 15 per cent increase on the previous year. Most of this trade is national, but it is becoming increasingly common for consumers to look abroad to find more choice and lower prices. Technology is no less important in branches such as the financial sector, where banks and finance companies have been operating across national borders for a long time, initially within the Nordic region. But as seen during the financial crisis in Iceland and the Baltic countries, the Nordic banks have also invested outside the Nordic region. Access to electronic banking services has radically increased banks’ market opportunities, as well as the opportunities available to customers across national borders. Another recent development is that some of the more work-intensive, ‘back-office’ functions are being outsourced to Baltic countries and India, which presents a major challenge for the unions organising bank employees, who previously performed such work. The opening up of markets has thus intensified price competition between companies and the struggle for earnings and jobs in large parts of the domestic-oriented sectors. In this manner, the broader market integration puts the collective bargaining systems in the affected sectors under pressure. In addition to transport and construction, there is reason to assume that especially the labour-intensive private service sectors, such as retail, hotels and restaurants as well as cleaning will be particularly vulnerable, as the development in productivity and added value is more modest than in manufacturing, unionisation is much weaker and the hiring of foreign labour is increasing. In the longer term, such trends may undermine the basis for the close coordination of agreements and wage formation across industries in the Nordic countries and foster increased wage differentiation between and within branches in line with what has happened in Germany in recent decades.

**Risk of increased labour market segmentation?**

Tendencies of labour market segmentation clearly preceded the recent rise in labour migration. As one indication of segmentation, the widening gap in wage development between branches is reflected in Figure 12, which shows
the ratio between the average wage in manufacturing and the average wage in retail, trade/hotels and restaurants. Generally speaking, the figure tells us that the wage ratio between the branches up through the 1980s was more or less stable, with the exception of Sweden, where pay differentials were reduced. The trend shifted in the early 1990s. Germany in particular stood out, as the wage gap between manufacturing and retail trade/hotels and restaurants widened rapidly towards 2007. This development is put in perspective by the debate in recent years about the emergence of large low-wage areas in the German labour market, especially in private services. This has spurred a debate on the ‘working poor’ and led to government proposals to simplify procedures for extension of collective agreements and the introduction of a statutory minimum wage in Germany.

In the three Nordic countries included in the figure, we see that from the early 1990s and onwards, there was a moderate increase in the pay difference between the two groups in Finland and Sweden, while this increase is clearly greater in Denmark. One factor possibly playing a role here is that collective agreement coverage in retail, as well as in hotels and restaurants is lower in Denmark than in Sweden and Finland. Stronger decentralisation of wage bargaining in Denmark than in Sweden and Finland (cf. section 5), moreover, has the consequence that in the branches in which there is not always a union representative in the workplace – as is often the case in retail and in hotels and restaurants – the workers will not get the same local wage increases as in manufacturing (Ibsen 2013: 216–18).

The question therefore arises whether this primarily Danish tendency, which is also found in Norway in the bottom half of the wage structure – see Figure

![Figure 12 Ratio between average pay in industry and average pay in retail, hotels and restaurants, 1980–2007](image-url)
4 – is a harbinger of a growing pay gap between the core employees in manufacturing and more peripheral groups employed in private services. We know that private services such as retail and hotels and restaurants have a relatively low degree of unionisation and therefore weak local bargaining power. In Denmark, unionisation is 50–60 per cent for the two areas, while in Finland and Sweden the figures are lower. The figures are lowest in Norway, however, where less than 25 per cent of the workers in the two service branches are organised. As far as collective agreement coverage is concerned, these branches also lie at the lower end; for example, one Danish study suggests that approximately 60 per cent of employees are covered by collective agreements (Ibsen 2012).

At the same time, hotels and restaurants and other branches within private services, such as cleaning, and also sectors such as agriculture, horticulture and transport have experienced a strong internationalisation of the workforce. These are not only workers from central and eastern Europe, but also from a number of other countries, also outside the EU. Falling unionisation, increased hiring of foreign labour and higher unemployment in the wake of the financial and economic crisis highlight the question of whether the actors in the Nordic collective bargaining systems will be able to develop strategies capable of preventing the tendency towards growing pay differences like those seen in Germany in recent decades. If not, a scenario of widening pay gaps and the emergence of a more two-tiered labour market, with growing disparities between those who are part of the highly organised core and those who are outside it, cannot be ruled out.
10. The Nordic collective bargaining systems: perspectives and challenges

The Nordic collective bargaining systems were established in a wave of increasing international trade around 100 years ago. However, the social partners are now confronted by changes in the global economy that are undermining some of the core pillars of these bargaining systems. Through bitter conflicts – but also grand agreements – the social partners developed a so-called ‘conflict partnership’ in the course of the past century in which they worked together to ensure international competitiveness in order to provide the basis for steady growth and high employment. This occurred in parallel with the ongoing struggle over the distribution of pay and the fruits of value creation. Co-operation between the manufacturing trade unions and employers’ organisations developed, which was aimed at ensuring the coordination of bargaining that could control pay increases in domestic industries, notably construction, and other businesses that could drive up the costs of manufacturing. In this sense, the Nordic bargaining systems were established within the framework of an implicit alliance between the workers and capital in manufacturing.

This ‘social contract’ based on solidaristic wage developments contributed to restraint with regard to pay in the growing middle class and counteracted the development of high wage differences as seen in many other countries (Moene et al. 2003). A compressed wage structure with high minimum wages also ensured a ‘floor’ for competition in product markets, which provided pressure for ongoing restructuring from low- to highly productive businesses, as made explicit in the Swedish Rehn/Meidner model. This ensured extra profits in the most productive companies and created the foundation for high investment levels. Combined with an active labour market policy, education policy and business policy, the interplay between the bargaining systems and competition in product markets contributed to relatively high growth in productivity and innovation in the Nordic region. Underlying this, the welfare state supported a very mobile labour market with generous unemployment insurance benefits, investments in universal education and an active labour market policy, which helped facilitate match-making between the unemployed and job openings (Berglund et al. 2010; Madsen 2006).

The social partners in the Nordic countries made an exchange – or a compromise – whereby the workers got jobs, social security, rights at work, influence in the workplace and a share in the profits; while the employers achieved industrial peace, the right to manage, access to a competent workforce, predictability and cooperation on promoting productivity and competitiveness. The state, finally, with the aim of promoting growth, stability and employment,
has benefited from the partners’ efforts to ensure wage development reconcilable with macroeconomic stability. As such, the collective bargaining systems have constituted a core pillar of the Nordic ‘social contract’. Nevertheless, several of these characteristics are now under pressure due to changes in the international environment and in Nordic societies.

In this concluding section we address a number of perspectives arising from the analyses in this report and return to the two overall purposes sketched at the beginning:

(i) To describe and analyse changes in the Nordic collective bargaining systems since the 1990s in a context of increased international competition, economic crisis management and the EU internal market for products, services and labour. We aimed also to describe the similarities and differences in these changes.

(ii) To identify challenges and conditions for the further development of Nordic collective bargaining systems. Here, we asked whether the Nordic employers still want cooperation on further development of collective bargaining systems or whether they would prefer to reduce the significance of collective agreements or even to liberate themselves from them.

In order to cast light on these questions, we begin by summarising the most important changes that have affected the development of bargaining systems over the past 25 years. This provides the context for discussing some of the central challenges facing the social partners with regard to renewing and further developing the bargaining systems in the years to come.

**External and internal changes have put bargaining systems under pressure**

The 25 years or so since 1990 have been marked by profound economic, political and cultural changes. This has put both external and internal pressure on bargaining systems in the Nordic countries and has raised new questions concerning the systems’ future viability. With regard to cultural changes, it is worth emphasising that the period has been marked by a tendency towards individualisation and a break with the familiar class structures and collective identities of the past. It is often forgotten that the collapse of the Soviet Union and the fall of the Berlin Wall led to an ideological crisis for parts of the trade union movement, which also affected the movement’s ‘ideological baggage’. One might argue that this development merely served to cement the social democratic hegemony in the Nordic trade union movements, but that would be to overlook how neoliberal thinking and neoclassical economic theory have attained almost hegemonic status in economic and political debates. The Nordic trade unions have had to argue against this ideological hegemony when bargaining systems and the collective regulation of terms and conditions have had to be defended and further developed. Within the labour movement, this ideological paradigm shift has become even more important, as the organisation of young workers cannot automatically draw on the collec-
tive identities and norms of solidarity that otherwise served as the basis for the development of the Nordic social models. Obviously, this does not mean that all young people are individualists or ‘neoliberals’, but it does mean that the frame of reference for younger workers is completely different from what it was in the past. This has contributed to the development of a generation gap and even alienation between the labour movement and its potential future members (Ibsen et al. 2011). The question then becomes whether the crisis, which has struck an entire generation of European young people, has provided experiences that can put wind back in the sails of the labour movement to overcome the gap dividing young workers and the trade unions.

Economically, the period since the fall of the Berlin Wall has been characterised by an ever stronger internationalisation of markets, particularly within the EU/EEA, which has challenged bargaining systems. At the same time as digital technology has enabled the separation of time and place in the value creation process, the integration of product, service and capital markets has provided greater leeway for more opportunistic employers to circumvent national bargaining systems and regulations. While the Nordic social contract aims at dealing with the so-called ‘creative destruction’ of companies and jobs (Schumpeter 1942) triggered by market integration, the increased mobility and competition over investments and jobs has changed the balance of power between wage earners, on one hand, and employers and investors, on the other. More than ever before, international ‘regime competition’ means that domestic workers and authorities must vie to make themselves ‘desirable’ to companies and, not least, investors. The more extensive labour and service mobility means that this ‘regime competition’ no longer takes place only between countries and regions, but also in more sectors and within individual workplaces. The difficulties involved in attempts to curb the ill effects of this development are exacerbated by the general crisis of European trade unions and the shifts in the political balance of power in the EU in this period.

Politically, the shifts in relations between the national and supranational levels – especially the tensions between the EU’s free movement regime and national labour market regulations – have reduced the room for manoeuvre for national authorities and bargaining actors. In some areas, the EU – via social dialogue – has helped to strengthen workers’ rights, also in the Nordic countries, but by expanding and integrating the labour markets and setting limits for national regulation via directives and court rulings, national regulation and bargaining systems have also been put under pressure. The expansion of the EU towards the south and east – and since then the euro crisis – has expanded the supply of migrant labour, who often receive lower wages and have to accept working conditions inferior to those enjoyed by workers in the host countries, particularly in the sectors already marked by low wages. This intensifies the struggle for jobs in Europe. For the countries that are part of the euro zone, which have ceded monetary policy tools, national instruments for tackling macroeconomic shocks and combating unemployment have been reduced. The ability to adapt with respect to pay and labour costs – so-called ‘internal devaluation’ – and fiscal policies has therefore attained greater significance, at the same time as the latter has become more constrained.
All this has also affected national political agendas. Parallel to the adaptation of the international low-inflation regime, the ageing population and demands by politicians to get more out of public budgets have made the public service sector the subject of an ‘eternal reform process’ shaped by New Public Management. Combined with increased outsourcing and privatisation, this has not just put pressure on many public sector trade unions, it has also created tension between public and private sector unions and between organisations representing lower and higher qualified people in the struggle over public sector pay setting (Ibsen et al. 2011; Mailand 2013). All of this has occurred thus far without the welfare state or bargaining systems being put at risk, but the major changes have undoubtedly disturbed the balance in the ‘social contract’. For the social partners, and especially the confederations of unions and employer associations, whose key function has been to foster coordination between such opposing forces and considerations, it has in many ways become more difficult to ensure agreement between affiliates on objectives and priorities. This is not just in relation to the respective adversaries but also between member organisations and individual members.

The question then becomes what are the prospects for the social partners’ being able to work together to find ways of dealing with these societal changes in the years to come – and what must happen to enable bargaining systems to remain part of the solution instead of coming to be regarded as part of the problem, as individual employers and some political parties would lead us to believe?

Challenges ahead: change so things can stay the same?

We have shown how the actors in the Nordic models had the political will to work together to take strategic action in order to adapt collective bargaining systems to the political and economic challenges of the deep crises of the 1980s and 1990s. With the advent of the threat that the models may fall apart, key players took the lead to renew bargaining systems and resurrect their coordination capabilities in order to strengthen basic functions and outcomes (Dølvik, Goul Andersen and Vartiainen 2014). This did not occur in the bargaining systems alone, however, but via a broad range of measures that included changes in monetary and fiscal policies, taxation, pension systems, labour market and welfare policies. Altogether, these measures helped to strengthen the balance and interplay between the pillars of the Nordic models. This contributed to a remarkable recovery of competitiveness and employment, and with them balances in public budgets through the 1990s.

These changes came about in different ways in the Nordic countries. Common to them all, however, is that the changes would hardly have been possible without the close involvement of the social partners or relatively balanced power relations between them. Obviously, the employer confederations in Sweden and Finland initially wanted to make over the bargaining system completely, but against the strong local and central trade unions in these two countries especially manufacturing employers quickly realised that a radical
decentralisation of bargaining, as seen in the United Kingdom, would not be in their own interests. Consequently, the social partners found new and more flexible ways of coordinating bargaining and ensuring competitive wage increases. This stands in sharp contrast to the crisis management in recent years in the hardest hit euro countries, where governments under the administration of the so-called Troika (ECB, European Commission and IMF) have been prescribed austerity and fundamental reforms of their social models. The Nordic revival in the 1990s clearly illustrates what is at the core of the Nordic models: a system of institutionalised relations that have created trust, routines and mechanisms for coordination between these parties and the political authorities. As such, the core is a method for taking decisions that have proved effective in solving problems via negotiated adaptations. The social partners and bargaining systems in the Nordic countries thus emerged from the crises of the 1980s and 1990s with increased membership, together with strengthened political and societal legitimacy. This report has emphasised how, in the course of boom and bust during the past decade, new tensions have developed in the Nordic models for which bargaining system actors have not been able to find effective, common solutions. Some of these tensions have been magnified by the economic crisis.

The challenges can be summed up as follows:

- Decreasing membership of the trade union movement in general and of the LO organisations in particular.
- Increased gaps both in the top and bottom of the income structure as a result of the white-collar workers in the private sector often receiving higher bonuses and supplements than their colleagues in the public sector at the same time as employees in parts of private services with limited skill requirements fall further behind.
- Increasing internationalisation and market integration are contributing to intensify competition, in both product and labour markets, most recently in domestic market sectors.
- Increased supply of employees and service providers capable of offering prices, wages and working conditions below national standards and the conditions that apply in collective agreement-covered companies.
- Increased unemployment levels after the financial crisis have reinforced competition for jobs and wages across borders, especially in trades and sectors with low skill requirements.
- Combined with the EU rules on free movement of labour and services, these changes make it easier for employers to transfer parts of production outside the scope of bargaining systems.
- Despite stable employer organisations, in some private branches it would appear that growing discrepancies are developing between the reach of collective agreements and the scope of the market.
- Even though domestic collective bargaining has yet to change significantly, declining union membership, increased outsourcing and the spread of bogus companies (that operate outside legal and collective bargaining systems) entails an increased risk of erosion of the ‘wage floor’ in vulnerable branches.
When examining these trends and taking into account that they are mutually reinforcing, there is good reason to assume that the bargaining system in a number of branches will come under increased pressure in the years to come. Even though comparative studies show that the Nordic economies are performing well by international comparison and that the coordinated bargaining systems contribute significantly to this by encouraging productivity improvements in companies, this is no guarantee that individual companies will continue to have an interest in collective agreements. The aforementioned trends have not merely changed the competitive situation of many companies, but have also opened up a number of new opportunities for companies to adopt new workforce strategies. If their competitors can win orders and market share by operating outside collective agreements and using subcontractors or labour with far lower costs, the pressure to do the same will increase.

Thus, the Nordic trade unions cannot rely on the employer’s side coming to their aid in efforts to maintain the Nordic bargaining systems. Even though the experiences from other countries indicate that it is possible to maintain coordinated national bargaining even with only modest organisation of wage earners – as is the case in the Netherlands and Austria – without a sufficient membership base and elected representatives, who can demand collective agreements and negotiate in companies, there will be an increased risk that the content of bargaining and the cooperation between the social partners gradually becomes hollowed out and loses relevance.

In a number of sectors with high labour mobility across borders, we have therefore seen that the ‘wage floor’ otherwise established via collective agreements, is withering. Typical examples of this are construction, transport, cleaning and hotels and restaurants. In these sectors, this can create the basis for the growth of secondary labour markets and an increased fragmentation of wages and working conditions, which in turn has an effect on the competitive conditions between the companies bound by collective agreements, unorganised companies and bogus firms operating in the grey zones of the labour market.

The growth in service mobility and labour migration to the Nordic region since 2004 can justifiably be regarded as a ‘supply shock’ in the Nordic labour markets. The labour supply has increased considerably, particularly in branches with low skill requirements. This in itself has disturbed the balance of power between employees and employers. The consequences that this shock, combined with the developments outlined above, will have over time for the labour market and collective agreement institutions – and for the distribution of pay – depends on which strategies the social partners and authorities choose to adopt. In Denmark and Sweden, until now, the trade unions have reached collective agreements on behalf of many foreign workers. In the mobile service trades, this has proven difficult. Finland, Norway and Iceland have relied on various statutory-law mechanisms to generalise minimum wages and other conditions in collective agreements. This extends the reach of agreements, while at the same time establishing a legal basis for government agencies to assume responsibility for the monitoring and enforcement
of wage conditions. In Denmark and Sweden and in important sectors in Norway, the employers’ side and parts of the trade union movement are sceptical about deploying such mechanisms. In Sweden, Norway and lately Finland many employers want a statutory minimum wage as an alternative to collective agreement regulation and extended collective agreements, while the employers and considerable parts of the trade union movement in Denmark fear that legislation via extended agreements or a statutory minimum wage will lead to a slippery slope, on which the partners’ bargaining autonomy is undermined and more parts of the labour market regulation are transferred from regulation by agreement to regulation by legislation. A number of employers also believe that such a statutory wage floor will deprive them of the opportunity to ‘compensate’ for high Nordic labour costs by recruiting cheap foreign labour. The trade unions in Denmark and Sweden in particular, referring to the continental experience, are worried that generalised collective agreements may undermine interest in joining unions. However, there is no evidence that these mechanisms have undermined unionisation in Finland or the sectors in question in Norway. On the contrary, the construction trade unions in Oslo argue that extension mechanisms have given them new opportunities to contact, support and organise, for example, eastern European construction workers (Eldring and Hansen 2009).

From a trade union perspective, declining membership figures represent the most fundamental challenge. This is particularly the case for the LO organisations and those parts of the labour market in which the workers are most exposed. Changes to the employment structure have weakened the traditional trade unions, and the politically motivated institutional changes to the unemployment insurance funds have also had significant consequences. In some of the Nordic countries, politicians have expressed a lack of understanding of how collective bargaining systems work.

Even more difficult will be to reverse declining support for unions among younger workers, which now also appears to be spreading to people aged 30–44. This holds especially true for those with lower qualifications, which has led Danish researchers to claim that the trade union movement is in danger of becoming a ‘middle class movement’ (Ibsen et al. 2011). Demographic changes in the labour force, from which large groups of people aged 50 and over, characterised by high union membership, will retire as we approach 2030 and must be replaced by younger groups, work in the same direction. The latter, as we have seen, appear to be less inclined to look to trade unions for help and thus these tendencies may become much stronger in the decades to come. The big question is therefore to what degree the low rate of unionisation among young people will change when they establish themselves, with permanent jobs, housing and families; and also to what degree changes in trade union recruitment strategies and experiences arising from the current crisis will promote union revitalisation by interesting more people in the protection that unions can provide in a more volatile labour market. Developments among the well-educated in the Nordic countries, who continue to have a high degree of unionisation, indicate that it is not necessarily generational shifts in people’s opinions about unions that are the problem, but the fact that it is much
more difficult for trade unions to get in contact with many of those working in the growing labour market sector of low-paying service jobs, characterised by many small, unstable enterprises and short-term positions with atypical employment conditions.

In addition to mitigating the loss of members, another major challenge is maintaining the interest of the employers in remaining counterparts in the bargaining system within a market in which their exit opportunities have increased. This represents a strategic choice for unions, often characterised in terms of conflict versus partnership. Proponents of the former argue that the trade union movement ought to mobilise union power resources in a more offensive, conflict-oriented strategy and apply more pressure on unorganised employers to organise themselves and/or sign a collective agreement. But it is not entirely evident that this will produce the expected results in the form of more collective agreements. For proponents of the latter, partnership approach, the response is to make the trade union movement more ‘desirable’ to employers by accommodating the latter’s concerns about higher labour costs and arrangements that make it more difficult to arrive at flexible solutions. Such steps might make more wage earners feel more at home as trade union members, and some employers may have more faith that the Nordic cooperative model can continue to pay off.

However, this report has emphasised how the strength of the labour movement in the Nordic region has always been based on its ability to combine conflict and cooperation, the mobilisation of power and responsibility. The good compromises – that motivate the further development of the partnership, reward both sides and grant consideration to the broader societal interests – demand both power and flexibility. In contrast to what is often seen in weak union organisations, which attempt to compensate for weakness with either militant strategies or unlimited permissiveness, the Nordic system has been marked by social partners’ acknowledging and respecting their counterpart’s strength and legitimate interests. In future, it will undoubtedly become more important for the trade union movement in the Nordic countries to clarify the ‘collective agreement goods’ that they deliver to their counterpart in order to increase awareness of the ongoing mutual rewards produced by the collective bargaining system: labour peace, the solution of collective action problems tied to reasonable wage development, negotiated flexibility, pensions and financing education and other social investments, as outlined in the report.

What the challenges we have outlined will mean for trade unions in the future is by no means certain. However, without a sufficient number of members and union representatives, and without solid representation in all the important sectors of the economy, the bargaining power of the unions, their capacity to ensure coordinated, even wage development and to be a constructive conflict partner in the development of workplaces will at some point evaporate.

Where exactly this point lies is difficult to determine, but for now it remains distant. However, the situation can change more quickly than people think,
as was the case in the United Kingdom in the 1980s and in Germany in the 1990s. Trade unions that generally only negotiate on behalf of a shrinking insider group in manufacturing and the public sector will find it difficult to counteract labour market segmentation, as can be seen in most other European countries. The losers in such a scenario will be, the first time around, the weakest and most vulnerable groups in the labour market; but subsequently there will also be a serious contagious effect on the rest of the labour market. In selecting strategies for the future, therefore, the trade unions must address their recruitment challenges seriously, particularly where the union membership decline has been greatest. This will put internal solidarity to the test, because the prioritisation of resources required to reverse the trend will also impose demands on unions currently least affected by the problems.

In that sense, the current situation is reminiscent of the one that faced the social partners when the bargaining systems were established over a century ago. At that time, stark conflicts and power struggles were necessary before appropriate forms of regulation could be found that were capable of balancing the needs to regulate competition in both product and labour markets. Both markets have now become virtually borderless and the EU sets limits on what measures the social partners and labour market authorities can use to resolve the arising conflicts of interest. Therefore, the social partners face a far more demanding challenge than in preceding decades. They must find solutions capable of addressing not only the parties’ particular interests but also their common interest in maintaining the main functions – or collective goods – that the bargaining system produces for society as a whole. There is ample reason to believe that such a reconstruction – which must also be compatible with the framework laid down by the EU system – will be difficult to create without the state as third party assuming a constructive, facilitating role. It takes two to tango, but as a rule, it also takes a good bandleader.
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All web links were checked on 4 August 2014.
Appendix

NordMod2030 – publications and reference group

The project’s URL is http://www.fafo.no/nordmod2030/index.html

The reference group

**Norway**: Stein Reegård (LO) and Solveig Torsvik (AP).
**Sweden**: Lasse Thörn (LO) and Morgan Johansson (Socialdemokraterna).
**Denmark**: Jan Kæraa Rasmussen (LO) og Kasper Graa Wulff (Socialdemokraterne).
**Finland**: Tapio Bergholm (SAK) and Mikko Majander (Sorsa Foundation).
**Iceland**: Margrét S. Björnsdóttir (Samfylkingin) and Halldor Gröndvold (ASI).
**FEPS**: Signe Hansen.

NordMod 2030 – the core research group

**Denmark**: Lisbeth Pedersen (Research Director, SFI – The Danish National Centre for Social Research), Søren-Kaj Andersen (Head of Centre, FAOS, Copenhagen University) and Christian Lyhne Ibsen (researcher, PhD, FAOS).
**Finland**: Olli Kangas (Professor, Director, Kela – The Social Insurance Institution of Finland) and Antti Saloniemi (Professor, University of Tampere).
**Iceland**: Katrín Ölafsdóttir (Assistant Professor, Reykjavik University) and Stefán Ólafsson (Professor, University of Iceland).
**Norway**: Jon M. Hippe (Managing Director, Fafo), Tone Fløtten (Managing Director, Fafo Institute for Labour and Social Research), Jon Erik Dølvik (Senior Researcher, Fafo), Øyvind M. Berge (Researcher, Fafo).
**Sweden**: Ingrid Esser (Assistant Professor, SOFI, Stockholm University) and Thomas Berglund (Assistant Professor, University of Gothenburg).
Publications from the NordMod-2030-project (www.fafo.no/nordmod2030, including English summaries)

**Baseline studies**
- Richard B. Freeman (2013) Little engines that could: Can the Nordic economies maintain their renewed success?

**Country studies**

**Comparative thematic reports**
- Anne Britt Djuve and Anne Skevik Grødem (eds 2014) Innvandring og arbeidsmarkedsintegrering i Norden.
- Jan Fagerberg and Morten Fosaas (2014) Innovation and innovation policy in the Nordic region.
- Juhana Vartiainen (2014) To create and share – the remarkable success and contested future of the Nordic Social-Democratic Model.

**Working papers**