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Finland: Decentralisation tendencies within a collective wage bargaining system

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No. 1077

Rita Asplund

FINLAND: DECENTRALISATION TENDENCIES WITHIN A COLLECTIVE WAGE BARGAINING SYSTEM

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ABSTRACT: This paper provides a brief overview of the Finnish wage bargaining system and its evolution over the past decades into its current mode by drawing on existing documents, reports and analyses. The emphasis is on the changes having occurred in the system's overall structure as well as in its main content. Finally attempts are made, by use of the existing empirical evidence, to contrast these changes against the development of wages and the unionisation rate. The paper concludes with a brief discussion of future challenges as expressed in recent studies of the Finnish wage bargaining system.

Key words: collective agreement, Finland, wage bargaining

JEL code: J52

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TIIVISTELMÄ: Tämä kirjoitus tarjoaa lähinnä ei-suomalaisille lukijoille tarkoitetun lyhyen katsauksen suomalaiseen palkkaneuvottelujärjestelmään ja sen kehitykseen 1960-luvun lopulta nykypäivään asti. Pääpaino on sopimusjärjestelmän rakenteessa ja sen sisällössä tapahtuneissa merkittävimmissä muutoksissa kuten niitä on kuvattu enimmäkseen suomenkielisissä asiakirjoissa ja raporteissa. Katsauksessa pyritään niin ikään arvioimaan näiden muutoksien mahdollista heijastumista yhtäältä palkkojen ja toisaalta järjestäytymisasteen kehitykseen nojautuen olemassa olevaan, tosin yllättävän vähäiseen ja osittain myös eriäviä mielipiteitä herättävään empiiriseen tutkimustietoon. Lopuksi esitetään tiivistäen viimeaikaisissa suomalaista sopimusjärjestelmää käsittelevissä tutkimuksissa esille tuotuja ajatuksia sopimusjärjestelmän lähitulevaisuuden haasteista.

Katsausta on erinäisistä syistä rajattu "perinteisen" palkkaneuvottelujärjestelmän eli työntekijöitä ja osittain myös alempia toimihenkilöitä koskevan sopimusjärjestelmän kuvaamiseen. Vaikka tämän sopimusjärjestelmän piiriin kuuluvat myös julkinen sektori ja seurakunnat, näitä koskevia yksityiskohtaisempia erikoispiirteitä ei ole katsauksessa käsitelty. Myöskään yksityistä sektoria ei ole katettu kokonaisuudessaan. Katsauksen ulkopuolelle on rajattu ylemmät toimihenkilöt, joille on perinteisesti maksettu henkilökohtainen, työnantajan ja henkilön sopima palkka. Toisaalta kasvava osa heistä saa nykyisin myös palkankorotuksen, joka määräytyy työehtosopimuksen tai palkkapöytäkirjan mukaan. Lähes kokonaan katsauksen ulkopuolelle jäävät myös palkka- ja palkkausjärjestelmät siitä huolimatta, että työehtosopimuksien piiriin kuuluvia palkkajärjestelmiä on varsinkin 1990-luvulla muutettu ja kehitetty ja että erilaisten palkkausjärjestelmien suosio on kasvanut melkoisesti viimeisten kymmenen vuoden aikana. Tärkein syy tälle rajaukselle on olemassa olevan kirjallisuuden vähäisyys.

Asiasanat: työehtosopimus, neuvottelujärjestelmä, Suomi

JEL koodi: J52

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1. Introduction

A key feature of the Finnish wage bargaining system is extensive co-operation – on an informal basis – between comprehensively organised social partners and the government on matters related not only to wages and working life but commonly also to social and tax policies. Hence, the Finnish labour market is to a large extent regulated through general collective agreements instead of parliamentary legislation. In an international context, Finland is, as a consequence, typically classified to represent a corporatist political and economic system, as well as to pursue centralised wage-setting policies. While the former classification may be argued to be reasonably close to the truth[1], the latter easily fuels a misleading interpretation of the Finnish system. More precisely, a dominant feature of a centralised wage-setting system is that wages are set at a national level. This is ***not*** the case in Finland, as the legally enforceable basis of employment contracts lies in collective agreements settled at the sectoral (branch) level. It is rather the strong element of incomes policy thinking that explains Finland's status in international comparisons of cross-country differences in labour market institutions.

The Finnish tradition of comprehensive co-operation between organised agents and the government has deep historical roots extending back to the 1930s.[2] Important milestones were the employers' acknowledgement of the trade unions as negotiating parties in 1940, and the incomes settlement system agreed upon in the collective agreements of 1944 and 1946. Indeed, the central principles of collective bargaining stipulated in the 1946 collective agreement and recorded in the Collective Agreement Act (436/1946) are still valid in broad outline. The two most important functions of collective agreements are stated to be: first, to guarantee employees minimum-level terms of employment and benefits, and second, to maintain industrial peace.[3]

The prevailing system of collective bargaining started to take shape already in the 1950s, which has been recognised as "a period in which wages as well as prices were to a considerable extent regulated within a system of political bargaining" (Vartiainen, 1998, p. 10). Indeed, the state actively encouraged broad-based wage agreements inducing moderate pay increases and, simultaneously, regulated the prices of basic agricultural products.[4]

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[1] See e.g. Vartiainen (1998), Ebbinghaus (2000), Ministry of Labour (2003) and Kauppinen (2005).

[2] For details, see e.g. Vartiainen (1998).

[3] The legal framework is complemented by general agreements in the private sector and advisory agreements in the public sector concluded between the central labour market organisations. The purpose of these agreements, which can be characterised as a kind of intermediate form between statute law and collective agreements, is to create consistent procedures for handling general questions regarding working life at workplaces. They are valid until further notice. For more details, see e.g. Ministry of Labour (2003).

[4] A detailed outline is provided in Pekkarinen and Vartiainen (2001).

The 1960s saw a rapidly increasing unionisation rate and the acceptance of trade union organisations as a party of the evolving structure. The unionisation rate practically doubled in the 1960s – from below 40 per cent to almost 80 per cent – due to workers being actively promoted by state authorities to join unions. An important measure in support of this policy was the introduction of tax relief on union membership fees in 1967.[5] The first comprehensive collective agreement adopting explicitly the principles of national incomes policies was signed in 1968, and comprehensive collective bargaining – more or less actively supported by the government – has been the norm ever since. Municipalities and the state joined the system in 1970 and parishes in 1975.[6] Although being an important employer, the public sector has generally assumed the follower's rather than the leader's role in the wage bargaining rounds.[7]

This paper provides a brief overview of the Finnish wage bargaining system and its evolution over the past decades into its current mode by drawing – possibly too uncritically – on existing documents, reports and analyses. The emphasis is on the changes having occurred in the system's overall structure as well as in its main content. Finally attempts are made to contrast these changes against the development of wages and the unionisation rate by use of the still scant and, as it seems, occasionally rather criticised empirical evidence that has been produced over the past few years. The paper concludes with a brief discussion of future challenges as expressed in recent studies of the Finnish wage bargaining system.

The review is by no means exhaustive in the sense that it would deal with all employee categories and all dimensions of the wage-setting process. Instead it is heavily focused on the collective wage bargaining system still covering the major part of the Finnish workforce. While the outline predominantly refers to the private sector, the general framework applies also to the public sector, albeit the two sectors do differ in several respects when it comes to details, a fact that is only occasionally alluded to in the text.[8] Additionally, one specific employee category of the private sector is entirely overlooked, *viz.* the growing category of upper-level white-collar workers.[9] Another increasingly im-

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[5] Vartiainen (1998) points to both political and economic reasons for this positive attitude to trade union organisations. He argues that: "In economic terms, it was seen as a means of controlling wage inflation and distributive shares and of minimizing industrial disputes." (p. 10)

[6] For a brief presentation of the central labour market organisations in Finland, see e.g. Ministry of Labour (2003). This brochure also provides concise information on the special features of public-sector collective bargaining contracts and agreements, which are mostly overlooked in the more private-sector-focused outline of the Finnish bargaining system and its evolution over time given in this paper.

[7] See e.g Vartiainen (1998) and Marjanen (2002).

[8] The changing bargaining system in the public sector is analysed by *e.g.* Kauppinen (2005).

[9] The salaries of upper-level white-collar workers are traditionally set on an individual basis by the company. In addition to such individualised pay increases, upper-level white-collars not covered by collective agreements have in more recent years been guaranteed general pay increases that are written into a so-called ***pay record*** (palkkapöytäkirja) and that, by and large, follow the across-the-board increases concluded in the effective nation-wide collective agreement. The Confederation of Finnish

portant issue merely touched upon concerns the pay systems in use, despite the fact that those regulated in collective agreements have in the 1990s been fundamentally amended, and those left outside collective agreements, such as performance-related pay and profit-sharing schemes, have been increasingly brought into play especially in certain industries.[10]

2. Overall structure of the wage bargaining system[11]

Comprehensive collective settlements can be negotiated between the central confederations of employers and employees. These settlements may also involve the government, mainly as a broker or mediator, which has generally been the case since 1968 when the first ***national incomes policy agreement*** came into force. The concluded tripartite incomes policy agreements typically last from one to two years, with the agreement presently in force extending exceptionally over three years (2005 to 2007). They cover not only wages, but also aim to secure improvements in working life and the social security system through measures concerning gender equality, benefits and contributions to social welfare and pension schemes[12], taxation, and principles of good practice in the labour market. Indeed, much of the system of basic social welfare end employment-related benefits derives from these national incomes policy agreements, which gives an indication of their considerable influence on the Finnish economy and society. In recent years, particular efforts have been made to reduce unemployment and to keep inflation low.

If the labour market confederations, mostly with but eventually also without the support of the government, have managed to reach agreement on a ***comprehensive collective settlement***, the next step is to submit the settlement to their member associations for approval before the agreement is signed. Individual employer and employee associations then negotiate collective agreements for each branch of the private and public sectors, so-called ***sectoral agreements***. The general principles laid down in the comprehensive collective agreement – or the national incomes policy agreement, if the government is involved – regarding wage increases and other working life reforms serve as guidelines in these sector-level negotiations, unless the employee association (trade un-

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Industries (EK) estimates that around 70 per cent of the upper-level white-collars employed in its member companies are covered either by the pay record or by a collective agreement.

[10] One major reason for leaving out an in-depth description and discussion of the various pay systems is that there is hardly any readily available whole-economy information to resort to.

[11] The text of this sub-section has benefited from the following general outlines of the Finnish wage bargaining system: Vartiainen (1998, pp. 19–25), SAK, STTK and AKAVA (2001), Pekkarinen and Alho (2005, pp. 63–65), Sauramo (2005) and Uusitalo and Vartiainen (2005, pp. 4–7).

[12] For instance, the fundamental reform in 2001–2002 of the Finnish private-sector earnings-related pension system was the outcome of negotiations between the central confederations of employers and employees and representatives of the government. For an outline of the reform and its estimated effects, see Lassila (2005).

ion) decides – for some reason or the other – to opt out of this economy-wide agreement.[13] If, on the other hand, the labour market confederations fail to negotiate a comprehensive collective agreement, the employer and employee associations negotiate separately in order to formulate a collective agreement for their own sector. But even then there is generally at least some degree of co-ordination across sectoral agreements as those reached by larger associations tend to be used as benchmarks by the other associations.[14] In any case, irrespective of whether preceded or not by co-ordinating negotiations at the confederation (comprehensive, national) level, the terms of employment stipulated in ***these sectoral agreements set the legally enforceable minimum standards for the respective branch and its companies***. This also includes minimum wages in the form of pay (tariff) scales graded according to job-complexity and skill levels, occasionally also by age, as there is no minimum wage legislation in Finland.

A sectoral agreement is binding for all employers belonging to the signatory association (so-called normal applicability). If about half of the employees in the sector in question work for these organised employers, then the collective agreement has been seen to be universally binding; that is, to apply also to those employers who are not members of the association (unorganised employers). The status of the collective agreement for the road haulage sector remained largely unclear, though. The new Employment Contracts Act (55/2001) that came into force in June 2001 ended this inflexible rule by explicitly stipulating that a collective agreement with general validity is binding on all employers, not just on employers that are members of the signatory employers' organisations, and by providing a more precise definition of "representativeness". A special commission examines the issue of "general validity" and confirms that the agreement for the road haulage sector is generally applicable if it can be considered to be representative of the sector in question (so-called *erga omnes* applicability).[15] Due to this legally imposed extension, the actual coverage of collective agreements amounts to some 95 per cent of the employed labour force.

After negotiations have been completed at the confederation and the sectoral level, a final step involves local negotiations – to the extent this is allowed in the collective agreement concluded for the sector – to meet particular needs of companies, public au-

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[13] Snellman (2005) investigates the bargained wages of non-participating sectors and finds that their opt-out has rendered them somewhat higher wage increases, which the participating sectors' employees have, however, generally been compensated for – at least to some extent – in the form of higher wage drift.

[14] This also offers one explanation for the differences across sectors in wage bargaining outcomes having been strikingly similar irrespective of whether or not the sectoral agreements have been preceded by co-ordination actions at the whole-economy level. See Eriksson *et al.* (1990), Marjanen (2002), Snellman (2005) and Uusitalo (2005).

[15] The Commission's work is regulated in the Act on Confirmation of the General Applicability of Collective Agreements (56/2001). Also see e.g. the EIRO web site at
http://www.eiro.eurofound.eu.int/2002/12/inbrief /fi0212109n.html and
http://www.eiro.eurofound.eu.int/2002/12/study/index.html.

thorities and institutions. More precisely, the sectoral agreements may transfer some issues to be negotiated at the local level, a procedure that has gained ground in recent years (see Section 3.2 below). Notwithstanding the fact that the local implementation of the sectoral agreement still takes place quite mechanically, they have been made increasingly open also to ***company-level agreements*** concerning terms of employment. This increased flexibility has been used especially when it comes to working hours, but increasingly also in relation to remuneration systems. There is, however, sector-specific variation also in this respect depending on the extent of local negotiations agreed upon in the sectoral settlement and the success of these negotiations, in which the employees and their trade union are represented by a shop steward. So far only a limited number of company-level agreements have been concluded; terms of employment are still typically concluded at the sectoral level.

The three-stage system outlined above represents a new, more flexible model of collective bargaining, the development of which started in the first half of the 1990s.[16] The tendency of comprehensive collective bargaining giving way to more localised bargaining intensified in the mid-90s when an increasing number of issues in sectoral agreements were made negotiable at a local level. Important aspects contributing to this development were a high unemployment rate in combination with a positive attitude towards local bargaining in workplaces. Gradually this resulted in the present system, where the implementation of sectoral agreements is actually agreed upon at the local level in accordance with the special needs of each workplace, but within the limits predefined by national and sectoral bargaining, as well as legislation.

This "decentralisation" of decision-making within the collective wage bargaining frame, however, should not be mixed up with the fact that a company can always agree with an individual employee on any individual employment or pay arrangements they wish, provided that the stipulations in collective agreements and law are met. Hence, the company is free to agree on effective wage levels and wage increases over and above the wage floors and general pay increases stipulated in the sectoral agreement. Local parties can in principle also deviate downward from the sector's agreed across-the-board increase or even undertake pay cuts provided that both parties accept such a deviation (Uusitalo and Vartiainen, 2005).[17]

After a collective agreement has been reached and concluded for a branch, the employer and employee associations are to supervise compliance with the agreement. Moreover, an ***industrial peace obligation*** applies while a collective agreement is in force, during

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[16] For a brief background outline, see e.g. the EIRO web site at http://www.eiro.eurofound.eu.int/1997/08/inbrief/FI9708127N.html

[17] These options have been used only exceptionally, though, one illustrative example being the deep recession years in the early 1990s.

which period it is illegal to organise strikes in an attempt to change the content of the agreement. If a collective agreement expires and no new agreement has been made, then employees are entitled to go on strike and employers may declare a lockout. However, the Ministry of Labour can have the strike delayed by up to two weeks if the damage it will cause is unreasonable or it threatens functions vital to the society. Political strikes are likewise possible and legal, as are sympathy strikes. These are also subject to pre-notification, though.

Apart from 2005, there have been rather few strikes in Finland since the mid-90s (Figure 1). Also compared to other European countries, industrial action stands out as rather moderate in number, with dispute activity often following the course of the bargaining cycle.[18] The sectors most strongly affected by industrial action and the major reasons for industrial action reflect the key features of the overall structure of the Finnish economy and its labour market institutions. More precisely, since the turn of the millennium industrial action has been heavily concentrated on the paper industry, forestry and the metalworking industry (nowadays the technology industry) with the leading dispute issues being related to collective bargaining. But with these industries representing major pillars of the Finnish economy, both the number of workers involved in the industrial action and the working days lost easily become substantial, as do also the economic losses and societal consequences of their action.

The ***National Conciliator's office*** is a public authority, subordinate to the Ministry of Labour, with the duty of promoting industrial peace (see e.g. Ministry of Labour, 2006). A state conciliator, appointed by the President for four years at a time, and six part-time regional conciliators facilitate the negotiation partners in reaching collective agreements. It is the conciliator's task to find a solution that avoids a labour dispute. Should no agreement be reached, a strike notice may follow. Then the conciliator strives for an amenable solution that would prevent the strike – or failing that, to end the strike as soon as possible.

The ***Labour Court***, established in 1947, concentrates on disputes regarding collective agreements, and those only. Agreements between an individual employer and employee – that is, contracts of employment – are outside its bailiwick. Annually, some 70 to 90 cases are settled by the Labour Court, typically involving either different interpretations or breaches of collective agreements. It has the right to levy fines (of a limited size) for a breach of the collective agreement.

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[18] See e.g. the EIRO web site at http://www.eiro.eurofound.eu.int/2005/06/update/tn0506101u.html

Figure 1. Industrial action, 1985–2006/II

Source: Statistics Finland at http://www.stat.fi/til/tta/2006/02/tta_2006_02_2006-10-19_tau_001.html. *Cf.* also the graph on the number of labour disputes and working days lost 1980–2005 in EK's member companies, available at http://www.ek.fi/ek_englanti/about_us/latest_figures_in_labour_market.php

3. Content of the collective agreements

The three-stage system outlined in the previous section has in several respects undergone notable changes not only when it comes to its content in general but also in relation to the matters negotiated at the different levels. While already touched upon, this section presents more details on this issue, relying thereby heavily on the excellent overview by Marjanen (2002) on the content and realisation of wage settlements in the incomes policy era 1969 to 2002. Marjanen divides this era into three economic periods, arguing that the specific features of each period have had a clear-cut influence on the evolution of the wage-setting system in use: 1969 to 1980 representing a period of emerging incomes policy thinking and high inflation; 1981 to 1991 standing for a period of economic stability; and 1992 to 2002 covering the economic depression and the recovery from it.

3.1 General outline of the collective agreements

As already noted, the first national incomes policy agreement dates back to 1968 in the sense that this was the first time that the labour market confederations, supported by the government, agreed to pursue a wage policy that also accounts for the whole-economy

effects of the wage agreement, thus representing the start of an era of "explicit" incomes-policy thinking. More precisely, the goal of this was to adjust the agreed pay increases to the growth in labour productivity in order to secure a stable price and cost level. In line with the adoption of these new principles, several conspicuous features of previous wage agreements were abandoned. Most important, the agreement included an explicit clause forbidding index and similar linkages, which had the immediate consequence of nullifying the agreement in force linking wages to the price index. Accordingly the tradition of formal wage-to-wage-linkages was forbidden as well. As will become evident below, this new thinking was soon modified and, finally, the wage-price-index-linkage re-entered the scene.

The first national incomes policy agreement as well as its successor lasted one year (Table 1). Both also achieved an extremely high (almost 100%) level of coverage and were characterised by a high degree of adherence.[19] National incomes policy agreements covering almost the whole labour market have also characterised the 1990s – except for the first one (the Kallio agreement for 1990 and 1991), a trend that seems to have carried over to the new millennium (*cf.* Uusitalo, 2005). The adherence of these 1990s agreements, however, has generally been lower compared to those very first national incomes policy agreements concluded in 1960/1970 but much higher compared to those concluded in the 1970s and 1980s (*cf.* Alho, 2003). Hence, coverage and adherence seem to go hand-in-hand. We return to the adherence aspect in Section 4.

Table 1 also reveals that the number of wage settlements negotiated solely at the sectoral level is restricted to seven, and all of them have been signed for one year only. Usually, the main reason for the failure to reach a comprehensive collective agreement has been the withdrawal from the negotiations of some important sector.

Table 1. Characteristics of the wage agreements concluded since 1969

Year	Name of agreement	Level of first-round agreement	Duration of agreement	Coverage of agreement	Adherence of agreement
1969	Liinamaa I	comprehensive	one-year	good	good
1970	Liinamaa II	comprehensive	one-year	good	good
1971	UKK agreement	comprehensive	one-year (15 months)	weak	weak
1972	Hämäläinen–Laatunen agreement	comprehensive	one-year	satisfactory	satisfactory
1973	Branch-specific	sectoral*			
1974	Lindblom	comprehensive	two-year; 1st phase	satisfactory	satisfactory
1975			2nd phase (10 months)	satisfactory	satisfactory

[19] ***Coverage*** measures the ratio of employees under any collective agreement (including those covered due to the extension stipulated by the general validity rule) to the total number of employees. ***Adherence*** refers to the degree to which the partners of the agreement have adhered to the wage increases outlined in the comprehensive collective agreement.

1976	Miettunen's mediation	comprehensive	one-year	weak	weak
1977	Liinamaa's recommen-dation	comprehensive	two-years; 1st phase	satisfactory	satisfactory
1978			2nd phase	satisfactory	satisfactory
1979	Somero–Oivio agree-ment	comprehensive	one year (13 months)	satisfactory	satisfactory
1980	Branch-specific	sectoral*			
1981	Pekkanen I	comprehensive	two-year; 1st phase	satisfactory	good
1982			2nd phase	satisfactory	good
1983	Branch-specific	sectoral*			
1984	Pekkanen II	comprehensive	two-year; 1st phase	good	good
1985			2nd phase	good	good
1986	VHS agreement	comprehensive	two-year; 1st year	good	good
1987			2nd year	good	good
1988	Branch-specific	sectoral*			
1989	Kallio I	comprehensive	one-year	weak	weak
1990	Kallio II	comprehensive	two-year; 1st phase	satisfactory	good
1991			2nd phase	satisfactory	good
1992	Incomes policy agree-ment	comprehensive	two-year; 1st phase	good	good
1993			2nd phase (8 months)	good	good
1994	Branch-specific	sectoral*			
1995	Branch-specific	sectoral*			
1996	TTT agreement**	comprehensive	two-year; 1st phase	good	good
1997			2nd phase (14 months)	good	good
1998	Incomes policy agree-ment	comprehensive	two-year; 1st phase	good	good
1999			2nd phase (12,5 months)	good	good
2000	Branch-specific	sectoral*			
2001	Incomes policy agree-ment	comprehensive	two-year; 1st phase	good	good
2002			2nd phase	good	good
2003	Incomes policy agree-ment	comprehensive	two-year; 1st phase	good	n/a
2004			2nd phase	good	n/a
2005	Incomes policy agree-ment	comprehensive	three-year; 1st phase	good	n/a
2006 - 2007			2nd phase 3rd phase (8 months)	good	n/a

Notes: * sectoral = a sectoral agreement not preceded by first-round co-ordination at the comprehensive (nation-wide) level.

** TTT agreement = Economic, employment and labour market policy agreement.

Source: Marjanen (2002, Table 1, pp. 10–11) and author's own up-dates for 2003 onwards.

3.2 Major pay components of the collective agreements

This sub-section provides a brief introduction to the major pay components included in the signed collective agreements while the next sub-section (3.3) focuses on a number of other pay-related aspects accounted for in the agreements. This latter sub-section ends with a table (Table 2) that draws together the main content of each comprehensive collective agreement.

The ***across-the-board increase*** has always been the predominant component, irrespective of whether or not the sectoral agreements have been preceded by co-ordinated action at the confederation level. It has constantly made up at least three-fourths – occasionally 100% – of the contractual pay increase; the only exceptions from this rule were the national incomes policy agreements covering the recession years in the early 1990s, which contained no agreed general pay increases whatsoever.[20] Indeed, the role of the across-the-board increase seems to have accentuated over the years due to a diminishing use of other pay components but evidently also because of a steady decline in the overall pay increase concluded especially in the national incomes policy agreements of a more recent date. Obviously, this trend largely reflects the need to adapt the Finnish economy to low inflation and EMU (European Monetary Union) membership in combination with an explicit agreement between labour market confederations (in Spring 1997) that joining the EMU will not affect the general principles guiding the country's labour market institutions. Co-ordination in wage negotiations was considered a strength rather than a weakness, whereas the opposite view dominated in, for instance, Sweden where EMU membership was commonly seen to require more flexible wage determination (Pekkarinen, 2002).

Apart from the size, also the form of the across-the-board increase has been intensively discussed during the negotiations preceding the settlements finally agreed upon. Initially it was commonly thought that the across-the-board increase should give the same money amount to all, that is, be set in money terms (flat rate) and not as a percentage. This solidaristic wage policy providing each and every wage-earner exactly the same absolute amount of pay increase, of course, narrowed the gap in relative wages. This line of policy, however, started to change already in the mid-70s when it was agreed that the flat-rate across-the-board increase was to be turned into a percentual increase for wage-earners whose pay exceeded a certain predetermined level. This has been the rule ever since whereby much of the focus in the negotiations has been on the absolute wage level after which this shift from a same-money-amount (flat-rate) to a percentual-based increase is due to occur.[21] Notwithstanding the fact that the overall trend has

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[20] No across-the-board increase concluded in the sectoral collective agreement has occasionally been the case also in more recent years, *e.g.* in the clothing, metal and paper industries and in house construction for 1997 (Piekkola and Marjanen, 2003, Figures 4–7).

[21] Only two previous national incomes policy settlements (for 1981 to 1982 and 1984 to 1985) have contained merely percentage-based across-the-board increases but even then the agreed increases

been that a declining percentage of the employees face general pay increases according to the traditional flat-rate principle[22], the across-the-board increase may be argued to have throughout exerted a narrowing influence on relative wages.

Most national incomes policy agreements have contained a decision concerning the so-called ***sectoral allowance***, that is, the percentage of a sector's total pay that should be allowed for and agreed upon in sectoral negotiations. During the initial years of the incomes policy era the sectoral allowance was the second most important component of the agreed pay increases, but its role weakened in the 1980s and even more so in the 1990s. Possibly one explanation for the suppressed role of the sectoral allowance can be found in the way that it was typically used, *viz.* to raise the scheduled (tariff) pay by more than the agreed across-the-board increase. Since, as a consequence, the pay increase of wage-earners covered by these kinds of pay schemes exceeded the general wage increase, this use of the sectoral allowance tended to raise the total cost effects of the collective agreement in an unforeseeable way.[23] It is noteworthy that the national incomes policy agreement covering the years 1990 and 1991 was the first collective agreement to include a decree on the increase in scheduled (tariff) pay, stating that this increase should be identical to that in actual pay. No separate sectoral allowance was agreed upon, either, albeit one-fourth of the across-the-board increase was allowed to be used for that purpose.

However, the sectoral allowance has, over the years, been implemented in other ways as well. It has been used to raise various allowances, such as the allowance for shiftwork, paid to the sector's employees, but occasionally also to raise their across-the-board increase. An increasingly common use of the allowance has been to reform the sector's pay system, that is, the bases that determine the structure and level of pay ***(pay schedule or pay scale)***.[24] The national incomes policy agreement for 1998 and 1999,

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were for certain branches turned into absolute money amounts. The national incomes policy agreement currently in force contains only percentage-based across-the-board increases for the second year. See further Table 2.

[22] According to statistics for the manufacturing sector, close to 60 per cent of the blue-collar workers were covered by flat-rate (same money amount) increases in 1995 compared to some 10 per cent in 2005 and none in 2006 (Fagernäs, 2005). This trend reflects the gradual and final abandonment of the solidarity wage policy.

[23] Piekkola and Marjanen (2003), for instance, report that these excessive tariff pay increases boosted wage drift among those not covered by such pay schemes.

[24] Tariff table containing the amount of pay corresponding to different job and skill grades. These pay scales are sector-specific, provide the basis for the employees' individual pay and, hence, define the minimum wage for each and every pay category. They have undergone fundamental changes during the past decade or so with increased use of various pay components the amount of which is determined by the individual's job performance and/or professional competence, the complexity of the job, etc. Indeed, some industries nowadays operate collective agreements with quite a sophisticated structure where the pay is not only conditioned on the complexity of the task but, additionally, the company is given the right to adjust an employee's pay according to his/her performance. An illustrative example is the technology (previously the metalworking) industry, the pay structure of which is outlined in some detail in Pekkarinen and Vartiainen (2006).

in particular, spurred this specific use of the allowance, and even more so as it was agreed in the sectoral negotiations that part of the allowance should be used for this particular purpose and that the actual implementation could be negotiated at the company level. In other words, companies (and their workforce) have been given the possibility to use an agreed share of the sectoral allowance for a renewal of the pay scales in use.[25] As a consequence, this locally negotiable pay component has evolved into the most important pay increase that can be decided at the local level.[26] All in all, while the sectoral allowance has appeared in all but two national incomes policy agreements, its use has varied substantially over the years as well as across sectors. If, however, no local agreement is achieved on the use of the sectoral allowance, the amount is paid as a percentage-based general increase.

In line with the solidaristic wage policies pursued in the early 1970s, low pay caused much concern. In that view it is hardly surprising that a separate decree concerning the low-paid was included in the national incomes policy agreements almost from the very beginning. Such a decree laying down the level of a general ***minimum wage*** was for the first time included in the national incomes policy agreement for 1971. A similar decree appeared in all agreements up till 1976, after which it was replaced by a separate sector-specific ***low-pay bonus (low-wage allowance)***, with the sector's pay level determining the size of the bonus.[27,28] In the national incomes policy agreement for 1989, however, the nature of the low-pay bonus changed in that the size of it was to be calculated based on the proportion of females in the sector. Hence, it was actually turned into a combined low-pay and ***gender-equality bonus***. In the subsequent national incomes policy agreement, finally, the traditional low-pay bonus and this new gender-equality bonus were merged into an ***equality allowance***. In practise, this meant that a low-pay

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[25] It may be noted that if the sectoral allowance is used for renewing or maintaining a pay system based on collective agreement it is also possible to deviate from the rule that the increases in tariff pay may not exceed the sector-specific general pay increase (*cf.* the incomes policy agreement for the years 2005–2007).

[26] It is worth emphasising in this context that the possibility of the sectoral parties to agree that the sectoral allowance or part of it is to be transferred to the use of local parties concerns, of course, all signatory parties of the incomes policy agreement, that is, also the state, local authorities and the church. In state and municipality employment a substantial share of bargaining and contractual rights was, in effect, shifted to the local level already in the 1993 incomes policy agreement. The need to be able to deviate, within certain limits, from the comprehensive agreement with respect to pay and other provisions was largely dictated by the weakening of the public economy that followed upon the deep recession in the early 1990s. See further Ministry of Labour (2003).

[27] The negotiations concerning a general minimum wage were regarded to be of little significance because of the minimum wage rules included in the collective agreements laying down the terms to be observed in a contractual employment relationship.

[28] The way of calculating the sector-specific size of the bonus introduced in the 1977 national incomes policy agreement has remained roughly unchanged over the years, apart from occasional changes in the magnitude of the low-pay multiplier and the low-pay limits to be implemented.

bonus and a gender-equality bonus were calculated for each sector and summed up into the sector's equality allowance.

The equality allowance can be characterised as a pay component that has many features in common with the sectoral allowance. Its average size is agreed upon in the collective settlement but its actual use is negotiated at the sectoral level. Moreover, the equity allowance has been used in much the same way as the sectoral allowance and already in the 1996 national incomes policy agreement it was for the first time concluded that it could be fully or partly transferred to be negotiated at the company level. Finally, while the relative importance of the sectoral allowance has declined over the years, the role of the equity allowance has increased so that presently the cost effects of the two pay components are roughly the same.

3.3 Other pay-related components of the collective agreements

In the first national incomes policy agreement it was decided that pay-related and similar ***index-linkages*** are to be prescribed by law, a legislation that has remained in force ever since. This ban on index-linkages was repeated also in the one-year national incomes policy agreement concluded for the next year (1970), although this time supplemented with a kind of safety mechanism in the form of a ***negotiation clause*** linking the pay increases to possible effects arising from changing economic conditions abroad. The national incomes policy agreements have continued to include negotiation clauses, with this practice having been more common in two-year than one-year agreements. The basic idea of the clause is to provide the social partners with the opportunity to meet half-way of the agreement period to discuss whether the economic situation foreseen when signing the agreement is realising or not; that is, to allow the agreement to be re-negotiated in case of unforeseeable and extraordinary changes in domestic or international economic conditions. Except for two occasions in the 1970s, these clauses have not been activated.

The ***index clause*** was re-introduced in the one-year national incomes policy agreement concluded for 1979. Since the law forbidding index-linkages was still in force, an exemption to the law was needed. This practice has ever since been repeated whenever an index clause has been included in the national incomes policy agreement. One condition for implementing the index clause has, however, been that the sector is part of the comprehensive collective agreement. Likewise, the exemption has not been applicable to sectoral negotiations not preceded by a national incomes policy or a comprehensive collective agreement.

The index clause included in the 1979 national incomes policy agreement was of a traditional kind launching a certain pay increase provided that the consumer price index

(CPI) exceeded a predetermined threshold. This has also remained the typical index clause concluded in the collective agreements.[29] The index clause has seldom resulted in pay increases, though. Moreover, in recent agreements it has been settled that index-launched pay increases up to 0.4 per cent are not paid, which may be argued to further emphasise the primary purpose of the index; that is, to provide a safety mechanism against extraordinary increases in the general (CPI) price level. The present incomes policy agreement ending in September 2007 also includes a general ***escape clause*** stating that in case of price increases caused by special external circumstances, it can be agreed to use the index clause in some other way.

A so-called ***wage development guarantee system*** was adopted in the mid-70s (1974) and has ever since been included in almost all national incomes policy agreements. Initially, the aim of this new element was to guarantee the employees a certain pay increase on top of the across-the-board increase settled in the collective agreement. More precisely, in the sectoral negotiations it was agreed by how much the sector's pay increase should exceed the across-the-board increase. If this "guaranteed wage drift" did not realise, then the sector's employees received an extra pay increase covering the gap between the agreed and the actual wage drift. This guarantee of a predetermined wage drift was typically defined in per cent but occasionally also in absolute money terms.

The national incomes policy agreement for 1981 and 1982 caused a change in the wage development guarantee system. From having guaranteed a predetermined wage drift on top of the sector's contractual pay increase, the system was changed to guarantee each sector a pay development similar to that of the other sectors and of all wage-earners. In other words, this new interpretation of the system aimed at guaranteeing individual sectors a wage development that did not fundamentally diverge from the overall wage trend.[30] Marjanen (2002) notes that this re-interpretation of the guarantee strongly harmonised relative wage trends, giving rise to considerable pay increases in some sectors. It thus worked in support of maintaining rigid pay structures and was, in that sense, clearly in conflicted with the aims of the low-pay bonus solution. On the other

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[29] The early 1980s saw the introduction of a slightly modified version of the wage-price-index system: from having aimed at guaranteeing the wage-earners a certain increase in real pay to also accounting for the change in Finland's terms of trade, *i.e.* export and import prices. In practice this meant that the change in the consumer price index was adjusted upwards (downwards) when the terms of trade improved (weakened). This alternative index clause was labelled ***pay adjustment index***. In reality it has been used only in a few agreements, though: the national incomes policy agreements of 1981 to 1982 and 1984 to 1985, and also in the second year of the national incomes policy agreement concluded for 1990 and 1991.

[30] This new interpretation of the wage development guarantee also challenged both the gathering and interpretation of wage statistics enabling the social partners to find in each bargaining round a common view on labour market developments, current as well as recent. A specialist body appointed by the Government and consisting of representatives and expert members of the labour market confederations – ***The Incomes Policy Information Commission*** – was established in 1972 with the task of compiling financial analyses and figures for the incomes and labour market policy negotiations.

hand, the primary aim of the system undeniably was to guarantee no-wage drift sectors, *i.e.* sectors following closely the minimum provisions stipulated in their collective agreement such as the public sector and many private services sectors, a wage development similar to that of the wage-drift sectors.

A further change to the system was made a few years later, in the national incomes policy agreement for 1986 and 1987, when the baseline was settled to be the extent to which all wage-earners' pay had exceeded the across-the-board increase written into the collective agreement. Hence, the point of departure was that the sector's wage drift should not diverge substantially from the wage drift experienced by the average wage-earner. This recommendation has ever since been maintained in all national incomes policy agreements containing a wage development guarantee system. The only exceptions are the national incomes policy agreements concluded for 1989 and 1990 to 1991, which re-introduced the original 1974 interpretation of the system.

Finally it may be noted that the collective agreements have also influenced working time arrangements. The early 1970s saw the introduction of totally new pay components such as the ***holiday or vacation bonus***.[31] A proposal for a gradual extension of the ***annual holiday*** was written into the national incomes policy settlement for the years 1977 to 1978, and an agreement on this was reached between the labour market confederations in December 1977. Another noteworthy milestone was included in the 1984 national incomes policy agreement: a programme for the ***shortening of the annual working time*** that was continued in subsequent agreements. No corresponding reduction in pay was made, though. This solution was alleviated by the fact that most of this shortening was realised in the form of increased paid leave. In more recent agreements, the changes in working times have concerned primarily official public holidays.

[31] The amount of the holiday or vacation bonus depends on the number of days of leave earned during the previous holiday credit year.

Table 2. Presence and mode of pay increase components in the comprehensive collective agreements concluded since 1969

Year	Name of agreement	Across-the-board increase	Sectoral allowance	Scheduled (tariff) pay & separate increases	Low-pay and gender-equality bonus	Wage development guarantee / Evaluation clause	Index clause	Negotiation clause
1969	Liinamaa I	m/p	No	No provision	No provision	No provision	No provision	No provision
1970	Liinamaa II	m/p + %	Yes	No provision	No provision	No provision	No provision	Review of the economy
1971	UKK agreement	m/p	Yes	No provision	Minimum wage	No provision	No provision	No provision
1972	HL agreement	m/p	Yes	No provision	Minimum wage	No provision	No provision	Review of the economy
1973	Branch-specific	sectoral						
1974	Lindblom-agreement	m/p	Yes	Extra pay: m/p	Minimum wage	Wage drift guarantee	No provision	Review of the economy
1975		m/p + %	Yes	No provision	Minimum wage	Wage drift guarantee	No provision	Review of the economy
1976	Miettunen mediation	m/p + %	Yes	Extra pay: m/p	Minimum wage	No provision	No provision	No provision
1977	Liinamaa recommendation	m/p + %	No	No provision	Low-pay bonus	Wage drift guarantee	No provision	Safety clause
1978		m/p + %	Yes	No provision	Low-pay bonus	Wage drift guarantee	No provision	Safety clause
1979	Somero-Oivio agreement	m/p	Yes	Extra pay: m/p	No provision	Wage drift guarantee	Price index	No provision
1980	Branch-specific	sectoral						
1981	Pekkanen I	% (but turned into m/p for some sectors)	Yes	Extra pay: m/p	Low-pay bonus	Monitoring of increases in pay	Terms of trade index	No provision
1982		% (but turned into m/p for some sectors)	Yes	Extra pay: m/p	Low-pay bonus	Monitoring of increases in pay	Terms of trade index	No provision
1983	Branch-specific	sectoral						

1984	Pekkanen II	%	No	No provision	Low-pay bonus	No provision	Terms of trade index	No provision
1985		%	No	No provision	No provision	No provision	Terms of trade index	No provision
1986	VHS agreement	m/p + %	Yes	Same as across-the-board in-crease	Low-pay bonus	Monitoring of wage drift	Price index	Review of the economy
1987		m/p + %	Yes	Same as across-the-board in-crease	Low-pay bonus	Monitoring of wage drift	Price index	Review of the economy
1988	Branch-specific	sectoral						
1989	Combined solution	m/p	No	No provision	Gender equality bonus	Wage drift guarantee	Price index	Review of the economy
1990	Kallio agreement	m/p + %	Yes	No provision	Equality allow-ance	Wage drift guarantee	Price index	Review of the economy
1991		m/p + %	No	No provision	Equality allow-ance	Wage drift guarantee	Terms of trade index	Review of the economy
1992	Incomes policy agreement	Nothing	Nothing	Nothing	Nothing	No provision	Price index	Review of the economy
1993		Nothing	Nothing	Nothing	Nothing	No provision	Price index	Review of the economy
1994	Branch-specific	sectoral						
1995	Branch-specific	sectoral						
1996	TTT agreement	m/p + %	No	Same as across-the-board in-crease	Equality allow-ance	Monitoring of increases in pay	Price index	Review of the economy
1997		No increase	No increase	No increase	No increase	Monitoring of increases in pay	Price index	Review of the economy
1998	Incomes policy agreement	m/p + %	Yes	Same as across-the-board in-crease	Equality allow-ance	Monitoring of increases in pay	Price index	Review of the economy

1999		m/p + %	Yes	Same as across-the-board increase	No provision	Monitoring of increases in pay	Price index	Review of the economy
2000	Branch-specific	non-co-ordinated sectoral						
2001	Incomes policy agreement	m/p + %	Yes	Same as across-the-board increase	Equality allowance	Monitoring of increases in pay	Price index	Review of the economy
2002		m/p + %	Yes	Same as across-the-board increase	No provision	Monitoring of increases in pay	Price index	Review of the economy
2003	Incomes policy agreement	m/p + %	Yes	Same as across-the-board increase	Equality allowance	Monitoring of increases in pay	Price index	Review of the economy
2004		m/p + %	Yes	Same as across-the-board increase	No provision	Monitoring of increases in pay	Price index	Review of the economy
2005	Incomes policy agreement	m/p + %	Yes	Same as across-the-board increase	No provision	No provision	No provision	Review of the economy
2006		%	Yes	Same as across-the-board increase	Equality allowance	Monitoring of increases in pay	Price index + escape clause	No provision
2007		No provision	No provision	No provision	No provision	No provision	No provision	No provision

Notes: sectoral = a sectoral agreement not preceded by first-round co-ordination at the comprehensive (nation-wide) level; m/p = mark/pennies (flat rate).

Source: Marjanen (2002, Appendix 2, pp. 95–96) and author's own up-dates for 2003 onwards.

4. Contractual versus actual pay increases

One way of examining the adherence of collective agreements is to compare the actual increase in wages with the pay increase settled in collective agreements, *i.e.* the contractual pay increase. The difference between the two wage concepts can be taken to provide a rough measure of the extent of wage drift.[32] Below, this kind of information is provided for two selected employee categories only: (i) manufacturing blue-collar workers since the late 1960s up to 2005 in order to provide a long-term picture of the changing levels and structures of wage increases for the major employee category covered by the nation-wide collective agreements signed during these nearly four decades (Figure 2), and (ii) the whole private sector but merely for the past ten years (Figure 3).[33]

Vartiainen (1998) estimates wage drift to have accounted for roughly one-third of all nominal wage increases. He points to wage drift in Finland thus having been somewhat lower than in Norway and Sweden, probably due to the collective character of Finnish wage bargaining having remained "tight". According to Uusitalo (2005), wage drift has accounted for some 40 per cent of average wage growth in the period 1970 to 2000, and for around 35 per cent in the period 1992 to 2000.

All in all, the re-orientation in monetary policy towards low inflation and EMU membership has clearly had a moderating effect on the nominal wage increases agreed upon in the national incomes policy settlements that have been signed in the post-recession period, less so on the negotiation outcome from the collective agreements not preceded by nation-wide co-ordination, *i.e.* co-ordinated actions between labour market confederations.[34] Indeed, the adoption of a strict wage norm[35], consistent with a low inflation

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[32] Apart from pay increases at the company level also structural changes are by necessity included in such a rough measure.

[33] Marjanen (2002) and Piekkola and Marjanen (2003) provide corresponding information also for manufacturing white-collar workers, individual industry branches and selected services sectors. Corresponding information for selected employee groups is also provided at the web-site of the Confederation of Finnish Industries (EK),
http://www.ek.fi/ek_suomeksi/tyoelama/tyomarkkinakuvat/index.php

[34] Alho (2003), Uusitalo (2005) and Uusitalo and Vartiainen (2005) report that sectoral agreements not preceded by co-ordinated actions between labour market confederations tend to have been slightly more inflationary. This finding is, on the other hand, only to be expected as dissatisfaction with the proposed general pay increase has usually been a major reason for the partners' failure to reach a nation-wide collective agreement in the first place. Noteworthy also is that according to the results reported by Uusitalo (2005), the non-co-ordinated sectoral agreements have resulted both in higher bargained and actual nominal wage increases, implying that also wage drift has been higher in these years. Put differently, the moderating effect of nationally co-ordinated pay increases is found not to have been eroded by higher wage drift.

[35] A crucial milestone in this context was the so-called ***Inflation Report*** published by the Incomes Policy Information Commission in April 6, 1995. This report introduced a totally new principle according to which the scope of the allowed increase in labour costs (the total costs incurred by the employer for the use of labour, *i.e.* the sum of the contractual pay increase, wage drift and other possible factors) is to be given by the growth in productivity and the targeted inflation rate (not the realised nor the expected inflation rate). Exceptions from this rule were to be allowed only under extraordinary circumstances.

target and with the collectively agreed pay increases following the average rise in productivity at the whole-economy level, despite of wide productivity disparities both between and within industries, has succeeded in depressing the increase in the average wage rate to less than 5 per cent per annum for a decade or so already (*cf.* Alho, 2005). While the collectively negotiated pay increase is calculated to have stabilised around 4 per cent, wage drift has come down to 1–2 per cent.

Figure 2. Structure of wage increases, manufacturing blue-collar workers, 1969–2005

Source: Jari Haapasalmi at the Confederation of Finnish Industries (EK)

All in all, the role of the wage drift component has diminished considerably over the years and especially when compared to the situation caused by the oil crisis in the mid-70s. During the deep recession years in the early 1990s, the extent of wage drift was almost negligible even though the collective settlements contained no agreed general pay increases. Moreover, the increasing leeway in recent years for company-level implementation of the pay increases concluded in sectoral agreement does not seem to have boosted overall wage drift. This outcome may, on the other hand, simply be due to the fact that so far only a small share of the contractual pay increases has been transferred to be negotiated at the company level.[36]

[36] The pay increase negotiable at the sectoral level and partly transferable to the company level amounted to, respectively, 31 per cent and 23 per cent of the total pay increase stipulated in the two-year national incomes policy agreement for the years 2003 and 2004 (Heikkilä and Piekkola, 2005).

Figure 3. Structure of wage increases in the private sector, 1998– 2007*

Source: Change of wages and salaries in private sector in Finland 1998-2007, Structure of wage increases, graph downloadable at http://www.ek.fi/ek_englanti/about_us/latest_figures_in_labour_market.php. For complementary statistics see Vartiainen (1998, p. 27), Marjanen (2002, pp. 68 and 75), Alho (2003, p. 110), Ministry of Labour (2003, p. 18), Uusitalo (2005, pp. 125–126) and Johansson (2006, p. 6).

Marjanen (2002) argues that the diminishing role of the wage drift component is probably not only a consequence of the crisis years in the early 1990s but rather due to the nature of wage drift having changed over the years. He continues with an empirical analysis and identifies the size of the contractual pay increase to be the key determinant of the size of the wage drift; the larger the contractual pay increase, the smaller is wage drift, suggesting that the wage drift component has moderated the impact of the contractual pay increase on overall wage development. According to his estimates, a one percentage increase in the contractual pay reduces wage drift with almost 0.2 percentage points. Marjanen (2002) also notes that this result differs from those obtained for Norway and Sweden, where the research finds only a weak, if any, correlation between the two wage concepts. There is also some evidence of the size of last year's wage drift, a rising price level, and an improved employment situation exerting a positive but minor influence on wage drift; that is, also these parameters show a tendency of contributing to higher wage drift. Neither the operational surplus of companies nor productivity measures receive significant coefficients in the estimations, though.

According to figures reported by Johansson (2006), the corresponding percentage for both 2005 and 2006 was about 30. In 2005, 14 per cent of the private sector's sectoral allowance was used at the company level.

A few recent studies using detailed micro-level pay data have been able to shed some more light on this alleged change in the nature of the wage drift component. Thus, the increased possibilities to transfer the sectoral allowance, or part of it, to the use of local parties together with expanded use of performance-related pay and profit-sharing schemes[37] (which are *not* regulated in collective agreements) are found to have contributed to the increase in the share of the variance in across-sectoral pay increases that is explained by wage drift (Piekkola and Marjanen, 2003). Indeed, their results indicate that wage drift is nowadays largely explained by branch- and company-specific factors not directly tied to the general economic stand or to the profitability of the participating sector.

While Uusitalo and Vartiainen (2005) report the variance of pay increases in Finnish manufacturing industries to have remained low and practically unchanged since the early 1980s, irrespective of the level at which the first-round wage settlement has been negotiated, they also show that this roughly unchanged overall variance in pay increases conceals a growing role of the company-specific variance component and more so in years not covered by a national incomes policy agreement. This inclines them to characterise sectoral agreements not preceded by co-ordination at the national level as offering individual companies a mixed bag: more company-specific adjustments in wages but at the cost of higher (more inflationary) overall pay increases.

Notwithstanding the profound content-related changes that the Finnish wage bargaining system has undergone, particularly in the 1990s, its collective frame has been largely maintained over the past decades. This is commonly stated to have had a moderating impact on average wage increases, especially in the post-recession period[38], without having affected the uniformity (aggregate variation) in pay increases. Moreover, recent studies suggest that this broad institutional frame appears to have posed no major obstacle to increasing company- and industry-specific adjustment in wages, at least not in the manufacturing industries.[39] Having said this, it should be emphasised, though, that individualised wage negotiations are still rare in Finland, especially if compared to the situation in Denmark and Sweden, where the increasing use of wage contracts that do not mention a wage, not even a minimum wage, works in favour of highly personalised wage settlements (see Asplund *et al.*, 2007).

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[37] See e.g. Arranz Aperte (2006) and her review of Finnish studies on this topic.

[38] If contrasting this moderating impact against the pay development in other countries, it seems that the average nominal collectively agreed pay increases have since the turn of the millennium been quite moderate in comparison to both other Nordic countries and EU–15. In terms of real pay, on the other hand, the increases of recent years turn out to have pushed Finland close to Sweden and, hence, notably above the real pay increases realised in Denmark and EU–15. For details, see Asplund *et al.* (2007).

[39] As shown by Johansson (2006), the situation stands out as clearly different in low-productivity services.

5. Unionisation

Organised employees pay membership dues to their trade unions. In return they enjoy benefits such as contractual security, training, legal aid, and leisure-time services. Through their trade unions, they are generally also members of an unemployment benefit fund for their various industries, which entitles them to earnings-related benefit in case of unemployment.[40] On the other hand, all employees who are members of an unemployment fund are not necessarily also members of a trade union. The number of non-unionised unemployment fund members has, in effect, grown steadily over the past decade or so. Indeed, the number of members of the only unemployment fund that does not require trade union membership (YKT[41]) almost quadrupled (from 48,000 to about 240,000) between 1994 and 2004. Today it is the largest single unemployment fund. Correspondingly, the organisation rate of the unions' unemployment funds declined and stood at 73.4 per cent in 2004 (85 per cent with YKT members included).

This growth in the number of non-unionised unemployment fund members can be expected to have had a depressing impact on trade union density[42]. Indeed, this hypothesis receives strong support in a recent study by Böckerman and Uusitalo (2006), who identify it as the single most important reason for the over 10 percentage point drop in union density between 1993 and 2001 that suddenly followed upon a 30-year-long trend of steadily increasing union membership. The exact contribution in quantitative

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[40] There are two parallel systems of unemployment security running in Finland: a basic mode of security provided by the state, through the Social Insurance Institution of Finland (KELA), and a form of unemployment insurance guaranteeing earnings-related benefit, subsidised by the government but administered by the unemployment insurance funds (occasionally called *the Ghent system*). The earnings-related benefit is restricted to insurance-fund members who have been members of an unemployment insurance fund for at least ten months and have worked for at least 43 weeks prior to unemployment. Other unemployed persons may apply for state compensation. State unemployment assistance is paid to unemployed persons who have worked for at least 43 weeks prior to unemployment, but who are not members of an unemployment insurance fund. Labour market support, introduced in 1994, is of a discretionary (means-tested) nature and is paid to those who do not fulfil the preconditions for receiving earnings-related unemployment benefit, but also to those who have received earnings-related unemployment benefit for the maximum number of days (500). Signing up as a job seeker at a public employment service is a prerequisite for receiving either type of unemployment benefit. Additional conditions are that the beneficiary is between 17 and 64 years old, seeks full-time employment and is able and willing to work. On average, the rate of unemployment benefit is approximately 60 per cent of the earnings while working. State compensation or an insurance-fund daily allowance can be paid for a maximum of 500 working days for four consecutive years. Persons over 57 can be paid an allowance until they are 60. Long-term unemployed aged 60 and over are entitled to an unemployment pension under the specific terms laid down by law. But even while receiving such a pension, the person must remain a job seeker at an employment service.

[41] YKT ("Yleinen työttömyyskassa" in Finnish, emerged in 1992). Initially it gathered members only from the private sector but today its members represent a much broader part of the Finnish labour, including the public sector. Interestingly, YKT started in 2006 to offer services similar to those of trade unions, such as legal aid, at a higher member fee.

[42] Trade union density is commonly measured as the organised labour force as a proportion of the potential membership, that is, people who are either wage-earners or unemployed.

terms of this trend to the overall development of union density remains open, though. One major reason for this is that there is no unique measure of union density in Finland. Instead union density is measured differently in different studies. Apart from the union density based on unemployment fund statistics – and reported above – other measures also exist in parallel.

The Ministry of Labour reports two different measures of union density: one based on a comprehensive survey of trade unions, and one based on a survey sample of wage-earners. So far, the Ministry has conducted four studies on the organisation of wage and salary earners: for 1989, 1994, 2001 and, most recently, 2004. According to these studies, union density fell by more than 7 percentage points between 1994 and 2001, from 78.5 per cent to 71.2 per cent, and by a further 2.2 percentage points up till 2004, to 69 per cent.[43] According to the Ministry's annual wage-earner based working life barometer, union density was down to 79 per cent in 2000 but has, since then, recovered to the mid-90 level: 83 per cent in 2004 and 85 per cent in 2005.[44] Based on a sample of the labour force, Statistics Finland reports a union density of 63.5 per cent for 2005, down from 73.3 per cent in 1995. Visser (2006) reports a union density of 74.1 per cent for 2003, down from 80.4 per cent in 1995, but nevertheless one of the highest in the industrialised world. The trade unions themselves put union density on average at some 80–86 per cent for 2004, which is very close to the union density range of 80 to 89 per cent reported in an 2004 EIRO study. Hence, these union density measures clearly disagree on the "true" level of union density but they all point to a decline in union density since the mid-90s, albeit the size of the decline differs slightly across the alternative measures.

According to the Ministry's surveys, the decline in union density has been more marked among men (–12 percentage points since 1994) than among women (–5½ percentage points since 1994), giving a union density in 2004 of 64.9 per cent for men and 73.0 per cent for women. This gender difference in the union density and its evolution over time is largely explained by the fact that union density is highest (almost 88 per cent) in the public sector and has also remained at a high level. Some 70 per cent of the sector's employees are women, which corresponds to about 40 per cent of female employment. A

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[43] The trade union survey for 2004 indicates that the total number of trade union members was 2.107 million, an increase of almost 25,000 members compared to 2001 and over 230,000 members compared to 1989. Of this total membership, an increasing share (one-fourth in 2004) represents various special groups such as students, pensioners or self-employed; *i.e.*, they are not to be classified as wage-earners or unemployed. If these special groups were retained, then union density would be as high as 91.9 per cent for 2004, compared to 86.7 per cent in 1989, 96.5 per cent in 1994 and 90.6 per cent in 2001. See further Ahtiainen (2006).

[44] The clearly higher density levels of the working life barometer are mainly due to the fact that the questionnaire excludes the unemployed but includes also those wage-earners who only belong to an unemployment fund. Their share of all wage-earners was 9.9 per cent in 2005. See further Ylöstalo (2006).

high and clearly increasing union density rate characterises also the manufacturing sector (86 per cent) while it is down to below 50 per cent in private services.

Apart from the emergence of an independent unemployment insurance fund, the decline in trade union density since the mid-90s is also attributable to the economic upturn during the latter half of the 1990s, accompanied by structural changes in the economy and consequently also in the labour force. The concentration of employment growth in private services in combination with the relatively low and further decreasing union density in this sector stand out as yet another major factor contributing to the decline in overall union density since the mid-90s. Yet, the results obtained by Böckerman and Uusitalo (2006) indicate that the changes in the labour market and the composition of the labour force can explain only about a quarter of the observed decline.

Finally, a distinct feature of the period since the mid-90s also is that union density among the unemployed has dropped more than among the employed. Probably this is, at least in part, due to the rapid growth in long-term unemployment in these years despite strong economic recovery.[45] Another potential explanation is the persistently high unemployment rate among young people. Indeed, unionisation is much less common among young people (only some 39 per cent in 2004), and the gap between the age group with the highest union density (50–59 year-olds with a union density of close to 78 per cent in 2004) has widened further since the mid-90s. With labour market entrants being increasingly less unionised, but still facing a relatively high risk of becoming unemployed, a depressing impact on union density is only to be expected. This tendency is further strengthened by the frequency of part-time and fixed-term employment contracts among young people, as union density has declined notably among those in atypical forms of employment.[46]

The findings of Böckerman and Uusitalo (2006) provide support also for these hypotheses in the sense that the declining inclination of the cohorts born after the early 1960s to become union members is notified also to have contributed to the decline in union density in Finland since the mid-90s. They conclude by noting that the current trend in union density may have serious consequences for the coverage of collective agreements if union density declines to a level where the collective agreement no longer fulfils the conditions for being generally valid, that is, for being universally binding also for unorganised employers. Indeed, the conspicuous decline in union density since the top years in the early 1990s has been argued to reflect a need to change the traditional sys-

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[45] The union density among the unemployed is down from 51.8 per cent in 1995 to 35.5 per cent in 2005 (Ahtiainen, 2006, Table 26).

[46] The union density of part-timers has declined from 58.7 per cent in 1995 to 48.3 per cent in 2005 (Ahtiainen, 2006, Table 29). According to EIRO (2002) figures for Finland for 2000, the unionisation rate of non-permanent employees was 70 per cent compared to 85 per cent among permanent employees, http://www.eiro.eurofound.eu.int/2002/02/study/ TN0202101S.htlm.

tem to better respond to the changing environment of companies, industries and working life in general (Pouskari, 2005).

6. Discussion of future challenges

A recent survey[47] investigating the views on the wage bargaining system among employers and employees reveals a number of divergent perceptions that mainly seem to concern the trade-off between wage flexibility and income safety. While the employer side underlines the need of more freedom (more decentralisation) in wage setting, the employee side emphasises the safety net provided, *inter alia*, by the pay scales that are stipulated in collective agreements and grade the minimum tariff wage according to job complexity and skill demands. Among employers these contractual wage floors are seen to inhibit the creation of low-pay jobs. Notwithstanding this divergent view on the role of wage dispersion, which moreover turns out to be much stronger at the confederation level than at the local level, the overall outcome of the survey is declared to be "…a fairly high degree of overall satisfaction with the present form of collective bargaining in Finland. […] both employers and employees firmly resist a thoroughly atomistic system of bargaining where the decision on the peace clause would also be transferred to the firm level. In this sense, the collective bargaining system is firmly embedded in the Finnish labour market." (Pekkarinen and Alho, 2005, p. 61)

Major reasons for this satisfaction with the present-day wage bargaining system are its stabilising influence on labour market relations and overall wage developments. There also seems to be a common view on how the local leeway should be targeted, *viz.* to modify the course of wage developments, as settled in general and sectoral collective agreements, to company-level needs and conditions. Notwithstanding this common overall view, the two sides of the negotiation table, however, turn out to differ widely in their views on both "…the speed of such a move towards local bargaining and the nationally agreed conditions under which it should take place…" (Pekkarinen and Alho, 2005, p. 83). In fact, Alho (2005) argues that the era of disciplined macro-level wage policy having characterised the last decade or so is "…severely challenged and under pressure especially from the employers' side" (p. 86) because of their strong preference of shifting the focus in the wage bargaining system from preserving macroeconomic stability towards improved microeconomic efficiency. Hence, from the employers' point of view the content-related changes in the bargaining system have been noteworthy, especially in the 1990s, but not large enough.

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[47] A brief outline and the main results of the survey are presented in Pekkarinen and Alho (2005). A more detailed description is provided (in Finnish) in Alho *et al.* (2003). It should also be mentioned in this context that the survey material has been used extensively in a number of econometric analyses of different dimensions of the employer and employee opinions and their determinants; see *e.g.* Piekkola (2003) and Heikkilä and Piekkola (2004, 2005).

These perceptions and conclusions emerging from the survey material definitely shed new light on the social partners' attitudes towards the present wage bargaining system, as well as the need for and preferred forms of its future reforms. But they cannot help in solving the divergent assessments concerning the influence of the system on wage dispersion and wage flexibility or labour market outcomes more generally. This requires evidence-based knowledge, which is still scant despite the importance of the topic.

A few recent studies do try to address analytically the labour market effects of at least certain crucial features of the Finnish wage bargaining system. Alho (2003) concludes that in the medium term, the national incomes policy agreements have resulted in an unemployment rate that is on average about one percentage point lower than what would have been achieved with union-level agreements. This employment-enhancing effect is due to the dampening impact that these co-operative actions at the national level have had on the rise in real labour costs (*cf.* Section 5 above).

In a more recent study, Alho (2005) focuses on the impact of the regulation in collective agreements with respect to low-paid and low-productivity employees (*cf.* the presentation of the wage guarantee development system and the low-pay bonus in Section 3.2 above), which is shown to have resulted in a notable discrepancy between the relative wage rate and the relative productivity level at the lower end of the manufacturing wage scale. In a general equilibrium setting, the basic outcome emerging from such regulation of the non-skilled sector is lower relative wages of the skilled labour, the intuition being that the rise in overall costs caused by the regulated wage rate forces companies to also cut their demand for skilled labour, which is reflected in the wage rate of skilled labour. Alho (2005) offers this hypothesis as one explanation for the compressed wage structure in Finland and Europe more generally. He then derives an extended model incorporating efficiency wages to explain why, in reality, relative wages tend to remain unchanged despite of this upward-push in low wages.

Uusitalo and Vartiainen (2005), in turn, conclude from their broad-based empirical analysis of the wage structure in Finnish manufacturing industries that the wage bargaining system, despite having remained largely unchanged, "…has been able to accommodate large economic restructuring and upheavals." (p. 2) They continue by noting that efficient combination of general collective agreements and increased wage flexibility at the micro level has been possible because the main objective of the wage bargaining system is "to control the average rate of wage growth while leaving relative wages to decentralized, plant-level or individual decisionmaking". (p. 5)

Much more critical conclusions are drawn in a recent report by Johansson (2006), which points to the microeconomic costs in terms of reduced wage flexibility caused by the national incomes policy agreements. The focus is on the high minimum labour cost and the consequent reduction in employment caused by the wage floors stipulated in the sectoral agreements, but her discussion also covers other alleged consequences of the Finnish incomes policy tradition: real wage rigidities, compressed wage distributions,

low regional flexibility and cemented regional differences. The relative importance of the national incomes policy agreements in explaining these phenomena remains, however, an open question as the undertaken empirical analysis is confined to statistics reported in tables and graphs, and to cross-tabulations of and calculated correlation coefficients for key indicators.

Needless to say, the minor empirical evidence on the macro- and microeconomic effects of the long tradition of national incomes policy agreements and the decentralisation tendencies within them that have characterised the post-recession period displays a research field of high academic as well as political priority that is still unexplored in Finland. Which effects can truly be ascribed to the wage bargaining system and the undertaken reforms of it, and which effects do rather arise from changing behaviour of companies and individuals? Lacking evidence-based answers to this admittedly challenging question have consequences for any future reform of the institutional setting.

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