

Jon Erik Dølvik and Paul Marginson

Collective bargaining in Northern Europe under strain

Multiple drivers of change and
differing responses to them

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Fafo-paper 2018:18

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ISSN 0804-5135

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Preface

This paper was prepared for a workshop at Holmen Fjordhotel, nearby Oslo, 13–14 June 2017, organized by Fafo within the ‘Euro-strain’-project headed by ESOP, University of Oslo. The project has benefitted from funding from the ‘Europe in Transition’ programme of Norges forskningsråd (Research Council of Norway). Besides this framing paper, the agenda for the workshop was to discuss draft comparative papers analyzing developments since 2000 in collective bargaining and wage floor regulation in construction, manufacturing, industrial cleaning, temporary agency work and at cross-sectoral level in northern European countries, aimed for submission to a special issue of *European Journal of Industrial Relations* (Sage) in 2019.

30 June 2018

Jon Erik Dølvik and Paul Marginson

Abstract

Much recent attention has focused on the upheavals in collective bargaining (CB) and labour market regulation (LMR), in considerable part imposed or induced by European and international institutions, in southern European countries. This paper examines developments in CB and LMR in the northern European countries, which with one exception have not been subjected to such external intervention. It asks whether: recent changes in southern Europe are having consequent effects in northern Europe (“South to North contagion” thesis); the EU’s new economic governance regime, introduced in 2011, is propelling change amongst the northern countries (“Transnational disruption” thesis); impetus for change comes from strengthened regime competition among the northern, high-cost countries themselves (“North-North competition”-thesis); and/or destabilizing effects of East-West integration of labour and product markets instigated by the free movement of labour, services, and capital (“East-West destabilization”-thesis) are triggering change. It contends that the influence of the third and fourth of these dynamics, or transmission belts, on developments in CB and LMR amongst the northern countries is likely to be substantially greater than that of the first or second.

Empirically spanning six instances of strongly coordinated (the four Nordic countries, Germany [and the Netherlands] and one of liberalized (the UK) industrial relations, a central aim is to illuminate how country-specific institutions of CB/LMR shape actor responses to the pressures for change facing them. Such pressures do not solely stem from international, market driven change, but are also influenced by political changes in regulation at national or EU level, which may be intended to propel or cushion market driven change in CB. Three main different types of change are identified: reconfiguration of coordination arrangements under CB; state intervention to further underpin collective bargaining (or to displace it with statutory regulation); and disorganization and deregulation. Instances of reconfiguration and of state intervention in a context where disorganization is threatened are observed. Reconfiguration would seem to be invoked in response to the challenge of north-north regime competition, whereas state intervention seems more likely to occur in response to east-west destabilization.

1. Introduction

Whereas considerable scholarly attention has, rightly, been paid to the radical changes in industrial relations and labour market regulation in southern European countries since the onset of the crisis (e.g. Koukiadaki et al. 2016; Molina 2014), there has been scant investigation of what is happening in the northern countries. Are the structural reforms of collective bargaining (CB) and labour market regulation (LMR) enacted in the southern countries followed by changes in a similar direction in the less crisis-affected northern countries, contributing to strengthened regime-competition and disorganization in European industrial relations as a whole? Or do we see a trajectory where growing fragmentation in southern Europe is contrasted by relative stability in the respective northern camps of coordinated and liberal market economies? In addition to the impact of the structural reforms, some attention has also been paid to the impact of the EU's regime of new economic governance (NEG) – making wage setting and labour costs key adjustment parameters – on CB and LMR (Erne 2016; Schulten and Mueller 2013; Marginson and Welz 2015). The northern countries seem to be less affected by this new EU regime. They also have more varied ties to the euro. Moreover, their production structures, patterns of internationalization, and industrial relations institutions also differ markedly from those of the southern countries. The aim of this paper is thus to analyze, in a comparative perspective, how the national systems of CB and LMR in northern Europe have evolved over the past decade or so – i.e. immediately prior to, during, and after the financial crisis. The focus is on the actors' strategies and on the institutions themselves, and the interaction between the two. To what extent do we see stability, strain, or transformation of the national labour market regimes in northern Europe? What have been the main drivers of change and sources of stability?

In the industrial relations literature, following Commons (1909/1969) it is often suggested that the most consequential pressures on national CB and LMR institutions stem from economic internationalization, and, in the European context, above all from unfettered (trade) competition and capital flows within the EU/EEA single market. In such a perspective the enforced reduction in demand and labour costs in southern, and some central eastern, European countries in the wake of the crisis can be expected to intensify competition in European product markets. Should labour market deregulation and more decentralized collective bargaining arrangements, as implemented in several of the southern countries, prove to be a source of competitive advantage there would be pressure on northern countries to follow the same path.

Yet, given the North-South divergence in production structures, patterns of trade and foreign direct investment a more direct impetus to industrial relations change in

northern countries is likely to stem from changes in competitive conditions and unit labour costs in *other* northern countries. Exports to other high-cost, northern European countries are many times higher than to southern Europe – and the same, *mutatis mutandis*, applies to their imports. Businesses in northern Europe therefore tend to specialize in high value added production and compete for international market shares with businesses of other, similar industrialized countries within and beyond Europe. In this second perspective, the effects of “institutional” regime competition and policy learning/ mimicking within the differentiated European economy would be most directly felt within each constellation, and in our case, among the high-cost northern countries themselves.

A different impetus for industrial relations change in northern Europe that has received much attention is the free movement of capital, labour and services associated with growing economic exchange and integration with the lower-cost, Visegrad states (Czech Republic, Hungary, Poland and Slovakia). Substantial factor mobility between Visegrad countries and northern Europe, and associated restructuring of production chains, have triggered well-documented pressures on CB and LMR institutions and outcomes amongst the latter (Friberg et al. 2014; Meardi 2012; Wagner and Hassel 2015). Under this third perspective, the effects of institutional regime competition transmitted through the flows of capital, labour and services between the northern and Visegrad constellations and amongst the northern countries are felt both externally (pressures on working conditions and wage levels through relocation of capital, actual and threatened) and internally (pressures from incoming workforces – migrant or posted – employed on inferior wages and working conditions).

A further impetus towards industrial relations change potentially flows from the systematized intrusion into wage setting arrangements, and wage outcomes, built into the EU’s new economic governance regime (Erne 2012; Schulten and Mueller 2013). This entails ongoing monitoring of labour cost indicators by the Commission, the prerogative to issue so-called ‘country specific recommendations’ on wage setting arrangements and wage outcomes and, in the case of Euro-zone countries, the possibility to require changes in the first in the face of persistent macro-economic imbalance in a given country. According to this fourth perspective, competitive pressures for institutional change will be mediated, and the form they take directed, by the European authorities.

Against this backdrop, the paper compares and contrasts developments in collective bargaining coordination and labour market regulation in six northern European countries: the four Nordic countries, Germany, [the Netherlands] and the UK. It contends that the second and third of the four developments identified above represent more substantial sources of pressure on these northern countries than those flowing from structural reforms imposed in the southern countries or the EU’s new economic governance. In the face of these more prevalent two sources of pressures, the paper examines the strategies adopted by the actors, in particular employers, in the various countries. It asks whether coordination mechanisms in the Nordic countries, Germany and the Netherlands are being undermined or renewed? If being undermined,

is there evidence of interventions by the state to strengthen statutory underpinning for CB and LMR? Or are there signs of growing disorganization amongst these countries, thereby moving them closer to the fragmented and uncoordinated bargaining found in the UK?

The next section elaborates on the multiple potential drivers of change in collective bargaining and labour market regulation. The research design, involving six northern European countries with coordinated, multi-employer bargaining arrangements (the four Nordic countries, Germany and the Netherlands and one, the UK, where single-employer bargaining arrangements prevail is outlined in section 3, which goes on to identify variations amongst the six countries. Section 4 presents five examples from across these countries which illustrate the differing main responses to pressures on collective bargaining and labour market regulation, and connect these back to the drivers of change. The final section concludes.

2. Background: Multiple drivers of change

New strains on European CB and LMR have clearly been invoked by the momentous changes in southern Europe and by the EU's adoption of a more interventionist approach to CB/LM regulation, especially in states receiving EU debt support (Marginson 2015; Müller & Schulten 2013; Visser 2016). It is less clear, however, how and through which mechanisms, these developments will affect the economically better off, northern strongholds of coordinated CB. In principle, one can envisage four – not necessarily mutually exclusive – possible transmission belts for the dynamics involved.

South to North contagion

The first is South to North contagion, operating chiefly through reinforced cost competition from southern producers now benefitting from lower labour costs and more permissive regulations aimed at enhancing labour flexibility. This mechanism is underpinned by the structural reforms focusing on the supply side of the labour market imposed by the European and international authorities and/or embraced by national governments amongst the southern countries.

If other EU countries subscribe to this recipe, and try to emulate reduction of labour costs and enhanced flexibility in the southern countries through similar initiatives, competitive conditions will be tightened for all and the likely result will be a European-wide domino process of deregulatory reform involving decentralization and disorganization of CB and LMR. Under this scenario, associational governance – resting on collective bargaining between employers' associations and trade unions – is decisively weakened in favour of market-based regulation (Crouch 2015).

Amongst policy makers this is presently the dominant prescriptive narrative in town, but there are several reasons why such a scenario will not necessarily materialize. One thing is that there is no simple, uni-linear relationship between CB institutions, competitiveness, and economic performance (Visser 2016, Traxler et al. 2001, OECD 2006/2012). Another is that the programme of structural reforms propounded by the European and international institutions prioritizes actions to reduce the cost element of ULCs in order to improve competitiveness, including wage costs, social charges, reductions in employment protection and promotion of numerical forms of flexibility. In contrast, the productivity element of ULCs is largely neglected. Productivity, however, is promoted by closing off routes to competitive strategies based on low wages, hire and fire and numerical flexibility, thereby encouraging investment in

skills and equipment and forms of functional flexibility. Insofar as coordinated multi-employer bargaining continues to play an integral role to the productivity-based competitive strategies of northern economies, it likely continues to constitute an important ‘beneficial constraint’ (Streeck 1992). Further, the organized actors (and politicians) in countries which retain strongly coordinated CB arrangements may prefer to maintain their institutions and ways of doing things for other reasons, e.g. to retain labour peace or to resist increased inequalities.

North-North (regime) competition

The starting point for this, second, dynamic, is the division of labour within the integrated European economy where advanced, high value added production tends to be located in northern Europe while less advanced, labour intensive production tends to be located in southern and, increasingly, central and south eastern Europe. This pattern is associated with extensive intra-industry trade, implying that northern and southern producers are differently positioned in the production chains and most often do not compete in the same market segments. The configuration of unit labour costs (ULCs) within the market segment that most northern producers compete differs from the segment in which most southern producers operate, and from that in which most central eastern countries compete. The former is characterized by a combination of high productivity and high wages / labour costs, the latter two by differing combinations of lower productivity and lower wages/labour costs.

This divergence between different clusters of economies within the integrated European economy – reinforced by the crisis – suggests that the element of cut-throat cost-price competition between producers in southern and northern European is fairly limited. The main contenders of northern producers tend to be other northern producers, while the main contenders of southern producers tend to be other southern, or eastern or offshore, producers. Under this perspective the thesis of direct South-North contagion seems ill-founded. Instead, the basis for a North-North thesis – under which the main impetus to change in CB and LMR in northern countries is most likely to stem from competitive pressures coming from, and regulatory changes in, other northern countries -- seems better grounded. If this is right, the diffusion effects of industrial relations “regime competition” will be most sharply felt within each cluster of the integrated European economy, and among our cases within the northern cluster.

A look at *international trade statistics* substantiates such a North-North thesis (see Eurostat 2017a, b). While the small, northern European economies, such as the Nordic, typically export 8-10 times more to other parts of northern Europe than to southern Europe, the ratio for UK is around 6 and the ratio for Germany, with its much debated trade surplus with southern Europe, is 4 (OECD trade statistics, 2016). Similarly, Germany imports more than six times as much from other high-cost, northern countries as from southern Europe and more than four times that of central eastern countries. These patterns reflect that in most instances, 2 or 3 countries, usually in

close geographical proximity, account for more than 50 percent of a country's intra-EU exports of traded goods (Eurostat, 2016) Among our cases the three main trading partners account for more than 60% of exports from the Netherlands and Denmark, and only Germany and Sweden, with the most extensive/diversified export manufacturing sectors, show a share below 50% (ca 40%). A similar picture pertains to imports. For example, in Denmark, the five largest import countries, in ranked order, are Germany, Sweden, the UK, Norway, and the Netherlands, virtually mirroring those of Sweden and Norway.

The relevance of the North-North thesis is further braced by a look at the variation in wage costs and labour productivity in EU/EEA countries (see Appendix Charts). Among our northern case countries, manufacturing wage costs in 2011 varied from 42 USD in the Netherlands to 64 USD in Norway (unweighted average 48 USD), while the level in southern Europe varied from 13 USD in Portugal to 36 USD in Italy, and in the Visegrad countries from near 9 USD in Poland to 13 USD in the Czech republic (US Labor dept stat, 2016). These differences are related to huge gaps in workforce skills and labour productivity. Measured in GDP per hour worked (in PPPs) average productivity in 2014 was 58 USD in our northern cases compared with 40 USD in the southern countries – and around 30 USD in the Visegrad countries (OECD.stat). There is thus no clear pattern contrasting North and South in terms of unit labour costs. These also vary significantly within the northern camp, providing scope for North-North regime competition.

The volume and concentration of trade with the northern European region, along with broadly similar labour cost and productivity profiles when compared with those of their southern and central eastern counterparts, corroborates the hypothesis that changes in CB and LMR affecting relative labour costs within the northern camp, *ceteris paribus*, will be more immediately felt there than corresponding changes in the southern, or central eastern, countries. If, for instance, significant northern peers cut labour costs e.g. by reforms in CB and LMR – as Germany did over the past 20 years – such changes are likely to trigger responses in other northern countries. A direct mechanism for such spill-over effects is that, in all northern economies with coordinated CB, the development of German wages and unit costs are central parameters for the pattern-setting actors in national CB; Traxler et al. (2008) and Traxler & Brandl (2009) thus find that wage-setting in the German metal industry has a significant pattern setting impact on actual wage setting in the Nordic and Austrian metal sectors. A more indirect mechanism goes via the product markets where the freezing of German wage growth after the post-unification crisis, alongside sweeping restructuring and rising productivity, brought steep improvements in the competitiveness of German manufacturing accompanied by a surge in exports and current account surpluses.¹

¹ The rising German trade surplus with the rest of the EU and the Eurozone, including with most northern countries, has stirred international dismay as its surplus in 2016 exceeded the 6% ceiling set by EU budget rules by roughly 2,5 percentage points (FT May 16, 2016).

Under such a perspective it might be expected that northern CB and LMR adjustments responding to economic strains will not necessarily mirror those in other parts of Europe, and could focus on the renewal or reconfiguration of the relatively well-coordinated and regulated arrangements which characterize, in different ways, all bar the UK. Under this scenario, associational governance persists subject to some re-fashioning.

East-West integration as a disruptive or destabilizing factor

The third dynamic bringing pressure for change in CB & LMR in northern countries is the impact of growing labour and product market integration with the lower wage Visegrad countries. Trade between the Visegrad countries and northern countries has grown fast since the fall of the Iron Curtain in 1990.² Taking the largest of the Visegrad economies, Poland, trade with northern countries has increased 3 to 5 times, according to country, since Polish accession to the EU in 2004. A sizeable part of this growth has to do with preceding flows of western FDI into Poland and the consequent flows of intermediate products westwards within evolving east-west production chains. Capital flows through FDI and relocation of production – predominantly from western countries in the former Hanseatic area – have been a central element in Poland’s growth strategy, and have tied the Polish economy closer to western markets in a semi-dependent, somewhat skewed manner. Typically locating production of parts with limited skill requirements and low value-added – e.g. shipyards fetching hulls from their acquired Polish subsidiaries – northern businesses have gained competitiveness by benefitting from cheaper, flexible labour available in the fragmented Polish IR system (Meardi & Trappmann 2013). Poland has also become a major source of migrant labour and service providers to northern countries in the wake of EU accession. With more than 2 million Poles leaving for work in western countries 2004-7, above all to the UK and Germany, and hundreds of thousands workers being posted by Polish firms subcontracted by western businesses,³ the eastward flow of investment in production facilities has been complemented by rising westward flows of labour and services, as well as intermediate goods.

The dynamics of east-west integration through free movement of capital, goods, labour and services in the single market have evidently had ambiguous effects on western economies and their workforces. The impact of the free flow of production factors on CB and LMR take different forms in different sectors ; while the threat of cross-border outsourcing is most salient in manufacturing, the shifts in competition due to cross-border mobility of labour and services are typically harder felt in e.g.

² A quick glance at European trade statistics suggests that several northern countries now import at least as much from the central eastern as from southern countries, suggesting that the main difference in impact of East-West vs South-North integration can be attributed to integration through production chains and markets for work.

³ According to Pacolet & Wispelaere (2015), more than 400 thousand Poles were posted in other EU/EEA countries in 2014 and the overwhelming majority of those went to northern countries.

construction, cleaning, horeca, food processing and transport (Refslund 2016) Outsourcing to lower cost eastern subsidiaries and to subcontractors offering cheap foreign labour at home has contributed to improved competitiveness and profitability for northern businesses. Some skilled groups of workers in western countries have also seen wage improvements as a result. But the effects have been detrimental for groups in the workforce that are bound to compete for jobs and earnings with lower-cost producers in the Visegrad countries. Hourly compensation rates in Polish manufacturing are still around 1/5th of those in the northern countries, and even lower in construction and services. Threats of relocation have triggered concession bargaining at site level within internationalized manufacturing companies, most pronouncedly in Germany, but also amongst other northern countries. In other industries, outsourcing to low wage subcontractors offering services in northern markets, and hiring of migrant labour at terms way below collective agreement standards (Friberg 2016, Krings 2016) are the principal sources of pressure. The strategies adopted by organized actors aimed to curb or enhance such effects can also have direct knock-on effects in the other northern countries. Among the more conspicuous examples that such changes can have cross-border knock-on effects is the large-scale import of slaughterers from the Visegrad countries into the German meat industry which, in turn, triggered massive relocation of Danish production to Germany and declining employment in the Danish slaughterhouse industry (Wagner & Refslund 2015; Refslund 2016).

As compared with the indirect effects of low-wage competition through trade in product markets – which is partially accommodated by differences in productivity, capital endowments, and transaction costs – mobility of labour and services are likely to have more direct and stronger effects on CB and LMR as the competition over jobs and earnings actually occurs shoulder to shoulder within the domestic labour market (Dølvik et al. 2014). Creating incentives for northern employers to circumvent collective agreements and, in line with EU rules, offering legal opportunities to hire migrant labour on cheaper and more flexible conditions than locals, these dynamics have spurred conflict, controversy, and diverse responses among the organized actors. Differing outcomes are foreseeable under our destabilizing scenario. One possible result is disorganization and de facto, if not de jure, deregulation in sectors exposed to mobility of labour and services. Another, given that the sectors involved tend to be less strongly organized and comprehensively covered by collective bargaining, is that the state intervenes either by introducing statutory measures or by giving legal underpinning to collective regulation (e.g. through extension mechanisms or bolstering labour inspectorates). In governance terms, the first would entail a shift from associational to market-based governance, whilst the second would entail more profile for statutory forms of governance.

The EU's new economic governance as a transnational source of disruption

The fourth potential impetus for change in CB and LMR in the northern countries is the EU's new economic governance (NEG) arrangements. These were introduced in 2011 in response to the macro-economic challenges, and imbalances, generated by the crisis, and impinge more sharply on the Eurozone countries than those, including three of the four Nordic countries and the UK, which remain outside the Eurozone. Under the NEG, collective wage setting mechanisms as well as wages policy are brought firmly within the ambit of EU macro-economic policy planning and possible intervention. Powers of routine surveillance over wage and labour cost developments, and unit labour costs, have been accorded to the European Commission. Changes to collective wage-setting mechanisms are specified amongst the possible corrective measures that can be required by the European Council in the case of macro-economic imbalances in Eurozone countries (Erne 2012). Further, the country specific recommendations (CSRs) that are adopted by the Commission as part of the annual macro-economic planning cycle, can address collective wage-setting mechanisms and wages policy. Analysis of those CSRs which concern collective wage-setting mechanisms reveal the policy template driving the NEG regime: to flexibilise wage-setting mechanisms through (further) decentralisation of wage bargaining and; to remove certain state supports for collective wage setting, such as wage indexation mechanisms (Marginson & Welz 2015).

To date, structural reforms to collective wage-setting mechanisms have been mandated via the emergency programmes of financial assistance provided by the European and international authorities to several southern countries (along with Ireland), and not under the NEG procedures. Put differently, these procedures are only likely to be invoked in one or more of the northern countries should serious imbalances emerge. Concerning 'softer' CSRs addressing reform of collective wage-setting mechanisms, to date these have been directed at countries perceived to have competitiveness problems (Marginson and Welz 2015). Belgium is the only northern country to have featured. CSRs have however addressed wage policy in Finland and Germany.

Seemingly, this fourth dynamic remains more of a latent than active pressure for change in CB and LMR in the northern countries. Should the situation change, however, the direction of reform recommended, or required, by the European authorities is clear: towards more decentralized and less comprehensively regulated wage-setting arrangements. In governance terms, the effect would be to weaken associational in favour of market-based governance.

Summing up

The discussion above suggests that the sweeping, EU imposed changes in CB/LMR in southern Europe will not necessarily unleash a corresponding wave of deregulation and disorganization of CB/LMR in the northern countries. In view of the division of

labour between different regions of Europe's integrated economy and prevailing patterns of trade we expect that South to North contagion, driven by lower labour costs and enhanced flexibilities in the southern countries, is likely to have limited impact on the evolution of northern CB and LMR. Our expectation is that potentially much more forceful international sources of change are, first, regime and product market competition among the northern countries themselves (the "North-North regime competition' thesis), and, second, from East-West integration through eastward relocation of certain types of production and consequent integration of production chains, and through mobility of labour and services from the Visegrad (and other eastern) countries to the northern EU/EEA countries (the 'East-West destabilization' thesis). Finally, we expect that, unless particular northern countries encounter persistent macro-economic imbalance, the EU's new economic governance regime will remain a latent rather than active source of pressure for change.

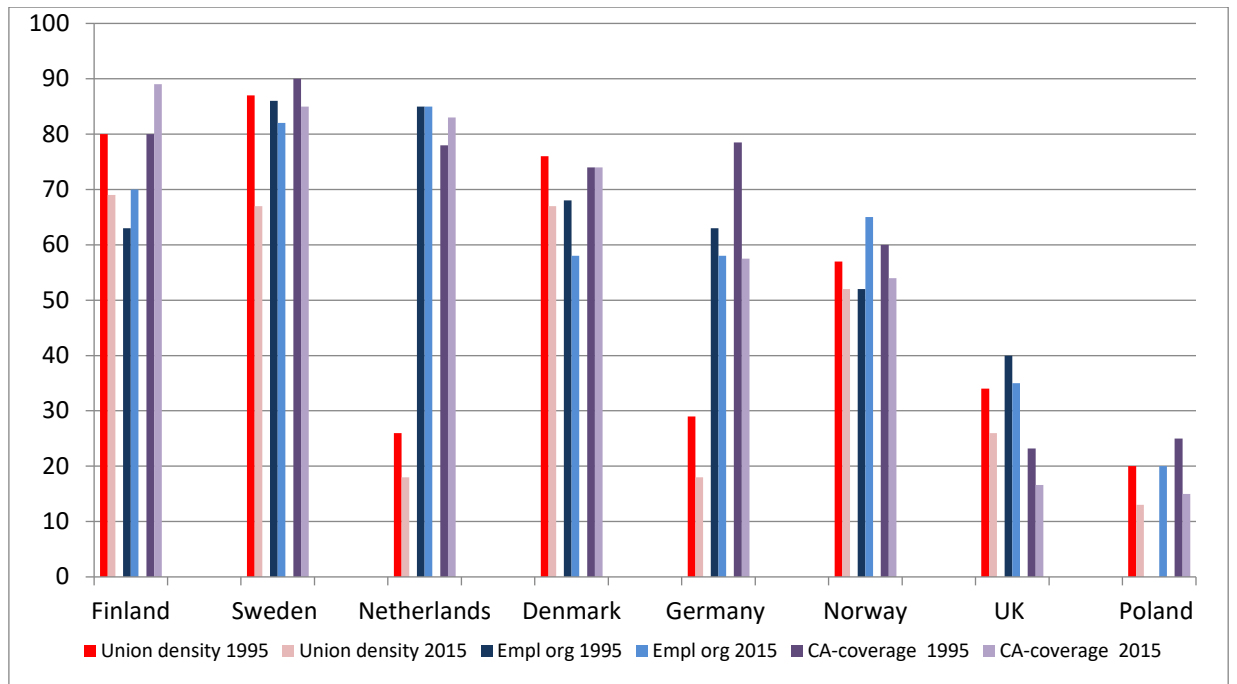
Beside the economic logic underlying these expectations, they are underpinned by the fact that most of the northern economies still boast quite well-functioning, entrenched and effectively coordinated CB/LMR systems that have contributed positively to competitiveness and capacity for economic and institutional adjustment. Nonetheless this does not render them immune to pressures for change. One kind of change is a renewal or reconfiguration of the (varying) arrangements for coordination of CB that characterize all but one of these countries. This, we suggest, is more likely as a response to 'North-North regime competition' than 'East-West integration'. The destabilization associated with the latter, of itself and in interaction with the former, insofar as it impacts more so on sectors that are less well organized and comprehensively regulated by collective agreements, would seem more likely to result in one or other – or a combination of – two further kinds of change. These are: disorganization and deregulation; and state intervention to either augment collective regulation or extend statutory regulation.

3. Research design and approach: Varieties of northern CB

The seven countries in focus span cases of large and smaller, export-oriented, economies. They are variously within, closely tied to and outside the Euro. The northern European countries were generally less afflicted by the crisis than elsewhere in the EU, but there was huge variation among them; while Germany, Sweden, and Norway were among the least affected in Europe, the UK, Denmark, [the Netherlands,] and eventually Finland experienced deep slumps, but without being dragged into the debt frenzy of the financial markets. Six of the countries exhibit strongly, but differently, coordinated, and one a liberalized, industrial relations system. The data are drawn from published and grey sources and a programme of field interviews with key employers' association and trade union officials at cross-sector level in the countries with coordinated multi-employer bargaining arrangements.

Industrial relations literature has since the early 1990s described a long trend towards (mainly) *organized decentralization* in northern Europe, that is, a gradual devolution of actual determination of pay and conditions under multiemployer bargaining (MEB) towards company/plant level negotiations within centrally coordinated frameworks (Traxler 1995, Ferner & Hyman 1998, Marginson & Sisson 2004). The dominant bargaining level in such multi-tiered systems has increasingly become the sector, with Denmark and Sweden moving from peak to industry-level MEB in the 1990s. The exception was the UK where MEB was progressively abandoned by employers during the 1980s and 1990s, under a process of *disorganized decentralization* to company level. The resulting decline in collective agreement (CA) coverage has left ample room for individualization of terms and conditions. The UK thereby offers a counterpoint of disorganized decentralization in comparison to the organized variants found in the six other countries. Whilst these exhibit some broad similarities, there also differences in their collective bargaining arrangements. The following main features are briefly reviewed: levels of employer and trade union organization and collective bargaining coverage; the predominant level of bargaining under multi-employer bargaining, and scope for company-level negotiation; horizontal and vertical forms of coordination under multi-employer bargaining; state supports for collective bargaining; and statutory provisions, specifically minimum wages.

Chart 1. Trade union density (total), employer organization rate, and collective agreement coverage in private sector, 1995-2015*



* Some of the bars are based on figures from the year closest to 1995 and 2015.
Source: J. Visser, ICTWSS database 5.0, 2016.

Chart 1 shows that collective bargaining coverage ranges from almost 90 per cent in Finland and Sweden to below 60 per cent in Germany and Norway, with Denmark and the Netherlands in between. Coverage has remained relatively stable with the important exception of Germany, which has experienced a noticeable decline since the mid-1990s. The contrast with the UK, where single-employer arrangements prevail (and unilateral management regulation is widespread) is stark, with coverage falling below 30 per cent.

Turning to interest representation, there is a clear relationship between the level of organization amongst employers and prevailing bargaining arrangement. Rates of employer organization membership are close to or above 60 per cent in the six countries where multi-employer bargaining arrangements prevail. In contrast, the rate of employer organization in the UK is markedly lower at 35 per cent. No such pattern is evident for union density. Whilst union density is above 50 per cent in the four Nordic countries, the figures for Germany and the Netherlands, at around 20 per cent, are little different from those of the UK. The implication is that high levels of employer organization are more closely linked than union density levels to the continuation of multi-employer bargaining (and conversely that levels of employer organization are more influenced than union density levels by the presence or absence of multi-employer bargaining) (Traxler 1998).

The predominant bargaining levels

Multi-employer bargaining in the six countries is largely anchored at sector level, although the cross-sector level remains important in three countries: the Netherlands, Norway, and, until 2016, Finland. Scope for negotiation at company level has been opened up in varying ways. In Germany, increasing scope for negotiation at company level has been secured through the proliferation of opening clauses in sector agreements, including a sub-set which allow for derogation from sector-level provisions. Opening clauses have also become widespread amongst sector agreements in the Netherlands. Although some specify possibilities for derogation, in contrast to Germany these have not been taken up to any great extent (Keune, report for Eurofound). In Norway and Denmark, sector agreements tend to specify minimum wage rates, the basic increase therein, and major conditions while the setting of actual pay, including local increments, and other conditions are delegated to company level negotiations.⁴ The strictly hierarchical principles underpinning the articulation between bargaining levels in the Nordic countries mean that derogations to the detriment of workers are generally not accepted unless explicitly allowed in the higher level agreement (as was sometimes the case during the crisis). While sectoral agreements in Norway normally define a specific increase that pertains to all employees covered and increments achieved in company negotiations come on top of that,⁵ most Danish sectoral agreements give more leeway for differentiation through negotiations of actual pay at company level – although the central increase in the minimum rate serves as benchmark. Swedish sectoral agreements tend to be somewhere in between the Norwegian and Danish, ranging from blue-collar agreements where a specific rise is guaranteed for all workers and white collar agreements which entail a defined increase in the wage-sum and more scope for individual adjustments (with various individual guarantees/fallback options) to a growing share of number-free agreements for higher-skilled groups in the public sector. Wage bargaining in Finland has hitherto been more centralized, meaning that annual increments have usually been set in tripartite incomes policy settlements negotiated at peak level and that the scope for company negotiations has been limited. This will change from 2017, however, as the organized actors in June 2016 – after a protracted conflict – agreed to move towards Swedish style pattern bargaining at industry level with more leeway for company negotiations (see below).

Mechanisms for coordination across and within sectors

Different mechanisms for *coordination* of bargaining *across sectors* are identified in the literature (Traxler et al. 2001). These include: pattern bargaining, under which one sector establishes a pattern subsequently followed by other sectors; peak-level

⁴ In some private sectors, typically construction and transport, sectoral agreements in Denmark and Norway still determine the specific pay scales and the actual increases therein (so-called “normallønn-overenskomster”).

coordination, involving the central, cross-sector organizations of employers and trade unions; and state-led coordination. Amongst the countries in focus there are no instances of state-led coordination: France is the principal instance in northern Europe. Pattern bargaining is the principal coordinating mechanism in Denmark, Germany and Sweden and it plays a significant role in Norway also. In Germany and Norway it is the internationally exposed, strongly organized (amongst both employers and trade unions) metalworking sector which assumes the role of pattern setter; in Denmark and Sweden, it is the Industrial agreement of which metalworking is a part.⁶ In the Netherlands peak-level coordination between employers and trade unions, through the guidelines agreed in the tripartite socio-economic council (SER) is an important mechanism for coordination. Peak-level coordination is also evident in Norway, as the confederations on both sides are part of all industry agreements, and the biannual wage adjustment rounds in private sector are always conducted by the peak associations. In Finland, peak-level coordination in the form of tripartite incomes policy agreements continued to play an important role until the 2015 pay round.

A second dimension to coordination is between the sector and company levels, a dimension which Traxler et al. (2001) term 'governability' and which Crouch (1993) terms 'articulation'. All six were considered by the respective authors to have effective procedural mechanisms for governing the relationship between or articulating the two levels. In this respect, they contrast with the southern countries where, with the exception of Italy, the sector and company levels are not effectively articulated. The mechanisms that 'articulation' rests on differ, however, between the six countries. In the Nordic countries, as mentioned, a strict hierarchical principle of the CB systems implies that lower level actors cannot deviate from terms and conditions determined in higher level agreements unless explicitly allowed in the latter. In Denmark the scope for local determination of actual pay and working time has been considerably broadened, taking the form of a generalized delegation within broad parameters or 'centralized decentralization' – although the increase in the sectoral minimum pay in practice serves as a benchmark (Due et al. 1994; Ilsøe et al. 2007). In most blue collar agreements in Sweden and Norway the centrally defined increments are generally binding, whereas more leeway for individual variation is allowed in white collar agreements – often though with minimum guarantees/fall-backs protecting against downward differentiation. In Germany and the Netherlands, the

6 In all these cases there have been moves to strengthen the weight of the pattern setting bargaining area by linking additional manufacturing areas to bargaining in metalworking. In Denmark, this happened in the early 1990s through amalgamations of several employer associations into Danish Industry and subsequent formation of a bargaining cartel of LO unions in manufacturing (CO-Industry). In Sweden, this took a slightly different form with the metalworker union initiating establishment of *Industriavtalet* (The Industry agreement) in 1997, which is a framework agreement between all employer and union federations in industry ensuring tight coordination by obliging the parties to rely on common data, criteria, procedures, sequence, and mediation procedures in their respective industry bargaining rounds. In Norway, the shrinking of the metalworking sector led to inclusion of several smaller industry agreements in the pace setting bargaining area in the early 2000s (now coined the Industry/Manufacturing agreement).

mechanism is more specific, taking the form of a hypothecated delegation through specific, opening clauses or ‘controlled decentralization’ (Ilsøe et al. 2007; Marginson and Galetto 2016). This difference in mechanisms for is associated with differences in workplace representation.

The basis of workplace representation differs between the four Nordic countries (and the UK), on the one hand, and Germany and the Netherlands, on the other. Representation arrangements are single-channel, or trade union-based in the former. In the latter, they are based on works councils, reflecting the dual channel nature of representation whereby trade unions primarily exercise representation rights beyond the workplace in sector or multi-sector negotiations. Studies comparing decentralization under the two different systems of representation find that both its extent and nature are influenced by the system of representation. Under single channel arrangements, trade unions are more prepared to delegate responsibility and a broader mandate to the company or local level than under dual channel arrangements. This is because under the former they are better able to coordinate and if necessary exercise authority, whereas under the latter formally independent works councils are potentially more difficult to coordinate and influence. In studies of the scope to negotiate over working time and variable pay, respectively, Ilsøe et al. (2007) and Nergaard et al. (2009) found marked differences in the extent and nature of decentralized negotiations in the metal sector between Denmark and Germany, and Norway and Austria.

The state’s role in coordination

State supports for collective bargaining include extension mechanisms; legal underpinning for the favourability principle; legal underpinning for a peace obligation in agreements and provision of mediation mechanisms; inclusion of clauses in public procurement contracts; and tripartite institutions. The first two are not of (potential) relevance in the UK, given the prevalence of single-employer bargaining.

There are legal extension mechanisms in four of the six countries with multi-employer bargaining arrangements, Denmark and Sweden being the exceptions. There have been recent changes in the use and/or scope of extension arrangements in two countries, Germany and Norway (see below). In Sweden, the long-established practice of enforcing adherence to the relevant collective agreement through use of industrial action, should it be necessary, has been rendered potentially unlawful against foreign companies by the ECJ’s ruling in the Laval case. The favourability principle is legally underpinned in Germany and the Netherlands, and is accorded equivalent support via the basic agreements in the four Nordic countries. Although there have been no formal changes, the 2004 ‘Pforzheim’ agreement in Germany’s metalworking sector de facto compromised this principle by allowing a proportion of a company’s workforce to exceed the 35 working hours ceiling so long as this promotes or protects employment.

Sector agreements in all six countries include a peace obligation, which prohibits industrial action during the period of an agreement's validity. The obligation is anchored in law and underpinned by basic agreements in the three Nordic countries, and by labour law in Finland, Germany and the Netherlands. There is no peace obligation in the UK. In the Nordic countries, involvement of mediation agencies is obliged in disputes over sectoral collective agreement renewal, and the mediators have powers to postpone conflicts and in Denmark also to propose settlements and even couple ballot votes across bargaining areas.⁷ In local bargaining industrial action is prohibited in the Nordic countries, except certain forms of working by the rule, though in DK 'informal' work stoppages are frequent and accepted. The mediation agency in the UK can only intervene in disputes at the invitation of the parties.

The state has provided support to collective agreements through the inclusion of clauses in public procurement contracts which require contractors to conform with / uphold specified provisions of the relevant sector agreement. In line with the Posting Directive (and the Rüffert case), such provisions are in Norway limited to the nucleus of minimum terms laid down in extended CA.⁸ In Germany the scope for this practice was substantially constrained by the ECJ's ruling in the Rüffert case, but later cases and amendments in the EU procurement regulations have apparently re-opened the field, indicating that change may be underway also in other case countries.

The most developed tripartite institution amongst the seven countries is to be found in the Netherlands, where the SER (see above) plays a key role in setting the direction and agenda of subsequent collective negotiations.⁹ In Germany, tripartite institutions do not feature (the *Bundnis für Arbeit* in the 1990s represented something of an exception, albeit an unsuccessful one). Adjustments in the newly introduced minimum wage are to be determined by a bipartite Minimum Wage Commission composed of three representatives from each side of industry and one neutral chairman. In the UK, tripartite institutions were largely abandoned in the 1980s. However, recommendations to the government on the statutory minimum wage (introduced in 1999) are made by a statutory, bi-partite body.

The state can also specify substantive standards through statutory provision, of which minimum wages are the most prominent instance. This can either be viewed as complementing collective bargaining in sectors which are not well organized and sector collective agreements either non-existent or not widely applied, or as encroachment on the capacity of employers and trade unions to regulate wages themselves. There is no statutory minimum wage in the four Nordic countries, where minimum wages are set in multi-employer collective agreements. The same applied in

7 The Swedish mediator is bound not to accept solutions that go beyond the 'mark' set in the Industrial Agreement, and in Norway the norm is that the mediator never supports solutions that give conflicting 'latecomers' better economic terms than those initiating the round.

8 Finland has similar rules, and very recently legislation on social clauses was introduced in Sweden (watered down due to employer resistance). In Denmark, employer protests especially from the manufacturing side succeeded in defeating a legislative social clause proposal albeit political pressures have got most municipalities to apply such clauses.

9 Similar facilitating institutions are found in the Nordic cases - TBU, Medlingsinstituttet, DK Statistikudvalget .

Germany until the introduction of its statutory minimum wage in 2015. The UK introduced a statutory minimum wage in 1999, whilst statutory minimum wage in the Netherlands is of longer standing.

4. Varieties of northern CB – diverse responses to destabilizing challenges

In the years prior to the financial crisis, tendencies of erosion of collective agreements even in countries with well entrenched coordinated systems began to call the notion of organized decentralization into question. This was most conspicuously so in Germany – the former master-case of coordinated, social partnership – where union density and CA coverage had declined since the post-unification crisis and was accompanied by massive outsourcing to subcontractors uncovered by CA (or covered by less onerous CA), fragmentation and hollowing out of CA through proliferating abuse of exemption clauses, and the rise of a large, disorganized low-pay sector spurred by partial deregulation of employment and social protection (Carlin et al. 2015). Some similar tendencies were witnessed in other countries especially in the private services sectors (Keune 2011, Andersen et al. 2014), where even countries with entrenched collective institutions had difficulties dealing with the rise in low-wage competition after the 2004 enlargement. Combined with widening scope for negotiations at company level – sometimes facilitated by figureless central agreements – such developments sparked questions about what was actually going on beneath the surface of institutional stability (Visser 2005). Were the systems of organized decentralization being corroded by looser and more open ended procedures for articulating between the two levels (Marginson 2015) and/or preempted by unwieldy dynamics of (wild-cat) decentralization, threatening to undermine the coordinating capacity of the central organizations (Traxler 2009)?

The strains on northern CB and LMR arrangements and institutions were reinforced by the onset of the crisis in late 2008 and the austerity and stagnation that ensued. Earlier studies suggest that developments in the northern cluster have been mixed (Glassner et al. 2011, Dølvik et al. 2014, Marginson 2015, Van Gyes & Schulten 2015). It seems that, on the one hand, the process of articulated decentralization has continued, especially when it comes to pay setting but also as regards short-term work and time flexibility. On the other hand, there have in several instances been attempts, involving the state as well as the collective bargaining parties, to extend or reinforce the reach of multi-employer bargaining and curb low-wage competition. The available literature, however, provides a patchy basis for comparative inference about how the past decade's upheavals have influenced the reality of CB, including mechanisms of coordination and the interface between legal supports and provisions

and CB. Neither do we have sufficient insight into the determinants of the actors' CB agendas and strategies in different sectors – especially on the employer side.

To this end, this section provides empirical illustrations of three main types of recent change in CB/LMR that can be related to the different external pressures described above:

- 1) Renewal or reconfiguration of wage bargaining coordination across sectors;
- 2) Deregulation/disorganization or uncontrolled decentralization of CB/IR, and
- 3) Statutory re-regulation or intervention.

Instances of the first seem to occur mainly in order to cope with intensified North-North competition. Instances of disorganization have largely been associated with increased East-West producer mobility, and most instances of re-regulation stem from efforts to counter disorganization effects of the East-West mobility. Hence, the different types of change are not mutually exclusive and tend to interact. The illustrations of change do only address one particular aspect of change in CB/LMR institutions in the respective countries, and aim to show how different instances of institutional change have evolved in response to the pressures from North-North competition and East West-integration.

Denmark: Leaving wage floor regulation to the trade unions and recalcitrant employers

Denmark illustrates a case relying primarily on voluntarist CB strategies to regulate wage floors and protect labour migrants against wage dumping. Although the Danes grudgingly have accepted legislation in some areas of LM regulation, the leading actors have been against any form of statutory regulation of wage related issues. Yet, on the eve of enlargement the social partners and the government agreed on an “Eastern-agreement” enacting transitional, statutory restrictions on labour migration from accession countries – eventually copied by Norway – basically requiring fulltime, CA pay to obtain a work-permit. In essence, this was a 5 year statutory extension of CA terms covering all CEE citizens employed by Danish firms. With respect to posting of workers, an agreement between the main confederations (LO & DA) from 1992 recommended pay and conditions in line with CAs. When implementing the Posted workers directive (PWD, EC 71/96) in 1999, there was broad consensus not to invoke article 3.8,¹⁰ through which minimum terms in representative, nationwide CAs could be made generally applicable. This mirrored the Danish commitment to protect their autonomous CB against statutory EU intrusion, and – as in Sweden – the tradition that unions entered CAs with foreign firms, if needed by help of industrial action. Earlier, a similar approach was tried when implementing directives on worker rights, but the Danes had to give in for Commission pressures and invented

¹⁰ Acc to J Cremers, gen sec in EFBWW, this clause was designed deliberately to accommodate Danish and Swedish needs (Bosch, Cremers & Dølvik 2007).

their own *erga omnes* legislation whereby LO-DA agreements were extended to CA-free areas (Andersen 2003).

When the ECJ in *Laval* found the industrial action Swedish trade unions launched against a Latvian building firm to obtain a CA on Swedish terms in breach with EU free movement rules, this challenged also the Danish posting regime. Contrary to the adjustments made by the Swedish government,¹¹ the social and political actors in Denmark agreed to maintain national practice. Only slightly amending the posting law, inserting a reference to article 3.8, the legality of industrial action against foreign firms underpinning demand for minimum pay rates anchored in the most representative CAs was upheld, given that the firm was informed about prevailing terms in advance (Gräs-Lind 2013).

As the inflows of migrant workers continued to rise even after Denmark slid into recession in 2008 and were reinforced by the 2009 repealing of the TA, the trade union task of tracking down, regulating, and enforcing conditions for migrant labour became a sisyfosian challenge. Faced with the fluidity and volume of contracts, resources often fell short. The ambiguities of serving as regulator, police, and advocacy group simultaneously rendered it hard to organize migrants.¹² In spite of Danish employer organizations' principal support for the Danish model, they have been reluctant to accept union CB demands for stricter rules and enforcement of standards.

Even in construction, where the bank and housing crisis along with growing low-wage competition led to loss of markets for national SMEs, the union had limited leverage. Dansk Byggeri, the dominant EO, eventually agreed to some measures to improve compliance,¹³ but rejected core union demands regarding compensation for absent "piece rates" and for third party/builder responsibility for subcontracted workers, ending in a compromise to refer disputes over such issues to the Labour Court system (Andersen 2016). In contrast to the construction employers in Germany and Norway (see below), the cautious approach of Dansk Byggeri reflects that it – as affiliate in Danish Industry – has to act in accordance with the positions of the manufacturing associations which have been strongly against statutory regulation to curb low wage competition.

Subsequent debates over legislation of chain liability and social/labour clauses commended in various EU directives, demonstrated the powerful position of the manufacturing employers in DI which controls majority in DA. In the face of the critical stance of DI/DA, the government made labour/social clauses compulsory only in the state sector¹⁴ and refrained from proposing chain liability where instead the CB parties agreed to set up a fund aimed to compensate un/underpaid workers (Andersen

11 EU & Arbetsrätt 2016

12 Arnholz & Eldring (2015) have shown that recruitment of CEE labour has been markedly lower in Denmark than in Norway, where the unions can focus on securing the migrant workers' right to statutory pay.

13 E.g. a right to "adjustment negotiations" and pay information from sub-contractors within 48 hours, coupled with reversed burden of proof, and inclusion of posted workers in a holiday fund (Andersen 2016).

14 Although voluntary in the municipal and regional sector, most municipalities have reportedly introduced such clauses in their tender policies.

2016).¹⁵ After some building unions and smaller craft associations had suggested to look at the extension mechanism in Norway – echoed by the leader of FTF who was engaging in merger talks with LO – DA pressured LO into an agreement stating that CA extension and other forms of statutory pay regulation would breach with the Danish model of CB (LO-DA 2015). That a trade union confederation voluntarily cedes even the threat of demanding state support in curbing social dumping – weakening their member unions’ bargaining power in this field – is remarkable (Dølvik 2016b), especially in view of the erosion of organized IR/CB and wage floors seen in growing pockets of the Danish labour market (Refslund 2016; Toubøll et al 2015).¹⁶ Subsequently, the Danish social partners voiced reservations against the proposed revision of the PWD entailing remuneration for posted workers equal to natives. In spite of somewhat strengthened state enforcement, including a registration scheme for foreign firms/workers (RUT), it is also notable that the voluntarist Danish approach to wage floor regulation has not been flanked by more forceful CB measures aimed to compensate for the external liberalization of the labour market through strengthened cooperation on monitoring and control of employer compliance. On the contrary, Andersen (2016) suggests that manufacturing led employer resistance has made it gradually more difficult to reach agreement on such issues, indirectly gaining support from the leader of the Danish metal union suggesting that the union discourse about social dumping is exaggerated (UgebrevetA4, 2016).

Sweden – renewing articulation and bolstering industrial pattern bargaining

After Sweden had shifted to industry-led pattern bargaining and a flexible exchange rate in the 1990s, turbulence in the wake of the financial crisis prompted a new re-configuration of the Swedish CB regime – both in terms coordination and articulation. Prior to the crisis, tension had built up among the blue-collar trade unions (LO) regarding how relative pay for low-wage groups could be raised within the “mark” set by the manufacturing industries – juxtaposing the objectives of competitiveness and equality. In 2007, the LO-unions’ pursuit of a special “equal pay”-pot for female groups exceeding the mark – leading retail employers to break ranks on the employer side – triggered IF Metall to threaten defection from the coordination in LO if this policy continued.

Swedish export manufacturing was hard hit by the trade collapse under the financial meltdown. This led to reinforced wage moderation, based on comparisons with labour cost developments in Germany and Finland in particular. Furthermore, pressures from major union clubs at company level prompted an innovative Crisis Agreement in the metal industries – unprecedentedly allowing up to 20% cuts in pay and

¹⁵ The construction unions in 3F were very critical of this solution, suggesting it might strengthen incentives to free-riding and fraudulent employer behavior.

¹⁶ According to informed sources, this was presumably part of a larger deal where the concession from LO was a DA prerequisite for maintaining key agreements in case of LO/FTF merger.

hours through company bargaining. In spite of a kindling recovery, the manufacturing employers called for improved competitiveness through prolongation of the crisis agreement in 2010 – entailing a central wage freeze and local pay negotiations only – but they had to back off and accept restrictions on their hiring of agency workers replacing laid-off staff. In the aftermath, the employer federation in metal, Teknikföretagen, and Teko (textile and fashion) announced exit from the Industrial Agreement arguing it failed to serve its purpose. Threatening a collapse of the Swedish CB model, this led in 2011 to a negotiated tightening of the Industrial Agreement bargaining order¹⁷ – including widened mediator prerogatives and a common expiry date for all manufacturing accords. This was coined the Industry Agreement 2.0. Following up the Crisis Agreement and referring to the subsidized German “Kurzarbeit” scheme, Teknikföretagen and IF Metal in 2012 entered a more comprehensive settlement on short-time work, premised on state financial support (Svalund et al. 2012). This was eventually met by legislation enacted by the liberal government in 2014.

The tension among the LO unions over relative wages intensified, however, spurred by white-collar TCO and SACO groups moving ahead and the paper union exit from the IA on the ground that it left no scope for improvements of relative wages for laggard groups. After ongoing rows, this thorny issue caused a breakdown in the LO coordination of wage claims prior to the 2016 pay round when the economy – especially domestic sectors – was recovering strongly after years of sluggish growth and wage restraint. Pitting IF Metall and other manufacturing unions against the unions in construction, horeca, retail and other domestic services, the sharpened conflict between securing competitiveness and distributive justice fueled fear that the coordinated Swedish model was evaporating (Danielsson & Öberg 2015).

The outcome was, however, that nearly all the breakaway unions settled peacefully on the mark along with their white-collar counterparts in TCO and SACO. Besides confirming the resilient power of the cross-class coalition anchored in IA, a remarkable feature was that leaders of the peak confederations (LO and SN), in the midst of the pay round went public together and commended a formula for giving certain low-paid groups an extra increment tailored after the settled accord in retail. Apparently legitimizing a two-pronged approach to pattern bargaining aimed to accommodate the tension between competitiveness and solidarity, the public reemergence of the SN & LO leaderships in forging an encompassing solution was a reminder that CB articulation in the Swedish model after all is premised on consent from the power centers at peak level – especially on the employer side.¹⁸ Despite the spread of decentralized, individual CB in public services and some skill-intensive private industries – including more figureless agreements – this suggests that employer coordination across sectors has been essential for keeping the low level of pay dispersion in Sweden almost unchanged over the past decade. Compared to Denmark and Norway in particular – where dispersion has increased sharply in recent years – this feature

17 Specifications, Interview TF 2016, Lyhne Ibsen et al 2011, Medlingsinstitutet 2015, IA 2012.

18 ‘Beredskapsgruppen’ in SN comprise 6-7 core federations.

of the renewed Swedish model highlights the importance of high CB coverage and employer organization rates in maintaining coordinated and egalitarian outcomes (Ibsen & Thelen 2017).

Norway: Introducing statutory wage floors in a system built on the autonomy of collective bargaining

In contrast to most European countries, Norway has like other Nordic countries no statutory minimum wage. When entering the single market via the EEA agreement in the early 1990s, the trade union confederation (LO) demanded safeguards against cross-border wage dumping and proposed a law on extension of CAs inspired by German tradition. Against protests from employers and the right, the law was adopted by a majority of center-left parties. Alien to the Norwegian system of wage setting, the law could be invoked in instances of differential treatment of foreign workers. As there was no rise in EU labour migration in ensuing years, the law was soon forgotten except being referred to when implementing the Posting directive in 2000.

This changed when the 2004 accession came closer. In 2003, the main private sector union, Fellesforbundet, won through with a call for extension of CA conditions in construction, metalworking, and electrical work at onshore petroleum sites with high shares of posted southern European workers. Influenced by Danish developments, Norway enacted in 2004 also a lax transitional arrangement (TA) allowing labour migrants from the accession countries 6 months job-seeking while requiring fulltime pay in accordance with CAs to obtain a residence permit. As posting of workers in the context of providing services was not allowed covered by the TA, employers soon discovered that this enabled hiring of workers on much more lenient conditions. With a booming economy, labour shortages, and 30% higher average wages than e.g. in Sweden and Denmark, Norway had by 2009 received more eastern labour than the other Nordic countries combined (Dølvik & Eldring 2008). Especially workers posted by subcontractors in construction and ship-yards were subject to grave wage dumping, bogus contracts, and abusive conditions. With union density in private sector around 40% and roughly 50% CB coverage (Nergaard & Stokke 2010) – the trade unions in the most affected industries saw no other option than calling for extension of CA minimum pay and conditions along with introduction of a series of state control measures which in EU law are only allowed in areas covered by statutory regulation.

As the extension law is constructed to counter unequal treatment of foreign labour, the Tariff-board¹⁹ must see proven evidence of differential treatment to enact an extension decree. The criteria and proofs have been subject to interpretation struggles and employer contestation. A core matter of controversy has been the scope of the conditions that can be extended in accordance with the PWD. The emerging practice has been to extend CA clauses pertaining to minimum pay, working time ceilings, overtime, coverage of expenses for travel, board and lodging (TBL) when working

¹⁹ Two neutral representatives and two from each side of industry are appointed.

away from home. While the first union calls for nationwide extensions in construction (2007) and agriculture (2008) were accepted without much employer misgivings, the union call for extension of the metalworking agreement in the ship- and offshore yards relying on large-scale hiring of posted workers caused a prolonged stalemate in the Tariffboard before it was adopted against the employer votes late 2008. Opposing the need for extension, the representatives from Norwegian Industry (NI) and the employer peak association (NHO) were especially provoked by the inclusion of TBL coverage for posted workers commuting between their 2 weeks shifts. Immediately launching a court case against the state and the trade unions, they claimed that the extension of TBL and several other items was in breach with EU/EEA law. This led to the most spectacular court case in modern labour history (NOU 2012: 2). After losing in the first and second instances – despite requested advice from the EFTA-court supporting the employer interpretation on several points – the employers appealed to the Supreme Court where they lost on all counts in 2013. The verdict held that without inclusion of TBL and other allowances in the minimum wage, the posted workers would receive only about half the going rate of national workers and that such a competitive distortion could undermine the Norwegian system of coordinated wage setting. Provoked by the Supreme Court’s neglect of the EFTA-court, NHO the swiftly sent a complaint to the EEA surveillance authority (ESA).

In the meanwhile, the extension procedure was almost blocked, and employers and right-wing politicians voiced ideas of instead introducing a statutory minimum wage. The only exception came in industrial cleaning, where the employer organization (NHO Service) – challenged by low cost firms – won through with a joint call for extension with the trade unions. This heightened the tension between home-market and export manufacturing organizations in NHO. After the “yard-case” seemed settled, however, several extension claims were approved in the electricity industry, fish manufacturing, domestic road transport, and bus transport. Hence, a decade after the 2004 enlargement, eight industries employing a significant share of the eastern labour migrants had become subject to generally applicable CAs along with a host of public enforcement measures proposed in the Red-Green government’s action plans against social dumping.²⁰ Evaluations suggest that extension has contributed to raise pay for migrant labour, but wage dispersion has increased as CEE workers mostly receive minimum pay rates while disorganization, illicit work, and work-life crime has continued to spread (Eldring et al 2011; Bjørnstad et al. 2015).

The contested changes in the Norwegian labour regime in response to external liberalization are evidently not over. In 2016, ESA opened infringement case against Norway, reopening the yard-case. This brought the conflicts between the federations

20 In areas with extension only, these include measures such as contractor liability in the entire subcontracting chain, union access to information about subcontractors’ working conditions, social clauses in public contracts, registries and ID-cards for workers in construction and cleaning, a registry scheme for TWAs, services centres and registries for foreign workers, strengthening of the Labour Inspectorates and their cooperation between other state agencies (Eldring et al. 2011). The conservative government taking office in 2013 repealed some of these but has launched substantial measures and a special agency to fight the rise in organized working life crime.

in manufacturing and those in construction and several services sectors out in the open. The construction employers in BNL announced publicly that preservation of the extension regime, including TBL, was of existential importance for their member firms.²¹ As it now stands, it seems that the government has gained acceptance from ESA for awaiting the outcome of the 2018 CB round after the social partners have agreed to try to broker an EU-proof solution that satisfies both the actors in export manufacturing and construction.

Germany – restoring wage floors by reshaping extension legislation

When meeting eastern enlargement with transitional restrictions on movement of labour *and* services, Germany had gone through a decade with significant transformation of its labour market. Sweeping employer restructuring, decline in unionisation and CB coverage, partial deregulation, mini-jobs, and lowered reservation wages through the Harz reforms, had propelled segmentation, low paid work, and erosion of CB (Carlin et al. 2015; Bosch & Kalina 2012). Fuelled by redundant East German and CEE labour, unified Germany appeared as a laboratory of disorganization driven by East-West integration. Little of this stemmed from direct change in CB institutions. The changes emanated from the market, where the restructuring propelled by manufacturing employers was a key driver, accompanied by constant calls for improved competitiveness through lower labour costs and greater flexibility.

Despite the temporary restrictions on labour mobility from the accession countries (repealed in 2011, for Rumania/Bulgaria 2014), the recovering German economy attracted large flows of eastern labour. From 2007, Germany was the largest destination of labour from Rumania and Bulgaria, and when the German “employment miracle” continued during the euro-crisis devastating southern Europe, vast flows of Mediterranean and eastern transit migrants sought work in Germany. The barriers to regular labour migration from the accession countries implied that much of these flows came through channels with more lenient EU rules and higher propensity for atypical work, including bilateral programs for seasonal work, temp agencies, “solo” service providers, free establishment, and posting into industries not subject to restrictions (Wagner and Hassel 2016). This added to the dynamics of low-wage job competition and disorganization at play. A prominent example is the meat-processing industry, where vast supply of eastern “Facharbeitern” spurred restructuring where in-house slaughters were substituted by eastern agency workers or self-employed (Refslund & Wagner 2014/5). Another was industrial cleaning which largely was taken over by self-employed eastern contractors. Similar dynamics were seen in other services, the effect being further erosion of CAs and flourishing of “firms” with extremely low pay – typically 4-6 euros.

21 In the CB round in 2016, the employers and unions in construction sent a joint letter to the PM warning that the sector was in deep crisis due to the spread of disorganized low-cost competition.

An important reason why the tendencies of disorganization could come that far in the German social market economy – traditionally associated with social partnership, Tarifautonomie, and strong CB institutions – was the cumbersome and patchy institutions for regulating wage floors. The traditional channel for making CAs generally applicable had since the early 1990s been blocked by the employer confederation (BDA) under strong influence from manufacturing employers.²² Further, the Federal Labour Court had ruled that posted workers, whose labour contracts are not regulated by German law, are not covered by ordinary extensions of collective agreements. Moreover, the extension option in the Posting law was confined to construction and only allowed extension of the low minimum wage clause, whereas Germany had no statutory minimum wage. The absence of any efficient mechanism to broaden collective wage floors had become all the more consequential as the collective agreement coverage since 1990 had declined from 70 to 62 percent -- 56 percent in private sector²³-- and to markedly lower levels in private services and the eastern regions. As union density had also fallen sharply -- from 34% to well below 20% -- the prospect that the trend could be turned by conventional CB means were indeed bleak.²⁴

When German unions realized what was at stake, some of them, notably Ver.di organizing private services, begun approaching employers in industries most affected by low-wage competition along with lobbying of Merkel's Black-Red coalition. The aim was to amend the Posting law so that minimum wages could be extended also in certain branches outside construction. Through this strategy they succeeded step by step –against protests from BDA and manufacturing employers – in winning political support and consent from sector employers for including cleaning, electrical work, mining, and postal services in the act. By 2009, the Ministry of Labour estimated that industries covered by the act employed around three million workers. The critical employers claimed that the real purpose was not to protect posted workers, but to compel German enterprises to pay collectively agreed wages even in sectors where posting was not common.²⁵ Still, when the Temporary Agency Work Directive was implemented²⁶ a change in the German TWA law allowed making the CA minimum

22 R Bispinck, R, H Dribbusch and T Schulten, German Collective Bargaining in a European Perspective. Continuous Erosion or Re-Stabilisation of Multi-Employer Agreements? (WSI-Diskussionspapier 2010); L Eldring, 'Allmenngjøring og minstelønnsregulering i Tyskland,' in T Aa Stokke (ed), Allmenngjøring i EU og Norge (Fafo 2010).

23 R Bispinck and T Schulten, 'Extension of collective agreements: A precondition for stable multi-employer bargaining,' presentation at WSI Collective Bargaining Conference, 27–28 September 2011.

24 L Eldring and T Schulten, 'Migrant workers and wage-setting institutions: Experiences from Germany, Norway, Switzerland and the UK' in B Galgóczi, J Leschke and A Watt (eds), EU labour migration in troubled times (Ashgate 2012).

25 M Schlachter, 'From collective agreements to statutory minimum wages – the German debate on the new posting of workers legislation' in Studia z zakresu prawa pracy 2009 (Uniwersytetu Jagiellonskiego 2009).

26 See Schlachter, Chapter 8, Formula

wage in the sector generally binding.²⁷ In consequence, less than 10 years after enlargement extended wage floors had been established in construction, electrical work, mining, cleaning, guard and security services, waste disposal, and care, further education services, and for temporary agency work. The hourly minimum wages ranged from €7.50 (security services in some regions) to €13.70 (skilled construction workers in West Germany). For agency work, the minimum rate was €8.19 in the West and €7.50 in the East.²⁸ Implying a significantly strengthened impact of CB/CA, this instance of re-regulation was facilitated by the ability of services unions to build coalitions with sectoral employer associations. Beyond the competitive undermining of their membership base, they acknowledged that the extreme low-wage trajectory taking hold in their sectors was not viable, mirrored in declining productivity growth, skill bases, quality, and public legitimacy.

It soon became clear that these measures were insufficient to rein in the spread of low-paid work in the German labour market which had become a magnet for job-seekers from eastern and southern Europe. As CA coverage was declining even in industries with traditionally solid CB – partly due to competition from unbound companies – and eroding the regulative power of the actors, the unions came to the view that more radical measures were needed to shore up the CB system. Against protests from manufacturing unions and IG Metall in particular, DGB started in 200x a campaign for introduction of a statutory minimum wage at 8,50 euros. The manufacturing unions regarded such statutory interference in wage setting as a breach with the *Tarifautonomie* principle, and a likely death-knell for the unions.

The DGB majority, however, managed to convince a host of sectoral employers, politicians, and even the CDU about the need for a SMW. That was hardly because they shared the aim of the unions, which ultimately was to instigate a broader re-embedding of the CB system. Before the 2014 election the DGB leadership managed to build support in SPD for further moves to restore CB. Introduction of the SMW was thus only one element of the demands SPD set as condition for entering a new grand coalition with Merkel. The other elements aimed at creating more favourable institutional conditions for restoration of CB. In the election aftermath, these showed up in clauses in the Government declaration promising measures to strengthen CB, make extension via the Posting act applicable in all sectors, and ease conditions for and adoption of ordinary CA extension decisions (unlocking the employer blockage) along with several other items e.g. re *Leiharbeit*, *Schmutzkonkurrenz*, etc included in a new *Tarifstärkungsgesetz* to be adopted. The international attention to the SMW thus overlooked that this was only one piece in a broader strategy where CAs and

27 German legislation regarding TWA presumes equal treatment with employees of the user company, but exemptions allowed for agencies with collective agreements led to wide-ranging circumvention by means of agreements struck by bogus company unions. Such agreements have recently been denounced in court, and the adoption of a minimum wage in the sector can be seen as a measure to shore up the wage floors in the user sectors.

28 Bundesministerium für Arbeit und Soziales, *Mindestlöhne im Sinne des ArbeitnehmerEntsendegesetzes (AEntG) und Lohnuntergrenze nach dem Arbeitnehmerüberlassungsgesetz*, Stand 1. August 2013.

extended CAs had regulatory primacy and that the SMW was, at least for the unions view, only a supplementary means in an effort to re-establish wage floors and rebuild the German CB system.

Finland – organized decentralization in the shadow of the state

The overhaul of the Finnish wage setting system in 2016, brokered through tripartite debates over the “Competitiveness Pact for Finland”, is probably the most salient and comprehensive illustration of northern CB reconfiguration in recent years. After the legacy of peak-level incomes policy was reinvigorated amid the depression and anticipation of EMU membership in the 1990s – followed by the “Finnish miracle” based on unit labour cost reductions comparable to those in Germany (Vartiainen 2011) – industrial employers’ complaints about lack of flexibility in wage setting intensified during the 2000s’ pre-crisis boom. In 2007, at the brink of the financial crisis, their demands for decentralization of wage setting to industry level were heeded. Triggering an ill-timed wage hike – especially in public services – this severely impaired Finnish competitiveness. After Nokia collapsed, the crisis in global paper/pulp market continued, and the economy run into a second dip, the employers gave in to political pressures for new rounds of incomes policies from 2011. In contrast to in Sweden and in former Finnish crises, where Finland had relied on currency devaluations, the 1999 shift to euro implied that the only policy tools at hand was internal devaluation through wage or budget cuts. When the recession worsened and the government struggled to comply with the new EU fiscal rules, the Center-Right government in 2015 heralded major budget cuts and urged the social partners to cut production costs by 5 percent.

When the negotiations soon run into deadlock, the government launched a radical agenda for austerity and structural reform entailing restrictions on collective bargaining, local opening clauses, and legislative cut-backs in, amongst other, overtime pay and other issues regulated in collective agreements. Provoking massive popular protest, the government then withdrew the most controversial proposals and put other on hold on the condition that the bargaining parties agreed on cost cuts of similar magnitude along with decentralization of bargaining – a prototypical example of asymmetrical “bargaining in the shadow of the state” (Visser & Hemerijck 1997).

After half a year of turbulent, peak level talks, a draft “Competitiveness Pact” implying a profound internal devaluation estimated to cut production costs by 4 percent was signed. Along with a host of measures reducing employer labour costs and workers’ net income – including shifting social insurance fees from employers to workers, 24 extra hours annual working time, pay freeze, and cuts in public sector holiday pay – the pact entailed significant decentralization of bargaining and a “survival clause” allowing struggling companies exemptions from collective agreements. The specificities of the new bargaining system were to be negotiated by the partners to each national collective agreement within 1 June 2016.

As the Government would not withdraw its unilateral reform plans before it had seen the outcome of these negotiations, and the manufacturing employers pushed through a statute change in the employer confederation (EK) prohibiting participation in any centralized wage bargaining,²⁹ the union negotiators came under tremendous pressure. After overtime negotiations, the pact was ultimately sealed when accepted by a majority in the metalworkers' union council facilitated by forceful coordination within the blue-collar union confederation (SAK). The reconfiguration of collective bargaining enshrined in the peak level pact was driven by the largest manufacturing employer federations – forestry, metal, and chemicals – and was clearly inspired by the Swedish system of industrial pattern bargaining. By establishing manufacturing wage leadership and aligning Finnish wage formation with producer cost developments among the main trading partners, notably Germany and Sweden, the objective was to strengthen competitiveness and increase flexibility at company level. In response the blue-collar unions in forestry, metal, and chemicals have embarked on a merger process, aiming to head off future pay rounds by negotiations with their three employer counterparts, the results of which are supposed to define the margins for pay rises in other sectors. As the modalities for company negotiations are to be settled by the parties in each sector and the “survival clause” was closed off for non-unionized firms, the extent to which the decentralization to industry level will prompt further delegation to company level appears more unclear.

29 The Swedish employer confederation (SAF) did the same in 1990 (Kjellberg 1992).

5. Discussion and conclusion

Reviewing the foregoing examples, the extent of the change involved varies along a spectrum running from near stability, entailing adjustment to existing arrangements, through incremental change to transformation. Towards one end of this spectrum, changes in Denmark aimed at maintaining wage floors in the face of the impact of significant flows of migrant labour from central eastern Europe have entailed modest adjustments to enforcement practice in the face of employer recalcitrance to either embark on joint initiatives with trade unions or contemplate intervention by the state. Next comes the reconfiguration of Swedish collective bargaining coordination, which bolstered the principle and procedures underpinning the pace setting role of the internationally exposed manufacturing sector, under the Industrial Agreement 2.0. When tensions between unions in different sectors subsequently re-emerged, reflecting differing emphasis on the respective objectives of distributive justice and maintaining competitiveness, the central social partners broke with their recent tradition of standing back to pave the way for a new compromise. A more significant instance of change was the Swedish crisis agreement's creation of a new mode of articulation allowing company level negotiations of reduced working time and pay, followed by establishment of a state subsidized scheme for short-time work during crisis. A sequence of broader regulative change emanated from the moves to restore wage floors in Germany, which has entailed the spread of the practice of extension beyond the single sector – construction – where it was previously utilized, de facto under long-standing legal provision and de jure under more recent posting legislation, to a range of sectors with concentrations of low-wage and/or migrant labour. If this development has entailed state engagement to underpin collectively agreed wage floors, the introduction of a statutory minimum wage acknowledges the continued absence of collective agreements covering sections of the low-wage workforce and marks a more significant departure from the tradition of collective bargaining autonomy. In the Norwegian case, the introduction and subsequent activation of extension mechanisms to re-establish wage floors in the face of large-scale migration and posting, represents a qualitative change in the tradition of autonomous collective bargaining with potentially transformative consequences. Given that use of extension provisions remains contested by employers and has brought controversial juridification of conflict resolution, the eventual extent of such consequences is unclear. The Finnish case of reconfiguration of the level of bargaining and its coordination is towards the transformative end of the spectrum of possible change. The maintenance by the Government of its alternative, unilateral plans for more radical

decentralisation and deregulation of bargaining until negotiations between the social partners were successfully concluded is a further distinctive feature.

The differing nature of change involved in the various cases can be interpreted in terms of Streeck and Thelen's (2005) typology of incremental or gradual change. That in Denmark essentially represents an instance of stability – although “drift” is visible in certain sectors --and the recalibration of the Swedish system apparently also has contributed to stabilization. In the liberal UK case the introduction of a statutory minimum wage and the Living wage campaigns has contributed to a certain stabilization of wage setting by providing a low wage floor. The Norwegian case represents an instance of ‘layering’, under which new regulation (extension) is introduced and subsequently activated alongside existing regulation (voluntary collective agreements). A different instance of ‘layering’ is provided by the German case, as the scope of an alternative regulatory mechanism (use of extension to secure sectoral wage floors) is expanded vis-a-vis the previously prevailing regulatory mechanism (specification of sector wage floors by collective agreement alone). In addition, the introduction of the statutory minimum wage signifies further recourse to ‘layering’. The Finnish case involves stepwise, rather than incremental, change.

There is no unequivocal relationship between the extent of change and the relative prominence of the two different drivers of change involved. Pressures from north-north regime competition are prominent in both the Swedish and Finnish cases, but the difference in the extent of change seems related to the deeper crisis hitting Finnish export manufacturing which lost competitiveness, amongst other, vis-a-vis Swedish producers benefitting from depreciation of the Krona during the euro-crisis. In a medium-term perspective, however, the change to bargaining arrangements in Finland echoes that which occurred in Sweden in the early 1990s, and the outcome brings Finland closer to current arrangements in Sweden and the other Nordic countries. Pressures from east-west disruption feature prominently in the Danish, German, , and Norwegian illustrations of change. Again the extent of resulting changes varies considerably between Denmark, on the one hand, and Germany and Norway, on the other. The latter have both received larger inflows of eastern producers and have lower CB coverage and weaker unions and tools to pressure foreign firms into CAs. Here, however, similarities do not become apparent when viewing developments in the three countries from a medium-term perspective where the persistent Danish consensus to rely on union industrial action to extend CA wage floors stands out.³⁰

As regards the relationship between the drivers of change and the type of change, the social partners seem to be better equipped to address the challenges arising from north-north competition through bi-lateral action, than those arising from east-west disruption. In the latter cases, they seemingly need to enlist support from the state. Pressures from north-north regime competition bear down most forcefully on the

³⁰ Finland with its tradition for extension of CAs moved further in the same direction as Germany and Norway, whereas Sweden – also relying solely on autonomous CB – has made more significant amendments in its posting law than Denmark to comply with the ECJ Laval verdict.

export-oriented manufacturing sector, where both union and employers retain organisational strength and which is pivotal to securing effective cross-sectoral coordination. Reconfiguration of coordination arrangements can be secured through the deployment of this organisational strength in relation to other sectors, with tacit or explicit support from the central organisations of employers and unions, without requiring recourse to state intervention. Amongst the cases there is partial support for this, from the Swedish case (and also the experience of Denmark in reconfiguring the level and coordination of bargaining in the 1980s and 90s). Yet although the Finnish case commenced with a reconfiguration negotiated between the social partners in 2007, the state became an active protagonist in leveraging significant change (arguably acting on behalf of the employer side) in 2016. In contrast to north-north competition, the pressures from east-west disruption tend to act most acutely on parts of the private sector where the social partners have comparatively less organisational strength than in manufacturing. Hence, in both Germany and Norway trade unions in particular sought, with a measure of success, to enlist support from the state. The extent to which they were also able to enlist (some) employer support differed, being greater in Germany than Norway contributing in turn to the impact on the ground of the extension arrangements in question. In Denmark, any inclination by the unions to turn to the state to underpin collective agreements in difficult to organise sectors was, however, closed off by employer resistance, underlining that the relationship between drivers of change and type of change is a tendency rather than determinate.

Also, the types of change can and do interact. This is most evident in the dynamic between disorganisation and deregulation – exacerbated in the German case and stimulated in the Norwegian case, by east-west disruption – and recourse to statutory intervention and re-regulation in order to re-establish or reinforce the governance capacity of collective bargaining. In both cases several unions in sectors where organized firms were undercut by low cost competition in their domestic product markets won support from their employer counterparts and the state for re-regulatory measures to secure a more level playing. By contrast, manufacturing companies battling for contracts in international product markets with intensified north-north competition after the crisis saw unfettered supply of cheap eastern labour and subcontractors – along with cheaper national input services provided by eastern labour – as an opportunity to improve their cost competitiveness. With little scope for reducing national wages and unit costs in the short run, lenient rules and conditions for hiring eastern producers was by manufacturing firms seen as an important parameter in north-north competition. In all three examples, the manufacturing employer federations – in Denmark even supported by their union counterparts – thus vigorously opposed statutory measures to extend wage floors in their sector. They also used their influence in the peak associations to curb such initiatives in other

sectors, most successfully in Denmark.³¹ Strengthened north-north regime competition thus tended to amplify the deregulatory effects of East-West mobility in domestic product and labour markets, partly also because major companies – most saliently in construction and ship-yards – reorganized production in ways enabling them to circumvent national collective agreements and engage in direct regime competition at site.³²

Employer strategies

The discrepant employer strategies vis-a-vis north-north and east-west competition suggest that northern employer organizations act pragmatically in their choices of regulatory means and strategies. First, with respect to promoting *international competitiveness*, the Swedish and Finnish cases confirm that manufacturing unit labour cost developments in other northern countries and Germany in particular are key parameters for the employer organizations' wage bargaining strategies (Traxler and Brandl 2009). They also show that cross-sector coordination based on the "mark" set by manufacturing has become their preferred way to secure moderate, competitive wage setting, except in the UK. Further, the re-emergence of the peak employer confederation in facilitating coordinated outcomes in Sweden, and the central role of the Finnish confederation (EK) in instigating the recent shift towards sector pattern bargaining there, demonstrate the crucial role – covertly or overtly – of peak level coordination among the private sector employer organizations.³³ Thus it seems that the crisis' intensification of international competition – possibly underpinned by the EU's NEG regime focus on unit labour costs and wage setting – has bolstered northern employer organizations' belief in coordination led by export manufacturing as the best mean to control aggregate wage growth.

Second, the Swedish and Finnish cases further illustrate the tendency towards more scope for wage differentiation and flexibility at company level. In the Finnish case, the moves towards new forms of articulation, including provisions for negotiated 'emergency clauses' at company level, were clearly driven by the EO in manufacturing. In the Swedish case, however, the centrally agreed opening for local crisis agreements was a result of demands from strong union clubs in manufacturing trying to secure jobs and maintain competitiveness vis-à-vis producers in Germany and

31 Similarly, the main employer federation in Swedish manufacturing, TF, supported together with the confederation (SN) Laval, and has strongly opposed all govt proposals to restrict the freedom to provide services in the wake of Laval. In contrast to the German and Danish manufacturing employers, however, TF has in its programme demonstratively inserted a call for a statutory minimum wage which would lower the actual wage levels for posted workers in Sweden considerably.

32 The scope for such regime competition was enhanced by the different EU rules and rights pertaining regular labour migrants, posted workers, self-employed, and cross-border agency workers.

33 In Sweden, this is secured by the required consent from all the main EOs represented in the Berednings-utskott of SN (Preparatory Committee, literally translated). According to our interviews (June 2016), the key Finnish EOs envisaged that a similar mechanism would be established within EK. Also Denmark, where the manufacturing EO (DI) has majority in the confederation (DA), Norway where the NHO is signatory to all CAs of its affiliates and heads all biannual pay rounds, and Germany have resembling functional equivalents in place.

other northern countries benefitting from state-subsidized schemes for “Kurzarbeit”, rotation, or temporary lay-offs during the crisis (Svalund et al. 2012). In a medium term perspective, the twofold changes in the Swedish and Finnish cases are thus in conformity with – and consolidate – the pattern of organized decentralization described by Traxler et al. (2001).

Third, the Swedish case highlights the tension between *competitiveness* and *solidarity* that tends to arise in systems of strict cross-sectoral coordination, as uniform percentage changes over time result in widening gaps between high and low wage sectors. Being a source of discord among the trade unions, the role of the Swedish peak associations in facilitating a two-pronged settlement formula allowing somewhat higher increments for certain sectors and groups lagging behind may have opened a way out of this quandary.³⁴ While it remains to be seen how the Finnish actors will address this challenge in a more decentralized system, the recurrent tension in the Swedish case corroborate the proposition that coordination and solidarity – competitiveness and equality – are not necessarily two sides of the same coin, and should be analytically decoupled (Thelen 2014).³⁵

Nature of contestation and accommodation

The rise in low wage competition resulting from East-West integration caused division in the employer camp regarding whether and how to respond. In the German, Norwegian, and Danish cases, the employer organizations in manufacturing did, as described above, strongly oppose state regulation to maintain national wage floors. In contrast to in Germany and Norway, where organized employers in services and construction tended to support union demands for statutory re-regulation, such voices were in Denmark resolutely silenced by the manufacturing employers dominating the peak confederation (DA). That the DA even got its union counterpart (LO) to sign an agreement denouncing such initiatives as a breach with the Danish model, can indeed be viewed as expression of their shared commitment to the Danish model. But it can also be viewed as part of a deliberate employer strategy to bring about change by keeping institutions unaltered in a context of substantial shifts in the scope and terms of competition in the labour market (Dølvik 2016). Similar dynamics had clearly contributed to the fragmentation of German employment relations prior to enlargement. Yet, when increased East-West mobility exacerbated disorganization, undercut CAs, and challenged the existential basis of organized employers in more and more branches, they saw no other option than joining trade union demands

34 In the 2017 Industrial Agreement it was thus stipulated that groups earning below a certain threshold (24,000SEK per month) should receive a proportionally higher share of the agreed frame for wage increases. Similar considerations have long been part of the Norwegian coordination machinery where groups paid less than 85% of the manufacturing average have received special “low-wage increments” defined in Kronas (Stokke et al. 2013), whereas such mechanisms are unknown in the Danish system of coordination.

35 Sweden has, presumably much due to its higher CB coverage and employer organization rates, managed to keep wage differentials relative stable, whereas wage inequalities have increased markedly more in recent years in the highly coordinated Danish and Norwegian systems (Dølvik et al. 2015; Nergaard et al. 2017).

for amendment of the posting act and extension of minimum wage clauses in their CAs. Eventually managing to bypass the opposition of the manufacturing EO in BDA and win political support in Merkel's coalition government, these forces succeeded in the context of the 2014 election also in winning government support for a broader agenda for stretching out collectively agreed wage floors – now legally allowed in all sectors – restoring CB, and introducing a statutory minimum wage aimed to provide a supplementary floor under labour market competition. In the Norwegian case, similar processes following the activation of the long dormant extension law – resembling the German posting act – also revealed deep interest based conflicts over strategy in the employer camp. With the federations of export manufacturing and construction as the main protagonists, this periodically caused deadlock in the extension institution and triggered divisions in the employer confederation (NHO) the outcome of which still remains to be seen. The evolving statutory regime for setting sectoral wage floors in Norway has thus been subject to prolonged contestation, uncertainty, and judicial strife, which on request from the government now has to be resolved through negotiations between the social partners under the threat of interference from the EU/EFTA court system.

Striking in all three cases – as well as in Sweden – is that the employer organizations fronting the quest for strict wage coordination to safeguard international competitiveness simultaneously are the ones that most vigorously oppose state intervention to prevent foreign low-wage producers from undermining the competitiveness of organized employers in the home-markets. As the employer federations reliant on the home markets are more inclined to join union calls for state support to retain competitiveness and prevent a decoupling of wage formation from the export sector, a question is how the reversed constellation of views on the relationship between competitiveness and equality on the employer side will influence interest intermediation and the sectoral dynamics of cross-class cooperation and conflict in the years to come.

Notable in this respect is the strong manufacturing federations' invocation of the principles of CB autonomy to promote their interests, juxtaposed with the tendency of the less resourceful coalitions in services to rely on mobilization of public and political support to gain traction. The sectorally skewed impact of north-north and east-west competition seems thus to sharpen divisions between collective actors expecting to gain from a politicisation of IR/LMR and those expecting to benefit from their power resources and legacies of CB pure and simple – often cutting across class divisions. In this respect, the disruptive effects of east-west mobility may serve to weaken the relative impact of national state-traditions on processes of change and strengthen the relative impact of sectoral dynamics and cleavages, depending much on the power relations between employers in different sectors and the extent to which state intervention has been an alien or integral element of such legacies.

So far our case illustrations suggest that the manufacturing employers' have strengthened their hegemony in aggregate wage coordination, while their ability to win through in disputes over wage floor regulation tends to vary with organizational

structures on the employer side in particular. Danish manufacturing employers, for example, clearly enjoy stronger control over the policies of their potential challengers than the manufacturing employers in Norway, where the construction employers in such issues tend to coalesce with services federations within the peak association (NHO). The organization of Norwegian construction- and metalworkers in one amalgamated union also inhibits divide and rule tactics by the manufacturing employers. In Germany, the weak authority of the peak confederation (BDA) and the strengthened role of the state have probably made it harder for manufacturing federations to prevent contending federations from colluding with politicians and the trade unions.

In such a perspective, the German case of re-regulation may serve as example that disorganization flowing from East-West integration can spur realignment of actor constellations and power relations that in addition to new ways of setting wage floors potentially also can set in motion broader institutional reconfigurations that may prove important for the CB systems' resilience, capacity for cross-sectoral coordination, and handling of challenges related to north-north regime competition. This is certainly not a trajectory of change favoured by manufacturing employers, but the advances of the loose counter-coalitions of home market unions, employers, and centrist politicians suggest that even the German economy cannot merely be structured as a cost-saving delivery chain for export manufacturing where wage formation becomes decoupled across sectors. In the German case, the restructuring of manufacturing production, work organization, and labour costs aimed to bolster international competitiveness has evidently been reliant on the supply of low cost providers fuelled by East-West integration, illustrating the interaction between North-North and East-West economic integration. Although coordination and solidarity ought to be analytically decoupled, a lesson seems to be that wage formation in the export sector cannot be decoupled from its main input sectors without detrimental feedback effects via the impact on productivity, quality, wage inequality, legitimacy, and the broader system of labour market governance. Conversely, as manufacturing employment declines and employment in services grow, a likely implication is that the functionality of the broader working life becomes ever more essential for the national Standort quality on which manufacturing competitiveness depends – in Germany as well as other northern countries.

The role of the state differs

State traditions with respect to the relationship between statutory regulation and CB, the availability of extension mechanisms, and normative discourses do indeed filter and condition the relative importance of industrial and organizational power resources in shaping strategic choices. The strong commitment of the Danish organized actors and politicians to CB supremacy and their hostility to state regulation do for example create much higher ideological hurdles for Danish actors contemplating to call for state support than for their counterparts in Germany. There CB has been circumscribed by extensive state regulation, social partnership, and long traditions for

making CAs generally applicable, presumably making German employers and politicians more receptive to calls for state intervention.³⁶ Norway, by comparison, is located somewhere between Denmark and Germany in this respect, sharing the Scandinavian primacy of autonomous CB but having a strong tradition for tripartite concertation, statutory regulation, and state intervention in wage formation than e.g. Denmark and Sweden.³⁷ Further, the dormant law on extension of CAs established on demand from the trade unions offered opportunities and political legitimacy for adding on a new layer of minimum wage regulation that was not available for Danish actors.³⁸ As state traditions also shape political customs, the legacy of social partnership having distinguished German politics, not least in the Christian-Democratic party, suggests that the political reservations against statutory re-regulation was lower in Germany than in Denmark and Norway. The Norwegian move towards continental style extension, by contrast, represented a politically divisive departure from state tradition as it was mainly supported by the labour movement and centre left parties and was ideologically opposed by liberal-conservative parties, powerful employer groups, and even parts of the unions. This apparently made this instance of change more subject to political contestation and polarizing judicial strife related to the application of EU law than resembling change in Germany.

Although the changes emerging in response to intensified north-north competition were mainly instigated by the social partners and more in line with CB traditions, interesting deviations from national state traditions were apparent both in the Swedish and Finnish cases. The CA on short-time work in Sweden represented a break with the unions' Rehn-Meidner approach to restructuring whereby they should never offer pay concessions to save jobs. Together with the social partners' successful call on the state to subsidize such schemes, these changes implied a move towards German traditions of concerted action and employment oriented CB. The changes in Finland instigated by manufacturing employers in concert with the state marked a more significant departure from national tradition at the same time as it followed in the path of – and was inspired by – changes undertaken in the other Scandinavian countries a few decades earlier. Industry bargaining had been tried before in Finland, but the recent moves towards organized decentralization stand out both by their institutional consequences and by the way they were brought about. Although the state has always played a key role in the Finnish system, the acting of the liberal-conservative government as a coercive instigator of change in wage setting institutions represented a striking change in the traditional state role. The motivation for its radical agenda for structural reform and internal devaluation was the severe economic crisis

36 More recently, the fact that the German posting law enacted by the CDU served as model for the posted workers directive of the EU brokered by a German commissioner may also have made German actors inclined to regard use of the posting act to extend wage floors as in line with national tradition.

37 Frequent use of compulsory arbitration and occasionally even statutory wage regulations.

38 Similar path dependencies in the responses to East-West disruption are found in Sweden which shares the Danish aversion against state interference in wage setting, and in Finland which for long have been closer to the German tradition.

which – running up against EMU debt and deficit ceilings – had to be met without the monetary tools that Finland had used to recover from crises in the past. If viewed as response to a critical juncture, the intervention of the Finnish state to propel change does in fact not deviate that much from former instances of reconfiguration of wage setting institutions in northern Europe; also in Denmark, the Netherlands, and Norway in the 1980s, and Sweden in the early 1990s the changes in the CB systems occurred in the “shadow of the state”. Hence, also in this respect the changes in Finland can be seen as part of a broader convergence in northern Europe towards more articulated, competitiveness-oriented CB built on the pattern setting role of export manufacturing.

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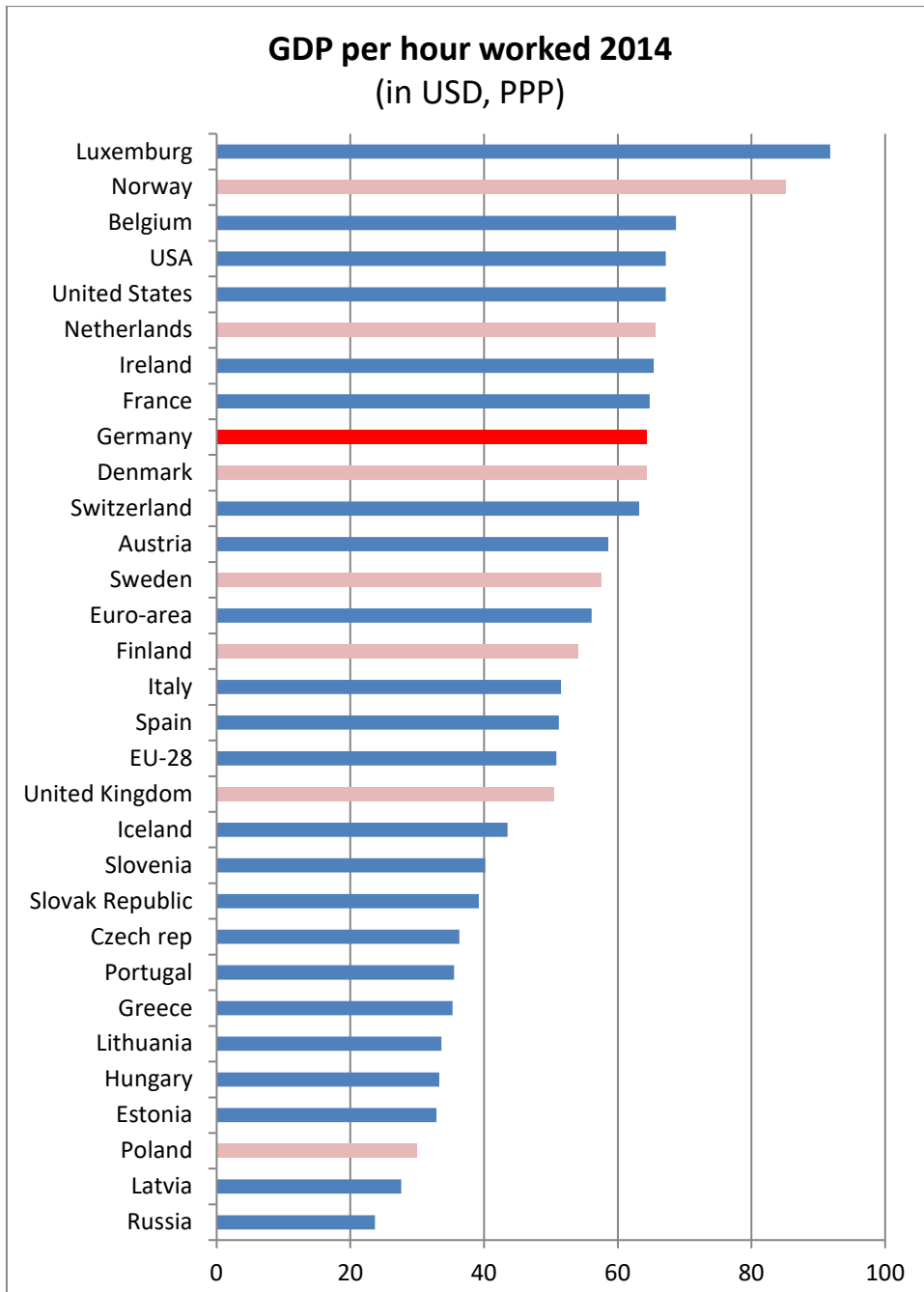
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Appendix

Table A1. Hourly compensation costs in manufacturing, U.S. dollars, and as a percent of costs in the United States. (Source: US Labour Department).

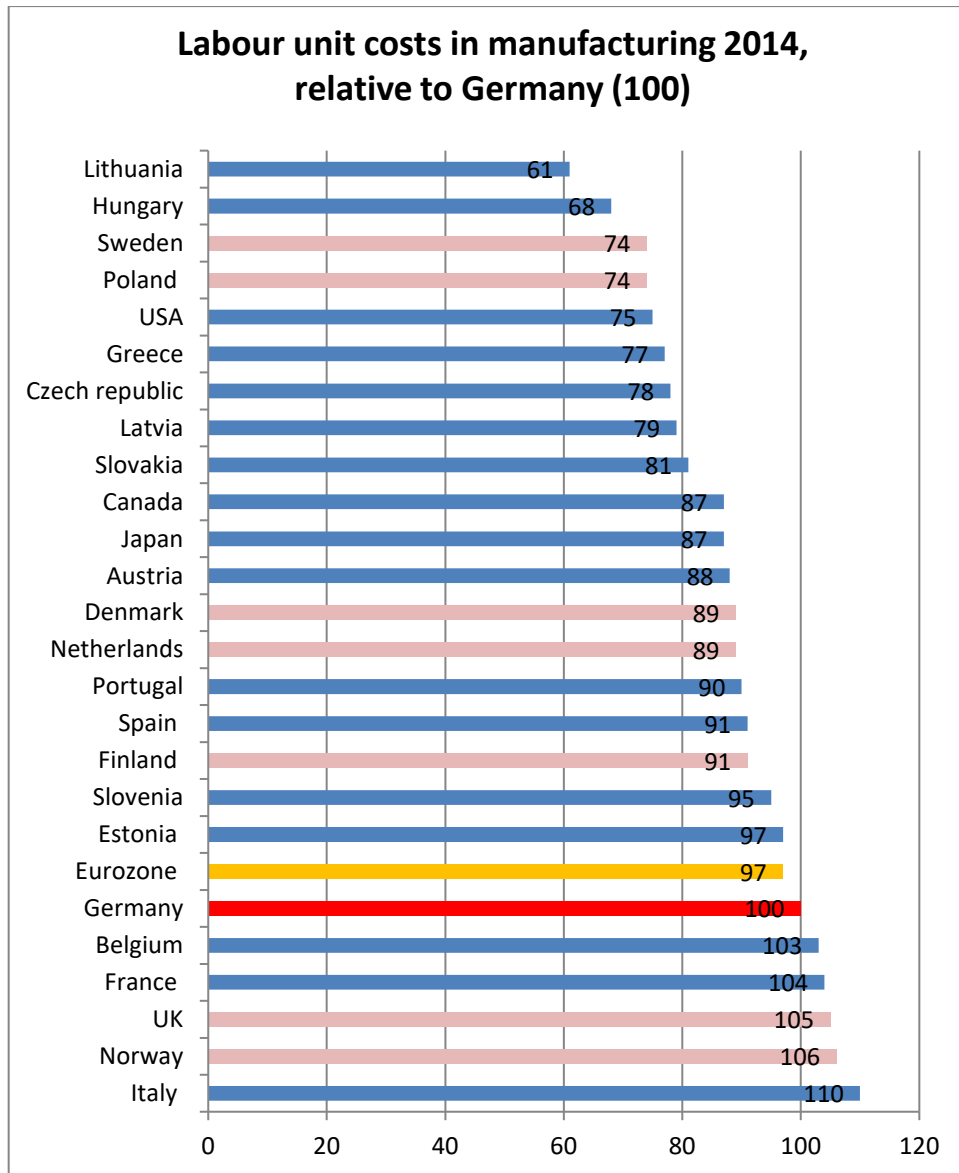
	Hourly Compensation Costs			
	in U.S. dollars		U.S.=100	
	1997 (1)	2011	1997 (1)	2011
Norway	25.84	64.15	112	181
Switzerland	30.42	60.40	132	170
Belgium	28.92	54.77	125	154
Denmark	23.70	51.67	103	145
Sweden	25.02	49.12	109	138
Germany	29.16	47.38	127	133
Australia	18.93	46.29	82	130
Finland	22.36	44.14	97	124
Austria	24.91	43.16	108	121
Netherlands	22.45	42.26	97	119
France	24.86	42.12	108	119
Ireland	16.69	39.83	72	112
Canada	18.49	36.56	80	103
Italy	19.76	36.17	86	102
Japan	21.99	35.71	95	101
United States	23.04	35.53	100	100
United Kingdom	19.30	30.77	84	87
Spain	13.95	28.44	61	80
New Zealand	12.06	23.38	52	66
Singapore	12.15	22.60	53	64
Greece	11.61	21.78	50	61
Israel	12.28	21.42	53	60
Korea, Republic of	9.22	18.91	40	53
Argentina	7.55	15.91	33	45
Czech Republic	3.25	13.13	14	37
Portugal	6.45	12.91	28	36
Slovakia	2.84	11.77	12	33
Brazil	7.07	11.65	31	33
Estonia	NA	10.39	NA	29
Taiwan	7.04	9.34	31	26
Hungary	3.05	9.17	13	26
Poland	3.15	8.83	14	25
Mexico	3.47	6.48	15	18
Philippines	1.28	2.01	6	6

Graph A1 GDP per worked hour 2014 (In USD, PPP)



Data extracted on 10 Mar 2016 21:07 UTC (GMT) from OECD.Stat
 *Norway, offshore sector included (?)

Graph A2 Relative labour unit costs, manufacturing, 2014.



Source: C. Schröder (2015), Lohnstückkosten im International Vergleich.

Deutschlands wettbewerbfähigkeit erodiert, Institut der deutschen Wirtschaft Köln, IW Trends 4/2015

*Case countries except Germany in pink.

Table A2. Components of hourly compensation costs in manufacturing, U.S. dollars, 2011 (Source: US Labour department statistics).

	Hourly Compensation Costs			
	Total	Social Insurance (1)	Directly-Paid Benefits (2)	Direct Pay Pay for Time Worked (3)
Norway	64.15	10.98	53.18	(4)
Switzerland	60.40	9.25	11.24	39.92
Belgium	54.77	17.64	11.05	26.07
Denmark	51.67	4.97	7.54	39.15
Sweden	49.12	16.18	5.13	27.82
Germany	47.38	10.24	9.44	27.70
Australia	46.29	9.25	4.41	32.63
Finland	44.14	9.20	8.51	26.43
Austria	43.16	11.07	9.26	22.82
Netherlands	42.26	8.97	9.01	24.29
France	42.12	12.61	7.80	21.70
Ireland	39.83	6.39	6.00	27.43
Canada	36.56	7.49	3.59	25.48
Italy	36.17	10.47	5.27	20.43
Japan	35.71	6.46	9.02	20.23
United States	35.53	8.65	3.17	23.70
United Kingdom	30.77	4.73	4.05	21.98
Spain	28.44	7.22	5.57	15.65
New Zealand	23.38	0.99	2.69	19.70
Singapore	22.60	3.64	3.95	15.00
Greece	21.78	5.03	4.08	12.66
Israel	21.42	3.49	1.50	16.42
Korea, Republic of	18.91	3.70	15.21	(4)
Argentina	15.91	2.77	2.23	10.92
Czech Republic	13.13	3.59	1.77	7.77
Portugal	12.91	2.54	2.49	7.88
Slovakia	11.77	3.19	2.20	6.38
Brazil	11.65	3.72	1.66	6.27
Estonia	10.39	2.69	0.98	6.73
Taiwan	9.34	1.35	8.00	(4)
Hungary	9.17	2.16	1.81	5.20
Poland	8.83	1.25	2.23	5.35
Mexico	6.48	1.95	4.53	(4)
Philippines	2.01	0.17	0.35	1.49

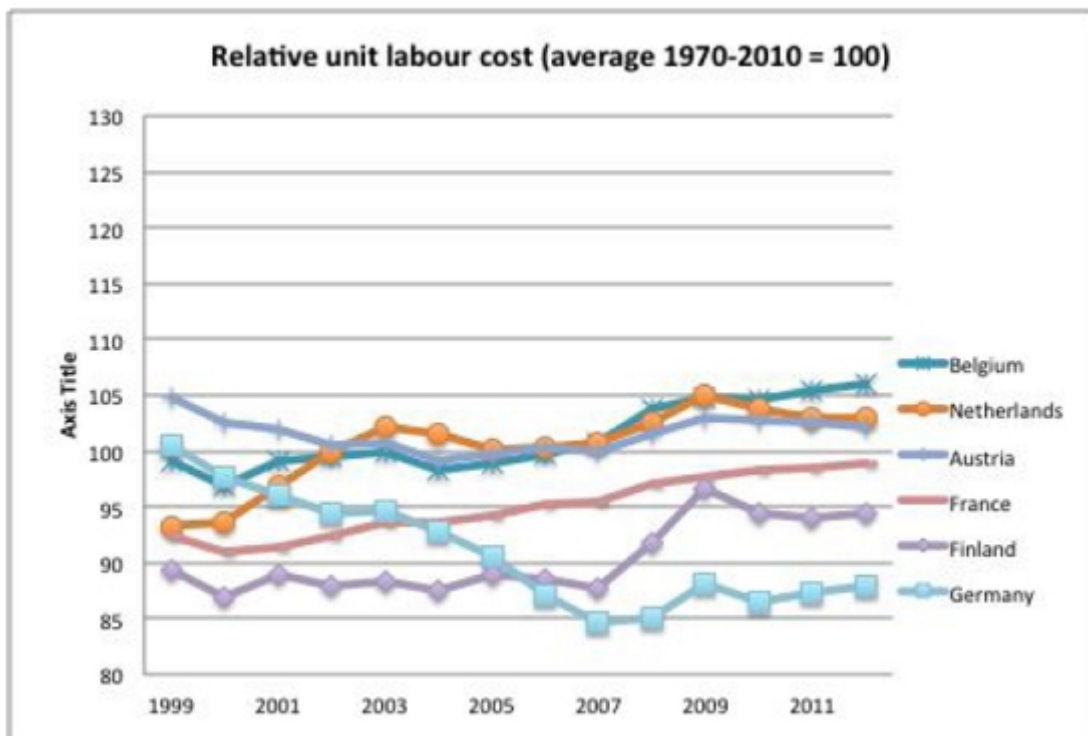
(1) Social insurance expenditures are legally required, private, and contractual social benefit costs, and labor-related taxes minus subsidies.

(2) Directly-paid benefits are primarily pay for leave time, bonuses, and pay in kind.

(3) Pay for time worked is wages and salaries for time actually worked.

(4) Separate measures of directly-paid benefits and pay for time worked are not available. Data relate to total direct pay.

Graph A4 Unit labour costs – some further indices



Collective bargaining in Northern Europe under strain

Since the 1980s, wage regulation in Europe has been marked by decline and decentralization of collective bargaining. Since the turn of the century, this trend has been reinforced by increased mobility of labour and production factors in the wake of EU's eastward enlargement, the economic crisis hitting especially southern Europe hard, and the deregulatory political intervention in labour markets instigated by EU and the Troika in these countries. How have these upheavals affected wage regulation in Northern Europe, which has been considered as the bedrock of coordinated collective bargaining and generally was less affected by the crisis?

This is the issue addressed in this Fafo-paper, analyzing developments in wage coordination, articulation between bargaining levels, and wage floor regulation in six Northern European countries (Germany, the UK, and four Nordic countries). Concentrating on the impact of European cross-border developments and actor responses to them – especially among organized employers – it asks whether changes in northern wage regulation have mainly been driven by spill-over from the changes in southern Europe (South to North contagion); the EU's new economic governance regime (Transnational disruption); strengthened regime competition among the northern, high-cost countries themselves (North-North competition), and/or the surge in East-West mobility after the EU/EEA enlargement (East-West destabilization).



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Fafo-paper 2018:18
ISSN 0804-5135
Order no. 10283