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The Nordic regimes of labour market governance: From crisis to success-story?
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Fafos Rådsprogram 2006–2008
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Preface

In 2006 Fafo initiated a programme titled ‘Leadership, cooperation and corporate governance in Norway’. The programme is conducted in cooperation with the Council of Fafo, where all the founding organisations of Fafo are represented. The aim is that the Council programme shall serve as an arena for exchange of views, experience and ideas as well as initiation and dissemination of research-based knowledge of relevance to the founders and the wider society. Based on a bundle of projects initiated for the period 2006 to 2008 (see next page), a series of working papers will be published and a web-page with relevant working life data and information is being developed.

This working paper about *The Nordic regimes of labour market governance: From Crises to Success?* is a written, extended version of a speech held by our head of research, Jon Erik Dølvik, at the Fafo 25th Anniversary Conference ‘Equality, diversity and inclusion: Challenges to the Nordic models in a globalised economy’ in Oslo, 15-16th February 2007 (www.fafo.no/konferansen/info-eng.htm). Based on several pieces of work in progress for publication elsewhere, the paper brings together information and analytical views that we consider are relevant for the participants in the Council Programme. Complementing the previous paper by Gudmund Hernes (Fafo-notat 2006:25), ‘Den norske mikromodellen. Virksomhetsstyring, partssamarbeid og sosial kapital’, the paper feeds into the sub-project of the programme labelled ‘Flexicurity’.

Jon M. Hippe
Managing Director
Fafo
Oslo, April 2007
1 Introduction

Open and dynamic societies, like the post-industrial Nordic economies, are subject to continuous restructuring and change. Reinforced by the dynamics of global competition, such processes cause tension between changing patterns of social and economic behaviour and inherited institutions, industrial and skill structures and political traditions.

Fifteen to twenty years ago, the Nordic countries were hit by deep economic crises and a widely held view was that the Nordic labour regimes were neither competitive nor sustainable in a globalised economy. Today, the picture has changed considerably with the Nordic countries like Phoenixes rising to top the international ranking lists of economic and social development. The question arises in international contexts: What explains the strong performance of the Nordic countries with regard to employment, growth, productivity, mobility, living conditions and equality? These positive developments over the last decade cannot be understood without taking into account the powerful organisations of labour and business, the strong collective bargaining systems, and the broad cooperation between the social partners and the state which are common characteristics of the Nordic labour regimes.

The purpose of this paper is to provide an overview of important commonalities and differences between the Nordic labour regimes, and their paths of adjustment in recent decades. It is hoped that such an overview can be useful in the ongoing debates over how to adjust to changing external and internal circumstances. In such presentations it is common to draw attention to the direct indicators of labour market organisation, typically:

- A high degree of union affiliation of workers;
- Centralised agreements and coordinated bargaining at several levels;
- Extensive worker representation at the company and community levels;
- Well-developed, smooth regulation of working life in legislation and agreements.

In order to understand the way the Nordic models work, it is essential to have an overview of the interaction between the organisation of working life and other key policy areas:

- The welfare state based on universal income security, tax financing, and the work approach in welfare policies, contributing to adjustment security, mobility and moderate indirect labour costs (‘flexicurity’).
- Extensive public services, education, and infrastructure, providing citizens and companies favourable conditions, skills and high participation rates for both sexes;
- Active labour market policies;
- The role of the state in enhancing tripartite cooperation, in which the macro-economic stabilisation policies in particular are important for the development in employment, social distribution and living and working conditions.

Historically, the Nordic models developed in small, open economies, highly dependent on international markets, and strongly influenced by the incipient trade-union movement in con-
continental Europe. During the early years of industrialisation and economic globalisation prior to World War I, the organisations in manufacturing took the lead in developing bargaining systems that could cope with external competition. Cooperation between international capital and the state often played a catalysing role in the process of industrialisation that took place in parallel with the development of the labour movement, suffrage and democratic institutions at the outset of the 20th century.

Hence, nation-building and welfare-state development have not only gone hand in hand with integration in the international economy, but have been important preconditions for such integration. The Nordic countries were recently ranked highest among the most globalised economies in the world. According to prominent U.S. economists such as Jeffrey Sachs and Paul Krugman, the success of the Nordic countries shows that well-regulated, egalitarian economies with sophisticated welfare systems are no obstacle to thriving in the global economy. On the contrary, the investments of the Nordic countries in collective goods and social capital have positioned them at the fore, along with the United States, in terms of digital infrastructure and Internet penetration. The same holds true for mobility, participation of women in the labour market, and the level of formal education in the population, implying that the wave of ageing and labour shortages is likely to be less dramatic in the Nordic countries than elsewhere in Europe in the coming decades.

Comparative research indicates that it is no coincidence that small, open economies with strong needs for coping with international market fluctuations, like the Benelux-countries, Austria, Ireland, Slovenia, the Nordic and several other countries, have developed systems of governance based on tripartite concertation, social dialogue and generous welfare systems (Katzenstein 1985; Rodrik 1997). By developing common social capital, such systems have often shown strong ability to utilise the labour force and human capital of society to strengthen competitiveness and spread risk in a way that has created trust and willingness to participate in burdensome adjustments in companies and renewal of working life and social institutions.1

The growing exposure of the European economies to global competition and the widening scope of European integration provide reasons to assess the relevance of the Nordic experience for the broader trajectory of European development - nationally as well as supra-nationally. Can other countries learn something from such stories of success (but also set-backs), and if so, what can such lessons imply for the further development of working life policies at the European level?

Before providing a closer review of the developments and adjustments in Nordic industrial relations in Section 3, Section 2 contains a brief overview of the background and broader political and institutional frameworks of the Nordic systems of labour market governance.

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1 According to Rodrik (1997: 6), 'there is [in fact] a striking correlation between an economy’s exposure to foreign trade and the size of its welfare state. It is in the most open countries, such as Sweden, Denmark and the Netherlands, that spending of income transfers has expanded most'. Rodrik mentions that increased tax-competition and capital mobility might weaken the buffer-function of the welfare-state vis-à-vis external instability, but new international statistics show that the social expenditure shares of GDP in the OECD countries have continued to grow and actually rose faster in the 1990s than in the 1980s.
2 The Nordic approaches to social and economic governance

“The Nordic Model Never Existed, But Does it Have a Future?” was the title of an article written by a Norwegian sociologist in the early 90s (Mjøset 1992). Tracing the vast variation among the Nordic countries, alongside their broad similarities with other European countries, he concluded that a distinct Nordic model of society never existed, but suggested that the notion of a common Nordic approach might attain increased impact within the emerging context of European integration. Moreover, as a subgroup of the broader category of co-ordinated market economies (Hall and Soskice 2001) – or, even wider, the European social model – the Nordic models have certainly gained importance as source of identification domestically and political interest internationally.

In the current European debates about ‘flexicurity’, which originally is a concept the Dutch invented (Visser and Hemerijck 1997), the Danish example, where interaction between flexible employment protection and elaborate income security has contributed to high mobility and adaptability in the labour market, is often cited. Albeit statutory employment protection plays a more salient role in the labour market in the other Nordic countries, they also show considerable mobility and adaptive capacity (Westerlund 2006; Dale-Olsen 2006). In accordance with their historical dependence on international markets, in recent years all the Nordic countries have partly, as adjustment to the single market regime, pursued significant supply-side liberalisation of their economies. Many actors – both to the right and to the left of the political spectrum – have interpreted that as a farewell to the traditional Nordic models. Such interpretations miss an important distinction of Nordic policies in recent decades, namely that extensive product market deregulation has been combined with maintenance of inclusive welfare state policies, well-regulated labour markets and strong social actors with the capacity to engage in coordinated governance. What we have seen in the Nordic countries is thus a market-driven rationalisation of the production and supply side of the economies, combined with continued policy-driven redistribution and protection in the sphere of welfare and labour markets, characteristics that historically have been central ingredients in the Nordic social compromises.

Background: Community and diversity

In European contexts, the common features of the Nordic social models imply that the Nordic countries are often seen as a homogeneous bloc. Historically, however, there are significant differences among the Nordic countries, reflecting different paths of economic, social and political evolution. The early Danish industrialisation gave rise predominantly to small- and medium-sized firms built on manufacturing and skilled handicraft, shaping a craft-based pattern of unionism and vital petty-bourgeois parties in the centre. The later industrialisation in Sweden took the form more of large-scale capitalist manufacturing, which gave rise
to industrial unionism and shaped party politics in a more polarised pattern. By contrast, the
development in Finland was influenced more strongly by the agrarian and forestry industries,
where harsh class conflict and civil war in the shadow of Soviet communism spilled into the
evolving patterns of party politics, union structures and industrial relations. In Norway, the
patchy industrialisation, mostly based on natural resources and cheap energy, together with
shipping and primary sectors in the districts, engendered a more diverse pattern of unionism
and class coalitions between labour and centrist forces in the 1930s.

In essence, such historical differences have had a lasting impact on the national industrial
structures. While Denmark is distinguished by its strong agro-industry and many small innova-
tive companies, Sweden is still renown for its powerful multinational companies in transport
vehicles, electronics, pulp and paper. Finland has undergone a remarkable transformation from
being heavily dependent on timber and paper and pulp industries to becoming a rising star in
electronics and other advanced high-skill industries. Like Iceland, Norway is still dependent
on exports based on natural resources but has, as a leading energy supplier, in recent decades
developed an advanced offshore and maritime industry with worldwide operations.

The diverse Nordic paths of development have also influenced the national patterns of
policy-making. For example, Denmark, which always had a weaker social democratic party than
its neighbours, has been distinguished by a tradition for coalition governments and consensual
politics, offering the social partners a pivotal role as compromise-builders in social and labour
market policies. Sweden, by contrast, has been characterised by a much more polarised pattern
of class politics and power relations with a hegemonic social democratic party in government
throughout most of the post-war era. Finland, with a relatively small social democratic party
and strong leftist parties, has been dominated by varying centrist coalitions. In Norway, the
labour party played a dominant role in the post-war era, but the political picture in recent
decades has become more similar to the Danish situation, for the first time concurrently with
a centre-left government in power. Whereas Denmark, Finland and Sweden currently are
governed by centre-right coalitions, strong right-wing populist parties have also emerged in
Denmark and Norway in recent years. Clearly, the relationships between class and political
behaviour are changing, possibly raising new challenges for the unions in the years to come.

Internationally, the fall of the Berlin Wall and the new dynamics of European integration
have implied profound changes for the Nordic countries. After Denmark had become the first
Nordic member of the European Community in 1972, the other Nordic countries remained
in EFTA until Finland and Sweden entered the EU in 1995. Norway and Iceland have chosen
not to join the EU, but were incorporated in the single market through the EEA agreement
in 1994 and eventually also joined the Schengen agreement. Whereas Denmark in 1993 was
granted a set of ‘opt-outs’ from the Maastricht Treaty and Sweden remains outside the euro,
Finland has subscribed to the full package of EU membership. This implies that the Nordic
countries today have quite diverse relationships to the political processes of integration in
Europe. In economic terms, however, they are all fully incorporated in the single market, im-
plying that domestically they are largely facing the same opportunities and constraints.

The social foundations of the Nordic approaches

The main common elements in the Nordic socio-economic approaches are captured in the
triangular figure below, highlighting the interconnections between macro-economic govern-
ance, industrial policies, collective bargaining and welfare state policies, placing the organised social actors in the labour market in key intermediating roles.

- The macro-economic policies of the Nordic countries in the post-war era were characterised by prudence and stabilisation, based on fiscal rectitude, cautious use of monetary policies (credit control, devaluations) and close coordination with the centralised wage-setting systems. Collective bargaining, with the exposed sectors in the lead, was coordinated economy-wide with the aim of achieving moderate real-wage growth, low inflation, international competitiveness and sufficient room for growth in investment and demand to ensure full employment.

- As regards industrial policies, the solidaristic wage policies were considered an important precondition for development of productivity and restructuring. By creating a proper wage floor, the egalitarian wage policies forced unprofitable firms out of business and served as a vehicle for reallocation of labour into the most productive firms and sectors (the so-called Rehn-Meidner model). In the small open economies, adjustment and mobility were acknowledged as positive ‘facts of life’ and were enhanced by the ‘working line’ pursued by public authorities through active labour-market policies and training aimed at facilitating employability and labour mobility. Underpinned by macro-economic policies for full employment, such public support was also considered crucial for convincing local unions about the benefits of participating in productivity-enhancing cooperation and adjustment at the company level.

- Labour-market regulation in the Nordic countries has built on collective agreements as the principal means of determining pay, working conditions and labour relations, eventually supplemented by labour legislation. Through the coordination of wage-setting and tripartite cooperation with the state in economic and social policies, the social partners conquered a central interconnecting role between different areas, levels and institutions of policy development.

- Development of income security provided by the evolving welfare state was the third foundation in the Nordic systems of interlocking policies. By contributing to socialisation of the individual risks connected to restructuring and by establishing a proper reservation wage, the tax-based income security schemes facilitated worker participation in rationalisation and adjustment at the firm level and underpinned the economy-wide, solidaristic wage policies. Hence, the welfare state was seen as a productive arrangement, enhancing the policies of growth, restructuring and human capital formation (through free public education). The financing of the welfare state, though, was reliant on the success of the overall policy approach in ensuring growth, rising employment and a widening tax base. Eventually the public services became a major arena for female employment, and did, by socialising care for kids and elderly, further stimulate the growth in female participation in productive work. By redistributing the demand via the tax system and by offering decent service jobs, the welfare state hence played an important role in shaping the Nordic passage into the post-industrial working life.

This sketch of the foundations of the Nordic approaches does indeed draw a stylised picture. The specific way in which the various policy areas have been organised and connected has, of course, varied among countries and different phases, but these foundations have persisted as common cornerstones in the Nordic systems of governance. An important distinction has been the multi-levelled character of the Nordic systems, in which policies at the macro and
micro levels have been linked together by institutionalised patterns of vertical and horizontal coordination.

In social models based on these types of policy interaction and interdependencies, the industrial relations actors have conquered important roles as intermediaries between different levels, areas and institutions of policy development. Making the political authorities’ ability to achieve their goals dependent on the cooperation of organised labour and business, this interconnecting role has provided the social actors with considerable power to influence the governance and functioning of the wider social fabric. Throughout the post-war era the main social actors were accordingly incorporated in a range of tripartite institutions and networks, facilitating consultation with public authorities over policy-making in a broad spectre of economic, working life and social policy issues, centrally and locally.

A consequence of this pattern of policy-making is that the Nordic countries have managed to maintain high employment rates and fairly egalitarian wage and income structures (Barth et al. 2003). Alongside the coordinated systems of collective bargaining, the public sector has played an important role in this regard.\(^2\) Financed through general taxes, the employment extensive public services have, in addition to reducing social differences in life chances, been marked by better wages and lower pay differentials than the services sector, for example in the UK and the US, where private actors play a greater role. Further, the public social security systems have created a wage floor (reservation wage) that companies have to exceed if they want to attract and retain labour. Such mechanisms have prevented development of a low wage sector and have – together with union pay policies and comparatively low unemployment rates – provided incentives to move resources from firms with low to firms with higher productivity.

\(^2\) For comparative indicators of employment rates, and the size and financing of public sector, see Annex.
The Nordic countries have, as mentioned, pursued significant supply-side liberalisation of their economies in recent decades. They are thus, according to OECD-data, closer to the Anglo-Saxon than the continental countries in terms of product market regulation and competition (Schubert and Martens, EPC 2005, see Annex Table A4). The adjustment to global competition and the associated economic restructuring has been burdensome and would hardly have been accomplished without strong social actors with the capacity and legitimacy to contribute to coordinated efforts.

In spite of their high levels of general taxation and egalitarian income distribution, which are often claimed to weaken economic incentives and growth, the Nordic countries have in recent years climbed on the global ladder of competitiveness and productivity (see Annex Table A6). Contrary also to the notion that capital tends to flee high-cost/high-tax economies, the Nordic countries have over the past decade attracted considerable direct investment growth and shown better balance between outward and inward flows of FDI than the average in Western Europe (Whyte, EPC 2005).

The experience of the EU’s three Nordic members suggest that [...] there is no evidence that foundations of the Nordic welfare state are being undermined by “global competitive pressures”. In all three countries, the ratio of public expenditure and tax receipts to GDP remains markedly higher than the OECD and the EU-25 overages, yet all three countries have continued to attract more than their fair share of FDI (Whyte, EPC 2005: p.48).

These developments are probably important in explaining why the people in all the Nordic countries, together with Ireland, the Netherlands and the UK, are less anxious and more positive to globalisation than the people in most other OECD and EU countries (IMD survey 2006, see Annex Figure A3).

International debate about the Nordic approaches – be it in the 1970s or today – has often tended to focus narrowly on features where the Nordic legacy has deviated most from conventional wisdom, that is, the redistributive realm of social and labour policies. Both the right and the left have thus often overlooked the counterbalancing and complementary legacies of the Nordic compromises, associated with the emphasis on prudence, market competition, technological modernisation and productivity enhancement enshrined in social-democratic slogans such as ‘creating and sharing,’ ‘doing your duty and demanding your right’, promoting ‘social justice as a force of productivity’, etc. The legacy of equity and redistribution has hence been paired with a strong productivist and competitive ethos associated with respect

### Table 1 Wage dispersion in 2002

<table>
<thead>
<tr>
<th>Country</th>
<th>9th decil / 1st decil</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>4,2</td>
</tr>
<tr>
<td>Spain</td>
<td>3,7</td>
</tr>
<tr>
<td>Germany</td>
<td>3,6</td>
</tr>
<tr>
<td>France</td>
<td>3,1</td>
</tr>
<tr>
<td>Sweden</td>
<td>2,8</td>
</tr>
<tr>
<td>Denmark</td>
<td>2,5</td>
</tr>
<tr>
<td>Norway</td>
<td>2,4</td>
</tr>
<tr>
<td>Finland</td>
<td>2,4</td>
</tr>
</tbody>
</table>

Source: Earning disparities across European countries and regions, Eurostat 2006
for knowledge and science, built on the realisation that success in international markets is an indispensable precondition for prosperity and justice.\(^3\) Being influenced by the Marxian credo of developing the productive forces, the Nordic labour movements soon acknowledged that modernisation of the relations of production was a necessary means to achieve that end, thus rejecting the determinism of both simple-minded liberalism and revolutionary adventurism.

While the characteristics sketched above are often attributed to the reformist Nordic labour movements, some observers point to other sources of this particular blend of prudence and egalitarianism— for example, by referring to the strong protestant ethic marking Nordic Lutheranism, the relative absence of feudalism, serfdom and nobility, and the early establishment of universal, public school systems. Whatever historical explanations, the Nordic countries have apparently been marked by cultures in which small social distances, autonomy and national pride have been mixed with respect for skills and knowledge and quite broad international networks and orientations. The social cohesion fostered in small, remote communities has thus been complemented by fairly instrumental attitudes to international impulses and trade. A salient feature of the Nordic countries though is that such expressions of economic internationalism have gone hand in hand with strong scepticism of political supranationality and opposition of attempts to cede or share sovereignty.

\(^3\) Old trade union banners typically expressed this belief in knowledge in slogans like ‘through knowledge to freedom,’ ‘enlightenment and solidarity is our strength’ etc (see e.g. Flogstad 2006:46).
3 Nordic industrial relations – continuity and change

3.1 Introduction

The Nordic models have been distinguished by their encompassing systems of industrial relations. With strong employer associations and trade unions, high union density and extensive collective bargaining at the central and local levels, these systems have been cornerstones in the Nordic regimes of governance. During the economic crises in the 1980s and early 1990s, these systems were widely portrayed as sclerotic, rigid obstacles to economic change and competitiveness (see e.g. Mancur Olsen 1990). Faced with the challenges of post-industrial modernisation (Lash and Urry 1986), European integration and globalisation, many observers predicted the demise of the Nordic labour regimes and their powerful trade unions. The most infamous evidence that this scenario was emerging was the withdrawal of the Swedish employer confederation (SAF) from peak-level dialogue during the crisis in 1990, in wide circles, taken as the ultimate proof that centralised bargaining was incompatible with the interests of powerful international companies. In line with mainstream economic thought, convergence towards the Anglo-American trajectory of labour market deregulation, decentralisation and union decline was expected (Katz 1993). A decade later, this scenario has not materialised. To the contrary, the Nordic systems of industrial relations have shown remarkable resilience and adaptability, and their role in facilitating negotiated change is attracting international attention.

“Small states in global markets”: Comparative advantages of the Nordic countries?

- **Inclusive public welfare state arrangements built on the ‘working line’**
  - Universal, tax-based income security -> mobility and adjustment, ‘flexicurity’
  - Free education for all -> broad and deep skill base and demanding markets (customers)
  - Work oriented welfare and child care -> high female participation rates and talent mobilisation
  - Developed public infrastructure -> effectiveness and fast dissemination of innovations e.g. ICT
  - Investment in R&D and industrial policies -> vital clusters of renewal
  - Relatively small social differences -> trust, participation and innovations ven

- **Strong social partners and collective agreement systems within broad goal and framework legislation**
  - Tools for negotiated flexibility – semi.dispositive laws encourage local adjustments
  - Strong local bargaining level and single channel participation system -> flexible cooperation
  - on adjustment -and productivity in the companies
  - Compressed wage structure spurs reallocation of resources to high productive firms
  - Demanding counterparts provide pressures for innovation and renewal -> ‘high road’

- **Macro-economic turn-around, independent central banks and globalisation have squeezed out inflationary expectations and enabled moderate nominal wage growth?**
3.2 Background and main pillars of the Nordic systems of industrial relations

The historical evolution of industrial relations in the small, open Nordic economies followed different routes and rhythms, but nevertheless displayed important similarities. The early formation of powerful confederations of employer associations in the Scandinavian countries (Denmark, Sweden and Norway) also encouraged the building of centralised confederations among the trade unions, which clearly was inspired by mutual exchange and learning from continental unionists at the Scandinavian Labour Congresses in the late 19th century. After the path-breaking Danish September Compromise in 1899, which was the first basic agreement in the world that constituted the regulatory frameworks of national collective bargaining, similar (but less encompassing) settlements followed in Norway in 1935, Sweden in 1938, and later in the post-war era in Finland and Iceland (Kjellberg 1992). Still, historical differences regarding the role of the state in dispute resolution and incomes policies, as well as the relationship between legislation and collective agreements in regulating employment conditions, have had a lasting impact and contributed to significant diversity (if not divergence) among the Nordic countries. Rather than one Nordic model of industrial relations and collective bargaining, it is therefore more appropriate to speak of a varied family of Nordic models.

The following bullet points summarise the main features that characterise the historical evolution, structures and context of collective bargaining in the Nordic countries:

- A relative stable balance of power between capital and labour, which is anchored in broad class compromises that were struck during the early formative events of national industrial relations. These were subsequently codified in formalised basic agreements (1899 in Denmark, 1935 in Norway, 1938 in Saltsjöbaden, Sweden, and later in Finland during the 1970s, with predecessors in pioneer metal industry accords that occurred in 1905 in Sweden and 1907 in Norway).

- These historical settlements implied mutual recognition of the employers’ prerogatives to manage and the unions’ right to organisation and negotiations. Eventually underpinned by statutory regulation and institutions of conflict and dispute management, labour peace under the duration of agreements, and membership ballots over the outcome of negotiations, these factors have contributed to a pattern of working life governance in which self regulation through collective agreements and solidaristic wage policies have played a prominent role.

- The employers’ associations were important counterparts in the build-up of powerful central and peak level associations. With a majority of small and scattered member firms, they wished to remove conflicts over wages from the single company and they made use of massive lockouts and central conflict funds, contributing to the centralisation of bargaining and power in the trade union organisations.

- A particular combination of centralisation and decentralisation in a single channel system; the strong central tiers have their counterparts in shop-floor trade unions with significant functions in implementation of central accords, collective bargaining at the firm level under a peace clause, participation, and mobilisation of membership in the workplaces.

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4 This paragraph builds largely on Kjellberg (1992, 1998), Due et al. (2000), Stokke (1998) and Dølvik and Vartiainen (2002), see also Elvander (2002).
In interplay with the ballots over proposed agreements (eventually dismantled in Sweden and Finland), these factors have contributed to democratic legitimation and bottom-up anchoring of the bargaining and representation systems.

- During the post-war era, wage-setting was guided by *pattern bargaining* in accordance with the logic of front agreements in which the actors in export manufacturing were assigned the role as principal agents. This was institutionally formalised in national models for calculating the room of manoeuvre for responsible and internationally competitive wage growth.

- Except in Finland, there has been *no competing ideological and religious lines of unionism*, in contrast to in many other European countries. Combined with unemployment insurance schemes run by the trade unions (Ghent-systems, with Norway as an exception since the late 1930s), the development of specific confederations for white-collar and professional employees (except in Norway), and the central role of trade unions in bargaining and participation in the workplace, these factors have contributed to *high union density* (70-80% in Sweden, Denmark, Iceland and Finland, and 50-60 percent in Norway).

- Those features have been underpinned by the *collectivist thrust of labour law*, which implies that the trade unions, and not the individual employees, are the legal subjects associated with disputes over the application and interpretation of collective agreements. Industrial conflict over interpretation of agreements is prohibited, that is, strikes are only permitted in conflicts over interests (when an agreement has expired) and is a collective right controlled by the trade unions.

- The dominant role of collective bargaining has, with Denmark as an exception, gradually been complemented by extensive *statutory regulation* of issues related to work environment, health and safety, terms and conditions regarding the employment contract, dismissals, co-decisions and work-related social security. Labour law does often contain clauses that allow the social partners at the company and/or central levels to agree on exemptions (e.g., concerning working time – so-called *semidispositive legislation* – offering incentives and room for negotiated flexibility).

- There is *no legislation on minimum wages* in the Nordic countries, whereas statutory mechanisms for generalising collective agreements exist in Finland and Iceland, and are currently adopted in Norway. Growing service mobility and labour migration has in recent years prompted new debates on how to ensure that the collective agreement-based wage floor can be sustained in an open labour market.

- To varying degrees, the *state has acted as an important third party* of industrial relations by nurturing social partner involvement and cooperation in a wide range of areas and through various forms of accommodation and, sometimes, intervention in negotiations. While the principle of autonomous self-regulation of collective bargaining has been sacred in Sweden, the state and the public mediation institutions in Denmark, Norway and Finland have often played a key role in settling bargaining conflicts, offering economic incentives and side-payments (incomes policies). Except in Sweden, the state has from time to time even intervened directly in bargaining stalemates and determined wage growth by statute (codified by the parliament).
• Under the post-war Bretton-Woods regime with fixed exchange rates against the U.S. dollar the solidaristic wage policies were one of the cornerstones in macro-economic policies aimed at full employment. Politically determined low interest rates contributed to high levels of investment and, to varying degrees, state regulation of the credit supply helped stabilise the demand, while fiscal policies usually conformed with the legacy of prudence and balanced budgets. The wage floor created by solidaristic pay policies were seen as an important element in the promotion of industrial restructuring, encouraging reallocation of labour from low-productive to more efficient firms.

• Due to financial globalisation and credit-market liberalisation in recent years, the interplay between collective bargaining and monetary policies has undergone important changes. As part of the euro-club, the Finnish collective bargainers have responded by revitalisation of centralised incomes policies, which have also been seen in Norway and Iceland where shifts to floating currency regimes were undertaken. Sweden as well has introduced a floating regime based on an inflation target, whereas the Danish krona is linked to the euro, but in both countries the interaction with monetary policies has been taken into account through strengthened coordination of collective bargaining at the sectoral level. The role of the central confederations have thus changed in different directions in the Nordic countries due to recentralisation of collective bargaining coordination in Finland, Norway and Iceland and a certain decentralisation in Sweden and Denmark.

The micro-foundations of Nordic industrial relations

As indicated above, an often overlooked feature of Nordic industrial relations is the strong tier of unionism and bargaining at the enterprise levels, which is complemented by unitary systems of consultation and codetermination in which the unions, in contrast to in the dual continental systems, play a leading role. From early in the post-war period, bodies for local union participation and cooperation related to productivity development and improvement of work organisation were established in the 1970s, supplemented by systems for labour representation at the board and group levels. Through strong ties of vertical and horizontal coordination, these elements have formed the basis for development of highly integrated and articulated systems of collective bargaining (Kjellberg 1992, 1998). This particular combination of centralised and decentralised structures has made room for considerable flexibility regarding the way and level at which different issues are dealt with, also offering a framework for centrally controlled decentralisation in recent years. Framed by labour law and institutions for mediation and settlement of disputes, which ensure labour peace, these features have facilitated a legacy of partnership, responsibility and self-regulation at the company level as well (Bruun 1990, Stokke 1998, Elvander 2002).

Compared to the Anglo-American legacy, in which powerful local unions in settings of adversarial industrial relations and weak central coordination have been denounced for resisting and obstructing change, the strong tier of company unionism and bargaining in the Nordic countries has seemed more conducive to restructuring and negotiated adjustment. Whereas in single-tier systems the entire package of industrial relations issues have to be resolved at the company level – including distributional conflicts over wages, profits and jobs – the centralised determination of the main frameworks and distributional issues which used to be the case in the Nordic models implied that company bargaining conducted under the peace duty mainly concerned adjustment of wages in accordance with centrally agreed criteria of productivity
and profitability. As a consequence, the industrial relations agenda at the company level have tended to be more governable and more strongly oriented towards cooperation regarding supply-side issues, typically concerning productivity, skill formation, and reorganisation of work and production, than in more adversarial single-tier systems.

It also seems that the nexus between representative participation and local bargaining anchored in central framework agreements in the Nordic models have provided tools for more coherent and differentiated actor strategies than often has been the case in dual continental systems. The tradition for company bargaining with strong shop-floor unions further implies that management have not only been faced with demanding counterparts, but they have had partners with which they could strike reliable ‘deals’, legitimised by higher level actors, if conditions got rough. As a result, restructuring has tended to become less prone to resistance and conflict, and associated with broader labour involvement, than often has been the case in less articulated systems of industrial relations.

In addition the so-called semi-dispositive clauses in labour law have encouraged company actors to negotiate adjustments in national requirements, providing incentives for negotiated flexibility, whereas the centrally agreed procedures for company bargaining and wage-setting have spurred unions to engage in profit-enhancing change and restructuring. Especially in Sweden and Denmark, the legacy of local negotiations and cooperation has in recent years paved the way for quite far-reaching decentralisation, including core issues such as pay and working time, further increasing the leeway for local bargains on adjustment and flexibility without injecting the risk of labour conflict/unrest at the company level (Stokke/Thörnquist 2001).

This decentralised tier of industrial relations has been underpinned by local public authorities who offer training, labour market programmes, temporary lay-off schemes and social policy measures in situations of company restructuring or downsizing. Especially in Denmark, such public safety nets for companies and workers have in recent years been supervised by tripartite bodies at sub-regional level, also providing impetus for social dialogue on adjustments at the decentralised community level.

**Multilevel linkages and articulation**

The critical link between the decentralised level of industrial relations and the confederal peak level has always been the national federations at the industry level. These have both historically and today been the crucial bargaining agents in the Nordic countries, facilitating coherence between local action, industrial/sectoral agreements and macro-economic coordination. In line with the historical role of the federations as vanguards in industrial pattern-bargaining, in recent years we have seen an interesting development towards stronger coordination (e.g., formation of the Danish Industry and CO-Industry and the Swedish Industry Agreement, which embrace actors from all confederations) and even organisational amalgamations at the sectoral level in the Nordic countries.

The legacy of collective bargaining coordination and social partnership in the Nordic countries is, in other words, not simply a reflection of peak-level compromises and top-down policies, which would indeed represent a fragile and volatile basis for enduring cooperation. Through the micro-foundations of the models, the tradition for negotiated adjustment and compromise has attained a solid local anchoring, which involves broad societal forces at the community level and enables bottom-up articulation and coordination of views and interests. A two-way pattern of dialogue and interest aggregation has thereby been facilitated in which
the intermediate industry level has played a key role, allowing for bottom-up and top-down interaction in accordance with changing circumstances and needs.

The multileveled character of the collective bargaining systems has hence provided possibilities to move the level at which bargaining over different issues is conducted up- and downward, allowing leeway for differentiated adjustment in the degree of de-centralisation and re-centralisation. Even though the locus of initiative and power may shift in accordance with economic and political cycles, this kind of triangular anchoring does indeed mean that the balance of power is less sensitive to popular shifts in political climate and governments than in centralised single-tier systems. This has made the legacy of social partnership more robust and entrenched than in most other European countries – cf. the thesis that votes count, but resources (and members) decide (Rokkan, 1967) – reflecting the complex set of checks and balances the political actors at all levels are faced with. Such mechanisms clearly favour continuity rather than swift change and have also contributed to, and been underpinned by, the legitimacy and high levels of membership in the organisations of business and labour.

3.3 Crisis and renewal of Nordic industrial relations in the 1980-90s

During the 1980s and early 1990s the Nordic countries in different phases ran into severe economic crises, associated with deregulation of credit and capital markets, soaring inflation, wage drift and rising unemployment, frequently countered by devaluations and state interventions in collective bargaining. After the long period of welfare state expansion, strong job growth, labour reform, and rising union density under social democratic hegemony in the 1960s and 1970s, the Nordic ‘third way’ seemed to be crumbling – symbolised by the vast capital flight from Sweden in 1990, the collapse of the Krona, and the withdrawal of the employer confederation (SAF) from all central social dialogue, calling for market-based wage-setting. To calm the situation the Swedish government broke ranks with the Nordic compatriots (Finland, Iceland and Norway), who were proceeding along the EEA-track, and announced that it would apply for EC membership. At the time many observers saw these events as the ultimate proof that the egalitarian Nordic regimes were crumbling under the pressures of intensified global and European market competition.

A common feature of the Nordic crises in the late 1970s and early 1980s was the breakdown of the interplay between macro-economic policies and collective bargaining. The internationally driven deregulation of credit and capital markets brought easier access to credit which, combined with the expansion of the public sector, contributed to demand-driven inflation, wage growth, imbalances in current accounts and state budgets, and depreciation of the currencies. Furthermore, shifts in the relative weight and balance of power among unions in the private and public sectors had weakened the coordination of wage-setting. In the original Nordic models, bargainers in the traded goods sectors were vanguards in national pattern bargaining. During the 70s and 80s, the pacesetting role of the exposed sectors came under pressure from actors in the growing public sectors, growing demands for wage equalisation, leapfrogging, and inter-union struggles over relative wages. The breakdown of coordinated wage restraint in interaction with expansive fiscal policies implied a deviation from the legacy of prudence and moderation marking wage-setting and economic policies in the traditional Nordic models. The consequence was deteriorating competitiveness and recurrent devalua-
tions, which in combination with the domestic credit booms led to hard landings when the bubbles burst. As a result, all the Nordic countries eventually experienced falling production, accelerating unemployment and stagnating real wages. The situation was most grave in Finland, where unemployment in the early 1990s soared well above 20 percent, but in Sweden and Norway also effective unemployment approached 10 percent, whereas Denmark had struggled with double-digit unemployment since the late 1970s.

Contrary to perceptions at the time that the economic bust was a result of tougher international competition, the Nordic crises in the 1980s-90s can to a large extent be attributed to domestic policy failures associated with the transition to deregulated credit markets – and the subsequent rigorous use of monetary policies and other austerity measures to rebalance the economy and squeeze out inflationary expectations – interacting with inherent changes in the collective bargaining systems. Thus, rather than an inevitable result of internationalisation and adjustment to the EC, the crises were strongly influenced by domestic dynamics and flawed policies both on the part of the social partners and the governments, crossing the thin line between success and failure. Those flaws were by no means coincidental. The social actors’ inability to curb the nominal wage race was a result of structural changes in the pattern of employment and inter-union power relations, revealing weaknesses in the mode of associational coordination, and the failure to adjust economic policies was largely a consequence of misperceptions of the external shift in the conditions for monetary policies and inability to adjust public budgets. In other words, the Nordic countries were struggling with a double crisis of adjustment – reflecting simultaneous pressures to accommodate post-industrial shifts in the labour market and the international shifts in finance markets.

Subsequently these developments paved the way for significant shifts in the regimes of monetary policies and adjustments in the systems of collective bargaining (Iversen et al. 2000). With the Danes in the lead, all the Nordic countries shifted around 1990 to ‘hard-currency’ regimes based on pegging to the ECU and vigorous use of the interest-rate weapon to discipline wage-setting. The implication was that if wage inflation rose above German levels, the unions would be penalised by the increasingly independent central banks, raising interest rates, thus representing an important instance of Europeanization of economic governance. Amid those turbulent years, discussions about implications of the single market, membership in the EEA and eventually in the EC/EU, stirred further controversy. While the employer side saw the new pace of European integration as a welcome opportunity to eliminate domestic obstacles, wide circles in the trade unions feared that the free flow in the single market and the economic regime in the EC/EU, combined with EU minimum legislation in the labour market, would represent a further blow to the crisis-ridden Nordic models. In the following sections, we will briefly review the main lines of adjustment in the Nordic systems of industrial relations since the 1980s.

**Denmark: Organised decentralisation**

The Danish system of industrial relations has been marked by a legacy of voluntarism. Most issues have been regulated by collective agreements and statutory rights have played a very limited role, compared to the other Nordic and European countries. Another feature has been a consensual tradition according to which the state should not interfere in labour mar-

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5 Finland, in addition, experienced a collapse in the trade with the Soviet Union, but according to Pekkarinen and Vartiainen (2001), this event was much less important than the domestic credit crunch.
ket issues without the consent of the social partners. The Social Democratic Party has always been weaker than in Sweden and Norway, and Danish governments have usually been run by centre-left or centre-right coalitions. During the 1960s-1970s, Danish collective bargaining underwent strong centralisation, wage equalisation, and income policies at the peak level became standard routine, often brokered by the powerful public mediator, who even commanded the right to couple ballot votes across bargaining areas to obtain the majority for the proposed settlements.

After the 1973 oil-shock, Denmark like other EC countries, was hit by stagflation, that is, strong inflation, stagnating production and unemployment rapidly rising to two-digit levels. After a series of attempts by Anker Jørgensen’s social democratic government to broker centralised crisis deals had failed, a conservative coalition led by Poul Schlüter took over in 1982. This initiated a decade of profound changes in Danish economic governance. By pegging the Krona to the German Mark in 1982, liberalising credit and capital markets, undertaking harsh austerity measures, and pursuing rough state intervention in wage-setting – the so-called Potato-cure, leading to large-scale conflict in the mid-80s – the impenetrable system of centralised, income-political infighting was gradually dismantled.

The employers in private manufacturing, followed by their union counterparts, played a key role in this process of adjustment and decentralisation. In 1987, the social partners entered a four-year moderate settlement and agreed on the aims and principles for competitive, responsible wage growth in the new international environment of low inflation (Due and Madsen 1994; Scheuer 1992, 1998). In hindsight resembling the impact of the Dutch Wassenaar Accord from 1985, the institutionalisation of the new framework prompted significant reforms in the mode and structure of collective bargaining. After a number of employers’ associations in private manufacturing in 1991 merged under the umbrella of the Danish Industry (DI) – representing more than 50 percent of membership in the employer confederation DA – the manufacturing unions in LO established a corresponding bargaining cartel (CO-Industry). Together, they re-conquered their former leading bargaining role and defined the scope and pace for a new regime of more decentralised bargaining coordination at sector level, granting increasingly wider room for negotiations of pay and working time at the company level. With similar shifts following in other sectors, these reforms constituted an instance of what Danish analysts have coined ‘centralised decentralisation’ (Due and Madsen 1994) – or organized decentralisation (Traxler et al 2001) – combining coordination through framework-oriented pattern-bargaining at sector level, with significant decentralisation to the company level.

Embedded in an institutional setting with a powerful Central Bank, and a strong state mediator facilitating coordination, these domestic changes had contributed to renewed economic stability and responsiveness in Danish wage-setting when the single market came into operation in the early 1990s. While the adjustments of the Danish system have implied a certain convergence towards continental modes of interaction between independent central banks and wage-setters at the industry level (Iversen 1999), the main pillars of the industrial relations regime remain stable and intact. Trade union density remains at a high level, despite

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6 In the 2004-2006 collective agreement, local negotiators were even allowed to deviate downwards from the pay norms of the sector agreements – resembling the German ‘opening clauses’ – provided the deviations resulted from negotiations (providing unions a veto) and the signatory parties were informed (Visser 2005: 298).

7 Besides the authority to couple votes across bargaining areas in the ballots ratifying or rejecting proposed agreements, the Danish mediator can also pass on settlement proposals, or forward his own proposal of a compromise to the Parliament (Folketinget) in the case of a stalemate (Stokke 1998).
a drop in recent years, and collective bargaining coverage actually increased during the 1990s (Madsen and Scheuer 2000).

Eventually this regime has worked quite well. Supported by fiscal stimulus and activation-oriented reforms in labour market policies, unemployment schemes and social policies, recent years have brought significant reductions in unemployment (now at 4 percent) and improved growth and employment records (Jørgensen 2006). Development of a system of occupational pension funds run by the bargaining partners has also eased pension reform, offered new trade-offs between wage growth and savings, and provided the social partners new instruments in developing supplementary social benefits (Due & Madsen 2004). Besides the social partners’ dominant role in labour market regulation and the lax protection against dismissals, other features of what EU-circles came to regard as the ‘Danish Miracle’ have been the fairly generous system of income security financed by general taxation rather than employer levies, contributing to the now infamous notion of ‘flexicurity’ that combines a high degree of labour market mobility and flexibility with social security (Jørgensen 2006). At the time of writing, however, new challenges have arisen associated with signs of economic overheating and rising shortages of labour.

Sweden: Back to basics

After the main frameworks of Swedish industrial relations were codified in the Salt-sjöbaden Pact of 1938, during the post-war era collective bargaining was conducted at the industry level, increasingly coordinated through central framework agreements between the peak associations. During the 1950s, Swedish trade unions were guided by the so-called Rehn-Meidner model, which commended prudent fiscal policies and solidaristic wage policies, underpinned by skill-enhancing and mobility-enhancing public measures in order to stimulate reallocation of labour and investment towards the most productive industries and companies (Dølvik & Vartiainen 2002). The employers associations also supported centralisation of bargaining in order to ensure a domestic ‘level playing field’. In the 1960s-70s, radicalisation of the trade unions brought about a significant equalisation of wages, which in turn prompted compensatory claims by better-paid groups and inflation accelerated. The legacy of self-regulation in the labour market was also challenged by far-reaching enactment of statutory workers rights, culminating in LO’s (the main blue-collar union confederation) demand for wage-earner funds envisaged to boost workers’ economic influence through direct ownership of capital (Vartiainen 1998).

In this climate of political polarisation, the golden era of the Swedish Third Way started crumbling. In 1983, the engineering employers’ association (VF), followed by the metal workers, withdrew from centralised coordination, initiating a period of turbulence and rivalry in Swedish collective bargaining. Rising inflation, competitive wage claims and aggressive devaluations – depreciating the Swedish currency by 35 percent during the period of 1976-1983 (Calmfors 1993) – brought minimal growth in real wages, but the mixture of low interest rates, liberalisation of credit markets, international recovery and expanding public budgets kept the economy growing throughout the 1980s. In 1989-90 nominal wages increased by 10 percent, whereas unemployment had fallen to 1,5 percent (Feldt 1991).

The bubble burst in 1990, when capital flew out of the country, the Krona began a free fall and interest rates skyrocketed. In response to the crisis, the government declared it would apply for membership in the EU, bewildering their Nordic compatriots with whom they, as earlier mentioned, had agreed to proceed along the EEA-track. The Prime Minister Ingvar
Carlsson also proposed a wage freeze – like the one introduced in Norway in 1988 (see below) – but fundamentally breaching with the Swedish legacy of self-determination, the proposal was resolutely rejected by the social partners. The employers confederation, SAF, hence heralded their definitive farewell to centralised bargaining and the stranded Swedish model. Ingvar Carlsson had to abandon, and in 1991 a Conservative government headed by Carl Bildt took over.

The first part of the 1990s brought accelerating unemployment, severe cuts in public budgets, tightening of various social benefits, reforms in public services, including broader use of private contractors, and contentious search for greater labour market flexibility (e.g., by legalising broader use of temporary workers, stricter rules for sick leave). Unlike the Danes, who had introduced a hard-currency regime based on active use of the interest-rate weapon before credit markets were liberalised in full, a major factor behind the ‘bubbles’ in Sweden (as well as Finland and Norway) was that the sequence of adjustment came in reverse order. In 1991, the Swedish Krona was pegged to the ECU, but the ‘peg’ soon proved un-defendable. During the currency turmoil in 1993 the Krona sank again like a stone, and the mandate of Riksbanken was amended, installing a regime aimed at price-stability (though with significantly laxer margins than the European Central Bank) with a floating exchange rate, that is, different from the continued linking of the Danish Krona to the ECU and subsequently to the euro.

Without subscribing to first-round entry into the EMU and the associated convergence programmes when joining the EU in 1995, the Swedes pursued significant belt-tightening and stability-oriented changes in the rules and procedures of fiscal and monetary policies (Calmfors 2002). Within this changing macro-economic framework, the Swedish system of wage-setting went through a protracted process of transformation. After a period of crisis-management by means of arms-length, centralised coordination orchestrated by an independent mediator under the auspices of the Rehnberg Commission, important reforms in the system of bargaining and mediation were undertaken during the mid/late 1990s. In contrast to the radical decentralisation at the company level called for by SAF in 1990, all trade unions and employer associations in the manufacturing sector in 1997 signed a path-breaking Industry Agreement. This agreement defined the frameworks, aims and procedures of collective bargaining as well as the role of an independent mediator in governing the pay rounds in the manufacturing industries. Encompassing trade unions from all three confederations (LO, TCO and SACO), the Industry Agreement went even further than the Danish counterparts in institutionalising sector-wide coordination across the entire range of bargaining areas, increasing the duration of agreements to three years and opening for significant decentralisation to the company level. Pay rises can be entirely agreed at the company level, but if the local actors do not reach agreement, a minimum increment negotiated centrally applies (Stokke 2007).

Followed by similar agreements in other sectors, including the municipal and state sectors, and the establishment of a new state mediation institute, an economy-wide system of sector-based coordination was emerging. According to key observers, these changes amounted to a regime shift of similar significance as the Saltsjöbaden Pact of 1938 (Elvander 2002). The levels of organisation remain high, despite a certain drop among LO unions, but reforms undertaken by the newly elected alliance government may prompt falling union membership (see

\[8\] The Swedes unilaterally made clear when negotiating their terms of EU membership that the issue of ceding the Krona and entering the EMU/Euro was a sovereign decision, which at any rate would have to be taken by the Riksdag (Parliament) at a later stage. In spite of broad support among the Swedish elites, a proposed shift to the EURO was rejected again in the 2003 referendum.

\[9\] Under the umbrella of the Industry Agreement, the various parties continued bargaining in their respective domains, but important mergers have evolved (e.g., among two of the leading manufacturing unions in LO, Swedish Metal and the Industry Union).
section 3.4 below). Collective agreements do, without any kind of legal extension mechanisms, cover almost the entire labour market – including even substantial parts of the ICT-sector. Recently, the peak-level associations have embarked anew on negotiating relations by signing framework agreements on how to deal with foreign subcontractors and on implementation of EU framework agreements. Still, for the unions there are challenges ahead. Although the Swedish economy has showed rising growth in recent years and currently is verging on the brink of overheating, the fall in unemployment has been slower than expected (now at 4-5 percent) and the inactivity rate remains unacceptably high in Swedish terms. In line with the ‘make work pay’ credo of the OECD, the new centre-right government has thus declared major cuts in unemployment benefits.

**Finland: Revival of centralised incomes policies**

Marked by the deep social and ideological divisions from the interwar period, Finland was a latecomer into the Nordic group of cooperative industrial relations. Unionisation rose fast since the 1960s, but the legacy of corporatist state governance was resilient and the split between communist and social-democratic-oriented trade unions were not bridged until the early 1970s (Lilja 1992). Economically, Finland was until recently heavily dependent on forestry and a few large corporations in the paper and pulp industry and metal industry. Social democracy never enjoyed a similar role as in other Nordic countries, and politics have been dominated by centrist coalitions. The state has played a dominant role in the governance of the economy and the labour markets, with cyclical devaluations, income policies and statutory regulation as central ingredients (Pekkarinen & Vartiainen 2001). Union density has traditionally been high (approximately 80 percent), but has shown a certain decline in recent years (see section 3.4). In the 1970s, a mechanism for generalising collective agreements with at least 50 percent coverage was enacted, whereas the decentralised tier of industrial relations has been less developed than in other Nordic countries.

Against this backdrop, the rise of the Finnish Tiger economy is puzzling, especially in view of the deep depression that hit Finland in the early 1990s. In the international press, the Finnish crisis and recovery is often associated with the collapse of the trade with the Soviet Union and the subsequent entrance into the EU. A closer look, however, shows that domestic factors, including the changes in industrial relations, played an essential role (Pekkarinen & Vartiainen 2001). As in Sweden, the failure to adjust monetary policies when the credit markets were liberalised in the 1980s led to severe overheating of the Finnish economy, reinforced by booming global export markets in the late 1980s.

When the crisis hit in the early 1990s, the combined effects of domestic credit crunch, contracting exports and the collapse of the Soviet trade – aggravated by draconian monetary policies aimed at keeping the Markka pegged to ECU – sent the Finnish economy into the deepest depression of any industrialised country in modern time (Pekkarinen and Vartiainen 2001). The GDP fell by 15 percentage points and the employment rate fell by 14 percentage points in 1990-94, while unemployment reached unprecedented levels (17 percent). When the currency peg was given up in 1991, the Markka was devalued by 30 percent and, after a floating currency regime was established in 1992, the economy slowly started picking up from 1994.

In contrast to Denmark and Sweden, Finland tried to overcome the labour market crisis by restoring centralised collective bargaining within a framework of tripartite income policies, anchored in a Social Pact in 1995 orchestrated by the new ‘Rainbow’ coalition government
headed by Paavo Lipponen. During the depression, the liberal government and the employers had pledged wage cuts, labour market deregulation and decentralisation, and the pay rounds were marked by conflict, distrust and renewed wage drift after the bottom was passed. In order to bring down unemployment and prepare for early entrance into the EMU, the incoming Rainbow coalition in 1995 thus invited the social partners to discuss a broad package of labour market and social policy reforms alongside development of new mechanisms to raise labour cost flexibility. Under the EMU, adjustment of the exchange rate and national interest rates would no longer be at hand for domestic stabilisation purposes. The social partners and the state therefore agreed that enhanced flexibility of labour costs and labour markets was required as ‘shock absorbers’ in order to cushion the periodically large cyclical fluctuations in the export-dependent Finnish economy, where paper and timber industries are still vital. Besides returning to the tradition of centralised income policies, the partners agreed to develop so-called ‘buffer-funds’. By adjusting employer contributions to unemployment and social security funds across the economic cycles, the aim was to avoid pro-cyclical nominal wage cuts in situations with economic demand shocks (Bolt 1999).

Since the mid-90s, the Finnish economy has shown a remarkable recovery, with solid GDP growth, declining unemployment (now approximately 7 percent) and stable macro-economic performance. The transition to the EMU and the euro has been considered a success, sheltering the economy against the monetary volatility of the past, but also disciplining domestic wage-setting and macro-economic policies. Combined with active state policies to promote research, industrial development and skill formation, the Finnish economy has undergone rapid restructuring and modernisation, symbolised by the spectacular transformation of NOKIA from a producer of Wellingtons to a leading global ICT-player. No wonder labels like the ‘Finnish Tiger’ and ‘Finnish Miracle’ flourish in EU benchmarking reports. Yet, with the rapid restructuring of the Finnish economy, accompanied by growing productivity differentials across sectors and industries, it seems likely that the centralised Finnish model of labour-market governance will face demanding internal adjustment in the years ahead.

**Norway: Re-centralisation and consolidation**

The Norwegian industrial relations have been marked by a strong state presence in wage-setting, mediation and settlement of disputes as well as statutory regulation of workers’ rights. Collective bargaining has been highly centralised with the peak associations being signatory parties to all agreements, but is complemented by a strong decentralised tier of industrial relations. Organisation rates are relatively moderate by Nordic standards, but union density is high in European terms (approximately 53 percent) – especially in view of the fact that the trade unions play no role in the unemployment insurance system. Over the past decades, the large fluctuations in the Norwegian economy – reflecting the central role of oil, gas and other natural resources – have given rise to large swings in the pattern of wage-setting. In the 1970s, 1980s and late 1990s, periods of strong growth ended in hard landings with rigorous state intervention in wage-setting.

In the 1980s, the Norwegian economy underwent a similar boom and bust cycle associated with the liberalisation of credit markets and the subsequent monetary tightening as in Sweden and Finland. In order to overcome the crisis, the state and the social partners agreed to pursue a Solidarity Alternative according to which centralised income policies should aim at lowering unit costs by 10 percent compared to the trading partners. Underpinned by counter-cyclical fiscal policies and strict monetary policies based on a stable exchange rate, circumscribed by
active labour market and training policies, the aim was to bring down unemployment. As part of the pact, the trade unions obtained the safeguarding of key welfare rights, such as the sick pay scheme (100% compensation), and the introduction of a generous early retirement scheme (eventually from the age of 62), later on complemented by extended rights to lifelong learning.

Norway did not follow Sweden and Finland into the EU in 1995. The tight 1994 referendum, where the previous narrow vote of the LO Congress against EU membership presumably was decisive for the outcome, implied that Norway’s relationship to the EU would rely on the EEA Agreement. Through the EEA Agreement, Norway, together with Iceland and Liechtenstein, gained access to – and is obliged to comply with the rules of – the EU single market, including the EU labour market regulations. Norway is thus not part of the EU rule-making processes, but retains national policy discretion in agriculture, fisheries, trade and monetary affairs. Eventually Norway has also joined the Schengen Agreement and parts of the EU’s cooperation on police (Europol), military operations, etc.

After the economic crisis from 1988 to 1993, when private production fell and gross unemployment rose to 9 percent, the Norwegian economy has, like its Nordic EU neighbours, fared well in the single market. After an attempt to peg the Krona to the ECU collapsed in 1992, gradual adjustment to a monetary regime with a floating currency and stability-oriented policies, formalised in 2001, was accompanied by a strong recovery from the mid-90s, driven primarily by huge investments in the offshore sector. Unemployment again sank to low levels and productivity improved significantly.

Under the new upswing in the late 90s, the Solidarity Alternative evaporated, and profits and wage drift proliferated, especially among those in the upper rungs. In response to the withering of wage coordination, high pay rises and lax fiscal policies, the Central Bank in 2002 used its new prerogatives and retaliated by raising the already high interest rates. Sending the Krona sky high, this had severe consequences for the manufacturing industries, eliminating more than 25,000 jobs in 2002-2003. In line with the old pattern of crisis management, a new round of income policy concertation was initiated under the centre-conservative government, which now also included the confederations of white-collar employees. Although the recent pay rounds have been negotiated at the industry level, nominal wage growth has been reduced towards the pace of the main trading partners. Facilitated by the global reduction in import prices and inflation, and low interest rates, real wages have risen steadily and growth has picked up strongly. Open unemployment is falling (now below 3 percent) and employers complain about growing shortages of labour. With high oil prices and renewed investment booming in the petroleum sector, it may thus seem like the Norwegian regime is heading for another tough test of its robustness and adaptive capacity.

As shown, the Norwegian pattern of coordinated wage-setting and macro-economic policies has undergone significant modifications, mainly through the power assigned to the central bank in imposing discipline and stability in wage-setting and fiscal policies. By Nordic standards there have been limited changes in the bargaining system itself, except the inclusion of organisations outside the main confederations, LO and NHO, in the income-political dialogue. Within existing frameworks, however, bargaining coordination has been strengthened, sometimes even across confederal lines, and the actors have agreed on adjustments in the way the framework for public wage increases are to be calculated (now including both blue- and white-collar pay rises in private manufacturing) (Nergaard and Stokke 2007). The Norwegian system allows less leeway for decentralised determination of pay and working time than in Denmark and Sweden, whereas, in contrast to Finland, the degree of coordination within and
across sectors varies from pay round to pay round. This provides the trade unions flexibility in choosing the level and form of coordination, at the same time reducing predictability and rendering the system vulnerable to wage drift and tension over relative wages during times of bonanza. While the duration of Swedish and Danish agreements is now usually three years, Norwegian agreements are re-negotiated every second year (with annual adjustment rounds). With labour costs ranking at the top of the industrialised world, a growing oil fund invested in global stock markets, and a strong and volatile currency, the traded goods sector in Norway is facing particular challenges.

Employers and the centre-right parties have long pleaded for liberalisation of labour markets, especially concerning temporary contracts, but the red-green government elected in 2005 swiftly withdrew proposed reforms in this realm. With bright economic outlooks, growing labour scarcities, and concern over increasing shares of the adult population leaving the labour force because of retirement, sickness, disability or other reasons, the social partners are facing major challenges in negotiating a new pension regime and promoting inclusion of immigrants and other vulnerable groups in the labour market. In this context, the handling of rising labour and service mobility from the new EU member states has become a contentious issue, catalysing crosscutting tension among the social actors.

**Summarising reflections**

As pointed out, the social actors in the Nordic countries responded to the crises with quite different institutional adjustments. While Finland and Norway (and Iceland) recentralised, according to their tradition of tripartite concertation, Denmark and Sweden decentralised and established new forms of coordination at the sector level. In all the countries, the wage growth among the main trading partners and discussions about European norms and criteria for wage coordination received growing attention in union pay policies. In several areas, the duration of agreements has been increased to three years and in some instances even four years, and significant reforms have been undertaken in union structures, including numerous amalgamations and realignments (Waddington ed. 2003). Further worth noting is that the state played an active role – directly or indirectly – in facilitating changes in the bargaining practices during the crisis in all the Nordic countries. In addition, most pronouncedly in Denmark, stronger emphasis on activation policies and stricter availability requirements vis-à-vis the unemployed played a central part in the turn-around in the labour market, in recent years, complemented by cost-saving and activation-oriented pension reforms.

These processes of change implied considerable cuts, sacrifices and power struggles. In hindsight, however, it can be noted that the shift to anti-inflationary regimes with stronger central banks and more prudent fiscal policies did not, as many sceptics warned, lock the Nordic countries into a low-growth/high-unemployment trap. On the contrary, the changes enabled the Nordic models to resurface in ‘leaner but stronger and more flexible’ competitive versions than before the crises. During the 1990s, growth picked up, real wages increased more than in the 1980s, the labour market recovered and unemployment fell, albeit not as fast as many would have hoped, whereas the organisational foundations remained intact.

Further, the divergent patterns of adjustment in the Nordic countries underscore that the industrial-relations consequences of contemporary processes of international and national restructuring are far from unequivocal. The national adjustments were not simply reflections of global, European or technological exigencies, but were conditioned by institutional particularities, experience and power relations, partly shaping responses in accordance with
national path dependencies. Whereas the conventional assumption has been that globalisation and European integration require decentralised, flexible wage-setting, the Nordic pattern of adjustment points to the contradictory imperatives of globalisation (Hyman 1998). Besides pressures for micro-flexibility, the wider opening of the economies and the constraints on monetary policies have reinforced the need to ensure macro-economic adjustment capacity through coordination of aggregate wage growth and fiscal policies (Dølvik 2004). Given the urgent need to curb wage growth and inflation in the 1990s, Nordic employers apparently sacrificed their declared goal of increased micro-flexibility and labour market deregulation for the immediate aim of regaining control over aggregate wage determination through coordinated bargaining. For the trade unions, the strategic implication is that efficient coordination is serving as a functional alternative to labour market deregulation (Lindgren 2006), which for the employers is the preferred alternative and threat if the unions do not deliver.

A striking feature of the Nordic sequence of crisis and recovery during the past 25 years is that domestic and external developments have become more closely intertwined, requiring that the social actors take both equations into account in their policies. While arguing that the domestic actors in the 1980s lost sight of important preconditions for keeping the Nordic models on track, I have suggested that the external pressures associated with European integration and globalisation actually were helpful in catalysing domestic reforms and adjustment. Vice versa, the institutional frameworks in Nordic working life have, according to this interpretation, functioned as productive constraints, inhibiting quick fixes along the low road to competitiveness and maintaining incentives for negotiated change along the high road. In a broader perspective, the Nordic account lends support to the thesis of Katzenstein (1985) that inclusive welfare states and corporatist systems of labour market governance not only serve as social buffers, but also provide important sources of flexible adjustment for small, open economies struggling to survive in turbulent world markets (Rodrik 1997). In post-modern discourse, these institutions are thus instrumental in managing social risk in globalised economies, thereby also fostering trust and willingness to participate in uncertain and painful processes of change. Contrary to the view that the Nordic labour cum welfare regimes would become undermined by the pressures of globalised capitalism, they have therefore actually become more, not less, important in coping with the contradictory exigencies of global competition.

### 3.4 Collective bargaining coverage, employer and union density

The capacity for regulation of labour market conditions through coordinated collective bargaining is indeed highly dependent on the coverage of collective agreements. In most European countries, the coverage of collective bargaining is a function of the organisation’s rate of the employer associations, which is usually significantly higher than the density of trade unions, and the widespread use of mechanisms for extension of collective agreements (erga omnes).

In the Nordic countries, this relationship is different. As seen in Table 2 and Figure 2, the density among private sector employers in the Nordic countries is quite average, whereas the high coverage of collective bargaining is a reflection of the high union density, of large public sectors, of rules ensuring that collective agreements are applied to all employees in the private companies covered, and of union efforts to strike application agreements with unorganised
companies. In Finland and Iceland, extension mechanisms introduced in the 1970s and 1980s, respectively, have further contributed to the broad coverage of collective agreements.

Whereas the coverage of collective agreements has persistently been high in Sweden, Finland and Iceland, the private sectors in Denmark, and especially Norway, have shown somewhat lower coverage rates. According to Madsen and Scheuer (2000), the Danish rate has risen in recent years, while the coverage rate in the Norwegian private sector has been fairly stable and in 2004 was estimated at approximately 55 percent (Nergaard and Stokke 2006).

Trends in union membership
Several institutional factors have contributed to maintain high levels of union membership and density (70-80 percent) in the Nordic countries even after the post-war rise in unionisation in Europe culminated in the 1970s (Visser and Ebbinghaus 2000). Together with Belgium, which has also shown high and stable union density (55 percent), all the Nordic countries except Norway (53 percent) have run unemployment benefit systems administered by the trade unions (the Ghent system). Albeit there is no compulsory link between membership in an unemployment benefit scheme and union membership, and the state is carrying most of the financing, comparative studies indicate that the incentive effects of the Ghent system on employee and union behaviour contribute to 20-30 percent higher rates of unionisation than in other systems (Visser 2006). Another common feature of Nordic trade unionism is their strong, independent confederations for white-collar and professional employees. Combined with the high employment share in public services, the role of the white-collar confederations has implied that the transition to post-industrial labour markets have had less negative effect on union membership than in most other countries. In addition, the presence and wide-ranging functions of unions in the workplace have facilitated acceptance and support of unions as a matter of fact in Nordic working lives (Kjellberg 2003, 2006). Nonetheless, the restructuring

Figure 2 Private sector employer density in the European Union – estimates made by the European Commission

Source: Industrial Relations in Europe 2006 Figure 1.2
of work and labour markets as well as changes in lifestyles and political attitudes have also affected union membership in the Nordic countries in recent years, causing stagnation and, most pronouncedly in Sweden, a decline in density especially among younger employees.

The organisational capacities of unions are a function of membership size and development, determining available financial and human resources and the potential for mobilisation. As seen in Table 3, union membership in the EC peaked in 1980 and has decreased ever since, falling from almost 44 million in 1980 to 36 million in 2003, that is a 16.5 percent decrease.

With almost 7.5 million union members in 2003, including Iceland, the Nordic countries account for more than 20 percent, that is every fifth member, of union members in the EU/EEA-area, and today number more members than each of the big three – UK, Germany and Italy.

The drop in union membership since 1980 has been most dramatic in the UK (with a loss of 5 million members, approximately 45 percent), but has been significant in the majority of European countries except Ireland, Belgium, Spain, Denmark, Finland, Iceland and Norway. Sweden showed growth until 1990, but due to the severe drop in employment in the first half of the 1990s and a certain decline in density, the membership in Swedish unions actually was lower in 2003 than in 1980.

Since 1990, the only European countries that have displayed real growth in union membership are Ireland (+74,000/17%), Netherlands (227,000/17%), Belgium (204,000/12%, Spain (1000,300/84%) and Norway (75,000/7%). The other continental countries have experienced a loss of membership around 10-20 percent and the UK even higher (27 percent), whereas the decline in the Nordic countries has been around two percent in Denmark and Finland and 8.5 percent in Sweden. The development in absolute membership is important for the unions, but is a poor indicator of trends in the relative strength of unionism since it is strongly affected by the employment developments.

**Trends in union density**

A better indicator of how the unions are performing relates to the number of members relative to the size of the employed workforce (net union density/organisational rate). In this regard, the Belgian and the Nordic trade unions have been faring markedly better than the other European trade unions. As a whole, the trade union density in the EU-15 fell from almost 40 percent in 1980 to 26.3 percent in 2002 (Visser 2006). Density fell sharpest after 1980 in Ireland, Austria, and the UK (21–22 percentage points), while the other West-European countries show a drop of 12–16 percentage points, except Spain, Belgium and the Nordic countries. In Spain density has risen from a low level to 16.3 percent, while the developments in the Nordic countries since 1980 differ between a rise in Finland from 69 to 74 percent,

<table>
<thead>
<tr>
<th>Year</th>
<th>USA</th>
<th>Jap</th>
<th>Can</th>
<th>Aus</th>
<th>Ger</th>
<th>Nor</th>
<th>DK*</th>
<th>Spain</th>
<th>NI</th>
<th>Icle- **</th>
<th>Swe</th>
<th>Fl</th>
<th>Fra</th>
<th>Austria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage</td>
<td>13.8</td>
<td>23.5</td>
<td>32.4</td>
<td>50</td>
<td>63</td>
<td>77</td>
<td>80</td>
<td>81</td>
<td>82</td>
<td>90</td>
<td>92</td>
<td>95</td>
<td>95</td>
<td>99</td>
</tr>
</tbody>
</table>

Source: Visser 2006

* Denmark – source Scheuer/Madsen 2000, included by author

** Iceland – source, ASI 2004, included by author
relative stability in Sweden, and a drop of five percent in Norway and eight percent in Denmark since 1980.

If we look closer at recent developments, we see that all the Nordic countries except Finland have experienced a decline in density from 1995 to 2003 – approximately seven percentage points in Denmark, six percentage points in Finland, five percentage points in Sweden, and four percentage points in Norway. The decline since the mid 1990s partly reflects the fact that density in the Nordic countries, in contrast to most other countries, has tended to rise in times of growing unemployment and fall when employment is increasing and the likelihood of job loss is reduced (Booth et al 2001, Kjellberg 2006). Compared to the main European trend, the Nordic decreases are still fairly moderate and at a much higher level than the others, except Belgium. Consequently, this means that we have been witnessing a combination of European convergence and divergence, according to which the general decline from varying levels of density has proceeded at different paces and given rise to a pattern where union density in recent years has been:

- high and relatively stable in Belgium and the Nordic countries (50–78 percent), though with modest decline in the latter;
- medium-high but steadily falling in Austria, UK, Ireland and Italy (30–35 percent);
- low but rising in Spain and the Netherlands (16–22 percent);
- low and declining in France, Switzerland and Germany (8–23 percent).

Table 3 Union membership in the EU and Norway 1970-2003. Thousands and percentage change

<table>
<thead>
<tr>
<th></th>
<th>Absolute members in thousands</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>33939</td>
<td>6965</td>
</tr>
<tr>
<td>France</td>
<td>43663</td>
<td>3348</td>
</tr>
<tr>
<td>Italy</td>
<td>39261</td>
<td>4736</td>
</tr>
<tr>
<td>UK</td>
<td>36261</td>
<td>10068</td>
</tr>
<tr>
<td>Ireland</td>
<td>3222</td>
<td>382</td>
</tr>
<tr>
<td>Finland</td>
<td></td>
<td>828</td>
</tr>
<tr>
<td>Sweden</td>
<td>2325</td>
<td>2325</td>
</tr>
<tr>
<td>Norway</td>
<td>683</td>
<td>683</td>
</tr>
<tr>
<td>Denmark</td>
<td>1108</td>
<td>1108</td>
</tr>
<tr>
<td>Iceland*</td>
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<td>102</td>
</tr>
<tr>
<td>Netherlands</td>
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<td>1430</td>
</tr>
<tr>
<td>Belgium</td>
<td>1231</td>
<td>1231</td>
</tr>
<tr>
<td>Spain</td>
<td>1231</td>
<td>1231</td>
</tr>
<tr>
<td>Switzerland</td>
<td>501</td>
<td>501</td>
</tr>
<tr>
<td>Austria</td>
<td>1355</td>
<td>1355</td>
</tr>
</tbody>
</table>


* Figures for Iceland from Statistics Iceland (1990-92 and 2003 estimates by Halldor Grønvold, ASI.
Table 4 Union density in selected EU countries, Switzerland and Norway

<table>
<thead>
<tr>
<th>Year</th>
<th>EU</th>
<th>Ger</th>
<th>Fra</th>
<th>Italy</th>
<th>UK</th>
<th>Ireland</th>
<th>Fl</th>
<th>Sw</th>
<th>N</th>
<th>Dk</th>
<th>Isl*</th>
<th>NI</th>
<th>Be</th>
<th>Sp</th>
<th>Swi</th>
<th>Au</th>
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<td>37</td>
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<td>51.3</td>
<td>67.7</td>
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<td>-</td>
<td>36.5</td>
<td>42.1</td>
<td>-</td>
<td>28.9</td>
<td>62.8</td>
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<tr>
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<td>39.7</td>
<td>34.9</td>
<td>18.3</td>
<td>49.6</td>
<td>50.7</td>
<td>57.1</td>
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<td>58.3</td>
<td>78.6</td>
<td>-</td>
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<td>54.1</td>
<td>12.9</td>
<td>31.1</td>
<td>56.7</td>
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<td>75.3</td>
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<td>55.7</td>
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<td>75</td>
<td>79.1</td>
<td>53.7</td>
<td>73.3</td>
<td>83.9</td>
<td>23.1</td>
<td>55.6</td>
<td>16.1</td>
<td>19.4</td>
<td>36.5</td>
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</tr>
<tr>
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<td>8.1</td>
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<td>29.3</td>
<td>36.6</td>
<td>74.5</td>
<td>78</td>
<td>52.8</td>
<td>72.5</td>
<td>85.1</td>
<td>22.5</td>
<td>16.1</td>
<td>17.8</td>
<td>35.7</td>
<td></td>
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<td>2002</td>
<td>26.3</td>
<td>23.2</td>
<td>8.3</td>
<td>34</td>
<td>29.2</td>
<td>36.3</td>
<td>74.8</td>
<td>78</td>
<td>53</td>
<td>85.4</td>
<td>22.4</td>
<td>55.4</td>
<td>16.2</td>
<td>35.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>22.6</td>
<td>8.3</td>
<td>33.7</td>
<td>29.3</td>
<td>35.3</td>
<td>74.1</td>
<td>78</td>
<td>53.3</td>
<td>70.4</td>
<td>85.1</td>
<td>22.3</td>
<td>16.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


* Figures for Iceland from Statistics Iceland (1990-92) and 2003 estimates by Halldor Grørvold, ASI.

** Comparable administrative data was not available for Portugal and Greece, where density usually is assumed to be low to medium high (Traxler et al. 2001)
Weakening of the Ghent-system in the Nordic countries

The most robust result in comparative studies of union density is the persistently higher level found in countries with Ghent systems, which indicates more than a sheer ‘free-rider benefit’ for the unions. The responsibility for support, guidance and follow-up of employees provides opportunities for building contact and trust, especially among groups in vulnerable positions in the labour market, implying a state-sponsored institutionalisation of unions as an important and accepted part of the society’s social structure.

In recent years, the role of the union-run unemployment funds as a vehicle for unionisation has been weakened in Nordic countries, contributing to the decline in union density in Denmark, Finland and Sweden (Lind 2004, Jokivuori 2006, Kjellberg 2006). Both the introduction of independent unemployment funds, with rising numbers of members, especially among white-collar employees, and a marked rise in non-unionised members of union-run funds have implied that approximately 15-16 percent of the workforce in these countries are now part of unemployment funds without being union members. In Finland, where the independent fund also offers lower fees, this has according to survey data, contributed to a drop in density of approximately 10 percentage points from 1995 to 2005 (Jokivuori 2006). In Sweden, the main negative effect on density has stemmed from the fact that growing numbers of (especially younger white-collar) employees have chosen to be members of the union-run unemployment funds without joining the union (Kjellberg 2006).

In Denmark, the centre-right government elected in 2001 launched reforms that implied ‘free choice’ of unemployment funds and (price) competition among the funds, including growing numbers of independent funds, which have weakened the links between the unemployment

Figure 3 Union density rates and bargaining coverage in 14 countries

![Graph showing union density rates and bargaining coverage in 14 countries](image)


Figures for Iceland from Statistics Iceland.
funds and union recruitment (Lind 2004). The recent fall in density in Denmark has thus accelerated in the past few years, mainly affecting the unions in the blue-collar confederation LO. Also in Sweden, the newly elected ‘alliance’ government has introduced reforms that are likely to propel decline in union membership. By heightening the individual contributions to the unemployment funds and making them compulsory, cutting the benefits significantly, and reducing the tax deduction for membership in the funds and in the unions, the individual net costs of membership in funds as well as in the unions will rise significantly (as much as six times according to LO estimates, Kjellberg 2006).

Additionally, in view of diminishing unemployment and structural change, it therefore seems likely that the decline in union density will continue in the Nordic countries. When assessing the potential magnitude of future losses, it is worth noting that Norwegian unions, without a Ghent-system, over the past 35 years have managed to maintain a fairly stable density level (currently 53 percent), in spite of the shifts in the labour market. As seen in Table 5, the density rate among full-time/standard employees is actually higher today (62 percent) than the overall density in 1970, when the part-time rate was much lower than today. As indicated by the Table 5, the area that seems most sensitive to future falls in density is the private sector services, where density in Norway is much lower than in the other Nordic countries.

The most striking feature in Table 5 is that density among women has become equal (in UK, Ireland) or even higher (in Sweden, Norway, Finland) than male unionization rates (Visser 2006: 46), which according to other studies is also valid for Denmark and Iceland. The strong influx of women in Nordic unions surely reflects their high participation rates and small differences between part-time and full-time employees, but is particularly enhanced by the high density in the public sectors where a vast majority in the segregated Nordic labour markets are women. The rising level of education in the workforce has also influenced density positively, as the propensity to unionise actually is highest among well-educated groups in the Nordic countries. Another significant figure is the high level of unionisation in manufacturing – in Sweden estimated to 95 percent and in Finland almost 84 percent – whereas Norway displays markedly lower rates in the private sector (54 percent in manufacturing and according to other studies, approximately 20 percent in branches such as retail, horeca or hotels, restaurants and cafes, and cleaning, see Neergård and Stokke (2006)).

The worrying part of the picture is the markedly lower rate of unionisation among young employees; in Sweden the density among the 16-29 age group dropped 16 percentage points 1993-2004 and by six percentage points among the 30-44 year-olds (Kjellberg 2006). It is still not entirely clear, however, to what extent these changes imply that new generations as such are less apt to unionise and to what extent the drop is influenced by other factors such as the delayed entry into stable employment and adult life, and the rise in atypical work in recent years. Yet, even among employees that are under 30 years of age, the rate of unionisation in Denmark, Finland and Sweden is as high as 55-61 percent, according to survey data presented in the Industrial Relations in Europe 2006 (European Commission 2006).

**Strikes and labour disputes**

A specific feature of industrial relations in the Nordic countries is, as mentioned, the statutory obligation to respect labour peace under the duration of a signed collective agreement. Disputes over the content or interpretation of an agreement (conflicts over rights) are to be settled by the Labour Court. A special feature of the Nordic systems though is that the trade unions, except in Norway, enjoy fairly liberal rights to use boycott and sympathy-actions as means to force single employers to sign collective agreements. This kind of collective action
Table 5 Union density rates among different categories of employees, survey data

<table>
<thead>
<tr>
<th>Category</th>
<th>Survey data</th>
<th>Administrative data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>United States</td>
<td>Canada</td>
</tr>
<tr>
<td>Total</td>
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</tr>
<tr>
<td>Men</td>
<td>13.8</td>
<td>30.6</td>
</tr>
<tr>
<td>Women</td>
<td>11.1</td>
<td>30.3</td>
</tr>
<tr>
<td>16-24</td>
<td>4.7</td>
<td>-</td>
</tr>
<tr>
<td>Full-time</td>
<td>13.9</td>
<td>32.0</td>
</tr>
<tr>
<td>Part-time</td>
<td>6.4</td>
<td>23.6</td>
</tr>
<tr>
<td>Standard</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Casual</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Private</td>
<td>7.9</td>
<td>17.8</td>
</tr>
<tr>
<td>Public</td>
<td>36.4</td>
<td>72.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12.9</td>
<td>30.5</td>
</tr>
<tr>
<td>Coverage</td>
<td>13.8</td>
<td>32.4</td>
</tr>
</tbody>
</table>

Source: Visser 2006 p. 46
has in recent years attained increased importance and international attention as a result of the growing influx of foreign subcontractors after EU enlargement (cf. the Laval-Vaxholm case). Besides, political strikes are allowed under certain conditions.

As a result of the extensive peace obligation and strict regulations concerning the use of industrial action, the level of conflict in the Nordic countries has been relatively low and mainly associated with short-term, but sometimes large-scale, strikes during re-negotiations of agreements. Measured in the number of strikes per year, the Nordic countries therefore tend to rank low in European comparisons (Stokke and Thörnquist 2001). The predictable pattern and overall moderate level of industrial conflicts are indeed part of the explanation why Nordic employers have been reluctant to fight for full decentralisation of collective bargaining, which would probably have implied a more unpredictable pattern and much higher level of conflict at the workplace.

As in other European countries, the number of workdays lost has demonstrated a downward trend in the Nordic countries in recent decades. The still fairly high levels in Finland are mainly associated with short-term, but sometimes large-scale, strikes during re-negotiations for instance, in the paper industries. The higher level in Denmark than in Sweden and Norway is associated with a spread of short-term stoppages and point strikes which have become informally accepted as part of the game in the decentralised negotiations at company level (Stokke 2005).

Table 6 Lost workdays per 1000 workdays. Selected countries. 1981-2004

<table>
<thead>
<tr>
<th>Category</th>
<th>United States</th>
<th>Canada</th>
<th>Australia</th>
<th>United Kingdom</th>
<th>Ireland</th>
<th>Netherlands</th>
<th>Sweden</th>
<th>Norway</th>
<th>Finland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>13.8</td>
<td>30.6</td>
<td>25.9</td>
<td>28.5</td>
<td>38.0</td>
<td>29.0</td>
<td>83.2</td>
<td>55.0</td>
<td>66.8</td>
</tr>
<tr>
<td>Women</td>
<td>11.1</td>
<td>30.3</td>
<td>21.7</td>
<td>29.1</td>
<td>37.4</td>
<td>19.0</td>
<td>89.5</td>
<td>60.0</td>
<td>75.6</td>
</tr>
<tr>
<td>16-24</td>
<td>4.7</td>
<td>-</td>
<td>-</td>
<td>9.7</td>
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<td>11.0</td>
<td>45.0</td>
<td>25.0</td>
<td>453.5</td>
</tr>
<tr>
<td>Full-time</td>
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<td>25.0</td>
<td>31.5</td>
<td>39.6</td>
<td>27.0</td>
<td>90.0</td>
<td>362.0</td>
<td>-</td>
</tr>
<tr>
<td>Part-time</td>
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<td>23.6</td>
<td>17.0</td>
<td>21.1</td>
<td>29.2</td>
<td>19.0</td>
<td>83.0</td>
<td>357.0</td>
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<td>29.5</td>
<td>40.8</td>
<td>26.0</td>
<td>-</td>
<td>361.0</td>
<td>-</td>
</tr>
<tr>
<td>Casual</td>
<td>-</td>
<td>-</td>
<td>113.8</td>
<td>17.2</td>
<td>22.1</td>
<td>10.0</td>
<td>-</td>
<td>335.0</td>
<td>-</td>
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<td>17.8</td>
<td>17.4</td>
<td>17.2</td>
<td>30.4</td>
<td>22.4</td>
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4 Concluding remarks and future challenges

The main conclusion of this review is that the Nordic systems of collective bargaining, contrary to expectations and trends in many other countries, have shown remarkable resilience and capacity for adjustment since the crisis in the 1980s and the entrance into the EU single market in the early 1990s. In spite of rapid industrial restructuring and growing pressures from without and within, the main pillars of the systems remain intact while significant changes have taken place in the modes of bargaining coordination and interaction with macro-economic policies. Especially the Danish and Swedish shifts towards decentralisation and sector-based coordination of wage-setting, interacting with strong independent central banks that aim at low inflation, imply a certain convergence towards broader European patterns and the former German model in particular. At the same time the contrast between organised decentralisation in Denmark and Sweden, and re-centralisation in Finland, Iceland and Norway, has implied increased diversity among the Nordic models of industrial relations. Yet, in all the Nordic countries important elements of peak-level coordination, formal or informal, have persisted. In Finland, Iceland and to a large extent also in Norway, such features have been reinforced in response to the external changes and the shifts in monetary policies. Tripartite concertation has also been important for the continuation and adjustments in labour market policies and the social security systems – implying a stronger emphasis on activation and work – which have helped to bring down unemployment and trimmed the welfare states for future aging waves. In contrast to predictions that the egalitarian and generous Nordic labour-and-welfare regimes were incompatible with globalisation and European integration, they have in leaner versions eventually turned out as winners in the race of globalisation, at least thus far.

More specifically, in spite of a certain fall in trade union density, collective bargaining coverage remains high and relatively stable, implying that collective bargaining still plays a key role in regulating employment conditions. Considerable adjustments have been made in the organisational patterns of unionism and employer associations, but the overall structures with encompassing peak organisations and strong associations at industry and sector levels, linked with vital tiers of unionism and bargaining at the company levels, are maintained. These foundations have formed the basis for continuity and renewal of the integrated multi-tiered Nordic industrial relations systems. Albeit the social actors have followed different national paths of adjustment, the Nordic unions have managed to retain strong influence on overall wage developments and, in spite of growing differentiation, have kept alive a legacy of egalitarianism and solidarity in working life policies. With reduced nation-state capacity to control and influence economic and social developments in ever more open economies, this means that governments, and also to some extent employers who operate nationally, have become more dependent on the union counterparts in fulfilling central objectives in the fields of macro-economic and industrial policy, competitiveness, and development of productive social capital. The Nordic trade unions have also experienced losses of tools, members and muscle, but they still control sufficient power and clout to influence collective goods of such vital interest to their counterparts – as well as the capacity to deliver and ensure membership compliance – that their attractiveness as partners of political exchange and governance have been retained, and in several areas even strengthened in recent decades.
In important respects the adjustments undertaken during the past decades can be interpreted as a return to basic deeds in the Nordic models. Coordinated wage moderation and prudent fiscal policies, aimed at retaining competitiveness in international markets and low inflation, were key features of the development of the Nordic models in the 1950s and 60s. In such a perspective, the expansionism observed in the 1970s – associated with organised labour’s ambitious agendas for strengthening workers’ rights through statutory reform, further wage compression, welfare state expansion and economic democracy – in many respects represented a breach with the traditional Nordic legacy, contributing decisively to the economic and political crises in the 1980s. Organised labour used its strengthened power in the 1970s to challenge the social compromises and balances of power underlying the cooperative Nordic models of industrial relations, provoking confrontation and retaliation when the economic fortunes and the political climate turned during the 1980s.

The double-adjustment crisis referred to above came together with profound changes in the political power relations and constellations. The social actors, and the trade unions in particular, had to accommodate to a situation in which the hegemony of the social democrats was crumbling and they were forced to learn how to operate in a more volatile, conflict-ridden and unpredictable political context of shifting governments and coalitions. The social actors have also had to adapt to a context in which the domestic economic structures have undergone significant change; all the Nordic countries have, partly as an element of adjustment to the single-market regime, pursued significant supply-side liberalisation of their economies. While many actors – both to the right and to the left of the political spectrum – have interpreted these changes as a farewell to the Nordic models, such interpretations overlook an important distinction of the refurbished Nordic models, namely that extensive product-market deregulation has been combined with maintenance of egalitarian/inclusive welfare state policies and well regulated labour markets. What we have seen in the Nordic countries over the past decades is thus a market-driven rationalisation of production and the supply side of the economies where public investment in human and social capital and infrastructure have been combined with policy-driven redistribution and protection in the sphere of welfare and labour markets. This particular blend of market-oriented economic policies, reflecting the small, open Nordic economies’ dependence on international markets, and a strong egalitarian legacy in social and labour market policies, has historically always been a central ingredient in the Nordic social compromises. In addition, contrary to predictions, in the meeting with Europe, the Nordics have seemingly rediscovered their common historical roots and traditions.

Since each national system of industrial relations is shaped by unique historical and institutional ramifications, attempts to import or copy practices from other countries rarely succeed. The crux of the analysis presented here is that the relatively successful adjustment and performance of the Nordic countries cannot be attributed to single factors or particular policy choices but reflect that the institutionalised interplay between strong social actors; trade unions and governments that have enabled step-wise development of relatively coherent, balanced and inclusive policy approaches and reform coalitions, also providing sufficient legitimacy and support to undertake painful adjustment. In many respects the Nordic countries have pursued fairly mainstream policies advocated by international agencies and display many of the same institutional traits as many other coordinated market economies in Europe. The key to the recent progress can therefore not be sought in special elements of Nordic policies or institutions, but probably lies in the fact that the particular linkages and balances of power between the social actors and policy areas – perhaps by luck, but probably more by policy-learning by trial, error and correction – have facilitated achievement of a mix,
sequence, and consistency of adjustment measures that as a whole has amounted to a viable bridge from crisis to renewal.

**Future challenges**

The adjustment and leverage of the Nordic industrial relations models over the past decades are no guarantee for future success. Experiences with the preceding ‘national models’ rising to the stars, such as the German, the Swedish, the Japanese, the American, the Dutch and others, caution against drawing hasty, generalised lessons from the Nordic come-back. Institutions do influence actor behaviour, but they leave ample room for policy failures, shifts in power relations and decisional deadlock. As painfully experienced in the 80s, the thin line between success and failure does indeed warn against complacency, especially during times of domestic buoyancy and rapid change in the external environment.

At the dawn of a new century, the Nordic industrial relations regimes are meeting new challenges, both from within and without. While changes in the composition of employment continue to challenge established patterns of power-relations, organisation and bargaining from within, accelerating globalisation, low-cost competition and European integration place the regulatory systems in the Nordic countries under strain from without. At the same time, aging of the workforce and exclusion – or lack of inclusion – of vulnerable groups from the labour market draws attention to the flip-side of the high demands for productivity and performance in the high-wage Nordic economies. Comparatively high shares of the Nordic labour forces are out of work because of sick leave, rehabilitation, disability pension, and, especially among ethnic minority groups, because they never managed to get a foot inside the labour market. According to some observers these forms of social exclusion reflect a brutalisation of working life; according to others they represent an unintended consequence of egalitarian, high minimum wages. At any rate, coping with increasing diversity will clearly become a more pressing issue in the egalitarian Nordic labour markets. The Nordic countries are thus set for difficult dilemmas regarding how to bridge between the contradictory objectives of improving international competitiveness by moving upwards in the production chains and countering internal labour shortages and growing welfare-state expenditures by increasing the age of retirement and facilitating inclusion of vulnerable social groups faced with the risk of lasting exclusion from the labour market.

A key issue is to what extent the employers are prepared to continue playing their traditional roles in the Nordic models. The basic deal underpinning the Nordic labour regimes has been premised on a social-exchange relation according to which workers and unions have offered restraint, labour peace and cooperation in productivity development, whereas employers have provided national investment, jobs and renewal in return. With the growing impact of international financial markets and institutional investors on corporate governance, internationalisation of production chains, and tempting investment opportunities in low-cost havens, the capital ‘exit option’ does indeed cause uncertainty about employers’ future commitment to continue investing in the jobs, skills, institutions and social relations of the home base. While relocation of manual and low-skilled jobs in the traded-goods sector has been an issue since the 1970s, off-shoring in ICT-related and high-skilled services is on the rise. Although the Nordic countries emerged on the winning side of the 1990’s wave of internationalisation, the enlargement of the EU and the rise of China and India definitely imply a new twist in the
global race of competition, restructuring and relocation of production, which it remains to be seen how the Nordic labour relations regimes can weather.

EU enlargement, removing the barriers to free movement between the Nordic countries and the neighbouring low-cost economies across the Baltic Sea, has especially raised new challenges for the Nordic social partners. Increased supply of subcontractors and labour may definitely help grease bottlenecks in the national labour markets. So far labour immigration has been limited, except in the booming Icelandic and Norwegian economies, which have seen a sharp rise in demand for migrants and posted workers from the new member states. In 2006, CEE-labour accounted for approximately 7-8 percent of the workforce in Iceland. Norway granted 55,000 residence permits to CEE workers, corresponding to two percent of the labour force, and the flow of posted workers and self-employed is estimated to be comparable. New forms of low-cost production have thus become part of the domestic competition in several Nordic industries, exerting pressures on regulations and terms of employment. This is especially a challenge in construction, but is also becoming widespread in parts of manufacturing (e.g., in Norway, where ‘regime competition’ on the spot is challenging the principle of equal pay for equal work).

In this way workers and companies governed by different labour regimes are pitted against each other, testing the boundaries of solidarity and the robustness of the regulatory regimes in the Nordic countries. All the Nordic countries stipulate accordance with the Posted Workers Directive (96/71EC) wherein posted workers are to be paid and treated according to host-country conditions, but in practice the application of that principle is not always easy to ensure in fluid-contract markets with long and complex chains of sub-contractors. The legal challenges associated with this came to the fore associated with the so-called Vaxholm/Laval case, where Swedish unions established a blockade and sympathy actions to ensure that a Latvian building contractor complied with Swedish terms and conditions, and was brought to the European Court of Justice by the Latvian firm. This case, along with a similar case in Finland – the so-called Viking case – is now pending in the ECJ, and will represent an important clarification of the interfaces between EU principles of free movement, EU statutes concerning basic labour rights, and national regimes of labour-market regulation. Beyond a doubt, the Nordic collective bargaining models have come under pressure in the rapidly expanding European labour market. Whether the unions will prove robust enough to ensure orderly and equal conditions, for posted workers as well, in accordance with the Danish and Swedish legacy of autonomous self-regulation, or new ways of combining collective agreements and statutory means will be developed, as witnessed in Finland and Iceland, is too early to judge and will definitely involve contested debates of principle and strategy among the trade unions.

Whatever the outcome, the creation of a common labour and service market among high-cost and low-cost countries in Europe represents a daunting challenge for industrial relations actors. A sizeable number of Nordic companies have recently established daughter-firms or licensed production in low-cost countries and serve the home market by contracting out services to these providers. The impact of such dynamics has most clearly been demonstrated in Germany, where the threat of further relocation to the East has forced workers and unions in important national companies to accept prolonged working hours/reduced hourly pay and other concessions in order to safeguard jobs, possibly setting in motion a competitive spiral of downward pressures on labour terms and conditions among the ‘old’ member states as well. The opening clause allowed in the new metal agreement in Sweden may be seen as a way of preparing for tougher days. To what extent such dynamics will gain momentum and how the Nordic actors will respond to them still remains to be seen, but it takes little fantasy to realise
that concession bargaining on rolling back inherited labour standards would represent a significant break with the legacy and rationale of Nordic industrial relations. Such a turn from steady improvements of standards and rights during the past centenary towards downward adjustments would create huge strains, not least between social actors that are exposed to such international competition and those who are not.

With growing labour market integration and intensified low-cost competition, the social actors of the Nordic countries will face stronger pressures to engage in development of labour-market governance at the supranational EU level. As national means of regulation and competitive corporatism are clearly not sufficient to meet the challenges of transnational labour markets, a central issue is whether the Nordic actors will manage to develop more proactive and forceful strategies to influence international policy-making, as perhaps indicated by their role in the recent struggle over the services directive.

The Nordic pattern of adjustment has so far largely conformed with the pattern of competitive solidarity (Streeck 1999) or renationalised corporatism (Dølvik 1992). That is, policy aims and means have been marked by a strong national orientation, in which improvement of national competitiveness and protection of national sovereignty, institutions and values have played an important role in politics as well as in industrial relations. European ideas and solutions have played a lesser role, even though the shift in monetary policies and the implementation of the single market rules served as significant catalysts for change, representing an important instance of Europeanisation of Nordic governance. Further, the EU labour-market regulations have implied less challenges to the Nordic models than feared by many sceptics, and have in several fields strengthened the rights of workers and brought about new forms of interplay between legislative and negotiated regulation (Andersen et al. 2003, Bruun and Malmberg 2005). In recent years, many of the Nordic trade unions have become more engaged in European policies and in their European organisations. Nordic actors have thus played central roles (e.g., in developing the ETUC bargaining order and the approaches to European collective bargaining as well as in the struggles over the posted workers’ directive). In line with their pragmatic approaches, the enhanced European engagement nevertheless seems to be based on a clear notion that the locus and core issues of industrial relations even in the future will and should be handled at the national levels, though increasingly within frameworks for coordination and minimum regulation developed on the European level. Albeit recent developments in Europe associated with enlargement and the rejection of the constitutional treaty have hardly strengthened the enthusiasm for the European project among Nordic union members, these events have surely also calmed the fears for further deepening and federalisation/supranationalisation of the EU. The Nordic experience with policy coordination and social partnership in multilayered systems, could, if projected onto the European level, fit well into a trajectory of European integration based on strengthened interaction and collaboration between autonomous, but ever more interdependent, nation states.
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Table A1 GDP per capita in 2000-prices corrected for differences in price levels (purchasing power parities)

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* Adjusted for oil revenues, mainland GDP in Norway was in 2005 estimated to approximately 81 percent of GDP.

Table A2 Employment rate 2005 – employed persons aged 15-64 as a share of the total population of the same age group

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Source: Eurostat 2006
Table A3 Gross taxes as percentage of GDP

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Source: OECD Factbook 2006

Figure A1 Public sector as a percentage of total employment, 2004

PUBLIC SECTOR EMPLOYMENT AS A PERCENTAGE OF TOTAL EMPLOYMENT, 2004

Source: OECD

Figure A2 Corporate tax rates, 2004, in selected countries

CORPORATION TAX RATE, 2005

Source: OECD, Tax Database 2005 and KPMG, Corporate Tax Rates Survey 2004

Source: In Search of Best Practice. A Case study of how to adjust to globalisation, published by the Confederations of Danish Industry, Finnish Industry, Swedish Enterprise and Icelandic Employers (2006))

Table A4 Product market regulation index in different European models

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Schubert and Martens, EPC 2005, based on OECD data

Table A5 Foreign direct investment stock as percentage of GDP, 1995-2004

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Source: Whyte EPC 2005 p.47
Table A6 IMD World Competitiveness Scoreboard 2006

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Table A7 Attitudes to markets and social welfare in different European models

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Schubert and Martens, EPC 2005; p. 22

Figure A3 Attitude towards globalisation

Source: IMD survey 2006

Source: In Search of Best Practice. A Case study of how to adjust to globalisation, published by the Confederations of Danish Industry, Finnish Industry, Swedish Enterprise and Icelandic Employers (2006))
The Nordic regimes of labour market governance:
From crisis to success-story?