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## The Decentralization of Wage Bargaining: Four Cases

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## **Abstract**

The paper contributes to the discussion about the possible trends and processes towards decentralization of wage bargaining or wage setting within the OECD-countries since the 1970s. Based on a data set of 16 OECD countries from 1950 to 2000 our results show that in terms of *bargaining level* the trend is clear towards decentralization since the 1970s, even though there are important exceptions. In terms of *confederal involvement* the major decrease occurs among the Nordic countries and the Netherlands, whereas many of the other countries have had a status quo more or less. In terms of *government involvement*, however, the change is the almost non-existent. The overall tendency is still towards less centralisation, even though a number of countries have not changed or have moved in the opposite direction. Sweden, Denmark, UK and the Netherlands experience the largest decreases in decentralization overall. The processes of decentralization of wage bargaining look very differently in each country. It may occur through changes in the collective agreements themselves or through individual wage-setting outside the system of collective agreements. And the decentralization process may occur both in a context of cooperation between the labor-market organizations or in a setting of conflicts.

Keywords: wage bargaining, wage setting, collective agreements, centralization, decentralization, labour market models, OECD

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## 1. Introduction

Up until the early 1980s wage bargaining became more centralized in most European countries. Since then, however, there has been a tendency towards decentralization. Most studies have argued that in almost all countries in the 1980s and 1990s, the locus of collective bargaining shifted downward (Calmfors et al 2001, Sciarra 2005, Katz 1993, Karlson & Lindberg & Salabasis 2006). According to OECD (2004) not a single OECD country moved towards centralization between the 1970s and the 1990s, whereas a significant number moved towards greater decentralization.

However, Hyman (1994) among others claims that the divergence of national experiences does not indicate a general pattern towards decentralization. In the very end of the period there is no consensus about the trend. For example Hancké (2004) has argued that the development towards decentralization in the 1980s has stopped and that the 1990s experienced a new period of re-centralization of bargaining. On the other hand (Sciarra, 2005) stresses that the decentralization process in wage bargaining is still ongoing, both in Europe and beyond. Bacarro & Howell (2011) argue that collective bargaining structure reveals a pattern of modest decentralization in two stages: from the mid-1970s to the mid-1980s and from the early 1990s on, whereas the intermediate period was characterized by re-centralization

Needless to say, these studies are largely based on vary different country samples and different time periods as well as diverging definitions of decentralization. That may explain at least part of the confusion. Moreover, there is a general lack of research studying the actual process of decentralization, in particular from a comparative perspective.

In this paper we try to bring some additional light to this discussion by, firstly, more clearly separate and identify the different dimensions in the concept of decentralization in wage bargaining or wage setting; secondly, presenting a statistical analysis of changes in wage decentralization in 16 OECD countries between 1950 and 2000; and thirdly, by doing a descriptive comparison of the processes that led to a decentralization of wage formation in the four countries which decentralized the most, according to the statistical analysis. This latter ambition is the main focus of the paper.

The four European countries which have had large shifts in decentralization of wage setting from the 1980s and onwards are: Denmark, Netherlands, Sweden and United Kingdom. These countries differ significantly in terms of labour market model and level of regulation. Denmark is similar to Sweden and both belong to the so-called Nordic model, while Britain is a good representative of the Anglo-Saxon voluntaristic model, where collective agreements play more limited role. The Netherlands is an example of the Continental labour market model where by tradition the state is more involved in the wage setting process (Karlson & Lindberg & Salabasis 2006, Slomp 1998). Hence, significant differences between the processes of decentralisation can be expected.

## **2. Decentralized wage setting**

### **2.1 Dimensions of decentralization**

The literature on decentralized bargaining has no consensus of the definition or the measurement of decentralization, which makes the concept very elastic. More generally, however, decentralization means that decisions, authority or power transfers from central to local levels. Applied to wage setting, this means that the very process in which the salaries and other contract terms are negotiated moves downwards (Soskice 1990). This movement is the essence of decentralization.

Typically, the discussion on bargaining institutions has focused on whether wage setting should occur at the level of the firm (or workplace), at the industry level or at the national level. This is called the extent of *vertical* (de)centralization, according to Moene & Wallerstein & Hoel (1993). It should however be noted that there are other dimensions as well. Decentralization could occur according to a professional dimension when different unions for different professions all bargain independently at the same company or work place. There is also a rarely discussed dimension namely the regional. Bargaining then occurs at the regional level across sectors or within industries depending on country.

Decentralization to local or even individual level does not necessarily mean that wage formation takes place without collective bargaining. Employers and employees may still make a collective agreement that provides for the basic conditions of employment at national or

industry level. Within these agreements trade unions and employers can then agree that wage formation will take place locally and how to do it. Arrangements for the decentralized bargaining can vary substantially, not least in terms of influence for local organizations (Granqvist & Regnér 2004, 2008).

Wallerstein & Western (2000) also mentions that wage bargaining can be centralized in two dimensions. First and foremost through direct negotiations between the peak associations of workers and employers, i.e. *confederal involvement*. But in addition, government intervention can also make wage formation more centralized through so-called tripartism. An example of the former, classic type of centralized wage-setting is Sweden, where the two organizations (LO and SAF), represent a large proportion of the employers and their employees, concluding collective agreements with each other (Karlson & Lindberg 2008). Examples of the latter type are countries where government involvement has been extensive, i.e. Ireland and Finland. A common feature is the barter that takes place between governments and – notably – the trade unions in order to achieve wage restraint (so-called incomes policies). It should be added that government intervention can take other, more indirect forms such as compulsory mediation and various measures to bring the parties together via government intervention (Dølvik & Stokke 1998).

Calmfors & Driffill (1988) and Traxler et al (2001) also discuss the coordination between the actors. Coordination hints at the extent to which wage negotiations are synchronized, and if there is coordination between the parties involved. The concept of coordination though is a vague concept with uncertain and variable definition.

Some of the difficulties when measuring the degree of centralization in the bargaining system result from the fact that negotiations often take place at several levels, depending on the bargaining issue under discussion. In some cases, wage negotiations take place at several levels, first at industry level and then at the enterprise level and possibly also in individual bargaining (Katz 1993, Traxler 2001, Crouch 1993). In the following analysis, we will separate the decentralization of wage formation in three dimensions: the dominant *bargaining level*, *confederal involvement* and the degree of *government intervention*.

### 3. An international comparison

To give an overview of the change of the degree of centralization of wage bargaining from the 1950s to the 2000s, we have used data from the Wallerstein & Golden (2000) database of industrial relations. All our three dimensions of decentralization are measured there: dominant *bargaining level* at which wages in the private sector are determined, *confederal involvement* in wage setting and *government intervention* in wage setting. The dataset is based on labor statistics from 1950 to 2000 and the 16 OECD countries that are included all had data covering the whole period. Table 1 shows changes in bargaining level in each country between 1950 and 2000. Table 2 illustrates changes in confederal involvement in the wage setting between 1950 and 2000. Table 3 presents data on governmental intervention for the same period while table 4 is an index of all the three dimensions at the same scale. The underlying data have scales in its original from 1-5, 1-11 and 1-15 but they have been standardized from 0 to 1 where 0 is no centralization and 1 is full centralization.

**Table 1. The decentralization of wage setting - Bargaining level**

	1950-1959	1960-1969	1970-1979	1980-1989	1990-2000	(70-79) – (90-00)
<b>Australia</b>	0,75	0,75	0,75	0,85	0,34	-0,41
<b>Austria</b>	0,6	0,5	0,5	0,5	0,5	0,00
<b>Belgium</b>	0,5	0,5	0,53	0,8	0,82	+0,29
<b>Canada</b>	0	0	0	0,3	0	0,00
<b>Denmark</b>	1	1	1	0,9	1	0,00
<b>Finland</b>	0,8	0,85	0,73	0,65	0,68	-0,05
<b>France</b>	0,5	0,53	0,5	0,33	0,25	-0,25
<b>Germany</b>	0,5	0,58	0,5	0,5	0,5	0,00
<b>Italy</b>	0,75	0,75	0,75	0,78	0,78	+0,03
<b>Japan</b>	0	0,3	0,5	0,5	0,5	0,00
<b>Netherlands</b>	1	0,9	0,75	0,7	0,59	-0,16
<b>Norway</b>	0,9	0,95	0,95	0,85	0,86	-0,09
<b>Sweden</b>	0,83	1	1	0,78	0,73	-0,27
<b>Switzerland</b>	0,5	0,5	0,5	0,5	0,5	0,00
<b>UK</b>	0,08	0,48	0,4	0	0	-0,40
<b>US</b>	0	0	0,2	0	0	-0,20
<b>Mean</b>	0,54	0,60	0,60	0,56	0,50	-0,09
<b>St dev</b>	0,35	0,32	0,28	0,29	0,32	

Source: Golden & Lange & Wallerstein (2006)

In terms of bargaining level the trend is towards decentralization of wage formation since the 1970s, even though there are exceptions. Out of the 16 selected countries half have decreased their level of bargaining, and only two have increased. In terms of labour market models,

countries which belong to the Anglo-Saxon model have decentralized the most whereas countries from the Continental model have experienced more of a status quo.

**Table 2. The decentralization of wage setting - Confederal involvement**

	1950-1959	1960-1969	1970-1979	1980-1989	1990-2000	(70-79) – (90-00)
<b>Australia</b>	0,6	0,6	0,6	0,6	0,6	0,00
<b>Austria</b>	0,34	0,2	0,2	0,2	0,2	0,00
<b>Belgium</b>	0,2	0,2	0,27	0,31	0,28	+0,01
<b>Canada</b>	0	0	0	0	0	0,00
<b>Denmark</b>	0,44	0,5	0,5	0,23	0,22	-0,28
<b>Finland</b>	0,62	0,74	0,74	0,56	0,64	-0,10
<b>France</b>	0,09	0,3	0,3	0,3	0,3	0,00
<b>Germany</b>	0	0,06	0	0	0	0,00
<b>Italy</b>	0,4	0,4	0,4	0,16	0,56	+0,16
<b>Japan</b>	0,03	0,16	0,2	0,2	0,2	0,00
<b>Netherlands</b>	1	0,81	0,34	0,32	0,5	+0,16
<b>Norway</b>	0,5	0,8	0,8	0,69	0,71	-0,09
<b>Sweden</b>	0,62	0,9	0,9	0,67	0,35	-0,55
<b>Switzerland</b>	0	0	0	0	0	0,00
<b>UK</b>	0	0	0	0	0	0,00
<b>US</b>	0	0	0	0	0	0,00
<b>Mean</b>	0,30	0,35	0,33	0,27	0,29	-0,04
<b>St dev</b>	0,31	0,33	0,31	0,25	0,25	

Source: Golden & Lange & Wallerstein (2006)

In terms of confederal involvement the major turn to decentralization occurs among the Nordic countries. In Sweden and Denmark the changes are dramatic since the culmination in the 1960s and 1970s. The Netherlands has also witnessed a major decrease of confederal involvement whereas many of the other countries have had a status quo more or less.

**Table 3. The decentralization of wage setting - Government involvement**

	1950-1959	1960-1969	1970-1979	1980-1989	1990-2000	(70-79) - (90-00)
<b>Australia</b>	0,71	0,71	0,71	0,74	0,71	0,00
<b>Austria</b>	0,21	0,36	0,36	0,36	0,36	0,00
<b>Belgium</b>	0,21	0,21	0,28	0,69	0,66	+0,38
<b>Canada</b>	0,07	0,09	0,33	0,07	0,07	-0,26
<b>Denmark</b>	0,57	0,57	0,68	0,49	0,40	-0,28
<b>Finland</b>	0,5	0,23	0,54	0,46	0,49	-0,05
<b>France</b>	0,16	0,21	0,17	0,14	0,14	-0,03
<b>Germany</b>	0	0,19	0,26	0,21	0,21	-0,05
<b>Italy</b>	0,14	0,14	0,14	0,44	0,36	+0,22
<b>Japan</b>	0,07	0,07	0,21	0,21	0,21	0,00
<b>Netherlands</b>	1	0,84	0,66	0,55	0,38	-0,28
<b>Norway</b>	0,51	0,44	0,55	0,47	0,47	-0,08
<b>Sweden</b>	0,34	0,29	0,29	0,31	0,45	+0,16
<b>Switzerland</b>	0,14	0,14	0,14	0,14	0,14	0,00
<b>UK</b>	0,09	0,49	0	0,07	0,03	+0,03
<b>US</b>	0,07	0,18	0,23	0,07	0,07	-0,16
<b>Mean</b>	0,30	0,32	0,35	0,34	0,32	-0,03
<b>St dev</b>	0,28	0,23	0,22	0,22	0,21	

Source: Golden & Lange & Wallerstein (2006)

The striking feature of decentralization in terms of government involvement is the almost non-existent change. The differences in mean value of government involvement between the 1970s and the 1990s is miniscule, from 0,35 to 0,32. This does not, however, imply that separate countries have remained at the same level. On the contrary, the changes are dramatic in countries such as Belgium, Denmark and Netherlands, but in different directions.

**Table 4. The decentralization of wage setting - Mean, all variables.**

	1950-1959	1960-1969	1970-1979	1980-1989	1990-2000	70-79) - (90-00)
<b>Australia</b>	0,69	0,69	0,69	0,69	0,52	-0,17
<b>Austria</b>	0,28	0,35	0,35	0,35	0,35	0,00
<b>Belgium</b>	0,30	0,30	0,36	0,6	0,59	+0,23
<b>Canada</b>	0,02	0,02	0,20	0,02	0,02	-0,18
<b>Denmark</b>	0,67	0,69	0,73	0,54	0,54	-0,19
<b>Finland</b>	0,64	0,61	0,67	0,56	0,60	-0,07
<b>France</b>	0,24	0,34	0,32	0,26	0,23	-0,09
<b>Germany</b>	0,17	0,28	0,25	0,24	0,24	-0,01
<b>Italy</b>	0,43	0,43	0,43	0,46	0,57	+0,14
<b>Japan</b>	0,03	0,18	0,30	0,30	0,30	0,00
<b>Netherlands</b>	1	0,85	0,58	0,52	0,52	-0,06
<b>Norway</b>	0,64	0,73	0,77	0,67	0,68	-0,09
<b>Sweden</b>	0,60	0,73	0,73	0,59	0,51	-0,22
<b>Switzerland</b>	0,21	0,21	0,21	0,21	0,21	0,00
<b>UK</b>	0,06	0,32	0,28	0,02	0,01	-0,27
<b>US</b>	0,02	0,05	0,14	0,02	0,02	-0,12
<b>Mean</b>	0,38	0,43	0,44	0,38	0,37	-0,07
<b>St dev</b>	0,30	0,26	0,22	0,23	0,23	

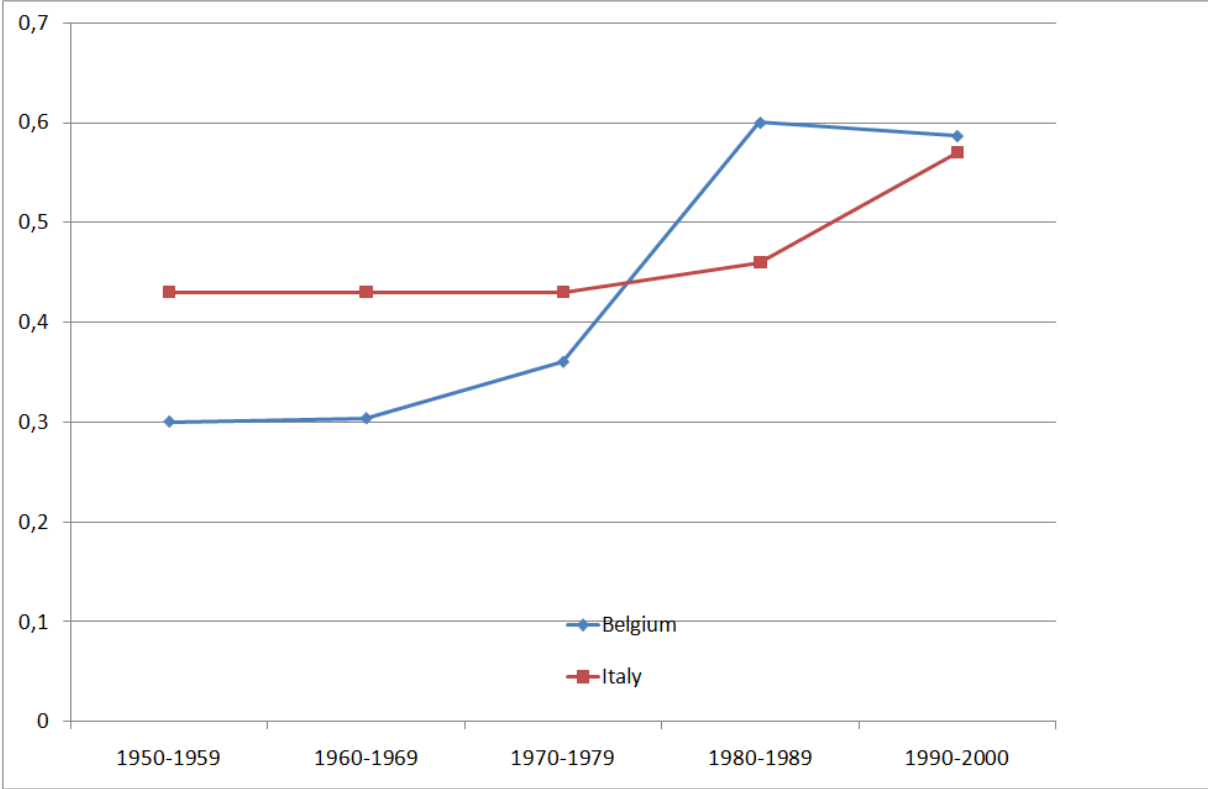
Source: Golden & Lange & Wallerstein (2006)



The overall tendency, according to table 4, is still towards less centralisation compared to the centralized heydays of the 1960s and the 1970s, although the change is rather tiny. Between 1970-79 and 1990-2000 there has been a significant drop in overall centralisation of wage bargaining, from 0,44 down to 0.37. The countries that have decentralized the most are in order: UK, Sweden, Denmark and Canada.

However, the picture is far from uniform. Many countries stand still more or less or even move in the opposite direction, such as Belgium and Italy in diagram 1.

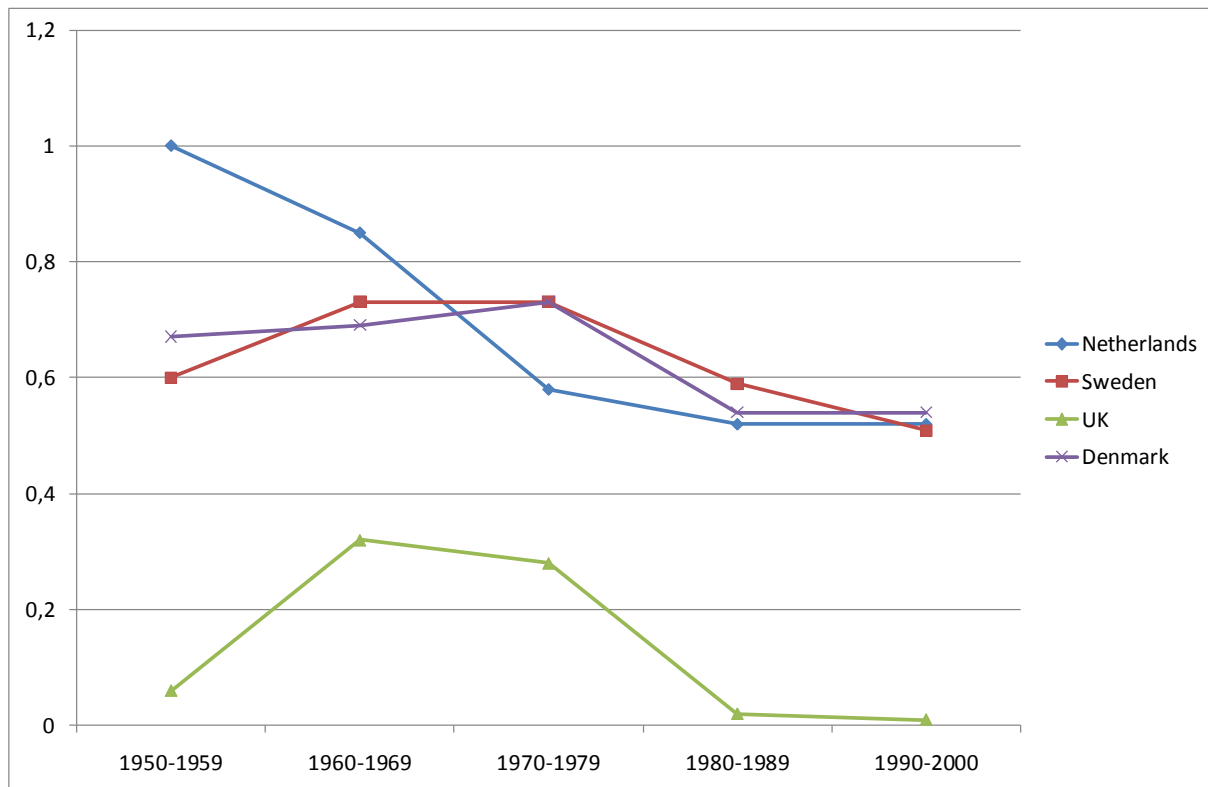
**Diagram 1. The centralization of wage setting in Belgium and Italy (all variables)**



Source: Golden & Lange & Wallerstein (2006)

Overall the estimated change towards decentralization from the 1970s to the 1990s is around 0,1, but some countries, such as Sweden, Denmark and UK, have experienced much larger changes. The Netherlands seems to have had the larger part of its decentralization somewhat earlier, but have it has experienced the largest decrease in decentralization index overall.

**Diagram 2. The decentralization of wage setting in Netherlands, Sweden, UK and Denmark (all variables)**



Source: Golden & Lange & Wallerstein (2006)

The processes that led to a decentralization of wage formation in these four countries deserve a somewhat deeper analysis and comparison, beyond simple statistical indexes. What were the main characteristics of these decentralization processes? Have they been accomplished through voluntary agreements between the bargaining parties or through government intervention? Have the changes occurred through cooperation or conflict?

## 4. Four cases of decentralized bargaining

### 4.1 Denmark

Denmark belongs to the Nordic labour market model with a high level of both union membership and collective bargaining coverage. Employment conditions and wages have largely been settled by the use of collective agreements. There are comparatively few formal legislative rules regulating the labour market. A basic agreement from 1899

between the two main peak organizations Landsorganisationen (LO) and Dansk Arbejdsgivarforbund (DA), is still substantially unaltered and regulates the relation at the labour market (Nielsen 2005).

Wage bargaining have for a long time been centralized and taken place between LO and DA. During the last decades the governmental intervention in the labour market have shrunk dramatically. According to our measurements (see Table 1) a similar trend is not visible for the bargaining level, but nevertheless it seems like a significant change in the wage formation have occurred in the 1990s (Andersen, 2003).

### **Breakdown of central bargaining and reform in pay systems**

Since the late 1980s, collective bargaining has changed towards a more decentralized system. In Denmark decentralized bargaining, between individual unions and their counterparts, was initiated in 1981 following the failure to reach centralized agreements in three of the earlier bargaining rounds that instead resulted in political interventions. Although the bargaining round in 1985 was heavily centralized, the general trend during the 1980s was towards more decentralized solutions (Iversen 1996). According to Andersen (2003) the pivotal change came 1989 when DI, organising firms in the manufacturing sector, and CO-Metall, organising workers employed in DI-firms, decided to engage in sector specific negotiations. Subsequently in the late 1990s the previous synchronization of bargaining at two-year intervals was replaced by a less synchronized structure with differences in contract length.

The changes were also substantial in terms of pay systems. The collective agreements have four different types of pay systems. First, under the standard-rate system (normallønssystemet) actual wages of workers are set by the industry collective agreement and the wages are not modified at the firm level. Second, under the minimum-wage system (minimallønssystemet) the wage rates set at the industry level represent a floor and are intended to be used only for very inexperienced workers. Hence, for other workers this wage rate is supplemented by a personal pay supplement. In practice, the personal pay supplements are often negotiated collectively with the cooperation of the workplace union members representatives.

Third, the somewhat similar minimum-pay system (*mindstebetalingssystemet*) exists. Instead of operating with a personal pay supplement on top of the industry-level negotiated wage rate, the minimum pay system uses a personal wage. The wage rate is negotiated at the industry level and can, therefore, be thought of as a safety net in the form of a minimum hourly rate that must be paid under all circumstances. Fourth and finally, under firm-level bargaining the collective agreements state that wages are negotiated at the plant or firm level without any centrally bargained wage rates (*uden lønsats*) (Dahl & Le Maire & Munch, 2009), (Andersen & Mailand, 2005).

Traditionally, the standard rate system has been the dominant pay system. In principle, all sectors were covered by collective agreements in the 1960s and 1970's and applied this centrally determined system. During the 1980s a shift started towards the minimum wage system. In 1989, as many as 34 percent of all employers used the pay scale, in 1993 the level had dropped to 16 percent and it has remained at that level (Andresen & Mailand, 2005). Besides that, the prevalence of more individualized pay schemes also seems to be high in Denmark. It has been promoted by employers and unions in the private sector regarding this as a natural extension of the decentralization of Danish wage-setting practices. (Stamhus & Ibsen 2010).

### **More flexible collective agreements**

Apart from the change in level for collective bargaining the collective agreements have also become less detailed and now only govern some general conditions, such as working time, minimum wages and the level of pension benefits. The differentiation has increased agreements which authorize overtime and flexible hours have become more common (Nielsen 2005). In 1993, only 23 percent of employees in Denmark had a collective agreement which allowed overtime. Five years later, in 1998, the corresponding figure was 90 percent (Andersen 2003).

Despite the decentralized structure a certain degree of centralization has survived. For example, the right to strike cannot be used directly at the local level, but must be sanctioned and coordinated centrally. Employers who are members of the DA cannot conclude a collective agreement without DA's approval.

### **Cooperation, organized decentralization and less government intervention**

Denmark's labour market is and always has been characterized by cooperation between employers and employees organizations. The basis for this cooperation is, according to Andresen and Mailand (2005:8-9) best described that as a tacit agreement between the parties: "The trade unions recognize the employers' management prerogative, i.e. the right to manage and allocate work, while respecting currently valid collective agreements and the spirit of co-operation, and that the employers accept the right of employees to organize and to establish collective representation."

This cooperation between the parties greatly facilitated the reform of the wage formation (Andersen & Mailand 2005). When the manufacturing industry began to face greater international competition in the mid-1980s, there was, within the trade unions and among employers, a consensus about the efforts to strengthen competitiveness. DA led this process and called for a rapid transition from tariff pay to the minimum wage system. The central collective agreements were considered ill suited to match the growing diversity of each industry's conditions. Something had to be done to ensure that agreements would be more flexible and customized (Andersen 2003). The transition from pay roll to more flexible wage setting was the solution and accomplished both the industry's need for flexibility, and the employees' desire to get wage increases.

An important obstacle that was removed was the mandatory cost of living allowance inside the collective agreements that was abolished by the newly elected Conservative government 1982. The size of the cost of living allowance was determined by the expected increase in prices of essential goods. But when expectations were already contained in the union demands, the cost of living allowance only had inflationary effects (Plasman & Rusinek & Rycx 2007).

According to Due & Stroby Jensen (1993) the Danish development when the decentralization process has been marked by a concurrent central coordination can be referred to as *centralised decentralisation*. It essentially means that the predominant level delegates certain bargaining issues to be regulated at a lower level, but still within a binding framework, set by the focal collective agreement. Therefore the bargaining system is characterised by many levels of regulation. In this system the tendency

towards local bargaining levels acquire more autonomy and it may lead to a weakening of the coordination of the central and local levels (Andersen & Mailand 2005, Traxler 1995).

## 4.2. Great Britain

Great Britain is an example of the Anglo-Saxon labour market model, which differs in important aspects from both the Nordic and the Continental models. The industrial relations system was deregulated and liberalized by the conservative Thatcher Government in the 1980s and early 1990s through a combination of labour law reforms and a major restructuring and privatization of public services. As shown in Table 4 there was also a major change in the bargaining system in late 1970s and in the early 1980s. Although the British reforms in Industrial relations has been examined many times (see, for example, Brown 1993, Purcell 1993), most of these studies have focused on other issues than the bargaining system and wage formation.

Britain's wage bargaining system, as well as Anglo-Saxon labour market models in general, has long been characterized by voluntarism, ever since the Trade Disputes Act 1906 which provided the main principles of union law until the 1980s. Voluntarism in the British sense means that few formal laws have regulated the relationship between employees and employers, or between the parties at the labour market. Collective agreements have not been legally binding, but merely a form of "gentleman's agreement" between the employer and the trade union organization. In the case of breach of contract, the aggrieved party had a right to undertake industrial action.

### **Decentralization and declining collective bargaining**

Generally negotiations have taken place at three different levels, industry level, company level and workplace level. Agreements at the industry level was gradually less detailed in the post-war era basically such agreements only covered minimum wages and some general terms of employment, mainly working hours. Those agreements were therefore supplemented with bargaining at the local and workplace level (*shopfloor bargaining*). (Davies et al, 2004), (Marchington & Goodman & Berridge 2004).

During the 1960s the focus shifted to the local level and the actual wage determination was increasingly made at the workplace. The union steward at the workplace, the so-called shop steward, became very influential and had furthermore access to powerful threats of industrial action, if the requirements were not accepted (Elvander 1992). In addition to this, the local negotiations boosted wages and benefits and thus inflation. Furthermore, it also increased the number of conflicts at the labour market. The result was increased state interventionism with wage and price freeze, income political settlements, etc. In the early 1980s the British labour market was reformed, something that had major implications for wage bargaining and wage setting (Marchington & Goodman & Berridge 2004).

A major transformation in the British labour market is the decline in collective bargaining. Since the mid-1970s, the collective coverage has dropped sharply. In 1973, 72 percent of all employees in Britain were covered by collective agreements. In 1984 the figure had dropped to 64 percent and in 1990 the collective coverage was only 47 percent (Brown, 1993). The decline has continued since the 1990s and in 2007 the bargaining coverage in the private sector was down to 20 percent. Only 17 percent of the workers had a union membership and about 20 percent of the companies were members of an employers' organization (Medlingsinstitutet 2008). Moreover many multi-employer (national) agreements collapsed in the late 1980s, or were greatly reduced in influence or coverage (Metcalf 1993). As a result, the individual wage contracts have become more and more common.

The flexibility of the labor market has increased sharply since the 1970s. Earlier agreements were standardized and the opportunity for the employer to apply different types of wage practices, for example individual wage setting, was very low. Today individual wage setting and many companies have also tested various forms of commission-based bonus (Brown & Walsh, 1991).

### **Government intervention and labour market reform**

From 1950 until the mid-1970s there was a consensus about economic policymaking in Britain. The ultimate goal was full employment and an expansion of the welfare state with Keynesian means. Accordingly the sharp rise in wages during the 1960s and 1970s

was not perceived as a major problem; on the contrary it was important to sustain consumption – both the private and public (Dunn & Wright 1994). Since the Labour party was closely connected to the dominating Trade Union Congress with generous rights to strike and with no strong counterpart, the unions in Great Britain had a unique position in the 1960s and 1970s.

During the late 1970s this order was challenged. Inflation had skyrocketed and a wave of strikes occurred, especially in the public sector. A strong public opinion was formed against the prevailing economic policy. In the early 1970s the Labor government tried to manage the labor market by persuading the unions to reduce shop floor bargaining and thereby bring down the frequent conflicts, but the initiative failed and the number of conflicts continued to grow throughout the 1970s (Kilroy-Silk 1969).

When the Conservative Party won the elections in 1979, they launched a comprehensive reform process. One measure was to limit the unions' power by restricting the rights and possibilities of conflict; secondary strikes, strike guards and unofficial strikes were banned. At the same time the newly elected government instituted laws that would govern their internal organization: authority was transferred from the local representatives to the union members which meant that strikes thereby were much harder to organize. (Bacarro & Howell 2011)

Furthermore the government banned those unions that excluded members who did not take part in industrial action (Davies et al, 2004). It also prohibited the closed shop system, strengthening the protection for workers who wanted to remain outside the union (Elvander 1992). The role of government has also changed in other aspects. Since the early 1980s, the elements of income policy have largely disappeared.

In 1992 the system of remuneration committees, Wage Councils, was abolished. Its purpose was to determine minimum wages and other working conditions that would apply to the respective branch. Wage committees had representatives from unions, employers and impartial members, often politicians (Brown & Wales 1991). This reform was restored to some extent in 1997 when the then Labour government decided to introduce a national minimum wage, a sum that would be decided between representatives of the government and parties in the labor market (Davies et al 2004).



In the UK, the industrial relations system was deregulated and liberalized in the 1980s through a combination of reforms. The UK is the clearest example among our cases of where the bargaining institutions were reconstructed since collective bargaining was abolished in several fields of the labour market, and thereby replaced by a largely individualized system of bargaining (Bacarro & Howell 2011).

### 4.3. Sweden

Sweden has experienced a profound regime change in wage bargaining. Among OECD-countries, Sweden is often mentioned for the dramatic reversal of political priorities and change in economic policy regime, but the decentralization of the bargaining system constitutes a transition of similar importance (Iversen – Pontusson 1999). Between 1956 and 1983, the Swedish wage bargaining pivoted on direct negotiations between the two peak organizations, the confederation of blue color unions, LO, and the confederation of Swedish (private) employers, SAF. For employers the centralized wage bargaining guaranteed wage restraint overall and it also dampened competition for certain categories of workers. For unions wage policy gave possibilities for a more egalitarian, *solidaristic*, wage distribution as well as stable wage increases in the 1950s and 1960s (Karlson & Lindberg 2008), (Locke & Thelen 1994).

#### **Government intervention since the 1970s**

While wage bargaining was conducted between those two peak organizations, government intervention was very rare and sparse up until the early 1970s. The policy of state neutrality had roots from the turn of the century and was confirmed with the agreement of Saltsjöbaden 1938. It has come to represent a particular form of industrial relations, the so-called “Saltsjöbaden spirit”, marked by willingness to co-operate, mutual respect, the endeavor to arrive at solutions based on compromise and a sense of responsibility between the partners. The Agreement was a response to a threat of legislation: certain forms of industrial action, and their effects, were causing grave concern. Therefore it also reflected the labor-market organizations’ wish to safeguard the freedom to regulate their own mutual affairs without government interference (Pontusson & Swenson 1996 and Karlson & Lindberg 2008).

In the early 1970s, however, government intervention at the labour market increased dramatically and the unions were influential in advocating different labour laws. The most important were the Employment Protection Act (LAS 1976), the Act on Employee Consultation and Participation in Working Life (MBL 1976), the Workplace Union Representatives Act (Förtroendemannalagen 1974) and a number of other reforms that changed the balance of power at the labour market to the benefit of the unions.

Moreover, public sector bargaining increased dramatically in significance in the 1970s. The numbers employed in the public sector increased from 460.000 in 1960 with more than one million until 1990 when it approached 1.5 million employees (Lindbeck 1997). So government involvement in bargaining increased drastically in Sweden in the 1970s and 1980s. But this is not apparent in table 3 where we only can trace a modest increase in the 1980s, whereas it was a larger increase in the 1990s. Partly this is explained by the fact that table 3 only covers the private sector. However, there is plenty of evidence that government intervention increased between roughly 1970 and the early 1990s and has decreased thereafter. The government tried to intervene in the bargaining process in this period with different means to influence the negotiations or the result. Propositions with the aim to promote wage compression were formulated by the government from 1966 until 1978. In the bargaining round 1971 the Professionals Association SACO was forced to stop their ongoing industrial action through legislation in parliament. In the so called Haga discussion in 1974 and 1975 the government tried to tie an income tax reduction to wage restraint, although in vain (Nycander 2008 and Wallerstein & Golden (2000).

The 1980s was not less interventionist. Several attempts of income policy, most notably the bargaining round 1985, when government guidelines were offered in exchange for tax rebates and a freeze on distributed companies earnings. But the most extensive government intervention in private sector wage setting since the end of the war occurred in the early 1990s when the Social Democrat government in 1990 failed to initiate a two-year wage freeze alongside a ban on strikes and a ceiling of price increases. Instead the government appointed a new body, the Rehnberg commission, with the order to achieve a two-year agreement (1991-1992) for the whole labour market (Nycander 2008 and Wallerstein & Golden 2000).

However, soon thereafter in 1994 the government stepped down from its former role in wage bargaining with the state employees (Nycander 2008). In this aspect, it is doubtful whether

Sweden has gone towards a more centralized and interventionist wage setting during the 1990s. This decentralization was, however, accompanied with a strengthening of the state mediation through the National Mediation Office in 2000, which was a centralization of bargaining in the dimension of Government intervention.

Furthermore bargaining cartels of public sector unions and white collar unions at the private sector formed to create new arenas of peak level bargaining. With each bargaining round the central bargaining agreements were harder to achieve and the outcome deteriorated. That led to high pay raises and wage drift that resulted in inflation and loss of competitiveness. Eventually the discontent among the leading (engineering) employers led to the successive breakdown of the peak-level bargaining between 1983 and 1990 (Lundh 2010 and Pontuson & Swenson 1996).

### **Decentralization: from central to industrial level**

Sweden is often upheld as the ideal type of the highly centralized bargaining system during the post-war period. In terms of bargaining level, wage formation was centralized and in every bargaining round from 1956 until 1982 the blue-collar union LO and the main employers organization negotiated a frame agreement that covered most of the work force in the private sector. After the collapse of the central negotiations, The Metalworkers union (Metall) and the engineering employees (Verkstadsföreningen) had a separate agreement and so had some of the private sector white-collar unions (PTK). After that, the following bargaining rounds oscillated between industrial and central agreements until the totally centralized Rehnberg agreement 1991-1992.

The major question after this extraordinary bargaining round was not whether the parties should return to central agreements, SAF had by then ruled out this possibility, but rather how bargaining at the industrial level should be conducted and coordinated. From 1997 and onwards, the Agreement on Industrial Development and Wage Formation between the social partners in the manufacturing industry was instituted and has helped to coordinate the bargaining. It is an industry level procedural framework for collective bargaining within manufacturing. These procedures are used when doing collective bargaining and have since 1997 spread to other parts of the Labour market. (Lundh 2010, Karlson & Lindberg 2008, Wallerstein & Golden 2000)

## **Decentralization and recentralization inside the existing system**

But decentralization has not only occurred between different levels (central to industrial) but also inside the existing bargaining system. The period 1983-1995 was characterized by decentralization of collective bargaining and a weakening of coordination mechanisms whereas the introduction of the Agreement on Industrial Development and Wage Formation (1997) went in the other direction (Axno & Niklasson 2008). This decentralization was also accompanied by a marked tendency towards a differentiation and individualization of wages and terms and conditions of employment, actually more notably in the public sector and among professionals.

According to reports during the last years (National Mediation Office 2007- 2010) wages for most Swedish employees, both white collar and blue collar were partially or totally set at the local level. In some industries the industry-level agreements on wage levels are applied, but only if the bargaining parties at local level cannot reach an agreement. In other industries there are no guaranteed wage increases (Granqvist & Regner 2008). In recent years the trend towards decentralization has been aborted and instead there has been a recentralization concerning the seven different wage agreement models. In the wage negotiations 2007 a small number of agreements were altered, but in all these cases it resulted in a decreased influence for the local partners and a higher degree of centralization. Other agreements remain inside the same wage agreement model but have changed in the same direction since the individual guarantee is higher than previous years (National Mediation Office 2008).

## **4.4 The Netherlands**

The Dutch employment relations and wage bargaining have been characterized by a couple of main features after World War Two: centralized decision-making with a large government influence, collectivistic and uniform regulations and a tradition of tripartite agreements, ie. a widespread cooperation between the social partners and the government (Leede & Loose & Riemsdijk 2004). Already a few days after the Second World War in 1945, the Labour Foundation (Stichting van de Arbeid) was established. It consisted of representatives from trade unions and employers, whose purpose was to promote economic growth and stability by

coordinating the bargaining process and employment conditions. In 1950 the Social-Economic Council (Sociaal-Economische Raad) was founded. It is a tripartite institution that advised government on all laws and other measures in the labour market field. Those two bodies became – and are to this day – part of a corporatist model, in which both trade unions and employers' organizations would form sector-based regulatory organizations and serve as partner for the national government (Verhulp 2005).

In the late 1960s and 1970s this model of cooperation and coordination cracked and labour relations was polarized. This led to accelerating wage increases with a resulting wage-price spiral and rising unemployment fuelled by two oil crisis in the 1970s. In the early 1980s, unemployment had exceeded ten percent and there was a consensus among the central actors to form a new institutional set-up more adapted to the macro-economic conditions and more focused on job creation (Wijffels 2001, Annett 2006).

#### **State intervention and decentralization inside a corporatist model**

As long as wage negotiations took place within the Labour Foundation, basically between 1945 and 1982, the government could, and did, intervene in the wage setting process and exert pressure on the parties by making wage moderation decisions. This great involvement during such a long epoch is unique, but came to an end in the early 1980s. With the agreement of Wassenaar 1982, the government stepped back and took a more passive role. Since 1982 there has been central agreements in the Labour Foundation and the need for government intervention has been sparse. After the 1987 revision of the Wages act the minister can only intervene in the bargaining process if there is an unexpected emergency situation in the national economy. Until 2004, this has never happened (Weel, 2003, Verhulp 2004).

Since the early 1980s and the Agreement in Wassenaar an extensive decentralization of wage formation with more individualized employment conditions has taken place. Wages are now negotiated at sectoral and enterprise level and the tendency is towards more differentiation. In the Dutch case, decentralization and individualization of wage bargaining and contracts was partly preceded by legislative changes. Since labour contracts were regulated by a rather rigid law, the new legislation 1996 and 1998 “Flexibility and security” made more flexible contracts concerning both wages and working time possible (Leede et al 2004). It should however be noted that there is still some government involvement in wage setting, ie the extension procedure which means that the Minister of Social Affairs can extend an agreement

to an entire industry. In practice, this is done for such industry agreements where at least 55 percent of the workers are employed by firms directly bound by that agreement (Hartog & Leuven & Teulings 2000).

### **Wage setting: More flexible collective agreements**

The Netherlands has gone from a very centralized system with a larger government intervention than in any of the more than 20 countries that Golden & Lange & Wallerstein (2006) investigated. More and more the Dutch bargaining system has become multilevel with an on-going trend towards individualized employment conditions. This change has also increased the space for the local negotiations (Leede et al, 2004). Employers and employees have, with this change given the opportunity to tailor the contracts to fit them better. One sign of this is that the number of part-time and hourly paid positions has increased sharply since the 1980s (Nickell & Van Ours 2000).

## **5. Conclusions**

At least three different dimensions of decentralization can and should be identified and separated in the discussions about wage bargaining: dominating bargaining level, confederal involvement and government intervention. It is likely that the inability to settle the discussions concerning whether wage bargaining in fact is decentralized or not, is at least partly caused by divergent definitions. In the dataset we used to statistically analyse changes in wage decentralization in 16 OECD countries between 1950 to 2000, all these dimensions were used and combined.

In terms of *bargaining level* the trend is clear towards decentralization since the 1970s, even though there are important exceptions. Out of the 16 OECD countries half of them have a decreased and only two have an increased bargaining level. In terms of *confederal involvement* the major decrease occurs among the Nordic countries. In particular in Sweden and Denmark are the changes dramatic since the culmination in the 1960s and 1970s. The Netherlands has also witnessed a major decrease of confederal involvement whereas many of the other countries have had a status quo more or less. In terms of *government involvement*, however, the change is the almost

non-existent. The differences in mean value of government involvement between the 1970s and the 1990s are miniscule. This does not, however, imply that separate countries have remained at the same level. On the contrary, the changes are dramatic in countries such as Belgium, Denmark and Netherlands, but in different directions.

The overall tendency is still towards less centralisation compared to the centralized heydays of the 1950s and the 1960s, even though a number of countries have not changed or have, in fact, moved in the opposite direction: Austria, Belgium, and Italy. But a number of countries, Sweden, Denmark and UK, have experienced much larger steps towards decentralization. The Netherlands has experienced the largest decrease in decentralization overall.

The decentralization processes in these four countries have been given a somewhat broader and deeper analysis. The results are summarized in the table below:

**Table 1. Decentralization processes in four countries**

	<b>Denmark</b>	<b>Great Britain</b>	<b>Sweden</b>	<b>The Netherlands</b>
<b>Type of decentralization</b>	From standard-rate to minimum-wage system	From local to individual wage setting	From central to industrial level	From regulations to flexible collective agreements
<b>Collective agreements or Government interventions</b>	Collective agreements <i>and</i> Government interventions	Government interventions	Collective agreements	Collective agreements <i>and</i> Government interventions
<b>Relations between social partners</b>	Cooperation	Conflict	Cooperation	Cooperation

An important conclusion is first of all that the process of decentralization of wage bargaining may look very differently. Each country has had its own, unique process and also its own type of decentralization. There are several different types of decentralization and there are several ways to decentralize. Moreover, decentralization may occur through changes in the collective agreements themselves, as in Denmark, Sweden and the Netherlands, or through individual wage-setting outside the system of collective agreements, as in Great Britain. Finally, the decentralization process may occur both in a context of cooperation between the

labor-market organizations or in a setting of conflicts. Again, Great Britain stand out in both these latter regards as well.

In all the studied countries it is also clear that the processes have not been easy or without drawbacks. An interesting task for future research would be to compare these processes towards successful decentralization to the developments in the countries which have not decentralized, or even re-centralized, their systems of wage formation. Has this occurred due to factors, such as inertia, vested interests, existing legislations favoring centralized labor market organizations and various normative views about fair wages etc., which may block reforms in a more decentralized direction, or due efficiency reasons?



## A. Data Appendix, Bargaining Centralization Measures 1950-2000

This data appendix defines each of the three variables employed in the analysis, see section 3. It also identifies the sources used to construct each measure. The scales in table 1-4 in section 3 is always from 0 to 1 where 0 is no centralization and 1 is full centralization at each measure. Note that table 4 with mean values is constructed from tables 1-3.

**Bargaining level** is in its original form from 1 to 5 but is normalized to the scale 0 to 1 in the paper. It is equal to 1 for plant-level wage setting, 2 for industry-level wage setting without sanctions, 3 industry-level wage setting with sanctions, 4 for central wage setting without sanctions, and 5 for central wage setting with sanctions.

The source for this variable is Golden & Lange & Wallerstein (2006).

**Confederal involvement** is in its original form from 1 to 11 but is normalized to the scale 0 to 1 in the paper. It is equal to 1 for Confederation(s) uninvolved in wage-setting in any of the subsequent ways, 2 Confederation(s) participates in talks or in formulation of demands for some affiliates, 3 Confederation(s) participates in talks or in formulation of demands for all affiliates, 4 Confederation(s) negotiates non-wage benefits, 5 Confederation(s) negotiates a part of the wage agreement, such as the cost-of-living-adjustment, 6 Confederation(s) represents affiliates in mediation with centralized ratification, 7 Confederation(s) represents affiliates in arbitration, 8 Confederation(s) bargains for affiliates in industry-level negotiations, 9 Confederation(s) negotiates national wage agreement without peace obligation, 10 Confederation(s) negotiates national wage agreement with peace obligation, 11 Confederation(s) negotiates national wage agreement with limits on supplementary bargaining.

The source for this variable is Golden and Wallerstein (2006).

**Government involvement** is in its original form from 1 to 15 but is normalized to the scale 0 to 1 in the paper. It is equal to 1 when Government uninvolved in wage setting, 2 Government establishes minimum wage(s), 3 Government extends collective agreements, 4 Government provides economic forecasts to bargaining partners, 5 Government recommends wage guidelines or norms, 6 Government and unions negotiate wage guidelines, 7 Government imposes wage controls in selected industries, 8 Government imposes cost of living adjustment, 9 Formal tripartite agreement for national wage schedule without sanctions, 10

Formal tripartite agreement for national wage schedule with sanctions, 11 Government arbitrator imposes wage schedules without sanctions on unions, 12 Government arbitrator imposes national wage schedule with sanctions, 13 Government imposes national wage schedule with sanctions, 14 Formal tripartite agreement for national wage schedule with supplementary local bargaining prohibited, 15 Government imposes wage freeze and prohibits supplementary local bargaining.

The source for this variable is Golden & Lange & Wallerstein (2006).

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