Decentralisation in the context of competitiveness discourse

The Finnish labour market relations system since 2008

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Introduction

Finland saw quite dramatic changes to its system of labour market relations between 2008 and 2018. In 2007, the main employers' federation *Elinkeinoelämän keskusliitto* (EK, Confederation of Finnish Industries) announced that it would not conclude centralised incomes policies anymore, which was the official position in 2008 (Esmerk 2008). These *tulopoliittinen kokonaisratkaisu*, or *tupo* in brief, used to be the cornerstone of Finnish labour market policy since 1968. In that year, the so-called *Liinamaa I* -agreement was concluded, which is seen as the start of the "tupo-era". In that agreement, the labour market partners and the Finnish state agreed that the employer would collect union dues directly from employees' salaries and that these dues would be tax-deductable. The partners to these agreements are the labour union federations, employers' federations

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and the state. A centralised incomes policy usually consisted of general wage increases, labour market policy issues as well as tax policy changes. According to Kauppinen (2005), all labour market partners had their own reasons to negotiate a centralised incomes policy, especially since the 1990s: the employers' federations favoured centralised agreements because it would allow the flexibilisation of the labour markets, prepare the entrance to EMU and make the Finnish economy competitive through wage moderation. The state favoured this model as a way to control inflation. Finally, the labour movement favoured the centralised model to "manage" the economy and, in particular, employment (Kauppinen 2005).

Since 1968, there have been quite a few years without centralised incomes policies. In those years, it was not politically feasible to reach such an agreement because either the employers or the labour unions preferred negotiation at the sectoral level. Nonetheless, the announcement in 2008 by EK did come as a shock, although its stance was not by itself new (see Bergholm & Bieler 2013). Earlier, the President of the Bank of Finland, in 2002, questioned whether the solidaristic wage policy hinders the creation of jobs in sectors with weaker productivity growth. Furthermore, he questioned whether the centralised incomes agreements hindered the allocation of resources to those sectors where productivity growth is stronger (Taloussanomat 2002). These considerations were based on the instrument of the "wage norm": a way to calculate the potential for wage increases based on average productivity growth (Sauramo 2004).

The entrance of Finland into the Euro might also have been a catalyst towards a reappraisal of the institute of centralised incomes polices because Finland's preferred competitiveness-boosting mechanism (devaluation) was not available anymore. Furthermore, the focus on the Maastricht criteria regarding public debt and budget deficits connected economic growth and public sector wage growth through regulation. The public sector, like in many European countries, is female-dominated and in Finland there is a significant gender wage gap of roughly 17% (European Commission 2018a). Koskinen Sandberg (2016) has shown that in a highly segregated labour market, sectoral collective agreements can contribute to the gender pay gap, even in the context of centralised incomes agreements. In a sense, disconnected sectoral collective agreement negotiations may provide an easier way to moderate public sector wage growth compared to centralised agreements, where also the public sector receives the same general wage increases. Therefore, the logic of European economic governance also provides an argument for decentralising collective agreement negotiations.

The Finnish labour market relations system is in its essence still corporatist, which means that through tripartite consultation, the interests between labour and capital are mediated through e.g. collective bargaining. The developments that started in 2007 reduced its scope because they enabled transferring core decision-making processes on labour market policy away from the corporatist actors to the open political arena. The "new" centralised agreements are characterised more flexibility to implement the agreement at the sectoral level than through the *tupo*. In this chapter, I view the institutional changes from the point of view of the "competence trap". This has the benefit of highlighting the role of labour unions and labour union federations in relation to their institutional position and policy-making. At the same time, these institutional changes also show that Finland is following Nordic developments (Andersen, Ibsen, Alsos, Nergaard, & Sauramo 2015). Bergholm and Bieler (2013) explain that this "delayed" decentralisation may be due to a weaker structural power of the employers.

Lilja (1998) introduced the concept of "competence trap" in labour market relations research. A competence trap means that existing or otherwise dominant procedures that lead to positive results will become entrenched because actors are profiting from experience within the organisation (Levitt & March 1988). In other words, a competence trap occurs when a union's internal organisation and the skills of their officials are less suited to handling questions of work organisation, skill development and management (Alasoini 2004). This phenomenon has been shown to occur both in the use of new technologies and new processes of work (e.g. Zucker 1987). The idea of a competence trap is also relevant labour market relations research because labour unions are organisations with a strong institutional memory (Huzzard 2000; Huzzard, Gregory, & Scott 2004).

The main problem concerning the competence trap of labour unions, according to Lilja (1998, 183), is that "there are no mechanisms at the industry collective bargaining level to intervene in the actual world of work and skill development in a proactive way". In short, Lilja argues that because most union activities relate to institutions (collective bargaining, work safety, union managed unemployment funds), there is more focus on these specialties rather than involvement with actual working life. In particular, the centralised agreements "dictated" the content of collective agreements regarding the main issues, thus not allowing much flexibility at the sectoral or local levels. This means that although labour unions have a strong local presence through shop stewards and collective agreements, they may be more vulnerable to changes in either institutions or working life than assumed through their institutionally entrenched position. Dølvik (1997) argues that labour unions can have a "logic of representation" or a "logic of influence", which is different way of explaining the relation between institutions and labour unions. In the Finnish case, the "logic of influence" may be the primary determent of action, because the rules and conventions regarding collective bargaining worked predominantly top-down until the "new" centralised agreements.

To clarify this last point, it is useful to show the general pre-2008 process of centralised collective bargaining (Jonker-Hoffrén 2019). In the Finnish system, even if a collective agreement has expired, its provisions remain valid until a new agreement is concluded (the *sopimukseton tila*). The only difference is that the so-called peace clause is not valid anymore—strikes are allowed to put pressure on the negotiations. Usually before this phase, labour union federations and employers' federations have indicated their willingness to negotiate a centralised agreement, although sometimes this willingness has to be found through policy promises by the state on, for example, tax reductions. The most important negotiation at the centralised level is the general wage increase because this is binding for the collective agreements based on the centralised agreement. The issues relating to the content of centralised agreements are to a large extent non-negotiable at the sectoral level. Other issues agreed between labour union federations, employers' federations and the state are labour market policy directions, which may also include social policy issues such as pension. Furthermore, the state promises what it will do when the sectoral phase of collective bargaining is successfully completed. The threshold for successful completion recently has been the implementation of the centralised agreement by 90–95% of collective agreements, which is a much higher coverage than in the former "tupo" era (Jonker-Hoffrén 2019). The basis for this process is the so-called "January Engagement" of 1940, when employers acknowledged labour unions as part of democratic society. This agreement also led to legislation on collective bargaining, industrial action and conflict mediation. Through a voluntaristic agreement, the labour market partners became a central part of labour market policy-making. This is the essence of Finnish labour market corporatism.

The main negotiation problem at the sectoral level is how to translate the general wage increase into the various wage levels and shift systems existing in the sectors. Applying a general wage increase is easier in collective agreements that feature hourly wage (such as for cleaning personnel) than for manufacturing collective agreements that often have highly complex shift systems. For this reason, some sectors prefer wage increases in eurocents, while others prefer percentages. At the sectoral level working time issues and social provisions are also negotiated unless included in the centralised agreement. For example, general working time reductions were agreed in the centralised agreements of 1984 and 1986, and in 1992 issues regarding income-dependent pensions were negotiated (SAK n.d.).

The core idea of this chapter is that Finnish labour unions have had to deal with sustained attacks on their main role as collective agreement negotiators since 2008 while being pressured to accept negotiation outcomes that were not necessarily positive for their membership. These negotiation outcomes derived from an analysis of Finnish competitiveness based on the metric of Unit Labour Costs, and in relation to that discourse, they exemplify the "competence trap". This metric disregards sectoral and local difference, as well as the impact of changes in demand. Because the focus on ULC was the only legitimate discourse from the start of the financial crisis, labour unions had to focus on labour costs rather than on the quality of working life, in particular since 2013, as explained below. After 2016, the labour unions additionally had to withstand the pressure emanating from the state to deliver certain outcomes, lest the state not intervene through legislation. The successful drive towards decentralisation (to the sectoral level) may lead to a change in focus on part of the labour unions because the institutional environment compels them to do so. The next section discusses the developments since 2008 in more detail.

Labour market relations developments since 2008

Finland has had a positive period of growth since its economic and financial crisis of the 1990s, and the system of labour market relations did not have a serious test during the euro membership. In fact, the last centralised incomes agreement (of 2005–2007) was concluded in calm circumstances and had a record duration of three years. In fact, only the pulp and paper industry witnessed a protracted industrial conflict in 2005, but this sector had explicitly stayed out of that centralised incomes agreement (Jonker-Hoffrén 2011).

After the centralised agreement of 2005–2007 Finland had a period of sectoral agreements between 2007 and 2011. In practice, this consisted of two sectoral bargaining rounds and an attempt (in 2009) to introduce a "wage-anchor" in manufacturing that no subsequent collective agreement should exceed. Table 1 shows a summary of developments (see also Jonker-Hoffrén 2019).

Table 1. Duration and main elements of centralised and sectoral agreements since 2005
(SAK n.d.; Jonker-Hoffrén 2012)

2005–2007	centralised agreement (paper industry separate sectoral agreement, 2005–2008)	longest centralised agreement in tupo history; in negotiations for next agreements there was a peculiar labour conflict in the public health sector involving a threat to collectively resign
2008–2011	Sectoral	yearly pay review, in practice two sectoral rounds (2007–2009 and 2010–2011); 2009 (failed) attempt at manufacturing-led wage-anchor
2012–2013	"new" centralised agreement ("Framework agreement")	focus on training, position of temp workers, other working life issues
2013–2015	"new" centralised agreement ("Employment and Growth Agreement")	focus on improving employment, competitiveness, potential reforms of labour market relations system, extreme wage moderation, 3 year agreement
2015–2017	"new" centralised agreement ("Competitiveness Agreement")	focus on competitiveness and economic growth, creating jobs, consolidating government finances, wage freeze, working towards local bargaining. Originally 2015–2016, option for extension through 2017, which was implemented
2017–2018	Sectoral	Full implementation of EK's rule change led to decentralisation to the sectoral level. Sectoral round mostly based on first manufacturing agreement (informal wage anchor)

The tensions between employers' organisations and labour unions, especially in the public sector, stem from the collective agreements signed for the period 2007–2009. Many sectoral agreements featured relatively high wage increases. Figure 1 in Delahaie, Vandekerckhove, and Vincent (2017, 71) confirms that in 2007, there was indeed a sudden upwards trend in both collectively agreed (nominal) wages, although also before 2007, the nominal wage increases had outstripped increases in labour productivity. With the onset of the financial crisis shortly after the agreements for 2007–2009 had been finalised, a correction was needed in the "competitiveness" of Finland. This was also a theme for Finland in the European Semester's country-specific recommendations where general wage moderation, in line with real productivity development, was recommended (Van Gyes & Schulten 2015, 16).

For a pilot study on labour market partners' views on the European economic governance system, expert interviews were held in early 2013. The experts were exclusively senior labour market negotiators of labour unions, employers' federations and labour union federations. The interviews were transliterated and coded. The analysis used content analysis, because this was an exploratory study of the issue. The respondents (N=7) were generally unanimous regarding their view of the wage increases in collective agreements in the period 2007–2011. As one researcher from the Service Union United PAM states:

> "It kind of got out of hand, competing about collective agreement wage increases".

His colleague stated:

> "The public sector reached agreement last [in 2007], and they got the biggest wage increases".

A former negotiator of SAK, the Confederation of Finnish Trade Unions commented:

> "I still remember, in 2007, when the sectoral agreements were negotiated, they were spread over several years and they were far too expensive on every level from the perspective of the crash of the economy in 2008, and in part the competitiveness of the Finnish economy still suffers from this period".

The former National Conciliator stated:

> "Fantastic collective agreements were concluded then [in 2007], wage increases to the tune of 11–15% over two years. So we had the agreed wage increases and then came the 2008–2009 recession. Wages went up and production went down. […] It affects the competitiveness even today".

The Finnish National Conciliator is the labour market mediator that becomes involved in collective agreement negotiations when either party announced industrial action (strike/lock-out). Formally independent, he or she is a civil servant to the Ministry of Labour. When the National Conciliator is involved, his or her task is to produce a draft agreement that both parties to the conflict can agree on (Jonker-Hoffrén 2019).

The depth of the economic recession that started in Finland in 2008 immediately changed the context of the valid agreements, as the comment by the National Conciliator shows. The experts of the Services Sector Union explicitly state that the employers' view changed rapidly in the light of the "scary economic situation". Also the National Conciliator stated in the interview that it was a "pragmatic, practical decision" to again engage in a centralised agreement.

The "new" centralised agreements differ from their forebears in that these new agreements have much less focus on general wage increases than before and more focus on what is done at the firm level. In this sense, they continue the developments set in motion in 2008. Moreover, one former negotiator of the Technology Industries Federation (employers) tells that the old centralised incomes agreements would dictate "some 90 percent of the content, form and conditions of the wage agreement [for the sectoral level] while the new Framework Agreement only dictates 50%". His point is that the new agreements are significantly different in that these give the sectoral level more flexibility to implement what is agreed.

The Framework Agreement, according to the National Conciliator, did not improve Finnish competitiveness, nor did it weaken it. The negotiator of the Technology Industries Federation states that many of the "quality of working life" issues that were agreed on in this agreement were specific wishes of the labour union federations and not appreciated by the employers' federations. He alludes to a break between EK and the sectoral employers' federations because EK had not sufficiently consulted the sectoral federations. EK's member organisations repaired this breakthrough dismissing its chairperson and selecting a successor in 2012 (see also Bergholm & Bieler 2013).

In 2013 the Employment and Growth Agreement was concluded. According to the negotiator of the Technology Industries, the sectoral unions of both labour market partners were highly involved, although this time the wishes of the employers' federations set the tone. This resulted in a centralised agreement with extremely moderate wage increases, which was a reaction to the (continued) economic crisis. Furthermore, in 2015, the Confederation of Finnish Industries announced a change in its statutes. EK would no longer be able to negotiate binding agreements on its members' behalf. Later, it resigned from most of the federation agreements that it had signed over the years. The Competitiveness Agreement (2015–2017) continued extreme wage moderation but was born in complicated circumstances: the Finnish state threatened with legislation that would alter the system of labour market relations unless sufficient coverage would be achieved for the Competitiveness Agreement. This agreement envisioned, among other things, a reduction in wage costs of 5% (Dølvik et al. 2018). From late 2017, Finland has thus been in a structurally new situation, where negotiations take place at the sectoral level.

Unit Labour Costs and the competitiveness discourse

Starting from the so-called Employment and Competitiveness Agreement of 2013, the employers' federations and EK were united in demanding extreme wage moderation and issues relating to "structural reforms". According to the Technology Industries negotiator, the reason for this focus was the downwards turn the Finnish economy took in 2012. Although EK had already earlier made a comparison between Finnish and German Unit Labour Costs, in the period after 2011, the employers' federations and EK frequently mentioned the difference as an indication of Finland's worsened competitiveness. Also the Bank of Finland reported and reports frequently about unit labour costs (e.g. Euro ja Talous 2016). It should also be noted that historically Finnish corporatism always had a strong focus on wage moderation (Kosonen 1998).

However, the new European Economic Governance rules, the so-called "Two-Pack" and "Six-Pack", have probably strengthened the discourse of the employers' federations (European Commission 2017). Part of the "Six-Pack", the so-called Alert Mechanism Report, has been a part of the European Commission's Macroeconomic Imbalance Procedure (MIP). This report is a preparation for in-depth country reviews (Eurofound 2014). In the first two reports of 2012, the review of Finland especially singled out the rise in Unit Labour Costs in 2007–2009. The Country-specific Recommendations (which also belongs to the "Six-Pack), policy recommendations that follow from the European Semester process", are to be adopted by the national finance ministers. In 2012, the Finnish recommendations regarding the period 2008–2010 stated:

> "These excessive wage increases are reflected in the unit labour cost increase reported in the Alert Mechanism Report at 12.3% over the period 2008–2010. […] Finland will have to ensure that wage developments do not endanger future competitiveness and will have to facilitate necessary structural changes over the longer term" (European Commission 2012).

Subsequent in-depth reviews continue to stress the unit labour cost metric. The country report for 2018 states that Finland has made progress:

> "implementation of the CSRs since 2014. Progress has been made in aligning wage growth with productivity developments which has resulted in a slower increase of unit labour costs and improved cost competitiveness relative to competitor economies" (European Commission 2018b).

The reports single out the centralised agreements that have helped limit the growth of unit labour costs:

> "Since 2015, the country's real effective exchange rate has fallen each year, reflecting the moderate wage increases reached in the 2013 wage settlement. In 2016 and 2017, the Competitiveness Pact enabled unit labour cost to decrease. […] The positive trend is expected to continue in 2018 and 2019 (9). Overall, this has resulted in improved cost competitiveness" (European Commission 2018b).

This detour through the European Economic Governance shows one regulative reason why Unit Labour Costs (ULC) are an important measure of competitiveness. On this basis, they have a significant role in the national context, at least for the Euro area countries. Nonetheless, this measure has been criticised, for example by Knibbe (2015) and Kajanoja (2015). Knibbe (2015) argues the main reason ULC is an unsuitable measure of competitiveness is that ULC in fact does not measure much else than "a crude approximation for the share of GDP going to workers". This is due to the fact that Eurostat (and by extension the national statistics bureaus) defines unit labour costs as the "nominal labour costs per employee divided by real average value added (GDP) per worker". Furthermore, variables used in the nominator and denominator use employees and all labour respectively. This definition shows that because of the inclusion of GDP, this indicator is influenced greatly by changes in the economic fortunes of a country. Similarly, Kajanoja (2015) argues that nominal unit labour costs are unsuitable because of the peculiar price developments in Finnish manufacturing industries compared to competitor countries. He argues that for the "open sector" (export sector), Real Unit Labour Costs are a suitable measure, and for the "closed" (domestic) sector, Nominal Unit Labour Costs would fit. The main problem, however, even with the distinction between open and closed sector, is that these measures do not take developments in the various sector sufficiently into account. As Knibbe argues, "an increase of the production of natural gas in the Netherlands will lower the RULC, an increase in construction will increase RULC" (2015, 7). Analysis of ULC depends on careful examination of sectoral developments. European Commission (2012) acknowledges this with a (short) analysis of ULC in the manufacturing, construction, market services and financial and banking services (15). It is interesting to see that also in European Commission (2013), the ULC of the manufacturing sector quickly decrease again, in contrast to the market services sector. In this sector, which covers services excluding public administration, ULC have steadily risen since the late 1990s.

In this context, it is interesting to see that in the Finnish Finance Ministry's economic reports, there is little attention to other sectors than the export sectors. Already in 2008, the Ministry's report connected wage negotiations with the rise of ULC in industry:

> "Stopping the weakening of competitiveness and turning competitiveness to an improving path sets especially tight limits on wage formation" (VM 2008, 43).

In the report from Spring 2010, the Ministry explicitly mentioned that the increase in ULC was due to the sudden drop in production in industry (due to weakened European/global demand) and the wage agreements of 2008–2009:

> "The increase of ULC that started in the beginning of 2008 reached an exceptional 29% in last year [2009], when industrial production declined more than the rest of the economy and wages continued their agreed growth. Unit Labour Costs in industry increased more in one year then they declined in the ten years before" (VM 2010, 50).

Although the Ministry identifies the two main factors in the increase of Unit Labour Costs, the public discussion quickly turned to the effects of the collective agreements. For example, EK in 2009 stated that to keep competitiveness at the same level as the previous year, wage costs should decline (YLE 2009a). The chairperson of the Confederation of Salaried Employees (STTK) stated that its unions would be ready to have a three-year centralised zero-increase agreement because "we have to save the fatherland" (YLE 2009b). The leaders of the industrial unions nonetheless dismissed this idea (YLE 2009c). The employers' federation EK also dismissed this idea as being not enough while restating a refusal to return to centralised agreements (YLE 2009d). Slightly later, the new chairman of SAK dismissed the employers' goal of zero percent increases and wage reductions and he expressed worry about purchasing power and unemployment (YLE 2009e).

These positions are consistent with the broader economic discussion in Finland. As Harjuniemi, Herkman, and Ojala (2015) find, there is not much support for alternative solutions in the context of the euro crisis, such as stimulating domestic demand. In 2015, a senior Bank of Finland economist even stated that stimulus had reduced exports in Finland, especially through wage increases (YLE 2015).

These examples show that in Finland, the economic crisis has been seen explicitly through the lens of labour market relations and collective agreements. The willingness of STTK to stick to the zero-increase policy and later the acknowledgment of SAK that the "new" centralised agreements had helped increase Finnish competitiveness through keeping a lid on ULC increases both show that significant parts of the labour union federations share this focus (SAK 2016). In this context, it is useful to mention that in particular the (female-dominated) public sector unions have quite consistently demanded wage increases in the view of the wage gap (YLE 2007; 2017). The 2007 nurses' strike is a clear example (Koskinen Sandberg 2016, 14). From the point of European Economic Governance, this has been difficult, especially in economic bad weather because, both domestically and at the EU-level, there has been pressure on Finland to stick to the Maastricht criteria, which do not necessarily allow wage increases.

Conclusion: Competence trap and post-2017 developments

The previous sections have shown the changes in the Finnish system of labour market relations. The "organized decentralisation" has happened primarily from the initiative of the employers' federations. Organized decentralisation in the Finnish context means that issues previously negotiated at a higher level can be decentralised through stipulations of collective agreements (see Jonker-Hoffrén 2019). Regarding the substantial changes in collective agreements, especially the "new" centralised agreements, it is important to acknowledge the pressure the state put on the labour market partners in 2016, and in particular the labour unions, to conclude a deal that would satisfy the requirements of the state. The state wanted to force the labour market partners to conclude a deal that would improve the competitiveness of Finland. For the unions, this episode perhaps epitomises the "competence trap" because their focus had to be on the negotiations and dealing with the pressure from both state and employers rather than "[intervention] in the actual world of work and skill development in a proactive way". The core objective was doing its part in restoring Finnish competitiveness.

Finland is bound to the economic governance architecture of the Eurozone, which means that both state and labour market partners do not necessarily have much flexibility, especially in downturns. The new Finnish labour market system, which enables only sectoral bargaining, has effectively decoupled the domestic, public and export sectors. Giving up the traditional tri-partite bargaining may have been a blow to especially the labour movement because it has been focused on the solidaristic wage policies for so long. On the other hand, it can also be argued that the new model better reflects the regulatory and competitive pressures these sectors face—the Maastricht criteria influence the labour market relations in a way that the export sector does not experience and vice versa regarding global market developments.

An interesting question regarding economic discourses is still open: how and why did ULC come to the forefront when it did? In the 2000s, it seemed that the discourse was rather on R&D and quality. This question requires more research and interviews with, for example, labour union economists and actors from the employers' federations.

The current situation in 2020 is that Finland has successfully completed a sectoral bargaining round with moderate wage increases and openings to more local bargaining on wages following the first agreement of the technology industry (manufacturing). A casual glance shows positive signs towards the general mood regarding local bargaining. For example, the Service Union United PAM earlier stated that local bargaining is a way of quickly improving working conditions (PAM 2018). The union AKAVA Special Branches reports of a membership questionnaire, which asked about important issues for local bargaining. Members regarded issues like work-life balance, possibilities to have influence, motivation and general working conditions as most important for local bargaining (Akavan Erityisalat 2018). Further empirical research should show whether labour unions actually have increased their local influence. What conditions enable this influence to become established? It is reasonable to expect that this requires strong local union representation. It is possible that the dramatic changes in the labour market relations system have thereby reduced the risk of the "competence trap" by forcing the unions to turn their gaze to the local level. Unions have worked skilfully at the local level through co-determination procedures, as Sippola (2012) shows. In recent years these procedures have nonetheless often looked like "redundancy management procedures". The current process of renewal of this law could help unions to achieve stronger local influence. Furthermore, it will be interesting to follow how and where the metric of ULC will be used in the future.

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