Video conference 5
Social dialogue economics: Scandinavian experience

Monday 13 July 2020

Moscow

National institutions of social dialogue

- By the ILO definition, social dialogue includes all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy.
- Diversity – from formal institutions (such as economic and social councils, national councils on social dialogue, labour consultation councils) to one-time solutions. They unite tripartite constituents at the national level (governments, employers' and workers' organizations), regional, international, cross-border and local levels. Or bipartite relations between labour and management at the enterprise level (or trade unions and employers' organizations at a higher level).
- It could be informal and institutionalized, or both.
- In many countries there is no centralized wage bargaining model; the amounts of wages are settled in individual negotiations between the worker and employer. Regulating the relations between the employee and employer through the system of wage rate agreements is typical for Nordic countries.

COVID-19 crisis: new challenges for social dialogue

- Various sectors, professional and social groups have been differently affected by the crisis. For example, youth and female workers have been hit hardest.
- It is important to seek solutions to mitigate the impacts of the crisis in three areas simultaneously (medical, social and economic)
- Mitigating the impacts requires redistribution of the burden; one of key instruments should be effective social dialogue between the employers' and workers' organizations. According to the ILO 2017 Recommendation on Employment and Decent Work for Peace and Resilience (No. 205), responses to crisis situations should be developed through social dialogue.
- It is essential for the ILO member states to have strong and balanced employers' and workers' organizations, which directly follows from the ILO Freedom of Association and Protection of the Right to Organise Convention (No. 87, 1948) and the Right to Organise and Collective Bargaining Convention (No. 98, 1949).

Why is the social dialogue particularly important in the times of crisis?

- Solutions required for retention of businesses and jobs, maintaining the appropriate quarantine security level may demand concessions from all the constituents (employers' and workers' organizations) and solidarity between workers' groups. Seeking compromises relevant for all the parties is possible only through effective and transparent negotiations and consultations.
- Without social dialogue it is impossible to conduct exchange of information regarding what is important for the constituents and what could be subject of bargaining for the best alignment of the constituents' interests. Understanding of common interests is essential for coordination of efforts and allocating limited resources to resolution of vitally important issues.
- The operational social dialogue mechanism binds the negotiating parties by mutual obligations, which facilitates effective implementation of crisis responses.
- Social dialogue helps to ensure trust necessary to overcome differences and strengthen social cohesion for rapid social and economic recovery in different countires.

Lessons from the past crises:

- Tripartism and effective social dialogue mitigate social contradictions and enable to find solutions that are supported, which ensures social stability and facilitates easier recovery from economic difficulties.
- Freedom of association and the right to collective bargaining are particularly significant in the times of crisis. Countries with a good social partnership experience and well-maintained institutions of social dialogue have a higher probability to develop immediate and effective tripartite crisis responses.
- In particular, during the financial crisis of 2008–2009, social dialogue proved to be an important tool for effective crisis management. The ILO Global Jobs Pact was adopted with an aim to ensure productive recovery based on investment, employment and social protection.
- At the macroeconomic level, government consultations with social partners allowed to take a package of measures to support the economy as a whole; at the sectoral level, social dialogue helped to adjust crisis responses depending on specific conditions in various economic sectors; at the micro level, it enabled employers and workers to find solutions adapted to enterprises, including quite painful decisions.

Lessons from the past crises (continued)

- For effective social dialogue it is essential to have free, independent, strong and representative employers' and workers' organizations, trust between the constituents and respect of social partners' independence on behalf of government authorities.

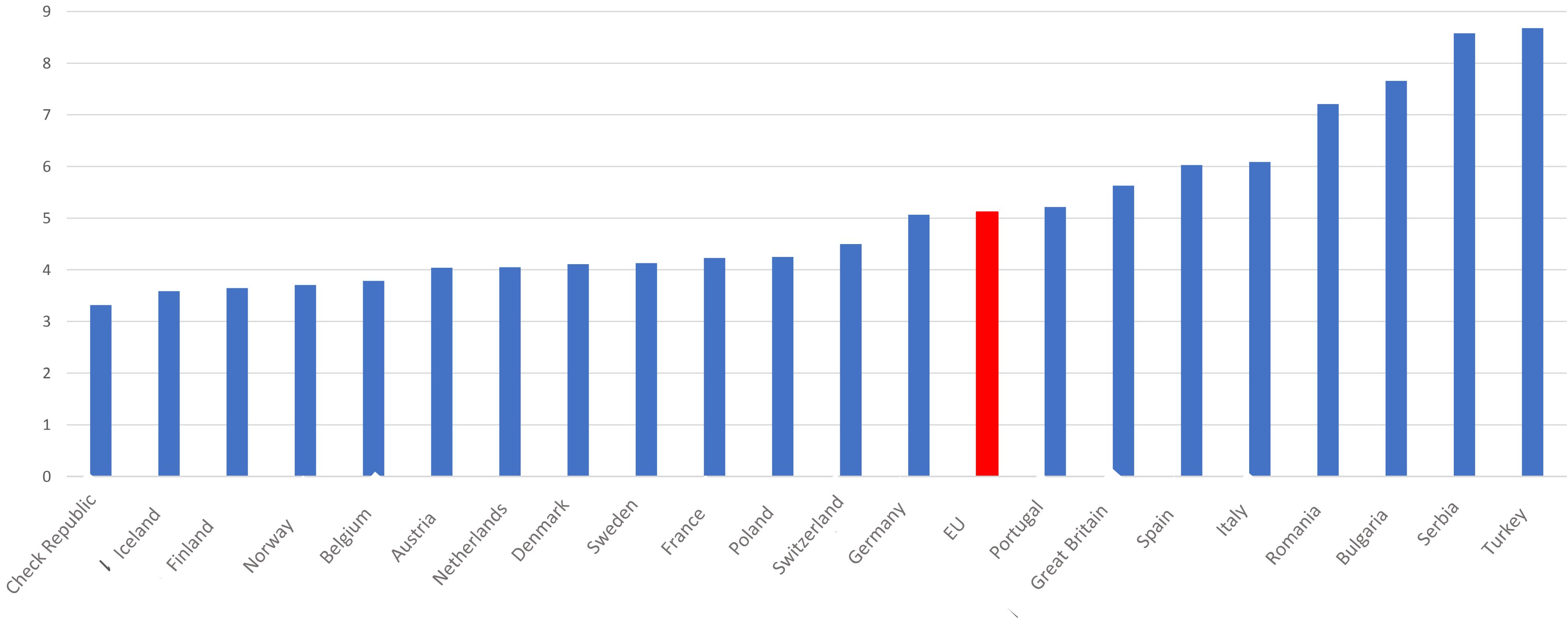
- The earlier social partnership mechanisms are engaged, the more efficient are the crisis responses. Quick exchange of information between the parties and coordination of actions based on mutual trust are crucial.

- If political will is available, tripartite constituents are able to reach a consensus on targeted assistance measures to workers and enterprises that have been most hit by the crisis; in the context of the crisis, it may even become possible to overcome preexisting contradictions in production relations.

- While overcoming immediate effects of the crisis, measures should be taken for long-term promotion of employment, ensuring resilience of enterprises and high quality of public services, as well as full compliance with labour standards and decent work conditions.

- Social dialogue is an important instrument in overcoming disagreements and developing a consensus, although it can not in itself solve the problems or substitute the government crises response policy.

80/20 per cent income quantile



Leading sector model (fronfagmodellen)

- Long historic development after World War II. Because of this, it is possible to coordinate wage and employment issues for many different wage rate groups at the same time. Without wage rate agreements and a high degree of organization of workers in trade unions it would not be possible.
- Based on the so-called Aukrust's model that was designed in 1966 by the Wage Rate Agreement Commission. It was not a new model, but rather a description of the existing practice.
- The idea: wage growth in Norway should not exceed what the competitive sector can sustain without loss of competitiveness, that is, it should not be higher than that of trading partners in the long term (5-20 years). Denmark and Sweden have similar wage formation models. Additional motivation: avoiding the Dutch disease.
- Sectors with a large share of competitiveness negotiate wage rates first while the resulting wage rate estimates limit max wage growth for other sectors in a single year.
- The growth of wages in the public sector is limited not only by changes in the workers' wages, but also changes in wages of the middle management in the competitive sector. In practice, this can lead to a decrease in real (adjusted for inflation) wages.

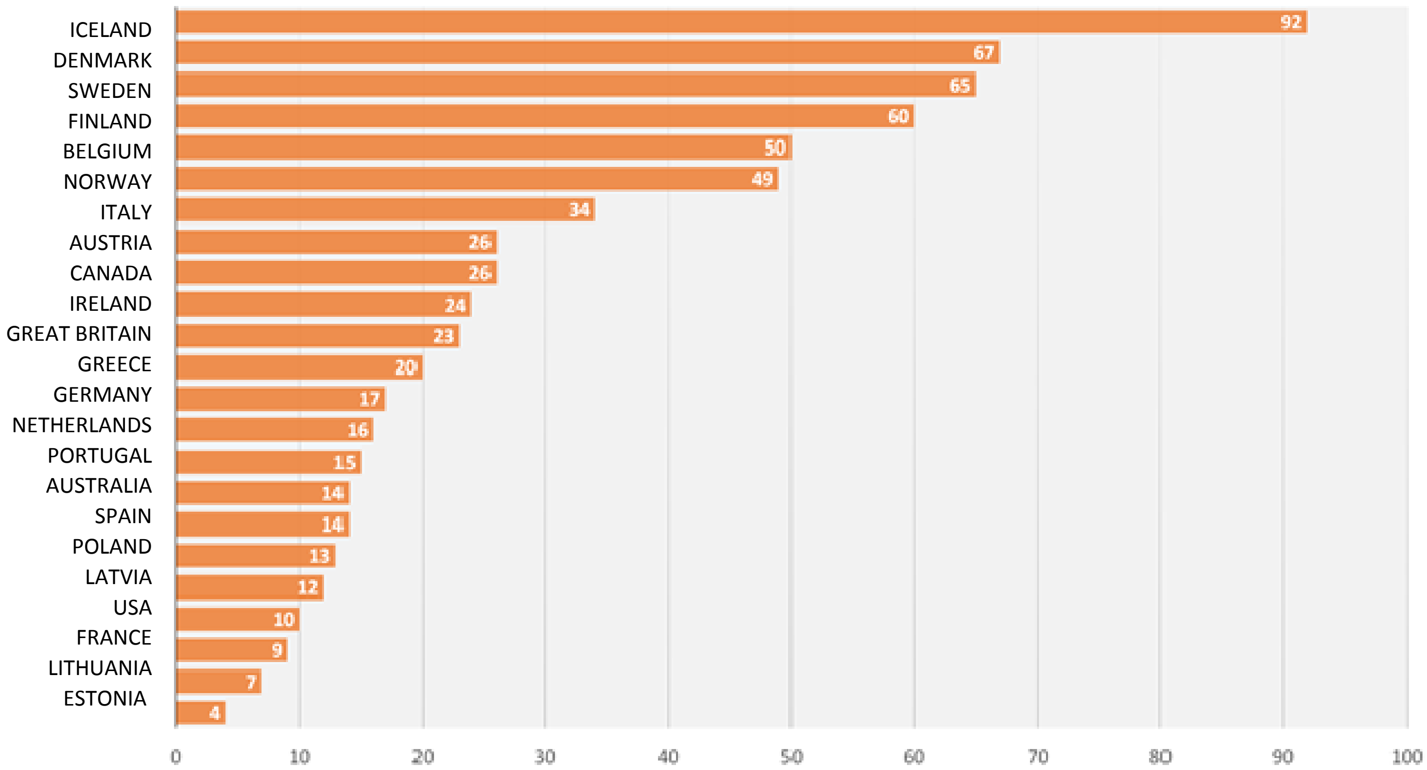
Leading sector model (continued)

- What does the leading sector include? The definition can change with time, but is always a sector which is affected by the global market competition.
- The system of bargaining leads to wage rate agreements. They should coordinate wage levels and labor productivity, so that investors get a predictable share of the pie.
- Main jobs in Norway to a great extent were covered by the main Industrial Agreement between the major employers' and employees' organizations with further negotiations within particular trade unions and big sectoral negotiations.
- It is important for the parties to have equal bargaining power. In essence, these are negotiations on how economic profits will be shared between owners of capital and labor.
- The degree of coordination is crucial for the outcome. A high degree of coordination allows to ensure the achievement of macroeconomic objectives (high employment and low inflation) and helps to adjust to the changing conditions.

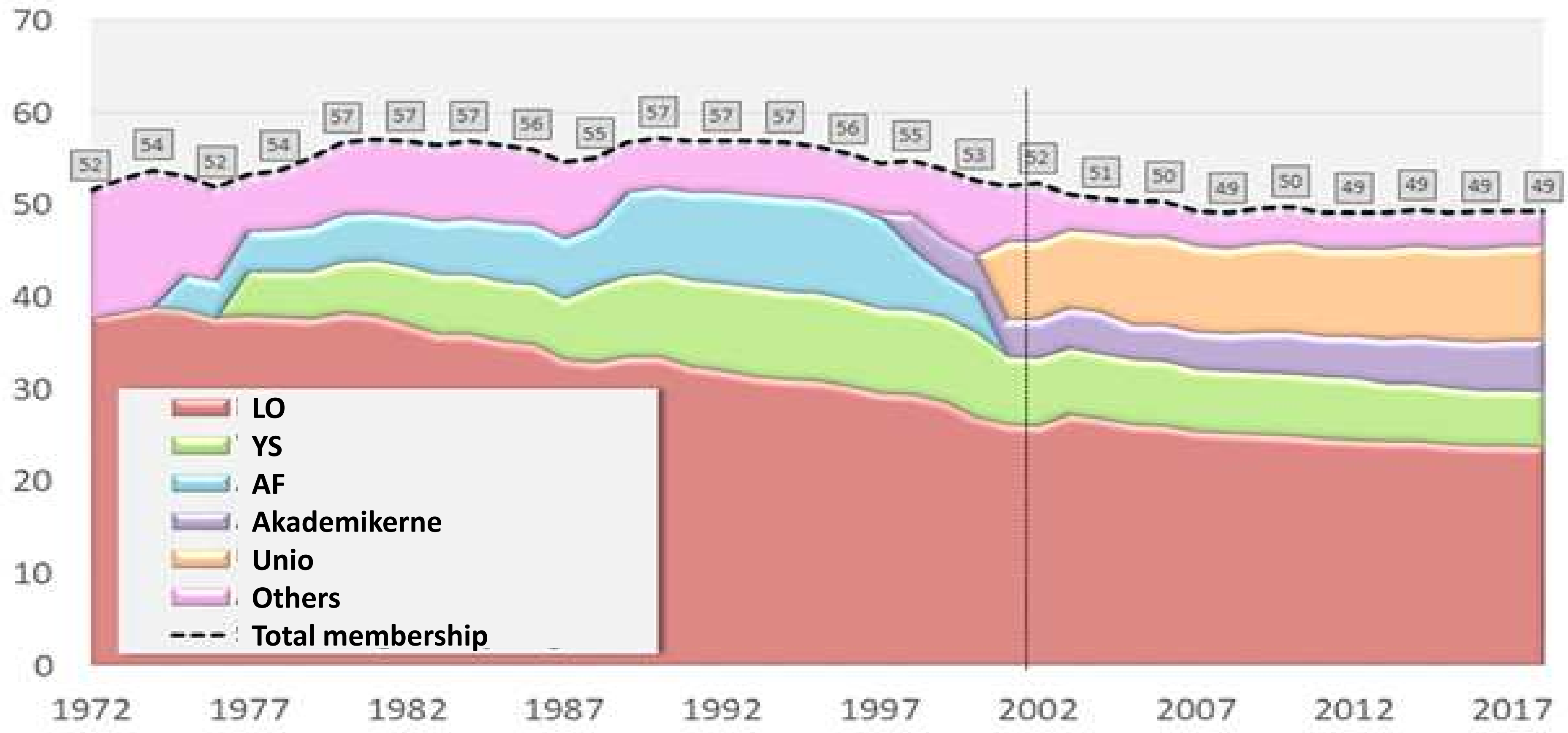
Trade union membership as a condition for viability of the system

- High degree of organization, both for employers and workers, is a condition for the performance of the system. At all levels there should be players ready to play by the rules.
- The general rules of the game include:
  - General understanding of the game objectives and rules
  - Voluntary and flexible coordination
  - Refusal to use power due to the recognition of interdependence
- All agreements are binding only to members of organizations that have signed them. The competition between them and those who are not committed to the agreements may lead to the failure of the system. In Norway, de facto the agreements apply to members and non-members. Generally high employment allows to avoid tension that could destroy the system.
- Historically, the share of trade union members is declining, which may result at some point in the failure of the system, as happened in Great Britain in 1980-s. In the Netherlands and Austria, on the contrary, few workers are union members, but almost all are covered by wage rate agreements.
- Coordination between various areas of bargaining is justified by the desire to regulate unwanted competition – not only between employers, but also between workers' groups and organizations.

Share of workers - members of trade unions



Membership trend in Norway



Resilience of the system during the crises

- The relations between trade unions in competitive industries and service sector (“secondary sectors”) in terms of coordination between them are most critical.
- Parties in the service sector reject the freedom of regulating the wage range based on the profitability of the service sector. Instead they receive a share of macroeconomic benefits, which the system delivers if it is operating as designed.
- However, these benefits are indirect and are only sufficient if many agree that the competitive sector identifies the wage rate.
- Problems of producing the collective good. Let “others” in the service production sector self-limit the growth of their wages in accordance with the general rules, but they will not commit themselves to any obligations and bargain for higher wages for their own members.
- Failure to balance the negotiating positions of the parties results in additional incentives to leave the coordinated system (for example, during the crisis). In this way:
    - if there is a significant demand for unionist workers or the profitability of the companies in which they work increases, this increases the cost of the conflict for the employers (workers)
    - when there is an excessive supply of workers with a particular type of qualification, or profitability of the company is falling so that the labour dispute can lead to a bankruptcy, which is not in the interest of trade unions.

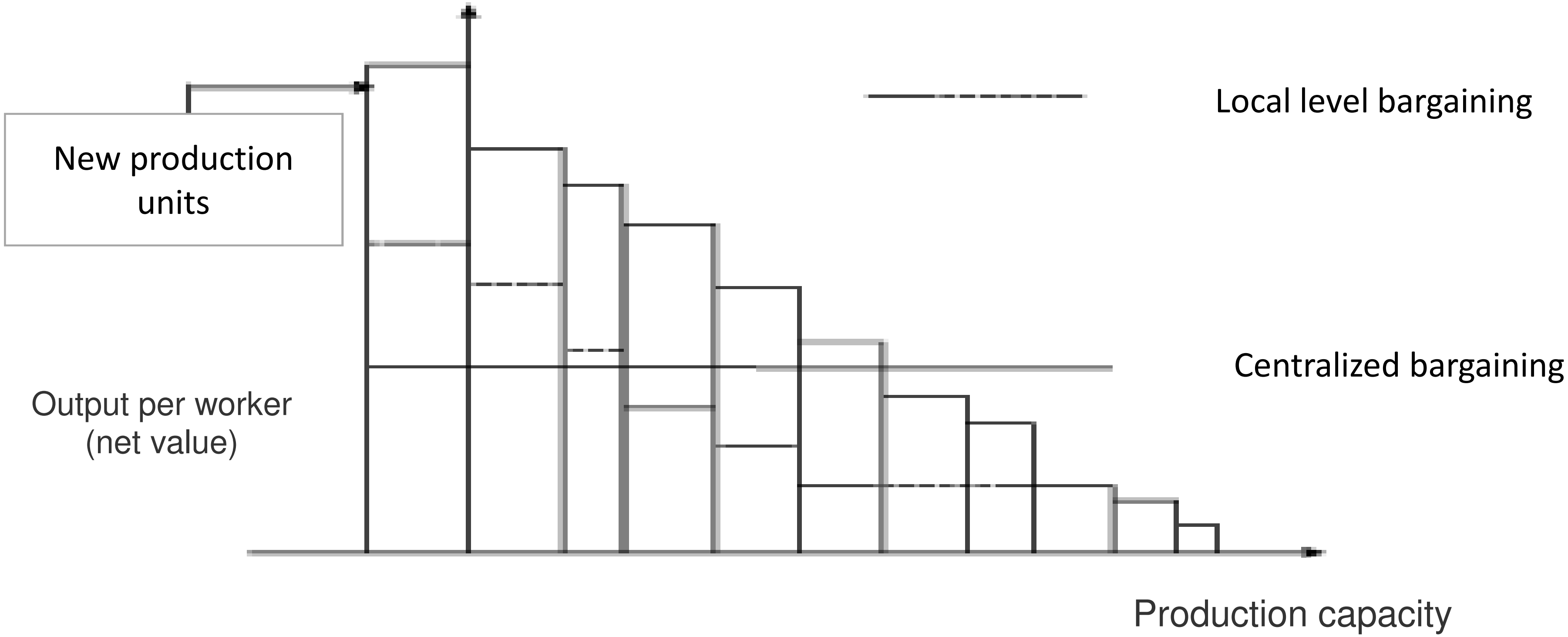
Risks for the model

- Labor migration creates a large labor surplus with low demands to wages in some parts of the labor market.
- The business cycle in the service sector is no longer dependent on the profitability of the export-oriented industry.
- Technological changes increase the demand for some qualifications and decrease the demand for others.
- Large profits in some sectors make coordination costs very high for workers in these sectors.
- After the Norwegian monetary policy was changed to inflation targeting in 2001, the service sector may be the first to set wages without regarding competitiveness.
- Empirical and theoretical research shows that if this model disappeared under the influence of these stressful factors, then Norway could experience an increase in unemployment, instability, a decline in competitiveness, growing differences in wages and a decrease in productivity growth.

Models of wage formation

- An industry consists of a set of enterprises ranked by their productivity. New enterprises are obviously more productive than old ones.
- New capacities are gradually replacing old ones. Enterprises exist as long as profits cover labor costs.
- Two situations: centralized coordinated bargaining for wages and local bargaining when each enterprise has a union conducting negotiations with its company without looking at what is going on at other companies.
- Local bargaining ensures wages that depend on the company's productivity and, therefore, wages are higher in highly productive firms.
- Nevertheless, the labour market limits the level of wages at the bottom and poorer performing firms have to pay the same wages or sometimes higher than those resulting from its productivity. Both firms are closed.
- It is assumed that the bargaining power of the employer and workers is equal so that each gets half of the pie.

Wages and output in different systems of bargaining (Hecksher-Salter diagram)



Solidarity model

- In theory, everyone gets the same wage, but un practice it is not quite so: the centrally set wage rate may be supplemented by local increments. BUT: max pay supplements are also settled through general bargaining, and besides, in case of local level bargaining for these supplements, strikes and lockouts cannot be applied, which puts restrictions on their growth.
- Wages in this case cannot be below the smallest wage in local bargaining, as this will provide excess demand for labour, and cannot be fixed above the highest wage in local bargaining, that is equal to wages at the enterprise with highest productivity.
- The least productive companies can no longer pay wages lower than those paid by efficient companies.
- Outcome 1: more companies with lower productivity should be closed sooner, which means the average productivity in the sector and economy as a whole is growing.
- Outcome 2: the wage growth in the most productive firms is limited, which means higher profitability of investments in new production capacities
- Outcome 3: less income inequality (equal pay for similar labor)

Winners and losers

- The logic is the same for various sectors and the economy as a whole: if agreements are concluded for each sector separately then wages vary depending on sectoral differences in productivity and profitability.
- Centralized bargaining at the level of the economy as a whole puts restrictions on the wage supplements in the most effecient sectors and does not allow least efficient sectors to pay lower wages than in the rest of the economy. As a result, the growing sectors are 'subsidized' whereas the obsolete sectors are 'taxed'. The national economy as a result is comprised of more highly productive sectors. This is supported by empirical research (growth of productivity leads to reduction of wage differences across the companies and sectors).
- The distribution of added value between profits and wages is changing, that is efficiency and profitability are growing (Moene and Wallerstein 1995, 1997). Main winners: low-paid workers and owners of productive assets.
- Without the employers' support, trade unions would not have been able to discipline the trade unions of highly paid workers who are getting less than they could be in a different wage formation model, but are winning from the general stability of the system.
- Although the model is motivated by the idea of min income inequality in society (equal pay for equal work (Rehn and Meidner (LO 1953)), reduction of inequality is not the goal of the model, but rather a side effect.

Social partners against social dumping

- Ensuring fair competition, quality vocational training and responsibility in public procurement;
- Ensuring min wages in vulnerable sectors through universality of the rules;
- Ensuring effective supervision, as well as accountability of beneficiaries;
- Strengthening the “soft side” of the fight against crime in the workplace, which is concerned with the protection of the most vulnerable workers.