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Why break down centralized wage bargaining?

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ABSTRACT

This paper reviews recent research on different modes of bargaining and their impact on economic performance. The aim is to examine whether a shift from a centralized bargaining procedure towards a less centralized mode would be favourable. The case is discussed in the special Scandinavian context where the relevant option is a shift from highly centralized wage bargaining to a more decentralized industry-level bargaining. The paper uses a variety of models - theoretical and empirical ones - to examine the effects of the proposed change. The results do not find any strong arguments in favour of it.

Timo Tyrväinen
Bank of Finland Economics Department
22.6.1989

22/89

WHY BREAK DOWN CENTRALIZED WAGE BARGAINING?

TIIIVISTELMÄ

Tässä artikkelissa esitellään tutkimus neuvotteluyhtymien ja talouden liian menestyksen suhdosta positiivisen korjallisuuteen. Vastauksia etäl- tään kysymykseen, olisiko hajauttavissa talousympäristössä edullisita siirtymä keskitetyistä neuvotteluyhtymistä toimitusalan neuvotteluihin. Tavoitteena on selvittää onko olemassaoleva tutkimus, joka sovel- taa erilaisia - sekä teoreettisia että empirisiä - malleja, tukee siirtymälle nykyään tiivistä neuvotteluyhtymästä. Huomata kohdistetaan hajautettujen sopimusten potentiaalisen eriarvoisuuden vaikutuksiin. Toiseksi analysoidaan keskitetty sopimujärjestelmä inflaatiota runkavien vaikutuksia. Lopuksi korostetaan sitä, että suuret valtakunnalliset liitot joutuvat ottamaan huomioon raskautensa aiheuttamat kustannukset. Toimitusalan liitot voivat pitää kokonaistaloudellisia vaikutuksia kielteisinä. Yhteis- vetenä todetaan, että olemassaoleva tutkimus ei anna ainakaan vahvaa perustelua keskitetyä järjestelmää hajautettuihin ja nykyään toimit- usalan sopimusneuvottelun siirtymiseen.

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TIIVISTELMÄ*

Tässä artikkelissa esitetään katsaus neuvottelukäytännön ja taloudellisen menestyksen suhdetta pohtivaan kirjallisuuteen. Vastausta etsitään kysymykseen, olisiko skandinaavisessa talousympäristössä edullista siirtyä keskitetystä sopimuskäytännöstä toimialatason neuvotteluihin. Tavoitteenamme on selvittää antaako olemassaoleva tutkimus, joka soveltaa erilaisia - sekä teoreettisia että empiirisiä - malleja, tukea siirtymiselle pysyvään liittotason neuvottelukäytäntöön. Huomiota kohdistetaan hajautettujen sopimusten potentiaalisen eriaikaisuuden vaikutuksiin. Toisaalta analysoidaan keskitetyn sopimusjärjestelmän inflaatiota ruokkivia ominaisuuksia. Lopuksi korostetaan sitä, että suuret valtakunnalliset liitot joutuvat ottamaan huomioon ratkaisujensa aiheuttamat kustannukset. Toimialatasolla toimivat liitot voivat pitää kokonaistaloudellisia vaikutuksia kannaltaan eksogeenisina. Yhteen-
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*Tämä artikkeli ei poikkea oleellisesti siitä, joka on ilmestynyt otsikolla Keskitetty sopimusjärjestelmä: puolesta ja vastaan Kansantaloudellisessa aikakauskirjassa 2/1989

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Tässä artikkelissa esitellään kateaus neuvottelutyylin ja taoudellisen menestyksen suhdetta pohdittua kirjallisuutta. Yhteistä näkökohtaa on se, että skandinaavisessa taoudsopimusjärjestelmässä on siirtymä keskitetystä sopimuskaupunkyyntästä jatkuvasti neuvotteluun. Tavoitteenamme on selvittää entä teoreettista että empiiristä - tullaan ta esitelmällä pyyvään liittotason neuvottelutyylin, kateausneuvottelun ja jatkuvasti neuvottelun potentiaalisen erityisyyden vaikutuksen. Tutustutaan erityisesti keskitettyyn sopimusjärjestelmään ja jatkuvasti neuvotteluun ominaisuuksiin. Lopuksi korostetaan sitä, että suuret vastakkainasettelit jätöt joutuvat ottamaan huomioon taoudsopimusten kustannukset. Tutustutaan jätöt jätöt voivat olla kokonaistaloudellista vaikutusta kateausneuvotteluun. Yhteistä näkökohtaa on se, että skandinaavisessa taoudsopimusjärjestelmässä on siirtymä keskitettyyn jatkuvasti neuvotteluun ja pyyvään jatkuvasti neuvotteluun.

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This paper has benefited from discussions with Richard Freeman, Steinar Holden, Ernst Fehr, Jørgen Kvittem, and others.

1. INTRODUCTION*

In recent years, there has been much debate about the impact of institutional differences in wage setting on the performance of an economy. According to common conclusions, economies with a high degree of corporatism¹ have done better than the others (see Bean, Layard & Nickell (1986), Bruno & Sachs (1985), Newell & Symons (1985, 1987)). In addition, there is some evidence that economies with very low union power combined with decentralized wage bargaining have performed rather well also. The intermediate group has been the least successful (Calmfors & Driffill, 1988).

This result is of great interest for comparative purposes. If one is interested in the effects of alterations in modes of functioning of the actual labour markets in actual countries, comparative judgments referred to above are not that helpful. For instance, in Scandinavian countries the issue has been whether wage bargaining procedure should be altered towards less centralized bargaining or not. The only one of the above studies that can shed light on this discussion is the one by Calmfors & Driffill (1988). Though their ideas are appealing, the final evidence they give for the case has been widely regarded as not totally convincing. This is why we here wish to survey the literature of this genre to give a more many-sided view on the problems.

¹Nations are conventionally deemed to be corporatist if wage bargaining is highly centralized, wage agreements do not have to be ratified at local level, employers are organized, and local union officials have limited influence (see e.g. Bruno & Sachs, 1985). In various studies countries such as Sweden, Norway, Denmark, Finland and Austria have usually been described as (more or less) corporatist ones.

*This paper has benefited from helpful discussions with Richard Jackman, Steinar Holden, Ernst Fehr, Juha Tarkka and Seppo Kostianen.

2. WHY IS SYNCHRONIZATION OF SO MUCH INTEREST?

Labour markets are highly unionized in all the Scandinavian countries. The bargaining procedures are centralized and settlements synchronized. The characteristics forming the basis for our further evaluations are exactly the ones already outlined. They include 1) the high degree of unionization, 2) the high degree of centralization of the bargaining procedure and, 3) the high degree of synchronization of actual wage negotiations. These three aspects are by no means identical, although they are often strongly linked to each other. Centralization is the key concept of Calmfors & Driffil (1988). We will discuss also the other two aspects.

It should be clear that unionization, centralization and synchronization - as also the way in which they are combined - have a profound impact for the adjustment mechanisms in labour markets. This is why one should be careful in drawing conclusions from the multi-country studies. They may stem from a different economic framework and be institution-specific. If it is so, they are useful only if one is able to transform the basic characteristics of the domestic labour markets to be in line with those in the reference economy. The existing literature has usually bypassed this point.

When we discuss which kind of changes should be encouraged in the Scandinavian labour markets, there are a number of aspects to weigh against each other. These may even include our prediction of the future of the world economy. Let us start from this. - If the mode of bargaining has an impact on the ability of the labour markets to adjust in a flexible way, this is of importance unless we think that the era of large fluctuations in the world economy is over. Although forecasting future oil shocks, to give an example, is not an especially clearcut task, something about the volatility of external factors in the medium term can be said. Fluctuations in foreign trade - both in volumes and prices - of the Nordic countries have been very large in the past, having its origin in the large raw-material related component of their trade flows. In Denmark, the bulk of exports has consisted of agricultural products, in Norway of fish and later of

oil. In Sweden, ores and minerals and also pulp and paper have played a major role. The latter have been the key export items of Finland, too. Although the structure of foreign trade has been diversified in all countries, there is no reason to think that the fluctuations would be over. In addition, the international liberalization of financial markets is by no means over. This will require continuing adjustment of all the economies. And the 1992 internal market project of the EC will add to that.

It may not be of special interest to note that if we were like Japan, we would do as well as we do now, but if we were like Britain we would not. Still, we think that a short excursion to the Japanese labour market could be of interest (see Brunello & Wadhvani 1989). The Japanese labour market is usually regarded an example of a decentralized and non-unionized system. As the economy has shown a good ability to adjust to external shocks, this has been considered as evidence in favour of decentralized wage setting. A closer look at the matter reveals some additional aspects. Although bargaining in Japan can without doubt be characterized as decentralized, it still is synchronized. In addition, some large firms are usually given the role of wage-leaders. Employers as well as employees also discuss (wage) prospects on a rather centralized level. These are features that are not so common as a combination elsewhere. It could even be that as far flexible adjustment is considered, the synchronization of contracts (and the role of wage-leaders) may have been as crucial as the "decentralization" of bargaining. The latter is, however, usually stressed in the literature.

But why is the synchronization of that much interest? Before proceeding further, let us visit the theory of staggered prices. Some of the reasoning there can serve as an analogy when effects of the desynchronization of wage settlements is discussed. - Let all firms to adjust their prices every six months, in January and July. Thus, price setting is synchronized. If an exogenous shock - for example an increase in the nominal money supply - occurs in February, its real effects will last for five months. But in July prices will adjust and the real effects will vanish. Let us now assume that although firms adjust their prices semiannually, one half of them do it in January

and July whereas the other half does it in April and October. If the shock took place in January, the first group could adjust fully by raising their producer prices by the full amount. In that case their relative output price would, however, exceed that of some of their competitors. So, market losses would emerge during first three months of the year. But if the targetted adjustment is not very large, the firm will not loose much by sticking to the old price for the time being. That is why the first group of firms hardly adjusts their prices fully at the first occasion but rather by some proportion. Exactly the same reasoning is relevant when the second group is considered. So, as a result we have a longer period of partial adjustment and the original nominal shock will thus have a longer real impact.

How about wages? The case of two groups of wage earners with desynchronized wage setting can be considered in analogy with the discussion above. If the wages of the first group of employees were raised by the full amount induced by a (monetary) shock, the firms involved would have two options. If they raise the producer price, market losses will be suffered. If they instead keep their producer prices unchanged, profitability will fall, owing to higher unit labour costs. So, it would be only natural to expect that labour markets with more staggered wage setting - that is, less synchronization - would adjust slower to shocks.

Jackman (1985) analyzes a two-union economy with nonsynchronized wage setting. The unions are optimizing, throughout rational and fully informed. Still attempts by governments to reduce inflation, for instance with monetary contraction, can lead to a prolonged recession. If the unions give a high value to real-wage stability - as they appear to do - the time path of adjustment may become extremely slow. This appears to be so because all workers are affected by wage stability, whereas the instability of employment affects relatively few.

As far as bargaining procedures have been evaluated within the labour market parties in the Scandinavian countries, the hot issue has been whether or not wages should be settled in nationwide or industry-level negotiations. A proposition implying bargaining on the company level

is so far outside the Nordic tradition that it has not become an issue in this discussion. Neither have suggestions of policy measures to reduce the power of unions gained much attention.

Already for some time have employer organizations tried to get away from centralization by trying to break the synchronization. In certain branches in the service sector they have also succeeded in Finland. - On occasions when central negotiations have failed, the industry-level employer organizations have often offered industry unions settlements with a time-span differing from the common one. This reflects employers' attraction to industry-level bargaining which appears to stem from an idea of reducing the monopoly power of the unions.

Employer organizations seem to think that if the synchronization has been broken down, it would be not so easy for the central unions to push bargaining back to the centralized track. They are probably correct in their guess. It would require not only recognition by individual unions that synchronization is in their individual interest but also institutional arrangements to achieve a coordination of contract dates. Jackman (1985) is rather convinced that in a desynchronized world pay synchronization, even if socially desirable, is unlikely to arise spontaneously. Individual unions may have different attitudes towards the whole issue. It should neither be forgotten that centralized negotiations developed in all the countries concerned out of rather special historical circumstances that are not likely to be replicated (Flanagan et al. 1983).

In a "speculative" discussion it is not always kept in mind that on the industry level the industry-specific unions still have monopoly power. They may even be willing to use it in a more aggressive manner than the nationwide confederations. This question will be discussed more intensively in section 4 below.

Do we know anything about the effects of local bargaining in a unionized economy, i.e. in labour markets with strong insiders? Nickell & Wadhvani (1988) present some interesting results. The authors argue

that the combination discussed is unfavourable for unemployment. This conclusion stems from a company-level exercise. For a sub-sample of 75 firms they had survey-based information on whether these firms paid any heed to the nation/industry-wide settlements. Fifteen firms did not. In a test, wages in these firms responded clearly more to insider terms, for instance to the firm-specific output per head. So, the power of insiders had been strengthened. The authors considered this to imply that the diminution of the influence of national settlements has contributed to a certain increase in unemployment in Britain.

Jackman et al. (1989) also underline that although decentralization as such seems to have a favourable impact, partially decentralized bargaining undertaken in national single-industry agreements should be evaluated in a different framework than bargaining on the company level. Also the employment outcome may be much different, because the labour demand curve is less elastic on the industry level than on company level. And the free-rider problem is only marginally smaller.

3. DOES CENTRALIZATION ADD TO INFLATION?

Do unionization, centralization and synchronization create an inflationary bias? Do these labour market characteristics make any economy more prone to inflation? - The existence of a union mark-up is of common knowledge. The price level is pushed up in a country with imperfect competition on (foreign) product markets. However, an impact on the annual inflation rate is only seen when a shift in union power takes place. Otherwise, the inflation rate should not be affected. The effect on the levels still remains, of course.

Centralization may have inflationary effects through various channels but wage drift is the major issue in this context. - The comprehensive settlements usually follow the growth of average productivity in the economy. Those firms doing worse than average have two options. Either they shift their higher labour costs to prices and suffer market losses, or they keep the prices unchanged. In both cases their profits will fall, and in the first case the price level will also rise. On the other hand, those firms with productivity better than the average will pay less than they could "afford". The marginal product of labour exceeds the marginal cost unless the difference is (fully) shifted to lower prices. There is casual evidence that the wage drift has been boosted on this kind of occasions. It may also have sometimes been in the interest of a firm or an industry to let wages drift above the contract wages (see also Tarkka et al. 1989). An industry that is doing well may have found it appropriate to improve the working climate and to invest in labour peace. Here we are approaching the efficiency-wage considerations.

The overall settlements not only imply rather uniform wage increases in different industries but also pay rises to all workers with no respect to their individual work record or productivity. This is another aspect which links wage drift to comprehensive settlements. To the extent the resulting wages do not correspond to actual market pressures, a tendency to correct the outcome through wage drift is only natural. Holmlund (1986) analyzes wage drift in a world with uncertainty. Wages will be set between the optimal outcomes related to

"good state" and "bad state". If the bad state occurs, the contract wage forms an effective floor below which actual wages cannot fall. If the good state emerges, wages will drift. Thus, a kind of inflationary bias is built in the system.

The aim of reducing wage differentials between employees was rather commonly accepted throughout the 1970s in Finland. Despite succession of settlements with higher wage increases to the lower paid, clearcut consequences in wage differentials can hardly be found (see Pekkarinen et al. (1979) and Lilja & Santamäki (1988)). Maybe wage drift has been the villain here, too. In this context, the outcome in Finland differs radically from that in Sweden, where wage differentials have narrowed tremendously since the late 1960s. It is interesting to note that Söderstrom & Udden-Jondal (1982) did not find any sign of an effect of egalitarian wage settlements on wage drift in Sweden. So, the question of the impact of egalitarian policies on wage drift appears to remain unsettled.

Wage drift may also be affected by the fact that the real impact of actual contracts on actual wages can only be seen with considerable delay. In Finland, this technical delay before statistics become available is approximately two quarters. That is why "stronger" industries have started to hide increases in labour costs in the so called "text corrections".² In doing so, they formally stay in line with the others although the actual outcome differs remarkably from the common one.

In Finland the "drift of contract wages" has become a rather permanent phenomenon. By this we mean the following. When comprehensive settlements are agreed upon, their impact on wages is calculated. When the actual effect is found ex post, it has been higher without exception. The

²The third chairman of the SAK, the largest central union in Finland, Raimo Kantola, complains that "wage setting has turned into a game of hide and seek. Wage increases are hidden in a jungle of paragraphs and the real impact of contracts is not made public. - The bargaining parties lie in unison ... and good girls and good boys are the ones who loose." (An interview of in Uusi Suomi on 26 April 1989.)

difference between the ex ante effect of a contract and the ex post outcome is here called drift of contract wages. In the 1980s, this effect appears to have been rather stable adding about 0.5 - 2 per cent to wages and salaries in Finland every year. On the other hand, as the transparency of settlements has diminished, wage-wage monitoring has become a more and more central issue among unions.³ This seem to have added to wage-wage links and, thus, to the leap-frogging of wages.

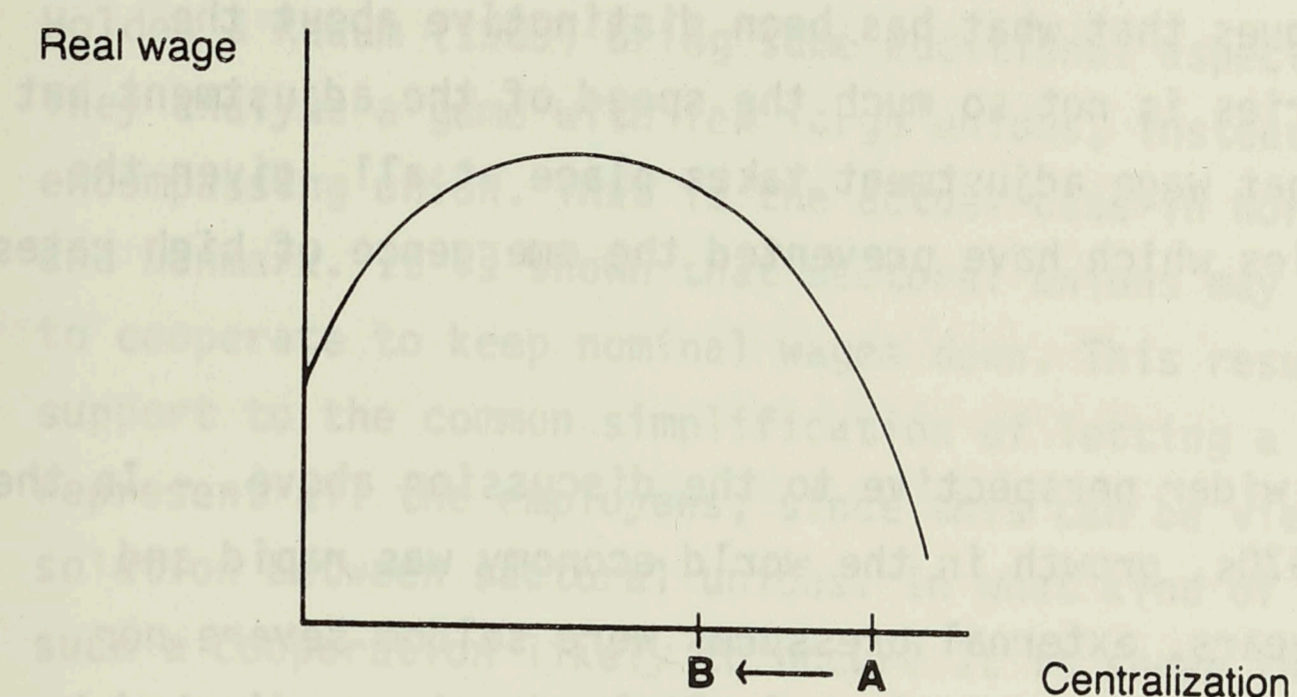
³The chairman of the SAK, Pertti Viinanen, has recently given the following statement: "We are in danger of running into a struggle between unions functioning in different industries, that is an every-one's war against everybody in which more attention is paid to how much the neighbour gets than to the development of real earnings in general." (Helsingin Sanomat 4 June 1989.)

4. WHO PAYS THE BILL?

In theoretical considerations the unfavourable effects of strong unions often stem from analyses where unions consider the consequences of their actions to be distributed and, thus, "paid" by individuals that are non-members. For example, as unemployment rises, a "small" union can consider the financing of unemployment benefits to be exogenous to it (see e.g. Calmfors & Horn 1985). As the unions grow larger and the unionization rate becomes very high, this argument is no longer valid. There is no world of employment outside the bargaining sector to which disemployed members can resort (see Jackman et al. 1988). Thus, workers involved in the bargaining process can no longer expect others to pay the benefits of the unemployed. And, similarly, unions acting collectively in an economy-wide bargaining are conscious that the bulk of their wage increases will be paid for by higher prices. The potential consequences on the exchange rate are also recognized; the external effects are internalized. This will cause the centralized bargaining outcome to be lower than that in decentralized bargaining (Jackman 1989).

All the above arguments lead Calmfors & Driffill (1988) to argue that the relation between centralization and real wages (and also unemployment) is hump-shaped as depicted in Figure 1. The result incorporates the idea that organized interests may be most harmful when they are strong enough to cause major disruptions but not sufficiently large to bear any significant fraction of the costs of their actions for society (see also Olson 1982). As this paper discusses the actual options in the Scandinavian economies, we are not interested in the upward sloping part of the curve.

FIGURE 1. The hump-shape hypothesis (see Calmfors & Driffill, 1988)



We have discussed above the possible causes for an inflationary bias in an economy with centralized bargaining. In fact, the list of potential effects is not altered much if we discuss industry-level bargaining. It is less centralized than fully centralized bargaining but still centralized. In this context, the results in Tyrväinen (1989) are also of interest. According to them, increasing strength of unions in the Finnish manufacturing industry appears to have supported the favourable development of employment in this sector. In a variety of tests this result has been found to be rather robust. If we examine a move leftwards from point A to point B in the downward sloping part of the curve in Figure 1, the unfavourable consequences dominate. Point B could refer to the case of industry-level bargaining in Finland. In fact, we saw above that the benefits of centralization arise when unions take an economy-wide perspective and clearly this is the more probable the higher the degree of centralization is.

Can we find signs of this kind of internalization in actual union behaviour? I think we can. At least in Sweden and Finland the largest unions have "accepted" rather contractive policies in cases when economy-wide disruptions have emerged. This was especially so after the large devaluation in Finland in 1967, and also in the late 1970s

and after the second oil crisis. The case is the same after the 1982 devaluation in Sweden. This should have also affected the estimates of flexibility in the labour markets in these countries found by Bean et al. On the other hand, Jackman (1989) makes another far-reaching suggestion. He argues that what has been distinctive about the corporatist countries is not so much the speed of the adjustment but rather the fact that wage adjustment takes place at all, given the adoption of policies which have prevented the emergence of high rates of unemployment.

Let us now take a wider perspective to the discussion above. - In the 1960s and early 1970s, growth in the world economy was rapid and stable. In those years, external pressures were seldom severe nor long-lasting in the Nordic economies. In Finland prices adjusted to high (relative) wage increases, and competitiveness was restored through repeated devaluations of the Finnish markka. These took place in every other economic upturn (1957, 1967, 1977/78). The intervals between these years have later been called "devaluation cycles". Despite them - or because of them - the trends in the economy remained strongly favourable in general. But is it fair to say that the unions were myopic at that time, as Calmfors & Horn (1985) argue? In fact, unions were not punished for their behaviour even ex post. Unemployment remained negligible. The case of the first oil crisis must be discussed in a different context. Its occurrence and also its permanent effects were hard to evaluate by any party. At this stage, the unions were no doubt myopic - but only in a very strict ex post sense. On the other hand, as far as devaluations are concerned, exchange rate policy may also have a strong impact on the strategy chosen by a union. A policy aiming to keep the exchange rate stable makes the tradeoff between wages and employment more clear-cut to the union. This tradeoff is moreover more evident in centralized bargaining.

During the last ten years each of the Scandinavian economies has met a period of severe economic reorientation - though not simultaneously. Part of this process seems to have been an increased understanding within nationwide unions that they cannot disregard the outside

constraints facing the economy - and the related intertemporal aspects - when deciding their strategies. Owing to this, the adjustment to the second oil crisis was much less painful than to the first.

Holden & Raaum (1989) bring some additional aspects to the discussion. They analyze a game with few large unions, instead of a single all-encompassing union. That is the actual case in Norway, Finland, Sweden and Denmark. It is shown that sectoral unions may find it beneficial to cooperate to keep nominal wages down. This result gives some support to the common simplification of letting a single union to represent all the employees, since this can be viewed as a cooperative solution between sectoral unions. In what kind of circumstances is such a cooperation likely to occur? It is shown that a low union density, a weak unions' central confederation or an accommodating employment policy all may result in a more aggressive policy choice on the part of the unions. This all stems from the analysis of a repeated game. There are some additional results related to this aspect. The gains from cooperation will be more pronounced if the sectoral unions can expect the game to continue in the following year. So, a more turbulent political or economic climate will add to wage pressures. The expected future loss from deviating decreases and this may make an agreement on wage moderation unsustainable. On the other hand, if the contract covers a longer period, the gain received from deviation is increased. The relative wage of the deviating union rises for a longer period as the others are able to catch up only in the next round. So, the length of the desired contract may affect its probable success.

It has also been argued that successful incomes policy appears to require centralized and synchronized labour markets. Thus, synchronization plays a role here, too. In Jackman's (1985) nonsynchronized two-union model it will not be in the interest of either union to adhere to incomes policy. In this model, as in many others, the policy of wage restraint can be represented as an example of the "prisoner's dilemma". According to Jackman, the extent to which institutional arrangements allow or encourage unions to act in their collective interest may in practice be an important consideration in explaining why "equilibrium" unemployment rates differ between countries.

On the other hand, the same characteristics that are favourable for concerted action may add to an inflationary bias even though the unions would not be wholly myopic. So far, there are no formal examples of how to combine centralized contracts with flexible adjustment of wage structures implied by structural changes in product markets.⁴ This appears to contribute to wage drift as restructuring of wage differentials by and large only can take place through that channel. As a consequence, wage drift is of importance especially in countries with centralized bargaining. On the other hand, because of this, wage drift which remains controlled should perhaps not so easily be regarded as a sign of a badly functioning bargaining procedure.

It might be useful to end the discussion with one more fact from real life. From the mid-1960s until the late 1980s, the record in consumer price inflation hardly differs in Scandinavia from that in relevant industrial countries (see e.g. Leppänen (1988)). So, although centralized bargaining seems to create some inflationary bias, this effect appears not to have been fatal. And, in addition, industry-level negotiations would hardly make the wage-wage links nor wage drift to vanish.⁵

⁴In recent settlements some room for local arrangements has been reserved. This system could be developed further to solve part of the problems discussed here.

⁵Holden (1989) reports equations for wage drift in Norway. He tries to evaluate the effect of four annual wage rounds concluded on industry level instead of central agreements (1974, 1982, 1984, 1986). A dummy variable for the exceptional wage rounds did not contribute to wage drift and was insignificant in all the regressions. Eriksson et al. (1989) report similar results on wage equations for Finland.

5. CONCLUSIONS

As far as the past is evaluated, the Nordic economies have done fairly well as also the multi-country studies show. So, the positive impact of institutions seems to have cancelled out the potential unfavourable ones. Could it be so in future, too? There is no clear-cut answer. If the fluctuations in the international economy continue, it would be rather short-sighted to overlook their importance. The 1992 programme of the EC may lead to deep structural reallocation in all European economies. This will require flexibility also in the labour markets and in wage allocation. As far as overall shocks are considered, highly corporatistic economies seem to have been the most successful ones so far. But if the 1992 project leads to a thorough restructuring in wage differentials, will not strong industry unions constitute probable obstacles to changes in relative wages? Strong central unions on the other hand may help to make the adjustment smoother if they are able to see the economy-wide perspectives as well as all intertemporal aspects of the case. This is a strong argument for centralized wage bargaining in the years to come.

A clear conclusion can be drawn from the above discussion. Although centralized bargaining has some inconvenient properties, none of them will disappear if the Scandinavian economies move over to permanent industry-level bargaining - taking the rest of the institutions as given. The worst choice is bargaining on an intermediate level of centralization (read: on industry level) combined with non-synchronized wage setting. This is a view broadly in line with that of Calmfors & Driffill (1988).

More general points have also been made. First of all, as far as labour markets in actual countries are concerned, they should be analyzed in a setup tailored for the purpose. That is why the multi-country studies judging the past ability of different types of economies to adjust can hardly serve as a firm basis for suggestions and (policy) recommendations for economies with different labour market characteristics.

One can of course ask whether institutions are there forever. Why should they not be changed? What would be the costs and what would be the benefits? - In the United Kingdom, a lot of union power has been scrapped through legislative measures. But wage inflation is still very high as is also unemployment. When the Thatcher action started, union density in Britain was slightly more than 50 per cent. And there was no strong central confederation. In the Nordic countries, unions cover 80-90 per cent of employees.⁶ And the central unions are strong. In all these countries, the social democrats constitute the biggest party and they also lead the largest central unions. Thus, any initiatives for legislative action against union rights would create heavy resistance and would be very unlikely to be passed in Parliaments. In addition, a two-party system as in Britain does not exist in the Nordic countries. The non-socialists are split into several rivalling parties with voters including union members in different amounts. This further reduces the possibility of a success in a concerted action against unions. It should thus be no surprise that even attempts in that direction have been rare and weak.

Thus, at least for the moment we can take the strong position of unions in the Nordic countries as given. In some countries union density has fallen drastically in the 1980s, but not in Scandinavia. - All in all, Sweden cannot be the United States though it might like to be. And Finland cannot be Japan, though... The Nordic labour markets should be analyzed keeping their actual features in mind. That is the only way to come up with relevant conclusions and (policy) recommendations. And our recommendation above should be rather clear-cut.

⁶In Norway the unionization rate is around 60 per cent (see Tyrväinen 1988).

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