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Collectively agreed wages in Finland*

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* This paper is part of the CAWIE project, which has been co-ordinated by HIVA-KU Leuven in collaboration with the German Hans Böckler Foundation and co-financed by a grant from the European Commission. It was written as a background paper for a conference 'Collectively agreed wages in Europe: Challenges in the statistical and political field' held at Brussels, 29 November 2012. I owe special thanks to Harri Nummila and Annina Rouvinen (Statistics Finland) for data and detailed clarifications concerning the Finnish system of measuring collectively agreed wages. I also thank Helena Pentti (Central Organisation of Finnish Trade Unions, member of the Information Committee on Cost and Income Developments) and Jorma Antila (Metalworkers' Union, member of the Information Committee on Cost and Income Developments) for useful comments on an earlier draft of this report. The usual disclaimer applies.

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TYÖPAPEREITA 281
DISCUSSION PAPERS 281

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ISBN 978-952-209-111-6 (pdf)
ISSN 1795-1801 (pdf)

TIIVISTELMÄ

Sopimuspalkkojen muutoksia mitataan Suomessa indekseillä, jotka kuvaavat sopimuskorotusten vaikutusta keskimääräiseen ansiotasoon. Tilastokeskus laskee sopimuspalkkaindeksiä osana ansiotasoindexin laskemista. Ansiotaso on tärkein keskimääräisen ansiotason muutoksia kuvaava indeksi. Sopimuspalkkaindeksiä laskiessaan Tilastokeskus ei hyödynnä tietoja taulukkopalkkojen tasosta. Palkkaneuvottelujen korkean koordinaation takia sopimuskorotukset ovat olleet samankaltaisia talouden eri sektoreilla. Palkkaliikumukset ovat pysyneet suhteellisen vakaina ilman selkeitä muutostrendejä.

ABSTRACT

Collectively agreed wages in Finland are measured by indices which describe contributions of collectively agreed wage increases to increases in average wages. Statistics Finland, which produces the data, constructs the Index of Negotiated Wages and Salaries within the same methodological framework as the Index of Wage and Salary Earnings, which is the most important index describing developments in average wages. Statistics Finland does not utilize information on tariff wage levels in the description of collectively agreed wage developments. Because of a high degree of centralization and co-ordination, collectively agreed wage increases have been similar in various sectors of the economy. Wage drift in the whole economy has been relatively stable without any observed trends.

JEL classification: C80, J30, J52

Key words: collective bargaining, collectively agreed wages, wage drift

1. INTRODUCTION

This report is the Finnish contribution to the CAWIE project.¹ The general aim of the project is to improve knowledge of collectively agreed wages in Europe. This kind of knowledge is important in order to understand the contribution of collectively agreed wages to overall wage developments in Europe. Understanding the importance of collectively agreed wages to wage determination is an essential prerequisite for the promotion of social dialogue in the EU.

The report includes two main parts: an investigation of the existing data and methods of data collections on collectively agreed wages, and a descriptive analysis of the development of collectively agreed wages and actual wages in Finland. The contribution of collectively agreed wages to actual wages is analysed by examining the developments of wage drift.

Since methods of data collections may be heavily influenced by national collective bargaining systems, the main features of the Finnish system are briefly described first of all. Special attention is paid to those trends which may have influenced the developments of wage drift in Finland.

Following this, the Finnish approach to the production of data on collectively agreed wages is introduced. Finland is a country where the collective bargaining system has strongly affected the manner in which data on collectively agreed wages have been collected and measured.

The fourth section presents a descriptive analysis of the development of collectively agreed wages in Finland during the period 1995-2010. The analysis is combined with the examination of the evolution of wage drift by the major sectors of the economy.

Some concluding comments are presented in the final section.

¹ The other reports are on Austria, Belgium, France, Germany, Italy, the Netherlands, Portugal, Spain and the UK.

2. THE COLLECTIVE BARGAINING SYSTEM IN FINLAND

Finland has a lengthy history of an incomes policy which has been based on centrally negotiated incomes policy agreements. They have resulted from tripartite co-operation between employees' and employers' central confederations and the Government. The Finnish system can be characterised as a three-level one, with three-partite negotiations constituting the highest level. However, there has not been a formal legal basis for this kind of centralisation of nationwide wage bargaining. The Finnish history of an incomes policy largely reflects the political history of Finland. Finnish incomes policy agreements have been broader than ordinary wage agreements. They have included, for example, major changes in earnings-related social security and in transfer payments in general (Kiander, Sauramo & Tanninen, 2011).

Because centrally negotiated agreements have not been presupposed by law, they have not legally bound member trade unions or employer federations. Centrally negotiated agreements have therefore been submitted to them for approval. If accepted, sectoral agreements have been concluded by the use of comprehensive collective agreements as guidelines. If not accepted, sector-level agreements have been concluded without such guidelines.

Sector-level agreements have set the legally enforceable minimum standards for companies operating in the respective sector, minimum wages included. There is no minimum wage legislation in Finland. A sectoral agreement is binding for all employers belonging to the signatory employer organization. Furthermore, if a collective agreement covers about half of the employees in question, the collective agreement has been interpreted as being universally binding (the so-called *erga omnes* applicability).

This is one reason for the high coverage of collective agreements in Finland. It has amounted to some 90 per cent of the employed labour force without any noticeable decline (see Table A2).

In sectoral collective agreements some issues have normally been left for local-level negotiations (the third level of negotiations). Alternatively, parties have allowed deviations of the basic conditions of collective agreements.

Even though Finland has had a lengthy history of an incomes policy, pressures to change the bargaining system have increased, especially during the past fifteen years. Among the participants in tripartite co-operation, employers' associations have been the most active ones in questioning the benefits of centrally negotiated incomes policy agreements. Sectoral agreements in the mid-1990s

largely reflected employers' attitudes to centrally negotiated agreements. They did not mark the end of an incomes policy, however (see Table A3). One reason for the continuation of nationwide centrally agreed comprehensive incomes policy agreements has been the fact that they have delivered the wage moderation which employers have been pursuing (Uusitalo, 2005).

However, when the Confederation of Finnish Industries, which is the peak organization of Finnish employers, declared in 2007 before the next round of wage negotiations that it would not take part in the negotiations, it was commonly believed that it would be the end of comprehensive incomes policy settlements in Finland. Sectoral agreements which were concluded after the declaration confirmed that kind of view (see Table A3). Yet, the latest comprehensive framework agreement concluded after tripartite negotiations in October 2011 easily fulfils the definition of a comprehensive incomes policy agreement even though labour market partners, especially employers, have avoided using that kind of expression.

Like employers' associations in many countries, Finnish employers' federations have aimed at enhancing the role of the local or company level in wage determination. This aim has also been realized. In addition, centrally negotiated agreements have included pay components, the so-called sectoral allowances, which could have been concluded at the local level. During the past fifteen years, the importance of performance-related pay has increased, too. This is one reason why wage-setting has become more decentralized and more company-specific. It can be said that wage bargains have kept co-ordinated control of the general rise in average wages, but otherwise the importance of the local level has increased (Uusitalo and Vartiainen, 2009). In general, trade unions have taken the view that local bargaining should be developed as part of the established system of wage negotiations.

Despite the tendency towards decentralization and less co-ordination the degrees of centralisation and bargaining co-ordination have still been high in Finland (Tables A3 and A4). A noteworthy drop in trade union membership has taken place, however (Table A5). This has been mainly due to the growth in the number of non-unionised unemployment fund members. Böckerman and Uusitalo identify this factor as the most important reason for the over 10 percentage point decline in union density (Böckerman and Uusitalo, 2006). Through trade unions, employees have also traditionally been members of unemployment funds, but since the 1990s the opportunities to acquire unemployment insurance through other funds too have increased.

3. HOW DATA ON COLLECTIVELY AGREED WAGES ARE COLLECTED AND MEASURED IN FINLAND

3.1 Collectively agreed pay increases as a part of the measurement of average wages

As regards collecting data on collectively agreed wages, the Finnish system contains specific features which reflect the tradition of concluding comprehensive nationwide incomes policy agreements. Statistics Finland, which produces the data, measures the effects of collective agreements on average pay increases in a manner that illustrates the special needs of negotiators participating in incomes policy negotiations. They would normally have liked to know, among other things, how large the contribution of collectively agreed wage increases was to the level of average earnings for regular working hours. This is the question which the Finnish system gives answers to.

Statistics Finland measures the developments of average wage earnings and the contribution of collectively agreed wage increases to them by indices. Of these, the indices measuring the contribution of collectively agreed wages are relative indices. They directly describe the contribution of collectively agreed wage increases to the level of the index which describes developments of average wage earnings for regular working hours. Accordingly, wage drift can be defined and measured by the use of indices in which the weight structure is the same for indices describing the developments of average wages and the contributions of collectively agreed wage increases to average wages.

This can be expressed formally as follows. Assume that W_t^a stands for average wage level at time t and that it consists of two components W_t^{ca} and W_t^d such that

$$(1) \quad W_t^a \equiv W_t^{ca} + W_t^d = (1 + w_t^{ca})W_{t-1}^a + W_t^d .$$

$W_t^{ca} = (1 + w_t^{ca})W_{t-1}^a$ describes the contribution of collectively agreed wage changes w_t^{ca} to the average wage level and the residual W_t^d the contribution of wage drift, respectively. If the proportional change of average wage level $w_t^a = W_t^a / W_{t-1}^a - 1$ and w_t^{ca} is known, wage drift is obtained as follows:

$$(2) \quad \frac{W_t^d}{W_{t-1}^a} = w_t^a - w_t^{ca}$$

In Finland changes in indices for collectively agreed wages measure contributions like w_t^{ca} . Index data on collectively agreed wages therefore describe collectively agreed pay increases but not collectively agreed pay levels. The advantage of the Finnish system is that it allows for the estimation of wage drift in a consistent and coherent manner. The drawback is that potentially useful information included in data on developments of tariff wages are not documented nor utilised. This is also the reason for omitting tariff wages in this report.

Since the 1980s the Ministry of Justice has maintained a collection of databases comprising the essentials of Finnish legislation (the so-called FINLEX). As part of the section of secondary legislation it has a database which contains those collective agreements with *erga omnes* applicability. They include, of course, sector-specific pay schedules or pay scales in which, for example, tariff wages for different jobs and grades of skill are specified. However, Statistics Finland has not utilised data on tariff wages in order to construct longer series on collectively agreed pay levels. The main reason has most probably been the fact that collectively agreed pay increases have been far more important factors affecting the average level of earnings in Finland. In particular, the across-the-board increases specified, for example, in comprehensive nationwide incomes policy agreements have played a decisive role in shaping average wage developments.

3.1.1 *Two indices: the Index of Negotiated Wages and Salaries and the Index of Wage and Salary Earnings*

Statistics Finland measures the contributions of collectively agreed wage increases to average earnings (for regular working hours) by means of the Index of Negotiated Wages and Salaries. As source data Statistics Finland uses collective agreements filed at the central employer organisations.² In compiling series of indices it utilizes their assessments of the contribution of collectively agreed wages to average earnings.³ Table 1 summarizes the basic features of the index.

As outlined above, the index of negotiated wages and salaries is constructed within the same methodological framework as the Index of Wage and Salary Earnings. This index is the most important index in the measurement and description of developments of average earnings for the regular working hours of full-time employees in Finland. It measures wage developments in four

² Even though this kind of asymmetry between employers' and employees' organizations has not created serious problems or disputes, employees' organizations would like to have all collectively agreed wage increases compiled at one (neutral) place like Statistics Finland. The Confederation of Finnish Industries has been reluctant to change the current system.

³ There have been occasions when trade unions have interpreted collective agreements differently than Statistics Finland, but usually the system has worked properly.

employer sectors: private, local government, central government and others (non-profit organizations).

Table 1. The Index of Negotiated Wages and Salaries.

1	Title of the indicator	The Index of Negotiated Wages and Salaries
2	Institutional mandate	The compilation of statistics is governed by the Statistics Act. The Statistics Act contains provisions on the collection and processing of data and on the obligation to supply data.
3	Time coverage	Data for the whole economy and by employer sector (private, local government, central government) annually from 1968 until present and quarterly from 1995 (on request)
3	Schedule	Data are published four times a year according to a pre-announced schedule simultaneously with the publication of data on the Index of Wage and Salary Earnings. Access to data through the internet, though subject to fees, is available. Free data may be available on request.
4	Frequency of data calculation	Quarterly
5	Short description	The index of negotiated wages and salaries measures the effect of collectively agreed pay increases on average earnings for regular working hours measured by the Index of Wage and Salary Earnings.
6	Source data	Collective agreements filed at employer organisations (private, central government, local government)
7	Data type	Legal (see above); survey or register data are not used
8	Sampling	-
9	Registers	-
10	Definition	The Index measures collectively agreed increases in average earnings for regular working hours measured by the index of wage and salary earnings. In collective agreements increases in hourly and monthly earnings are concluded.
11	Construction	Because the Index measures the contribution of collectively agreed wage increases to the average level of earnings for regular working hours measured by the index of wage and salary earnings, it is calculated as a chained index using the same weight structure as in the Index of Wage and Salary Earnings. The effects of negotiated pay increases are estimated in relation to the earnings level at the previous year-end.
12	Statistical unit	Two units: hourly wages and monthly wages
13	Sector coverage	Four employer sectors: private, local government, central government and others. The private sector accounts for around 70 per cent, the local government around 20 per cent, and the central government around 7 per cent of the Index.
14	Statistical population	All private and public sector workers (blue and white collar) covered by collective agreements (coverage rate approx. 90%)
15	Unit of measure	Index
16	Classification system	NACE (Rev. 1.1) 1 or 2 digit from 1995
17	Documentation	The Index of Wage and Salary Earnings 2005=100, Handbook for users, Ch. 5.2 (Hyperlink http://www.stat.fi/tup/julkaisut/tiedostot/isbn_978-952-244-209-3.pdf)
18	Release	Release calendar is the same as for the Index of Wage and Salary Earnings: http://www.stat.fi/til/ati/tjulk_en.html . Contact email address: palkat.indeksit@stat.fi

Wage data for the private sector employees consist of datasets compiled by the major employer organizations. They include, for example, datasets for manufacturing and service industries compiled by the Confederation of Finnish Industries.⁴ These data are complemented by wage data collected through Statistics Finland's wage and salary surveys for those industries where the proportion of organised employers is lower than average.

The index of wage and salary earnings is a Laspeyres unit value index with fixed weights at the industry level. The base year has been changed every fifth year, the year 2005 being the latest base year. The index series for the whole economy is obtained by weighting 70 industry-specific indices. Industry weights are similar to the total wage sums reported in the National Accounts. When indices are computed for the public sector, the structure and earnings survey is utilised.

The industry-specific series are obtained by weighting the so-called base series. Overall, the wage and earnings index contains 216 base series. For the coherence of the measurement of average and collectively agreed wage increases, it is important that the index of wage and salary earnings is based on the use of the same weight structure as the index of negotiated wages and salaries. Accordingly, base series have been constructed by taking into account the division of collective agreements into different agreement areas. For example, the base series for manufacturing industries correspond to the agreement areas in those industries. Yet, the division into 216 base series is not identical to the division of collective agreements into different agreement areas.⁵

For industries where there are several base series, the average earnings for those series are calculated by using the number of wage and salary earners to weight them together to the industry level. Since there are no fixed weights in the base series, the changes taking place in the structure of wage and salary earners within industries will influence the development of the index.

Thus, the aggregate index of wage and salary earnings is obtained in two stages. First, changing weights are used in the aggregation of base series to industry-specific indices, and, second, fixed weights are used in the aggregation of 70 industry-specific indices.

⁴ The employers' and employees' organizations have bolstered co-operation relating to wage statistics by agreements in which some basic rules for the production of wage statistics are specified. According to the agreements, the Confederation of Finnish Industries has to provide trade unions with some essential information about wage developments. One aim of these agreements has been to create a common view about recent wage developments before the start of the rounds of wage negotiations. In this respect, they have been successful. Still, there is room for improvement. For example, it is difficult for trade unions to get access to micro data on which aggregate wage data are based.

⁵ Over the years, the index of wage and salary earnings has become more industry-specific, and therefore the division of collective agreements into different agreement areas has lost its importance in the description of wage developments.

Perhaps the most important feature that distinguishes the Finnish approach from the approaches used in other countries of the CAWIE project is that the two indices are calculated by the use of the same weight structure. Furthermore, both are Laspeyres unit value indices. Therefore, changes in the index of negotiated wages and salaries, describing the contribution of negotiated wage changes to changes in average wages, can be interpreted as contributions to the index of wage and salary earnings. This was illustrated by equation (1). Consequently, wage drift can be measured in a consistent manner. This was illustrated by equation (2). When the same weight structure is used in the computation of these two indices, those sources of wage drift which are due to differing weight structures are eliminated.

The same weight structure allows Statistics Finland to utilise the index of negotiated wages and salaries in the production of preliminary information about the developments of the average wage and salary index.⁶ The wage and salary earnings index is published quarterly, but the final wage data on which the computation is based is not yet available when the quarterly data are published for the first time. However, information about collectively agreed wage increases is available, and therefore Statistics Finland utilizes it in combination with an estimate of wage drift in order to produce preliminary information about developments of average wages in Finland.

Since the index of negotiated wages and salaries contains one-offs based on collective agreements, Statistics Finland can also utilise that information in the estimation of quarterly developments of average wages. Furthermore, in the production of preliminary information about the development of the wage and salary index it uses an estimate of changes in performance rewards, because they are included in the index.

Because of the same weight structure, the computation of the aggregate index of negotiated wages and salaries is based on the weighting contributions of the 216 base series. As mentioned earlier, Statistics Finland utilises the assessments of employers' organisations in the production of index data. Normally, preliminary information about the development of the index of negotiated wages and salaries has also been final information.

It is important to recognize that the methodology which is used in Finland is based on the traditionally high coverage of collective agreements. A high coverage rate is needed if, in the computation of the developments of average wages, weights are largely based on the relative importance of various agreements areas.

⁶ Preliminary data are preliminary in the sense that they may be subject to revision later when more information is obtained and final data are constructed.

3.1.2 *Quality assessment of the Index of Negotiated Wages and Salaries*

a) Relevance

Originally, the index of negotiated wages and salaries was constructed as a tool for incomes policy negotiations. Therefore, the main aim of the index was to meet the needs of the most important users of the index, *i.e.* negotiators and experts participating in incomes policy negotiations. That is why statistical outputs have traditionally been highly relevant. Nowadays Statistics Finland cooperates with the Information Committee on Cost and Income Developments. It is a tripartite committee which monitors how collective agreements are realised and assesses their impacts. It also makes proposals in order to develop indices like the index of negotiated wages and salaries and the index of wage and salary earnings.

One aspect that enhances the relevance of the index of negotiated wages and salaries is that it has been produced as an organic part of the construction of the index of wage and salary earnings. Since wage drift can be measured in a consistent manner, the index of negotiated wages and salaries has been an indispensable tool in studies on wage determination in Finland. Furthermore, those institutions that make short-term business cycle forecasts for the Finnish economy usually make forecasts for the developments of the index of negotiated wages and salaries and the index of wage and salary earnings.

b) Accuracy

Since the index of negotiated wages and salaries is not based on a sample of collective agreements, sampling errors should not be problem. Because of the high coverage rate of collective agreements, neither are large coverage errors likely to constitute a major problem. There have been some sources of measurement errors, however. Because base series are not weighted by fixed weights in order to get industry-level series, changes taking place in the structure of employees within industries will also affect the index. Furthermore, base series may represent many agreement areas whose importance may change over time. These factors may have given rise to composite errors if collectively agreed wage increases have differed in differing agreement areas.⁷

Changing the base year every fifth year without taking into account the level of macroeconomic activity may have affected accuracy, especially when negotiated wage increases have differed in various sectors. For example, when the wage and salary earnings index 1990=100 was calculated,

⁷ In the new Index of Wage and Salary Earnings 2010=100 and the new index of negotiated wages, which will be introduced in the near future, the share of each agreement area in the base series under consideration is estimated more precisely than before. This will make the assessment of the seriousness of this kind of measurement error easier.

construction had, after the construction boom of the late 1980s, too great a weight in comparison to the real situation. During the depression years of the early 1990s the share of the construction sector collapsed. On the other hand, the divergence of collectively agreed wage increases between various sectors has traditionally been small. In the 2000s, changes occurring in the weight structure have been less pronounced, and therefore they have not been important enough to influence the accuracy of the index.

c) Organisational quality

The index of negotiated wages and salaries is published quarterly, simultaneously with the publication of the index of wage and salary earnings. As mentioned earlier, data on collective agreements are an important source of information in the estimation of preliminary data of this index. The simultaneous publication of these two indices therefore lengthens the publication lag of the index of negotiated wages and salaries. The data are disseminated five to eight weeks after the end of the quarter. The time lag is longer with the first and second quarter publications because of the large amount of data. Normally, data have been disseminated on the target date on which they have been scheduled for release.

The data in the index of wages and salary earnings is published in quarterly bulletins which are downloadable. The index website also includes downloadable tables for recent developments of the index. Unfortunately, even though downloadable tables on the developments of this index are disseminated, these downloadable tables are not published for the index of negotiated wages and salaries. Data are available for regular users who are paying for access to the relevant database (ASTIKA), but currently they are not available free of charge through the internet (even though they can be obtained most probably free of charge upon request). Obviously, access to the data on the index of negotiated wages and salaries is a problem, and therefore there is a need for improvements. The current situation reflects the fact that typical users of the data are experts having access to ASTIKA. For a less professional or a foreign user, current conditions and clarity of access to the data are not fully satisfactory.

Researchers often need data covering a long time period. Currently online data by employer sector are available from 2000 and by industry from 2005. (Data for longer periods are available on request, however.) So far, industry-level data which are classified only by NACE Rev.1.1 are available, while data on the index of wages and salaries are also available by NACE Rev 2.

There is an obvious case for improvement in this respect.

4. DESCRIPTIVE ANALYSIS OF THE DEVELOPMENT OF COLLECTIVELY AGREED WAGES AND WAGE DRIFT FOR THE PERIOD 1995-2010

4.1 Development of collectively agreed pay

Because of the high degree of centralization and co-ordination, collectively agreed wage increases have typically been very similar in various sectors of the economy. This is confirmed by Figure 1, which shows contributions of collectively agreed pay increases (in percentage points) to average pay increases in the whole economy and in the main employer sectors of the economy.⁸

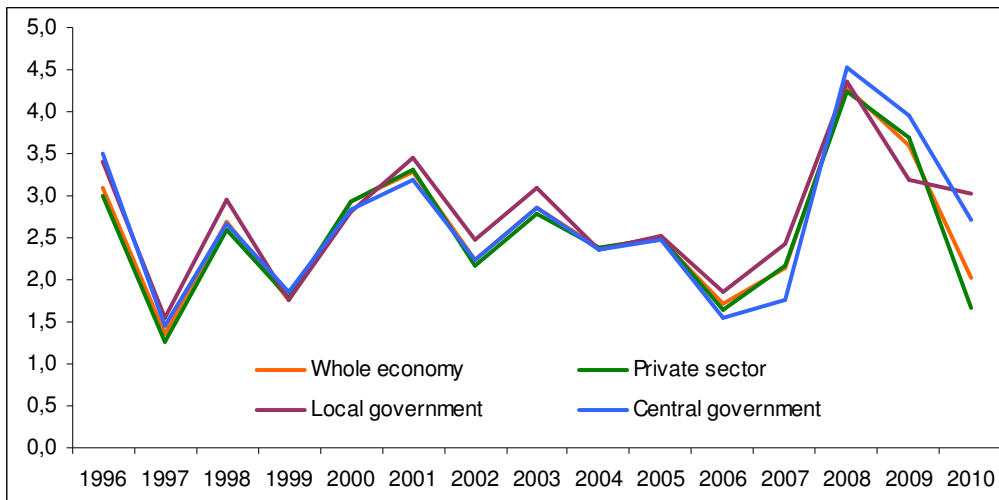
However, there are some differences which may reflect at least partly the well-known fact that in some sectors wage drift plays a more important role in wage determination than in others. Consequently, in those sectors in which collectively agreed wage increases have also largely determined the final increases, collectively agreed increases have been somewhat higher.⁹ Developments for the period from 1996 until 2010 are consistent with this kind of interpretation. Collectively agreed wage increases have been bigger in the public sector (approx. 2.7 percentage points per year in both local and central government) than in the private sector (approx. 2.5 percentage points). The difference has been very small, however.

The strong influence of the high degree of centralization and co-ordination is also reflected in Figure 2, which illustrates contributions of collectively agreed wage increases in selected industries during the period from 1996 until 2010. Collectively agreed wage increases have been smallest in manufacturing (approx. 2.4 percentage points per year) and biggest in the wholesale and retail trade (approx. 2.7 percentage points). On average, differences have been small even though there have been some exceptional years like 2008 and 2009.

⁸ The high degree of centralisation and co-ordination has been exemplified by the fact that comprehensive incomes policy agreements have covered both the private and public sector. Therefore Statistics Finland has traditionally produced wage data for these sectors.

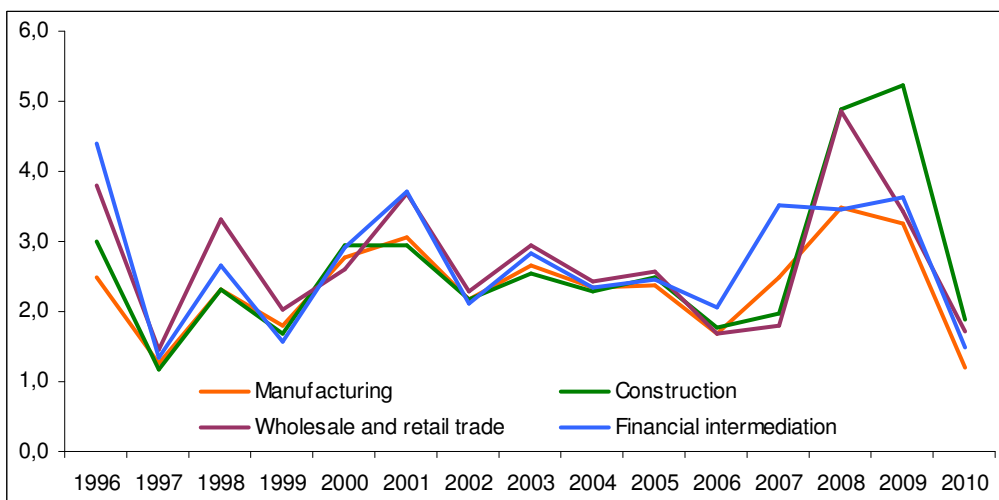
⁹ One cause of similar wage trends in Finland has been the so-called wage development guarantee system. The idea of the system has been to guarantee, in each sector, a pay development which is similar to that in other sectors. If, in some sector, the realised pay increase has been lower than the guaranteed one, the sector's employees have received an extra pay increase.

Figure 1. Contributions of collectively agreed wages to average increases in wages and salaries 1996-2010 by employer sector (percentage points).



Source: Statistics, Finland.
 Note: For observations, see Table A1.

Figure 2. Contributions of collectively agreed wages to average increases in wages and salaries 1996-2010 in selected industries (percentage points).



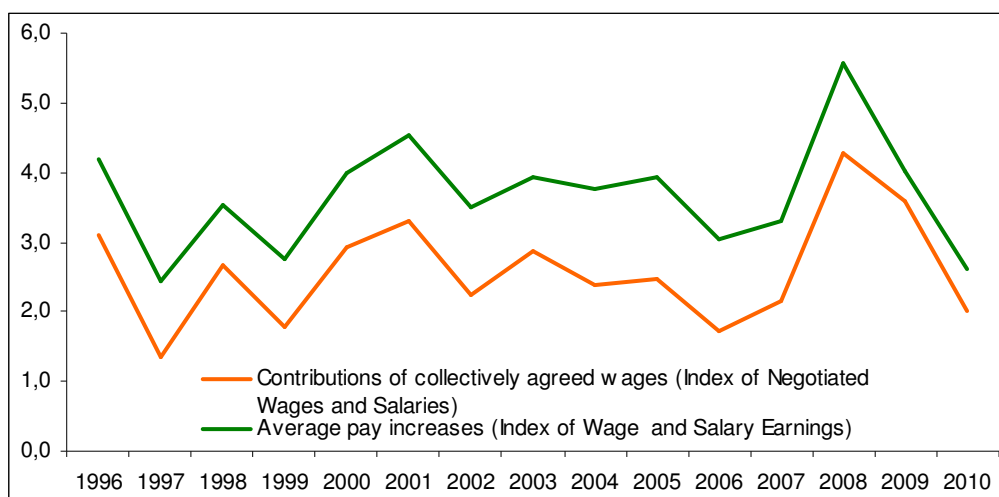
Source: Statistics Finland.
 Note: For observations, see Table A1.

4.2. Development of wage drift

As emphasized earlier, a most important feature of the Finnish approach is that the index of negotiated wages and salaries is calculated by the use of the same weight structure as the index of wage and salary earnings. It is therefore natural that wage drift in Finland is computed by the utilization of these two indices.

The close relationship between these indices is reflected in Figure 3. Variations in the index of wage and salary earnings have typically closely followed variations in the index of negotiated wages and salaries. It should be remembered that changes in the index of negotiated wages and salaries describe contributions to changes in that index. As the weight structure is the same in these indices, one source of composite effects is absent in the estimates of wage drift.

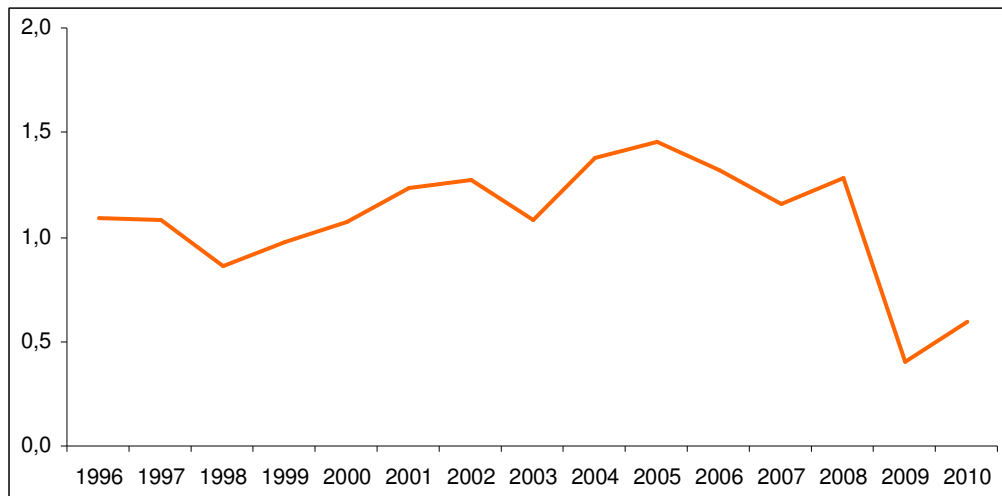
Figure 3. Developments of average wages and collectively agreed wages 1996-2010: the whole economy.



Source: Statistics Finland.

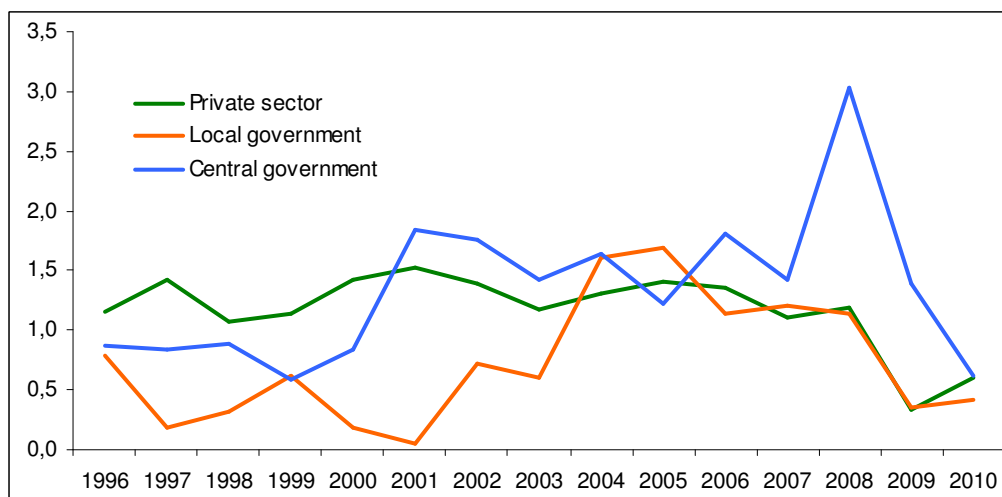
During the past fifteen years wage drift in the whole economy has been relatively stable without any observed trends (Figure 4). It has accounted for roughly one-third of the average wage increases measured by the index of the wage and salary earnings. In the private sector, developments of wage drift have traditionally been procyclical reflecting fluctuations of profitability and employment (Figure 5). It is worth noticing that in the late 1990s, when the economy was experiencing strong growth, wage drift was higher in the private sector than in the public sector. In the 2000s wage drift has been highest in the central government, however. Beside compositional effects, it reflects the introduction of a new pay system in 2008.

Figure 4. Wage drift 1996-2010: the whole economy (percentage points).



Source: Statistics Finland; own calculations.

Figure 5. Wage drift 1996-2010: main employer sectors (percentage points).



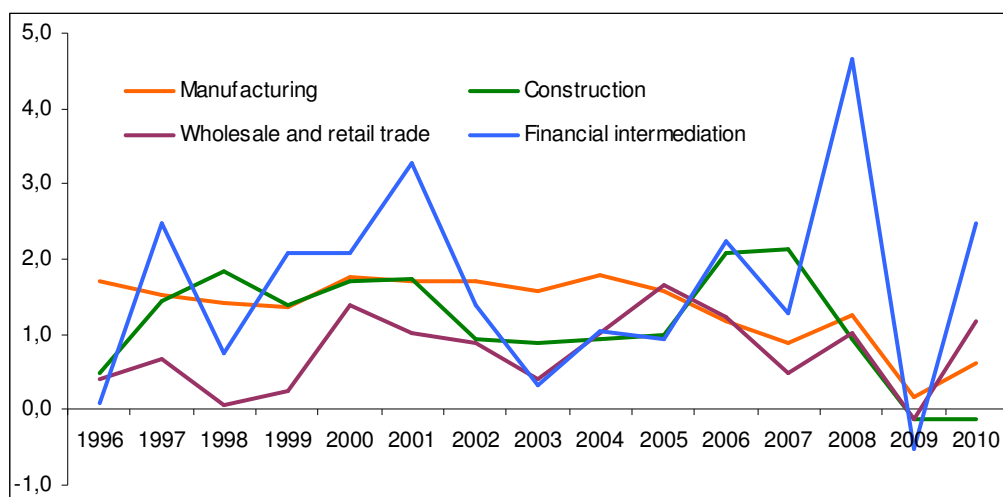
Source: Statistics Finland; own calculations.

Some sector- or industry-specific peculiarities reflect the rise of the importance of new elements in Finnish collective bargaining. Performance-related pay and profit-sharing schemes have played a greater role. In particular, wage developments have been affected by performance-related pay supplements in financial intermediation. This can be seen from Figure 6. Large fluctuations in wage drift in this industry reflect strong variations in variable pay. The recession year of 2009 was special because wage drift was negative, not only in financial intermediation but also in other industries, for example, in construction.

Even though wage drift has been relatively stable, its sources have changed. Traditionally, company-specific pay increases were permanent changes in regular pay agreed at the local level, while nowadays company-specific pay increases are often performance-related pay changes which are transitory. For some employees this kind of change may have been a deterioration, for others an improvement. In Finland the introduction of various forms of performance-related pay has benefited upper white-collar workers, but not blue-collar workers. The introduction of performance-related pay schemes has also been a major reason for increased pay dispersion among some employee groups.

In conjunction with the introduction of the new Index of Wage and Salary Earnings 2010=100, Statistics Finland has started to compute an index in which changes in occupational structure are controlled. This will help in assessing the relative importance of changes in occupational structure as a source of wage drift.

Figure 6. Wage drift 1996-2010 in some industries (percentage points).



Source: Statistics Finland; own calculations.

The decentralization of wage bargaining in Finland has not meant that some kinds of derogation clauses have had such a considerable effect that it would have been reflected, for example, in developments of wage drift (Keune, 2010). Pay norms settled through collective agreements have normally been followed.

5. CONCLUDING COMMENTS

In Finland collectively agreed wages are measured by indices which describe contributions of collectively agreed wage increases to increases in average wages. The Finnish system of collecting data on collectively agreed wages reflects the lengthy history of concluding comprehensive nationwide incomes policy agreements. The negotiators participating in incomes policy negotiations would have liked to know how large the contribution of collectively agreed wage increases to the level of average earnings was. The Finnish system answers this question.

Statistics Finland constructs the index of negotiated wages and salaries within the same methodological framework as the index of wage and salary earnings, which is the most important index describing the developments of average wages. This means, among other things, that the same weight structure is used in the compilation of these two indices. Therefore the coherence between data on collectively agreed wage increases and average wage increases has been very good. However, the utilization of the Finnish system requires that the coverage of collective agreements is high. This has been the case in Finland. The coverage rate has been around 90 per cent without any signs of decline. This has been maintained by the *erga omnes* applicability of collective agreements. If the coverage rate started to decline, accuracy problems, for example, would start to arise.

Collectively agreed wage increases have typically been very similar in various sectors of the economy. This has been due to the high degree of centralization and bargaining co-ordination.

During the past fifteen years developments of wage drift in the whole economy have been relatively stable. It has accounted for roughly one-third of the average wage increases measured by the index of the wage and salary earnings. Industry-specific changes in wage drift have been more volatile, however. This has been at least partly the result of the introduction of new forms of company-specific pay. Performance-related pay increases are typically transitory. This also reflects the fact that the sources of wage drift have changed. Previously, company-specific pay increases were mostly permanent changes in regular pay.

Even though wage determination has been highly centralized in Finland it has become more decentralized. As part of decentralization, collective agreements have contained items which have been agreed at the local level. It is highly likely that the increase in the share of these items makes the compilation of the index of negotiated wages and salaries more difficult, because gathering

informational about these items may be cumbersome. Consequently, the decomposition of average wage increases to the contributions of negotiated wage increases and wage drift may become more difficult. Yet there have not been strong pressures to change the current system; it still seems to meet the needs of its most important users, *i.e.* negotiators and experts who participate in wage negotiations.

APPENDIX

Table A1. Collectively agreed pay increases (percentage points).

	Economy	Nace C	Nace F	Nace 47	Nace K	Nace 64	Nace O	Private sector	Local government	Central government
1995										
1996	3.1	2.5	3.0	3.8	3.9	4.4	3.4	3.0	3.4	3.5
1997	1.4	1.3	1.2	1.4	1.3	1.3	1.5	1.3	1.5	1.4
1998	2.7	2.3	2.3	3.3	2.5	2.6	2.8	2.6	3.0	2.7
1999	1.8	1.8	1.7	2.0	1.7	1.6	1.8	1.8	1.8	1.9
2000	2.9	2.8	3.0	2.6	2.9	2.9	2.8	2.9	2.8	2.8
2001	3.3	3.1	3.0	3.7	3.7	3.7	3.3	3.3	3.4	3.2
2002	2.2	2.2	2.2	2.3	2.2	2.1	2.3	2.2	2.5	2.2
2003	2.9	2.6	2.5	2.9	3.1	2.8	2.9	2.8	3.1	2.9
2004	2.4	2.3	2.3	2.4	2.5	2.3	2.4	2.4	2.3	2.4
2005	2.5	2.4	2.5	2.6	2.5	2.5	2.5	2.5	2.5	2.5
2006	1.7	1.7	1.8	1.7	1.9	2.0	1.6	1.6	1.9	1.6
2007	2.1	2.5	2.0	1.8	3.1	3.5	2.1	2.2	2.4	1.8
2008	4.3	3.5	4.9	4.9	3.7	3.4	4.2	4.2	4.4	4.5
2009	3.6	3.3	5.2	3.4	4.0	3.6	3.8	3.7	3.2	4.0
2010	2.0	1.2	1.9	1.7	1.6	1.5	2.7	1.7	3.0	2.7

Source: Statistics Finland.

Notes: Figures are annual proportional increases of the index of negotiated wages and salaries. They describe contributions of collectively agreed pay increases to the index of wage and salary earnings (in percentage points). Industrial classification used is (NACE Rev. 1.1). Accordingly, Nace C is replaced by Nace D in NACE Rev.1.1. Nace K and Nace 64 are replaced by Nace J and Nace 65, 67; Nace O by Nace L. Column Nace 47 refers to Nace 51 and 52 (wholesale and retail trade) Additional columns for the private sector, the local government and the central government have also been added.

Table A2. Coverage.

	Economy	Nace C	Nace 29	Nace F	Nace 47	Nace K	Nace 64	Nace O
1995		7	7	7	7	7	7	7
1996		7	7	7	7	7	7	7
1997		7	7	7	7	7	7	7
1998	98.0	7	7	7	7	7	7	7
1999	98.0	7	7	7	7	7	7	7
2000	90.0	7	7	7	7	7	7	7
2001	90.0	7	7	7	7	7	7	7
2002	90.0	7	7	7	7	7	7	7
2003	90.0	7	7	7	7	7	7	7
2004	90.0	7	7	7	7	7	7	7
2005	90.0	7	7	7	7	7	7	7
2006	90.0	7	7	7	7	7	7	7
2007	90.0	7	7	7	7	7	7	7
2008	90.0	7	7	7	7	7	7	7
2009	90.0	7	7	7	7	7	7	7
2010	90.0	7	7	7	7	7	7	7

Source: Visser (2011); own assessment.

<25	1 very low
25-34	2 low
35-44	3 rather low
45-54	4 medium
55-64	5 rather high
65-74	6 high
75>	7 very high

Table A3. Centralisation.

	Economy	Nace C	Nace 29	Nace F	Nace 47	Nace K	Nace 64	Nace O
1995	3							
1996	5							
1997	4							
1998	5							
1999	4							
2000	3							
2001	5							
2002	4							
2003	4							
2004	5							
2005	4							
2006	4							
2007	3							
2008	3							
2009	2.5							
2010	2.5							

Source: Visser (2011).

5 = national or central level

4 = national or central level, with additional sectoral / local or company bargaining

3 = sectoral or industry level

2 = sectoral or industry level, with additional local or company bargaining

1 = local or company bargaining

Table A4. Co-ordination.

	Economy	Nace C	Nace 29	Nace F	Nace 47	Nace K	Nace 64	Nace O
1995	3							
1996	4							
1997	4							
1998	4							
1999	4							
2000	3							
2001	4							
2002	4							
2003	4							
2004	4							
2005	4							
2006	4							
2007	3							
2008	3							
2009	3							
2010	3							

Source: Visser (2011).

5 = economy-wide bargaining, based on a) enforceable agreements between the central organisations of unions and employers affecting the entire economy or entire private sector, or on b) government imposition of a wage schedule, freeze, or ceiling.

4 = mixed industry and economy-wide bargaining: a) central organisations negotiate non-enforceable central agreements (guidelines) and/or b) key unions and employers associations set pattern for the entire economy.

3 = industry bargaining with no or irregular pattern setting, limited involvement of central organizations and limited freedoms for company bargaining.

2 = mixed industry- and firm level bargaining, with weak enforceability of industry agreements

1 = none of the above, fragmented bargaining, mostly at company level

Table A5. Trade union density.

	Economy	Nace C	Nace 29	Nace F	Nace 47	Nace K	Nace 64	Nace O
1995	80.4	7	7	7	7	7	7	7
1996	80.4	7	7	7	7	7	7	7
1997	79.4	7	7	7	7	7	7	7
1998	78.0	7	7	7	7	7	7	7
1999	76.3	7	7	7	7	7	7	7
2000	75.0	7	7	7	7	7	7	7
2001	74.5	6	6	6	6	6	6	6
2002	73.5	6	6	6	6	6	6	6
2003	72.9	6	6	6	6	6	6	6
2004	73.3	6	6	6	6	6	6	6
2005	72.4	6	6	6	6	6	6	6
2006	71.7	6	6	6	6	6	6	6
2007	70.3	6	6	6	6	6	6	6
2008	67.5	6	6	6	6	6	6	6
2009	69.2	6	6	6	6	6	6	6
2010	70.0	6	6	6	6	6	6	6

Source: Visser (2011); own assessment.

<25	1	very low
25-34	2	low
35-44	3	rather low
45-54	4	medium
55-64	5	rather high
65-74	6	high
75>	7	very high

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