

"Do Incomes Policies in Finland Have a Future?"

ENGLISH SUMMARY

By Sixten Korkman

Comprehensive incomes policy settlements have a strong tradition and position in Finland. But are they worthy of their reputation? Are they a means of safeguarding competitiveness, a prerequisite for stability and predictability? Or are they mainly a way of enhancing the political influence of central labour market organizations?

The report assesses the bargaining between labour markets organizations as well as incomes policies and tripartite settlements. Characteristic features of the Nordic labour markets include collective bargaining, small wage differentials, relatively generous unemployment benefits and active labour market policies. This model works well as compared to many other European countries. On the other hand, Finnish labour markets function rather poorly compared to the other Nordic countries.

Finland's experiences with comprehensive incomes policy settlements are mainly positive, but their impact on wage restraint has often remained only temporary. Changes in the economic environment – such as globalization, new technologies, the need for greater correspondence between wages and productivity, growth of the service sector – call for a system of more decentralized wage formation. Finland has something to learn from the experiences of the other Nordic countries: they have been better able to combine wage restraint and high employment, decentralized wage formation and macroeconomic stability.

Tripartite settlements have their advantages and disadvantages. The labour market organizations have expertise and ability to justify difficult solutions to their members, and they can commit to economic reforms. However, taken to its extreme, bargaining can blur the allocation of roles and responsibilities as well as distort the preparation of reforms or delay decision making. Broad committees should not be replaced by "experts" with strong links to some labour market organization or task forces with narrow representation.

There is in Finland a lot of public focus on comprehensive incomes policy settlements. However, the backbone of the Finnish labour market system is not the comprehensive incomes policies or the tripartite settlements. The key feature is the negotiations between trade unions and employer confederations. Both are well organized and aim to maintain peace in the labour market and find solutions of mutual interest. This institutional setting can continue to serve our interests also in the future if the organizations are able to promote greater decentralization of wage formation and thereby a better functioning of the labour markets.

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The report (in Finnish) can be read in its entirety on EVA's website www.eva.fi.