

## **The Nordic Model – looking for roots**

Recently there has been a lot of talk about the Nordic Model – at least in Sweden. Facing external pressure from the rest of the EU and internal demands from the employers to slash regulation our government firmly ensures that the model will be developed not deconstructed.

But what is the essence of this famous Nordic Model that we are so proud of.?

And how did we – a handful of small relatively prosperous countries in the outskirts of Europe come to elaborate a labour market framework built upon strong social partners and agreements rather than legislation?

In ”Er Norden bedst i verden” a recent report from the Nordic Council you can read that when it comes to happiness and wellbeing, anticorruption and freedom of speech, competitiveness, innovation and sustainability the Nordics often find themselves top ten in international rankings.

Our countries have succeeded in building strong economies characterized by a mix of flexibility and social security for the employers and the employees alike.

But the story of the Nordic Model is a relatively recent one.

Historically the Nordics have not been such close friends as one could believe observing all the projects and joint actions between us.

After the Kalmar Union had broken down in the 17th century there were long periods of war and struggle for local and regional power.

But the streams of goods, services and labour have always continued. It has contributed to both cultural, political and economic development. Trade and exchange of various kinds have always played an important role and it has helped the countries to get to know each other. The economic and social development in one country has inspired the neighbours.

The advent of industrialism played an important part in the development of the Nordic society in the late 19<sup>th</sup> century. It has defined much of the world we live in today. People abandoned the countryside to seek work in the factories in the cities and gave birth to social movements such as new political parties and trade unions.

The fear of social unrest caused by the new densely urbanised cities made way for collaboration between the political parties and for big social reforms. The trade unions became important players on the labour market.

This development took place not only in the Nordics but here the close ties between the social democrats and the growing unions were paramount. It made the tripartite model possible where the politics set the framework and the social

partners negotiate in the way we have continued to do, centrally, sector by sector and in the work places ever since.

Nationalism and the feeling that the Nordics was a special place with common features grew in the late 19th century. But the "Nordic Model" is a much later invention that has taken shape and density due to the pressure from globalization and internationalization. The new situation has made us look for support between neighbours

One of the most important tasks in the international union work today is to try and increase the knowledge and the understanding for how we work through dialog and close cooperation between employees and employers and to show the world that this has led us to a prosperity that not so many countries can present.

Before the crisis in the 90<sup>ties</sup> people often spoke about the Nordic model as "doomed" but since some years international institutions such as the OECD, the World Bank and the IMF have begun recognizing the importance of strong social dialogue, high union affiliation and collective bargaining if you want stable societies and growth.

In "Inequality and Labour Market Institutions" (IMF 2015) the researchers Florence Jaumotte and Carolina Osorio Buitron find a strong connection between social equality and strong unions with high affiliation. They show that countries with strong unions are amongst the most equal in the world.

"We found strong evidence that weakened labour market institutions had a connection to growing inequality in the societies. "

The conclusion the two economists make is that plummeting affiliation lead to both increasing inequality but also contributes to the highest incomes rising. They also showed that weak trade unions have less influence on the companies when distributing the profits. When the unions are weak a larger part of the profit goes to the owners and to the management.

### **We are strong, aren't we?**

Following the trend of globalization of the economy there have been big changes in the labour market. Foreign owners are ever more common and with them different management cultures and different ways of looking on social dialogue. This represents a challenge to the unions, not only in the companies directly concerned. There is also a risk of "contamination" if Nordic employers seek inspiration in management culture from countries with little or week union presence.

The affiliation grade is a good thermometer for the trade unions possibilities to influence. In the Nordics nobody would question your right to be member of a trade union while in some countries membership can represent a disadvantage when it comes to your situation in the work place.

The affiliation in Sweden has gone down from 77 percent in 2006 to 67 percent in 2018. White Collar affiliation was 72 percent in Sweden 2018. The employers have kept a higher affiliation (88 percent) but it varies a lot between sectors. Thus, nine out of ten employees are covered by collective agreements though they are not affiliated.

In Finland the affiliation is 65 per cent, in Denmark 53 per cent, in Norway 49 and in Iceland above 80 percent for blue collars and 70 percent for engineers. To compare Germany scored 17 percent, Switzerland. 15 and USA 11 percent. The Nordics are still way ahead of most countries when it comes to union affiliation. But the trend is worrying as a lower affiliation will automatically challenge the Nordic model and its relevance. Well known threats are minimum wages, right to collective bargaining and diminished job security

Last year a social democrat think tank” Tiden” published a report about the Nordic Model where they concluded that we need a higher affiliation to safeguard our way of operating. More members are urgently needed in the unions but also in the employers’ organisations. There must be a trustful and friendly cooperation between these two entities if the model is to survive.

### **Foreign ownership in Finland, Norway and Sweden**

The number of employees in companies with foreign owners in Sweden has increased over 30 years from around 200 000 in 1990 to over 670 000 in 2017. It represents an increase from 10 to 20 percent of all employees in Sweden. The definition of foreign owned company is a company where more than half of the stock value belong to a foreign owner.

Germany, USA and Norway are the dominating foreign owners in Sweden with about 70 000 employees each. The Swedish companies which have Nordic owners represent about 30 percent.

The quota of Swedish employees in Nordic companies have increased from 120 000 in 2000 to 190 000 in 2017. Swedish employees in American companies have decreased from 100 000 to 7000 during the same period and the number of Swedes employed by Asian companies has increased from 14 000 to 49 000 during the same period. The number of Chinese companies went from four (with 13 employees) to 108 (with 21 418 employees).

According to Statistics Finland there were 250 000 fins working in companies with foreign owners in 2017. In Finland Swedish, German and American companies dominate amongst the companies with foreign owners.

In Norway companies with foreign owners have 27 percent of the turnout and 21 percent of the employees. (4)

### **What companies are we talking about?**

Wholesale, retail, automotive industry, data-and electronics and IT consultancies are the dominating branches where we find foreign owners in the Swedish economy.

In Finland foreign owners are mostly found in the manufacturing industry, whilst in Norway services, industry and oil- and gas extraction are the sectors with most foreign owners operating.

## **Trends**

The management consultancy Baker McKenzie reports that China is augmenting its foreign direct investment globally. The most important Chinese investment in the US and in Europe 2018 was the acquisition of Volvo AB for 3,5 billion US dollars.

Last year the EU started to put in place their scanning of FDI in the union. Many countries are worried about the China buying technologically sensitive companies as has been the case in Germany with the robot manufacturer KUKA AG and in the Netherlands electronics industry. About half of the EU-countries already have screening mechanisms amongst them Denmark and Finland.

## **Same same but different**

**To prepare for this meeting we sent some questions to the Nordic Engineers' organisations to find out how they look upon the situation.**

## **How do you define the Nordic Model?**

From Finland we get the answer there is no formal definition of the model. The expression is used mainly concerning legislation in the labour market and in an EU context.

In Norway it used to describe the Nordic way of organising the political, economic and labour market functions in society. There is no real consensus about exactly what should be included when you try to describe the Nordic model but a generous social welfare system, cooperation built upon trust, high affiliation, social equality and a stable productive economy where the stat, employers' organizations and trade unions cooperate.

Denmark adds that the model includes a structure where the social partners through negotiations solve the regulation on the labour market. Employers and trade unions agree that the politics should keep out and that legislation should be avoided since it is not needed. The model is challenged by "yellow unions" that lack the good relations with the employer though.

In Iceland the model is described as an ambition to maintain a stable economy. The wage bargaining should mirror the productivity and the competitiveness in

the country. Real wage increase is important as is low interest rates and low inflation.

### **What does the model mean to the union?**

In Finland the affiliation rate is high. Hence trade unions have a lot of influence. The collective wage negotiations are between the unions, the employers and the state.

In Norway the unions are a part of the social dialogue, a tripartite cooperation between unions, employers and the state. The challenges and problems in the labour market are solved by the social partners. The role of the state is to maintain and develop a social security system and to create good conditions for economic growth. The cooperation, the trust between the partners and the dialogue contribute to high productivity. The local representatives of the unions play an important part in the work place to influence internal processes, reorganisations and changes for the best of the companies and for the employees. In Norway the local representatives have the mandate to bargain for other employees.

Denmark has a slightly different negotiation model compared to the other countries. In the public sector there is central collective bargaining but in the private sector it is the local "akademikerklubbar" who represent individuals and negotiate directly with the local management.

In Iceland the social partners negotiate centrally but lately the demands for pay raise have been considered unrealistic and there are demands that the government step in.

### **Summary**

There are big similarities between the countries. Negotiations between the unions and the employers take place to create stability and competitiveness with central collective agreements. The Danish model is differing a bit through local agreements in the private sector.

### **How has the foreign ownership developed since the 1990?**

Foreign owned companies have increased in Finland in the last 30 years. More than 30 percent of TEK's members are now employed in such companies. In Norway it is about 20 percent of the Norwegian employees. Denmark, Sweden and Iceland have seen the same tendencies.

### **Have foreign owners had an impact on the trade unions' work?**

In Finland the trade unions work has become more difficult. Many companies lack knowledge and desire to follow Finish legislation and legally binding agreements. Sometimes American companies have payed to get rid of

agreements. Others have tried to hire only non-affiliated employees, against finish law.

In Norway foreign companies do follow the law but have a different view upon the benefits of codetermination, negotiation and cooperation with trade unions. Important decision about the future of the company are taken far away without any involvement of the local social partners. HR Strategies and management culture are taken from abroad and mirrors a totally different tradition then the Nordic model. Many see influence from trade unions and codetermination as something negative that could seriously lower productivity and lead to a negative development of the business though experience show that it is not the case.

Denmark, with its more decentralized model in the private sector has not experience the same problems. Here the impression is that the informal cooperation with the unions is appreciated.

In Iceland the unions' work has become more complicated. Foreign owners seem to seek to avoid legislation and agreements.

In Sweden an increased foreign ownership has made it more complicated to get acceptance for the model since it is built upon trust between the social partners at local level and the trade union representatives experience a diminished possibility to influence or to give input to processes. In foreign companies many decisions are taken at the head office completely without influence, insight or possibility to intervene. That goes for the local Swedish management too. The negotiations in the Swedish law of codetermination, MBL, hence becomes a pure formality and without any meaning. The internationalisation has made the European Works Councils, EWC: s, increasingly important.

### **Summary**

It is clear from the above written that the culture of close dialogue and collaboration between unions and employers in the Nordics is something strange to many foreign employers. There are problems with companies that do not abide the law or follow collective agreements. Many do not see the advantages the Nordic model present or fully understand how it works. In Denmark though, it is exactly this, the close local dialogue with the unions that seems to be positive to some foreign owners.

### **Sectors specifically exposed to foreign direct investment:**

**Sweden:** the entire private sector

**Finland:** Mining, technology and building sectors. The biggest investors are Sweden, Germany, USA Switzerland and Denmark.

**Norway:** Oil and gas Industry. Sweden dominates amongst countries investing in Norway.

**Island:** Aluminium-production, IT and pharmaceuticals.

**Denmark.** Mostly concerns about foreign ownership from a security perspective when it comes to companies and critical infrastructure.

### **What opportunities/challenges do you see with an increased foreign ownership?**

In Finland the cooperation is getting more and more difficult and the social dialogue is beginning to lose its relevance. Norway underlines the need to support local representatives in their work to gain influence in the workplace. Foreign investment is important. Danish IDA looks positively at foreign investment and sees it to economic consolidation, technological development and chances to good jobs for many groups. Iceland experience difficulties in coming on speaking terms with foreign companies that break the law and do not respect collective agreements

Sweden says that there is good regulation but that the agreements must be better implemented to make the local representatives understand the vast array of possibilities and rights they have. For companies with the head office in another EU-country the possibilities are more limited. For instance, the right to board representation doesn't exist abroad. In these cases, we need to work more with the EWC. Despite the possibilities with the EWC there are also concerns over the trend that EWC:s want to take the unions' role and negotiate working conditions for all employees in a company, regardless of national regulation and frameworks. EWC:s can also be "hi jacked" by management and they are not necessarily trade union representatives.

Denmark says that with increased foreign influence in the management the dialogue and the cooperation with the employees and the unions become less interesting. On the other hand, some companies have chosen to invest in Denmark precisely because of this phenomenon.

### **Summary**

All participating countries report that foreign Nordic owners and foreign owners from other countries are two different things. Nordic owners have a better understanding and acceptance for the model and respect regulation and collective agreements. The size of the companies also affects what influence the Nordic unions/employees will have. The bigger, the less.

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