

Labour market adjustment and mobility in the Nordic countries

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Background

The Nordic countries are all small, open economies with corporatist systems of governance exposed to global economic fluctuations (Katzenstein 1985). As such these economies rely on labour market mobility and the labour markets capability to adjust to changing economic trends. The labour market in the Nordic countries has gone through large economic fluctuations since 1990. While they all struggled with high unemployment rates during the end of the 1980s and in the beginning of the 1990s, they have managed to reduce their unemployment rate since then. The employment fell in Norway from 2002 to 2004, but has risen since 2005. In the period 2005-2008 the Norwegian labour market increased with around 80 000 employees, or about three per cent, each year (Svalund 2009). The other Nordic countries have experienced similar developments (Dølvik 2009). However, the impact of the global economic crisis on the labour market in the Nordic countries seems to be following quite different paths. While the unemployment has risen sharply in Sweden (SCB 2009) and Finland (SFI 2009), the unemployment rate in Norway and Denmark has still only increased some from very low levels (SSB 2009, DS 2009).

I aim to conduct comparative studies of the robustness of the Nordic systems of labour market governance when it comes to weathering large scale adjustments in employment. In addition to study large scale adjustments in employment I will study at closer hand the mechanisms through which those adjustments take place. I will do that first by studying how firms respond. How do firms respond to economic downturn when it comes to workforce adjustments? Do differences in employment protection in the Nordic countries matter when firms downsize, and how do collective agreements or cooperative processes with local employees/trade unions and public agencies influence such processes? To what extent do the firms consider active labour market measures as important alternatives in the process of adjusting their workforce? Secondly I will study the individual employees, and their strategies for coping with the economic downturn in the labour market. How do the individual employees consider their ability to move on to a new job when there are downturns in the labour market? In what way do the security aspect of the Nordic labour market models matter for different employee groups?

In answering these questions I will combine quantitative studies of specific aspects of mobility in/out of the labour market in the Nordic countries and between atypical and standard jobs during the past cycle of upturn and downswing in the period between 2001-2006, with qualitative micro studies of workforce adjustments in firms, and survey

studies of the impact of individual perceptions of employment risk and security on mobility in the period 2010-2012.

Today, the global crisis faces the Nordic countries with an even tougher test of the robustness and capacity for flexible adjustment to shifts in the world markets that Katzenstein (1985) once attributed to them as prototypic examples of small, open economies with corporatist systems of governance. The core of his argument was that the collective insurance provided by the welfare state systems in such models served to cushion instability and muster legitimacy for swift policy adjustments enabled by efficient concertation between the social partners and the state. In my Phd project I'll study whether and how these mechanisms work at the micro level, by studying the processes in firms and actions of firms, and by studying individuals and their perceptions and actions during times of economic up and downturns.

International and domestic conditions for shock-absorbing adjustments in policies and labour markets have changed significantly over the past decades. One aim of this project is thus to examine empirically whether the adjustment capacity of the Nordic models live up to their promises and whether their mechanisms of labour market adjustment actually work in accordance with the claims in the literature. The simultaneity of the crisis and the strong similarities of the Nordic countries provide unique opportunities for comparative studies. As the Nordic countries also exhibit market differences regarding the depth of the crisis, labour market regulation, macro-economic conditions, and activation policies, I will by combining Nordic comparisons and in depth studies in Norway contribute to a better understanding of the impact of such distinctions and of the strengths and weaknesses of the different national models.

Research questions

The main research questions of my project, which will combine in depth Norwegian studies with comparative Nordic analyses, can be summarized as follows:

- 1) What is the impact of Nordic differences in labour market, social policy and macro-economic regimes on the national patterns of adjustment and labour mobility?
- 2) In what way do differences in the level of the Nordic labour markets employment protection legislation (EPL) contribute to differences in mobility in the labour market during economic fluctuations?
- 3) In which way are company responses regarding workforce adjustments, layoffs, training, wages, and downsizing, influenced by cooperation with local employees/trade unions and public agencies? How do such processes influence the principles of selection of leavers and stayers?
- 4) How do variations in individual experience and perceptions of employment security, risks, and labour market institutions, impact on mobility and individual strategies for coping with the crisis?

Analytical framework and empirical approaches

The labour market is the arena where Katzenstein's flexible adjustment thesis should presumably most visibly be brought to bear, thus lending itself to empirical probing of the effective adjustment capacity of the Nordic countries. In order to specify key mechanisms which according to the Nordic model literature should facilitate labour market adjustment during shifting cycles, some of the main analytical strands that inform my analytical and empirical framework are reviewed below.

The Rehn-Meidner model: Central mechanisms of the postwar Nordic model for restructuring and labour market adjustment were spelled by Gustav Rehn and Rudolf Meidner (LO 1950). Their basic idea was to facilitate a dynamic interplay between market competition, solidaristic wage policies, and active labour market policies. Less productive firms unable to match the wage floor defined through centralised agreements would be forced out of competition, while the redundant workers, facilitated by public training, mobility schemes and unemployment benefits would move into new jobs in more productive companies. Rehn-Meidner thus prescribed a supply-side driven process of restructuring where "creative destruction" and high labour mobility would ensure reallocation of productive resources and add to the productivity and growth of the national economy.

The flexicurity-model: Compared to the Rehn-Meidner model, the literature on 'flexicurity' pays greater attention to the role of labour market regulations and the welfare state in facilitating employment adjustment. In the Danish case, lax employment protection affords employers great flexibility in hiring and firing, while generous income compensation and vast investment in training and ALMP measures, are supposed to provide employees a level of employment security that make them willing to change jobs and contribute actively in company restructuring (Bredgaard et al. 2009, Furåker and Berglund 2009). Although rules pertaining to redundancies are quite lax in all the Nordic countries but Finland, statutory job protection is generally considered more stringent in the other Nordic countries than in Denmark. Whether such differences in the Nordic employment regimes translate into different patterns of mobility and perceptions of employment security and risks, is therefore a central issue of my study. While the role of employee representatives in negotiating company adjustments tends to be overlooked in the "flexicurity" literature (Andersen & Mailand 2005, Falkum 2008), I will in this study examine how local industrial relations actors influence processes of workforce adjustment and downsizing during hard times.

Inclusion and activation policies: In spite of high levels of employment, not least among women, the Nordic countries have in recent years reinvigorated their efforts to develop a more inclusive working life and prevent exclusion of vulnerable groups from the labour market (Hammer 2007, Hansen and Svalund 2007, Midsundstad 2005, 2006 and 2007, Rosenstock mfl. 2008, Kløft Shademan mfl. 2008). This is deemed necessary to mobilize more labour in order to meet population ageing and reverse the rising dependency-rate. The results of the activation policies during the recent boom have been mixed, however, casting doubts about what will happen during the downturn.

While Rehn-Meidner emphasised the allocation benefits of rising minimum wages and productivity requirements, it has been argued that these features of the Nordic models act as barriers for inclusion of employees with low/variable productivity (Fløtten 2007). This has spurred creation of a variety of schemes intended to raise skills and relieve employers from the costs of taking on less productive labour. Some countries have

also sought to strengthen work incentives among inactive groups by lowering benefits (the reservation wage). Former experience suggests that the tension between societal aims to improve job security for vulnerable groups and the aim to boost adjustment through labour mobility is likely to magnify during crisis, when elderly and marginal groups have often been shuffled onto disability pensions and alike. Conflicts between individual and collective interests at company level will also be accentuated. The project will therefore study the roles of company management, unions, and local labour market agencies in influencing who will stay or leave.

Data and methodology

Through multi-level and, to a large extent, comparative analyses, I will be able to explore the functioning and relative importance of the various mechanisms identified above. Several types and sources of data will be used in the project, which consist of three modules.

Module 1. Labour market mobility and patterns of atypical work: Nordic comparison: In studies of mobility in/out of the labour market in the Nordic countries during the 2001- 2006 cycle (research question 1 and 2) I will use the national Labour Force Surveys (LFS). LFS is a continuing survey that measures the labour market status of the population, e.g. if people are in the labour force, employed or unemployed, their occupations and industry etc. The studies also have a rich set of background information about the participants and their family situation.

LFS in the Nordic countries has a panel design, i.e. the participants are followed (at least) during one year. It is therefore possible to observe changes in the participants' labour market situation, for example if they have changed employer. The size of the panels each year vary between the countries, from ca 20 000 to ca 30 000 participants. The time period to be studied runs from 2000 to 2006. The research project "Labour market mobility in the Nordic welfare states" has connected the LFS panels from Norway, Sweden, Denmark and Finland into one common dataset, adjusting the variables so that they are comparable between countries.

Module 2. Company responses: Case studies of decision-making on workforce adjustments:

In times of crises and restructuring companies employ different strategies to adjust their workforces. In order to fully understand how micro-level actors adapt, I need information on strategies and decision-making at the firm level (research question 2). Through interviews with management and union/employee representatives the aim of this module is to analyze the priorities and roles of local industrial relations actors in shaping company responses. Further, how are their choices influenced by opportunities for alternative income or activity provided by relevant social and labour market schemes? Two main questions are asked: To what extent do firms consider alternatives to dismissals, and what are the aims, conditions, and actors behind such alternative choices? Do firms maintain the focus on inclusion during crisis, or do other priorities, e.g. productivity, skills, or seniority, gain higher priority?

Nordic companies and their employees and trade unions are characterized as flexi-

ble, trusting and willing to adjust. While the strong, well-defined roles of the company partners open for cooperative solutions when restructuring is deemed necessary (Nergaard, Dølvik et al. 2009), they also engender constraints e.g. regarding wage cuts and deviation from seniority principles. Are employees and trade unions willing to involve in tradeoffs between earned rights and job security? Do we see a resort to concession bargaining in the wake of the crises? Are unions prepared to accept substantial restructuring, including dismissals for some, to secure jobs for others? Are the interests of vulnerable employees of priority when the local parties negotiate on who should keep their jobs and who should go?

Case studies in Norway will be conducted by me and colleagues from Fafo. Researchers from other Nordic countries will conduct case studies in their respective countries. I will conduct case studies in 12 companies in Norway that are forced to adjust their workforce in response to the crises through downsizing or other measures. We'll choose companies with 50 or more employees in manufacturing, construction and the private services sector. Semi-structured interviews will be conducted with management and trade union/employee representatives. The case-studies in the other Nordic countries will be similar, although perhaps not equally extensive, as in Norway.

Module 3. Flexibility and individual perceptions of labour market security: Nordic comparison: A key premise in the notion of flexicurity is that individuals have confidence that they will be able to move on in the labour market in times of restructuring (cf. employment security). In this module I'll analyze individual employee attitudes, behaviour, and perceptions regarding labour market risk and security (Anderson and Pontussen 2007, Berglund 2007). In this module I want on the basis of new LFS-data, to gather additional information about the respondents' attitudes, experiences, and perceptions of the security part of the "flexicurity" equation. Key questions for comparison are:

- 1) How do assessments and perceptions of job-, employment- and income security vary across employee groups, sectors, regions, and according to work history (voluntary/forced mobility) and current labour market status (employed, unemployed, in ALMP-schemes etc)?
- 2) To what extent do variations in perceptions of security, as implied by the notion of "flexicurity", influence workplace involvement and the inclination to take risk through different forms of flexibility, mobility, training and labour market adjustment?

By comparing such data across different segments of the workforce in the Nordic countries, I may get a more specific and differentiated picture of the conditions under which the alleged mechanisms of "flexicurity" actually work and to whom they apply.

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