Collective bargaining in Iceland: sharing the spoils without spoiling the shares

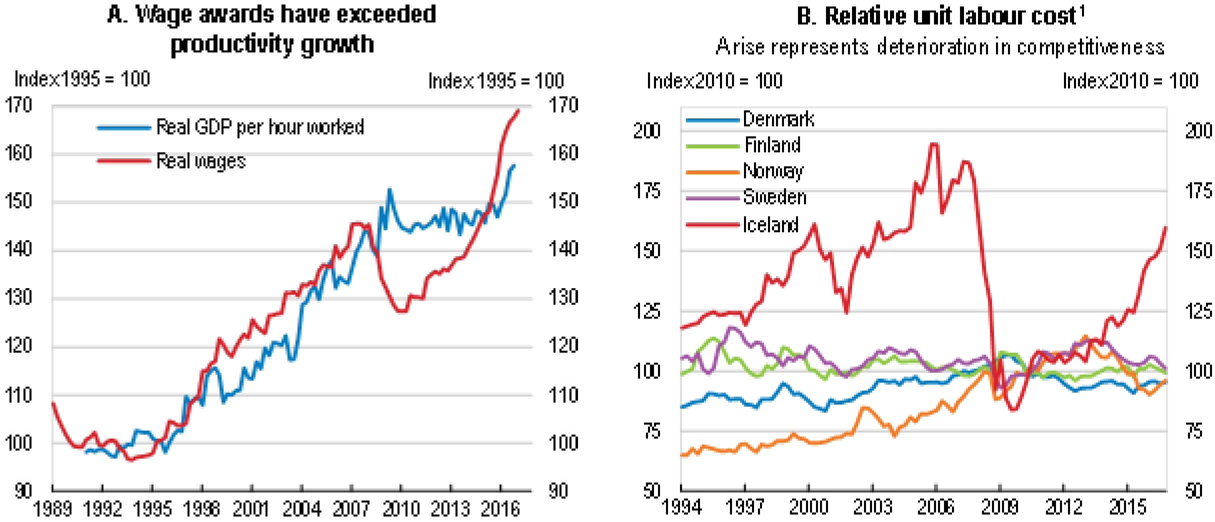
by Urban Sila, Iceland Desk, OECD Economics Department

Icelandic labour market is flexible with high labour market participation, low unemployment, and labour supply dynamically responds to the economic cycle. Iceland is the most highly unionised country in the OECD and wage bargaining is a cornerstone of the economy. Strong unions have contributed to very low inequality, high inclusiveness and gender balance. Successful social pacts have protected the lowest paid workers during crises, and on occasion helped fight inflation.

Paradoxically, however, the Icelandic bargaining model has been less successful in times of economic boom, and Iceland suffers from recurrent bursts of social tensions and labour unrest. During such periods trade unions approach collective rounds fragmented and with little regard for wider consequences of their demands. Wage demands by one union trigger topping-up demands by others, resulting in excessive awards. Recently, Iceland has again experienced a period of elevated tensions. In the 2015 bargaining round, doctors and teachers obtained three-year wage awards of around 25-30%, which led to demands by other unions for 50% pay increases. A bitter dispute erupted resulting in negotiated three-year nominal wage awards – that set the minimum over the settlement period – of more than 20% on average. Wages have been rising steeply ever since and together with króna appreciation, this has caused external competitiveness to plummet (Figure 1).

Iceland is a very small open economy prone to boom and bust cycles, and the pro-cyclical wage pressures add fuel to these harmful dynamics. The recently released OECD Economic Survey of Iceland 2017 argues for changes to the structure of collective bargaining to help sustain the benefits of the system for future generations.

Figure 1. Wage growth has eroded competitiveness



1. Labour costs adjusted for productivity and exchange rates in comparison with the country's trading partners.

Source: Statistics Iceland; OECD Analytical Database; and Central Bank of Iceland: Quarterly Macroeconomic Model database (seasonally adjusted).

Labour negotiations often break down because parties differ in their view of the economy. They frequently disagree even on what exactly has been agreed in the past. Iceland has been through a challenging decade during which trust in politicians and among the social partners has been undermined. Trust and mutual respect can however be rebuilt by active and regular participation of the social partners in a tripartite macroeconomic council – to discuss issues of collective bargaining, welfare policy and social reform. Greater trust can also be fostered by setting up a “technical committee” that can provide impartial and accurate statistics on wages, economy, productivity and competitiveness to be used as a reference point in negotiations.

Wage coordination in Iceland is low. Labour unions tend to be very small and a large number of agreements need to be reached, creating the potential for co-ordination failure. Other countries ensure wage coordination for example by letting the sector that is exposed to foreign competition negotiate first, while other sectors follow (Nordic countries), or by linking wage increases to developments in neighbouring countries, to maintain competitiveness (Belgium). Recognising the Iceland specific context, the OECD Survey proposes that at the beginning of each negotiation round peak worker and employer organisations together issue “wage guidelines”, taking into account the information provided by the technical committee.

A strong role of the state mediator is needed, however, to underpin such a system. The Icelandic state mediator is relatively weak compared to other Nordic systems. The state mediator should be seen as a promotor and protector of the wage guidelines and when issuing conciliation proposals, they should be in line with the wage guidelines.

References

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