

# The Finnish Wage Structure

## Changes, causes and consequences

### Structure of the Research Project

- Part I: 1.1.2007 – 15.3.2008  
**The Structure and Long-term Trend of Private-sector Wages**
- Part II: 1.2.2008 – 30.4.2009  
**Analysis of Causes and Consequences of the Observed Change in the Finnish Wage Structure**
- Part III: 1.2.2009 – 30.4.2010  
**Pay Systems, Job Tasks and Careers as Factors Underlying the Observed Change in the Finnish Wage Structure**

### Research conducted by

The Research Institute of the Finnish Economy – ETLA (<http://www.etla.fi>)

The Labour Institute for Economic Research – PT (<http://www.labour.fi>)

Project homepage: <http://www.etla.fi/to/tupo> (in Finnish)

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# The Finnish Wage Structure. Changes, causes and consequences: content of the Final Report

- **Growing Wage Differences in the Private Sector**  
(Rita Asplund and Petri Böckerman)
- **Wage Differences in the Service Sector: Part-time vs. Full-time Employees**  
(Juha-Pekka Jokinen and Antti Kauhanen)
- **The Labour Income Share and Globalization**  
(Petri Böckerman and Mika Maliranta)
- **Changes in the Structure of Job Tasks as a Source of Wage and Productivity Growth** (Mika Maliranta)
- **Merit Pay and Wage Differences: Manufacturing**  
(Mari Kangasniemi and Antti Kauhanen)
- **Merit Pay and Wage Differences: Services**  
(Mari Kangasniemi and Antti Kauhanen)
- **Labour Market Mobility and Careers**  
(Merja Kauhanen and Sami Napari)
- **Inter-firm Labour Markets**  
(Antti Kauhanen and Sami Napari)

# The Finnish Wage Structure. Changes, causes and consequences: main results 1

- Changes in pay systems – the proliferation of merit pay systems – have increased the dispersion in **total wages** of the Finnish private sector, especially in more recent years. The dispersion in basic (normal) wages has changed only marginally.
- The increase in total-wage dispersion has been concentrated to the **higher paid** while the dispersion of wages among the lower-paid has remained practically unchanged.
- The **time profile of growing wage dispersion** has varied across sectors: total-wage differences among **full-time employees in the service sector** grew significantly already in the late 1990s, but started to grow among **white-collar manufacturing workers** only after the turn of the millennium.
- The changes in total-wage differences among **blue-collar manufacturing workers** have been minor also in the early 2000s.
- The total-wage differences among **part-time employees in the service sector** have **narrowed** (whereas they have increased among those in full-time employment) especially in branches having experienced a notable growth in part-time jobs (like trade and restaurants). One contributing factor seems to be that part-time employees in the service sector are rarely covered by merit pay systems.

# The Finnish Wage Structure. Changes, causes and consequences: main results 2

- The growth in total-wage dispersion has been much stronger **within** than between **companies and establishments**: the proliferation of merit pay systems largely explains this increase in within-firm total-wage differences.
- Due to the proliferation of merit pay systems, traditional measures of competencies (i.e. formal education and work experience) can explain an ever shrinking part of the growth in total-wage differences in the private sector. Instead, **competencies which are hard to quantify** and, hence, mostly missing in the available datasets, have become increasingly important when trying to understand the changes observed in private-sector total-wage dispersions.
- The role of merit pay systems is still **quite modest** in Finland, though. Their significance can, however, be expected to increase, which will have consequences not least for the evolution of within-firm total-wage differences. It is, therefore, crucial that the criteria for rewarding performance are clearly defined and made transparent.

# The Finnish Wage Structure. Changes, causes and consequences: summary of main results

- The growth in total-wage differences has mainly concerned **higher-paid full-time** employees.
- Exceptions to this development are: blue-collar workers in manufacturing and part-time employees in the service sector.
- The growth in total-wage differences has been fuelled by...
  - ...the proliferation of various modes of merit pay systems.
  - ...changes in occupation and job task structures.
  - ...job mobility between and within workplaces.
  - ...various types of career breaks (such as parental leave, studies, unemployment).
- Traditional ways of measuring competencies (formal education, accumulated work experience, etc.) can no longer explain the widening differences in total wages among higher-paid employees.