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10-31-2023

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Recommended Citation

Berroug, Jack, "Higher Wages in a High Inflation World: What the United States Can Learn from Icelandic Unionization" (2023). *CICLR Online*. 92.

<https://larc.cardozo.yu.edu/ciclr-online/92>

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Higher Wages in a High Inflation World: What the United States Can Learn from Icelandic Unionization

By: Jack Berroug



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Since March 2020 when the COVID-19 pandemic shut down the entire world, inflation has slowly been on the rise. OECD countries across the globe immediately felt the effects of inflation and despite the increase in wages amongst workers globally, inflation outpaced nominal wage growth for many countries.[1] Over the past couple years, many of the capitalist OECD countries have dealt with inflation in various ways with varying degrees of success. One capitalist country in particular has kept up with real wage growth despite inflation: Iceland. Iceland is the most unionized country in the world with 90 percent of its workplace unionized.[2] While inflation has posed a large risk to workers in the United States, Iceland has been able to secure gains for its workers while also not exacerbating its inflation.

In Iceland, Article 74 of the Icelandic Constitution entitles its citizens to form associations for any lawful purpose, including political groups and trade unions, without having to seek prior authorization.[3] Furthermore, Iceland's collective bargaining is governed by Act No. 80/1938 which empowers trade unions to negotiate agreements with employers concerning wages and other terms of employment of their members.[4] Collective agreements are, according to Act No. 55/1980, automatically binding for all workers and employers operating within its occupational and geographical area—it is not a condition for the applicability of a collective agreement that the workers concerned are members of the signatory trade union

or that those who employ them are members of the negotiating partner on the employer's side.[5] This law affects both domestic and foreign undertakings operating on the Icelandic labor market. Each national federation negotiates at least one general collective agreement with SA (Icelandic Federation of Business) which applies to wages and other terms of employment.[6] Additional agreements are negotiated by individual trade unions which account for local conditions.[7]

Unions in Iceland are typically small and organized along occupational lines giving unions a strong position in the wage negotiations.[8] This works well because labor demand is usually less elastic for workers within one occupation.[9] This wage setting is strengthened by the high unionization rate, the fact that the wage in the union contract becomes a binding minimum wage by law, and by the existence of priority clauses giving union workers a priority to jobs in their area.[10] These features help induce strong wage pressure, and they make Iceland an outlier among industrialized countries.[11]

By contrast, the United States has 10.3 percent of its workforce unionized.[12] The right to unionize in the United States was borne out of the National Labor Relations Act (NLRA) which encourages collective bargaining by protecting workers' full freedom of association.[13] The NLRA protects workplace democracy by providing employees in private-sector workplaces the fundamental right to seek better working conditions and designation of representation without fear of retaliation.[14] After the passage of this Act, unionization rates skyrocketed—they went from around 14 percent in 1935 to 35.7 percent in 1953.[15] Since then, unionization rates have been on the decline for a multitude of reasons in the United States.[16] One explanation of this decline is that decisions by the courts and the National Labor Relations Board weakened union bargaining power after the passage of the anti-union Taft-Hartley Act of 1947.[17] Some of these decisions included banning secondary boycotts, states banning union security agreements, dramatically expanding management rights and curtailing the ability of unions to bargain with their employers about contracting-out decisions and plant closings, the escalating use of striker replacements, the increased use of employer lockouts, and the exploitation of labor law.[18] Some experts posit that this decline of people in unions correlates to lower real wage growth, reduced worker protections, and increased outsourcing.[19] Compared to Iceland, it seems that the United States has not enforced nor strengthened its existing labor laws and has not taken action to increase its unionization rate until recently.[20] These actions suggest a possible explanation for the disconnect in real wage growth between the two countries.

When looking at the real wage growth of these two countries, the difference is stark. From the start of COVID-19 in early 2020, to the end of 2022, real wages in Iceland grew by an average of 2 percent per year in Iceland, while real wages declined by an average of 1 percent per year in the rest of Europe, and 0.3 percent in the United States.[21] As measured by the general wage index, Icelanders' wages have risen by an average of 4.9 percent year-to-date, but the increase over the past twelve months is considerably larger, 10.9 percent; the vast majority of private sector workers landed generous wage agreements in late 2022 that likely contributed to the increase.[22] In fact, these real wage growth rates are projected to rise even more in the coming years, 0.3 percent, 2.6 percent, and 2.2 percent, respectively.[23]

By contrast, the United States has had a less fruitful real wage growth rate. From May 2020 to December 2021, real wage growth plummeted from 3.4 percent to -2.5 percent, then rose again to 1.6 percent in August 2023.[24] Real average hourly earnings for all employees on private nonfarm payrolls decreased 3.6 percent from June 2021 to June 2022.[25] The change in real average hourly earnings combined with a decrease of 0.9 percent in the average workweek resulted in a 4.4 percent decrease in real average weekly earnings over this period.[26] Additionally, the federal minimum wage has not increased since 2009, meaning that individuals working minimum wage jobs have taken a real term pay cut for the last twelve years.[27] The fact that the United States had significant declines in its real wage growth over this time, in contrast to Iceland's consistent increases in real wage growth due to its wage agreements, suggests that the lack of bargaining power from workers in the United States may be the reason.

In the United States, workers represented by labor unions earn 10.2 percent higher wages than their non-union peers, have better benefits, and collectively raise wages industry-wide.[28] According to several studies, the decline in unionization that took place in recent decades contributed to increasing wage inequality and stagnation.[29] Corporate practices and legal changes have also eroded workers' bargaining power, particularly from the 1970s as employers increasingly attempted to

break union organizing efforts and were issued only weak penalties for violating labor laws.[30] Combating these previous practices, enforcing existing labor law, and increasing union density in the United States might be a possible solution to sustained real wage growth in the country.

The takeaway here is not perfect: the United States and Iceland are both dynamic capitalist countries with complex factors affecting their economies. However, one cannot discount the effect that strong labor unions have on maintaining real wage growth in a capitalist economy, even if marginally associated with the growth. The burgeoning labor movement in the United States holds promising prospects for workers and with inflation slowly coming down, it suggests a hopeful return to a middle-class lifestyle for many workers.

Jack Berroug is a Staff Editor at CICLR.

- [1] Satoshi Araki, Sandrine Cazes, Andrea Garnero & Andrea Salvatori, *Under Pressure: Labor Market and Wage Developments in OECD Countries*, in OECD Employment Outlook 2023: Artificial Intelligence and the Labour Market 16, 35 fig. 1.16 (2023). Nominal wage growth relates to the expected dollar amount an individual will receive for their work within a given time from an employer, while real wage growth is how that nominal wage growth changes in response to changing inflation rates. *Nominal vs. Real Wage: What's the Difference?*, Indeed (Aug. 8, 2022), <https://www.indeed.com/career-advice/career-development/nominal-wage-vs-real-wage> [<https://perma.cc/B7TA-9C9J>].
- [2] *Countries with the Highest Percentage Share of Their Workforce Being Members of Labor Unions Worldwide as of 2020*, Statista (May 2022), <https://www.statista.com/statistics/1356735/labor-unions-most-unionized-countries-worldwide/> [<https://perma.cc/BR4L-8YGE>].
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- [4] Icelandic Confederation of Lab. (ASI), *Icelandic Labor Law: A Summary of Basic Rights and Obligations on the Private Labor Market* 11 (5th ed. 2010).
- [5] *Id.*
- [6] *Id.*
- [7] *Id.*
- [8] Steiner Holden, *A New Model for Wage Formation in Iceland* (Univ. of Oslo, Working Paper No.3, 2019).
- [9] *Id.*
- [10] *Id.*
- [11] *Id.*
- [12] Statista, *supra* note 2.
- [13] *Rights We Protect: The Law*, Nat'l Lab. Rel. Bd., <https://www.nlr.gov/about-nlr/rights-we-protect/the-law> [<https://perma.cc/D44M-62U3>].
- [14] *Id.*
- [15] Lawrence Mishel, Lynn Rhinehart & Lane Windham, *Explaining the Erosion of Private-Sector Unions: How Corporate Practices and Legal Changes Have Undercut the Ability of Workers to Organize and Bargain*, Econ. Pol'y Inst. (Nov. 18, 2020), <https://www.epi.org/unequalpower/publications/private-sector-unions-corporate-legal-erosion/> [<https://perma.cc/4A5U-E9R9>].
- [16] *Id.*
- [17] *Id.*
- [18] *Id.*
- [19] Anna Stansbury & Lawrence H. Summers, *Declining Worker Power and American Economic Performance*, Brookings (Spring 2020), <https://www.brookings.edu/articles/declining-worker-power-and-american-economic-performance/>

[<https://perma.cc/PF7P-7QYK>].

[20] See, e.g., Annie Palmer, *Amazon Union Victory at Staten Island Warehouse Upheld by Federal Labor Board*, CNBC (Jan. 11, 2023, 9:14 PM), <https://www.cnbc.com/2023/01/11/amazon-union-victory-at-new-york-warehouse-upheld-by-labor-board.html> [<https://perma.cc/T6JR-S796>].

[21] *Real Wages Firm Up Again*, Islandsbanki (July 27, 2023), <https://www.islandsbanki.is/en/news/real-wages-firm-up-again#> [<https://perma.cc/N4AE-X39F>].

[22] *Id.*

[23] *Id.*

[24] *Difference Between the Inflation Rate and Growth of Wages in the United States from January 2020 to August 2023*, Statista (Sept. 2023), <https://www.statista.com/statistics/1351276/wage-growth-vs-inflation-us#> [<https://perma.cc/2ZRM-Y92D>].

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[26] *Id.*

[27] Statista, *supra* note 24.

[28] Michael Sainato, *Feel the Benefit: Union Workers Receive Far Better Pay and Rights, Congress Finds*, Guardian (Jun. 10, 2022, 8:00 AM), <https://www.theguardian.com/us-news/2022/jun/10/us-union-workers-report-congress> [<https://perma.cc/TW8D-QFFL>].

[29] *Id.*

[30] *Id.*