

Summary in English

The National Mediation Office, as the central government authority responsible for mediating in labour disputes, is itself a part of the wage formation system in Sweden. It is also required to promote an efficient wage formation process. This means that the Office, by disseminating economic information to the social partners and to the general public, is supposed to influence wage formation in such a way that objectives like a high employment rate, price stability and satisfactory real wage growth can be achieved.

Wage formation and economic development

Conditions for wage formation in Sweden have altered in recent years. This is partly due to the Riksbank's statutory price stability objective and partly to the social partners having negotiated collaboration agreements on wage formation in a number of important contractual areas. These agreements incorporate specific bargaining procedures. Also, there is now broad agreement that the competitive sector should set the pay pattern and that wage trends in this sector should reflect those in our competitor countries.

For several years now, the Riksbank has met its inflation targets without having to resort to tight monetary policy measures that would have escalated unemployment. In some years, consumer prices in Sweden even rose more slowly than in the other EU countries and in the Euro Zone. Labour costs per hour, however, have increased to a greater extent than in the rest of Europe, in recent years as well. Competitiveness in the business sector has improved significantly due to solid growth in productivity and a declining Swedish currency rate, and also due to a fall in profit margins, which in turn reduced the impact of cost increases on prices. Monetary policy cannot count on this kind of help in the long run. Also, much of the overall scope for cost increases will be absorbed by higher contributions to negotiated social security systems. The social partners must take these increases into consideration in the wage formation process. For a long time to come, wage formation may also have to contend with labour shortages, both within specific sectors and occupations and in the employment market as a whole.

In future, the social partners will not be able to count on further depreciation of the krona. Such a course would mean a return to the devaluation and inflation spiral that characterised much of the 20-year period between the early 1970s and the early 1990s. With Sweden outside EMU, this would necessitate interventionary measures on the part of the Riksbank, which would create unemployment. Following Swedish entry into EMU, high cost increases would weaken competitiveness and probably result in even greater and more protracted unemployment.

Background to the negotiations of 2002

The conditions for wage formation in 2002 were to a great extent dictated by the agreements concluded in 2001. Another factor that influenced wage formation in 2002 was a downturn in economic activity both at home and abroad. The international downturn was visible as early as the summer of 2001, partly due to declining market rates and the crisis in the ICT sector. In addition, economic development in the Euro Zone was exceedingly slow, particularly in Germany.

In Sweden's case, GNP growth declined from almost 4.5 per cent in 2000 to less than 1 per cent in 2001. The employment rate rose more slowly in 2001 and came to a complete standstill in 2002, but for much of 2001 and 2002 unemployment remained fairly constant at around 4 per cent.

Bargaining on pay and general terms of employment in 2001 extended to almost all parts of both the private and public sectors. As agreements of several years' duration were negotiated for the great majority of contractual areas, the 2002 bargaining round came to embrace only a relatively small part of the labour market. The outcome of the multiyear agreements reached in 2001 naturally had a strong impact on bargaining in 2002, particularly the results for the second and third years. The outcome of the 2001 bargaining round is described in section 2.2.

In the *state sector*, bargaining in 2001 yielded a 12-month agreement. The relatively short duration of the contract was in large part due to the fact that the two sides did not wish to commit themselves to a longer period until a new pensions agreement had been negotiated for the state sector, which did not occur until 21 December 2001.

The 2002 bargaining round

In all, the negotiations in 2002 applied to around half a million employees. Some 60 agreements were involved, covering more than 300,000 employees in the private sector and over 200,000 employees in the state sector.

With a few exceptions, bargaining in the private sector in 2002 was confined to non-industrial areas, such as banking and finance, transport, shipping, alcohol retailing (Systembolaget), pharmacies, rail traffic, road and rail maintenance and the IT and telecom sector. In the industrial sector, negotiations extended to the printing industry and the laundry industry.

In the *municipal and county council sector*, no negotiations took place at the national level in 2002 as multiyear agreements had already been reached for all areas in 2001. In the case of nursing staff and teachers, five-year agreements had been concluded back in 2000.

In many contractual areas, the 2002 round of bargaining commenced as early as the autumn of 2001.

In the *private sector*, agreements were reached in November 2001 on behalf of such groups as bank officers, financial consultants, security personnel and employees of staffing agencies.

In January and February 2002, agreements were reached on behalf of ship's officers, insurance staff, doctors in the private care sector, haulage and terminal workers, and environment company employees. Later in the spring of 2002, agreements were concluded in a further 40 or so contractual areas. In the case of agreements due to expire in the autumn of 2002, settlements were reached at the end of the year.

In the *state sector* – where all contracts expired on 31 March 2002 – agreements were reached in April with the Union for Service and Communication Employees (SEKO) and with the central government section of the Confederation of Professional Associations (SACO-S). Other agreements in the state sector were concluded the following month.

A clearly stated objective of the current agreements covering bargaining procedure in both the private and the public sectors is that negotiations are to be conducted in such a way as to ensure “completion at the right time”, i.e. before the previous agreement expires. Even in areas not covered by negotiated settlements, the partners are largely agreed on the value of completing new accords before the old ones expire.

During the ‘major’ bargaining rounds of 1998 and 2001, a marked improvement on previous years could be discerned in both private and public sectors as regards the timing of settlements. In the 2001 round, new agreements were reached in the private sector prior to or roughly coinciding with the date of expiry for 75 per cent of the employees concerned. In the industrial sector, the corresponding figure was over 90 per cent. For a more detailed description, see the National Mediation Office's annual report for 2001 (English summary at www.mi.se)

A study of the agreements reached in 2002 shows that the two sides were relatively successful in achieving “completion at the right time”.

Recourse to industrial action remained at a low level and was considerably less evident than during the 1993-97 period. Local negotiations on the application of agreements, too, were completed with virtually no disruptions in the form of unlawful industrial action.

In the *private sector*, most of the agreements negotiated in 2002 involved two-year contracts. The date of expiry in most cases coincides with the date of expiry for the three-year agreements concluded in the 2001 bargaining round for the majority of private sector employees in Sweden. Some include an option allowing the partners to terminate agreements for the final contractual year/period. The contractual period for IT and telecom industry is *17 months*, ending on 31 March 2004. For some parts of the transport sector, *12 month agreements* were reached, due to expire in 2003. *Twelve-month agreements* were also negotiated on behalf of ship's officers, SAS cabin staff, road and rail workers and others. *Three-year agreements* – expiring at the end of 2004 or later in 2005 – were negotiated for a number of groups, including haulage and terminal workers (the transport agreement), environment company workers, dock workers and bus drivers.

In the *state sector*, the contractual period for all agreements is 30 months, divided into two periods of 15 months each. These contracts expire 5-6 months later than the great majority of agreements in the labour market, as a result of the private sector negotiations in both 2001 and 2002.

Outcome of agreements

Many agreements in the private sector and all the agreements in the state sector delegated decisions on the scope for wage increases (the wage margin) to the local partners. Should they fail to agree, in most cases the margin is determined by a ‘cut-off’ or ‘default’ level stipulated in the national agreement. In many cases, the margin is described in terms of a minimum level. In both cases, when computing the outcome of agreements, the cut-off levels or minimum wage levels determined nationally are used as a means of calculating the size of negotiated wage increases.

Most agreements in the private sector contain either some form of individual guarantee or a general pay increase. The public sector agreements – with the exception of those negotiated by SACO-S – incorporate an individual guarantee of SEK 600 in the form of a settlement at the end of the contractual period.

In the case of most agreements on behalf of *blue collar workers in the private sector*, the contractual wage increase negotiated in 2002 ranged from 2.5 to 4.0 per cent for 2002, from 3.0 to 4.3 per cent for 2003 and from 2.8 to 3.1 per cent for 2004.

For *white collar employees in the private sector*, negotiated wage increases were lower, ranging from 2.5 to 3.4 per cent for 2002 and from 2.6 to 3.1 per cent for 2003.

Average pay increases under the agreements for *blue collar workers* in the private sector were estimated at 3.4 per cent for 2002, 3.9 per cent for 2003 and 3.0 per cent for 2004. The corresponding estimates for *white collar employees in the private sector* were 2.9 per cent for 2002 and 2.8 per cent for 2003.

Besides the negotiated wage increases, the agreement outcome includes – where applicable – the value of reduced working hours. In the private sector, new national agreements on reduced working hours were only reached in a very few areas. In the state sector, there are no such agreements whatsoever.

A comparison between the results of the 2002 bargaining round and the average outcome for the second and third contractual years (i.e. 2002 and 2003) of the three-year agreements outside the industrial sector show that they correspond fairly closely.

In the case of university-trained professionals in the *state sector*, no margin has been agreed at the national level. For other areas in the state sector, the agreed increase is just over 3 per cent for the first contractual period and 3.5 per cent for the second.

Agreement models and distribution principles

The National Mediation Office's previous annual report detailed the various agreement models that resulted from bargaining in the private sector in 2001. These models were divided into seven main groups based on the impact they had on wage formation at the local level.

In this year's report, the summary of results of the 2002 bargaining round is supplemented both by a number of additional areas in the private sector and by the public sector as a whole.

Many agreements – in both the private and public sectors – confer full freedom on the local partners to negotiate the size of the wage margin and its distribution to the individual employee. In many cases, however, these rules are linked to various kinds of 'cut-off' provisions; should the two sides fail to reach agreement, these provisions specify both the amount by which pay at the company/workplace is to be raised and a minimum pay increase for each individual. In reality, local freedom of negotiation is curtailed by these cut-off provisions. The majority of agreements contain either some form of individual guarantee or a general increase for all. The size of these increases varies from area to area. In some place, the individual guarantee takes the form of a settlement provided at the end of the contractual period.

In some parts of the private sector and in the case of most agreements in the public sector, the cut-off mechanism involves a wage board/arbitration board headed by an impartial chair chosen by the social partners deciding how the wage margin is to be distributed.

The table below shows the various agreement models that operate in each respective sector, divided into seven main groups. There are minor differences within each group, but these are not significant enough to affect the overall analysis.

Agreement model	Proportion of employees, per cent		
	Private	State	Municipal/County Council
1. Local wage formation without nationally determined margin	7	32	28
2. Local wage formation with a cut-off regulating the size of the margin	5		
3. Local wage formation with a cut-off regulating the size of the margin, plus some form of individual guarantee	8	68	
4. Local wage pool without an individual guarantee	7		24
5. Local wage pool with an individual guarantee or alternatively a cut-off regulating the individual guarantee	45		48
6. General pay increase and local wage pool	18		
7. General pay increase	10		

In the private sector, the local partners are allowed to decide the whole of the wage margin and/or distribution for 72 per cent of the employees (agreement models 1-5 above). The proportion is substantially higher in the white collar sector than in the blue collar sector. A large number of these agreements incorporate some form of individual guarantee limiting the local partners' freedom to distribute the wage margin. In some areas, the individual guarantee takes the form of a settlement at the end of the contractual period, which means the local partners in these areas are completely free to distribute the margin as they see fit.

For a further 18 per cent of private sector employees, the local partners are allowed to decide the distribution of part of the wage margin (agreement model 6 above). In the case of the remaining 10 per cent of employees in the private sector, the local partners cannot influence the margin distribution. The entire margin is dispensed in the form of a general pay increase that is the same for all.

In the *public sector*, the local partners are allowed to decide the wage margin and its distribution in all cases. In this sector, too, a number of agreements include some form of individual guarantee. In the *state sector*, the individual guarantee takes the form of a settlement at the end of the contractual period, and thus does not affect the local partners' freedom to distribute the wage margin when pay scales are reviewed. In the *municipal and county council sector*, the only individual guarantee is to be found in the agreement negotiated by the Swedish Municipal Workers' Union. The guarantee applies when pay scales are reviewed for each year and thus to a certain extent limits the local partners' scope for managing the wage margin.

Premature termination

In the private sector, the great majority of three-year agreements negotiated in the 2001 bargaining round contained a termination option for the final contractual year/period. In the municipal and county council sector, the three-year agreement negotiated by the Municipal Workers' Union also included such an option. The 30-month agreements negotiated in the state sector in 2002 contained a similar termination option for the final 15-month period.

In the majority of contractual areas, the termination option meant that in the fourth quarter of 2002 the partners were required to decide whether the contracts were to be terminated or not.

In the private sector, termination of contract was initially discussed in relation to the agreements negotiated for the engineering industry, for white collar employees in the paper and pulp industry and for municipal and county council employees covered by the Municipal Workers' Union contract.

Only the Municipal Workers' Union chose to exploit the option, giving notice of termination on 30 October 2002 of its agreements with the Association of Local Authorities and the Federation of County Councils. The agreements – covering some 450,000 employees (full-time

equivalents) – thus cease to apply from 31 March 2003. Under these agreements, the wage margin for the final contractual year was 3.5 per cent, with an individual guarantee of SEK 250 per month.

Working time

Length of working time is currently a matter for discussion and decision in a number of countries in the European Union. In France, a 35-hour working week was introduced via legislation, while in Germany the issue was dealt with in collective agreements. The Netherlands has a tripartite system under which the government and the social partners are seeking to boost employment by shortening working hours and encouraging part-time work.

In Sweden, the partners in the private sector in particular have for some years now included different models for reducing working time in their collective agreements. In eight of the ten agreements concluded in the 2002 bargaining round, rules were introduced concerning shorter working hours for an additional 55,000 employees. Almost a million privately employed wage earners now have agreements containing rules on shorter working hours. In the public sector, efforts to reduce working hours have not been of the same magnitude.

While working time has been shortened through collective agreements, a government committee set up to study the matter (Knas) has proposed a new mandatory law providing for five days of leave. Should this proposal be approved, it will probably spell the end for agreement models that give wage earners the freedom to choose between shorter working hours, pension premiums and cash payments. If so, central government will have helped to phase out a type of model that could be described as innovative. Such a course would also mean abandoning the policy approach that has marked the past fifteen years, whereby the question of shorter working time is left to the partners.

Gender equality

Official pay statistics specify the wages of women and men in the various employment sectors. Statistical differences in pay have been largely of the same magnitude over the past ten years. The differences primarily reflect segregation in the labour market and the fact that female-dominated occupations tend to be lower paid. The statistics give no indication as to whether the differences in pay are unjustifiable or discriminatory under the Equal Opportunities Act. The reason for this is that the statistics and the law operate on different levels. The statistics show the differences in pay between different occupational categories and across whole sectors, but do not show the state of affairs at individual workplaces. The purpose of the Equal Opportunities Act is to eliminate unwarranted differences in pay between employees performing equal work or work of equal value for the same employer.

Principal responsibility for wage formation lies with the social partners and they have a crucial role in promoting equal pay. To a great extent, nationally negotiated agreements have mainstreamed the gender equality aspect into local wage formation. The agreements also incorporate rules on

professional development. These may be regarded as an attempt to remedy a situation in which many workplaces distribute work tasks on a gender basis.

Mediation

Compared with 2001, considerably fewer new agreements were negotiated at the national level in 2002. This affected the number of mediation assignments undertaken, which amounted to only six during the year. The limited number of negotiations also had an impact on the statistics relating to working days lost due to industrial disputes. The figure is among the lowest recorded since 1985. In the case of regional mediation activities, the situation has been more or less unchanged in recent years in terms of the number of cases and the types of disputes.

Wages and labour costs

The National Mediation Office is the government body responsible for public statistics on wages and salaries. This section in the annual report contains an account of the pay statistics as well as an account of wage trends in 2002 according to the short-term (monthly) wage statistics.

The average rate of pay increases for the economy as a whole in 2002, according to present calculations, was 3.9 per cent. This figure is based on the 'preliminary' rates of increase for the January-November period, and is a couple of tenths below the rates for 2001. Pay increases for white collar employees were once again higher than for blue collar workers.

With the successive addition of retroactive wages to the short-term wage statistics, the final figures for 2002 are expected to be slightly higher, especially in the state sector, due to protracted local negotiations.

By historical comparison, real wage increases in recent years have been fairly substantial, and the highest since the 1960s. Real wages again showed a material increase in 2002.

This section also contains a detailed description of the structure, content and applications of the Swedish Labour Cost Index (AKI) and of Eurostat's Labour Cost Index (LCI).

The section concludes with an account of the consultations/contacts that the National Mediation Office has had with various users of statistics, and also describes both scheduled changes in the official statistics on pay and current projects.

Competitiveness

In the long term, a country's international competitiveness is largely determined by factors such as investment in human capital, investment in research and development, and investment in real capital. Sweden's competitiveness is dealt with here in a narrower perspective, i.e. on the basis of international comparisons both of labour cost trends and levels and of productivity trends. In the long and medium term, these are important factors along with consumer prices, export prices and exchange rates. The comparisons are confined to developments in the business sector, particularly in industry.

Labour costs continued to grow more rapidly in Sweden than in important competitor countries, both in industry and in the business sector as a whole. Due to a very substantial growth in productivity and a weakened rate of exchange, however, competitiveness was maintained in 1993-2002 and even improved to some extent. Swedish export prices have fallen compared with those of competitor countries, and Swedish consumer prices have not increased any faster than in the outside world.

In the future, however, it appears unlikely that Sweden will be able to count on the kinds of rises in productivity seen in recent years. Also, many economic observers expect to see the exchange rate strengthening – especially if Sweden should decide to join EMU. If Sweden is to continue improving its competitiveness, labour market costs must not be allowed to exceed those of our trade partners.

This section also contains reports on the latest bargaining processes in Germany, Denmark, Norway and Finland.