

## Summary

**The National Mediation Office has three principal tasks: to mediate in labour disputes, to promote efficient wage formation and to oversee the provision of public statistics on salaries and wages. The Office began operations in 2000.**

**As the government agency responsible for interceding in labour disputes the Office is itself a part of the wage formation system in Sweden. An important task, therefore, is to disseminate economic information to the social partners and to the general public with a view to influencing wage formation so as to encourage high employment, price stability and a satisfactory rate of real wage growth.**

### Wage formation and economic development

Growth in productivity is a key element in the definition of efficient wage formation that the Government has provided the National Mediation Office with. In principle, productivity growth determines the extent to which real hourly wages can rise – when business profit margins remain constant – without this pushing up prices.

Bargaining in 2005 will focus primarily on the wages of employees in municipalities and county councils. The ability of local government bodies to meet their obligations within the revenue framework determined by the country's political assemblies will depend to a great extent on the way labour costs develop. In the current debate on future financing prospects, ways and means of boosting productivity and streamlining public activities are central. Below, we discuss the concept and significance of productivity as it pertains to wage formation, with special reference to its applicability and relevance for the activities of the publicly financed sectors.

#### Baumol's dilemma

In recent years, one particular aspect of public productivity growth has attracted a great deal of interest. It concerns what is sometimes referred to as Baumol's economic dilemma. The dilemma is that while it is difficult to boost productivity in the service sector, due to the nature of production there, productivity in the commodity sector can often increase significantly from year to year, as a result of technological advances and other factors. If wage increases in the long run are roughly of the same magnitude in both sectors, the inevitable result is that services become increasingly expensive to produce in relation to goods.

In the case of tax-financed services, therefore, tax rates must be constantly raised if the volume of consumption is to keep pace with growth in the consumption of private-sector products. If tax rates remain unchanged, growth in public consumption can only be achieved if *employment*

increases in the economy. The problem is made more acute by the fact that the need and demand for the types of services provided in Sweden by the local government sector actually tend to grow *faster* than the demand for goods.

The low rate of productivity growth for tax-financed welfare services is not due to the fact that they are publicly financed. The principal reason is the nature of the products: in content, they consist partly or sometimes entirely of direct communication between people. A similarly low rate of productivity growth may be expected for services of the same type produced privately.

### **The statisticians' standard assumptions**

In their national accounting, Statistics Sweden have long used the assumption that productivity growth in the public sectors is equal to zero. Statisticians in most countries also use standard assumptions, but some allow for a degree of growth in public-sector productivity, albeit a small one. Added to the fact that public production in Sweden is relatively extensive, this means that Swedish GDP growth tends to be underestimated compared with the rates of other countries. Statistics Sweden is considering revising its assumption, which in all likelihood is causing just such an inaccuracy. It would be very strange if computerisation, other new technical aids and greater knowledge, etc, had not had any beneficial effects whatsoever on productivity in the public sector. One interesting implication of such a reassessment would be that historical growth in central and local government consumption would have to be adjusted upwards.

### **The content and causes of productivity increases**

National accounting statisticians, then, find it difficult to measure improvements in productivity in the public sector, although they are well aware that such exist. The ways in which productivity increases are achieved in this sector are largely the same as in the private sector:

- higher work rate through better organisation, restructuring and specialisation within the existing production technology framework (routine structural rationalisation)
- greater use of computers and other labour-saving equipment, more sophisticated tools (increased capital intensity)
- new products that either replace old ones or fulfil completely new functions.

In addition, there is every reason to include a fourth factor that is present in all the others and deserves a place of its own:

- greater knowledge through education, training and research (growth in human capital)

### **The Swedish economy in coming years**

Economic development in Sweden has been difficult to analyse in recent years. Two of the most common economic indicators, GDP growth and unemployment, have moved in unexpected directions. While GDP growth has increased, and possibly culminated in 2004 at almost 4 per cent, open unemployment has risen from 4 per cent in both 2001 and 2002 to an average of 5.5 per cent in 2004.

It is not, of course, unusual for the labour market to respond late in the economic cycle. Not until economic growth approaches its peak does the shortage of labour become so conspicuous that companies are obliged to recruit on a large scale. This time, though, the rise in employment has taken an unusually long time to appear. Assuming that growth in demand and production does not slacken disproportionately in 2005 and 2006, however, employment seems likely to rise somewhat during this period.

The National Institute of Economic Research is forecasting a fairly limited slowdown in GDP growth in 2005 and 2006 – approx. 3 per cent per annum – but the possibility that 2007 will bring more of a recession cannot be ruled out. Overall, however, some increase in employment in 2005 and 2006 (in terms of both the number of people and the number of hours worked) seems likely.

### **The situation in the business sector**

Productivity growth in the business sector has a crucial role in determining the scope for future pay rises. Since the beginning of the 1990s, growth has been almost 3 per cent per annum. Sweden thereby surpassed its competitors in the EU, whereas the reverse was true in the 1980s.

Expectations of a slight increase in employment in 2005 and 2006 are due to the fact that productivity growth in the business sector is expected to be one or two percentage points lower than in recent years. Continued growth in demand means that more working hours will be required in production. The productivity growth rate corresponds fairly well with the average for 1997-2004.

Gross profit in the business sector has risen slightly since bottoming out in 2001. Historically, its share of added value in 2004 was normal. Overall the profit situation could be described as fairly neutral in relation to wage formation.

### **The situation in the local government sector**

The economic position of Sweden's municipalities and county councils shows clear signs of improving over the next few years, at least temporarily. In 2004, the overall outcome is likely to be a deficit of SEK 5 billion, which corresponds to less than one per cent of overall operational costs. The municipalities' and county councils' national associations predict a surplus of SEK 4-5 billion for both 2005 and 2006. Such an improvement presupposes some increases in tax rates, although comparatively small ones. In 2005, tax rates are expected to rise by almost SEK 0.10, with the bulk of the increase in the county council sector.

The municipalities' and county councils' national associations predict minor tax increases after 2005 as well. Altogether, the rate is expected to go up by SEK 0.21 during the period 2005-2008. This will enable the municipalities and county councils to maintain a surplus, although not large enough to prevent their capital from being eroded or to provide them with an adequate cushion against unforeseen developments. Thus the overall picture is by no means free of problems, and it should also be borne in mind that on average the local government sector has been afflicted by a succession of unacceptably large deficits in recent years.

## **Labour market legislation**

In 2004, little changed in Sweden in the way of employment legislation. The National Mediation Office's instructions have been altered, and a law on employee participation in European companies has been introduced. Otherwise, only a few minor changes have been made in the regulatory framework in Sweden. In the autumn of 2004, however, the Riksdag passed a law designed to reduce absence from work due to illness. Under this law, employers are required as of 1 January 2005 to provide 15 per cent of an employee's sickness benefit costs. At the same time, the period during which employers are required to pay the employee's sick pay is reduced from three weeks to two. Also during the autumn, a government bill proposing changes in the Working Hours Act was presented to the Riksdag.

## **Bargaining in 2004**

In 2004, bargaining affected just over half of all employees in the Swedish labour market. Negotiations embraced almost the entire private sector as well as agreements in the state sector. In all, some 420 agreements were concluded in 2004, affecting 1.9 million wage-earners.

Most of the agreements in the private sector were to expire during the first half of the year, particularly during the period 13 March-30 June. A number of agreements in the transport sector expired on 31 December 2004. State agreements were valid until 30 September 2004.

### **The private sector**

The first agreement in the private sector was concluded on 27 March between the Swedish Employers' Alliance and the Federation of Salaried Employees in the Hospital and Public Health Services, the Swedish National Union of Local Government Officers, the Swedish Medical Association, the Swedish Association of Graduate Engineers, and others in the *healthcare and social services* sector.

On 18 March, nine agreements were reached in the industrial sector, affecting 330,000 employees.

A further 40 agreements were concluded during the period 19-31 March, affecting over 390,000 employees in the industrial and construction-related sectors and in certain service industries. Intensive negotiations took place

between 1 April and 30 June, primarily in the service sector, and over 310 agreements were eventually concluded, affecting almost 840,000 employees.

From the summer until the end of the year, a further 50 or so agreements were reached, affecting some 125,000 employees.

### **The public sector**

The bargaining round began when the partners presented their demands on 17 June 2004.

The negotiations proved more difficult than expected, and by the date of expiry no agreements had been reached. The first did not come until 15 November, when the National Agency for Government Employers agreed terms with the central government section of the Confederation of Professional Associations and with the Union for Service and Communication Employees.

On 30 November, after mediation, agreement was reached between the National Agency for Government Employers and civil servants, police and military officers affiliated to the Public Employees' Negotiation Council.

In the local government field, bargaining will largely be confined to 2005. An agreement was reached in 2004, however, between the Swedish Association of Local Authorities/Pacta and the Union of Firemen relating to part-time fire officers. Terms were agreed on 4 October, after mediation.

In December 2004, the Swedish Association of Local Authorities and County Councils/Pacta agreed in principle on a new agreement with the Federation of Salaried Employees in the Hospital and Public Health Services, valid from 1 April 2005.

### **Completion in time**

#### **The private sector**

During the 2004 bargaining round, terms were agreed in respect of 72 per cent of the country's employees before the old agreements expired or within a week of their expiry. Three weeks after the date of expiry, agreements were in place for 77 per cent of the employees. In the case of the remaining 23 per cent, agreements were not reached until more than three weeks after the date of expiry.

#### **The public sector**

In the central government sector, no new agreements were reached before the old ones expired.

### **Length of contractual periods – premature termination**

#### **The private sector**

Most agreements in the private sector – affecting 88 per cent of employees – are of three years' duration and normally expire during the first half of 2007.

With one or two exceptions, agreements in the industrial sector run for 36 months. In other industries, 81 per cent of the employees are covered by agreements lasting 31-42 months.

There is little variation in the periods of expiry. Most agreements expire on 31 March, including those in the export industry and in the retail and wholesale trade.

Over 170 agreements covering 45 per cent of the employees in the private sector contain a general termination option for the final contractual period. In the industrial sector, virtually all the agreements, affecting 98 per cent of the employees, contain such an option.

Major sectors that lack a premature termination option include the wholesale and retail trade, the hotel and restaurant industry and the cleaning industry.

### **The public sector**

All agreements in the state sector run for three years, with a premature termination option for the final year.

### **Wage levels, reductions in working hours etc**

The reduction in working hours agreed in the 2004 bargaining round largely reflected previous moves in this direction, corresponding this time to a one-day cut with a total cost over the contractual period of 0.5 per cent in the sectors concerned.

Counting the value of shorter working hours, employees in the industrial sector with three-year agreements won a total rise of approx. 7.3 per cent. This level became 'normative', i.e. deviations yielding a higher percentage corresponded to the estimated value of changes in the employees' general terms and conditions. The partners decided in their negotiations that the reduction in costs that had resulted from these changes had afforded greater scope for wage rises.

In the case of white-collar workers, the total negotiated increase, including the value of shorter working hours in sectors with three-year agreements, was between 5.8 and 7.3 per cent.

In areas with three-year agreements, the *average negotiated wage increase* for *blue-collar workers* is an estimated 7.5 per cent for the period as a whole. In addition, there is an estimated average cost of 0.3 per cent for *negotiated reductions in working hours*. In some cases, the partners have foreseen wage growth outside the agreement and have estimated the likely costs involved, and also included estimates of the cost of raising minimum wages etc. The total *average negotiated increase* for blue-collar workers in the private sector is 7.8 per cent. This percentage level is higher than that provided for in the agreements in the industrial sector, as the comparison contains, *inter alia*, a number of low-paid industries in the service sector.

Some agreements in the latter sector include extensive changes in general terms and conditions that have led to higher wage increases. Also, in some

low-paid industries, pay rises expressed in money terms are higher in percentage terms than in the industrial sector.

In the case of *white-collar workers* in the private sector covered by three-year agreements, the *average negotiated wage increase* for the period as a whole is 6.3 per cent. In addition, there is an estimated average cost of 0.3 per cent for *negotiated reductions in working hours*. Here, too, the partners in some sectors have foreseen wage growth outside the agreement and have estimated the costs involved at an average of 0.2 per cent during the period as a whole. Accordingly, the *average negotiated increase* for *white-collar workers* in the private sector is 6.8 per cent.

In the case of *industrial workers*, the *average negotiated wage increase* is estimated at 6.9 per cent for the period as a whole. In addition, there is an estimated average cost of 0.5 per cent for *negotiated reductions in working hours*. In one or two cases, the partners have foreseen wage growth outside the agreement and have estimated the costs involved. The *average negotiated pay rise* for *industrial workers* is 7.4 per cent. The average wage increase is thereby some 0.1 per cent higher than the 'norm', due to the fact that some of the major industries in this sector have introduced changes in the employees' terms and conditions that have led to negotiated rises greater than 7.3 per cent.

In the case of white-collar workers in the industrial sector, the average negotiated wage increase will be 5.7 per cent for the period as a whole. In addition, there is an estimated average cost of 0.5 per cent for negotiated reductions in working hours. Here, too, the partners in some sectors have foreseen wage growth outside the agreement and have estimated the costs involved. Accordingly, the *average negotiated increase* for *white-collar workers* in the private sector is 6.2 per cent.

### **The public sector**

The agreement between the National Agency for Government Employers and the central government section of the Confederation of Professional Associations contains no figures, i.e. no wage increases have been decided at national level.

Starting with the 2004 agreements, the contracts with the central government section of the Confederation of Professional Associations and with the civil servants, police and military officers affiliated to the Public Employees' Negotiation Council have introduced the concept of individual wage negotiations aiming at reaching an agreement, instead of the model involving general wage discussion.

Apart from the rule on wage-setting discussions, the latter agreement is in principle the same as the agreement between the National Agency for Government Employers and the Union for Service and Communication Employees, i.e. both are local wage formation agreements where pay is determined by means of local bargaining. A status check will be carried out at the end of the period, at which time pay is supposed to be at least SEK 700 higher than at the beginning of the period. In the event of disagreement

at the local level, the partners can appoint a wage/arbitration board whose task would be to help them reach a settlement. Should a negotiated solution fail to materialise, a predetermined adjustment sum of 7.3 per cent will apply along with predetermined annual adjustment dates for the contractual period.

### Agreement models and distribution principles

Many agreements – in both the public and the private sector – give local partners the opportunity to decide both the size of the wage margin and how the money is to be divided between individuals. Often, however, these rules are linked to fall-back provisions of various kinds specifying both the extent of pay rises at the company/workplace in the event of disagreement and the minimum rise that each individual is to receive. In practice, local freedom of negotiation is curtailed by these fall-back provisions.

The table below shows the various agreement models to be found in each sector, divided into seven main groups. Minor differences exist 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	All sectors
1. Local wage formation without nationally determined wage margin	7	38	28	18
2. Local wage formation with a fall-back provision regulating the size of the margin	8			4
3. Local wage formation with a fall-back provision regulating the size of the margin, plus some form of individual guarantee	16	62		14
4. Local wage frame without an individual guarantee	12		72	30
5. Local wage frame with an individual guarantee or alternatively a fall-back provision regulating the individual guarantee	28			17
6. General pay increase and local wage frame	18			10
7. General pay increase	11			7

In the private sector, local partners are allowed to decide the whole of the wage margin and/or distribution for 71 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, which limits the local partners' freedom to distribute the wage margin.

For a further 18 per cent of private sector employees, the local partners are allowed to determine the distribution of part of the wage margin (agreement model 6 above). In the case of the remaining 11 per cent of employees in the private sector, the local partners are unable to influence distribution; the entire wage 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.

## **The 2005 bargaining round**

The 2005 round of bargaining will not be as wide-ranging as the 2004 round in terms of the number of collective agreements due to be renegotiated. Seventy-odd agreements covering over 1.3 million employees will be affected in 2005, compared with some 450 agreements covering two million employees that had to be renegotiated in 2004.

The areas concerned in 2005 are the municipal and county council sector, the transport sector, parts of the construction sector, and the banking and insurance sector. Of these, the municipal and county council sector represents 1.1 million employees and the private sector 200,000. In addition, about 20 agreements covering some 60,000 employees will carry over from 2004.

The agreements governing the municipal and county council sector and the transport sector will expire in the spring, those governing the construction sector in the autumn and those governing the banking and insurance sector at the end of 2005.

## **Worktime**

Like the 2001 bargaining round, the 2004 round resulted in three-year agreements across the board, in both the private and the state sector. Those partners who had already agreed on reductions in working hours continued to build on their earlier models, although with certain modifications. Only one new agreement was reached containing rules on shorter working hours: that between the Swedish Electrical Contractors' Association and the Swedish Electricians' Union.

The 2001 reduction in working hours was approx. three days or 1.5 per cent, representing one day or 0.5 per cent per annum. In the 2004 bargaining round, where such were included, reductions were lower, corresponding to one day or 0.5 per cent for the period as a whole.

In the public sector, the 2004 agreements contained no new initiatives concerning working hours.

One tendency in the 2004 bargaining round was a slight shift from reduced daily worktime, and/or reductions in weekly worktime, to other models. The models now being used more widely are those that offer a choice between reduced working hours, better pension premiums and pay rises.

## **Working environment**

In the 2004 bargaining round, the working environment has once again come into focus. Working environment agreements have been concluded in industries that previously lacked them, and existing agreements have been

revised in a number of cases. In other areas, the partners have agreed to enter into negotiations on working environment agreements or have commissioned joint groups representing both sides to draw up a new one. Also, joint consultative bodies have been set up at national level to support the local partners in their efforts to develop a good working environment.

## **Gender equality**

To a much greater extent than before, the partners in the 2004 bargaining round incorporated rules in their agreements aimed at bringing about equal pay between women and men. There is now an unequivocal trend in the employment market towards individual and differentiated wage-setting. The partners at national level are increasingly delegating the task of deciding the wage margin to the local partners. As regards the distribution of the margin to individuals, the local partners exert an influence in almost all contractual areas. The size of the margin at their disposal varies between agreements. In cases where a decision on this has been delegated to the local partners, they are often entitled to decide the distribution as well. Fairly often, however, the national partners have imposed certain limitations on the freedom of the local partners in this respect by prescribing individual guarantees of various kinds.

As wage-setting is now individual and differentiated, it is important to ensure that differences in pay are not discriminating or unjustified in some other respect. In pursuit of fair pay relations, the national partners have usually agreed on principles or guidelines for wage-setting. These often include prohibitions on discrimination and/or emphasis on the principle of equal pay. If compliance is to be achieved, wages must be surveyed and analysed, and unwarranted differences in pay must be corrected. The great majority of agreements at the national level include provisions requiring the local partners to carry out a survey of pay relations, either ahead of or in connection with pay revisions. In effect, it is usually a question of checking to ensure that there are no differences in pay that violate the wage principles contained in the agreements themselves. As these principles are based on the concept of fair pay relations, gender-linked pay differences that do not accord with them are likely to be detected. Under the 2004 agreements, such differences are to be eliminated. In some cases, however, national agreements stipulate that wage surveys and analyses must be carried out pursuant to the Equal Opportunities Act.

If the rules in national agreements are to have the desired effect, they must be properly applied at the local level. The two sides can agree on the rules, but it is primarily the local partners who are responsible for their implementation. In a number of contractual areas, joint working groups or special bodies have been set up to assist the local partners in their efforts to eliminate any unjustified wage differences between women and men that may be present.

## **Mediation and industrial action**

The 2004 bargaining round was in all essentials a repeat of the 2001 round. Now as then, new collective agreements were negotiated for virtually the entire private sector and generally encompassed three years.

Mediation took place in national negotiations in 24 cases, which is a slight increase on the 2001 bargaining round. In four cases, industrial action subsequently ensued. One of the conflicts was extensive, accounting for 13,626 of the total of 15,282 working days lost as a result of labour market disputes in 2004.

At the regional mediation level, the position has been largely unchanged in recent years in terms of the number of cases dealt with. Some changes have occurred, however, in that the number of mediation cases involving disputes with foreign contractors has increased. More issues relating to Community law have also come to the forefront. Nevertheless, only a fraction of the local collective agreements, or 'application agreements', negotiated in the Swedish labour market as a whole led to disputes.

## **Wages and labour costs**

Hitherto, the average wage increase in the Swedish economy as a whole in 2004 was 3.2 per cent, according to short-term wage statistics. This figure is based on the 'preliminary' rates of increase for the January-October period. In an extended time-frame, this is still a relatively low rate, but it is slightly above the average for the euro zone.

The successive addition of retroactive wages to the short-term wage statistics is not expected to affect the final outcome for 2004 to any great extent, except in the case of the state sector, where the new agreement enters into force in October 2004.

By historical comparison, real wage increases in recent years have been substantial.

## **Competitiveness**

During the period 1998-2003, Sweden's competitiveness in relation to the EU countries improved, due to considerable growth in productivity and a slight weakening of the exchange rate, which more than offset the fact that labour costs in Sweden increased at a faster rate than in the EU.

Preliminary figures show that the development of labour costs in Sweden and the EU was about the same in 2004. The cost increase in Sweden, however, was significantly higher than that of our leading competitor, Germany. A poor economic climate and the application of special exception provisions in collective agreements appear to have resulted in lower wage increases in Germany in 2004 than the agreements provided for.

As productivity growth in Sweden remained strong, it seems likely that our competitive position vis-à-vis the EU countries as a whole improved further in 2004.

Swedish competitiveness vis-à-vis US business companies and in dollar-based markets declined significantly, however, due to a strengthening of the krona against the US dollar by almost 40 per cent in the 2003-2004 period. Labour costs in Sweden and the US increased by roughly the same amount in the same period, while both countries showed substantial gains in productivity growth.

In Sweden, moderate increases in pay coupled with strong productivity growth have resulted in a comparatively slow rise in consumer and export prices. The rise in Swedish consumer prices, which in 1998-2003 was lower on average than price rises in the EU countries, fell back to about 1 per cent in 2004. Swedish export prices continued to decline in 2004, while export prices among Sweden's competitors rose slightly. Between 1993 and 2004, Swedish export prices have fallen by just over 6 per cent, while prices in competitor countries have risen by almost 4 per cent, even taking into account fluctuations in exchange rates.

## **The implications of EU enlargement**

For the countries of the new, enlarged EU, membership in May 2004 represented the culmination of an integration process that had been under way for something like ten years. Accordingly, trade exchange with the EU has been gradually increasing, while direct investment from Sweden and the rest of Western Europe has risen sharply. For the EU in general, the economic importance of enlargement has been limited since total GDP in the new countries corresponds to only 5 per cent of GDP in the old EU countries. For Sweden, the effects on employment will chiefly result from the increased mobility of goods, services and capital. Increased labour supply from the new EU countries, on the other hand, is likely to have only a limited impact in Sweden, except in a few specific areas. Low cost levels in the new EU member states will continue to provide Swedish companies with a strong incentive to transfer production to these countries, particularly now that they have become fully-fledged EU members.