

2005 Annual Report of the Swedish National Mediation Office: English 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.

Efficient wage formation makes it possible to combine healthy real wage growth with price stability, low unemployment and a high employment rate.

As the government agency responsible for interceding in labour disputes and promoting efficient wage formation, 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 promote high employment, price stability and a satisfactory rate of real wage growth.

Wage formation and the economy

The year 2005 was an interim year for the Swedish economy, and also for wage bargaining, which principally focused on the municipal sector and the construction industry. Following a strong, export-driven increase in GDP in 2004, growth slackened in early 2005. As this was followed by a recovery and the introduction of some robust economic policy measures, 2006 is expected to be a year of substantial growth. Despite a decent rate of economic growth in 2005, the labour market remained weak well into the autumn, while inflation remained at a very low level. The current shift in overall demand in the economy towards private and public consumption is benefiting domestic sectors where production is more labour-intensive than in the export sector. There is therefore reason to expect a marked improvement in the employment situation in 2006.

For the business sector as a whole, hourly wages have shown a moderate increase in recent years, while a reduction in employers' social insurance contributions has further slowed the growth rate in overall labour costs to some extent. Productivity in the business sector increased at a slower rate in 2005, and the increase in 2006, too, is expected to be significantly lower than for 2003-2004. Labour costs per unit produced, therefore, are expected to rise to some extent.

Local and regional government economies improved considerably in 2004 and particularly in 2005, but cost restraint meant that employment levels remained largely unchanged. In 2006, increased municipal employment is anticipated, both in terms of regular jobs and as a result of new employment policy programmes. The new collective agreement for the country's municipalities is expected to mean that wages in 2005 and 2006 will show only a very slight

increase on the rate for the business sector. In 2004, they rose much faster than business-sector wages.

Sweden's integration into the EU is continuing, while at the same time technological and political changes have created new global opportunities for Swedish trade and industry. Globalisation means greater mobility across national borders for capital, goods and services, and in time will make labour more mobile as well. Competition from fast-growing low-cost countries is posing tougher challenges to Swedish business, necessitating further restructuring, product development and the modification of production processes.

Pay and statistics

According to the aggregated short-term wage statistics, the wage increase for the economy as a whole was 4.4 per cent in 2001, after which, due to such factors as weakening employment, it gradually fell to 3.3 per cent in 2004. Despite the fairly modest increases in the nominal wage rate, real wages increased satisfactorily, by an average of just over 2 per cent during the 2000-2004 period.

In 2003, the EU Council of Ministers adopted the regulation governing **Eurostat's Labour Cost Index (LCI)**. Like most other countries, Sweden had been granted a respite until 2005 for the delivery of the index series in accordance with the regulation. In 2004 and early 2005, Statistics Sweden (SCB) and the National Mediation Office worked together to develop a model for calculating the LCI as prescribed by the EU. The index series was subsequently delivered to Eurostat in the summer of 2005.

As of 2005, production of the **Wage Statistics Yearbook** ceased. Instead, the yearbook's tables are reviewed and then published in Sweden's Statistical Databases (SSD) on the SCB website.

Women's and men's pay

The National Mediation Office's report for 2004 described the changes that had been introduced into the national agreements negotiated in that year's round of bargaining. These involved the regulation of contractual issues relating to equal pay, to the prohibition on discrimination in the Equal Opportunities Act, and to the same law's provisions concerning pay surveys, analyses and action plans. This part of the report was in response to the National Mediation Office's mandate as described by the Government's appropriation directions for 2004. Under the mandate, the Office was required, when discussing current and future bargaining rounds with the social partners, to impress upon them the importance of constructing their collective agreements in such a way as to benefit efforts to promote equal pay at local level. The National Mediation Office has operated under the same mandate in 2005.

It should be stressed that official pay statistics can never tell how far employers in Sweden practise pay discrimination as defined by the Equal Opportunities Act. The law addresses the conditions under which individual employers

operate, while the statistics focus on other levels. They show the pay gaps that exist between women and men both in the labour market as a whole and in the various labour market sectors.

The statistical differences between women's and men's pay have remained more or less unchanged over the past twelve years. It should be noted, however, that these pay gaps, prior to standard weighting, have gradually closed at the municipal level. In the case of county councils, however, the trend has been the opposite: the gaps have widened. After standard weighting, though, neither municipal nor county council pay reflects these changes. The differences between women and men are then fairly constant.

Average pay for women and men varies by sector. The highest average pay level is to be found among central government employees, followed by county council and private sector employees. The lowest level is that of municipal employees.

Competitiveness

Sweden is believed to have strengthened its competitive position vis-à-vis both the other EU member states and the US in 2005, aided by the fact that labour costs were roughly the same here as in our rival countries and that productivity continued to show substantial gains, albeit at a declining rate.

Over the period 2000-2004, Sweden's position vis-à-vis its European competitors improved, due principally to higher productivity but also to a slight weakening in the exchange rate. This more than offset the fact that labour costs in Sweden during that period increased at a slightly faster pace than the EU average. Preliminary figures show that in 2005, too, these costs rose slightly faster than for the EU as a whole, and considerably faster than in Germany, our leading competitor. There, a poor economic climate and further resort to escape clauses in collective agreements appeared to result in significantly lower wage increases in 2005 than the agreements provided for, as was also the case in 2004.

Labour costs in Sweden rose only marginally higher than costs in the US in 2000-2004, but as the Swedish krona rose by 40 per cent against the US dollar between 2001 and 2004, Sweden's competitive position both vis-à-vis American companies and in dollar-based markets deteriorated considerably. In 2005, Swedish competitiveness vis-à-vis the US improved marginally, partly because American labour costs rose slightly faster and partly because the krona once again weakened slightly against the dollar.

The modest pay increases and the substantial growth in productivity recorded in Sweden have primarily resulted in what by international standards is a slow increase in consumer prices. Particularly in 2004 and 2005, the rate of increase was considerably lower than in the EU countries – no more than 0.8 per cent in Sweden in 2005, compared to over 2 per cent in the EU countries. Export prices for goods and social services in Sweden in 2000-2004 rose at a slightly slower pace than in rival countries, while preliminary figures show that the rate of increase for 2005 was slightly faster in Sweden than elsewhere.

Bargaining in 2005

The 2005 bargaining round was not as extensive as the 2004 round in terms of the number of collective agreements negotiated. Just over 80 agreements covering some 1.3 million wage-earners were completed, compared with 450 agreements covering 2 million wage-earners in 2004.

The areas involved in 2005 were the municipal and county council sector, parts of the construction sector, and the banking and insurance sector. Of these, the municipal and county council sector represented a million employees and the private sector 300,000.

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

Mediation and industrial action

In 2005, just over 80 new nationwide collective agreements were reached on pay and terms of employment. In the municipal and insurance sectors, the partners are bound by agreements on bargaining procedure, according to which they themselves appoint mediators where necessary. For other sectors, it is the National Mediation Office that appoints mediators, and in 2005 this occurred in eleven cases. In nine of these negotiations, notice of industrial action was served, and two of them led to work stoppages. Both cases involved the same partners, who twice sought to negotiate the same agreement in 2005. Industrial action was also taken during bargaining in the insurance sector.

Outcome analysis

In many respects, the 2005 bargaining round was a continuation of the previous year's round. The normative impact of the Agreement on Industrial Development and Wage Formation could be clearly seen in the outcome of bargaining in 2005.

The negotiations concerned industries mainly operating in the service sector. Many agreements in the blue-collar sector are tariff or piecework wage agreements, which means pay rises are specified as a cash sum.

Completion in time

The principle of "completion in time" is now established in the Swedish labour market. This aim is set out in the 18 collaboration agreements drawn up by the various partners. In sectors lacking such agreements, too, there is a broad consensus on the importance of completing negotiations on a new agreement before the old one expires.

The outcome of bargaining in 2005 shows that most of the agreements in the private sector were not completed "in time". In terms of the number of employees affected, however, the results look better, as the agreements reached at the same time as the old ones expired, or within three weeks of that date, applied to a large share of the private sector workforce.

In principle, the municipalities' and county councils' national associations concluded their negotiations either "in time" or close to the date of expiry. The new agreement governing teachers was completed well in advance of the old one's date of expiry – in December 2004.

In the 2005 bargaining round, negotiations were completed either in connection with or prior to expiry for 41 per cent of employees. Ninety-three per cent of employees were covered by agreements reached within three weeks of the date of expiry.

Length of contract

From an employee viewpoint, the emphasis in the 2005 bargaining round is on 24-month agreements. This is due to the large number of municipal and county council employees in the Swedish workforce. Agreements for the majority of employees in the private sector run for 36 months, while the majority of employees in the municipal and county council sector have 24-month contracts.

As a result of the 2005 round, the partners who negotiated 12-month or 24-month agreements have fallen into step with those who concluded agreements in 2004 that are due to expire in 2007. Those partners who negotiated 36-month agreements in 2005, e.g. the transport and banking sector, have deliberately chosen to fall out of step.

Pay

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 in 2004.

This figure proved 'normative' for the agreements reached in 2005. Those partners who negotiated shorter settlements in 2004 did so again in 2005 and therefore have the same period of expiry as the partners in the industrial sector. Also, the bargaining outcome was designed to correspond to that yielded by the industrial agreement from 2004. An example of this was the Swedish Construction Federation's agreement with the Swedish Building Workers' Union. The partners agreed on a 19-month contract in 2004 with a nominal pay rise of 3.5 per cent. The agreement negotiated in 2005 was for 17 months and provided for a rise of 3.8 per cent (annual rate 2.7 per cent). Taken together, this meant a 36-month agreement with a nominal pay increase of 7.3 per cent, i.e. fully in line with the industrial agreement.

In the transport sector, the partners have agreed on a longer contractual period with higher nominal pay rises. Length of contract varies between 38 and 40 months and the nominal increases between 7.3 and 8.0 per cent, including shorter working hours where relevant. Calculated over a 36-month period, the pay rises amount to between 6.9 and 7.6 per cent (annual rate 2.3–2.5 per cent).

A distinguishing feature of many of the agreements reached in the blue-collar sector in 2005 was that the settlements were expressed as cash sums.

Agreements reached with the Transport Workers' Union involved pay rises of between SEK 510 and 530 per pay review. Agreements concluded with the Municipal Workers' Union yielded increases of between SEK 500 and 520 per review. Depending on the wage situation in the various sectors, the outcome in

percentage terms tends to vary although the sum may be the same in cash terms.

In the municipal and county council area – for teachers, doctors and local government employees in general – agreements were reached for a 27-month period. These are local wage formation agreements with a fall-back minimum of at least 2 per cent per pay review, i.e. at least 4 per cent over the period. For the first time, individual pay talks between managers and employees were introduced in the local government sector.

The new contract with the Municipal Workers' Union was concluded after mediators had been appointed in accordance with the collaboration agreement operating in this sector. As in the case of other blue-collar groups, the pay rise was expressed in cash terms: a minimum of SEK 510 at the first pay review and a minimum of SEK 500 at the second. Expressed as a percentage of earnings, the total pay pool during the agreement period is at least 5.75 per cent.

Average contractual outcome

The average rise negotiated for the three-year period is 8.3 per cent. In the private sector, a few agreements provide for shorter working hours and/or extra allocations to pension funds.

Agreement models

The National Mediation Office's first 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 their impact on wage formation at the local level.

During the period 2000-2004, about 20 per cent of Swedish employees were covered by agreements containing no figures, i.e. no wage increases had been decided at national level. Another 20 per cent were covered by agreements where the local partners were unable to influence the size of the pay pool. The remaining 60 per cent were covered by agreements giving the local parties freedom of action to a greater or lesser extent.

Taken as a whole, the outcome of the latest bargaining round means that the proportion of employees covered by 'figureless' agreements has fallen considerably, to 10 per cent, due to the fact that as of 2005 the municipal and county council agreements reached with organisations such as the teachers' unions and the Federation of Salaried Employees in the Hospital and Public Health Services include guaranteed minimum pay increases. The proportion of employees covered by agreements where the local partners cannot influence the pay pool is still approx. 20 per cent. The new situation means that figureless agreements have lost ground compared to agreements containing some form of guarantee.

Outcome according to the short-term wage statistics

The average cumulative wage increase for the economy as a whole in 2005, according to the short-term wage statistics so far available, was 2.8 per cent. This is based on the 'preliminary' monthly rates of increase for January-October. In the business sector, the increase was 3.1 per cent during this

period, compared with 3.0 per cent for the whole of 2004. This means the rate of increase in the sector remained low, as a result of the weak employment situation. The difference in the rate of wage increase between white-collar and blue-collar employees in the private sector persisted in 2005, although there were signs that the gap was closing towards the end of the period. In the commercial, hotel and restaurant sectors, however, the increase was roughly the same for both categories.

Real wages

Real wages have risen satisfactorily over the past ten years, and such a prolonged period of continuous increase has not been seen in Sweden since the 1960s. At the same time, the rate of increase in wages and prices has moved down a gear as a result of the new monetary policy regime. Real wages continued to rise satisfactorily in 2005 as well. The outcome hitherto suggests the increase will be just over 2 per cent for the year as a whole.

Labour costs

In many contexts, it is not the hourly wage but the total cost of labour that is the most relevant factor.

The total labour cost includes all wage elements and the pay factor is the hourly wage. Also included are the statutory and the agreement-based social insurance contributions paid by employers, and structural effects.

Higher social insurance contributions have played no small part in the way labour costs have developed in recent decades. The most notable increase has been that recorded for white-collar workers in the private sector, which is attributable to a rise in the premiums for supplementary pension plans in industry. The agreement-based contributions payable for white-collar workers in both the private sector and the county council sector went up in 2004. In 2005, statutory contributions were marginally reduced to compensate for the co-financing of sickness benefit in the same year.

According to the data hitherto available, agreement-based contributions were reduced in 2005, except in the case of employees in the primary municipalities. In 2006, agreement-based contributions in the municipal sector will be largely unchanged, while in the central government sector they will be slightly higher. Details of the 2006 agreement-based contributions in the business sector are not yet available.

Mediation and industrial action

The National Mediation Office has decreed mediation in eleven sets of negotiations. Industrial action was taken in two cases, both of which involved brief work stoppages. In each case, the dispute concerned not so much pay levels as the construction of the agreement, due to the fact that the employer organisation concerned had made a foreign company a temporary member. A number of the other mediation cases also involved disputes where a negotiated solution was initially blocked as a result of the opposing parties adopting incompatible positions of principle.

The conflict statistics show that 568 working days were lost during the year. Of these, almost 140 days were attributable to industrial action in connection with

bargaining at national level. The remainder involved protest actions of various kinds and wildcat strikes.

Regional mediation activities were dominated by disputes concerning the signing of collective 'application agreements', whereby an unaffiliated employer undertakes to apply the national agreement that applies in the sector concerned. In 2005, a total of 3,371 new agreements of this kind were reached in the Swedish labour market. This figure should be seen in relation to the fact that mediators were required to intervene in 50 disputes concerning the signing of applications agreements. Disputes, then, are the exception.

Working hours

In the private sector, a third of the agreements negotiated in 2005 contain models for reducing working hours. As a result, about half of the employees in this sector are entitled to shorter working hours in some form or other.

In the municipal and county council sector, shorter working hours are not negotiated in the same way as in the private sector. The municipal sector allows local partners to use a part of the pay pool for measures not related to pay, such as shorter working hours, professional skills development or larger allocations to pension funds.

Agreements negotiated in the central government sector do not contain any rules on shorter working hours.

In the agreements negotiated in the Swedish labour market in 2005, only very limited reference is made to shorter working hours.

Gender equality

In contrast to the large number of national agreements negotiated in 2004, the 2005 bargaining round was limited in scope. However, it affected as many as a third of Sweden's wage-earners, of which the great majority were found in the municipal and county council sector. With a few exceptions, negotiations on national agreements in the private sector concerned only minor contractual areas. Less than a dozen of these agreements affected more than 10,000 wage-earners. The agreements affecting the largest number of employees were those in the transport, construction and banking sectors.

Municipalities and county councils

About half of all women gainfully employed in Sweden work in the public sector. As the sector employs a third of the country's workforce, this means that the proportion of women is significantly larger than that of men. Almost 80 per cent of municipal and county council employees are women. Men are mainly to be found in the private sector, where they make up 63 per cent of wage-earners.

The question of equal pay has a number of different dimensions. In the political debate in Sweden, it is often women in low-paid municipal jobs who are cited as an example of a group whose work is underrated in comparison with men's work in male-dominated industries in the private sector. Another dimension is the pay gap between women and men in the same sector or industry. A third is the difference in wages and salaries paid by the same

employer, and it is here that the Equal Opportunities Act comes into the picture.

Parties who conclude collective agreements at industry or sectoral level are free to introduce changes in pay relations between women and men in their contractual area. This occurred, for instance, in the 2003 agreement between the Swedish Municipal Workers' Union and the municipalities' and county councils' national associations, which gave priority to wage increases for certain female-dominated occupational groups. Nor is there anything to prevent the two sides setting out in detail in their collective agreements how the local partners are to deal with wage formation at the workplace in order to live up to the requirements of the Equal Opportunities Act.

In the case of municipalities and county councils, there are seven contractual areas, depending on the position of the parties on the union side and on the type of local government activity involved. The national unions affiliated to the Confederation of Professional Associations and the Confederation of Professional Employees are represented either directly as contracting parties or via the Public Employees' Negotiation Council.

Basic principles for wage formation were introduced into agreements as early as 2001. The partners were agreed that national agreements were to be based on an annual review of pay levels. Also, employers were to have carried out pay surveys and analyses. These surveys are designed to show any pay gaps that exist between women and men in different types of work and in different employee categories. The agreements concluded in 2005 have specified more closely what is to be included in the survey and the analysis. They also state that employers should as a matter of course include members of staff who are absent due to illness or to parental leave in the wage formation process. The national partners also emphasise the importance of an integrated, all-round approach so that employers can make the necessary operation-wide preparations at the budget stage for action in whatever parts of the organisation it may be needed.

The private sector

The agreements reached in the 2005 round of bargaining largely confined themselves to regulating the size of pay increases. Only in a handful of cases did national agreements make any reference to gender equality or equal opportunity. Where this occurred, clauses were added containing wording taken from the agreements other national partners had negotiated in 2004. In that year's bargaining round, the partners took into account the requirements of the Equal Opportunities Act to a far greater extent than before, and this was reflected in the agreements. Over a million wage-earners came to be covered by agreements that in one form or another prohibited discrimination and/or advocated equal pay. For a somewhat smaller number of wage-earners, the agreements also contained rules requiring employers to coordinate their pay surveys/analyses with their pay reviews.

Work environment

A feature of the 2004 bargaining round was that matters relating to the work environment were regulated in collective agreements to a much greater extent

than before. This marked a break in the trend as activity in the work environment field has been low over the past decade.

The contractual changes introduced in 2005 are not particularly extensive in terms of the number of agreements. There may be a number of explanations for this. Principal among them is probably the fact that work environment agreements or similar provisions already existed in a number of industries in which the partners negotiated new contracts. This for instance was true of the construction industry and the transport sector. In the local government sector, an agreement was reached in 1992 on cooperation arrangements in municipalities and county councils, and in 1993 the partners concluded an agreement on skills development in the field of work environment and rehabilitation. As a result of the 2005 bargaining round, these agreements were replaced by a new one, entitled 'Renewal – Work Environment – Cooperation in Municipalities, County Councils and Regions'.

Minimum wages

Provisions regulating minimum wages are mainly to be found in the private sector, particularly in agreements reached with either the Union of Clerical Technical Employees in Industry (SIF) or the Salaried Employees Union, and also in principle with all the organisations affiliated to the Trade Union Confederation (LO). The minimum wage is not mentioned at all in the central government sector, while at local government level there are rules concerning minimum wages in the agreements with the Municipal Workers' Union and the Swedish Medical Association. Among white-collar categories in the private business sector, minimum wages are in principle nowhere to be found in the case of university-educated professionals, while they are generally regulated in the case of other white-collar workers.

The 2006 and 2007 rounds

The 2006 bargaining round will be limited in scope. A couple of dozen agreements are due to expire during the year, covering some 70,000 employees. If we include those agreements that are due for negotiation this year despite having expired in 2005 or before, just over 50 will be negotiated in 2006, covering about 100,000 employees .

A handful of industries in the transport sector are involved, plus a number of industries that negotiate with the Municipal Workers' Union. The agreements affecting maritime trade and the insurance industry expired at the end of 2005 and new ones will be negotiated in 2006.

The 2007 bargaining round

Over 3.3 million wage-earners are covered by collective agreements negotiated by the social partners in Sweden. Of this total, just over 2.8 million, or 80 per cent, will be affected by the 2007 bargaining round. Some sectors, notably transport and banking, have chosen not to negotiate new agreements at the same time as other industries. These sectors have deliberately chosen to 'fall out of line', and their agreements will be renegotiated in 2008.

Perspectives

Since the National Mediation Office came into being, two major rounds of bargaining have taken place in Sweden, in 2002 and 2004. The 2007 round will be the most extensive for many years, encompassing the whole of the public sector and most of the agreements in the private employment market.

During the Office's five years of existence, there have been a number of developments that are worth noting and on the basis of which certain assumptions may be made concerning the future.

We note that in certain respects, agreements have been widely regulated. Examples include the action taken to eliminate gender discrimination and promote equal pay. Contractual reductions in working hours are another example. Here, however, there appears to be little likelihood of further reductions at the same pace.

Regarding industrial action, there are clear signs that the right to apply it is no longer confined to the national level. This issue has become more 'international' now that Community law and certain conventions have come into the picture. As regards mediation in disputes between national partners, pay levels no longer appear to be the main issue when severe problems arise. Instead, disputes over principles and the distribution of power seem to take priority nowadays.

The age structure of the workforce is worth monitoring. There are signs that older employees are choosing to stay in the labour market for increasingly longer periods.

Translation by Stephen Croall