

## About the National Mediation Office

The National Mediation Office in Sweden is a central government agency answerable to the Ministry of Employment. It has three principal tasks:

- to mediate in labour disputes
- to promote an efficient wage formation process
- to oversee the provision of public statistics on wages and salaries.

**The National Mediation Office appoints mediators** in the event of a dispute between the parties in the labour market (the 'social partners') during bargaining over pay and terms of employment. Most of these mediators have previously served as negotiators with one or other of the social partners, or with a union or employer organisation.

**The National Mediation Office is required to strive for an efficient process of wage formation.** This means combining real wage growth with higher employment, facilitating changes in relative pay, and ensuring compatibility with the principles whereby the competitive sector (the export industry) establishes the norm for pay rises and industrial cost levels do not exceed those of Sweden's competitors. The National Mediation Office holds regular talks with the social partners and organises conferences on wage formation several times a year. It also publishes reports and anthologies on the subject, all with a view to pushing wage formation in the right direction.

Since 2001, the National Mediation Office has been the government body responsible for public statistics on wages and salaries. These are produced by Statistics Sweden. The Office's task, following consultation with other stakeholders, is to order statistics that meet the needs of other users.

The National Mediation Office has ten members of staff and began its operations in the autumn of 2000. It superseded the National Conciliator's Office, the previous government body in this field, which also appointed mediators.

The difference between then and now is that today's mediators are not allowed to propose agreements incorporating levels that exceed the norm established through agreements in the industrial sector.

State mediation in industrial conflicts has been provided for by law in Sweden since 1906.

## Summary of the annual report – Wage Bargaining and Wage Formation in 2010

### **Economy and employment**

The Swedish economy recovered strongly in 2010, and GDP is estimated to have increased by approximately 5.5 per cent – more than in any other EU country. A number of factors contributed to this development. Exports increased dramatically in pace with the global economic upturn, while domestic demand showed solid growth, encouraged by low interest rates. Employment recovered more quickly than anticipated, even in those industries most severely affected by the finance crisis. At first, this primarily concerned fixed-term or temporary jobs, but as the year progressed there was also an upturn in permanent employment. The improvement in the labour market situation led to a significant drop in unemployment noted by most unemployment insurance funds. However, jobless levels are still substantially higher than prior to the finance crisis. The CPI inflation rate averaged just over 1 per cent in 2010 but rose to just over 2 per cent at the end of the year, due principally to the Riksbank's hikes in the interest rate.

The decline in membership of the blue-collar Swedish Trade Union Confederation (LO) continued in both 2009 and 2010, while the white-collar Confederation of Professional Employees (TCO) and the Confederation of Professional Associations (Saco) both boosted their numbers. Collective agreements covered approximately 90 per cent of the labour market in 2009, which was 3–4 percentage points down on the 2005 figure. The unionisation rate changed little between 2008 and 2010, remaining around 71 per cent. Since the mid-1990s, however, unionisation has shown a significant decline. On the employer side, meanwhile, the rate of organisation has been remarkably stable.

### **Competitiveness**

Labour costs in Sweden increased more than in the outside world in 2008 and 2009, while the rate of productivity was weaker than in competitor countries. Together, this meant that unit labour costs tended to increase faster in Sweden than elsewhere. The substantial weakening of the Swedish krona in 2009, however, meant that the competitive situation improved slightly during that year. In part, the reverse was true in 2010. While productivity increased faster in Sweden than among competitor countries, the krona recovered well, which meant that competitiveness once again weakened in 2010. Viewed over a longer period, however, the Swedish economy still looks competitive.

Although labour costs rose slightly more in Sweden than in the EU and the euro zone, the gap in this respect has steadily narrowed over time. In the wake of the finance crisis, however, it widened once again when labour costs fell dramatically in other countries while Swedish pay levels were slower to adapt, due to the fact that the relatively costly agreements from the 2007 round of bargaining still applied in 2009 and part of 2010.

It should also be noted that proper interpretation of international pay statistics in both 2009 and 2010 was made difficult by the extensive introduction of shorter working hours around Europe in response to the economic crisis. Statistically, different countries often dealt in different ways with the issue of shorter working hours introduced without a corresponding reduction in wages paid.

Applying the harmonised EU measuring instrument, which does not include interest costs, inflation in Sweden in 2009 was considerably higher than in the EU and the euro zone for the first time in many years. One of the reasons was the substantially weaker krona, which made imports more expensive, in combination with the decline in productivity of recent years. As the krona grew stronger and productivity recovered, inflation receded and in 2010 the Swedish rate was once again lower than the EU rate.

Following its setback during the finance crisis, the krona steadily recovered in the latter part of 2009 and in 2010. As a result, in 2010 it recovered nearly all the ground it had lost in 2009, i.e. almost 10 per cent. Should the krona remain at the levels at which it stood around the turn of the year 2010/2011 for the rest of 2011, this would mean a further rise of approximately 5 per cent on 2010. In such a case, a stronger krona would put a strain on Sweden's competitiveness in 2011 as well.

### **Pay statistics**

According to the short-term (monthly) pay statistics, the *wage growth rate* continued to slow in 2010, when new and less costly agreements began to apply across most of the Swedish labour market. The rate of increase noted hitherto for 2010 (January–October) is the lowest on record at 2.4 per cent, both for the business sector and for the economy as a whole. The addition of retroactive pay will primarily boost outcomes at municipal level. In the business sector, approximately 70 per cent of employees have been receiving their wages under the new agreements, and preliminary outcomes there are expected to increase to a lesser extent.

Over the past year, the rate of wage growth according to the short-term statistics has differed considerably from that based on the *National Accounts*. The latter rate was much lower than the former in 2010. The difference was primarily attributable to changes in working hours due principally to the economic crisis. This applies for instance to how annual holiday leave is taken and how working hours are organised; these are treated differently in the two measurements. The discrepancy is particularly noticeable in the industrial sector, where the effects of the crisis agreements have impacted differently on the two statistical sources.

*Real wages* are estimated to have risen by just over 1 per cent in 2010, which was considerably less than in 2009. This was attributable to lower nominal pay rises and higher inflation. Over a longer period, 1996–2010, real wages have averaged an increase of about 2.5 per cent/annum. With 1995 as the reference year, this means real wages have risen by approximately 45 per cent.

The rate of increase *between different sectors* has been specially analysed, using various types of measurement. The analysis shows that intersectoral wage growth differentials are reduced if the statistics are corrected for structural effects, such as changes in the composition of the labour force. This has been achieved both by adjusting for age, education, occupation and working hours and by calculating changes in pay for identical individuals. These two are the most appropriate instruments for measuring intersectoral wage growth directly attributable to pay bargaining.

### **Labour market legislation etc**

In 2010, legislative amendments entered into force in two areas in Sweden. One concerned changes resulting from the European Court of Justice's ruling in the Laval case while the other concerned changes in the Annual Leave Act.

The Laval ruling by the European Court showed that Swedish legislation was partially in conflict with Community law over the right of Swedish union organisations to take industrial action against foreign companies posting workers to Sweden. To bring Swedish law into line with Community law, new non-strike rules were introduced by amending both the Posting of Workers Act and the Co-Determination Act. These amendments entered into force on 15 April 2010.

As part of the Government's drive to reduce administrative burdens on Swedish businesses, the Annual Leave Act was amended in a number of respects. These amendments entered into force on 1 April 2010.

### **Bargaining**

In 2010, new wages and salaries were due to be negotiated on behalf of some 3.3 million employees when roughly 550 agreements expired. At the start of proceedings, the bargaining round was strongly influenced by the economic crisis. The precarious economic climate and the varying situations in different industries and contractual areas also meant that opinions differed as to length of contract and other matters. The employers called for zero agreements at national level, citing both the severe crises in the industrial sector and the low-level agreements reached in other countries as the reason. LO recommended a joint set of demands including pay rises of at least SEK 620 per month/fulltime employee, with a 2.6 per cent minimum calculated on average earnings in the sector concerned. Its demands also included special wage boosts for low-paid workers and regulation of the right to hire staff from temporary employment agencies in cases where dismissed employees had a preferential right of (re)employment.

Initially, bargaining in the *industrial sector* made little progress, due in part to an impasse on the agency staff issue. On 20 March, however, the first agreement was reached in this sector. The parties on the employer side were the Association of Swedish Engineering Industries and the Swedish Industrial and Chemical Employers Association, while the employees were represented by the largest union in the private sector, Unionen, and the Swedish

Association of Graduate Engineers. The agreement resulted in a 2.6 per cent pay rise over 18 months, i.e. approximately 1.75 per cent calculated over a 12-month period, and had a distinct ‘back-loaded’ profile. Scarcely a week later, the metalworkers’ union, IF Metall, concluded its first agreements, which yielded 3.2 per cent over 22 months; in terms of cost, this was in line with the initial white-collar agreements. Thus the norm had been set for the rest of the Swedish labour market.

A few weeks later, bargaining was completed in the *retail sector*, and this agreement came to exert a powerful influence on other low-pay areas dominated by women. Pay rises in the two-year agreement totalled 4.7 per cent, but a number of cost-reducing measures – such as a smaller increase in the minimum wage – meant that the actual cost was estimated at 3.85 per cent. Subsequently, there were similar trade-offs in many other areas where pay rises exceeded the norm set in the industrial sector. Agreements in the *public sector* largely adhered to the established norm but did not have the same back-loaded profile as many of the private sector agreements. Taken as a whole, the bargaining round brought a clear downshift in the pace of wage growth compared to the previous contractual period.

*Solutions to the agency staff issue* tended to vary. One approach was to strengthen the contractual right to re-employment and introduce supplementary rules concerning hired staff. Another was to strengthen the unions’ negotiating rights and use an arbitration board to decide whether a given procedure conflicts with the right to re-employment. In some areas, the parties found there was no need to introduce rules into their agreements, and in such cases none were included. In other areas, rules were introduced but it was stated in the agreements that the hiring of labour did not present a problem.

### **Agreement models**

The 2010 bargaining round resulted in a shift towards a greater degree of local wage formation. This primarily involved a departure from individual guarantees in national agreements and greater emphasis on delegation to local parties, especially in matters concerning pay but also to some extent with regard to working hours. In the central government sector, agreements are totally without individual guarantees, while in the municipal and county council sector the only major agreement to include such guarantees (SEK 100 per annum) is that of the Swedish Municipal Workers’ Union.

## Sectoral distribution of agreement models

Agreement model	Percentage of employees, by sector			
	Private	State	Municipal and county council	All sectors
1. Local wage formation without nationally determined margin	6	38	5	8
2. Local wage formation with a fall-back regulating the size of the margin	9	62	40	25
3. Local wage formation with a fall-back regulating the size of the margin, plus some form of individual guarantee	1			1
4. Local wage frame without an individual guarantee	12		54	7
5. Local wage frame with an individual guarantee or alternatively a fall-back regulating the individual guarantee	43			43
6. General pay increase and local wage frame	18			10
7. General pay increase	11		1	6

In the private sector, local parties are allowed to decide the whole of the wage margin and/or its distribution in the case of 89 per cent of all employees (agreement models 1–6 above). The proportion is 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 parties' freedom to distribute the wage margin. In some areas, the individual guarantee takes the form of a retroactive settlement, which means the local parties in these areas are free to distribute the margin as they see fit in pay reviews. In the case of the remaining 11 per cent of private sector employees, the local parties have no say in how the margin is distributed – the whole pay increase is laid down in the national agreement.

In the public sector, the local parties are allowed to decide the wage margin and its distribution in almost all cases.

### Agreement in time

One of the stated aims of the Industrial Agreement and other agreements concerning bargaining procedure is that contracts are to be negotiated before the previous one expires. In 2010, fewer agreements were completed in time than in previous bargaining rounds. This was due both to the fact that negotiations in the industrial sector took longer than expected and to the delay in establishing a norm for other parties to follow. A contributory factor was the tendency of the agency staff issue to block negotiations. This primarily concerned the negotiations with the LO unions, who demanded rules on the hiring of temporary staff during periods when dismissed employees have preferential right of re-employment. Also, an unusually large number of agreements expired simultaneously, i.e. on 31 March.

### **Length of contract**

This time round, length of contract varied considerably. The most common period is two years, but the agreements in the industrial sector are shorter – 18 or 22 months – while the agreement in the construction sector will run for 35 months. In the latter case, however, wages for the third contractual year will be discussed further in national negotiations. At municipal and county council level, most agreements run for 25 months. This is true, for instance, of the wage agreement reached for the Swedish Organisation for Managers and of the provisional agreement between the Swedish Agency for Government Employers and the Confederation of Professional Associations (Saco-S).

The first white-collar agreements in the industrial sector expire as early as September 2011, while most of the other industrial agreements expire at the end of January 2012. A number of major agreements, including the one governing the retail trade, will expire on 31 March 2012, and one month later the contracts due for expiry will include that between the Swedish Association of Local Authorities and Regions/Pacta and a number of unions led by the Municipal Workers' Union.

### **Gender equality**

One of the National Mediation Office's tasks is to analyse wage growth from a gender equality perspective. The pay gap between women and men in 2009 was 14.8 per cent, i.e. women's pay was 85.2 per cent that of men's. If differences in occupation, sector, education and working hours are taken into account, the pay gap is approximately 5.5–6 per cent, depending on which statistical method is used. During the period 2005–2009, the pay gap between women and men narrowed in both the private and the public sector.

One of the results of the 2004 and 2007 bargaining rounds was that clauses were introduced into agreements stipulating that wage setting had to be objectively justifiable and free from discrimination. In summarising the 2010 round, we find that the agreements show little change in the sections dealing with equal pay. New working groups have been established, however, and partners have launched joint projects, the aim in both cases being to promote gender equality in working life. The same aim is shared by a programme group in the industrial sector and by a committee due to be appointed in the municipal sector.

### **Mediation etc**

The 2010 round of bargaining in Sweden was the most comprehensive since the turn of the century. With one or two exceptions, national agreements throughout the public sector were re-negotiated, as were most of the agreements in the private sector. The National Mediation Office appointed special mediators in 27 sets of negotiations between national partners, which is slightly fewer than in the 2007 round. In 16 of these, notice of industrial action was served, and in seven cases such action was taken. In a further eight cases, notices were served in areas governed by agreements on bargaining procedure. One of these resulted in industrial action: a strike in the pulp and paper industry.

Of the eight cases in which notice of industrial action led to a conflict, half were in the transport sector. Four were in contractual areas distinguished either by good pay or by a high average wage.

In 2010, Sweden lost almost 29 000 working days due to work stoppages in connection with national bargaining. Of these, 26 450 were a result of the strike in the pulp and paper industry. Outside the Industrial Agreement, fewer than 2 500 days were lost, which is the lowest total recorded in any of the major bargaining rounds of recent years. No wildcat strikes occurred during the year. By international standards, Sweden loses very few working days as a result of industrial action.

The National Mediation Office is empowered to postpone an industrial action (for which notice has been served) for no more than 14 days. This option has been used very sparingly over the years. In the course of the latest bargaining round, the Office postponed a sympathy action for which notice had been served by the Swedish Pilots' Association.

#### **Local mediation cases**

The National Mediation Office has five permanent mediators at its disposal for dealing with local disputes, each with a geographical area of operation. Mediators primarily deal with disputes between a trade union and an individual employer over the signing of a collective 'application' agreement. There was a dramatic decline in such disputes in 2008.

While they increased slightly in 2009 and 2010, the number of *contractual disputes* (17 in 2010) was historically low and well below the average for the new century. Although serving notice of industrial action is common practice in local disputes over the signing of collective agreements, only a handful actually led to action, since such disputes are usually resolved in the interim. Only a fraction of the total number of application agreements reached every year in the Swedish labour market are preceded by notice of industrial action or mediation.

The bulk of local cases registered were attributable to the syndicalist Central Organisation of Sweden's Workers (SAC). In 2010, it was responsible for over 70 per cent of *all notices served* (45 out of a total of 62). None of these disputes concerned the signing of collective agreements on pay and general terms of employment. Many of them involved collection blockades, but industrial action and the threat of it were also used to apply pressure in other disputes. As a rule, cases involving the SAC do not give rise to mediation.