

## Summary

**The National Mediation Office is a central government agency that mediates in labour disputes and is thus a part of the wage formation system in Sweden. One of its principal tasks is to promote efficient wage formation, by such means as disseminating information to the social partners and to the general public. In pursuit of this goal, the agency seeks to ensure that high employment, price stability and a healthy rate of real wage growth are mutually compatible.**

**The National Mediation Office is required to produce an annual report on wage trends, collective bargaining and factors of importance for wage formation. Such reports aim to provide a solid factual basis for government and parliamentary decisions and for the decisions of the social partners.**

## Economic review

Following the slowdown of 2005, growth in Swedish exports accelerated once again in 2006. The domestic economy, too, has gained considerable momentum, which was reflected in a dramatic improvement in the labour market situation during the year. Both private and public consumption increased at a much faster pace, while the investment rate remained high. Accordingly, GDP growth is expected to be between 4 and 4.5 per cent for 2006. Despite the high rate of economic growth, inflation remained low in 2006. The Riksbank (Swedish Central Bank) judged, however, that inflationary pressure was likely to grow, and consequently raised the key interest rate from 1.5 to 3 per cent during the year.

The Swedish labour market situation, then, improved markedly in 2006. Employment had been on the decline since 2002 and open unemployment had risen to around 6 per cent in both 2004 and 2005. Also, by 2006 the number of people in government schemes had come to total around 3 per cent of the labour force. Thus during much of the recovery period of recent years, the labour market has tended to weaken. To a great extent, this is because economic growth in Sweden has largely been export-driven and because productivity in the business sector has risen faster than expected. Growth in domestic demand in the form of private and public consumption, meanwhile, has been fairly moderate.

The economic signs are favourable for 2007 as well. Private consumption is increasing in response to such developments as a steadily improving employment situation and tax cuts. The National Institute of Economic Research expects labour demand to remain high in 2007 and estimates that GDP growth will amount to 3.6 per cent. Employment is expected to grow at the same rate as in 2006. No significant decline in open unemployment is foreseen, however, as the number of people in government schemes is expected to fall considerably. Also, labour supply is expected to show substantial growth as the business climate improves.

HR utilisation in the labour market is expected to rise further, which means there will be a heightened risk of labour shortages during the year. The Institute therefore predicts that inflation will increase by 2 per cent in 2007 in terms of the Consumer Price Index (CPI). Productivity growth in the business sector is also expected to be lower than before as the economy enters a more mature phase. This suggests that the underlying pressure on costs in the economy will rise, which will adversely affect Sweden's international competitiveness.

## Competitiveness

### Labour costs

In 2001–2005, Sweden improved its competitive position vis-à-vis the EU countries, mainly as a result of strong growth in productivity. This more than offset the fact that the business sector's labour costs over the period increased somewhat faster than those of the EU15. The increase was only slightly larger than the increase in the US rate over the same period, but as the krona rose almost 40 per cent against the dollar during this time, Swedish competitiveness vis-à-vis American enterprises and in dollar-based markets weakened significantly.

Labour costs per hour in the business sector  
Percentage change from previous year, and annual average

	1997	1998	1999	2000	2001	2002	2003	2004	2005	Genomsnitt 2001–2005	2006 <sup>1</sup>
<b>Euro zone<sup>2</sup></b>	<b>2.4</b>	<b>2.2</b>	<b>2.7</b>	<b>3.6</b>	<b>4.0</b>	<b>3.5</b>	<b>3.1</b>	<b>2.0</b>	<b>2.2</b>	<b>3.0</b>	<b>2.1</b>
Of which: Germany	1.5	1.6	2.3	3.4	2.5	2.2	2.6	1.1	0.6	1.8	0.6
<b>EU15<sup>3</sup></b>	<b>3.0</b>	<b>2.6</b>	<b>3.1</b>	<b>3.9</b>	<b>4.3</b>	<b>3.6</b>	<b>3.3</b>	<b>2.8</b>	<b>2.4</b>	<b>3.3</b>	<b>2.3</b>
USA	3.1	3.6	3.2	4.5	4.1	3.6	3.8	3.8	3.1	3.7	2.8
<b>Sweden</b>	<b>4.5</b>	<b>5.0</b>	<b>3.9</b>	<b>4.5</b>	<b>5.2</b>	<b>3.4</b>	<b>4.9</b>	<b>3.1</b>	<b>3.3</b>	<b>4.0</b>	<b>1.0</b>
<b>Sweden (alt 06)</b>											<b>ca 2.4<sup>4</sup></b>

1. Based on the first three quarters of 2006

2. All euro countries except Greece, Luxembourg and Slovenia. Weighed with TCW weights.

3. The EU15 excluding Greece, Luxembourg and Sweden. Weighed with TCW weights

4. Excluding temporary waiver of workers' old-age pension contributions.

Sources: Eurostat, Labour Cost Index, OECD, Bureau of Labor Statistics, National Mediation Office.

For the Swedish business sector, the increase in *labour costs* in 2006 was smaller than the average increase in the EU15, due largely to the fact that contributions for workers' old-age pension were temporarily waived. The rate of increase in *wages* in Sweden, however, was only slightly higher than that of the EU15 countries. In the US, labour costs rose faster than in Sweden, while the krona fell slightly against the dollar.

Given the continued rapid rate of productivity growth, Sweden appears to have strengthened its competitive position vis-à-vis both the EU15 and the US in 2006. Moderate wage increases in combination with strong productivity growth again contributed to what by international standards was a slow increase in Swedish consumer prices – only 1.4 per cent, compared with just over 2 per cent in the EU15 countries.

Swedish export prices for goods and services rose only negligibly in the period 2001–2005, while the rate of increase among competitors was slightly faster. According to preliminary figures, however, the rate of increase in Sweden in 2006 was slightly higher than elsewhere.

#### **Minimum wages in certain European countries and the US**

Minimum wage levels are regulated by law in many countries, either per hour or per month. As a rule, both employer and employee organisations are consulted before the levels are decided. In some cases, there are tripartite negotiations between the government, the trade unions and the employers in which price increases, wages and economic factors are all brought into the equation.

The highest minimum wage levels are to be found in the Netherlands and the UK, followed by France and Belgium. The minimum wage in the US is far below that of the above-mentioned countries, but much higher than that of Spain, for instance. In the business sector, the minimum wage in relation to the median was highest in the Netherlands and Belgium and lowest in the US. Only in France were a significant share (2004: 15.6 per cent) of employees paid the minimum wage.

#### **Effects of globalisation on the Swedish economy**

The world economy has entered a period of widespread change and structural transition. Globalisation means that the established industrial countries of the OECD are being exposed to growing competitive pressure from the new industrial countries in Asia and elsewhere. This has resulted in greater downward pressure on prices for many consumer goods, but also in rising prices for raw materials.

Globalisation potentially offers major welfare benefits. Today, the international division of labour is increasingly determined on the basis of production, investment and consumption decisions throughout the global work sphere. Consequently, production resources can be better utilised and production can become more specialised. Globalisation is also likely to have a broader impact in the future as it spreads from traditional industries to a wider variety of service sectors. Nowadays, it also encompasses small and medium-sized businesses. The welfare-enhancing effects are likely to be particularly strong in developing countries. At the same time, however, this development means that the pressure on the established industrial countries to adapt will increase. In the short term, the restructuring costs may be substantial.

Structural transition means labour demand patterns change, which in turn may lead to greater pay differentiation or wage spread. If, however, relative wages are not brought into line with demand, the transition may lead to a higher level of structural unemployment. The same applies if for other reasons supply and demand in the labour market are not properly matched. In that case, structural transition may result in a fairly high unemployment rate for low-skilled workers competing with corresponding labour categories in, for instance, Asia. For those with more advanced skills, however, the reverse may well apply, as this group is still under-represented in the developing countries.

## Pay statistics

The National Mediation Office is the government body responsible for public statistics on pay in Sweden. The statistics required by the EU have become an increasingly important part of this work.

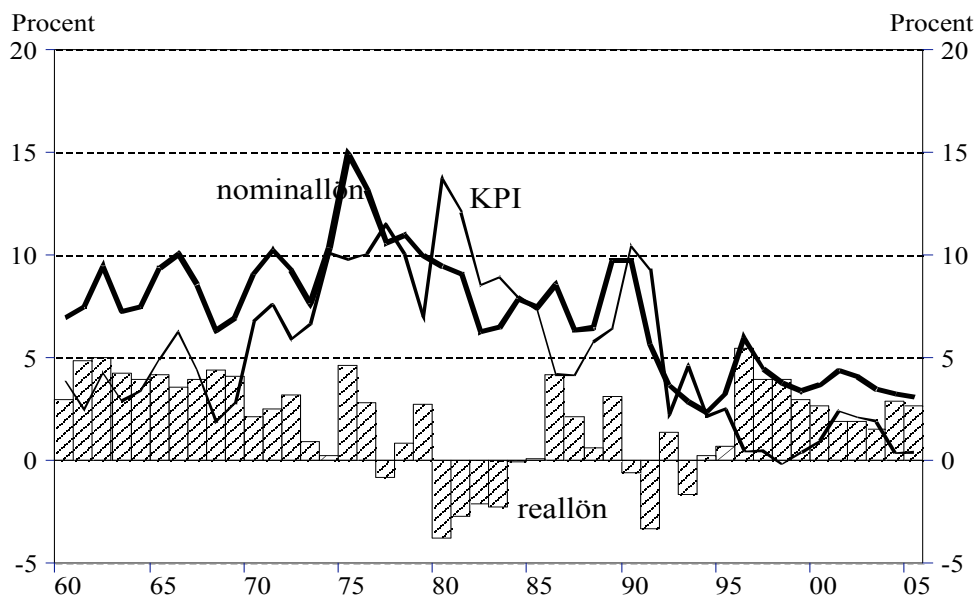
The agency is specifically responsible for the official government statistics on salaries, wages and labour costs. Statistics on disbursed wages and salaries, however, are not part of its remit.

Sweden's official pay statistics may be roughly divided into three parts: short-term wage statistics, which are monthly, pay structure statistics, which are yearly, and EU statistics.

### Pay increases

The average cumulative increase in pay in 2006 for the economy as a whole, according to the short-term wage statistics hitherto available, was 3.0 per cent. This estimate is based on the 'preliminary' rates of increase for January-October. In the business sector, the increase was 3.1 per cent during this period, compared with 3.2 per cent for the whole of 2005. This means the rate of increase in the sector remained low, despite the improvement in the employment situation. The volume of overtime among manual workers, however, increased. The overtime rate for white-collar workers is not computed in the short-term wage statistics. Compared with 2004 and 2005, the difference in the wage growth rate between white-collar and manual employees in the private sector was reduced, even when allowance is made for the greater volume of overtime.

Nominal wages (nominallön), real wages (reallön) and the CPI (KPI) percentage change,



Real wage growth in 1996–2005 was strong, averaging 3.0 per cent per annum. Such a prolonged period of 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 and other factors.

Real wages continued to rise satisfactorily in 2006 as well. Outcomes hitherto suggest the increase will be just over 1.5 per cent for the year as a whole.

## The Swedish pay structure

Since the mid-1990s, pay gaps in Sweden have widened, primarily due to increases in the upper wage bracket.

Wage spread is greatest in the private sector, closely followed by the county council sector, and is at its lowest in the primary municipalities. A division of the private sector into manual workers and white-collar workers shows that wage spread differs considerably between the two groups. White-collar workers in the private sector have the highest average pay and also the greatest wage spread. The opposite is true of manual workers in the private sector, i.e. they have the lowest average wages and the least amount of wage spread.

Wage spread by sector, 2005

	P10	P50	P90	Mean value	Quota P90/P10
State	18 400	23 800	36 300	25 900	1.97
Primary municipalities	16 600	20 100	26 400	21 000	1.59
County council	17 900	22 400	37 200	25 600	2.08
Private	16 700	22 100	36 200	25 200	2.17
Manual workers	16 100	20 200	25 500	20 600	1.58
White-collar workers	18 000	25 400	43 650	29 200	2.42

Source: National Mediation Office

It is primarily the pay gaps between high income earners and medium income earners that have widened, while the gaps between medium incomes earners and low income earners has not altered to any great extent.

Increased wage spread may be due to changes in demand and/or in the supply of skilled and less skilled labour. It may also be due to changes in employers' willingness to pay for the acquisition of assets such as education and training, work experience, the ability to cooperate and other social skills.

### Pay differentials between women and men

When women's and men's respective pay levels are discussed publicly, it is often argued that women's pay is 16 per cent lower, i.e. that women's pay is 84 per cent that of men. This figure comes from the official pay statistics for 2005 and refers to the average difference in pay throughout the Swedish labour market.

This difference is due to a wide range of factors such as occupation, age, education and the business or organisation in which the work is performed. These can be taken into account via what is termed standard weighting. When allowance was made for all such factors, the pay differential in 2005 was approximately 5 per cent.

The differentials that remain after standard weighting are 'statistically unexplained', which is not the same as saying they are unjustified or non-objective, and is still less an indication of discrimination as defined by the

Equal Opportunities Act. Other factors besides those offset by standard weighting (but for which information is lacking) also affect pay. These include supervisory responsibility, work experience and personal qualities.

The table below shows that the unexplained difference in pay between women and men varies between sectors. The gap is narrowest in the primary municipalities, where it is just 0.6 per cent (100-99.4), and widest in the private sector, where it is 7.3 per cent. For white-collar workers, the unexplained pay differential is 9.6 per cent and for manual workers 3.1 per cent.

Women's pay as a percentage of men's pay, 2005,  
after standard weighting

		Women's pay as a percentage of men's pay
(1)	State	93,7
(2)	Primary municipalities	99,4
(3)	County councils	94,9
(4)	Private	92,7
(5)	- Manual workers	96,9
(6)	- White-collar workers	90,4

Source: National Mediation Office

## Labour market legislation etc

In 2006, changes were introduced in the Swedish laws governing parental leave and security of employment, partly as a result of EU directives. Most of the changes entered into force on 1 July 2006. Some of the amendments to the Employment Protection Act, however, will not apply until 1 July 2007. Also, the Government announced in December 2006 that certain adjustments would be made to these amendments.

Community law has provided the basis for a new law on employee co-determination in European cooperatives. The EU's Working Time Directive will not be fully implemented in the Working Hours Act until after the end of 2006. Finally, the lengthy discussions about the EU Services Directive ended with the adoption of the document in December 2006.

## Bargaining in 2006

There was little activity on the bargaining front in 2006: only 41 agreements were concluded. Some 54 000 employees were affected by these negotiations, including 40 000 covered by agreements that expired in 2005. The majority of agreements negotiated in 2006 concerned health and social care and parts of the transport sector. The remaining agreements from 2006, mostly relating to health and social care, will be subject to negotiation in 2007.

### Agreement in time

Under the bargaining arrangements agreed by the two sides, parties are to plan and complete their negotiations before the previous contracts expire. In sectors

lacking such agreements, too, there is a broad consensus on the value of such a procedure.

In 2006, only 12 per cent of employees were covered by collective agreements settled before the old ones expired. The great majority of these were concluded more than three weeks after the date of expiry.

#### Length of contract

In duration, most agreements negotiated for private sector employees in the 2006 bargaining round were to run for 36 months. The average pay rise in the private sector over a two-year period was 5.9 per cent.

Only two agreements were reached in the public sector, both concerning emergency and rescue services personnel on standby. One was between the Swedish Association of Local Authorities/Pacta and the Union of Firemen, and the other between the Swedish Union of Local Government Officers (SKTF) and the National Union of General and Municipal Workers. After mediation, the parties agreed on a pay rise of 6 per cent over 27 months.

In 2006, five agreements were negotiated without nationally specified wage pools, which meant there was no change from the previous contractual period. Agreements in the aviation sector and a few other agreements incorporated tariffs. Other agreements had various types of guarantees and wage frames specified in SEK and/or percent.

The table below shows the various agreement models to be found in each 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			All sectors
	Private	State	Municipal/County Council	
1. Local wage formation without nationally determined margin	10	38	5	10
2. Local wage formation with a fall-back regulating the size of the margin	7			4
3. Local wage formation with a fall-back regulating the size of the margin, plus some form of individual guarantee	16	62		14
4. Local wage frame without an individual guarantee	14		48	24
5. Local wage frame with an individual guarantee or alternatively a fall-back regulating the individual guarantee	25		47	31
6. General pay increase and local wage frame	16			10
7. General pay increase	12			7

#### Pension agreements

The Confederation of Swedish Enterprise and the Federation of Salaried Employees in Industry and Services (PTK) negotiated a new pensions agreement for 700 000 white-collar workers in the private sector.

The new pensions agreement (occupational retirement or ITP plan) is in two parts. The first includes changes in relation to the present pension terms, and applies to white-collar workers born on 1 January 1979 or later.

The second part covers all other PTK members, who will continue to receive pensions under the present occupational retirement scheme.

Pension agreements were also concluded on behalf of employees in the insurance sector, in social insurance offices and in the Church of Sweden.

## **Mediation and industrial action**

### **National mediation cases**

In 2006, there were very few negotiations on industry-wide agreements at national level (central bargaining). When asked to intervene in such negotiations, the National Mediation Office appoints special mediators. The same applies when the agency mediates in collective bargaining between national unions and a company with nationwide activities. In 2006, special mediators were appointed in seven cases. In all seven, notice of industrial action had been served. In the event, however, no such action was taken.

### **Local cases**

In dealing with local disputes, the National Mediation Office has six permanent mediators at its disposal, each with a geographical area of operation. A permanent mediator is appointed for one year at a time. These mediators primarily deal with disputes between national unions and individual employers over the signing of collective 'application agreements'. Such disputes were more numerous in 2006 than in the immediately preceding years. There are two main explanations for this. One is the increase in blue-collar union activity as part of the joint 'Bringing Order into the Labour Market' project launched in 2004. Also, the Swedish Hotel and Restaurant Workers' Union engaged in a unionisation campaign in Göteborg in 2006, and during the final six months of the year signed collective agreements with some fifty restaurants. Of these agreements, 19 were concluded after notice of industrial action had been served, and in some cases after mediation. The other explanation is greatly increased activity on the part of the syndicalist Central Organisation of Sweden's Workers (SAC). The notices of industrial action that this union serves are registered as cases with the National Mediation Office but seldom lead to mediation efforts.

In 2006, the permanent mediators had a total of 138 registered cases to deal with. Of these, 36 involved the SAC. None of these cases concerned the signing of collective agreements on pay or terms of employment for the organisation's members. Instead, industrial action or the threat of it was used as a means of applying pressure in disputes of interest unconnected with collective bargaining, and also in legal disputes. Of all the cases registered during the year, 100 concerned disputes over collective agreements. With a few exceptions, it was blue-collar unions affiliated to the Trade Union Confederation (LO) that demanded such agreements.

### Local industrial action

Of the above 100 contractual disputes, notice of industrial action was served in 98 cases. In 17 of them, notice of sympathy (secondary) action was also served. In all cases, it was the union organisations that served notice. No notices were served by the employer side.

	2002	2003	2004	2005	2006
<b>Disputes</b>	<b>80</b>	<b>53</b>	<b>69</b>	<b>51</b>	<b>100</b>
of which shipping	12	6	4	12	7
of which non-Swedish companies	5	5	12	11	4

Fourteen of the 17 notices of sympathy action served during the year related to the unionisation campaign undertaken in Göteborg by the Swedish Restaurant and Hotel Workers' Union.

Eighteen of the 98 disputes led to industrial action. Sympathy action was taken in four cases. With few exceptions, these conflicts were of only short duration. As a rule, they were resolved near the date on which industrial action was to have begun, either as a result of collective agreements being reached directly by the parties concerned or as a result of the employer concerned applying to join an employer organisation. In some disputes, industrial action was prolonged and attracted media attention.

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 by mediation.

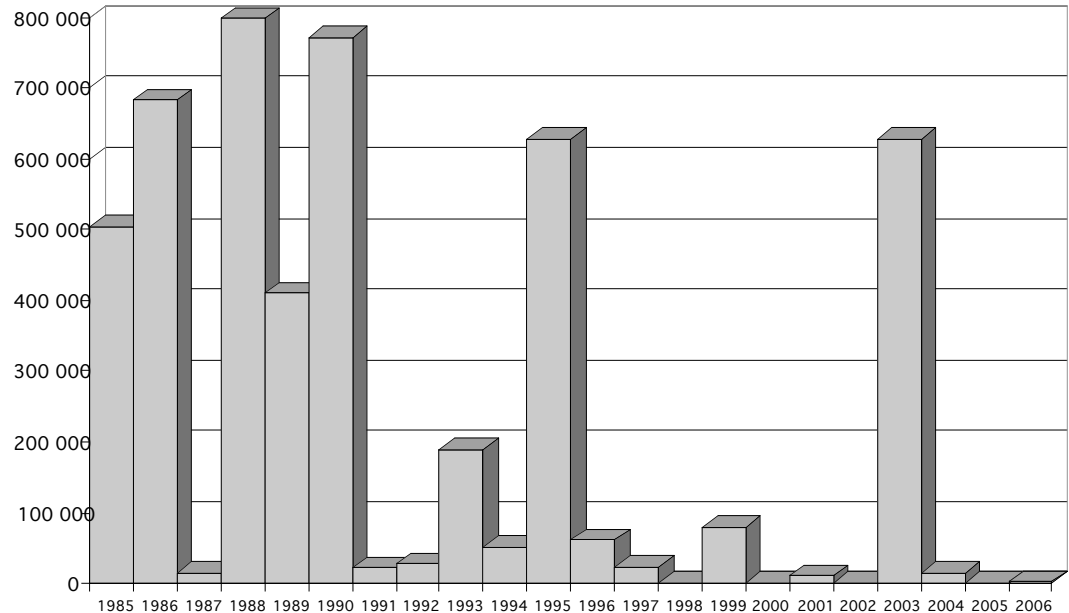
The number of disputes over collective agreements involving non-Swedish companies has declined in comparison with the two preceding years. In 2004 and 2005, there were 12 and 11 disputes respectively, while in 2006 there were four.

### Conflict statistics

In Swedish statistics, industrial conflict is expressed in terms of working days lost. In 2006, a total of 2 000 working days were lost as a result of conflicts due to work stoppages (strikes or lockouts). Lost working days here refers to those that directly affected the parties involved. This method of reporting meets an international standard.

In 2006, the National Mediation Office registered three wildcat strikes. All three were short-lived protests. In two other cases in 2006, the work stoppages were a result of political protest actions.

### Strikes and lockouts in 1985-2006, working days lost



### The 2007 bargaining round

As before, the National Mediation Office has sought to promote efficient wage formation by giving the competitive sector a pace-setting role. This means that the parties to the Industrial Agreement are to complete their negotiations first, and their contracts then become normative for the other parties in the labour market.

Almost three million employees or over 75 per cent of the labour force will be seeking new agreements in 2007. Some 500 collective agreements in the private, municipal and central government sectors will be up for negotiation. Of these, 300 affect white-collar workers and 200 manual workers.

Most of the agreements in the manufacturing, service and construction sectors expire on 31 March.

The agreement governing the Swedish Association of Local Authorities and Regions expires on 30 June.

A handful of agreements are due for re-negotiation in the autumn, the most important among them being the various central government contracts, which expire on 30 September.

According to the Trade Union Confederation, collective bargaining in the Swedish labour market in 2007 will take the form of coordinated negotiations at central level. The aim is to promote the joint pay policy goals of equality, equal opportunity and justice. A further aim is to ensure healthy real wage growth for all members, growth in the Swedish economy, and thus a general increase in welfare for the unions' members. A 12-month contractual period is envisaged.

The aim of the unions currently developing a bargaining policy is to provide a joint platform for member organisations governed by the Industrial Agreement in the forthcoming negotiations at central level.

The employer organisations in the Confederation of Swedish Enterprise are agreed that the competitive part of the market should reach a settlement first, which means a coordinated approach will be adopted based on the principle that the industrial parties should decide pay levels. The employers do not make specific joint demands at central level but leave them to the sectoral level instead.

### **Good Practice in Wage Formation: Evaluation of the National Mediation Office**

In March 2006, a special government investigator, Göran Tunhammar, presented a report evaluating the activities of the National Mediation Office in 2000–2004. One of the reasons for the evaluation was that two major bargaining rounds took place during that period.

The report, entitled Good Practice in Wage Formation, states that confidence in the National Mediation Office and its mediators is now widespread. It also notes that the arrival of the agency made the task of the mediators more complicated, as they are required by the Government both to mediate and to promote an efficient wage formation process.

The report notes further that the creation of the National Mediation Office stemmed from a belief that the competitive sector should have a normative role in wage formation. Consensus on this principle had since grown. In practice, the parties to the Industrial Agreement had come to set the norm, and this should remain the case in the future.

According to the report, wage formation has worked well since the National Mediation Office began operating, at least from a macroeconomic viewpoint – real wages have risen, labour costs have increased no faster than those of competitor countries, and industrial conflicts have seldom broken out.

The report has been circulated for comment and some 40 replies have been submitted. There is general agreement among the referral bodies that the National Mediation Office and the mediators have performed their tasks well. There is also widespread agreement that the industrial contracts must set the pace in the wage formation process.