

The Swedish National Mediation Office Annual report 2007, Summary

The National Mediation Office is a central government agency that mediates in labour disputes and is a part of the wage formation system in Sweden. It is also required to promote an efficient wage formation process. This means that the Office, by such means as the dissemination of economic information to the social partners and to the general public, is supposed to influence wage formation so that objectives like a high employment rate, price stability and satisfactory real wage growth are reconcilable.

The National Mediation Office is required to produce an annual report on wage trends, collective bargaining and labour market legislation. The aim of the present report is to provide a solid factual basis for government and parliamentary decisions and for the decisions of the social partners. Hopefully, it will also contribute to the general economic discourse and serve as a presentation of the Swedish bargaining model as it was applied in 2007.

Economy and employment

Growth in the Swedish economy slowed somewhat in 2007 but the labour market situation continued to improve, which led to a strong increase in employment and to reduced unemployment but also to a growing shortage of labour. Towards the end of the year, inflation rose to its highest level for many years, due to such factors as rising mortgage rates and internationally driven price increases for food and petroleum products. In December, the CPI rate of increase was as high as 3.5 per cent. Inflation is expected to remain at a high level throughout much of 2008.

Setting the norm in wage formation

The partners reaching the first agreement in a bargaining round set the tone for what follows. The contractual outcome becomes a 'benchmark' or 'norm' that the partners in subsequent bargaining sectors are required to comply with. Few issues have been debated so fiercely and at such length as the question of how norms in wage formation are to be established. Opinions vary, depending on which aspect of wage formation is being discussed. Economists may take one view, the Government another, union negotiators a third and private enterprise a fourth. The National Mediation Office's previous annual report contained a lengthy discussion on norm-setting.

Prior to the latest round of bargaining, there was widespread agreement that the competitive sector should have a normative role in wage formation. The discussion that subsequently ensued during the summer suggests that this consensus is becoming frayed at the edges, primarily with regard to the role played by the Industrial Agreement (the 1997 Agreement on Industrial Development and Wage Formation).

Competitiveness

Swedish competitiveness vis-à-vis the EU countries improved in 2002–2006, due mainly to a very high rate of product development. Having previously risen at a faster rate for many years, labour costs in the Swedish business sector

during this period were little different from those of competitor countries. Since the dollar fell dramatically against the krona during the period, however, there was a significant decline in competitiveness vis-à-vis US enterprises and in dollar-based markets. Swedish competitiveness may have weakened in 2007 vis-à-vis the EU countries and even more vis-à-vis the US.

This is primarily due to the stagnation of growth in Swedish business productivity in 2007 and to the fact that the dollar again fell sharply against the krona. It would appear that the rate of increase in labour costs in Sweden in 2007 was only slightly higher than the average for the EU15 and was only slightly lower than in the US. In Germany, the increase in labour costs was only an estimated 0.7 per cent in 2007. In a number of other euro countries, and in Denmark and the UK, the rate of increase was substantially higher than in Germany, and also higher than in Sweden. Thus it is weak growth in productivity in the Swedish business sector that has led to fears of a decline in Sweden's competitiveness in 2007 vis-à-vis the EU15. Diminishing competitiveness vis-à-vis the US would appear inevitable, given the fall in the dollar rate.

Weaker growth in productivity was one of the reasons why the inflation rate rose in Sweden in 2007, but it was primarily the rise in energy and food prices and the higher interest rate that caused CPI growth to increase. Rising energy and food prices were a global phenomenon, and the rate of increase for the internationally comparable consumer price index (which does not include such factors as interest costs) still points to a lower rate of inflation in Sweden than in our competitor countries.

Pay statistics

Drawing on three different sources, comparisons have been made in the report between pay changes in 1994–2006 for sectors and for the economy as a whole. The comparisons are based on how the outcomes are affected by the differing source structures. For the period as a whole, the three sources give a fairly coherent picture of general wage growth in the economy.

The rate of growth hitherto recorded for 2007, according to the monthly short-term wage statistics, was approximately 3 per cent. The highest rates, of just over 4 per cent, were found in the commercial, hotel and restaurant sectors. The addition of retroactive pay, primarily to white-collar workers in the private sector, is expected to increase outcomes to some extent. Given the strong employment situation, however, wage growth in 2007 may still be regarded as relatively moderate.

Calculating change in pay levels over time

What we may consider the most relevant method for measuring a pay change to be depends on what we wish to show. If the aim is to measure average pay trends from the viewpoint of a particular enterprise, structural changes should be included. The same applies if the aim is to analyse the impact of wage growth on the inflation rate and/or competitiveness. If, however, the intention is to measure wage growth as a direct result of bargaining on behalf of the employees, structural changes should be taken out of the equation.

Different methods for the elimination of such data from wage structure statistics are analysed. The criterion based on identical individuals yields the highest rate of wage growth, except in the county council sector. The SÅYA method¹ estimates pay change after adjustment for changes in labour composition in terms of these variables. This method yields a lower rate of wage growth compared with non-adjusted growth, except in the case of manual workers in the private sector, where the difference is relatively insignificant.

Employment legislation etc

No major changes occurred in Swedish labour law in 2007. The Employment Protection Act was amended in some places, but otherwise the regulations remained largely intact. However, significant changes were made in the provisions governing unemployment insurance.

In 2007, three long-awaited rulings were passed down by international courts. The European Court of Human Rights delivered its opinion on the case concerning examination fees in the main collective agreement for the Swedish construction sector (Byggnadsavtalet), and this came to influence subsequent bargaining in the areas concerned.

Two rulings by the European Court of Justice dealt with the question of whether national legislation concerning industrial action in certain respects was compatible with Community law. These decisions are of particular interest as they relate to Finnish and Swedish legislation on labour market disputes. The Nordic model for labour market relations was tested against Community law.

In the Finnish case (the International Transport Workers' Federation and the Finnish Seamen's Union versus Viking Line), the dispute primarily concerned the interpretation of the provisions in the EC Treaty on freedom of establishment and of the regulation on the freedom to provide maritime transport services. The Swedish case (Laval UN Partner Ltd versus the Swedish Building Workers' Union, [its local branch] Byggettan, and the Swedish Electricians' Union) concerned the interpretation of the Treaty provisions regarding prohibition of discrimination and freedom to provide services, and also interpretation of the directive on the posting of workers. The ruling of the European Court of Justice meant that Swedish law was invalidated in certain respects.

The 2007 bargaining round

Besides the above rulings by international courts, bargaining had to take into account Sweden's economic upswing and a change of government. New wage levels were to be set for three million employees, and collaboration and coordination were evident both among employer organisations and among unions.

Bargaining outcomes

On 15–16 March, the first eleven contracts were signed as part of the Industrial Agreement, between five employer organisations and four union organisations. They covered 440 000 employees and the contractual period was three years.

¹ Standard-Ålder-Yrke-Arbetstid = Standard-Age-Occupation-Working time.

The total cost of pay increases, new supplementary pension schemes and changes both in the general terms and conditions and in the review provisions of the Engineering Agreement and other agreements within the Industrial Agreement framework, was an estimated 10.2 per cent. This 10.2 per cent level set the standard for the rest of the labour market and became the benchmark against which other parties measured their actions.

This level became 'normative' for other contractual areas in the private sector, i.e. deviations yielding a higher percentage corresponded to the estimated value of changes in the employees' general terms and conditions. The partners stated during bargaining that the cost reduction these changes implied had afforded greater scope for wage rises.

In practice, the coordinated approach taken by the Swedish Trade Union Confederation (LO), as applied in the Commercial Employee's Union's (Handels) industrial action against the Swedish Trade Federation, meant that the normative role of the competitive sector was supplemented by contractual areas with low-wage workers, particularly areas where many women earn less than SEK 20 000 per week. For areas with a large proportion of low-paid women, rises totalling just over 13 per cent over a three-year period were agreed.

Certain contracts under the Industrial Agreement also involved pay rises in excess of the 10.2 per cent level. This applied in the case of relatively low-paid groups in the food industry, in the textile and clothing industry and in laundries.

Occupational pension schemes between the Confederation of Swedish Enterprises and LO brought the pension terms for manual and non-manual workers into line with one another. The two parties agreed that the cost increase during the period 2007–2010 would average 0.6 per cent. Costs have been adjusted for the occupational pension scheme at industry/enterprise level, or alternatively have been adjusted individually for the highest paid workers.

Agreement models

In the 2007 bargaining round, only a slight shift occurred between the seven wage agreement models. As a result of the national agreements, however, there is a clear tendency whereby individual guarantees make up a larger share of the centrally determined wage margin. In other words, wage formation has been centralised in the various wage agreement models. This tendency is strengthened when increases occur in the agreements' minimum or lowest wage level.

Sectoral distribution of agreement models

Agreement model	Percentage of employees, by sector			All sectors
	Private	State	Municipal sector	
1. Local wage formation without nationally specified margin	7	38	5	9
2. Local wage formation with a fall-back regulating the size of the margin	8			4
3. Local wage formation with a fall-back regulating the size of the margin, plus some form of individual guarantee	10	62		11
4. Local wage frame without an individual guarantee	11		46	23
5. Local wage frame with an individual guarantee or alternatively a fall-back regulating the individual guarantee	35		49	37
6. General pay increase and local wage frame	18			10
7. General pay increase	11			6

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. In some areas, the individual guarantee takes the form of a retroactive settlement, which means the local partners in these areas are free to distribute the margin as they see fit at pay reviews.

For a further 18 per cent of private sector employees, the local partners can influence the distribution of part of the wage margin (Agreement model 6). In the case of the remaining 11 per cent of employees in the private sector, the local partners have no say in how the margin is distributed. The entire margin is dispensed in the form of a general pay increase that is the same for all.

In the central, regional and local government sectors, the local partners can influence the distribution of the wage margin for all employees. Four of the seven agreement models contain some form of individual guarantee, while one of them is an agreement with tariff pay where everything is decided at national level.

Most agreements in the private sector contain provisions regarding individual guarantees or general increases. In the municipal and county council area, an individual guarantee (SEK 175/month) is included for the third year in the agreement between the Municipal Workers' Union and the Swedish Association of Local Authorities and Regions/Pacta. In the state sector, an individual guarantee is included via a retroactive settlement, except in the case of the agreement with the central government section of the Confederation of Professional Associations (SACO-S), which contains no figures.

Length of contract and prospects for premature termination

In the private sector, the agreements run for three years, and in the case of some 30 per cent of the employees the third year can be cancelled. All agreements in the Industrial Agreement framework contain options concerning premature cancellation. Date of notice varies. In most cases, notice may be given no later than 30 September 2008 prior to expiry of an agreement on 31 March 2009.

The agreement between on the one hand the Swedish Association of Local Authorities and Regions (SKL) and Pacta, and on the other the Municipal Workers' Union expires on 31 March 2010, with the third year subject to cancellation. The agreement covering Sweden's doctors, too, runs until 31 March 2010, but without the option of cancellation. The same is true of the agreement on behalf of those represented by the Public Employees' Negotiation Council from the Swedish Union of Local Government Officers (SKTF), the Swedish Association of Graduates in Social Science, Personal and Public Administration, Economics and Social Work (SSR), the Association of Management and Professional Staff, and the Swedish Actors' Equity Association.

The SKL/Pacta agreement with Akademikeralliansen² and the Swedish Association of Health Professionals is a provisional agreement that is subject to notice in October at the latest for expiry on 31 March the following year. The Swedish Association of Health Professionals gave notice in October 2007 and its agreement will thus expire on 31 March 2008.

Gender equality

Ever since its first report, published in 2002, the National Mediation Office has described both how the official statistics on salaries and wages are constructed and what conclusions may be drawn from them concerning pay gaps between women and men. In this year's report, the in-depth analysis contained in the annual report for 2006 is taken a step further. It now transpires that the gender pay gap for the labour market as a whole amounts to approximately 5 per cent, if comparison is made between women and men who have the same employer and occupation and who are closely similar in age, education and working time.

In discussing equal pay and pay gaps between women and men, it is advisable to keep in mind that the situation differs between the national, industry/sector and local levels. Closing gender-based pay gaps requires action of different kinds, depending on which level is being targeted. The Equal Opportunities Act does not come into the picture until the discussion concerns pay gaps at the local level. It is at this level in particular that the collective agreement rules have an impact.

The 2007 bargaining round embraced virtually the entire labour market. Most of the national agreements refer to the need for equal pay between women and men. Some 1.3 million wage-earners in the private sector fall under provisions stipulating that wages are to be set on the basis of objective criteria. In addition, there are references to the prohibition of discrimination and the

² An alliance of organisations representing university-trained professionals.

principles of equal treatment and equal pay. In principle, the agreements in the public sector are constructed in the same way. There are also regulations specifying that local pay reviews are to be preceded by wage surveys and analyses of various kinds.

In a number of contractual areas, the partners have agreed on joint projects aimed at supporting local efforts to promote gender equality, e.g. in the form of working groups tasked with developing industry-oriented material to facilitate wage surveys under the Equal Opportunities Act.

Mediation etc

National cases

In 2007, virtually the entire labour market conducted negotiations on new industry-wide agreements at national level (central bargaining). When intervening in such negotiations, the National Mediation Office appoints special mediators. The same applies when the agency mediates in collective bargaining between national unions and an enterprise operating nationwide. During the year, special mediators were appointed in connection with 30 sets of negotiations, which is slightly more than in 2004. In 22 of the 30 cases, notice of industrial action had been served when the mediators were appointed. Five of these led to industrial action, three of them involving work stoppages. The size of pay rises was not the main issue in these cases. (Partners with agreements on negotiating arrangements appoint their own mediators.)

Local cases

For mediating in local disputes, the National Mediation Office has six permanent mediators at its disposal, each with their own geographical area. These mediators are appointed for 12 months at a time and deal primarily with disputes between trade unions and individual employers over the signing of collective 'application agreements'. In 2006, such disputes increased significantly in number compared with the immediately preceding years. This increase was largely due to the local activities of certain unions. In summing up 2007, we find that the number of cases (83) represented almost a 50 per cent reduction on the previous year, and only one case concerned a non-Swedish enterprise.

Although serving notice of industrial action is common practice in local disputes over the signing of collective agreements, only a handful have actually led to such action, since disputes of this type 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.

A significant share of the local cases registered (37) are attributable to the syndicalist Central Organisation of Sweden's Workers (SAC). In 2007, the SAC accounted for almost half of all notices served. None of these disputes concerned the signing of collective agreements on pay and general terms of employment. Instead, both the serving of notices and industrial action were used to apply pressure in what could be described as a combination of legal

disputes and disputes of interest. Such cases do not as a rule lead to action on the part of mediators.