

The 2007 wage bargaining round

Next year, wage agreements for a large part of the Swedish labour market will be renegotiated. Wage increases affect how costs and prices develop in the economy. The assessment of the future development of wages is therefore very important for the Riksbank's analysis of the inflation outlook. The Industrial Agreement and the broad support it receives from the social partners have led to moderate wage increases in recent years. This development is expected to continue in the years ahead.

The Industrial Agreement has helped dampen the rate of wage increase

Wage formation in Sweden underwent major changes in the 1990s and in many ways functions better today than in previous decades, when wage increases were considerably higher than in other countries. The deceleration of the rate of wage increase started with the Rehnberg Agreement in 1991. Among other conditions, this agreement prohibited local negotiations and thus wage drift. The realignment of stability policy and the introduction of the inflation target have also contributed to more efficient wage formation.

The 1998 bargaining round meant a break in trend for the rate of wage increase. Both the agreed and actual wage increases have since dampened. At the same time, low inflation has meant that employees have had the largest real wage increases since the 1960s despite lower nominal wage increases. There have also been fewer labour market disputes than previously. One important reason for this is the Industrial Agreement, which was signed by the social partners in the industrial sector in 1997. The Industrial Agreement originated as a result of the bargaining round in 1995, which was a failure from the point of view of the national economy as it led to wage increases in the business sector of just over 5 per cent

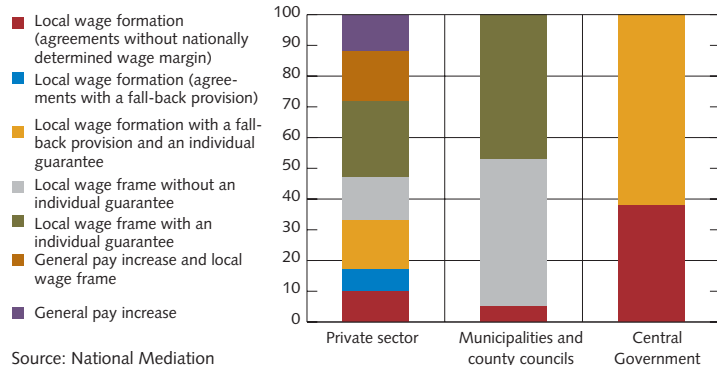
annually. In the Industrial Agreement, the social partners agreed on common principles for wage formation and on the forms for conducting wage negotiations. Among other things, the role of the sector exposed to international competition as wage leader was confirmed. The Industrial Agreement has inspired similar initiatives in other areas of the labour market and more than half of Sweden's wage-earners are now covered by some form of agreement on negotiating processes. There has also been broad agreement among the social partners on the normative role of industrial wages. The Industrial Agreement has thus played a key role for wage formation throughout the Swedish labour market.

Wages are increasingly determined at the local level

At the same time as there has been increased co-ordination between the social partners at the central level in recent bargaining rounds, there has been an increased element of local wage formation, in particular for white-collar employees. Many employees in both private and public sector are now covered by agreements that enable the local partners to affect both the size of the wage margin and the distribution between individuals (see Figure B8). In the private sector, a third involve local wage formation. Of the private sector employees, 10 per cent have no nationally determined wage margin.²⁰ A further 40 per cent are covered by agreements where the wage margin is determined at central level, while it is up to the local partners to distribute either all or part of wage increases. In the central government sector, all wage formation is local and 38 per cent of wage-earners are covered by agreements that do not contain nationally determined wage margins. In virtually the entire local government sector, wage formation is determined at central level although the local parties are able to influence the distribution wholly or partly.

²⁰ Since the agreements without nationally determined wage margins have been included as zero per cent wage increases in the National Mediation Office's statistical digests, there is a risk that this will lead to an underestimation of the average agreed wage increases at central level in the official statistics. This also applies to agreements with a fall-back provision, which applies if the parties cannot reach agreement at the local level.

Figure B8. Breakdown of wage agreements in different sectors, 2005
Per cent



Source: National Mediation Office's Annual Report "Avtalsrörelsen och lönebildningen 2005"

In the past year there has been a slight increase in the number of private sector employees covered by agreements without a nationally determined wage margin. In the local government sector, there has instead been a marked reduction, partly because the teaching

unions have agreed on a minimum guaranteed increase from 2005 onwards. Altogether on the labour market as a whole, there has been a movement towards the centre as far as the type of agreements is concerned, i.e. the proportion of agreements without nationally determined wage margin as well as those with general pay increases has decreased.

Outcome of the 2004 bargaining round

In the 2004 bargaining round, wage agreements were renegotiated for almost the entire private sector and for the entire central government sector. In all, new wage agreements were negotiated for around 1.9 million employees in 2004.

As in the two previous bargaining rounds, industry led the way in signing three-year

Fact Box

Local wage formation (agreements without nationally determined wage margin): Amounts available are determined entirely by the local partners. There is no nationally determined wage margin or individual guarantee.

Local wage formation (agreements with a fall-back provision): Local agreements are required on both the size of the wage margin and distribution to individuals. If the local partners cannot agree, a fall-back provision regulates the total wage margin.

Local wage formation with a fall-back provision and an individual guarantee: Local agreements are required on both the wage margin and distribution to individuals. If the local partners cannot agree, a fall-back provision regulates the total wage margin as well as the individual guarantee or the share of this margin for general distribution.

Local wage frame without an individual guarantee: The wage margin is determined as a wage frame for local distribution.

Local wage frame with an individual guarantee: The wage margin is determined as a wage frame for local distribution, complemented with an individual guarantee or a fall-back provision on an individual guarantee.

General pay increase and local wage frame: The wage margin consists of a general increase and a frame for local distribution.

General pay increase: The entire wage margin is distributed as a general increase.

Source: National Mediation Office's Annual Report "Avtalsrörelsen och lönebildningen 2005"

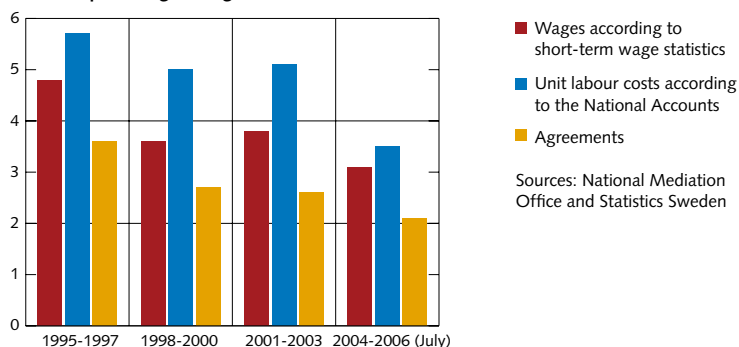
agreements thus creating a benchmark for wage bargaining in other areas. The weak labour market climate and low inflation expectations initially contributed to the lower agreed wage increases at the central level in the business sector than in the 2001 bargaining round (see Figure B9). The average agreed wage increases in the business sector amounted to 2.1 per cent per year. This was a reduction of 0.4 percentage points per year compared with the previous three-year period. The average negotiated wage increases decreased in the local and central government sectors by 0.5 and 0.3 percentage points per year respectively.

According to preliminary short-term wage statistics, wages in the business sector during 2004-2006 (Jan-July) rose on average by 3.1 per cent per year. This means that the rate of wage increase has slowed down by 0.7 percentage points compared with the period 2001-2003. The total labour costs have also increased at a slower rate.²¹ This slowdown applies to all sectors and industries (see Figure B10). Contributory causes of this development have been, on the one hand, lower negotiated wage increases at central level and, on the other hand, a weaker labour market climate. Unlike the bargaining rounds in 2001-2003, in the public sector only the municipalities have had a faster increase in wages than the business sector. However, the difference in the rate of increase in relation to the business sector has decreased.

The development of wage costs in our competitor countries

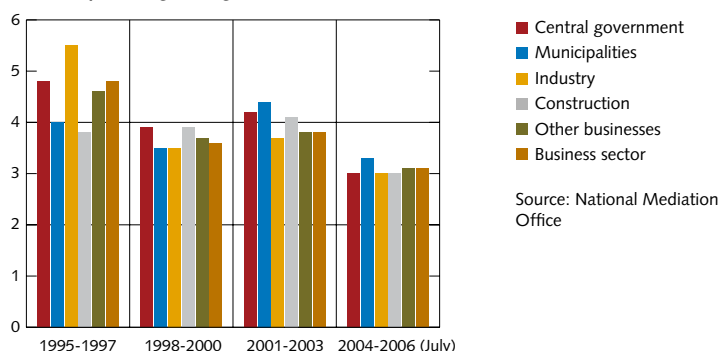
The Industrial Agreement is based on wages in industry in Sweden increasing in line with wages in our competitor countries. Statistics for the period 2004-2005 show that wages in the business sector have risen by just over 1 percentage point per year more quickly in Sweden than in the euro area (see Figure B11). This difference can largely be explained by the fact that wages in Germany only increased

Figure B9. Wages and labour costs in the business sector
Annual percentage change



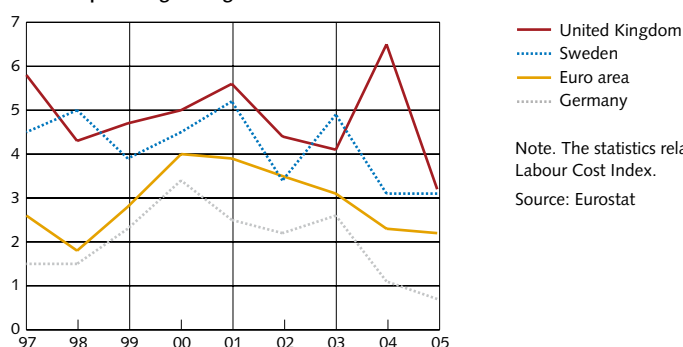
Sources: National Mediation Office and Statistics Sweden

Figure B10. Wage developments according to short-term wage statistics
Annual percentage change



Source: National Mediation Office

Figure B11. Hourly labour costs in the business sector
Annual percentage change



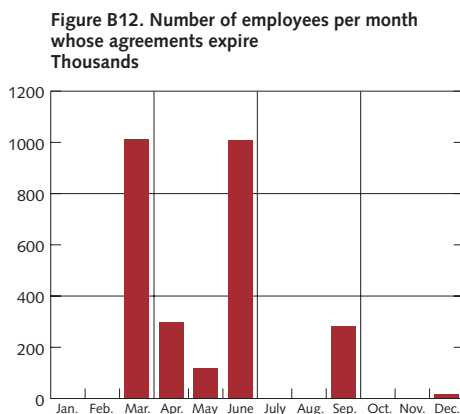
Note. The statistics relate to the Labour Cost Index.

Source: Eurostat

by just under 1 per cent annually during the period, which is considerably lower than the centrally agreed wage increases. In most other countries in the euro area, the rate of increase has been considerably higher than in Germany and in some cases also higher than in Sweden. However, strong productivity growth has helped to maintain competitiveness in Sweden despite higher wage increases.

²¹ Collective charges and indirect wage taxes are also included in total labour costs in addition to the wage sum. The wage sum includes in its turn bonuses and other forms of remuneration. The total labour costs are then divided by the number of hours worked (calendar-adjusted).

Source: National Mediation Office



A large proportion of the agreements expire in March 2007

In 2007, wage agreements for around 2.8 million employees will be renegotiated. It is accordingly the largest bargaining round for ten years. Practically all sectors are affected, with the exception of the transport and banking sector (around 500,000 employees). A large proportion of the agreements expire on 31 March, by which time agreements for over 1 million employees in industry, the construction sector and large parts of the service sector have to be renegotiated (see Figure B12). In June, agreements expire for around 1 million municipal and county council employees. The agreements for approximately 240,000 central government employees will be among the last to be negotiated.

The timetable for the bargaining round will largely be governed by the Industrial Agreement which stipulates that negotiations are to be initiated no later than three months before the preceding agreement expires. The partners are expected to submit their demands and counter-demands in December. Negotiations for the agreements that expire in March will probably be initiated directly after the turn of the year. In the 2004 bargaining round, 72 per cent of the agreements in the private sector were concluded before or directly in conjunction with the expiry date of the agreements.

Negotiations are taking place during a strong upturn

Negotiations in next year's bargaining round will take place against a background of strong GDP growth and an improved labour market. Manufacturing activity is buoyant and firms are optimistic about the future, which is reflected, for instance, by the National Institute of Economic Research's confidence indicator for industry rising to its highest level in six years. Strong productivity growth has contributed to increasing profits in industry. During the 2004 bargaining round, when industry was admittedly in a recovery phase, the labour market climate was weak, with stagnating or even declining employment, which restrained wage demands. The depressed state of profits in industry also dampened wage demands. However, at the time of the 2001 bargaining round, unemployment, which had been falling for a number of years, had reached 4 per cent, and this contributed to higher agreed wage rises than in the 2004 bargaining round.

Although the labour market has started to recover before next year's negotiations, there is at present a relative abundance of unutilised resources in the labour market (see the section "Economic developments in Sweden"). This should have a restraining effect on wage demands. Only within the construction sector is there a shortage of labour (see Figure 34). Another restraining factor on wage demands is probably the increased competition that globalisation entails. The inflation target still has a firm basis of support even though the expectations of the social partners are slightly higher than in the 2004 bargaining round.

Potential sources of tension in the bargaining round

In the 2004 bargaining round, a great deal of attention was given to the increased wage

differences between blue-collar and white-collar workers. This was particularly the case in the industrial sector where between 2001 and 2003 white-collar workers had a rate of wage increase that was on average 1.3 percentage points higher per year than for blue-collar workers. This is in spite of the fact that the wage increases agreed at central level for white-collar workers were lower than for blue-collar workers. White-collar workers had instead succeeded in obtaining higher wage increases locally. This development has continued during the past agreement period and risks leading to compensatory demands from blue-collar workers. Another potential source of tension in the coming bargaining round may be wage development in those industries with predominantly female workers. Prior to the 2004 bargaining round, the Swedish Trade Union Confederation (LO) had agreed on a joint platform with a clear low-wage profile. One expression of this was that wage requirements were formulated in kronor instead of in percentage terms in order to ensure that collective agreement areas with low wage levels received higher wage increases initially. However, despite higher agreed wage increases in, for instance, the retail trade, and the hotel and restaurant sector, wages in these industries have only increased marginally more quickly than in the business sector as a whole. Municipal employees seem only to have improved their relative wages to a very limited extent.

Final remarks

To date the Industrial Agreement has proven to be successful in achieving stable wage formation. There has been broad agreement among the social partners on the normative role of industrial wages. This argues for moderate wage increases in the future. Recently, however, a number of trade unions within the Swedish Trade Confederation as well as employers' associations have started to question the role of industry as a wage leader to some extent. Moreover, the Swedish Trade Union Confederation has also proposed a new wage norm in a report. This proposal means that the wage margin is still to be determined by the sector exposed to competition although it need not be industrial agreements that set the norm. The Swedish Trade Union Confederation is expected to make a decision at the end of October on how possible co-ordination for wage negotiations should be structured.

Now is the first time since the inception of the Industrial Agreement that it is being tested in such a positive economic climate. One factor which will probably push wage demands up this time compared with the 2004 bargaining round is the improved labour market climate. At the same time, there is a relative abundance of unutilised resources in the labour market, which should restrain wage demands.