

THE CANCELLATION OF LOCAL GOVERNMENT WAGE AGREEMENTS AND RELATIVE WAGE DEVELOPMENTS

On 22 October the board of the Municipal Workers' Union (MWU) decided to cancel the third year (the period from April 2003 to March 2004) of the wage settlements with the Association of Local Authorities, the Federation of County Councils and other employer organisations. These settlements, which were concluded in 2001 and cover about 450,000 full-time employees in the local government sector, gave negotiated wage increases of 3.8, 3.7 and 3.5 per cent, respectively, in the three twelve-month periods from April 2001 to March 2004. Of the settlements in the 2001 negotiating round, the MWU agreement was one of those that gave most in negotiated wage increases, in keeping with the intentions in the Trade Union Confederation's platform for agreements (see *Inflation Report 2001:2*, Table 6 on p. 20). In the course of the 2001 negotiations, MWU had already demanded that in the long run the average level of its members' wages was to be on a par with that of engineering workers. MWU has assessed that in 2002 the average wage level of its members is about 84 per cent of the average for engineering workers.⁷ The demand concerning long-term wage development is included in MWU's new claim and implies that ¼ of the difference is to be made up during the 2003 settlement year. In practice this means that the wage outcome for MWU's members in 2003 will need to be about 4 percentage points higher than the outcome for engineering workers.

MWU's cancellation of agreements shows that relative wages are an important factor in wage negotiations. Sector, industry and occupational differences in wage developments are normal and can be explained in terms of market conditions as well as institutional factors. For one thing, the wage level in a particular labour market may need to be adjusted for changes in demand or supply in that market. Such factors as technology, labour skills and capital intensity also affect wage developments. For another, institutional factors such as the extent to which the negotiating system

⁷ See Kommunal (Municipal Workers' Union) (2002), *Kommunalernas löner – Underlag till avtalskonferenserna* (MWU members' wages – Material for the conferences on wage agreements).

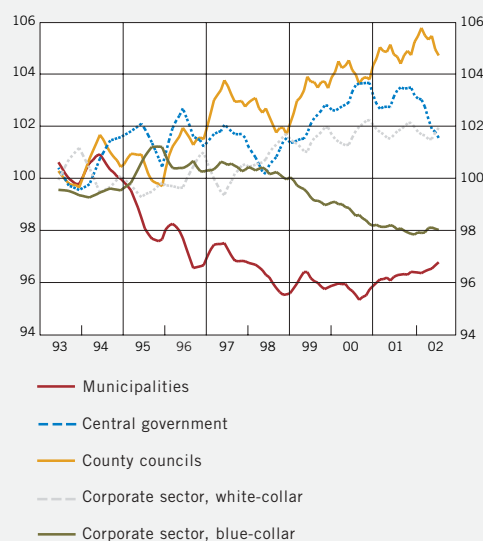
is centralised may be important for relative wage developments. A centralised negotiating system, for example, may lead to wage differences between groups in the labour market that are smaller than with a negotiating system at industry level. One reason for this is that negotiations at industry level are more attuned to the wage-paying capacity of the industry in question. From the second half of the 1990s, wage formation has been determined locally to a growing extent. Finally, the development of public sector wages is influenced by central and local government budget constraints.

So how have relative wages developed in the Swedish labour market? Relative wage developments for some labour market sectors and groups since 1993, derived from Statistics Sweden's conjunctural wage statistics, are shown in Fig. B8. According to these statistics, which go back to the beginning of the 1990s, the average wage in the municipal sector has not kept up with the average levels for other sectors and groups.⁸ Since mid 2000, however, the level in the municipal sector has moved closer to the average blue-collar wage in the corporate sector. During the 1990s the average levels of white-collar wages in the county council, central government and private sectors have developed more favourably than the averages for other labour market groups.

In the longer run, the average wage for local government employees (municipalities and county councils combined) has fallen since 1970 relative to the average for manufacturing workers. So have the levels for employees in construction, transportation and the central government sector, for example (Fig. B9). In trade, banking and insurance enterprises, on the other hand, the average wage has risen more rapidly than the average blue-collar wage in manufacturing (Fig. B10).

Market-related factors explain a large part of relative wage developments in the Swedish labour market. In local government, another contributory factor may be that increased responsibilities have weakened the wage-paying capacity here. Institutional factors may also have played a part. One is the shift from central to industry-level negotiations in connection with the 1983 round of wage agreements.

Figure B8. Wages for specific sectors and groups relative to total wages.
Index: 1992=100

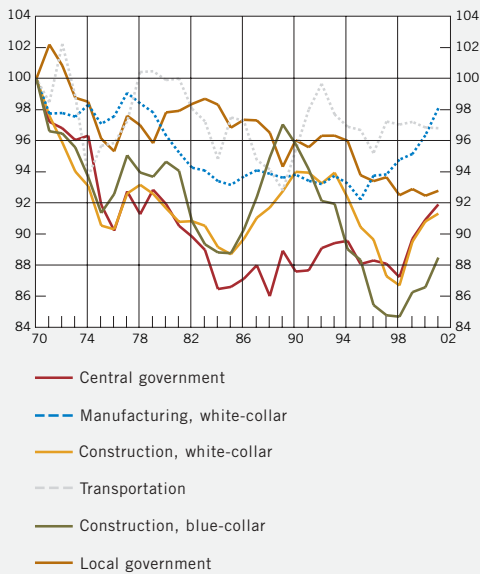


Note. Seasonally-adjusted series, moving six-month mean. The wage statistics for 2002 do not yet include retroactive disbursements to central government employees, for example. The index for the total wage level is constructed with current wage-bill weights.

Sources: Statistics Sweden and the Riksbank.

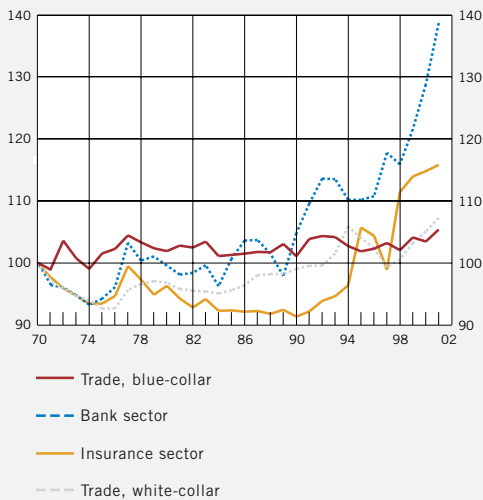
⁸ Municipal employees are represented by the Municipal Workers' Union, the Union of Local Government Officers, the Association of Graduates in Social Science, Public Administration, Economics & Social Work, the Alliance (of 12 professional associations), the National Federation of Teachers, the Teachers' Union, the Medical Association and others.

Figure B9. Wages for specific sectors and groups relative to the industrial blue-collar wage. Index: 1970=100



Sources: National Institute of Economic Research (1970–92) and Statistics Sweden (1993–2001, conjunctural and structural wage statistics).

Figure B10. Wages for specific sectors and groups relative to the industrial blue-collar wage. Index: 1970=100



Sources: National Institute of Economic Research (1970–92) and Statistics Sweden (1993–2001, conjunctural and structural wage statistics).

What are MWU's possibilities of obtaining higher negotiated wage increases in new agreements with the Association of Local Authorities and the Federation of County Councils? According to a survey produced for the newspaper *KommunAktuellt* (Local Government News), 128 of Sweden's 287 municipalities state that this year they will not or may not manage to meet the statutory requirement that their budget does not show a deficit.⁹ A number of county councils, including Skåne and Stockholm, also have financial problems. The limited wage-paying capacity among municipalities and county councils speaks against sizeable wage increases. On the other hand, labour shortages are appreciable in a number of municipalities.

The cancellation of MWU's agreement and the probability of a somewhat higher negotiated outcome for the Union's members in 2003 are relevant for monetary policy in so far as they affect wage formation. There are at least three conceivable effects: (i) other trade unions choose to cancel their agreements; (ii) local wage formation is affected; and (iii) other trade unions demand compensation in the 2004 round of wage negotiations.

What is the risk of other agreements being cancelled and to what extent is this feasible with respect to existing labour market agreements? According to the National Mediation Institute, the possibility of cancelling the final year of agreements exists for not quite 70 per cent of corporate sector employees.¹⁰ In the public sector, in addition to the MWU agreement, cancellation is allowed under the agreements for employees in the central government sector, municipal energy companies and the post office, for example (Table B2). In a number of major agreements, on the other hand, there are no provisions for cancellation; these include wholesale and retail trade, hotels and restaurants, cleaning services, most blue-collar groups in construction and power plants. No other agreements have been cancelled to date. Large industrial trade unions such as Metal (metalworkers) and SIF (clerical and technical employees), for example, have chosen not to use the possibility of cancelling the third year of their wage agreements with the Association of Engineering Industries. The weaker labour market in much of manufacturing makes it less probable that other agreements in this sector will be cancelled in the future (Fig. B11).

9 Wikstrand, M. (2002), Rekordmånga missar balans i år (Record number fail to balance this year), *KommunAktuellt*, 14 November.

10 See the annual report from the National Mediation Institute, *Avtalsrörelsen och lönebildningen 2001*, Stockholm 2002.

Table B2. Possibilities of cancelling wage agreements.

Sector, industry or group.	No. of full-year employees	Latest cancellation date	Dare when agreement would then expire
Financial consultants	1 400	30 Sep 2002	31 Dec. 2002
Engineering, b&w	300 000	31 Oct. 2002	28 Feb. 2003
Local government, blue-collar	450 000	31 Oct. 2002	31 March 2003
Textiles, w	3 700	31 Oct. 2002	31 March 2003
Building materials, b	6 600	31 Oct. 2002	30 April 2003
Total	760 300	31 Oct. 2002	
Pulp and paper, b&w	34 500	30 Nov. 2002	28 Feb. 2003
Allochemicals, chemicals, b&w	33 000	30 Nov. 2002	31 March 2003
Steel and non-ferrous metals, b&w	49 500	30 Nov. 2002	31 March 2003
Mining, b	4 600	30 Nov. 2002	31 March 2003
Sawmills, b	8 500	30 Nov. 2002	31 March 2003
Wood products, b	25 000	30 Nov. 2002	31 March 2003
Sawmills and wood products, w	10 000	30 Nov. 2002	31 March 2003
Auto dealing and servicing, b&w	30 500	30 Nov. 2002	31 March 2003
Food products and building materials, w	50 000	30 Nov. 2002	31 March 2003
Laundries*	2 100	30 Nov. 2002	31 March 2003
Food products, b	25 000	30 Nov. 2002	30 April 2003
Bakeries, b	6 500	30 Nov. 2002	30 April 2003
Total	247 700	30 Nov. 2002	
Municipal energy companies etc.	30 000	31 Dec. 2002	31 March 2003
Journalists	6 000	31 Dec. 2002	31 March 2003
Services and media companies, w	71 000	31 Dec. 2002	31 March 2003
Construction, w	16 000	31 Dec. 2002	31 March 2003
Rail transport	15 000	31 Dec. 2002	31 March 2003
Transportation, w	14 000	31 Dec. 2002	30 April 2003
Printing, w	6 500	31 Dec. 2002	30 April 2003
Central govt. sector, SECO	25 000	31 Dec. 2002	30 June 2003
Central govt. sector, SACO-S	66 000	31 Dec. 2002	30 June 2003
Central govt. sector, OFR	100 000	31 Dec. 2002	30 June 2003
Social insurance offices	14 500	31 Dec. 2002	30 June 2003
Total	364 000	31 Dec. 2002	
Electricians	16 000	31 Jan. 2003	31 March 2003
Pharmacies	11 000	31 Jan. 2003	30 April 2003
Agriculture, b	5 000	28 Feb. 2003	31 May 2003
Explosives, b	1 100	28 Feb. 2003	30 June 2003
Textiles and clothing	6 200	31 May 2003	31 Oct. 2003
Post office	41 000	30 June 2003	30 Sep. 2003
Glass products	1 000	31 June 2003	30 Nov. 2003
Total	81 300	Jan–July 2003	

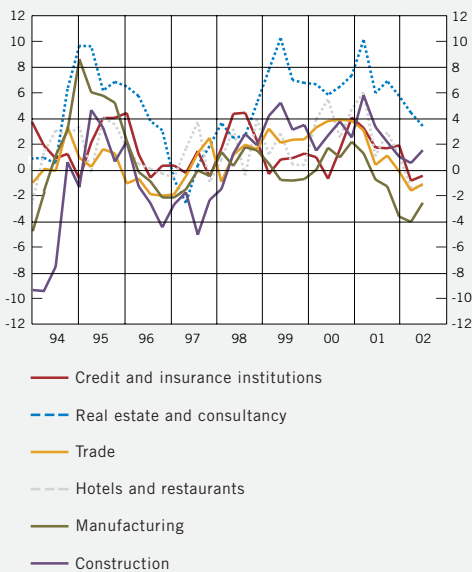
Note. w=white-collar employees, b=blue-collar employees; SEKO=Union of Service & Communication Employees; SACO-S=Confederation of Professional Associations, Central Government Section; OFR=Public Employees' Negotiation Council. *Assuming that other settlements covered by the general manufacturing agreement are cancelled.

Source: National Mediation Institute.

Another risk is that the cancellation of the MWU agreement will affect future local wage formation. Wages are set mainly locally for a large proportion of employees. Studies suggest that local wage formation is influenced above all by the prevailing state of the labour market.¹¹ The weaker labour market in a

11 Significant effects on the rate of industrial blue-collar wage drift have been demonstrated for various indicators of the labour market situation in econometric estimations; see e.g. Friberg, K. & Uddén Sonnegård, E. (2001), Changed wage formation in a changing world?, *Sveriges Riksbank Economic Review 1*, pp. 42–69.

Figure B11. Number employed in selected sectors.
Percentage 12-month change



Source: Statistics Sweden.

majority of sectors is therefore likely to overshadow any demands for relative wage compensation.

A further risk is that the cancellation of the MWU agreement will affect the outcome of the 2004 round of wage negotiations. It is above all the Trade Union Confederation's coordination of demands in the run up to the 2004 negotiations that may be affected. The 2004 round is expected to yield new agreements for more than two million employees. If the MWU obtains high negotiated wage increases, demands for compensation may come from trade unions that want to maintain (or improve) their relative wage position.

It has been very unusual for agreements in the Swedish labour market to be cancelled. The few instances of earlier cancellations concerned comparatively small trade unions.¹² As MWU's cancellation involves many more employees, it is difficult to make historical comparisons. However, the wage spread between sectors in the Swedish economy has been investigated in several studies, though none of them reported significant effects of wage spreads from the municipal to the corporate sector. But Holmlund & Ohlsson (1992) and Jacobsson & Ohlsson (1994) did find a significant effect of wage spreads from the municipal to the central government sector and the former also showed a significant effect between the central government and the corporate sector, which means that wage increases can spread from the municipal to the corporate sector via the central government sector.¹³ However, the study by Tågström (2000) found no significant wage-spread effects at all from the municipal sector.¹⁴

In conclusion, a number of factors suggest that effects on wage formation from the cancellation of MWU's agreements are likely to be small. Examples of such factors are that no other trade union has yet chosen to cancel its agreements, that a number of large trade unions do not have the option of cancelling agreements and that relative wage increases for MWU members have been accepted in the past by unions affiliated to the Trade Union Confederation. Moreover, large parts of the corporate sector labour market are weaker than at the time of the previous round of wage negotiations (Fig. B11).

12 Agreements have been cancelled before, for example for employees in mining, laundries and pharmacies (for the numbers of full-year employees in these cases see Table B1). The renegotiations gave these groups somewhat higher negotiated wage increases in the final period of the agreement but no other trade unions put forward demands for compensation in connection with or after these increases.

13 Holmlund, B. & Ohlsson, H. (1992), Wage linkages between private and public sectors in Sweden, *Labour* 6 (2), pp. 3–17, and Jacobson, T. & Ohlsson, H. (1994), Long-run relations between private and public sector wages in Sweden, *Empirical Economics* 19 (3), pp. 343–360.

14 Tågström, S. (2000), The wage spread between different sectors in Sweden, *Sveriges Riksbank Economic Review* 4, pp. 77–82.