Decentralized Wage Formation in Sweden

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and
Håkan Regnér
1. Institutional background
   - Labor organizations in general
   - Saco

2. Wage formation
   - Some general information
   - The Saco model
   - Decentralized wage formation and individual wages

3. Brief summary
Three confederations of unions

1. LO, the *Swedish Trade Union Confederation*
   - 15 unions with 1.6 million manual workers

2. TCO, the *Swedish Confederation of Professional Employees*
   - 16 unions with 1.2 million members who are qualified employees

3. Saco, the *Swedish Confederation of Professional Associations*
   - 22 unions with 630 000 members who are academics or graduate professionals with university or college degrees
Social partners today

- 60 employee associations
- 50 employer associations
- 3.9 million employees, and about 90% are covered by national industry-level collective agreements
- Union membership has declined but still at an internationally high level, 70%
Wage setting in Sweden

- The Swedish wage structure has long been one of the most compressed in OECD

- From a strongly egalitarian centralized wage-setting system to one which worker wages are (partially) set locally

- The decentralization strategy in Sweden is sanctioned by the unions
Collective bargaining over wages occurs at two levels

1. *Industry wide* (industry-level agreements)
   - Negotiated by national trade unions that represent workers in certain sectors or specific occupations and by employer associations

2. *Local* (local collective agreements)
   - All sectors have local collective agreements; specific to an employer and the local trade union
Some additional institutional information

– During the 1980s, there were central agreements at the industry level about wages

– Since the early 1990s, trade unions and employer organizations have signed agreements at the industry level about the framework for wage bargaining at the local level

– Agreements provide a set of rules for the local wage bargaining process

– Some agreements only include general guidelines about wage formation

– Wide variety of agreements
The Swedish Confederation of Professional Associations, Saco

• 22 trade unions/professional organizations

• 630 000 individual members

• University graduate or professionals with a college degree

• Employees, students, researchers, self-employed people and retired professionals

• Politically unaffiliated
Saco members work in all sectors

- Self-employed: 4%
- State sector: 22%
- Municipal sector: 37%
- Private sector: 37%
Factors that influenced Saco affiliates to adopt decentralized wage-setting

1) In the 1970s, employers in the private sector began questioning the system of central, coordinated wage agreements

2) Imbalance between the private and public sectors

3) Stronger bargaining power of the confederation of blue-collar workers

4) The content of the job can vary a lot between college-educated workers at the same workplace
Industry-level agreements for Saco trade union members, %, 2008

<table>
<thead>
<tr>
<th>Agreement models</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Local wage formation. No nationally determined wage increases (“no-numbers” agreements)</td>
<td>39</td>
</tr>
<tr>
<td>2. Local wage formation (default). If local unions and employers cannot reach an agreement, the agreements stipulate wage increases for the member group but no individual guarantees of wage increases.</td>
<td>18</td>
</tr>
<tr>
<td>3. Local wage formation (default). If local unions and employers cannot reach an agreement, the agreements stipulate wage increases for the member group and individual guarantees of wage increases.</td>
<td>2</td>
</tr>
<tr>
<td>4. Wage increases for the member group, but distribution of individual wage increases is subject to local bargaining.</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Saco, own calculations
## Agreements for all workers, 2011

<table>
<thead>
<tr>
<th>Agreement model</th>
<th>Percentage of the employed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Priv</td>
</tr>
<tr>
<td>1. Local wage formation. No nationally determined wage increases (&quot;no-numbers&quot; agreements)</td>
<td>8</td>
</tr>
<tr>
<td>2. Local wage formation (default). If local unions and employers cannot reach an agreement, the agreements stipulate wage increases for the member group but no individual guarantees of wage increases</td>
<td>10</td>
</tr>
<tr>
<td>3. Local wage formation (default). If local unions and employers cannot reach an agreement, the agreements stipulate wage increases for the member group and individual guarantees of wage increases.</td>
<td>6</td>
</tr>
<tr>
<td>4. Wage increases for the member group, but distribution of individual wage increases is subject to local bargaining.</td>
<td>15</td>
</tr>
<tr>
<td>5. Wage increases for the member group and individual guarantees of wage increases (stipulated or conditional)</td>
<td>27</td>
</tr>
<tr>
<td>6. General individual wage increases plus wage increases for the member group for which the distribution of individual wage increases is subject to local bargaining.</td>
<td>19</td>
</tr>
<tr>
<td>7. General individual wage increases</td>
<td>15</td>
</tr>
</tbody>
</table>

| BHM-Iceland, 120206 |
Wage formation for members of a Saco trade union

• Decentralized wage formation (at the workplace)

• Wage setting is individualized (based on competence and performance)

• Wages are set in:
  1) pay review talks, i.e. meetings (negotiations) between the supervisor (manager) and the employee
  or,
  2) more traditionally, negotiations between the employer representative and the local union,
  or,
  3) combinations of 1) and 2)
Individualized wage-setting

- Other factors than age and experience (pay grade systems) influence wages. For example, competence, work results, leadership, cooperation skills etc.

- Wage as a "carrot" – increasing motivation and performance (i.e. employee productivity)

- Strong connection between performance and pay
Pay review model (lönesamtal)

• The manager /supervisor and the employee meet on a regular basis to discuss individual performance and pay
• Crucial in the local wage setting procedure – institutionalized form of decentralized wage formation
• The pay review talk should also serve as an instrument for employers and employees (!) to give their view on individual performance
• Should reveal the connection between performance and pay
Evaluation

• Analyze the individual outcome of decentralized wage formation in Sweden - microeconomic effects

• Previous studies have focused on macroeconomic effects

• Data
Data

• Derived from annual surveys of Saco trade union members in 2008 - each union conducts the survey and Saco compiles the data

• Samples contain 136 000 - 167 000 individuals

• 14 unions had questions about pay review talks

• Various questions about decentralized wage formation, not the same ones for every union (various sample sizes in the analyses)
## Participants in pay review talk 2002 and 2008, %

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Women</th>
<th>Men</th>
<th>Private</th>
<th>State</th>
<th>Municipal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2002</strong></td>
<td>60</td>
<td>56</td>
<td>63</td>
<td>66</td>
<td>48</td>
<td>53</td>
</tr>
<tr>
<td><strong>2008</strong></td>
<td>71</td>
<td>73</td>
<td>69</td>
<td>71</td>
<td>66</td>
<td>77</td>
</tr>
</tbody>
</table>

Year 2002: 97 810 Saco members in 9 unions  
Year 2008: 166 973 Saco members in 14 unions
## Pay review talk with a manager with power to set wages, %

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>State</th>
<th>Municipal</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>66</td>
<td>64</td>
<td>65</td>
<td>68</td>
</tr>
<tr>
<td>No</td>
<td>19</td>
<td>23</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>Don’t know</td>
<td>14</td>
<td>13</td>
<td>15</td>
<td>14</td>
</tr>
</tbody>
</table>

90 608 Saco members in 12 unions
Questions

1. How does the pay review model affect individual wages?

2. Do wages vary between those who participate in wage review talks and those who do not?

3. Does it matter who you talk to? Are there differences between managers with power to set wages and managers without power?

4. Are there differences between sectors, and between women and men?
Calculations

1. Mean wages of individuals who participate in pay review talks compared with individuals who do not participate

2. Mean wages of those who have had pay review talks with a manager with power to set wages compared to pay review talks with a manager who has no power over wages

- Estimates have been obtained controlling for various background variables: e.g. gender, part-time work, experience, manager, sector, union
# Wage differences between participants and non-participants in pay review talks, %, by gender and sector

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Women</th>
<th>Men</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Private</td>
<td>State</td>
<td>Munic.</td>
<td>Private</td>
</tr>
<tr>
<td>Pay review talk</td>
<td>0.9</td>
<td>1.9</td>
<td>---</td>
<td>1.8</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Controls: part-time work, experience, manager, (sector), union
(Sample: 136 236 obs)
Why an average wage gap among women, only?

– Women can raise awareness of unobserved wage differentials between men and women.
– Individual wage setting eliminates the problem of statistical discrimination (discrimination based on gender stereotypes)
– The manager has to look at individual performances not group performance
– The pay review talk is a “formal” meeting where a person can confront the manager about for example gender inequality
– In all, the pay review talk might be an eye-opener
The pay review gap for women

![Graph showing the pay review gap for women](image)
## Wage differences between groups with pay review talk with a manager with power to set wages vs no power to set wages, %

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Wom</th>
<th>Men</th>
<th>Private</th>
<th>State</th>
<th>Municipal</th>
</tr>
</thead>
<tbody>
<tr>
<td>With power to set wages (vs no power)</td>
<td>3,0</td>
<td>2,4</td>
<td>3,4</td>
<td>3,1</td>
<td>1,6</td>
<td>3,3</td>
</tr>
<tr>
<td>Do not know if power (vs no power)</td>
<td>-1,0</td>
<td>-0,8</td>
<td>-1,8</td>
<td>-1,6</td>
<td>-3,4</td>
<td>---</td>
</tr>
<tr>
<td>No of obs.</td>
<td>74 229</td>
<td>37 614</td>
<td>36 615</td>
<td>44 547</td>
<td>7 090</td>
<td>22 592</td>
</tr>
</tbody>
</table>

Controls: (gender), part-time, experience, manager, (sector), union
Manager with power to set wages, women
Not only about wages - "spill over" effects from pay review talks

• Those who took part in wage review talks (compared to those who did not):

  – have a better relationship with the manager
  – can influence how they organize their work
  – say that they have a better work environment
Brief summary

Locally and individually set wages – the pay review model sets out new roles.

– *Managers* are given clearer responsibility for wage setting and for using wages to create work incentives

– *Local unions* guide and support members before pay review talks

– *Employees* (trade union members) have to be active and prepare themselves – opportunity to argue for wages and other benefits
Saco Lönesök – the union assists members in an individualized world

– Web application with information on 300 000 Saco trade union members’ wages
– Benefit for Saco trade union members, only
– When searching for a new job, preparing for a pay review talk / wage negotiation etc.
– Wage levels / starting wages / wage spread / wage growth for your / other’s profession, educational field, sector, year of examination
Agreements and approaches

centralized \rightarrow local

negotiation \rightarrow collusion

collective \rightarrow individual

rules \rightarrow ideas

"pipes" \rightarrow entirety