

Negotiated Flexibility in Sweden: a more egalitarian response to the crisis?

Balancing the Labour Market by 2020

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Objectives

◆ Fourfold:

1. The Swedish Model: the role of Active labour market policies
2. Impact of the reforms undertaken after the change of Government (2006-) on the Swedish model.
3. The Swedish model and the response to the crisis: Adjustment patterns
4. Consequence of the Great Recession on inequalities and on the future of the Swedish model

THE TRADITIONAL MODEL THE GOLDEN AGE 1955-1974

◆ Three main components

1. **Restrictive economic policy** (curbing inflation/context full employment and price stability) complemented by measures aiming at preserving full employment. Also clear division of responsibility between the State and the social partners.
2. The application of wage norm the s.c “**Solidaristic Wage policy**”. Saltsjöbaden, 1938 and Centralised and coordinated collective bargaining system
3. The implementation of an **ambitious Active Labour Market Policy** favouring geographical and occupational mobility. Reallocation of workforce from low productive industries to expansionary industries.

Main Features of the Swedish Model: The rise of disequilibria (1973-1993)

- ◆ Deviations from the original models
 1. **Wage inflation and Wage drift.** Not only wage compression within industries but also between industries and occupational groups. Sharp Increase of unit production cost.
 2. **Accommodative monetary policy.** Waves of devaluation of the Swedish Currency.
 3. **Reorientation of ALMP** towards demand oriented measures and job preserving measures
 4. Strong **increase of the tax pressures** (in connection of growing public sector) and also sharp increase of marginal tax

THE RISE OF DISEQUILIBRIA 1982-1992

- ◆ **Development of Industrial Relations.** Breakdown of the centralised collective bargaining systems. Weakening of coordination mechanism.
- ◆ Recrudescence of **industrial disputes**.
- ◆ **Wage inflation**, excess demand and increase of labour market tightness (1985-1991). Increase of unit production costs. No increase of real wages.
- ◆ Up to the early 1990s no impact on employment.

THE CRISIS 1991-1994

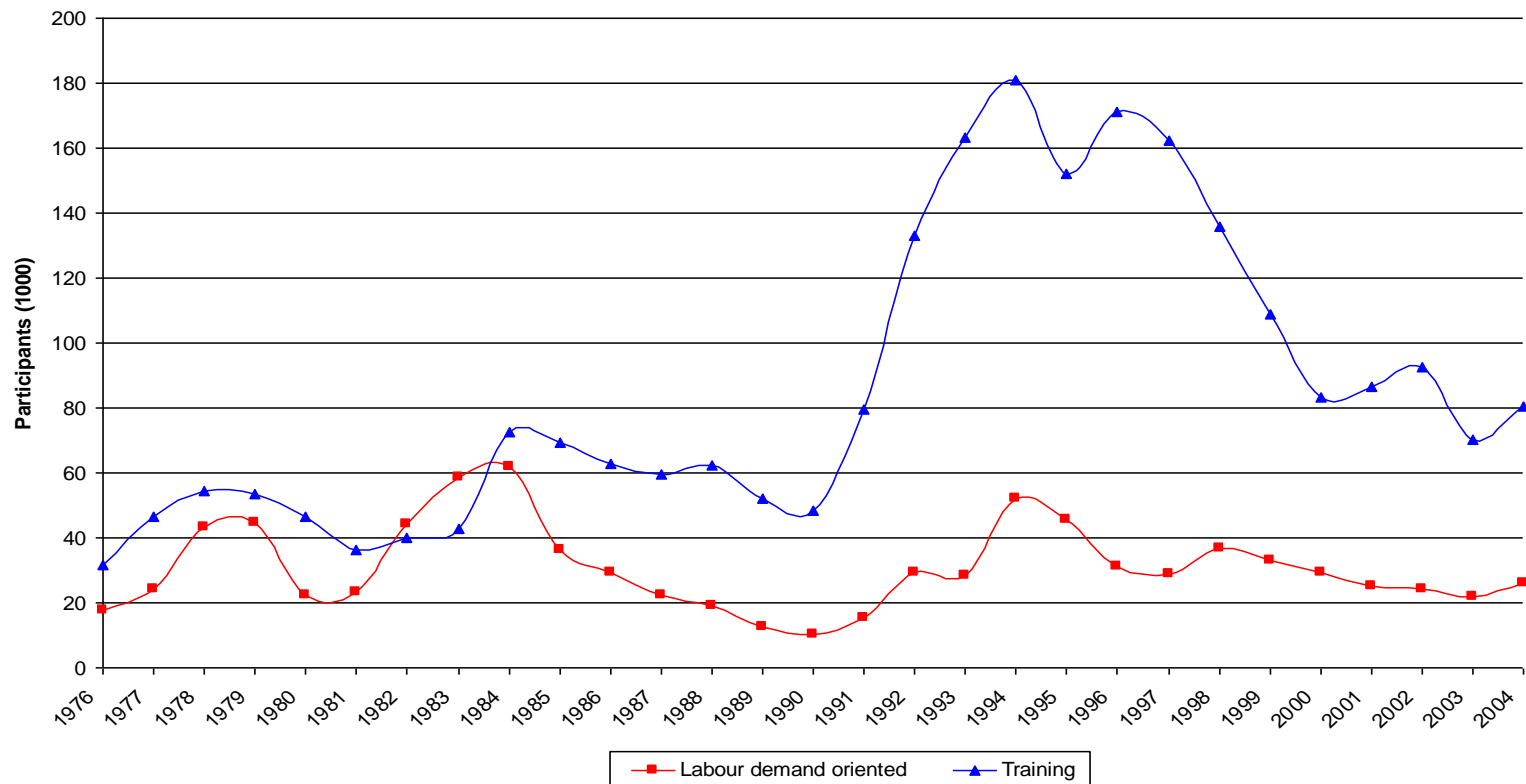
- ◆ Dramatic fall of employment rates (11 points) and sharp increase of unemployment (from 1,5 to 9 % in 3 years, 1991-1994). At this time most severe crisis since the 1930s.
- ◆ Increased deficits in current account and budget deficit (14% of GDP).
- ◆ Sharp depreciation of the Swedish currency (25 %!).

The Swedish model in turbulent times: decline or renaissance ? (1993-2006).

- ◆ Renaissance of the Swedish model
- ◆ Reorientation of Macroeconomic Policy , Restrictive fiscal and monetary policy (Inflation). From large public deficit and soaring public debt to healthy public finances and low inflation. **EARLY FISCAL CONSOLIDATIONS !**
- ◆ Industrial relation system: Re-coordination of collective bargaining and negotiated flexibility (individualisation of wage but re-coordination)
- ◆ Supply oriented Active labour Market policy (Massive use of labour market training skill upgrading High road)
- ◆ **Employment:** Employment growth, especially in the private service sector. Sharp reduction of unemployment (from 10 % to 4.5% in 2006).

Reorientation of Active Labour Market Policy

PARTICIPANTS IN ALMP MEASURES, TRAINING AND LABOUR DEMAND ORIENTED MEASURES



Before the Great Recession: Impact of the reforms undertaken after the change of Government (2006-) on the Swedish model.

- **Change of Government in 2006** Coalition conservative, Centre and liberal).
- New neo-liberal agenda (but started also with socio- democrats in the early 1990s).
- Open the public service sector to competition... (Health, education, care etc..).
- Reduction of the level of participants in ALMP (reorientation toward Search activities, coaching, less reliance on labour market training). Result of the pessimism of evaluations (IFAU) and Calmfors criticism (ALMP as accommodative policy)
- Supply oriented policy (work incentives , reform of health insurance, unemployment insurance). Various income tax reform (In work-credit system). **The work line !**

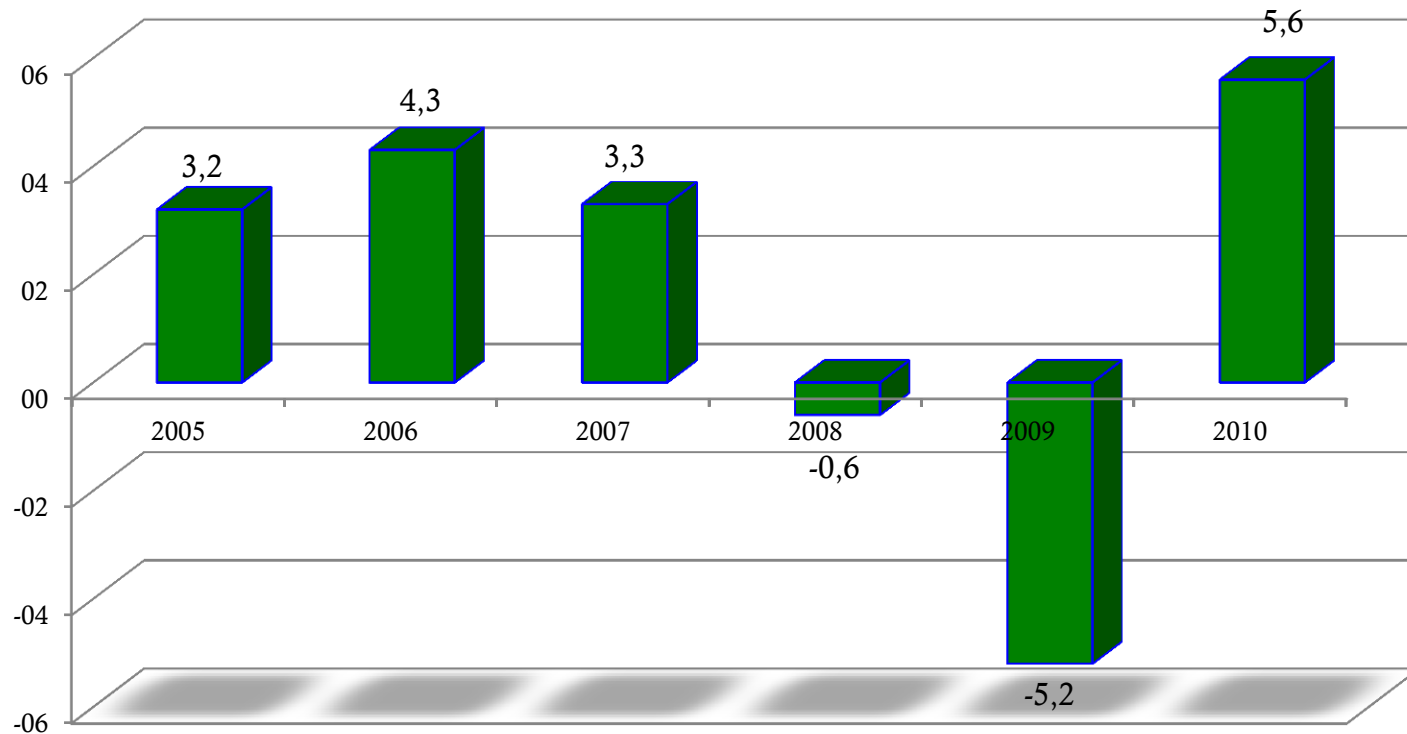
Before the crisis. Industrial relations

- ◆ Modification in the financing of unemployment insurance (Ghent system). Higher individual contribution and experience rating. Significant increase of individual fees. Reduction of union density (10 percentage points).
- ◆ Increase vulnerability and poverty risk for individuals not covered by UI.
- ◆ Weakening of union bargaining power ?. But still high coverage rate of collective bargaining (90%) and union density (over 70 %).

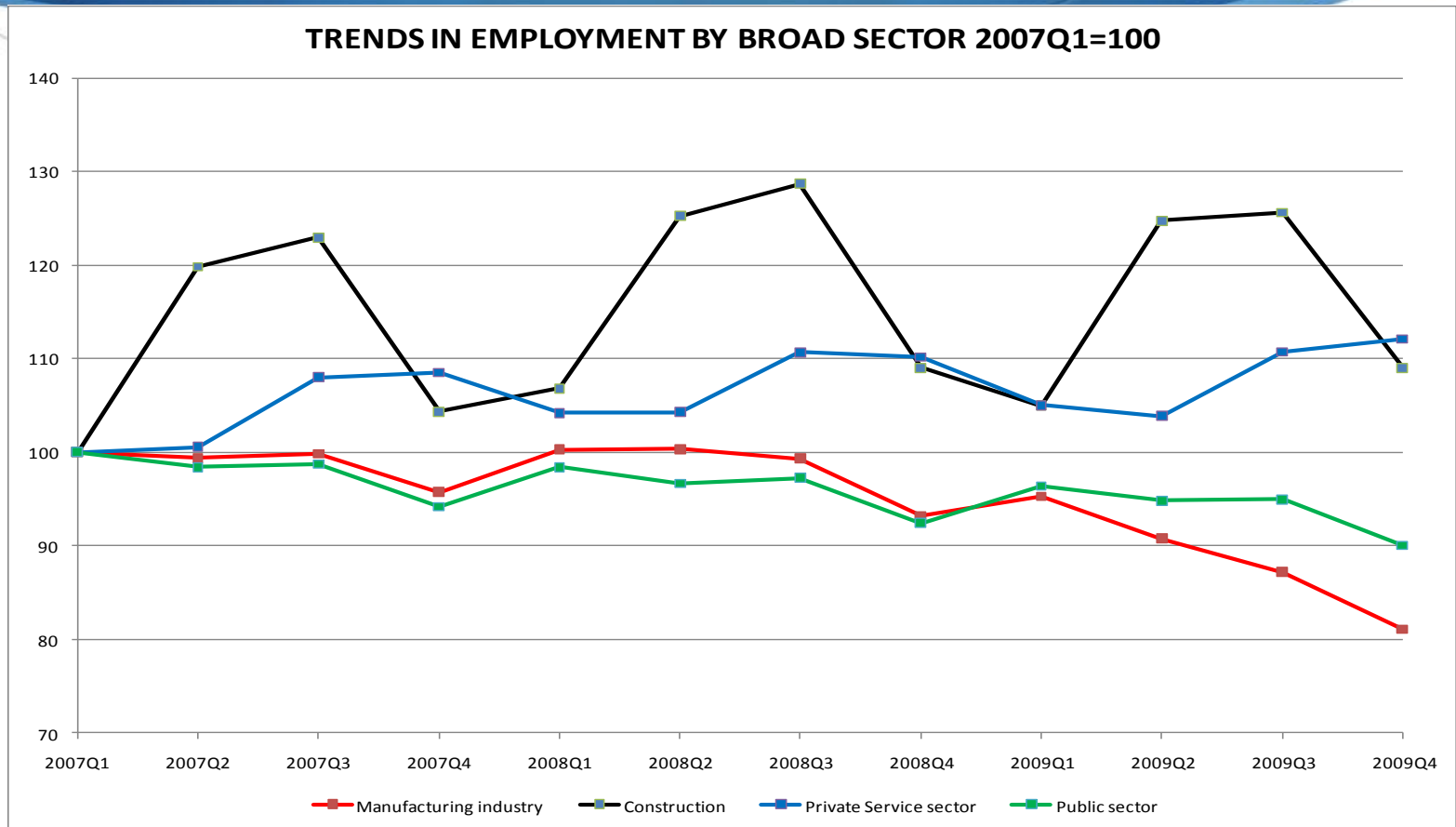
The Great Recession 2008-. The Swedish Model in Turbulent Times

The Crisis. GDP. Small Open Economy

GDP GROWTH SWEDEN 2005-2010



EMPLOYMENT TRENDS 2007Q1-2009Q4



Crisis: Macroeconomic expansionary policy and Negotiated flexibility

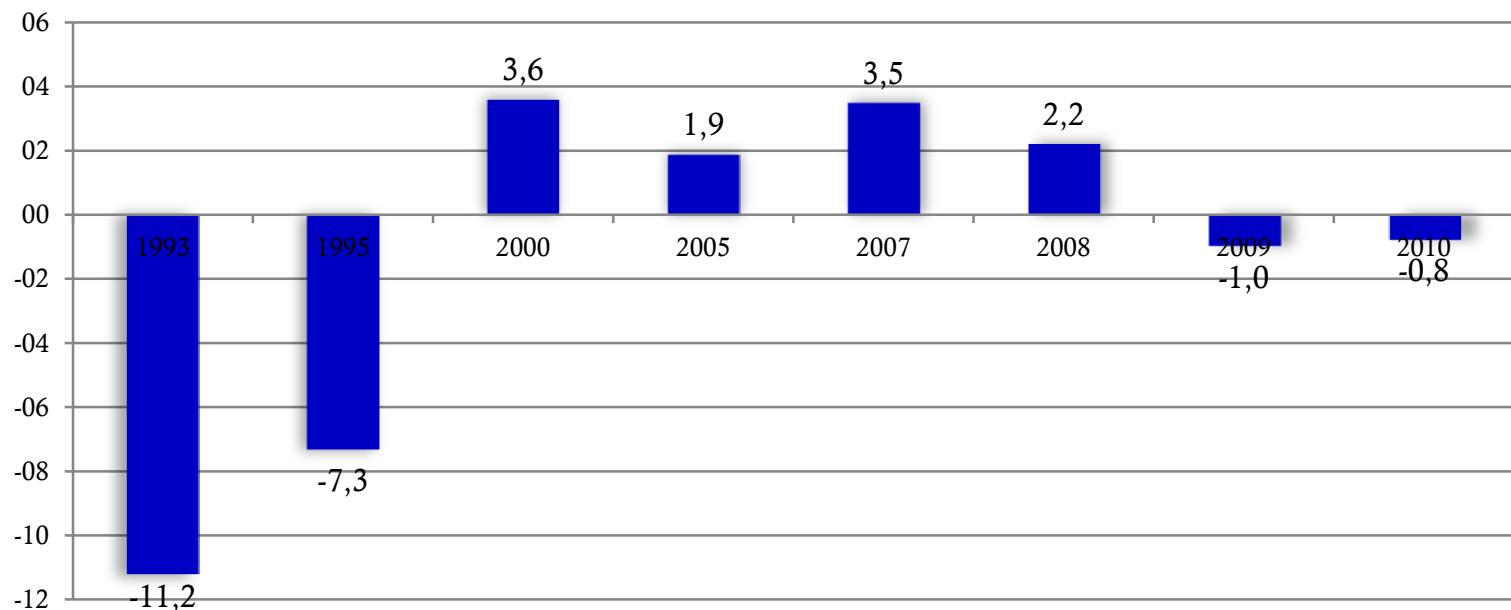
- Traditionally and in line with the core elements of the Swedish model, economic downturns and structural changes have seldom been associated with public measures aiming at maintaining the level of employment.
- Compared to Belgium France, or Germany no direct public support for maintaining/keeping employment, (such as reductions of working time, short-time working or work sharing).
- Looking at previous downturns and structural changes employment adjustments in Sweden have principally taken the form of **external numerical flexibility**, combined with **active labour market policy** and relatively generous income support.

Negotiated flexibility: What impacts on inequalities

- ◆ Current crisis: In line with this tradition Policy Mix between expansionary fiscal and monetary policy and ALMP/educational policy.
- ◆ In sharp contrast with the early 1990s: Room of manoeuvre. Healthy [public finances](#) and [low public debt](#).
- ◆ But also higher reliance on macroeconomic instruments instead of [ALMP](#) (Forslund/Calmfors Uppsala/IFAU)

BUDGET DEFICIT OR SURPLUS (NET LENDING 1993-2010)

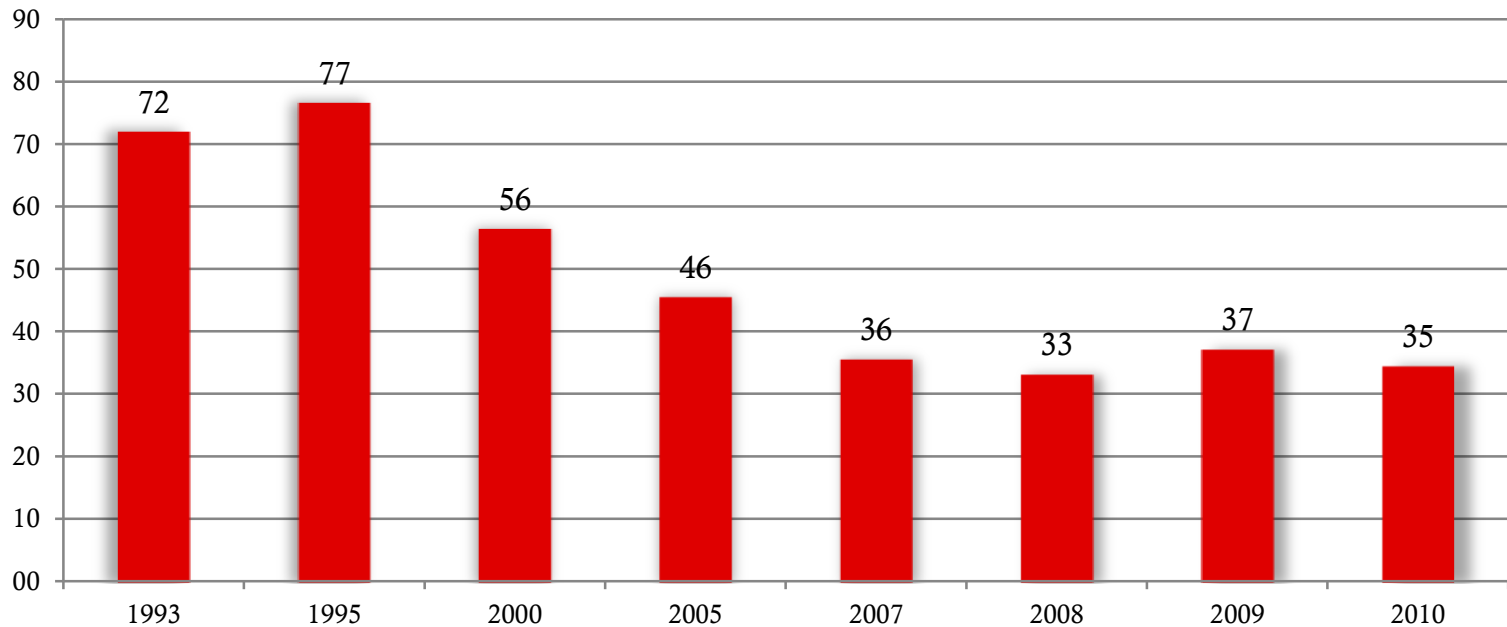
Net Lending, per cent of GDP



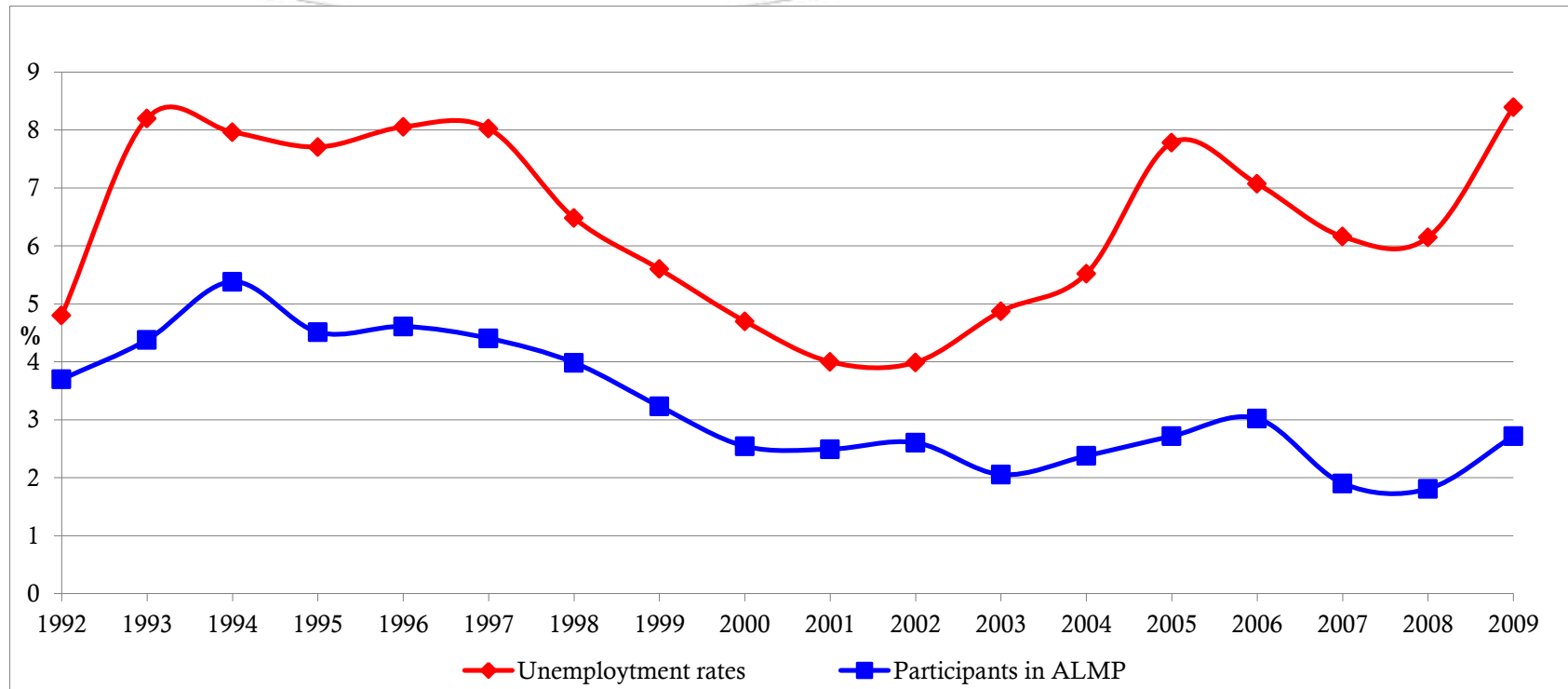
In accordance with the surplus target (2000), general government net lending must equal 1 per cent of GDP on average over a business cycle.

CENTRAL GOVERNMENT DEBT 1993-2010

Central Government Debt, per cent of GDP



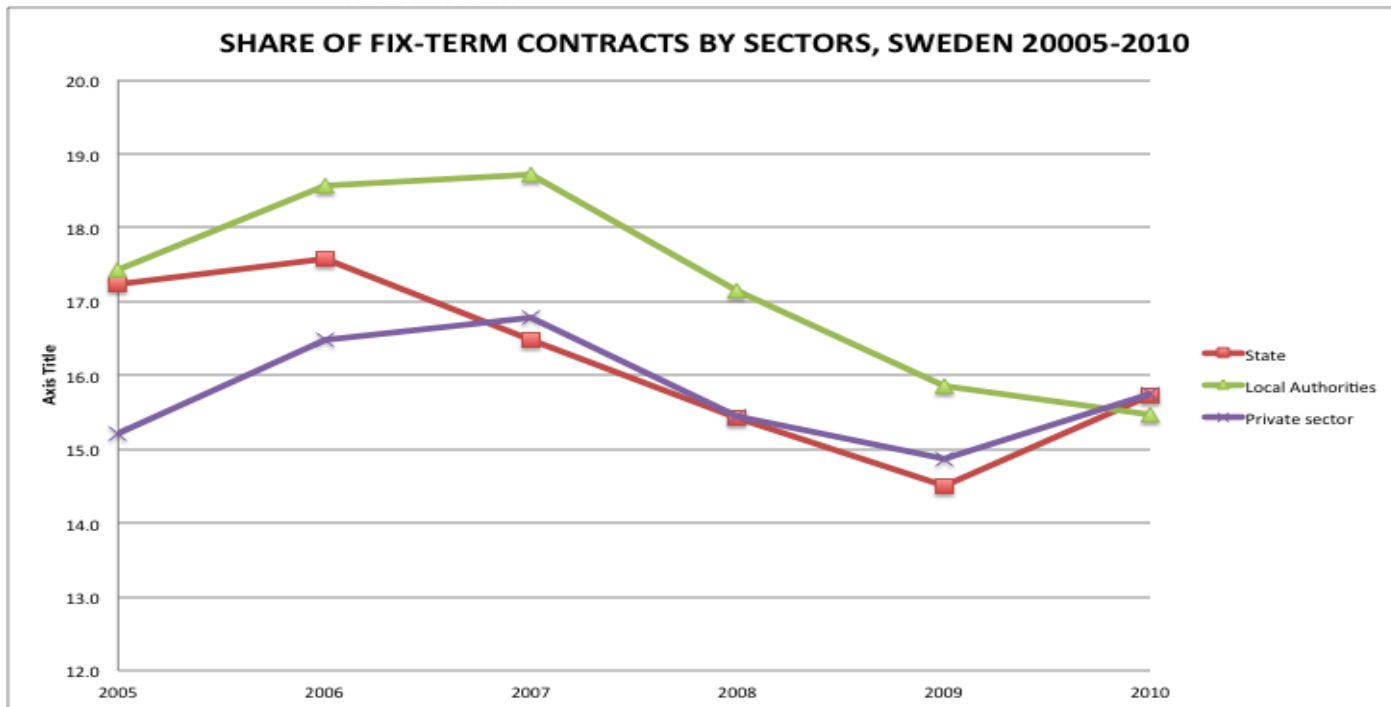
Unemployment Rates and Participants in Active Labour Market Policy



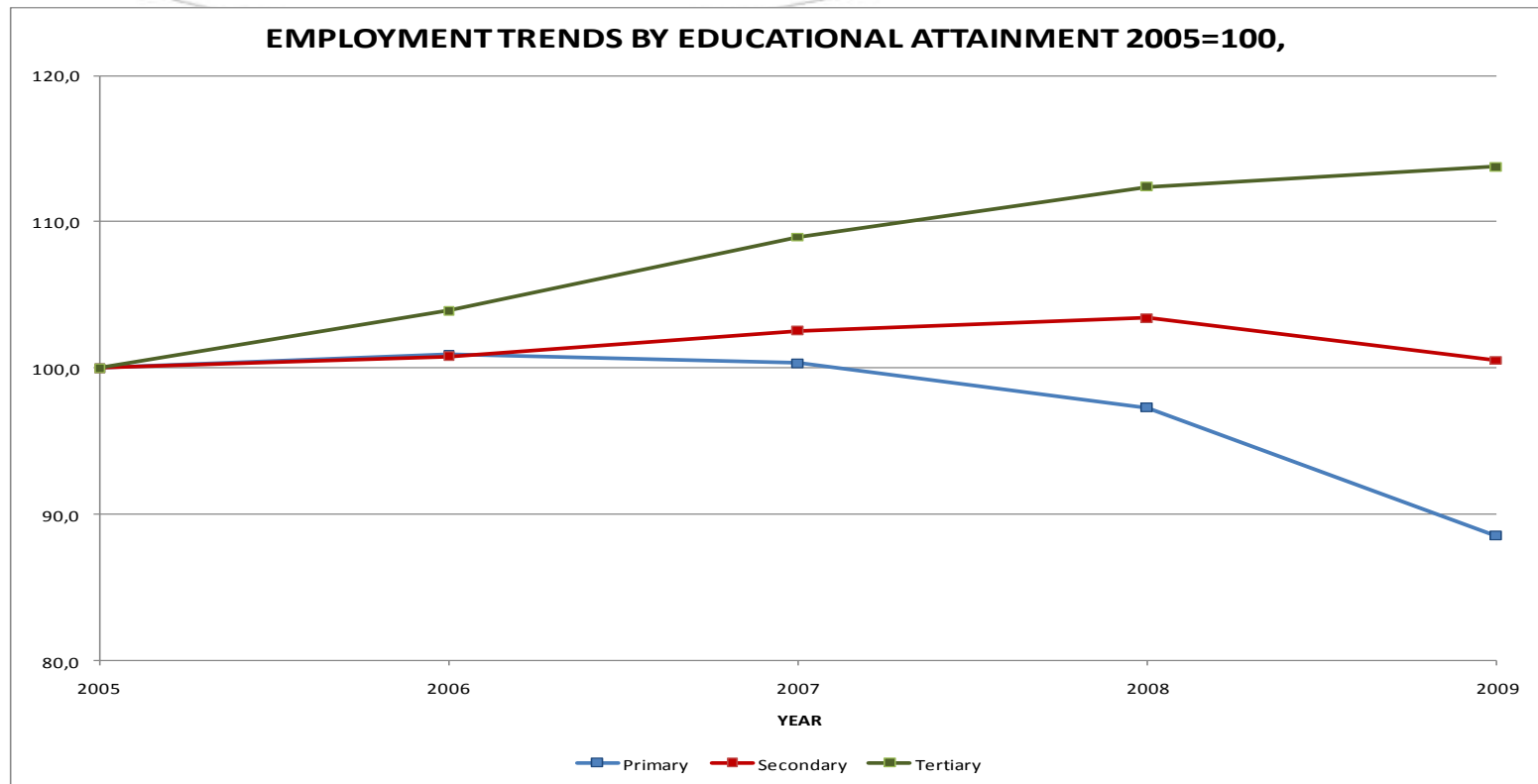
Patterns of employment adjustment during the current crisis

- “Text book” adjustment patterns, (Time profile)
 1. Reduction of overtime,
 2. Firing of short term/agency workers,
 3. Downsizing (core workers),
- **External Numeral flexibility:** Massive lay offs in export-oriented manufacturing industries but also reduction of employment in the public sector in spite of increase of government grants.
- Hard hit: Low skilled, low educated workers
- Youth (Unemployment up to 33% in 2009 now around 21 percent)

VARIATION IN THE SHARE OF FIX TERM CONTRACTS

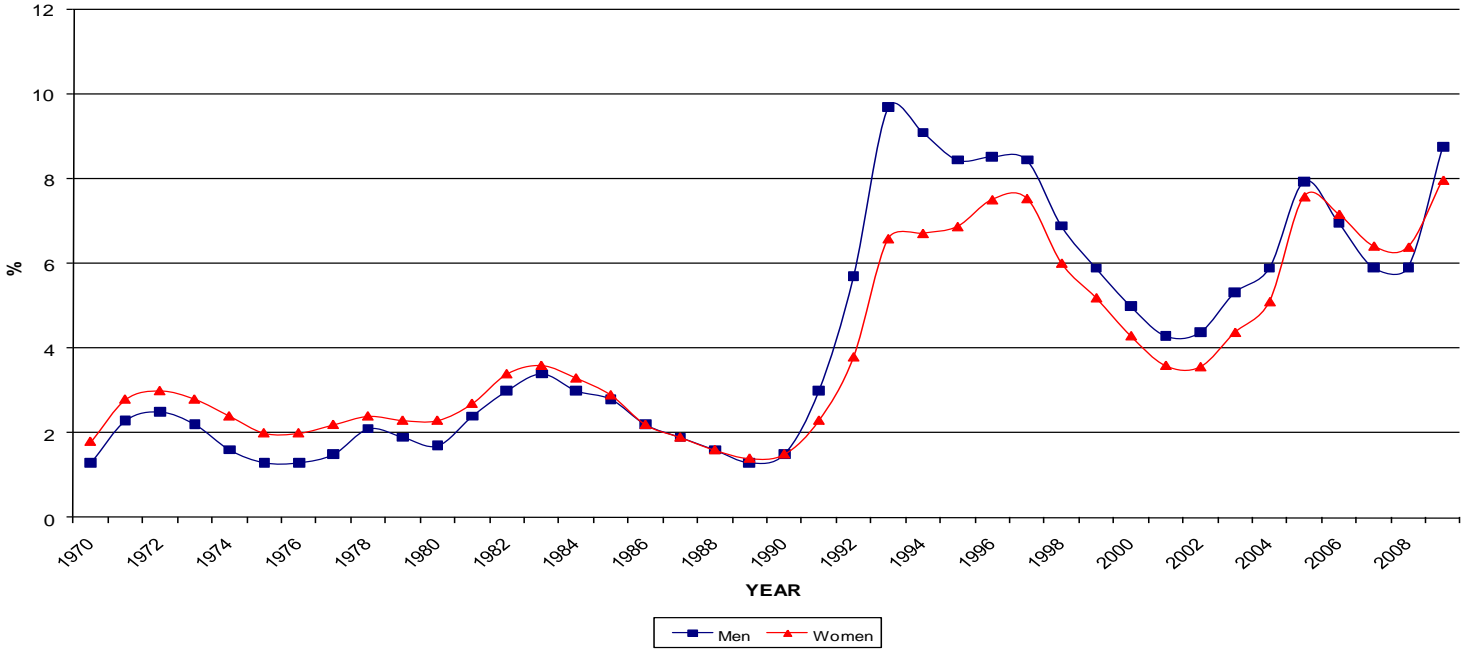


EMPLOYMENT TRENDS BY EDUCATIONAL ATTAINMENT



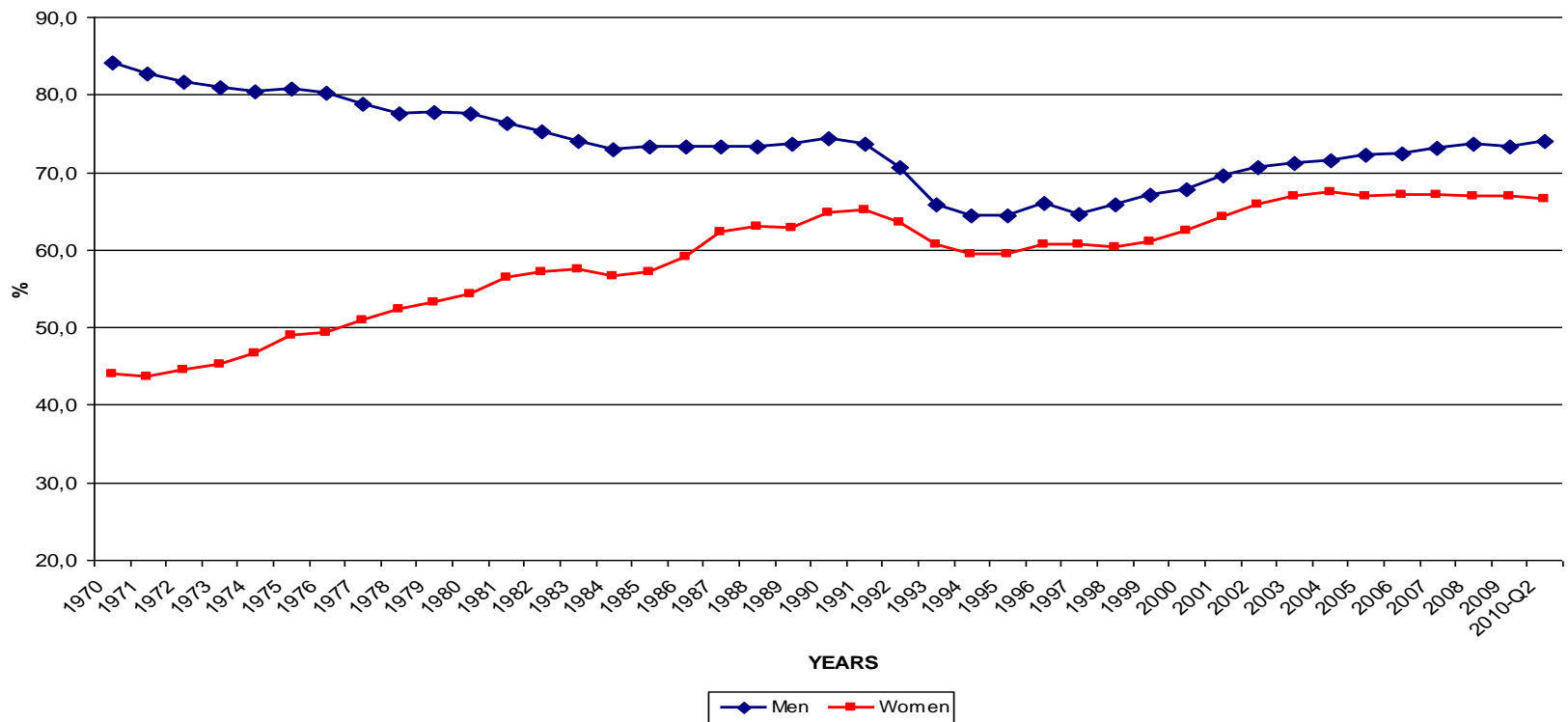
GENDER GAP UNEMPLOYMENT

UNEMPLOYMENT RATES MEN WOMEN 1970-2009



SENIOR WORKERS

TRENDS IN SENIOR WORKERS EMPLOYMENT RATES, 55-64 YEARS OLD, SWEDISH MEN AND WOMEN, 1970-2010-Q2,



POLICY RECOVERY MEASURES

- ◆ **Expansionary macro-economic policy:** increase of the central government grant to municipalities and county councils.
- ◆ Increased investment in infrastructure and repair and maintenance
- ◆ **Support to construction sector.** Tax deduction.
- ◆ **Active Labour Market Policy:** Mainly matching measures and labour supply oriented measures (Training). Educational measure . Some targeted measures (Youth Immigrants)
- ◆ **Globally**, the package of measures adopted and implemented since summer 2008 amounts to a total corresponding to 3,5 percent of GDP.

Consequences of the crisis regarding inequalities

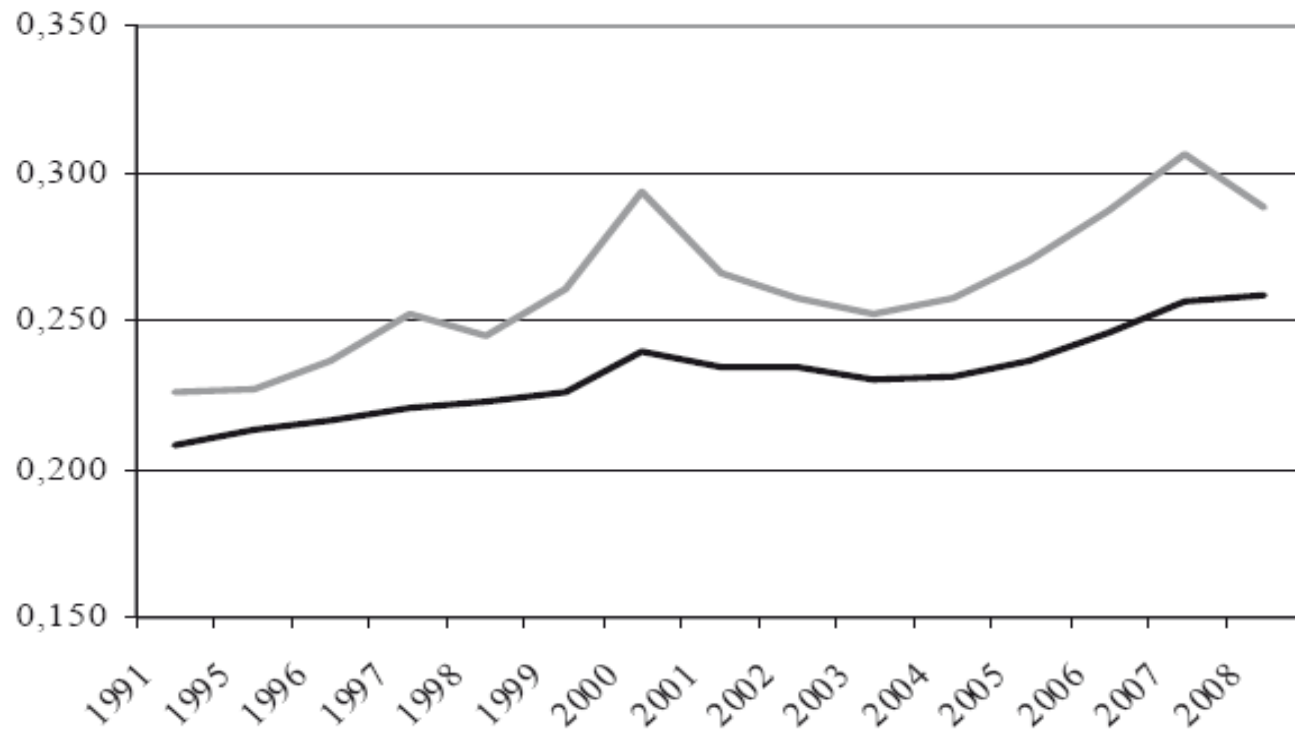
- The specificity of the Swedish industrial relation system implies a more balanced sharing of the cost of the crisis in terms of both working conditions and inequalities.
- Powerful **automatic stabilizers** dampened the fall in aggregate demand.
- Furthermore, both the countercyclical crisis measures implemented helped to reduce the effects of the crisis on household disposable incomes and to moderate the fall in public employment.

Wage moderation

- Wage development: the Swedish industrial relations system has favoured wage adjustments in line with productivity development
- Preserving employment stability and limit further increases in unemployment. **Wage moderation** has characterized the last round of collective bargaining.
- Also after a decline in union density (Reform of the UI system) trend reversal with the crisis.
- Limited impact of the crisis on wage and income inequalities

WAGE AND EARNINGS DEVELOPMENT

Trends in Gini coefficient, 1991-2009 disposable income per consumption unit with capital income (grey line) and without capital income (black line).



Patterns of employment adjustment

Experience from two Case Studies

- ◆ Two case studies. Volvo cars and Profilgruppen (manufacturing industries)
- Good illustration of Swedish patterns of employment adjustment:
- Namely a combination of **negotiated external numerical and internal flexibility** (keep key competencies)
- and the **role played by the social partners** in downsizing and restructuring process (Agreement on short time working, wage freeze and/or wage moderation).

Negotiated external and internal numerical flexibility

- ◆ **Numerical flexibility:** Advance notice, Dismissal of short-term contracts and agency workers, after LIFO with negotiation regarding key competencies
- ◆ **Labour Hoarding:** Even though, reluctant to use work sharing and short-time working to accommodate the crisis at the macro-level , the two case studies are also a good illustration of the use of a temporary reduction of working time to keep key competencies limit adjustment and transaction costs for high-skilled workers.

Patterns of employment adjustment

Two Case Studies

- ◆ **Flexicurity “à la Suédoise”** stress the importance of social dialogue at the company level during the restructuring process.
- ◆ Role of the **Job Security councils (Trygghetsråd)** in case of collective redundancies and shortage of work. Important during the current crisis, complement to Public Employment agency and ALMP.

Negotiated external and internal numerical flexibility

- ◆ In contrast to other countries, with weaker industrial relations systems and unbalanced bargaining power between the two sides of industry
- ◆ The specificity of the Swedish industrial relations system implies a **more balanced sharing of the cost of the crisis** in terms of both working conditions and inequalities at work.

Implications for inequalities

- The policy conducted by the Swedish Government helped in the short term to absorb and limit the negative impact of the crisis on employment and income inequalities,
- BUT the long-term consequences of the crisis might be significant.
- As mentioned before, the crisis hit young people hard.
- **Potential scarring effects** of an early period of unemployment may have a long-lasting negative influence on subsequent employment performance and income development across the life course.

Implications for inequalities.....

- In the future, risk that a growing share of Swedish companies will rely increasingly on external numerical flexibility involving a greater use of short-term contracts and agency workers.
- This development may
 1. Worsen the duality in the labour market between insiders and outsiders and deepen labour market segmentation
 2. Alter the conditions of entry into the labour market and delay the acquisition of a permanent and stable job, with potential consequences for family formation, housing, fertility pattern, job career and pension).

Some conclusive remarks Sweden a Success Story ?

- ◆ **To sum up:** Up to now slight impact of the crisis on the Swedish Model and Sweden seems to have better than other countries cope with the crisis .
- ◆ But risk of further labour market deregulations and increase precariousness, in particular risk to an increase segmentation of the labour market.
- ◆ Higher reliance on external numerical flexibility with higher incidence of fix-term contracts.
- ◆ Still high Youth Unemployment (21 % in October 2011)m and non-natives (16.8 %) and also overall unemployment (6.9 % in October 2011). The End of full employment ? (80 % employment target too ambitious ?