



The effects of pay reforms and procurement strategies on wage and employment inequalities in the public sector: the case of Sweden

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EXECUTIVE SUMMARY

Over the past two decades, Sweden has undergone major structural and institutional changes. Fiscal and monetary policy already became more restrictive in the 1990s, generating the conditions for balanced public finances and declining public debt. Structural reforms also included deregulation and privatization, aimed at exposing previously protected public sector activities to competition. The drive for 'efficiency-enhancing' competition has been manifested not only in the outsourcing of some welfare services and other procurement contracts, but also in organizational reforms intended to introduce competition between different agencies within the public sector (eg. between schools, hospitals and universities) and in changes designed to enhance productivity (rationalization, downsizing and new public management).

In spite of these developments, Sweden remains, by international standards, a country with a large public sector that reflects a strong public and political involvement in the provision of a wide range of services. The retrenchment of the Swedish public sector has certainly caused a decrease in the share of public sector employment, yet it remains high among OECD countries. Against this background, this report investigates three broad issues with a special focus on local government:

1. long-term trends in the changing patterns of public sector employment;
2. transformations in the system of public sector pay (especially decentralisation and individualisation); and
3. use of procurement policy and its consequences for pay and employment inequalities.

The organisation of central and local government public services

The public sector in Sweden comprises two levels: the central government (state) sector and the local authorities. The central government sector includes the Swedish Parliament (*Riksdag*) and governmental authorities responsible for the provision of public services, such as police, defence, judicial system, higher education, infrastructure and central administration. Local government includes 290 municipalities and 20 county councils that are responsible for education (from childcare to secondary education), health care and care of the elderly and disabled.

The principles of local self-government and autonomy are stipulated and guaranteed by the Swedish Constitution. In order to finance their activities, local authorities have the right to levy taxes. A system of state grants as well as fees charged for provision of public services complete the source of revenues for local authorities. In order to limit regional disparities and to guarantee citizens and residents equal access to public services, a financial equalization system is managed by the state in order to redistribute revenues among municipalities and county councils on the basis of their tax base and level of expenditures.

No special public sector employment status

In contrast to some other EU member states, such as France or Germany, there is no specific employment status for civil servants; Swedish public sector employees are subject to the same labour market regulations as private employees. Irrespective of sector, the legal status of employment is therefore similar and all Swedish employees, in both the private and public sectors, have legally guaranteed rights to collective bargaining and industrial action.

Employment trends: what explains the limited impact of the current crisis?

Sweden's strong employment record up to the early 1990s owes much to the development of its welfare state. Government financing and provision of healthcare, social care and education contributed to an expansion of public sector employment characterised by the feminisation of the labour force. However, during the early 1990s crisis numbers of public sector workers fell sharply. Indeed, over the last two decades public sector employment has fallen by almost 20% due to early fiscal consolidations, liberalisation and privatisation, increased outsourcing and procurement and downsizing in the aftermath of the crisis.

During this current crisis, public sector employment initially declined (2008-9), especially at the municipality and county levels, but subsequently recovered such that by the end of 2011 it was at a similar level as in 2007. Government has enjoyed greater options to respond to the current crisis thanks to its relatively healthy fiscal position. It has implemented counter-cyclical measures (eg. increased central government grants to local authorities and investment in infrastructure) that have mitigated some of the employment reductions.

The resilience of social dialogue alongside increasing decentralisation of bargaining

The Swedish model remains characterised by a strong role for social partners in mechanisms for regulating the labour market and wage formation. Average union density in Sweden remains above 70% (above 80% in the public sector) and the coverage rate of collective agreements is around 90% in the private sector and 100% in the public sector.

Since the 1980s Sweden has experienced major transformations in wage setting with a clear tendency towards decentralisation and the return of the pace-setting role of wage settlements in sectors exposed to international competition. Public sector pay for the majority of public sector employees is set locally and is largely individualized with the following features:

- the development of differentiation and individualization of wages;
- a wider dispersion of the wage distribution (albeit still narrow by international standards); and
- a growing acceptance of a type of wage formation based on individual skills and performance rather than on job characteristics.

The roles of national and local pay bargaining in setting pay

For the most part, social partners at the local level agree the wage increase and/or its distribution. Differences between wage agreements are largely the result of whether or not the corresponding national agreement includes or excludes provisions for an individual wage guarantee. In central government, local agreements for more than one third of employees do not refer to a wage guarantee set in an over-arching national agreement. For example, the national agreement for police sets working hours but not pay; pay is fully determined at the local, organisational level between the employer and employees typically through a process of individual wage audits.

This type of agreement is less common in local government (municipality and county councils). Here, almost all wage-setting at the local level builds upon a stipulated wage increase set in the national collective agreement that includes an individual guarantee (included in 40% of all locally negotiated agreements in 2011) or no individual guarantee for a wage increase (54% of all local

agreements). In fact, compared to the private sector, the trend towards decentralised and individualised wage setting is more pronounced in the public sector.

What impact on wage inequalities?

There are strong reasons to believe that the trend of decentralisation of pay bargaining has increased wage dispersion particularly for high skilled, non-manual workers *within* both the public (central government and county council levels) and the private sectors. At the municipality level, however, wage dispersion during the last decade has remained almost unchanged, due to the more limited individualization of wage formation for manual and low skilled/ low educated workers in the municipality sector.

Procurement of local government services

While municipally-financed public services have increasingly been provided by private providers in the last decade, their role remains, by international standards, relatively limited. In 2009 around 15% of total employment in education and healthcare could be attributed to private companies. There are large regional differences in the extent of outsourcing of public services, in part due to the political composition of the municipality, since right-centre coalitions are more inclined to procure services than left-oriented coalitions.

To date, no evaluation studies have been conducted to assess the net impact of the restructuring and increased procurement of Swedish public services on employment, growth and economic efficiency. Evidence documented in this report shows that wage differentials between public and private sector providers in education and welfare services remain limited. While entry wages is higher among some private subcontractors, it is possible that this trades off against more limited pay progression and worse overall job quality.

Evidence from local government

Two original case studies of Swedish municipalities are reported with the goal of illustrating recent trends in pay and procurement at the local level. Both municipalities had a positive financial position; a temporary fall in local tax revenues during the crisis was compensated for by special central government grants. Therefore, there is no evidence of downsizing in the case studies. The main instrument of adjustment to preserve a balanced budget was wage moderation (smaller wage increases) as evidenced by collective agreements.

➤ A consensus for decentralised and individualised wage-setting

Both case studies confirm the overall tendency towards decentralisation and individualisation of wage formation. Union and employer representatives agreed on the benefits of individualised wage-setting when compared to the previous seniority-related pay-scale. For employers, individualisation is a means to achieve improved productivity, while for unions it is an instrument to improve relative pay and pay progression. It is important to note, however, that pay principles applied at local level (eg. the job evaluation system) and individual level (eg. the criteria guiding pay audits) are negotiated by social partners and reflect a regime of *negotiated individualisation and flexibility*.

➤ The balance of quality and price in the procurement of elderly care

While one municipality extended the 2008 Law on Free Choice to include elderly care, the other limited outsourced activities to only primary healthcare (as required by the law). This difference in approach to procurement was more a function of political choice than a quest for economic efficiency per se. It is notable that for elderly care, the private providers *cannot compete on price* since the unit cost for domiciliary care is fixed by the municipality.

Moreover, the municipality monitors quality annually with a survey of public and private providers and service users. Risks and drawbacks of private sector provision of elderly care detailed in the report include perceptions of discontinuity of services.

➤ **Use of social clauses in procurement contracts**

The 2007 Swedish Law on Public Procurement (LOU) is largely based on the EU directive on public procurement and reflects '*the best value for money*' approach. Social clauses are generally not included in procurement due to a fear this would contravene competition rules. The case-study data nevertheless reveal some exceptions: requirements to recruit certain targeted groups (eg. youth, unemployed); equality of treatment (eg. ethnicity and gender); a gender equality plan; and respect for fundamental ILO conventions. The case-study evidence suggests local authorities cannot, however, require suppliers to conclude a collective agreement or match the conditions of the agreement in the relevant bargaining area.

Unlike other countries, however, public-private wage differentials in elderly care and cleaning services are small; the rise of private subcontractors does not appear to have worsened pay. Indeed, there is a small premium for private sector workers, which is likely to reflect use of higher pay to attract workers or reduce labour turnover. However, trade unions point to a deterioration in other indicators of job quality (eg. workload, working time, holidays).

➤ **Use of TUPE to smooth staff transitions**

The case studies are illustrative of the positive value of TUPE regulation and the protection of employment conditions of workers affected by transfers of ownership. TUPE was a necessary regulation for ensuring a smooth transition of staff and avoiding the possible negative consequences for employment. Affected staff had the option to transfer, to be redeployed within the municipality or take early retirement. Transferring staff enjoyed protected conditions (as stipulated in the collective agreement) up to 12 months.

Lessons for policy and practice

The report identifies four main lessons for policy and practice.

1. The Swedish public sector benefited from a healthy fiscal position at the start of the recession and thereby was able to implement countercyclical macroeconomic policy to limit the negative effects on public services and to safeguard jobs.
2. Ongoing public sector pay reforms in Sweden follow a long-term trend towards more decentralisation and individualisation of wage setting. The reforms have increased wage dispersion, but levels remain very low by international standards.
3. The specificity of the Swedish industrial relations system (high union density, high coverage of collective bargaining and a relative balance of power between social partners) largely explain why increased outsourcing of public services has not lead to a deterioration in pay, or increased labour market segmentation, as in other Member States.
4. Regional variation in municipalities' use of outsourcing seems to reflect political and ideological choices rather than economic efficiency per se. There is an urgent need for empirical evaluation of procurement of public services in order to assess the implications for costs, productivity and service quality, including the specific criteria of equal treatment (of workers and service users), continuity of provision, affordability and universal accessibility.