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## PRESS RELEASE

REPORT ON WAGE FORMATION 2009:

# Modest but Positive Wage Growth in 2010–2012 Would Help Improve GDP and Employment

**The 2010 pay negotiations will be held in a severely slumping economy. In the NIER's opinion, GDP growth and employment would be furthered by moderate but on average above-zero increases in wages and salaries during 2010–2012. Both general pay freezes and sizable pay increases in the period as a whole would adversely affect output and employment. The NIER's analysis of wage and salary differentials between men and women shows that the gender pay gap in the business sector has diminished only slightly since 1997. One principal explanation for the pay gap is the prevailing gender-based occupational segregation of the labour market. Both women and men earn more if they work in male-dominated occupations, even when consideration is given to observable factors affecting wages and salaries, such as education, age and incidence of part-time work.**

Some 500 collective pay agreements will be renegotiated in 2010. These contracts cover roughly 3 million individuals, or about 75 percent of all employees in Sweden. The economic contraction is expected to persist for the next few years, posing considerable challenges in the coming round of pay negotiations. The economic slump will be both severe and long-lasting, and neither an expansionary economic policy nor the behaviour of the labour market parties will be able to prevent unemployment from rising. One central question is how the labour market parties can best help to improve output and employment.

### **STRONGLY RISING PAY WOULD BE RISKY, BUT SO WOULD LITTLE OR NO INCREASE**

Many industries and firms are struggling with high labour costs and low profits; in certain areas of manufacturing, the situation is particularly difficult. This in itself suggests that an extremely low growth of wages and salaries would have a positive impact on output and employment. However, the NIER's analysis of different rates of increase in labour costs in 2010–2012 shows that there are risks not only if the growth of labour costs is very strong, but also if it is very weak. Substantial increases in labour costs would inhibit the development of the economy since they would mean high real wages as well as high real rates of interest. With the economy in its current contractionary state, however, it is impossible to apply a monetary policy expansionary enough to meet unchanged or decreasing labour costs, as the policy interest rate (the repo rate) is already close to zero. In this situation, too, the real rate of interest would be high, curbing economic growth. The NIER's opinion, therefore, is that modest, but on average positive, increases of wages and salaries as well as labour costs in 2010–2012 would promote GDP growth and employment.

### **PAY DIFFERENCES BETWEEN MEN AND WOMEN DUE TO GENDER-BASED SEGREGATION OF THE LABOUR MARKET**

The overall pay gap in the business sector between men and women has decreased very little since 1997. There are – on average – observable differences in pay between men and women attributable to factors like occupation, education, age and part-time work. After adjustment for these factors by statistical methods, there remains an unexplained pay gap. For salaried employees the unexplained pay gap has hovered around 10 percent during the period 1997–2008. For hourly workers the unexplained pay

gap is smaller, and overall it has been reduced from about 6 percent in 1997 to some 3 percent in 2008. One important explanation for the pay gap is the gender-based occupational segregation of the labour market. Both women and men earn more if they work in occupations where men predominate than in those where most employees are women. This finding still applies even after taking into account differences in men's and women's average observed characteristics.

**FOR FURTHER INFORMATION:**

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