



FULL EMPLOYMENT AND A WAGE POLICY OF SOLIDARITY

# Full employment and a wage policy of solidarity, report to the 2016 LO Congress

*Summary*

**S**ince the 1990s Sweden has suffered from high unemployment and currently has what must be described as mass unemployment. It is obvious that the economic policy pursued is no longer able to achieve full employment. Nor is it possible to return to the policy prevalent before the 1990s.

Consequently, what Sweden needs is a new economic policy that combines full employment and fair wages with today's open economy. That is the background to the LO Congress resolution in 2012 to start the project *Full employment and a wage policy of solidarity*. The project will result in a final report to the 2016 LO Congress and 24 background reports.

It is my hope that this report, as well as the continued work of the project, will contribute to the important discussion as to how Sweden can again become a country of full employment and how the wage policy of solidarity can be modernised.

**Karl-Petter Thorwaldsson**

President of the Swedish Trade Union Confederation (LO)

# Contents

Summary	4
The trade union movement, wage formation and full employment	6
The goal of full employment should be defined	9
What can economic policy do?	10
Monetary policy is not enough	11
Fiscal policy should give priority to full employment	12
New fiscal policy objectives	16
Chapters of the report in brief	18
Previously published reports	27
Report series	27
Report to the LO Congress	28

## Summary

HIGH UNEMPLOYMENT and increasing income differentials are the greatest challenge of our time. Sweden has had fundamental problems in the labour market since the crisis of the 1990s. Since the start of the financial crisis in 2008 unemployment seems to have stuck at around 8 per cent. The problem and its conceivable solutions has been addressed in innumerable debates and discussions between politicians, economists and not least the social partners. Despite this, the Swedish labour market is characterised by mass unemployment.

Unemployment divides a society. Individuals who are outside the labour market are also denied the inclusiveness that a job entails, and increased income differentials mean further difficulties for those who have least. Unemployment creates greater income differentials both in the short and the long term, since people who are jobless for a long period risk falling behind in the labour market. In addition, the production capacity of the entire economy is reduced, since there are resources that are not being used.

Historically Sweden has had periods that can be characterised as full employment. But since the crisis of the 1990s full employment has been a remote reality. At present unemployment is high and its burden is not borne equally throughout the population. Young people with a low level of education (particularly women) and foreign-born people are unemployed to a greater extent than others. In addition, women are affected to a greater extent than men by part-time unemployment.

At the same time the trade union movement is struggling with a number of challenges that can partly be attributed to the high level of unemployment, but which are also due to a high rate of structural transformation and to the market for labour no longer being national but global. One great challenge is that the trade union density rate has fallen for both blue and white collar workers since the mid-1990s. The fall in the density rate was particularly marked after the centre-right government's changes to unemployment insurance from 2006 onwards.

In recent years white-collar workers have halted the falling density rate of recent years, while affiliates of the Swedish Trade Union Confederation (LO) are still struggling with a low rate. However, the coverage rate of collective agreements is by and large unchanged.

The percentage of white-collar workers is increasing, while the number of people with blue collar occupations has decreased. Of total payroll expenses in the economy, almost 40 per cent now refer to blue collar workers and just over 60 per cent to white-collar workers.

In his speech to the LO Congress in 2012 President Karl-Petter Thorwaldsson said:

*Congress friends, we must do more. I refuse to believe that it is not possible. Consequently, I intend to gather all available knowledge of ways forward. Together, with all the knowledge existing within the trade union movement, our elected representatives, good economists and talented researchers in Sweden and abroad, we will design a new economic policy for full employment – that will be seen and heard. We will make a difference. That I promise you.*

The 2012 Congress also decided to task LO with preparing a basis for broad discussion in the trade union movement for the purpose of modernising the wage policy of solidarity with special focus on unequal wage dispersion, gender equal wages, wage drift and international competitiveness.

This is LO's report on full employment and a wage policy of solidarity to the 2016 Congress. The LO Executive Council dealt with the proposed report to Congress on 12 May 2015 and decided to adopt these clauses, which are thereby presented to the 2016 LO Congress.

## *The trade union movement, wage formation and full employment*

THE TRADE UNION MOVEMENT can contribute to full employment in several ways. The most central is to create conditions for long-term sustainable wage formation. This assumes that payroll expenses in the labour market can be controlled, both in downturns and upturns.

In downturns it is a matter of wages increasing in pace with productivity increases and the Riksbank's (central bank) inflation target. Wages account for most of purchasing power and demand in a market economy, and wages that are too low risk slowing down growth and creating higher unemployment. In upturns it is instead a matter of ensuring that wage increases are not too high. If wages rise too much then firms' competitiveness in relation to foreign companies is reduced. Investments decrease, productivity falls and real wage growth is impaired. Unemployment increases. In addition, too rapid an increase in wages is one of the strongest drivers of inflation – if firms raise their prices to cope with the increased cost of wage increases, this leads to increased inflation. And if inflation becomes too high in relation to the Riksbank's inflation target they will increase the interest rate and tighten the economy.

The risk of wage inflation is highest when demand for labour is high. Long-term effective wage formation must ensure that wages neither increase too little nor too much.

But the wage policy of solidarity also contributes in other ways to creating the conditions for full employment. The wage policy of solidarity helps structural transformation of the economy by squeezing out low productivity, low-wage jobs and making room for firms with good prospects of development. To strengthen the Swedish agreement model and prevent the emergence of low-wage sectors the lowest wages must be constantly monitored. LO's wage policy of solidarity, which is part of wider income policy, is also central to achieving an even distribution of income in society.

The original thought constructs in the 1951 report to the LO Congress, which laid the foundations of the Swedish Model, seem more complete

in hindsight than they were at the time. The interaction between the wage policy of solidarity and fiscal and monetary policy did not develop behind closed doors. Gradually, in cooperation between trade unions and central government, the specific Swedish political-economic model emerged, which assumed a strong and aware trade union movement. The hope is that the report to the 2016 LO Congress will lay the foundation in the same way for further development of the interaction between the trade union movement's wage policy, central government fiscal and monetary policy and active labour market policy. Much practical coaxing will also await LO and its affiliates in the future.

In the past 20 years wage formation has by and large functioned well. Inflation has been low and real wages have increased. Increases in payroll expenses have not undermined Sweden's competitiveness. The greatest difficulty has been to achieve a reasonable distribution of production output. Wage differentials have increased. For the entire collective this has meant that white-collar workers have received higher average wage increases than blue-collar workers. In both the white and blue collar collectives men still have higher wages than women. This cannot be explained by differences in education, work experience, competence or employment periods; it is largely due to female dominated occupations having lower wages than male dominated occupations. This *value discrimination* concerns structural and conceptual differences between occupational categories that are perceived to be coded female or male respectively. A cornerstone of the wage policy of solidarity is equal pay for work of equal value. Hence combating wage differentials between female and male dominated occupational groups due to value discrimination is a central part of the wage policy of solidarity.

When unemployment is high the trade union movement's negotiation position is weakened. The opposite is true when unemployment is low. Employers must then increase the attractiveness of the jobs they offer. In that way the trade union will have a stronger negotiating position and it will be easier to maintain high wages and good terms of employment. This will make it easier to prevent workers competing with each other for jobs with lower wages and worse conditions.

Despite effective and restrained wage formation there has been no return to full employment. The trade union movement must of course

continue to contribute, above all by guaranteeing stable and macroeconomically well-designed wage formation. But this is not sufficient to create a society where everyone who is willing and able to work also gets a job. Responsibility also rests heavily on the economic policy institutions, above all the Government and the Riksbank.



## ***The goal of full employment should be defined***

FOR LOW FULL EMPLOYMENT means that everyone who is willing and able to work should have a job, and *one* job should be sufficient to make a living. No-one should need to be unemployed other than for short periods. But low unemployment is not enough. For the concept of full employment to be meaningful the percentage of employed in the population, the employment rate, must be high. The more people in work, the better the conditions for funding public welfare. The objective should therefore also be that the employment rate should be sufficiently high to finance generous public welfare.

But unemployment and the employment rate are broad measures that can hide great differences between different groups. For example, the total employment rate may be high, while women have a lower employment rate than men, or while foreign-born people have a considerably lower employment rate than people born in Sweden. The objective should therefore be to minimise these and other differences so that unemployment and employment are as evenly distributed between different groups as possible.

All in all this means that economic policy should be directed towards full, high and equal employment. We believe the objectives should be ambitious. Historically Sweden has had a long period that can be said to have been characterised by full employment; for example unemployment between 1970 and 1990 was between 2 and 4 per cent and the employment rate was more than 85 per cent at the end of the 1980s. Even today there are countries with unemployment levels of between 3 and 5 per cent and employment rates of more than 80 per cent. In Sweden there are also groups characterised by very low unemployment and a high employment rate. All in all we consider that full employment should imply unemployment of between 2 and 4 per cent and an employment rate of at least 85 per cent.

## ***What can economic policy do?***

UNEMPLOYMENT CAN ROUGHLY be broken down into *deficient demand unemployment*, *structural unemployment* and *frictional unemployment*. Deficient demand unemployment means that there are more people in the labour force than the number of jobs. The activity in an economy varies in economic cycles. Stabilisation policy helps keep down unemployment that is due to downturns in the economy. This is done either via monetary policy; that is the Riksbank raises or lowers the policy rate depending on an assessment of the economic situation, or via a more or less expansionary fiscal policy. Structural unemployment is instead due to a mismatch between the labour force and jobs, while frictional unemployment is due to labour force and jobs not finding each other directly. If demand management policy can be used to reduce the unemployment that is due to a bad economic or demand situation, structural and supply management policy is required instead to make the labour market more effective and thus contribute to even lower unemployment in the long term. Examples of measures that contribute to reducing structural and frictional unemployment are education, labour market policy, for example in the form of labour market training or subsidised employment, employment services and matching of jobseekers. However, demand management policy does not entirely lack significance for structural unemployment; deep and long-term recessions can affect equilibrium unemployment by changing structural factors. For example, individuals' competence and job-seeking activities are negatively affected by long-term absence from the labour market. This means in turn that demand-side measures have significance for structural unemployment. To push down unemployment as close to zero as possible therefore requires both measures that affect deficit demand unemployment and measures that reduce structural and frictional unemployment.

## *Monetary policy is not enough*

IN THE PRESENT economic-political order, with variable exchange rate and independent central bank, it is primarily assumed that it is the responsibility of the Riksbank to stabilise demand in the economy. A well-balanced monetary policy contributes to mitigating the effect for example of international downturns on Swedish demand, but the Riksbank in Sweden has not carried out this task satisfactorily. There is no doubt that monetary policy has been too tight since the introduction of the inflation target. The Riksbank has not taken sufficient account of unemployment and employment. The result has been that monetary policy has contributed to a higher level of unemployment than it would otherwise have been.

The monetary policy deficiencies we see are mainly associated with how the Riksbank has interpreted and fulfilled its remit, as well as the weak follow-up by the democratic system of the monetary policy target. Much could have been different in the context of the current regulatory framework, but given that this is not the case we consider that the Riksbank's mandate for monetary policy should clarify that it must stabilise both inflation around the inflation target and unemployment around a long-term sustainable level. The proposed measures regarding clearer goals and improved democratic control mean that monetary policy can contribute in the long term to increased employment in a better way than it has in the past twenty-year period.

Recently monetary policy has become more expansionary. The repo rate has been reduced sharply and the Governor of the Riksbank has made it clear that the Riksbank is now only interested in safeguarding the inflation target and does not intend to use the repo rate to influence household indebtedness. In the situation in which Sweden now finds itself this will probably not be sufficient to ensure economic recovery. It is rather fiscal policy that must now bear the main responsibility.

## ***Fiscal policy should give priority to full employment***

TO INCREASE DEMAND we propose that central government implements an expansionary economic programme in the next few years, and thereafter tries to stabilise demand at a higher level. The purpose of the programme is to strengthen Sweden's long-term economic development and persuade households and private firms to increase their consumption and investment.

Conditions for fiscal policy stimulation are good. The interest rate is negative, the national debt is low, the price level is virtually constant and there is a plentiful supply of labour in the economy. In addition there are obvious investment needs in several parts of the economy that would lead to higher growth and higher employment if they were attended to.

An expansionary fiscal policy has major effects on output when the interest rate is zero or lower and unemployment is high. In a normal economic situation monetary policy will counteract fiscal policy attempts to stimulate the economy. This is not the case today.

The fiscal policy programme should aim to increase demand in both the public and private sectors. It should not be solely aimed at getting more people in work but also to strengthening Sweden's long-term growth potential. The programme should be divided into two time horizons – a short term concerned with stimulating demand as long as interest rates are low, inflation non-existent and unemployment high, and a long-term concerned with keeping Sweden at a higher level of demand even in the future.

There are evident needs in the Swedish economy. The traffic system is suffering from too little maintenance and a lack of new investment; too few dwellings are being built, particularly in regions where demand for labour is high; childcare, the school system and elderly care are not sufficiently developed, which means that women in particular reduce their labour supply. The National Institute of Economic Research has calculated that public sector expenditure must increase by about SEK 80 billion in the next four-year period if staffing ratios in welfare services

are to remain constant, the replacement rate in social transfers retained, central government investments increase in pace with potential GDP and municipal investments increase in pace with municipal consumption.

Households and private firms' consumption and investment decisions are affected to some extent by what they believe about the future. Firms' investment level and households' consumption are currently low, partly due to doubt that the economy is on the right track. If central government shows the way in the form of productive public investment it makes it possible to attract more private investment and increase private consumption. However, it is important that general government finances are sustainable in the long-term. Otherwise there is a risk that the private sector will not reduce its savings.

High unemployment, non-existent inflationary pressure and a low interest rate level, together with great needs and high household and corporate saving, indicate that there is scope for extensive stimulatory measures. The binding limit for the extent of these seems above all to come from the EU regulatory framework that states that the deficit in general government finances may not exceed 3 per cent of GDP in any year. Bearing in mind the forecasts for the next few years this means that fiscal policy stimulation can be about 1.5–3 per cent of GDP.

By using increased public expenditure productively it is also possible to strengthen households' and firms' confidence in the Swedish economy. In that way they can be expected to increase their investments and their consumption, which is necessary if the effect of fiscal policy stimulation is also to have a bearing in the long term.

We propose a kick-start to the Swedish economy in the form of vigorous fiscal policy stimulation. The areas we consider central government should concentrate on are as follows.

- **Welfare.** There are major quality shortfalls in elderly care, school performance has been falling for a long time and women's labour supply is hindered by child care being unavailable in the evening, at night or at weekends. At the same time welfare needs are increasing due to increasing numbers of older people and younger people in the population. To meet the demographically motivated needs and create scope for a permanent lift in the level of ambition, government grants to municipalities must increase considerably.

- **Labour market policy** is a central part of the Swedish model and plays a decisive role in matching and transition in the labour market. This part of policy has been being dismantled over a long period. We do not believe in worse economic incentives to force more people into the labour market. Instead there must be active and preparatory labour market policy that gives job-seekers the opportunity to meet the changing requirements of the labour market and take the emerging jobs. Foreign-born people are an important group. Their opportunities to create a good life in Sweden depend on their establishment in the labour market. The Swedish Public Employment Service must receive sufficient resources as soon as possible to meet the needs of the unemployed.
- **Unemployment insurance** is an important piece of the puzzle in a labour market that requires a high transition capacity. It promotes mobility and increases individuals' acceptance of structural transformation. Unemployment insurance has been continually undermined and must be considerably improved, so that it covers more people and so that considerably more people can count on fully adequate income loss protection.
- **Adult education** is gaining increasing importance in the Swedish education system. One explanation is that relatively many young people leave upper secondary school with incomplete qualifications. They need a second chance. But adult education must also accommodate people who have completed upper secondary school but who want or need retraining or continuing education. Adult education should be extended to give more people the chance of education regardless of previous background.
- **Infrastructure.** For a long time Sweden's investments in infrastructure have been decreasing, both in relation to GDP and in relation to the increased services. The problems of low investment have become increasingly clear. There is a capacity shortage on rail and road networks. New investment in traffic infrastructure should be raised to 1 per cent of GDP and resources for operation and maintenance should be increased by 0.1–0.2 per cent of GDP.
- **Housing.** The housing shortage is a growing problem. The difficulty in finding vacant housing, particularly in the growing urban regions,

leads to an economic production loss and excessive unemployment. The housing shortage must be met with increased investment but also with smarter housing policy.

- **The school system.** School performance has deteriorated. Differences between pupils of different backgrounds are great. Differences between schools have increased. Fewer pupils leave with qualifications that give them eligibility for upper secondary school. It is particularly important that resources for the school system are sufficient to give pupils in a weaker position the opportunity to complete their education.

## *New fiscal policy objectives*

POWERFUL FISCAL POLICY stimulation will lead to an increase in general government gross debt. This is reasonable as long as the return on the measures is greater than the costs of the resulting debt, but in the long term general government finances must be sustainable. This does not mean, however, that there should be a return to today's surplus target.

We have indicated that there are obvious resource problems in a number of areas of the Swedish economy. Consequently it is not reasonable to solely endeavour to build up an even stronger financial net short position. The Social Democrat-led Government has already announced that the current target for net lending may be replaced by a balance target. This is a step in the right direction but not enough. The question must be investigated in a more unrestricted way.

LO considers that the Government should set up an inquiry to review the current balance target and reporting system with an open mind. Examples of alternatives that should be investigated are a level of national debt as a percentage of GDP, a new target for net lending and the introduction of an operating and capital budget. When investigating an operating and capital budget a review should also be made of whether the term investments can be given a wider meaning than at present.

To prevent the stimulation of the economy we are proposing from becoming its opposite, that is an expansionary period immediately being replaced by a period of austerity, we consider it unreasonable to return to a surplus target in the interim period. Instead it is reasonable to stabilise the debt at the new debt level, or allow the debt to decrease slowly until a new regulatory framework is in place. In practice this means that central government should have a temporary deficit target for a period.

### *In conclusion*

A global shift in power has taken place from politicians to financial capital. After the Second World War the mixed economy developed, and the Keynesian view that cyclical fluctuations should be dampened by



steering demand through fiscal policy was predominant. Full employment had the highest priority in the political system. This has gradually changed and other ideals have instead become predominant. The idea of the self-regulating market as the ideal and objective has fundamentally changed people's social, economic and political circumstances. High inflation and poor general government finances are of course not the solution to the problem of unemployment, but employment should again be highlighted and given highest priority.

Almost every area of the national economy has been influenced by the idea of the self-regulating market. It is high time to come to terms with ideas that have characterised political economic thought since the crisis of the 1990s. It is time to create the conditions for reducing saving in the economy and increasing investment. . According to Ministry of Finance forecasts Sweden will only achieve a balanced economy in 2018. Unless something else happens, fiscal policy stimulation should thus continue at least until then. However, it is important not to be tied down to a specific year. In recent years forecasters have been very fast to declare that the recession is over and the turnaround is on its way. This is one of the reasons that the Riksbank has failed for such a long time to keep inflation around 2 per cent. Moreover there may be a need to stimulate the economy for a longer period, to really ensure that the unemployed who find it difficult to get a job gain a foothold in the labour market. Consequently, the Government should be aware and prepared to stimulate the economy even for a longer period if the need still remains. As long as inflation and interest rates are low, and unemployment can be kept down with demand-side measures, there is reason for fiscal policy to be expansionary.

With this report to the LO Congress in 2016 we hope to be able to show a path towards a renewed approach to the national economy that can beat unemployment. But as always – not everything is wrong. What should be dismissed, taken further or improved is not given. Things that work well must be taken into the future.

## ***Chapters of the report in brief***

A SUMMARY IS GIVEN below of all chapters as well as conclusions and proposals in the chapters that deal with specific policy areas.

### *Chapter 2. The Swedish labour market*

The chapter gives a background description of the Swedish labour market and how it has developed, especially in recent decades. Sweden is now a society characterised by high unemployment. But this has not always been the case. There have been long periods of very good growth, great influx into the labour market and a place for everyone who wants a job. The burden of unemployment is not borne equally throughout the population. Young people with a low level of education (particularly women) and foreign-born people are unemployed to a greater extent than others. Women are affected to a greater extent by part-time unemployment.

Sweden has had a long period of real wage increases. At the end of the 1990s and beginning of the 2000s white collar wages increased more than blue collar wages. After that they increased at about the same rate for both groups. However, on the whole income differentials have increased, largely due to increased capital incomes, but without the work of the trade unions the income differentials would probably have been even greater.

### *Chapter 3. What is the reason for unemployment?*

The fact that about 400 000 individuals are unemployed indicates that there are large unused resources in the economy. A large part of unemployment is probably caused by a demand deficit. There has been a tough and protracted international recession since the financial crisis, and fiscal and monetary policy have not been able to offset the effects of the recession. But it seems as if the problems may have started even earlier. Monetary policy has missed the inflation target since the 1990s and up to today. The public sector was to a great extent running a surplus in the first decade of the 2000s. Households increased their savings substantially – probably due to weak and uncertain economic development,

the demographic trend and large private pension savings. In addition, the private business sector is investing less today than before.

There are signs of tougher competition in the labour market due to high pressure for structural transformation and polarisation of jobs to low-wage and high wage sectors. In addition there are signs that matching has been made more difficult as groups with weaker attachment to the labour market have become a greater part of the labour force. This leads us to believe that there are also structural problems in the labour market.

#### *Chapter 4. The conceptual framework of macroeconomic debate*

This chapter deals with the successful neo-liberal story of the self-regulating market. Few ideas have been as predominant and influenced political economic conditions as much in recent decades – not only in Sweden but in large parts of the world. Nor do the ideas seem to follow any party lines. To facilitate understanding of the powers that helped to create unemployment and increased inequality it is important to explain the ideological contexts. The path to full employment must start where we are and in that case a map is needed. For many of us, ideas of the self-regulating market have gained great significance for interpreting and understanding the world.

#### *Chapter 5. The task of trade unions*

At a time when trade unions and collective agreements are attacked and represented as out of date by employers, centre-right politicians and opinion makers there may be reason to devote extra time to considering fundamental trade union tasks. This chapter describes how a modern capitalist market economy works and the way in which the trade unions contribute to, and in part guarantee, the maintenance of an effective national economy. The many roles and functions of trade unions in a market economy are made clear. The intention is also to link the role of the trade unions to the full employment issues in the context of the economy.

#### *Chapter 6. The foundations of wage formation*

This chapter deals with the functions and relationships in wage formation. Put very simply wage formation concerns the price of labour and the distribution of the products of labour. LO and its affiliated trade

unions must constantly work with the foundations of wage formation. There are many challenges. Value discrimination between female and male dominated sectors in the labour market must decrease. It is important to maintain the understanding that productivity growth must be shared equally between employees in the Swedish labour market. No one owns their own productivity growth. The chapter also deals with the conditions and institutions of wage formation.

#### *Chapter 7. Modernised wage formation for full employment*

To create full employment LO and its affiliates must take joint responsibility for stable wage formation. This chapter discusses some current issues concerning wage formation, where employers and neo-liberals as a rule maintain that employment will increase by cutting wages. The chapter also discusses the problems of distribution standardisation. The LO Executive Council's proposed focus as regards a modernised wage policy of solidarity is discussed. The proposals concern staying true to the foundations of the wage policy of solidarity, taking preventive measures to make today's wage formation more robust in relation to inflation and to strengthen standardisation of distribution in wage formation.

#### *Chapter 8. What does full employment entail?*

Jobs for everyone is the most important objective of the labour movement. Work allows people to make their own living while contributing to the material welfare of society as a whole. People are generally happy to work, and full employment contributes to increased cohesion and narrower social divides.

But when does a society have full employment? For LO full employment means that everyone who is willing and able to work should have a job that pays a living wage, and the percentage of the employed population should be high, with small differences in unemployment and employment rates between different groups in society.

#### *Chapter 9. Increase demand for goods and services*

To achieve full employment it is important that the overall demand for goods and services is high. Demand has been too low in Sweden for a long period. The financial crisis that affected the world from autumn

2008 onwards is an important reason for this. But there are also signs of a more long-term demand deficit. To increase demand we propose that central government implements an expansionary economic programme in the next few years, and thereafter tries to stabilise demand at a higher level. The purpose of the programme is to strengthen Sweden's long-term economic development and persuade households and private firms to increase their consumption and investment.

#### *Chapter 10. Stabilisation policy for full demand*

The stabilisation policy regime prevalent in Sweden (and many other countries) today is usually described as norm policy. These ideas emerged during the 1980s as a reaction to politicians' difficulties in keeping inflation and public finances in check during earlier periods. The chapter discusses the potential of the current monetary and fiscal policy regimes to maintain full employment. The monetary policy shortcomings we see in the present situation are not mainly due to the new regime of inflation targets and an independent Riksbank. Instead it is for the most part to do with how the Swedish Riksbank has interpreted and carried out its remit. We believe the objectives should be clarified as being: "to stabilise both inflation round the inflation target and unemployment round a long-term sustainable level."

The fiscal policy shortcomings we see are not mainly due to the restrictions imposed by the fiscal policy framework. They are also to do with how governments and finance ministers have interpreted and carried out their remit. Much could have been different even within the current regulatory framework. We believe that the Government's responsibility for the effects of cyclical changes, in particular unemployment, must be greater and that the possibilities of stabilising the economy via fiscal policy must be improved.

The recent financial crisis has shown in no uncertain terms that the stabilisation policy framework must be supplemented by rules for financial markets. In many respects it was the deregulation of these markets that helped destabilise the economy, which in turn led to the effects of the 1990s crisis being so far-reaching. To reduce the risk and effects of a future financial crisis society should take important steps towards stricter regulation of banks.

## *Chapter 11. Gender equality and public welfare – conditions for full employment*

### *Increased gender equality*

The greatest difference in the Swedish labour market in absolute terms is that between men and women. If the female employment rate was as high as the male employment rate then the number of people employed would increase by about 137 000. In addition, if women were gainfully employed for as many hours a week as men it would mean an increase in employment of 9.7 million hours worked per week, equivalent to about 300 000 more people employed. Overall the difference in employment between men and women amounts to almost 440 000 full time equivalents. If the goal of full, high and equal employment is to be achieved women's employment must increase substantially.

Important reasons for women working less than men are that there is no full time norm for large parts of the female-dominated labour market and women take a major responsibility for their family, particularly children, which affects their ability to take gainful employment. Women in LO groups are particularly vulnerable. To increase employment among women full time and permanent employment must become the norm throughout the labour market. Public services, particularly child and elderly care, must also become more accessible and of higher quality than at present. Apart from that, parental insurance must be more equally shared between parents than is the case today.

### *Strengthened public welfare*

Welfare is facing major challenges. There are extensive quality shortfalls in elderly care, school performance has been falling for a long time and women's labour supply is hindered by child care being unavailable in the evening, at night or at weekends. In addition future needs will grow. An ageing population means that the need for welfare services will increase. To meet current and future needs government grants to municipalities and county councils must increase and thereafter be indexed.

## *Chapter 12. A preparatory labour market policy for transition and matching The role of the Swedish Public Employment Service must be strengthened*

The Swedish Public Employment Service must bear the responsibility for

conducting labour market policy, and the role of the agency for placement measures and matching must be strengthened. This requires more resources and more regionally adapted operations. We put great faith in the Swedish Public Employment Service as regards central government transition policy. But the social partners must have increased influence on labour market policy to give legitimacy to its expansion.

#### *Better transition capacity and matching*

Active and preparatory labour market policy has been being dismantled for a long time. Consequently labour market training programmes must be substantially expanded and put in place earlier. Unemployed people with an incomplete upper secondary education should be given the opportunity to complete their studies with activity support, before unemployment has become long-term.

#### *Effective measures to combat long-term unemployment*

We propose a new form of guarantee in three stages running from registration with the Public Employment Service to ending unemployment by getting a job. The three stages are: 1) zero tolerance of absence of early intervention, 2) a 180-day guarantee and 3) a skills development guarantee. The guarantee means both that measures will be put in place at a considerably earlier time and will cover more preparatory measures than the current job and development guarantee.

There is a great need for more subsidised jobs. Consequently the ceilings for wages that can be subsidised must be raised considerably. This opens up a larger part of the labour market for these jobs. In addition subsidised jobs must be under collective agreements and allow qualification for unemployment insurance. Samhall should also be given more resources to allow more recruitment.

#### *Faster introduction of newly arrived immigrants*

All newly arrived immigrants must be covered by equivalent support for introduction to the labour market. The Swedish Public Employment Service needs more resources for faster preparation of introduction plans and start-up of labour market and training measures. This means the waiting period for own accommodation must be shortened. It is also

necessary to improve and develop teaching of Swedish for immigrants (SFI) with the aim of everyone reaching the completed course level.

#### *Unemployment insurance worth the name*

Unemployment insurance has been undermined over a long period. The ceiling for unemployment insurance must consequently be raised further. After that the ceiling should be indexed and follow the wage trend in the economy. It must also be easier to qualify for benefit. The work condition must be changed and adapted for part-time workers and people employed by the hour. In addition a student condition should be introduced that covers everyone who has completed upper secondary studies, post-secondary studies or SFI.

#### *Chapter 13. Adult education for lifelong learning*

Adult education is gaining increasing importance in the Swedish education system. One explanation is that relatively many young people leave upper secondary school with incomplete qualifications. They need a second chance. But adult education also has other important target groups:

- people with an upper secondary preparatory qualification for higher education who wish to change to an occupation requiring vocational training
- people with an upper secondary vocational qualification who need eligibility for higher education
- people with an upper secondary vocational qualification who want or need continuing professional education or retraining.

Adult education should be extended to give more people the chance of education regardless of previous background. This requires a more extensive knowledge boost. Adult vocational education and higher vocational education should be given extended and long-term funding to combine with upper secondary school to form a unified and permanent vocational education system. The social partners must have increased influence over the dimensions of vocational education and training as well as over content and quality of upper secondary and post-secondary levels. Moreover student financial support for adults should be made more generous. To make adult education more flexible and individually



adapted, the opportunities for validation of all forms of skills needs to be improved.

#### *Chapter 14. Basic conditions for long-term growth*

The jobs of the future require increased competitiveness. A strong and successful business sector is the basis for jobs and growth in Sweden. If the competitiveness of the Swedish business sector is to be strengthened central government and the business sector must cooperate. Increased investments in infrastructure and housing, as well as innovation and research, are needed.

##### *Investments in infrastructure*

To bring about more infrastructure investments government appropriations to new investment in transport infrastructure should increase to 1 per cent of GDP per year and expenditure on operation and maintenance should be augmented by about 0.1–0.2 per cent of GDP.

##### *More housing*

To increase housing construction the role of central government should be strengthened, measures should be taken to bring about a faster construction process, mobility in the housing market should be improved and economic stimulus added.

##### *Investment in innovation and research*

To create a research and innovation environment that contributes more extensively to new jobs and stronger competitiveness it is important to have effective and well-developed cooperation between politicians, the social partners and academics as well as public spending on innovation of new products. To achieve this a sector programme for Swedish key sectors should be drawn up and public procurement should be used to promote innovation.

#### *Chapter 15. Education for a strong labour market with gender and social equality*

##### *More resources to the school system*

School performance has deteriorated. Differences between pupils of

different backgrounds are great. Differences between schools have increased. Fewer pupils leave with qualifications that give them eligibility for upper secondary school. Central and local government have not contributed sufficient resources to the school system over time. It is particularly important that resources for the school system are sufficient to give pupils in a weaker position the opportunity to complete their education.

#### *A lift in status for school staff*

Teachers play a central role for pupils' performance. Good teachers are perhaps the single most important factor of a successful school system. But both the drive to become a teacher and teachers' conditions for doing their jobs seem to have deteriorated over time.

Out of school centres are to supplement the school with activities before and after the school day. An increasing number of children attend out of school centres but resources have not kept up. Children's groups are growing, staffing ratios falling and the proportion of unqualified staff is increasing. At the same time as teachers and out of school centre staff have an increased burden of work, there has been a decrease in other occupational groups that used to be in schools – for example administrators, janitors, school meal staff and cleaners. The status of school staff must be lifted, for example by employing more people in schools.

#### *Preschool for all children*

Pre-school is an important part of the Swedish education system. It is the first step in a child's learning, and the educational activities within the context of pre-school lay the foundation for the individual's development and education throughout life. The quality of pre-school should be improved by requiring correctly qualified staff, reintroduction of recommended child group sizes in pre-schools and reviewing the pedagogical care form of activity. Pre-school should be available to all children, regardless of their parents' labour market status.

## *Previously published reports*

### **Report series**

1. Sverige behöver ett bättre banksystem  
ISBN 978-91-566-2967-9
2. Hundra år av ojämlikhet – löner och löneutveckling efter klass och kön  
ISBN 978-91-566-2968-6
3. Bör sänkt lägstalön ingå i en svensk sysselsättningsstrategi?  
ISBN 978-91-566-2982-2
4. Hur många har erfarenhet av arbetslöshet?  
ISBN 978-91-566-2983-9
5. Den ”nya” strukturomvandlingen?  
Jobbpolariseringen och konkurrensen om jobben  
ISBN 978-91-566-2985-3
6. Vilja, få och förmå – Synpunkter på en sysselsättningspolitik byggd på ekonomiska incitament  
ISBN 978-91-566-2997-6
7. Skolan sviker – hur, varför och vad vi kan göra åt det?  
ISBN 978-91-566-2999-0
8. Inflation – allt du behöver veta men aldrig vågat fråga om  
ISBN 978-91-566-3001-9
9. Investeringar och sysselsättning i Sverige  
ISBN 978-91-566-3002-6
10. Bostadsbrist och arbetsmarknad  
– hur får vi en bostadsmarknad i balans?  
ISBN 978-91-566-3004-0
11. Samhällsekonomi i koma – kan höjda löner återuppliva den?  
ISBN 978-91-566-3008-8
12. Modellen som klev ut genom ett fönster  
– om globaliseringen och den svenska modellens framtid  
ISBN 978-91-566-3009-5
13. Penningpolitik och full sysselsättning  
ISBN 978-91-566-3010-1

14. Vägval när det gäller marknadsmekanismer i utbildningssystemet  
ISBN 978-91-566-3011-8
15. Arbetsförmedlingen och arbetskraftsförmedlingen  
– missbedömd eller dömd att misslyckas?  
ISBN 978-91-566-3012-5
16. Tillsammans – LO-samordning och samverkan i praktiken  
ISBN 978-91-566-3013-2
17. Ungas färdigheter och etableringsproblem på arbetsmarknaden  
ISBN 978-91-566-3059-0
18. Lönebildning bortom NAIRU  
ISBN 978-91-566-3061-3
19. Totalrenovering av Sverige  
– för framtidens sysselsättning och välfärd  
ISBN 978-91-566-3065-1
20. I skuggan av hög arbetslöshet – om flykting- och  
anhöriginvandrares arbetsmarknadsetablering  
ISBN 978-91-566-3067-5
21. Workers Ownership and Profit-Sharing in a New Capitalist Model?  
ISBN 978-91-566-3069-9
22. Lön eller sysselsättning eller bådadera  
ISBN 978-91-566-3074-3
23. Fem nyanser av rättvisa – om lönepolitik och rättviseteori  
ISBN 978-91-566-3066-8
24. Tillbaka till framtiden – hur en bättre redovisning av samhällets  
tillgångar och skulder kan höja Sveriges välstånd  
ISBN 978-91-566-3070-5

### ***Report to the LO Congress***

Vägen till full sysselsättning och rättvisare löner

– rapport till LOs kongress 2016

ISBN 978-91-566-3075-0



Since the 1990s Sweden has suffered from high unemployment and currently has what must be described as mass unemployment. It is obvious that the economic policy pursued is no longer able to achieve full employment. Nor is it possible to return to the policy prevalent before the 1990s.

Consequently, what Sweden needs is a new economic policy that combines full employment and fair wages with today's open economy. That is the background to the LO Congress resolution in 2012 to start the project *Full employment and a wage policy of solidarity*. The project has resulted in a final report that will be discussed at the 2016 LO Congress. This is the English summary of the final report.

September 2015

ISBN 978-91-566-3092-7

[www.lo.se](http://www.lo.se)