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We like change!

***– A Progressive Agenda
for Future Jobs***

The Swedish Trade Union Confederation

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Preface



WE LIKE CHANGE! We always have, ever since The Swedish Trade Union Confederation was founded in 1898. As part of a strong trade union movement, we have assumed our responsibility to support a competitive economy, high employment levels for both women and men, and an even income distribution. This is why we regard globalisation, technical advances and openness to the world as opportunities rather than threats.

However, in many countries workers have been left behind. Now it is time for the world to get a pay rise! We know that this is crucial if workers are to accept the changes that are caused by new technology and globalisation. The weak income development for the American working middle class during the past four decades can serve as a warning sign. But important steps are being taken to increase minimum wages in the USA, allowing more workers to receive their share of profits and prosperity. This is good news for everyone. Workers are not only earners, but also consumers and tax payers.

We believe that other countries can be inspired by our solutions, just as we are inspired by others. This is why the success of the Swedish model remains important since both industrialised and developing countries deliberate on how policy should develop over the next decades.

A handwritten signature in black ink, appearing to read 'Karl-Petter Thorwaldsson'.

Karl-Petter Thorwaldsson

President

Trade Unions Welcome Change

SOMETHING NEW IS TAKING PLACE in labour markets around the world. At least since the end of the 1990s, both low-skill and high-skill jobs are increasing, while middle-skill jobs are decreasing. This is called job polarisation and means that we are moving towards an hourglass-shaped labour market.

This new structural change differs from previous ones, where the jobs that were created were more qualified and paid more than the jobs that disappeared. The driving forces behind this are mainly digitalisation and globalisation. Rapid technological development and an increasingly open world economy offer major opportunities to countries around the world, but also significant challenges.

In this paper we describe how Swedish trade unions have taken constructive actions during previous structural transformations, contributing to Sweden's internationally competitive economy with high growth, a high employment rate and small income gaps. Consequently, looking forward we have strong reasons to believe that the Swedish model with influential trade unions has not only been historically successful, but is also well-suited to meet future challenges without eliminating people from the labour market or increasing social disparities.

Trade unions welcome change, but it must be met with measures that help people to adjust and keep up with structural change.

The Swedish model gives security and growth

According to the *Eurobarometer*, Swedes have the most positive attitude to globalisation of all EU nationalities. The same

applies to attitudes to immigrants. This is a great asset for the Swedish economy and competitiveness, since it facilitates structural change and integration. This is true even in current times of rather high unemployment, growing income gaps and major challenges of labour market introduction of refugees seeking asylum.

Table 2 Attitudes to globalisation and immigrants, 2015

	Sweden	EU28
Positive to globalisation	78 %	57 %
Positive to immigrants from other EU countries	79 %	51 %
Positive to immigrants from countries outside the EU	66 %	34 %

Source: European Commission, Standard Eurobarometer 83, spring 2015.

This positive attitude to major social changes has a long history, in which the Swedish Trade Union Confederation and the Swedish trade union movement played a major part. In Sweden, the trade union organisations have been positive towards structural change for the past hundred years. We regard globalisation, technical advances and openness to the world as opportunities rather than threats. The explanation for this is the highly successful Swedish model.¹

The Swedish model rests on a number of central pillars: high trade union density, high coverage rate for collective agreements, a wage policy of solidarity, active labour market policy, generous unemployment insurance benefits, public investment in education and a tax-financed welfare system for

¹ The Swedish model has many similarities with the Nordic model which, besides Sweden, exists in Norway, Denmark, Finland and Iceland.

income security and public services. These pillars are mutually dependent, and together they create an effective and rational model for high growth, full employment and small income gaps. In addition, it contributes to the fact that Sweden in an international perspective has had very few labour market conflicts and steady rise in real wages.

The Swedish model is constantly changing, and has developed over more than a hundred years of collaboration between trade unions, employers and the State. The Swedish model is strongly associated with the Social Democratic labour movement, but many welfare reforms have been implemented through broad social and political compromises. The institutional interaction between strong social partners in the labour market and central government has resulted in the gradual development of a coherent, balanced and inclusive policy. This has also created sustainable coalitions that have given legitimacy and broad support for reforms.

Our view of economic development

In Sweden, there is a tradition of considering welfare policy and labour market policy as social investments. This supports a changing labour market and contributes to economic efficiency. Thus, individual security and economic efficiency are not in opposition. Consequently, Swedish trade unions accept and embrace structural change and globalisation.

The Swedish Trade Union Confederation's positive view of structural change has been manifested since the early 1950s in the "Rehn-Meidner model", which was developed by the Confederation's own economists.² The Rehn-Meidner model played an important part in developing the Swedish model,

² The model is named after the Swedish Trade Union Confederation's economists Gösta Rehn and Rudolf Meidner.

and it is unique in its combination of central government fiscal policy, trade union wage policy and active labour market policy. Today it is above all the two latter components that are in focus, even though fiscal policy is important for job creation and income distribution.

Firstly, the Rehn-Meidner model builds on a *wage policy of solidarity*, in which wages follow the average productivity trend in the economy instead of individual firms' profitability.³ Increases in productivity are to be shared in accordance with the principle "equal wages for equal and equivalent work". Employees should not subsidise firms with low competitiveness, or support a declining industry through low wages. Firms that are not able to increase wages in accordance with collective agreements must then improve the efficiency of their business or go into liquidation. This way, positive structural change in the economy is encouraged: Businesses with low productivity are eliminated, freeing labour for firms with higher productivity. Embedded here is the notion that that new technology and structural change can foster future jobs and rising wages. The model can therefore be seen as an example of the creative destruction described by Joseph Schumpeter as the fundamental dynamic of capitalism.

Secondly, the Rehn-Meidner model builds on *security in transition* for workers. Structural change means that some workers lose their jobs or have their work tasks radically changed. Therefore, a policy is required to support the mobility and security of the labour force. Here vocational education and training, various forms of adult education in the ordinary education system and active labour market policy are central for enabling workers to take the emerging jobs and meet the changing skills requirements.

³ In Sweden all wages, including minimum wages, are determined in industry-wide collective agreements and not through legislation.

Security in transition also requires generous unemployment insurance. According to the OECD among others, generous unemployment benefits have no negative effects on employment if combined with extensive active labour market policy, as well as requirements and controls in the unemployment insurance.⁴ Correctly designed this promotes high employment.

Together with active labour market policy, unemployment insurance is also crucial to matching in the labour market. Hence security lies more in employability than protection of existing jobs. It could be said that the Swedish model protects people, not jobs. This is sometimes described as the “security of wings”, meaning that the individual dares to take the step from one job to another or to participate in continuing education and training. It promotes a positive view of structural change and increases mobility in the labour market. The income security provided by generous unemployment insurance also constitutes a safeguard against lower reservation wages and unhealthy low-pay competition for jobs.

The Swedish model faces many challenges and could certainly be even more effective. Consequently, the Swedish Trade Union Confederation works continually to develop the model and strengthen its various components so that they will support each other in the future and remain a coherent and effective model.⁵

The Swedish model is effective in a globalised world

Sweden is one of the world’s most competitive economies. According to the World Economic Forum, Sweden has long been

4 OECD (2006), *Employment Outlook*.

5 Swedish Trade Union Confederation (2015), *Full employment and a wage policy of solidarity. Report to the 2016 Swedish Trade Union Confederation Congress*, www.lo.se/english/documents/full_employment_and_a_wage_policy_of_solidarity.

Table 2 Selected indicators for Sweden, Germany, the United Kingdom and the USA
Annual averages for 2000–2007 and 2008–2014

	Sweden		Germany		UK		USA	
	2000–07	2008–14	2000–07	2008–14	2000–07	2008–14	2000–07	2008–14
Real GDP	3.3 %	0.9 %	1.6 %	0.7 %	3.0 %	0.6 %	2.7 %	1.1 %
Labour productivity	2.3 %	0.2 %	1.2 %	0.0 %	1.9 %	0.1 %	1.9 %	1.0 %
Real wage increase	1.9 %	1.2 %	0.1 %	0.9 %	2.0 %	–0.9 %	1.2 %	0.4 %
Employment rate 20–64 years	78.5 %	79.3 %	69.6 %	75.9 %	74.6 %	74.2 %	75.3 %	71.5 %
whereof women	76.0 %	76.6 %	62.9 %	70.7 %	67.7 %	68.4 %	68.7 %	66.0 %
Employment rate 55–64 years	68.6 %	72.0 %	42.5 %	59.8 %	54.9 %	58.3 %	60.0 %	60.9 %

Source: OECD.

ranked high as regards global competitiveness.⁶ This also applies to the other Nordic countries, whose social models are similar to Sweden's. This shows that countries with regulated labour markets, strong trade unions, high collective agreement coverage, high minimum wages, high taxes and generous welfare systems are among the most competitive in the world. These countries are also highly successful in economic terms.

With the Swedish model's collective risk distribution, through a generous and general welfare system and a wage policy of solidarity, workers, firms and the State share the costs and losses that structural changes may bring.⁷ But their profits are also distributed through strengthened competitiveness, productivity growth and real wage increases. Therefore there is great acceptance of structural transformation, new technology and globalisation. Protectionism has few supporters in Sweden. This also means that the Swedish Trade Union Confederation, together with the two other trade union confederations in Sweden, is positive to free trade and, under certain conditions, to the Transatlantic Trade and Investment Partnership, TTIP.⁸

There is no doubt that the Swedish (Nordic) model has been successful for many decades. The economist André Sapir states that "the Nordics enjoy an envious position, with a social model that delivers both efficiency [high employment] and equity [low risk of poverty]".⁹ He points out that this, together with relatively low public debt as a share of GDP and a high degree of acceptance for globalisation, makes the Swedish (Nordic) model sustainable in the long term.

6 World Economic Forum, *The Global Competitiveness Report 2015–2016*.

7 Andersen, Holmström, Honkapohja, Korkman, Söderström Tson & Vartiainen (2007), *The Nordic Model. Embracing globalization and sharing risks*.

8 Swedish Trade Union Confederation (2014), *Swedish trade unions' policy on the negotiations between the USA and the EU on a free trade agreement (TTIP)*, www.lo.se/english/news.

9 Sapir (2005), *Globalization and the Reform of European Social Models*, Bruegel.

The new structural change

We are already seeing the trends that will shape the labour market of tomorrow. At least since the end of the 1990s, both low-skill and high-skill jobs have been increasing, while middle-skill jobs are decreasing.¹⁰ We are moving towards an hour-glass-shaped labour market and job polarisation.

In the USA, job polarisation and the decline in middle-income jobs have caused great concern and sparked a debate on the disappearing middle class.¹¹ In Europe the share of middle-wage occupations decreased in all 16 countries included in a widely cited study between 1993 and 2010 (figure 1 below). At the same time, the share of low-wage occupations increased in 14 of these 16 countries and the share of high-wage occupations increased in all countries. The share of low-wage occupations is growing in Sweden, despite the fact that Sweden has relatively high minimum wages without any change in relative wages between various groups.

Winners and losers in tomorrow's labour market

The predominant explanation for job polarisation is that new digital technology favours more qualified labour with non-routine and cognitive tasks, while routine medium-skill jobs are automated.¹² In concrete terms this may mean that demand for e.g. lawyers and engineers increases, while occupations such as secretaries and accounting clerks will gradually be automated or fundamentally changed. At the same time globalisation, which is

10 The term "low-skill jobs" is common in the international literature for jobs that have no formal educational requirements, and consequently we use it in this report. However, it is a misleading term that does not always take into account that other skills may be necessary to perform the work and that the jobs should not necessarily be seen as low-skilled.

11 Autor (2010), *The Polarization of Job Opportunities in the U.S. Labor Market*; Beaudry, Green & Sand (2013), *The Great Reversal in the Demand for Skills and Cognitive Tasks*.

12 This is called *skill-biased technological change* (SBTC). Jaimovich & Siu (2012), *The trend is the cycle: job polarization and jobless recoveries*; Beaudry et al (2013).

Figure 1 Job polarisation in different countries

Change in employment share, average 1993–2010



Source: Goos, Manning & Salomons (2014), *Explaining Job Polarization: Routine-biased Technological Change and Offshoring*.

also driven by technological advances, contributes to job polarisation through off-shoring of middle-skill jobs. The low-skilled jobs that are not routine and manual are more difficult to automate.

Automation and digitalisation have been going on for a long time in manufacturing industry, but is now increasingly affecting white collar jobs with the help of software that scans, structures and analyses large volumes of data. In addition, the number and share of low-skill jobs is growing, for example due to increased demand for different kinds of services from a growing group of well-paid consumers, while demographic

changes with an ageing population increase demand for public sector services, such as in health care and social services, which to some extent include low-skill tasks.

Naturally the Swedish Trade Union Confederation does not necessarily consider low-skill jobs to be bad jobs, as long as they pay a living wage and the work is fulfilling and has good working conditions. But that is not always the case. According to the OECD many of the middle-skill jobs that are disappearing are full-time permanent jobs, while growth of low-skill and high-skill jobs mainly consists of temporary jobs and part-time jobs.¹³ Thus, job polarisation not only means that we are losing a lot of middle-skill jobs with relatively good pay, mainly for workers with upper secondary qualifications, but also that terms and conditions in some parts of the labour market are becoming increasingly uncertain and temporary.

Some jobs disappear but many new jobs are created

But there are also grounds for optimism. Many people overestimate the number of jobs that will be lost and underestimate the potential of technology to create new jobs and increase the value of what the labour force produces, and thus also the possibilities of higher real wages.¹⁴

The most common way of using new technology is not to literally replace every employee with a machine or computer, but to reorganise the work on the basis of the new technology's potential. This means that many occupations will remain, but that some tasks will disappear while others will require new skills. Cognitive capabilities such as analysis, interpretation, problem-solving and ability to cooperate, will be more important in more occupations, even among the low-skilled

13 OECD (2015), *In IT Together. Why Less Inequality Benefits All*.

14 Autor (2014), *Polanyi's Paradox and the Shape of Employment Growth*.

jobs. These changes dramatically increase the need for skills development and lifelong learning, including validation of all forms of learning.

However, there is always a risk that new technology can also be used to split up tasks and make them more routine and low-skilled (so called digital Taylorism), which benefits neither skills development nor creativity.

The negative effects are gloomy – but not inevitable

One consequence of job polarisation is worse matching in the labour market. When people with a longer education cannot find jobs that match their educational level they are forced to accept jobs with lower qualifications. The consequence is that they get lower wages than they would otherwise have earned (lower education premiums), and also that they displace people with shorter education from jobs that they could perform.¹⁵ In Sweden, and probably elsewhere, displacement is an important explanation for higher unemployment among people with no upper secondary education and the relatively low unemployment among people with a longer education.

A wise policy in this context would be attempting to shape the new structural change, so that it is once again characterised by more middle and high-skill jobs. This would improve job matching for people with a longer education so that their education is better utilised. At the same time low-skilled jobs would be available for people with shorter education.

New technology can provide major economic gains to firms and societies, but at the same time it may lead to an increasingly unequal distribution of these gains. The growing income inequality in many countries is largely due to rapid advances

¹⁵ Beaudry et al (2013).

in digital technology, which started in the 1980's, and which favour well-educated labour as well as capital income rather than earned income.¹⁶ It should be emphasised that inequality, apart from leading to growing social and political antagonism, is now regarded as a serious threat to economic growth by the OECD and the IMF, among others.

Lessons learned from the USA strongly support higher wages

The USA is a country with a labour market model that is markedly different from the Swedish model. Consequently, the American experiences of job polarisation, which has been taking place since the beginning of the 1990s, are interesting.

The American employment rate has fallen, at least since the end of the 1990s, when job polarisation accelerated. For men, who generally have adapted worse than women to the new situation, the increase in the educational level has come to a standstill and labour force participation has fallen.¹⁷ For men with no university qualifications pay has been stagnating or falling for more than three decades. When job growth is mainly in low-pay occupations, an increasing number of Americans have been forced to take jobs at lower pay than before, and, in some cases, slide out of the middle class and into the ranks of the working poor.¹⁸

The increasing income gaps in the USA since the 1980s can be explained, according to the economist David Autor, by three interacting factors: new technology that enables automation, effects of globalisation and weaker trade union negotiating power.¹⁹ Historically, trade unions have succeeded in negoti-

16 Brynjolfsson & McAfee (2014), *The Second Machine Age*; Autor (2010).

17 Autor (2010).

18 The National Employment Law Project.

19 Autor (2014) *Skills, education, and the rise of earnings inequality among the "other 99 percent"*.

ating relatively good pay increases for workers. But conditions have deteriorated considerably, since trade union density in the American business sector has fallen from 24 per cent in 1973 to 7 per cent in 2011, a dramatic decrease of more than 70 per cent in four decades. Consequently, the wage share as a percentage of GDP has decreased, while the profit share has increased correspondingly. Digital technology seems to have contributed to decouple productivity growth from jobs and wages.²⁰

The American development is startling and should be taken as a warning. It strengthens our view that the Swedish model provides effective tools to meet job polarisation and the new structural transformation.

A progressive agenda for future jobs

Even in the era of digitalisation, distribution of the value of production is the most important trade union issue. With a strong trade union movement the negative effects of technological advances and globalisation – *the high risk society* – can be mitigated. Strong trade unions can, together with employers and central government, contribute to *a high opportunity society*, in which the gains of technology and globalisation are shared by the entire society. The Swedish Trade Union Confederation believes that the Swedish model will remain successful in times of new structural changes, and therefore proposes a progressive agenda for future jobs.

1. Invest in human capital and security in transition. In a rapidly changing labour market, lifelong learning will be crucial. Access to high quality education, from pre-school to university, is central for increased welfare, reduced inequality and better

²⁰ Brynjolfsson & McAfee (2014).

skills provision for firms that want to grow. Upper secondary vocational education programmes are particularly important.

An active and skills enhancing labour market policy strengthens matching in the labour market and prevents long-term unemployment. Together with generous unemployment insurance, this creates the security necessary for workers at risk of becoming unemployed in the wake of structural transformation.

In addition, generous student financial support for all forms of regular adult education is necessary to enable the unemployed to participate in continuing education and training or retraining. The costs to the individual for this should be limited. Furthermore, there must be an effective system of documentation and validation of all forms of formal and informal learning.

This stimulates sound mobility in the labour market and increases opportunities for both individuals and society to re-adjust to more profitable and productive jobs. It promotes a high employment rate and contributes to creating a resilient economy that can cope with rapid and substantial changes.

2. Strengthen the influence of the social partners. The successes of the Swedish model show that strong and equal social partners in the labour market contribute to stability and sustainability. Compromises between the social partners give legitimacy to reforms and contribute to keeping the number of conflicts in the labour market to a minimum. Consequently, government policy should promote the organisation of the social partners (both employees and employers) and collective agreement coverage.

In Sweden strong trade unions take the nation's economic situation and development into consideration by neither de-

manding too little nor too much in pay increases. Employers must in turn take responsibility for skills development of all employees, as well as preventive health and safety measures for a secure and safe work environment. Employers should also rely on flexible work organisations rather than employees having to take care of numerical flexibility through short temporary employment contracts.

This is also possible to do internationally. The Swedish Government, together with the social partners, has initiated the *Global Deal for Decent Work and Inclusive Growth*, in collaboration with the ILO, the OECD and others.²¹ The vision is that more people should benefit from globalisation and the global labour market challenges should be addressed jointly by the social partners. The Global Deal builds on the experience that an effective social dialogue in the labour market and decent work contribute to increased equality and inclusive economic development. This benefits workers, firms and society as a whole. The Global Deal will be an important instrument to achieve Goal 8 (promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all) in the UN 2030 Agenda for Sustainable Development.

3. Give the world a pay rise. All workers should share productivity growth and profits through real wage increases. Internationally the working middle class has been lagging behind for a long time. Growing pay and income gaps hinder consumption and growth and risk increasing household debt in an unhealthy way. Increased income gaps also lead to a growing feeling of injustice that sooner or later leads to social discontent and

²¹ Swedish Trade Union Confederation (2016), *Global Deal for Decent Work and Inclusive Growth*, www.lo.se/english/news.

political turbulence. Nobel laureate Robert Shiller states that the increasing divides create shifts in power in society, from a growing group of workers with limited increases in income to a small group of extremely rich people. This may render the implementation of necessary political reforms even more difficult.²²

Therefore, politicians and the social partners need a plan to reduce the growing social and economic divides. There is nothing to indicate that a domestic low-pay sector and restrictive welfare would benefit global competitiveness, innovation or dynamics in the economy.

4. Invest in the public sector. In Sweden and many other countries there is a need to extend education systems and raise the quality of schools. At the same time, demographic changes and an aging population contribute to increased demand for health care and social services. Such measures require more employees in these sectors, who often have middle-skill jobs. This would benefit all of society and in particular women, who in all countries have a lower employment rate than men. Extended child and elderly care make it possible for more women to be employed and participate in payed work.

5. Invest in reindustrialisation. When existing jobs and tasks are automated, the economy must create new and more productive jobs and firms. The social partners, together with central government, should formulate measures so that new technology and technical and social innovations generates more and better jobs in both the private and public sectors.

Investment in research and development should be stim-

²² Shiller (2014), *Inequality Disaster Prevention*, www.project-syndicate.org/columnist/robert-j-shiller.

ulated and collaboration between research and the business sector should be strengthened. This would promote production higher up in the value chain and create growth in new highly productive industries.

Tomorrow's competitiveness, jobs and welfare are built from today's ideas and therefore strategies for creativity and innovative capacity are necessary. Employers in the private and public sectors should develop their work organisations to crease employee participation and empowerment and make use of the improvements in products and production that employees often discover. A creative and stimulating working life supports continuous economic growth while re-creating human, social and economic resources.



The Swedish Trade Union Confederation, LO, is the central organisation for 14 affiliates which organise workers within both the private and the public sectors. The 14 affiliates together have about 1.5 million members of whom about 684 000 are women.



The affiliates are: Swedish Building Workers Union, Swedish Electricians' Union, Swedish Building Maintenance Workers Union, GS – (the union of forestry, wood and graphical workers), Swedish Commercial Employees' Union, Swedish Hotel and Restaurant Workers' Union, Swedish Municipal Workers' Union, Swedish Food Workers' Union, IFMetall, Swedish Musicians' Union, Swedish Painters' Union, Swedish Paper Workers' Union, The Union for Service and Communications Employees, Swedish Transport Workers' Union.

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