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**Time for Larger Wage Dispersion?
- Summary of the Swedish Labour
Policy Council report »Dags för
större lönespridning?«**

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Summary

The pay bargaining norm (the so-called *cost mark* set by the manufacturing sector), the solidaristic wage policy and the aim of gender equality in pay are important features of the Swedish wage-bargaining model. The idea behind the cost mark is that the wage increase in the sector exposed to international competition (manufacturing) should serve as the benchmark, with wage increases in other sectors not normally exceeding wage increases there. The aim of the solidaristic wage policy is to promote structural change by eliminating low-wage jobs. The policy has also served to reduce wage differentials across firms and industries.

The two most important issues in every wage bargaining round in Sweden are usually the size of aggregate wage increases and the development of relative wages for different groups of employees. The latter is generally the most controversial issue as it involves equity aspects that different groups may perceive very differently. Economists generally assume that macroeconomic developments depend primarily on aggregate wage increases while relative wages primarily concern efficiency of resource utilisation in the economy. But this is an oversimplification. Conflicts over relative wages may cause wage demands that lead to too high aggregate wage increases. Relative wages that are not in line with market forces may also have an adverse effect on macroeconomic developments. In sectors where relative wages are too low, shortages may arise that hamper overall economic growth. Too high a relative wage for other groups may create employment problems that push up unemployment in the economy as a whole.

Despite the clear connection between aggregate wage increases and changes in relative wages, we have chosen to focus on aggregate wage increases in our first report (Arbetsmarknadsekonomiska rådet 2015) and on relative wages in this second report (Arbetsmarknadsekonomiska rådet 2016). We examine three different aspects:

- ◆ Chapter 2 discusses relative wages in occupations that typically suffer from chronic labour shortages, such as teachers, nurses and professional engineers (*civilingenjörer*).
- ◆ Chapter 3 analyses the connection between changes in the distribution of skills in the labour force, relative wages and employment. We focus on the employment problems of the low skilled and immigrants and the relationship between these problems and the compressed wage dispersion in Sweden.
- ◆ Chapter 4 considers the impact of the high collectively agreed minimum wages in Sweden – there is no legal minimum wage – on employment as well as the

likely employment effects of changes in the minimum wages. The chapter also analyses how a reduction of minimum wages should be regarded in relation to other methods for stimulating employment growth for the low skilled, such as education, earned income tax credits, tax credits for household services and employment subsidies.

1.1 Relative wages and labour shortages (Chapter 2)

Relative wage developments for various groups have received considerable attention in the current round of wage negotiations. Trade-union representatives for a number of occupational groups have pointed to labour shortages and the necessity of closing the gender pay gap as grounds for higher wage increases for their members than for other groups. Relative wages across sectors have also been on the agenda.

One dilemma for the Swedish wage-bargaining model is how to achieve wage increases for particular groups with market forces behind them without this leading to excessive increases in aggregate wages. This implies that it should be possible to negotiate wage increases above the cost mark without compensatory wage claims from other groups. As before, the sector exposed to international competition should set the benchmark, but at a level that allows relative wage increases in conformity with market forces for particular groups in the rest of the economy without aggregate wage increases spinning out of control. Co-ordination within the Swedish Confederation of Trade Unions (LO) broke down in the 2016 wage negotiations.¹ The co-ordination failure puts more responsibility on other actors: employers, trade unions in other central organisations and the National Mediation Office, a government agency that mediates in labour disputes and promotes an efficient wage bargaining process. A further complication in these wage negotiations is the special government initiative to raise salaries for teachers, an exceptional instance of government intervention in wage formation.

Relative wages for teachers, nurses and engineers

Teachers, nurses and engineers are professions of great importance to society. Together they constitute about a tenth of all employees in Sweden. Relative wages for these three professions fell between 2003 and 2014, even though relative

¹After this report was published, it turned out that the cost mark (2.2 per cent) was basically upheld despite the breakdown of co-ordination. But most agreements were negotiated for a period of one year only and it seems uncertain at present whether the cost mark will be sustained in the longer run.

wages for teachers and nurses have increased slightly in recent years. In 2014 the average wage for teachers was 95 per cent of the labour market average, while nurses and engineers earned an average of 102 and 139 per cent respectively. Compared to 2003, this was a drop of 3.3 percentage points for teachers, 3.7 percentage points for nurses and (as much as) 7.2 percentage points for engineers.

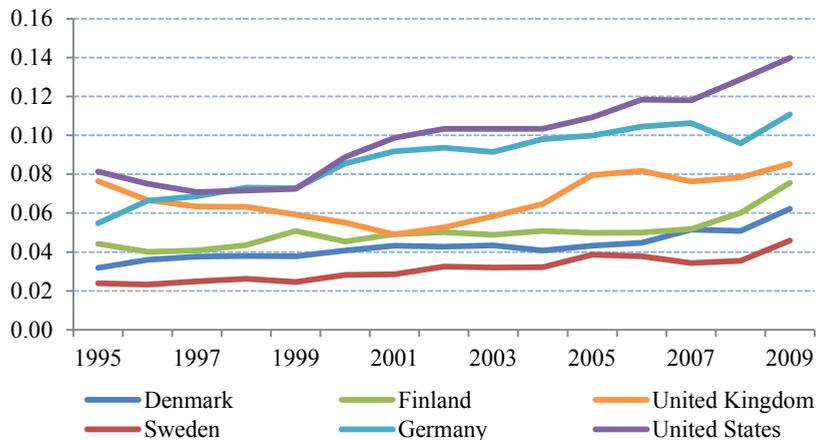
Compared to the other Nordic countries, teachers in Sweden have low relative wages. In particular, the average wage for teachers in Finland relative to the labour market average was 104 per cent in 2014, or about 10 percentage points higher than in Sweden. However, the relative wage for nurses is higher in Sweden than in Denmark, Finland and Norway. The lower relative wage in Norway may seem surprising because many nurses have chosen to leave Sweden to work there. But international labour migration is governed by country differentials in absolute wage levels, which are considerably larger in Norway. In Sweden, however, the wage differential between nurses with specialist and nurses with basic nursing education is smaller than in the other Nordic countries, indicating a more compressed wage structure. Engineers' relative wages in the other Nordic countries do not deviate markedly from those in Sweden.

Relative wages affect occupational mobility, or the propensity to leave one profession for another. In particular, occupational mobility among newly graduated teachers in the public sector has increased. From 2011–2013, an average of 18.3 percent of those with less than three years of professional experience left the teaching profession each year. This was an increase of 5 percentage points compared with 2005–2007. In contrast, occupational mobility has not increased among newly graduated nurses in the public sector (occupational mobility in the profession is generally quite low, but as mentioned, many emigrate to Norway) or for the comparison groups of business administrators, lawyers and social workers.

The declining relative wages for teachers, nurses and engineers have not been in conformity with market forces – there have been large labour shortages for a long time. For teachers, it is well known that the average quality of applicants and those admitted to teacher training has been declining for a long time. Statistics Sweden forecasts also indicate that the shortage of teachers and nurses will persist. This is due to demography: a growing and ageing population increases the demand for these professions. For engineers, a balance between supply and demand is expected in the long run.

Much of the international research on the relationship between relative wages on the one hand and mobility and job performance on the other hand concerns teachers. The results on mobility mostly indicate that a lower relative wage

Figure 1 Wage dispersion across 33 sectors in selected countries, variance of the log of hourly wage costs



Note: The wage cost refers to employees and includes social contributions.

Source: Own calculations based on data from the World Input-Output Database (WIOD).

induces more people to leave the profession. There is also research that suggests that the quality of teachers is adversely affected by a lower relative wage. Lower relative wages also appear to correlate with poorer student performance.

Relative wages across sectors

In the 1980s and 1990s, the issue of industry wage differentials was a lively area of research, but there have been few studies in recent years. We attempt to shed light upon how changes in market conditions affect relative wages. Figure 1 shows the wage dispersion across 33 sectors in Denmark, Finland, Germany, Sweden, the United Kingdom, and the United States in the period 1995-2009. Wage dispersion differs considerably among the countries studied. It is clearly smallest in Sweden and the other Nordic countries and largest in the United States and Germany. Wage dispersion has increased in all countries during the period observed except in the United Kingdom. But in Sweden the increase has been small and was from a very low initial level. Since the turn of the millennium, wage dispersion has increased in all six countries.

According to our analysis, relative wages across sectors appear to adjust more slowly to long-term equilibrium in response to shocks in Sweden than in the comparison countries. Furthermore, relative wages appear to adjust less to long-term changes in relative labour demand in Sweden than in Germany and the United States.

There is thus some support for relative wages being less flexible in Sweden than in other countries, although the results should be considered preliminary and in-

terpreted with care. But the conclusions seem consistent with the aims behind the solidaristic wage policy, under which quantity signals (job vacancies in expanding sectors and redundancies in stagnating sectors), not price signals, are supposed to be the primary drivers of reallocation of labour across sectors.

What changes in relative wages are justified?

In our opinion, relative wage increases for teachers and nurses are well founded. Declining relative wages and chronic labour shortages have been typical in these professions for a long time and forecasts indicate that these conditions may continue also in the foreseeable future. The average quality of new teachers has also been declining. Moreover, there has been a sharp increase in the number of new teachers leaving the profession in recent years, but the extent to which this has contributed to the decline in teacher quality is less clear. The Government's special initiative to increase the salaries of certain teachers is welcome, but in our opinion, probably insufficient, given the extent of the problem. All these factors indicate that wage increases above the cost mark for teachers and nurses may be justified.

One complication ensuing from higher relative wages for teachers and nurses is that they may trigger wage demands from other groups of employees. Making changes in relative wages that are desirable from the viewpoint of economic efficiency is difficult in the Swedish collective bargaining system. In the current wage negotiations, other groups have also presented demands that would lead to higher relative wages. The non-tradables sector unions (the Swedish Building Workers Union, the Swedish Electricians' Union, the Swedish Building Maintenance Workers Union, the Swedish Painters' Union and the Union for Service and Communications Employees), in LO (the Trade Union Congress), which have demanded higher wage increases than the unions in industry, are the most striking example.² The labour market situation for members in several of these unions – particularly those associated with the construction sector – is currently very favourable.

But the arguments for relative wage increases for members of LO's non-tradables sector unions are weaker than for teachers and nurses. The current strong labour demand is likely to have a much greater cyclical element in these sectors than is the case for teachers and nurses.

More important, in LO's non-tradables sectors' collective bargaining areas, there are many relatively simple jobs that do not require a post-secondary edu-

²The negotiated wage increases in the non-tradables sector turned out to be in line with the cost mark after this report was published.

cation. As the language skills and education required are considerably less than for teachers and nurses, there should be greater opportunities to satisfy some of the increasing demand for labour in these areas by various means of fast-tracking newly arrived refugees. This could be seen as a variant of the solidaristic wage policy. Not using all the available scope for wage increases and instead allowing labour shortages to result in job vacancies, creates quantity signals attracting refugee immigrants to these sectors.

There should also be good opportunities for foreign workers to meet some of the demand for labour in these non-tradables sectors. This can take place via labour immigration from other EU countries, the expansion of firms from other EU countries with posted workers and labour immigration from third countries (outside the European Economic Area). The Swedish laws limiting the unions' possibilities to take strike action against firms from other EU countries for the purpose of imposing Swedish collective agreements should not be softened, since that would make it more difficult for these firms to compete in the Swedish market. Likewise, changes in regulations aimed at strengthening the position of labour migrants from third countries and preventing their exploitation should be designed in a way that does not undermine well-functioning recruitment of this kind.

1.2 The distribution of skills, relative wages and employment (Chapter 3)

The level and the distribution of skills is one of the major determinants of the output level in advanced economies like Sweden's. In these economies, changes in labour force skills are often the most important reason for changes in the effective size of the labour force. The demand for skills also changes over time due to technological developments. As a result, demand has shifted from low-skilled to high-skilled labour in recent decades, as a consequence of skill-biased technological change. New production technology, for example technology linked to computerisation, requires employees with high cognitive skills. Also, computers have replaced workers in medium-skilled jobs, such as certain types of office work. Mid-tier workers who have not upgraded their human capital have thus had to look for low-skilled jobs, increasing the competition for these jobs. Jobs adversely affected by technological developments have also been more easily transferred to low-wage countries (*offshoring*).

The effect of changes in the supply of and demand for skills on wages and employment depends on the functioning of the labour market. The Swedish

labour market has a compressed wage structure and comparatively high wages for the low skilled. This model is ill suited for handling large changes in both skills distribution and labour demand.

Changes in the skills distribution in Sweden

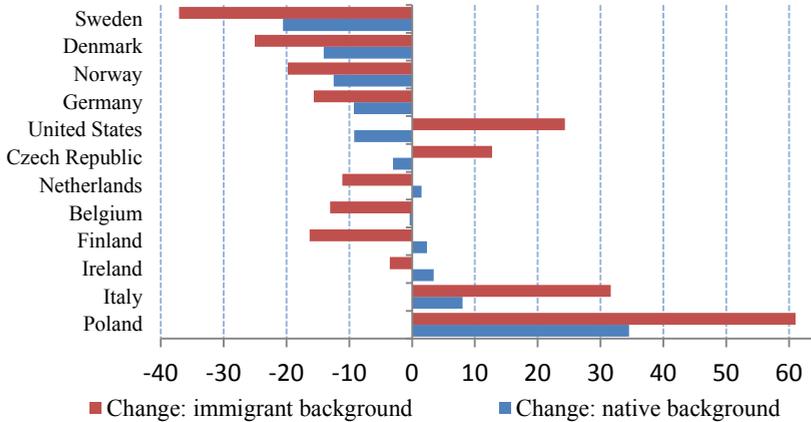
In recent years, two strong trends have affected the distribution of skills in the Swedish labour market. First, the school system has delivered worse results in terms of student performance. This is true regardless of the measure used. Even though Sweden still has quite a high *formal* education level compared with most other OECD countries, there are clear signs of a change for the worse. For example, the percentage of students who do not complete upper secondary school began to increase as early as for the cohorts born in the mid-1970s.

The deterioration in education results is even clearer in the international skills tests of *school pupils*. This is particularly true for the much-discussed PISA results. During the 2000s, Sweden has experienced the largest decline in mathematics, reading and science of all the OECD countries. In 2012, the average Swedish results were among the lowest in Europe. The results in science and reading comprehension also indicate an increase in the dispersion among students. These developments imply an increase in the number of low-skilled pupils who finish compulsory school.

There are two internationally comparable skills tests (reading and writing ability) in the adult population in OECD countries: IALS (*International Adult Literacy Survey*) from the mid-1990s and PIAAC (*Programme for International Assessment of Adult Competencies*) from 2012. Both surveys show a high skill level for the Swedish population. But an analysis of the change between the two studies indicates that Sweden had the largest decline of any country that participated both times. The decline is particularly large among young Swedes, a finding consistent with the changes in the PISA studies.

The other trend affecting the skills distribution is the large immigration and the changes in its character. Refugee immigration from countries with a considerably lower education level than Sweden has replaced earlier labour force immigration. This development can be clearly seen in the PISA studies. Students with an immigrant background perform worse in the PISA tests than students who do not have such a background in almost all countries. This is also true in Sweden and means that the increase in the share of students with an immigrant background automatically leads to lower average test results. The difference in the test results between students with a native background and those with an immigrant background has also increased. This indicates that the composition of immigration *has* changed in a way that has led to worse results.

Figure 2 Changes in the average literacy score between IALS 1994–98 and PIAAC 2012 for those with a native background and those with an immigrant background



Source: Own calculations based on IALS and PIAAC data.

Figure 2 compares the test results for the adult population from IALS and PIAAC in the countries that participated in both studies. Sweden had one of the largest shares of participants with an immigrant background in both IALS and PIAAC. The figure shows that the difference between those with a native background and those with an immigrant background has increased more in Sweden than in all the other countries (except Finland). According to these studies, the increase in the gap for the adult population is greater than the increase in the gap for school pupils shown by the PISA surveys.

Relative wages and relative employment

In recent decades, the labour market has experienced two major structural shocks, one on the demand side and the other on the supply side. As in other developed economies, technological developments have increased the competition for jobs for low-skilled labour in Sweden. The second structural shock is the supply-side change in the skills distribution described above. As a result, there has been an increase in the percentage of the population that is low skilled.

The IALS and PIAAC studies can be used to study how the labour market has adjusted to these changes. Table 1 shows relative wages for respondents at different literacy proficiency levels in the IALS and PIAAC studies. The value in each cell is the average wage for persons at the proficiency level divided by the average wage for persons at the third proficiency level (which contains the median person). According to IALS, in the 1990s Sweden had one of the highest relative

Table 1 Relative wage by literacy proficiency level in IALS 1994-1998 and PIAAC 2012

Country	Proficiency Level 1	Proficiency Level 2	Proficiency Level 3	Proficiency Level 4-5
(a) IALS 1994–1998				
Belgium	0.82	0.92	1.00	1.04
Denmark	0.89	0.93	1.00	1.01
Finland	0.88	0.98	1.00	0.96
Ireland	0.61	0.79	1.00	1.16
Italy	0.80	0.94	1.00	1.01
Netherlands	0.75	0.96	1.00	1.05
Norway	0.85	0.93	1.00	1.00
Poland	0.85	0.87	1.00	1.10
Sweden	0.89	0.91	1.00	1.00
Czech Republic	0.77	0.88	1.00	1.09
Germany	0.86	0.91	1.00	1.10
United States	0.56	0.82	1.00	1.24
(b) PIAAC 2012				
Belgium	0.77	0.87	1.00	1.10
Denmark	0.83	0.90	1.00	1.11
Finland	0.82	0.91	1.00	1.11
Ireland	0.72	0.82	1.00	1.14
Italy	0.83	0.89	1.00	1.22
Netherlands	0.73	0.85	1.00	1.11
Norway	0.76	0.88	1.00	1.11
Poland	0.76	0.81	1.00	1.30
Sweden	0.85	0.93	1.00	1.10
Czech Republic	0.78	0.87	1.00	1.24
Germany	0.73	0.84	1.00	1.18
United States	0.68	0.79	1.00	1.32

Ann: Germany, the United States, the Netherlands, Poland and Sweden participated in IALS in 1994, Belgium in 1996 and other countries in 1998. Due to few observations for proficiency level 5 in some countries, proficiency levels 4 and 5 are aggregated in this table.

Source: Own calculations based on data in IALS and PIAAC.

wage levels for low-skilled workers among participating countries (Panel a). This level had not fallen much by 2012. The table also shows how compressed the wage structure in the Nordic countries was in the 1990s. According to IALS, the relative wage for the lowest proficiency level was close to 0.90 in all the Nordic countries, while the relative wages for the highest proficiency level were very

low, barely exceeding 1.14. These figures can be contrasted with the large wage dispersion in the United States, the country most often cited as an example of an unregulated labour market. Relative wages in the United States were between 0.56 and 1.24.

Panel (b) in Table 1 shows the relative wages for the same countries in PIAAC. Wage dispersion increased slightly in all the Nordic countries between the mid-1990s and 2012, but they still have the most compressed wage structure in the sample. Sweden has the highest relative wage for the lowest proficiency level (0.85) and the lowest relative wage for the highest proficiency level together with Belgium (1.10). It is particularly interesting to compare changes in relative wages in Sweden and Germany. In IALS, German relative wages were still very similar to the Swedish, with almost identical values for workers at the lowest proficiency level. But in PIAAC, the wage dispersion has increased considerably in Germany compared with Sweden. Relative wages for those at the lowest proficiency level have fallen so much that they are now more like American than Swedish relative wages.

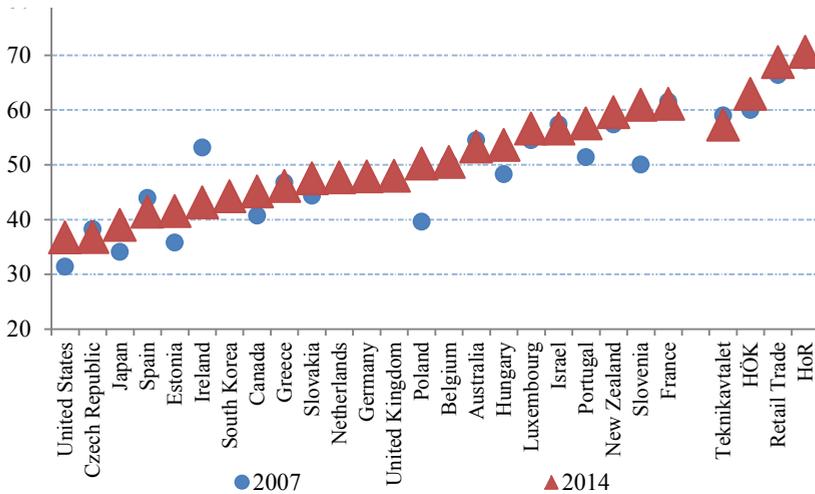
If wages have only reacted modestly to the shocks we have described, it is expected that the impact is instead on employment. This is in fact what has happened. The employment rate for those at the highest proficiency level increased sharply in Sweden from the mid-1990s to 2012. But employment among those at the lowest proficiency level increased only modestly. In 2012 the employment rate in Sweden for those at the lowest level was below the OECD average. In contrast, the relative wage between the lowest and middle level in Germany fell sharply while the corresponding relative employment rate *increased* considerably. This comparison supports the argument that larger wage dispersion can make a positive contribution to higher employment for the least skilled.

1.3 Minimum wages and employment (Chapter 4)

The Swedish labour market clearly faces major challenges: groups with perceived or actual low productivity are becoming larger and increasingly at risk of permanent joblessness. First, skills in the population have decreased both in absolute terms and relative to other countries. According to the PISA studies, the largest decrease for school pupils has been in the lower part of the skills distribution. Second, Sweden has a very large influx of asylum seekers. Many of the new arrivals have low productivity due to both little education and inadequate knowledge of Swedish.

Compared with most other countries, Sweden has high minimum wages. Unlike most other countries, where minimum wages are determined by law, Swedish minimum wages have been decided in collective agreements between the social

Figure 3 Minimum wage bite in selected countries, per cent



Note: The minimum wage bite is the ratio between the minimum and median wage. Germany introduced a statutory minimum wage in 2015. Data for this country are based on OECD forecasts. HÖK stands for *Huvudöverenskommelsen*, the central agreement between the Swedish Municipal Workers' Union (*Kommunal*) and Swedish Association of Local Authorities and Regions (*Sveriges Kommuner och Landsting*), and HoR for the Hotel and Restaurant Agreement. *Teknikavtalet* is the agreement between the Association of Swedish Engineering Industries (*Teknikföretagen*) and the Union of Metalworkers (*IF Metall*).

Source: OECD, Statistics Sweden and collective agreements.

partners. Figure 3 shows the minimum wage bite (the ratio between the minimum wage and the median wage) in a number of OECD countries having statutory minimum wages and in four agreements in typical low-wage sectors in Sweden: *Teknikavtalet* (the agreement between the Association of Swedish Engineering Industries (*Teknikföretagen*) and the Union of Metalworkers (*IF Metall*)), the Hotel and Restaurant Agreement, the Retail Trade Agreement and the central agreement (HÖK) between the Swedish Municipal Workers' Union (*Kommunal*) and the Swedish Association of Local Authorities and Regions (SALAR). These four agreements cover about 18 per cent of all those employed in the Swedish labour market. As Figure 3 shows, Sweden has quite a high minimum wage bite: in three out of four of the collective bargaining areas, it is higher than in all the other countries in the comparison group.

One important issue is whether the high minimum wages in Sweden exclude people with low productivity from jobs and whether lower minimum wages would enable more people to find employment. This is a controversial question in the public debate. Unions and employers usually have diametrically opposed opinions on this matter.

Research on the employment effects of minimum wages

According to *theoretical* research, higher minimum wages may have both positive and negative effects on employment. With an initially low minimum wage, raising it may increase employment because labour supply will be larger. But if the minimum wage is high to begin with, employment will instead decrease because there will be less demand for labour. These conclusions indicate *á priori* that the high minimum wages in Sweden have an adverse effect on employment.

The international *empirical* research has yielded mixed results. A number of studies find that higher minimum wages have negative employment effects, other studies positive employment effects and still others no employment effect at all. However, studies showing adverse effects predominate. The studies also appear to confirm the prediction that the probability of adverse effects is greater the higher the minimum wage is initially. There are few studies for Sweden, but most show that higher minimum wages reduce employment. Just as one should expect from the theoretical considerations, the results are more clear-cut than in studies from other countries.

The existing research likely underestimates the long-term disemployment effects of high minimum wages. In the long run, lower minimum wages are likely both to make firms less prone to replace low-skilled labour with capital and to establish new markets. Most studies do not take these long-term effects into account. Research also clearly shows that high minimum wages contribute to a redistribution of employment from weaker to stronger groups.

Lower minimum wages and measures to improve and expand education

We conclude that there are good reasons why the social partners should reduce minimum wages relative to other wages *if* one wants to give priority to employment for groups with the most difficulty entering the labour market. This can be done by direct reductions in the nominal minimum wage levels. A more gradual method is to let nominal minimum wages remain unchanged as other wages gradually rise over time.

In the public debate, policies to improve and expand education and lower minimum wages are often set one against the other as two mutually exclusive alternatives. But there is no contradiction between these two measures. With the great challenge Sweden faces, there are strong arguments for both attempting to reverse the downward trend in skills with the help of major education initiatives and restraining minimum wages. The measures are complements, not substitutes for each other.

In the debate, it is sometimes claimed that the large influx of asylum seekers and the difficulties they have entering the labour market are only used as a conve-

nient excuse for reductions in minimum wages desired for other reasons. This is in most cases a peculiar argument. There is obviously no intrinsic value in lower minimum wages. On the contrary, the problem is that such changes would reduce the standard of living for low-skilled workers who still have jobs. One way of looking at the problem is as a trade-off between two objectives: equal income distribution and high employment. With no change in preferences for these two objectives, it may be reasonable to choose another trade-off between the two if conditions change fundamentally. This is precisely what has taken place – and what is taking place – with the changes in skills distribution, not least because of the large influx of asylum seekers. These changes have made it much more difficult to achieve high and evenly distributed employment.

Earned income tax credits, tax credits for household services and employment subsidies

One condition for an increase in employment when minimum wages are reduced is that there is a large enough labour supply at the lower wages. If real wages after tax are too low, there is a risk that the labour supply will be insufficient to satisfy the ensuing increase in demand when new firms and sectors find it profitable to start up. There is thus a strong case for continuing generous earned income tax credits, the tax credit for household services and employment subsidies.

The earned income tax credits have made it possible for the social partners to negotiate lower minimum wages for the purpose of increasing employment than would otherwise be the case and at the same time keep up the level of after-tax wages. Labour supply is thus likely to be maintained even if minimum wages are reduced. In our opinion, the wage agreements signed since 2007 have not taken the real wage increases after tax that occurred because of the earned income tax credits into account to any significant extent. Doing this ought to alter the trade-off between wage increases before tax and employment. It can also be argued that the unexpected low inflation in recent years has led to *real* minimum wages before tax that are higher than what the partners intended when they signed the agreements. It also should make it easier for the social partners to restrain nominal minimum wages in the future for employment reasons.

Even with lower minimum wages, there would still be significant employment problems. Changes in minimum wages may contribute to higher employment but this is far from a panacea. There is no such thing. Continued generous employment subsidies are thus desirable, even though they likely also have disadvantages. In employers' eyes, they may stigmatise jobseekers eligible for this support. The subsidies may also be seen by firms as cumbersome to administrate.

The tax credits for household services, which should be extended to more activities, are a useful employment measure.

The earned income tax credits, employment subsidies, and the tax credits for household services, however, all involve budgetary costs for the Government. There are therefore limits to what can be achieved by these means. Given the labour market problems facing Sweden, the social partners are well advised to help increase employment for the weakest groups via lower minimum wages.

The social partners' contribution to a labour market strategy

It seems appropriate to ask whether the additional problems created by the large influx of asylum seekers and the expected difficulties in their labour market integration justify entirely new solutions. In our opinion, this may well be the case. But if so, it will mean difficult trade-offs. Most important is to avoid the permanent exclusion of a large share of the new refugee immigrants from the labour market. But there are also strong egalitarian arguments for avoiding that the lower wages that may be necessary to prevent this lead to overall wage reductions for low-skilled workers currently employed. It is also important that the newly arrived have an acceptable standard of living and in the long run do not remain in jobs with very low wages.

One possible – and radical – solution would be negotiating a new type of *entry-level jobs* covering the labour market as a whole. These entry-level jobs could have starting wages considerably lower than current minimum wages in retail trade, hotels and restaurants, and municipal services. These jobs could be a possibility for new jobseekers who do not manage to find other employment. They thus could target primarily new arrivals and young people. To prevent immigrants and young people from getting permanently stuck in these low-paid entry-level jobs, an employee could only have an entry-level job (or several such jobs) for a limited time, perhaps three years.

The Government could contribute to a further reduction in the thresholds for labour market entry by abolishing social contributions for entry-level jobs. Thus, the proposed entry-level jobs would be similar to vocational introduction jobs that have been negotiated in a number of different agreements and subsidised by the Government. But vocational introduction jobs include some training and require that the employer provide for that and mentoring. The intentions behind vocational introduction jobs are good but the requirements may have contributed to the major difficulties in achieving a large enough take-up rate. Abolishing these requirements and instead focusing on getting the participants into the labour market may therefore be justified. The Government could instead offer favourable

terms for training directly to the employees concerned without the involvement of employers.

It is essential that employees can only hold *entry-level jobs* of the type we have proposed for a limited time so that they do not get permanently trapped in these jobs (although this makes entry-level jobs less effective as a means of ending permanent exclusion). Entry-level jobs also involve starting salaries that are lower than current minimum wages, implying that earned income from these jobs will be low. This could justify a special earned income tax credit for these jobholders in order to bolster their disposable income.

It should be remembered that employment must always be a *shared* responsibility of the state (the Government and the Riksbank) and the social partners. Since the end of the 1990s, the partners have assumed responsibility for aggregate wage increases. But they have not taken enough responsibility for relative wages. It is important that they do so in the future. We believe there must be an acceptance of greater wage dispersion if the objective is to both increase employment in general and avoid large employment differentials across various groups.

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