Box 1 Wage settlements

Two major federations of blue-collar unions, Starfsgreinasambandið (SGS) and Flóabandalagið (FB, comprising SGS member unions in southwest Iceland) signed new wage settlements with the Confederation of Employers (Samtök atvinnulífsins, SA) on March 7, 2004. The wage settlements are essentially the same for all the unions involved. In terms of man-years they apply to up to one-quarter of the private sector labour market, but their impact on labour costs will probably apply broadly to the labour market as whole.

Increase in wage costs under first major private sector wage settlement

%	*2004*	*2005*	*2006*	*2007*	*Total*
Basic wage rise	3.25	3.0	2.5	2.25	11.5
Pay-scale increments	1.0	.	1.0	.	2.0
Pension fund	.	0.6	.	0.5	1.1
Job training provisions	.	.	0.05	0.1	0.2
Total	4.3	3.6	3.6	2.9	15.1

The total cost to employers for the duration of the settlements is estimated at 15.1%, or an average of 3.6% per year, gradually decreasing as the accompanying table shows. By comparison, the wage settlement agreed by the same bodies in 2000 implied a rise in wage costs of just under 19%, or an average of 4.4% annually.

There are three main pillars in the settlements: basic wage rises, pay-scale increments and an increase in the employers' mandatory contribution to collective pension funds. Basic wages will increase by a total of 11.5% over the period. Wages rise by 3.25% immediately when the settlements take effect, 3% at the beginning of 2005, 2.5% in 2006 and 2.25% in 2007.

The minimum daytime wage guarantee will increase from 93 thousand kr. to 108 thousand kr. during the settlement period, or 4.2% more than basic wages.

One important feature of the settlements is the implementation of new pay scales and the incorporation of various bonus and overtime payments into basic wages in two phases, when the agreements take effect and in January 2006. The additional cost of these changes is estimated at 1% for each phase. In the pay-scale review, provisions on shift work and working hours, affecting individual occupations or workplaces, will be changed. The resulting more flexible working hours and shift arrangements will enable restructuring and thereby contribute to increased productivity.

The settlements also represent a step towards harmonisation of pension rights in the labour market, by raising the employer's mandatory fund contribution from 6% to 8%. From January 1, 2005 employers will no longer be obliged to pay 1% to a supplementary pension fund with no matching employee contribution, but will pay an extra 1% to the mandatory fund instead. The mandatory fund contribution will go up by a further 1% on January 1, 2007. However, employees will still be entitled to a contribution by employers of up to 2% towards their supplementary pension schemes, if they match this with a contribution of their own. The extra cost to employers is less than the additional mandatory fund contribution, at 1.1%. This is because the switch from supplementary to mandatory fund contributions entails an extra cost of only 0.6%, since not all employees take part in the voluntary supplementary schemes, and also because a 0.45% reduction in national insurance contributions will partly offset the contribution hike in 2007.

The chief strength of the new settlements is their long duration of almost four years, until December 31, 2007. However, they contain similar trigger clauses to the settlements made in 2000, whereby settlements can be revoked if the premisses on which they are based fail to hold. This could happen if inflation deviates from the Central Bank's inflation target or other settlements do not entail broadly the same wage increases. A committee appointed by the Federation of Labour (ASÍ) and SA will meet twice (in November 2005 and 2006) to review whether the premisses have held. If the conclusion is that they have not, either the wage part of the package will be renegotiated, or the settlements will be revoked and expire as of the end of the respective year. An important consideration in the latest settlements, however, is the wider ramifications of revoking them. Under the previous settlements this revoking them. Under the previous settlements this would only have cancelled basic wage rises, but now the second pay-scale change and the second increase in employer pension fund contribution will not take effect either.

In connection with the signing of these agreements, the government made a commitment to back a 0.45% reduction in national insurance contributions in 2007, provided that SA agrees to raise contributions to mandatory funds from 7% to 8% at the same time. The government will also support a 3% increase in unemployment benefit over and above rises in the minimum wage guarantee over the period. Finally, the government will ensure that contributions continue to be made into a fund for job training until it is taken over by employers when the settlements expire. This measure will cost the Treasury 2½ b.kr.