

SOCIAL DEMOCRACY IN SWEDEN

THE THREAT FROM A GLOBALIZED WORLD

DIMITRIS TSAROUHAS

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SOCIAL DEMOCRACY IN SWEDEN

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Acronyms and Abbreviations

ABF	(<i>Arbetarnas Bildningsförbund</i>) Workers' Educational Association
AMK	(<i>Arbetsmarknadskommission</i>) Labour Market Commission
AMS	(<i>Arbetsmarknadsstyrelsen</i>) Labour Market Board
ATP	(<i>Allmän Tilläggs Pension</i>) Universal Supplementary Pension Scheme
BI	(<i>Sveriges Byggindustrier</i>) Construction Employers' Association
CF	(<i>Civilingenjörskörbundet</i>) Swedish Association of Graduate Engineers
CMEs	Coordinated market economies
ECJ	European Court of Justice
EMU	Economic and Monetary Union
EP	European Parliament
ERT	European Round Table of Industrialists
ESPRIT	European Strategic Programme for Research and Development in Information Technology
ETUC	European Trade Union Confederation
EVCA	European Venture Capital Association
FDI	Foreign direct investment
GDP	Gross domestic product
HI	Historical institutionalism
IA	Industrial Agreement
Kommunal	(<i>Kommunalsarbetareförbundet</i>) Municipal Workers' Union
LAS	(<i>Lagen om Anställningsskydd</i>) The Security of Employment Act
LF	(<i>Svenska Landstingsförbundet</i>) Swedish Association of County Councils
LMEs	Liberal market economies

LO	(<i>Landsorganisationen i Sverige</i>) Swedish Trade Union Confederation
MBL	(<i>Medbestämmandelagen</i>) Co-Determination Act
MEP	Member of the European Parliament
Metall	(<i>Metallarbetareförbundet</i>) Metal Workers' Union
NÄFO	(<i>Näringslivets fond</i>) Swedish Free Enterprise Foundation
NÄSO	(<i>Näringslivets Sammanfogning</i>) Joint Committee for Private Commerce and Industry
OECD	Organization for Economic Cooperation and Development
PPP	Purchase power parity
PTK	(<i>Privattjänstemannakartellen</i>) Council for Negotiation and Co-operation
R&D	Research and development
SAC	Central Organization of Swedish Workers
SACO	(<i>Sveriges Akademikers Centralorganisation</i>) Swedish Confederation of Professional Associations
SAF	(<i>Svenska arbetsgivareföreningen</i>), Swedish Employers' Confederation
SAP	Swedish Social Democratic Party (<i>Sveriges socialdemokratiska arbetarepartiet</i>)
SAV	(<i>Statens Arbetsgivarverk</i>) National Agency for Public Employers
SEA	Single European Act
SGP	Stability and Growth Pact
SIF	(<i>Svenska Industritjänstemannaförbundet</i>) Swedish Union of Clerical and Technical Employees in Industry
SIFO	(<i>Svenska Institutet för Opinionsundersökningar</i>) Swedish Institute for Opinion Research
SFN	(<i>Stiftelsen Fritt Näringsliv</i>) Swedish Free Enterprise Foundation
SK	(<i>Svenska Kommunförbundet</i>) Swedish Association for Local Authorities
SKAF	Municipal Workers' Union (see <i>Kommunal</i>)

SNS	(<i>Studieförbundet Näringsliv och Samhället</i>) Centre for Business and Policy Studies
Statsföretag AB	State Enterprise Corporation
TCO	(<i>Tjänstemännens Centralorganisation</i>) Swedish Confederation of Professional Employees
TNC(s)	Transnational Corporation(s)
TTR	Total tax receipts
UNICE	(<i>Union des Industries de la Communauté européenne</i>) Union of Industrial and Employers' Confederations of Europe
VAT	Value added tax
VF	(<i>Verkstadsföreningen</i>) Association of Swedish Engineering Industries
VoC	Varieties of Capitalism
VPK	(<i>Vänsterpartiet Kommunisterna</i>) Left Party (Communist)

Note on Transliteration

Swedish words have been translated into English in line with Norstedts Dictionary, Clays – England 2001 and according to the Collins English Dictionary (3rd edition), Random House Webster's College Dictionary, Longman Pronunciation Dictionary and Norstedts Swedish Dictionary (2nd edition, 1988). All Swedish abbreviations are given in full in the main body of the text and then translated into English to facilitate the flow of the text. The bibliography's alphabetical order follows the English rather than the Swedish alphabetical order to facilitate the search of authors for the English-speaking reader.

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Ankara, July 2007

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Introduction

Social democracy is in crisis. There is nothing new about this statement, considering how often such a crisis has been diagnosed in the past.¹ It would seem, however, that at the beginning of the twenty-first century the inability of social democrats to cope with a fast-changing economic reality has imprisoned them in a world of limited political ambition.

This is paradoxical considering how social democrats responded to earlier challenges. Prophecies of decline had earlier stressed the shrinking of the manual working class – the traditional constituency of the left – as well as the feminization of the workforce, and the heterogeneity of society resulting from migration.² Social democrats needed to construct new alliances and overcome their reliance on blue-collar labourers to create viable majoritarian social and electoral coalitions.³ The old politics centred on distribution and class divisions had to be complemented or even replaced by the new politics of identity whereby parties and individuals would be divided on the basis of their liberal/authoritarian tendencies on issues of identity, lifestyle and personal freedom.

New social democracy embraced identity politics and sought to loosen its ties with trade unions and the manufacturing class. As the world changed, social democrats had to run to stand still. This meant embracing welfare state reform and adjusting to new individualism by dropping some collectivist solutions that stifled talent and personal development.⁴ In electoral terms, western social democratic parties coped well with those challenges and seemed on the ascendancy ten years ago, so much so that the ‘social demo-

cratic moment' reappeared on the political horizon. Alas, it did not last long: with the exception of the UK and Spain the social democrats or their allies are not in power in any major European country.

Thus, the problem of social democratic identity and its meaning in the twenty-first century has persisted, despite all of its reforms, new rhetoric and centrist leanings. Part of the reason for this is the great challenge faced by progressive political forces: economic globalization. In an earlier phase of adjusting to capitalist challenge, social democrats were able to use Keynesian tools to ameliorate market excesses. The internationalization of capital flows and the deregulation of financial markets have rendered such policy responses powerless.⁵ At the same time, the neoliberal attack on postwar welfare achievements has put the left on the defensive, struggling to argue its case in an era of individualism, currency speculators, 24-hour stock markets and the fragmentation of the labour movement. It does not make for an optimistic read.

All is not bleak, however. The immoderation of neoliberalism and the continued resonance of the left's core values of solidarity and justice have opened new spaces for social democratic reformism. The post-neoliberal age allows for the articulation of a new political project conscious of market constraints but willing to continue the left's historical mission of correcting them for the benefit of working people. In fact, it has been shown that social democrats need not be as fearful of globalization. Room for policy manoeuvres still exists, and constraints relate more to structural changes in the labour market, such as the effects of ageing and high unemployment, than to globalization.⁶

In essence, there is not much new about the globalization age. Social democracy, defined as a political movement at odds with the market's vulgarity, has always had to adapt to a changing economic and social reality.⁷ For social democrats around the globe, it is imperative to draw lessons from the past in order to articulate a coherent political message in line with the movement's tradition but also willing to break new ground to tackle the new forms of inequality and injustice that globalization brings about.

This book seeks to contribute to this ongoing quest by seeking to derive lessons from the Swedish case. The choice of Sweden is not surprising. It derives from the Swedish social democrats' theoretical and practical contribution to the articulation of a progressive consensus. Theoretically, this goes back to the work of Branting, Karleby and Wigforss, their commitment to parliamentary democracy and their non-statist conceptualization of social democracy.⁸ This is a good starting point for the age we now live in. Empirically, the Swedish paradigm has long captured the imagination of social democrats worldwide through the successful taming of capitalism in the interest of the majority⁹ and the combination of a strong welfare state with egalitarian distribution.¹⁰

Sweden's 'productive politics' regime that allowed the Social Democratic Party (SAP) to create the 'People's Home' resulted from the historic compromise between capital and labour. This, in turn, was premised on the intimate bond between the trade unions (LO) and SAP. It is this relationship, and the pattern of concertation that LO cultivated with the employers (SAF), that stood at the heart of the Swedish Model.

Following the demise of neocorporatism, Europeanization and globalization, is Sweden still in a position to provide inspiration to social democrats elsewhere? Have changes in the domestic and international economic arena rendered the politics of compromise an anachronism for romanticists, or does the Swedish case entail valuable lessons for the maintenance of social democratic power? What does the transformation of Swedish labour relations mean for social democracy? Important as they are, these questions have not been subject to systematic discussion in the literature over the last ten years or so. The implicit assumption is that Sweden cannot be interesting any more since its political economy and industrial relations system were 'normalized' as a result of European integration. The accuracy of such assumptions needs to be empirically tested. The questions above lie at the heart of this book. Before looking at them more closely, it is necessary first to define what the Swedish Model is really about.

Problematizing the Swedish Model

The definition of the Swedish Model is elusive, differing between scholars, politicians and analysts depending on their approach. Frequently, talk of the Model has been employed more as a rhetorical device¹¹ than as an analytical tool. To some, the Model has been an expression of social democratic hegemony in shaping popular attitudes on taxation and the welfare state, while for others it has meant the overwhelming power of the Social Democrats in the party political struggle.¹²

It is therefore important to raise a note of caution with regard to the indiscriminate usage of the notion of 'the Swedish Model'. Firstly, it can place Sweden outside its immediate Nordic environment and Nordic 'exceptionalism'.¹³ This entails a set of distinct policy-making structures that are largely historically embedded: Nordic states are well known for their encompassing organizations in the labour market,¹⁴ the strong electoral presence of Social Democratic parties and the class compromise achieved in the 1930s between capital and labour, whose backbone was the close link between Social Democratic parties and blue-collar unions.¹⁵ Most of all, they have become known for their social democratic type of welfare states characterized by high replacement rates for sickness and unemployment, a strong public sector, universality of provision and their commitment to achieving full employment.¹⁶ Talk of a Swedish Model that sets it apart from the Nordic pattern can therefore be misplaced.

For definitional purposes, the Swedish Model is here understood as the pattern of concertation and collaboration (in Swedish often referred to as *samförstånd*) developed between LO and SAF beginning from the 1906 'December Compromise' and subsequently expanding through the 1938 Saltsjöbaden Agreement. The two sides began relations in 1906 through the 'December Compromise', but the 1938 Saltsjöbaden Agreement (or Basic Agreement, *Huvudavtalet*) inaugurated a new era in labour relations. Ideological conflict between unions and employers subsided, as both sides recognized the legitimacy of the other in speaking on

behalf of their members. Saltsjöbaden provided a framework for the resolution of industrial conflicts. The unions recognized the salience of economic efficiency and rising productivity to facilitate economic growth in exchange for income redistribution and enhanced welfare for all.¹⁷ The agreement also stipulated that the labour market partners should assume primary responsibility in administering labour relations in the workplace. The role of the state would thus be circumscribed to general legislation whose details would be worked out by the labour market partners. The principle of social partner autonomy was thus established.

Growth and demise

It was this relationship that, along with Social Democratic politics, led to the development of 'Swedish exceptionalism' regarding the formation of an institutionalized welfare state after the Second World War. A consensus-based approach in industrial relations, steered by the confederations of labour and capital, was the core of the system inasmuch as it set the parameters within which political and economic debates took place. Moreover, the 'spirit of Saltsjöbaden' conditioned developments in the political sphere due to the institutionalized relationship between LO and the governing Social Democrats. LO and SAP divided the work between them, with the former focusing on the professional and the latter on the political needs and aspirations of the labour movement.

This proved a workable settlement for the Swedish left and delivered a universal welfare state, favourable labour legislation and small wage differentials. The 44-year period of successive SAP governments (1932–76) and the close links between the party and LO conditioned the parameters within which the politics of labour took place. The historical bonds between the political and trade union wings of the labour movement, forged in the later years of the nineteenth century, and created out of a sense of common purpose for political democracy and socialist transformation,¹⁸ led to close cooperation enabling LO to acquire a key role in public

policy. The goal of an egalitarian society was never achieved – but at some point during the 1970s, Sweden got closer to it than any other western state.

By the late 1980s and early 1990s, however, a wide-ranging literature argued that the ‘Swedish Model’ had ‘died’ and after a long period of terminal illness finally been thrown in the dustbin of corporatist Swedish history.¹⁹ Sweden was no longer exceptional. Although there was nothing intrinsically new about such submissions, as similar suggestions had been made over a number of years,²⁰ this time it appeared as if the change was beyond dispute and could be proven on the basis of unambiguous facts: a) The decision of SAF to withdraw from corporatist representation on the boards of agencies of the state, b) Economic decline, c) The collapse of wage politics of solidarity and d) The rise of new modes of production that fragmented the labour movement.

Wage compression on an economy-wide scale gave way to increasing income disparities. Unemployment, long one of the lowest in the OECD world, spiralled to double-digit figures by the early 1990s.²¹ Moreover, the ‘War of the Roses’ between the Social Democrats and LO in the late 1980s²² and the disaffiliation of LO unions from SAP pointed to the ‘normalization’ of Swedish social democracy along the lines of its sister parties in the rest of Scandinavia,²³ and Europe more generally.

This book asserts that while certain characteristics of the old system have certainly faded away, others continue to inform Swedish policy-making and retain their salience. They also continue to play a central role in understanding policy outcomes. Swedish distinctiveness has declined but remains in existence. Concretely, explanations of a permanent Swedish decline fail to account for:

- a) The re-emergence of stability in industrial relations
- b) The powerful role of LO in public policy
- c) The continuing ability of social democracy to set the parameters of public policy debate, even when not in office.

The continuing dominance of the Social Democrats as the country's natural party of government and the re-emergence of a new framework of collaboration between LO and SAP provide further reasons for scepticism regarding fundamental change. The electoral victory of the centre-right 'Alliance for Sweden' in the 2006 elections has disrupted the SAP monopolization of power; but it is as yet too early to predict the breakdown of the Social Democrats as the natural party of government. Swedish industrial relations continue to merit scholarly attention after their transformation in the 1980s and 1990s for two reasons.

On the one hand, theoretical assumptions built on the assertion of terminal decline in the 1990s are only partially true. Secondly, the nature of industrial relations ever since the 1938 Saltsjöbaden Agreement, and the kind of politics that this brought about, are still a source of misunderstanding and confusion. By providing an accurate and historically informed account of the true Swedish Model, this book aims at a better comprehension of the politics of labour. The attention that Swedish labour politics has received over the decades on a worldwide scale merits such an attempt.

Two closely linked goals underpin this book. On the one hand, to account for the changing nature of Swedish industrial relations and its lessons for social democracy in Europe and possibly beyond. Second, to delineate the mechanisms responsible for the highly regulated system of labour relations at the beginning of the twenty-first century. For the purposes of change, three case studies will be analysed in detail. These are the wage earner funds (*löntagarfonderna*) debate, the decentralization of collective bargaining and the consequences of globalization and Europeanization on the pattern of industrial relations. All three are 'formative moments' in the evolution of the Swedish Model and signify a break with the widespread consensus on the role of the unions, the employers' organization and the European Union that dominated public policy until their emergence.

The wage earner funds issue was the first important break with postwar labour tactics of promoting economic growth through

minimal state intervention. The radicalization of the labour movement meant that the Meidner Plan was perceived as inaugurating labour's offensive regarding industrial democracy and the institutionalizing of state intervention.²⁴ The LO plan appeared to fit the 'power resources' theory,²⁵ to which we now turn.

Power Resources and Class Analysis

Walter Korpi has been a prominent exponent of the power resources theory. Korpi asserted that labour is embedded in an endemic conflict with capital.²⁶ Based on a revised Marxist conception of the state and its role in labour relations, he asserted that the distribution of power resources in the triad favours the trade unions under a long period of left-wing governments. The stronger the left party's hold over government, the bigger the resources of the labour movement.²⁷ The two other variables affecting outcomes of power distribution are labour unity and power mobilization.²⁸

According to this approach, the Swedish trade unions had proven particularly shrewd in uniting their forces and maintaining a close network of collaboration and cooperation with SAP. They activated their resources, defined as the 'ability to punish or reward other actors'²⁹ over a long period of time and improved their position relative to capital. Significantly, the definition of power resources is restricted to the material sphere and related to the immediate possibilities of the labour movement to yield favourable outcomes in its struggle with capital.³⁰ The increasingly powerful trade union position led to the Basic Agreement of 1938 between capital and labour that ushered in the era of the Historic Compromise. The Agreement itself reflected the different distribution of power resources between the two sides while at the same time altering their strategies.³¹ It has often been suggested that LO and SAF agreed to Saltsjöbaden when they realized that the Social Democrats would be wielding political power for a long period of time and that they would therefore need to adjust their strategies accordingly.³²

Crucially, this is not to say that class conflict had been over-

come. Class conflict post-*Saltsjöbaden* assumed the characteristics of an economic growth strategy aiming at enlarging the economic pie so that labour would get a bigger share of it.³³ The golden years of the Swedish Model are here seen as strengthening the bargaining position of the unions, as full employment and substantial wage increases were achieved in the postwar period. The adoption of solidaristic wage policy by LO in the 1950s aimed at strengthening the centralization of power resources in both LO and TCO (Ijänstemännens Centralorganization), the white-collar Confederation of Professional Employees.³⁴

The labour movement expanded its resources and power through the inclusion of unionized women in the labour market and the consolidation of a universal welfare state. Most of all, the working class forged effective alliances with the broader middle class in a coalition of wage earners.³⁵ The gradual dissolution of the Model is here attributed to the increasingly disproportionate power of labour that led to its decision, in the 1970s, to incorporate the Social Democratic government in the labour market by demanding legislation to protect worker health and safety as well as their right to information and consultation in the workplace.³⁶ The Co-Determination Act (*Medbestämmandelagen*, MBL) of 1976 in particular undermined the Model, as it departed from the political formula that had denied the state any substantial role in labour market matters.³⁷

Finally, Korpi saw the proposal for wage earner funds in the late 1970s as a possible solution to the economic crisis Sweden was facing at the time. Economic democracy, itself a manifestation of workers' relative power over capital in social democratic Sweden, could go a long way in solving economic problems and asserting the role of labour in the production process.³⁸ The radicalization of the union agenda and priorities in the late 1960s is, according to labour-centred theories, a result of the radicalization of the rank-and-file, whose disappointment with the prevailing work methods led them to question the rationalization approach hitherto adhered to by LO.³⁹

Himmelstrand's thesis viewed Swedish social democracy as a successful project in the crucial areas of welfare state provision and ideological coherence. This underlined the hegemonic character of social democracy in Sweden, resulting from the decommmodification of the welfare state and the institutional structure of universalism in delivering socially equitable outcomes.⁴⁰ The trade unions had not accepted their subordination to capital as a result of their powerful institutional position in Swedish society and their affiliation to the governing party. As the welfare state matured, however, contradictions emerged. The unions had to secure the continuing efficient running of enterprises to satisfy members' demands, whilst aspiring to a transformation of working life to increase levels of active citizenship. In the context of mature capitalism, it was utterly possible to envisage the successful passage to economic democracy through the wage earner funds. The Social Democrats embraced 'labour socialism' to transform power relations.⁴¹

Stephens saw in the Swedish trade unions a high level of organizational unity and administrative resources that allowed them to coalesce around a strongly institutionalized welfare state. They minimized the inequity effects of market allocations and avoided welfare statism as practised elsewhere in Europe.⁴² This capability of the labour movement, along with the welfare state, formed the basis of the envisaged transition to socialism. The 1938 Agreement was a result of union strength and cohesion.⁴³ Central to Stephens' understanding of the social democratic movement is the ability of social democrats to develop a strategy of production politics. This came about through the reform in the pension system in the late 1950s. Although the controversy surrounding the creation of a supplementary pension scheme (*Allmän Tilläggs Pension*, ATP) led to the withdrawal of the Farmers' Party (*Landsbygdspartiet*)⁴⁴ from the coalition with SAP, this move signalled the expansion of the electoral coalition sustaining Social Democratic power. In combination with the increasing rate of unionization by white-collar workers, it formed the basis for the broadening of social democratic ideology.

With regard to the wage earner funds, Stephens detected

'brilliance' in the concept and argued that its gradualist implementation allowed it to become politically feasible.⁴⁵

Castles has accounted for the strength of Swedish social democracy on the basis of three central factors: first, the labour movement was, after the 1890s, relatively free to establish itself with no state coercion.⁴⁶ Second, the labour movement grew at a time when other movements, such as the producer co-operatives or the temperance movement, were also in the ascendancy, thus gaining in popularity at a favourable time in the country's development.⁴⁷ Third, right-wing forces were weak and divided into a number of small parties.⁴⁸

Castles argued that the labour movement had been successful through decades of reformist politics by creating class consciousness among its members.⁴⁹ Nevertheless, he was careful in depicting a different social democratic strategy when it came to economic democracy. The SAP was not predisposed towards changing the well-established patterns of collaboration and consensus-seeking among the main economic stakeholders. Rather, the extent to which the Social Democrats would go along with LO demands for economic democracy depended on the micro-politics of the alliance with the Centre Party and the extent to which they would be willing to contribute to the continuing projection of a social democratic image of society.⁵⁰

Castles's approach incorporates contingent variables to the analysis and therefore entails a higher degree of explanatory power. However, his discussion leaves little doubt about social democratic dominance, manifested through the proliferation of schools, clubs and associations transmitting social democratic values to large masses of the population. The influence of social democratic values in the institutional makeup of the Swedish polity had produced virtuous results as regards popular codes of behaviour that rejected favouritism and corruption. They also contributed to the general wellbeing of society by virtue of people's efforts to achieve the good life in a spirit of solidarity.⁵¹

Gösta Esping Andersen's work emphasized the ability of

labour-based associations and trade unions to impose their agenda on capital.⁵² The business community is here forced into retreat as the labour movement articulates a clearly delineated, historical plan to combine its increasing policy influence with the best possible outcomes for the working class. Social policy is more often than not augmenting the economic growth strategies of the unions and thus does not need to function as a corrective mechanism applied by the Social Democratic government to appease frustrated union members. The welfare state is thus a manifestation of *structural* social democratic power.⁵³

A critique

The literature highlighting social democratic hegemony in Sweden offered a valuable insight into left-wing strategies of power management. It fit the literature on neocorporatism but also enriched it by considering the left's material capability to alter power relations. Such arguments are informative when considered in light of the electoral dilemmas of social democrats. Their original ideological and political orientation, closely bound with the platform of a manual working class, can potentially limit their electoral successes or make them sacrifice their programmatic and ideological stance for electoral gains. The Swedish Social Democrats successfully overcame the electoral dilemma haunting their sister parties.⁵⁴ Whilst broadening the party's appeal, SAP did not lose its class-based electoral support. A further benefit of this approach has been to deepen our understanding of the historical preconditions that gave rise to the Swedish labour movement. Both statistical data and qualitative evidence confirm that over a prolonged period of time the Swedish Model functioned well as a result of long-term institutional manoeuvring.

Nevertheless, this approach suffered from a number of limitations. To begin with, 'hegemonic' theories of Swedish social democracy have been silenced over the last twenty years or so, as power resources seemed unable to stop the process of dislocation and decline. The economic crisis of the 1990s has been the most

obvious manifestation of this process.⁵⁵ Even the Social Democrats' return to power in 1982 had been characterized by significant policy changes regarding the priority assigned to full employment, inflation, and social welfare. In turn, the ascent of a 'liberal socialist' school in the Ministry of Finance⁵⁶ with fewer connections to the union movement than the previous generations was the result of international economic change and parallel developments elsewhere in Western Europe. The marginalization of power resources and hegemonic discourses only accelerated following the collapse of the eastern bloc and the inauguration of the long social democratic crisis following the proclamation of 'the end of history'.

Moreover, there is often an implicit assumption on the unified character of 'the' trade unions or 'the' Social Democratic party, which, when closely scrutinized, lacks empirical support. Internal politics within LO and its member unions has received inadequate attention in the literature. That, to some extent, explains the unsuccessful projections of the labour movement's strategy. The union unity argument in particular has been shown to be wanting in the face of evidence suggesting that positive-sum outcomes for LO have often been forthcoming despite stiff opposition from some of its unions. This is nowhere more obvious than in the decision by the Metal Workers' Union (*Metallarbetareförbundet*, 'Metall') to negotiate directly with engineering employers on wage and working conditions for its members.⁵⁷

In contrast with the unified character of the decision to opt for the Saltsjöbaden Agreement to boost the structural power of labour, some unions, such as the Construction Workers' Union (*Byggnadsarbetareförbundet*, 'Byggnads') refused to sign the Basic Agreement because it refused to hand over more power over its operation to LO.⁵⁸ Also, contrary to the static depiction of union tactics after the Basic Agreement aiming at the arrival of a mature stage of capitalism, LO hesitated for a number of years over whether to pursue centralized wage negotiations, worried by the effects of such policy on some of its members.

These are only a few instances that stress the need to critically

examine the complex nature of LO before assuming solely ideological or political motives. While it can legitimately be argued that the degree of internal divisions in the union movement may have been lower than elsewhere in Europe, careful attention needs to be drawn to schisms that are helpful in explaining policy outcomes. The divisions between LO and SAP have also been frequently underestimated. Korpi did draw attention to divisions in union and party approaches on economic policy in the late 1940s,⁵⁹ but has not included such factors in his evaluation of the party–union relationship in the postwar period. A further limitation of this approach has been the inadequate attention paid to two other variables: a) external influences affecting Swedish policy-making; and b) the role of agents in delivering, or failing to deliver, policy outcomes.

Firstly, and curiously for a structural approach, power resource theorists often refrained from placing the growth of the postwar Swedish Model in the context of the ‘closed economies’ and the Bretton Woods era of economic predictability, fixed exchange rates and relatively high degrees of economic policy-making autonomy.⁶⁰ The incorporation of principles of international political economy in the examination of the Swedish Model is necessary in light of the country’s dependency on its export sector and the small domestic market.

Katzenstein’s pioneering work highlighted such characteristics as decisive in shaping the economic prospects of countries similar to Sweden in size.⁶¹ If it is accepted that the Model has been termed as such not least because of its successful economic results over decades, then the economic environment within which it had to implement its policies is of decisive importance. An examination of reformist unions that does not take into account their inclusion in the larger framework of the nature of Swedish capital, and its windows of opportunity in the global economic architecture, tends to produce one-sided analyses.⁶² Therborn has stressed the salience of the 1970s world economic crisis and the extent to which this should be seen as central in Social Democratic party politics and their policy stance at the time.⁶³

Structural theorists who focus on class strategy, coalition building and power resources tend to dismiss the role and influence of policy entrepreneurs. These are here defined as political or union elites, intellectuals and advisers able to influence the direction of decision-making. There is a need to look at the role of individuals within the structural limitations of their position. Key figures inside and outside the labour movement affected policy outcomes in a way that would seem unrealistic to structuralists. For instance, a few individuals at the top of the organization's leadership drove the ideological offensive of SAF that led many observers to the conclusion that the Model had ultimately become bankrupt.⁶⁴ Even macro-approaches ought to consider the interaction between the political environment and the behaviour of agents within it.

The decentralization of collective bargaining is the second major event in the Model's postwar development, as it challenged the practice of LO-SAF coordination of wages and working conditions throughout the labour market.⁶⁵ Contrary to what the argument of labour-centred explanations underlines regarding labour resources and power, however, this decentralization occurred despite LO protestations.⁶⁶ What is more, the fact that an LO union, *Metall*, had concluded its own, separate agreement with the Engineering Employers Association (*Verkstadsföreningen*, VF) in 1983, also ran contrary to the notion of union unity.⁶⁷ It also led to an increased emphasis on interest-based explanations concerning the Model's construction, and a reassessment of the role of capital in its creation. This development was central to the characterization of the Model as obsolete in the face of post-Fordist economic restructuring.⁶⁸

Employer Interests and Economic Change

Peter Swenson and Jonas Pontusson have been the most prominent representatives of an interest-based understanding of the growth of the old Model and its demise. They have made a major contribution to the debate by highlighting the circumstances that led to the big changes of the 1980s and 1990s, and added the formerly missing dimension of the role of capital.

The notion of 'cross-class' alliances between employers and unions in different branches of the economy goes a long way towards depicting the collapse of centralized wage bargaining.⁶⁹ Alliances between certain unions and employers are the result of distributional conflicts within the labour movement. Unions and employers that benefit from a given distributional matrix are the ones likely to push for decentralization.⁷⁰ Taking into account the fact that the export sector had long played a pace-setting role in wage negotiations between LO and SAF, the metal workers and their employers broke the mould when the returns from centralized negotiations were diminishing, and the gains of the public sector in particular were increasing at their expense.⁷¹ Interest-based explanations have corrected to a large extent the drawbacks of labour-centred theories and their disregard for the internal politics of the labour movement.

Another fundamentally important addition to explanations surrounding the politics of Swedish industrial relations is the attention paid to the changing nature of employment in the 1970s. This was manifested through the rapid increase in public sector employment and the growth in post-Fordist production practices.⁷² Wage drift, defined as wage increases above the ones agreed when a collective agreement was signed, was during the 1950s and 1960s a negligible problem, mainly related to blue-collar workers.⁷³ Things did change, however, and unequal wage drift between different occupational categories became increasingly difficult to sustain in a context characterized by the need for restrained wage increases to sustain competitiveness.

By the 1960s TCO had become an important partner in labour relations and the desire for compensatory measures became paramount to its negotiation strategy. The introduction in 1970 of 'earnings development guarantees' to be offered to white-collar unions, such as SIF (*Svenska Industrijästemannaförbundet*) in the industrial sector was designed to 'reinstate differentials present at the beginning of previous wage rounds, thereby pre-emptively capturing a portion of what LO might obtain for its members in total

non-inflationary wage increases'.⁷⁴ The effect of such policies in the 1970s played a crucial role in undermining centrally coordinated wage bargaining.

The role of employers is here seen in a more analytical and meticulous light. In contrast with structuralist assumptions, employers are not seen as passive recipients of Social Democratic initiatives reacting to state legislation. Instead, they take centre stage in instituting change.⁷⁵ For instance, the engineering employers have been instrumental in the decentralization process because of their strategic reprioritization of production techniques towards wage flexibility.⁷⁶ Swenson and Pontusson refute the power mobilization thesis as regards the dominant position of labour after the 1938 Agreement. SAF insisted on centralization in the 1940s as the best means of avoiding inflationary pressures, strikes and costly disruptions in productivity at a time when the Swedish export industry enjoyed a comparative advantage over its continental competitors.⁷⁷

An additional motivating factor for the employers' stance at the time (and indeed for most Nordic unions) was the structural dependence of industries exposed and/or vulnerable to international trade. Their room for manoeuvre through raising prices domestically was limited due to their inability to pass increased costs on to consumers. Larger countries could afford to resist pressures for international discipline in their export sector, but SAF was obliged to regulate pay to increase its chances of predictability in wage increases and keep export companies competitive.⁷⁸ This strategy fitted well the Social Democratic agenda of productive politics and facilitated the growth of corporatism.⁷⁹

A critique

The internationalization of capital markets and the consequent empowerment of transnational capital do undoubtedly circumscribe the array of policy choices for left-of-centre governments and thereby affect the strategies of the labour movement as a whole.⁸⁰ The power and array of choices offered to capital for increasing its

investment returns is higher than in the Keynesian era of the Swedish Model's growth.

Still, such an approach has to be treated with caution. Interest-based approaches tend to assume that the interests of producer groups are exogenously fixed. Such an interpretation of economic and political behaviour denies the multiplicity of identities inherent in policy actors. Decisions taken on what may only appear to be material foundations may actually be a result of political or ideological calculations.⁸¹ As the discussion on institutionalism will hopefully make clear, interests themselves are a particular interpretation of reality. This interpretation is a result of ideas and pre-dispositions. Interests are endogenized understandings of what constitutes a beneficial policy outcome. Contrary to rational choice assumptions, they are not objectively given. They are socially constructed insofar as they constitute an interpretation of external reality that an individual or group adopts based on their subjective understanding of reality.⁸² In other words, ideas and interests interact at their very core to the extent that interests constitute a particular, context-specific sub-set of ideas.

The interest-based approach tends to place an inflated emphasis on the power of capital and diminishes the salience of ideological factors in the analysis of the Swedish Model. The employers' offensive is analysed in great detail with regard to underlying material interests. The decentralization of collective bargaining has to be analysed in the context of the neoliberal shift in public policy. The political motives of SAF need to be in the foreground of analysis. The employers' desire to decentralize collective bargaining should not be viewed solely as a response to economic conditions. It should also be understood as an attempt to reduce the structural power of labour at a time when LO sought to disrupt the post-Saltsjöbaden equilibrium in the labour market.⁸³

Interest-based explanations run the risk of depoliticizing decision-making and portraying changes in the normative convictions of policy actors as exogenous to their political and economic programmes. This is a highly questionable assumption when one looks

to the Social Democratic policy platform of the 1982 Cabinet and the decisions associated with the deregulation of financial and capital markets. The changing economic structure, considered crucial in the Third Way economic policy after 1981, needs to be analysed in conjunction with a set of emerging normative beliefs on the role of the market in enhancing public welfare, the appropriate level of public sector employment and the appropriate level of taxation. To put it simply, 'the ideas that agents have about the impacts of their actions [in the economy] ... shape outcomes themselves'.⁸⁴

A holistic explanation of policy outcomes can ill-afford to restrict itself to problem-solving explanations in light of immediate economic or political necessities. Shaping an ideational environment conducive to the desired policy outcomes is decisive in maintaining a long-term hold over the extent and pace of change. The same holds true for the post-1990s configuration in the Swedish Model. An analysis devoid of the salience of norms can hardly account for the decision by *Metall*, the instigators of change in the 1980s, to continue collaboration with LO unions and be bound by the latter's new wage bargaining strategy in the early twenty-first century.

What has already been said suggests that the Swedish case is intriguing, and not only because of its politically powerful role in the labour politics literature and its links to the social democratic debate elsewhere in Europe and beyond. It is also theoretically significant to the extent that institutional stability and change have been manifest over a long period of time. These were not processes separated by clearly demarcated boundaries. Elements of potential change were intrinsic to the Swedish Model in its 1960s variant, and stabilizing mechanisms could be detected at a time of flux and crisis in the early 1990s. It is for this reason that a robust theoretical framework, able to account for both, is needed.

Institutional Analysis

Institutions consist of 'formal and informal rules, monitoring and enforcement mechanisms, and systems of meaning that define the

context within which ... labor unions ... and other organizations operate and interact with each other'.⁸⁵ They are settlements over the distribution of power and resources, and are thus crystallized at a given moment following struggle and bargaining between competing individuals or groups. They need not be mono-dimensional or internally consistent. They can entail different logics in their operation and remain stagnant or 'sticky' over a long period of time. This can result from the underestimation of a problem, unwillingness to come to terms with it, or an inability to find appropriate solutions.

The importance of institutions is central to the analysis of political phenomena as they influence the way actors try to reach their goals and give shape and meaning to their preferences.⁸⁶ Moreover, institutions are responsible for the extent and degree to which individuals 'become activated within and outside established institutions ... and ... the common aspirations of a political community'.⁸⁷ The institutional make-up of a society and the collection of its operating procedures define and order a series of beliefs, values and assumptions held by the collective. Institutional configurations perform the function of filters through which societal and economic structures become established and accepted. Institutional arrangements shape the goals of trade unions and employers and at the same time structure the operational environment within which interactions between the social partners and the state take place.⁸⁸

New institutionalism

A diverse body of theoretical approaches comprising rational choice, sociological and historical institutionalism became associated with a neo-institutionalist analysis. All three approaches agree on the salience of institutions in structuring the expectations of behaviour.⁸⁹

However, the two opposite poles of new institutionalism, rational choice and sociological institutionalism, diverge sharply in their explanatory perspectives. Rational choice institutionalism

seeks to 'apply the theories and methods of economics to politics'.⁹⁰ The starting point of its analysis is the perfectly rational subject that has acquired a set of preferences whose payoffs it wishes to maximize. Stability and rationality of preferences make a great deal of sense when applied to consumer choice. It is rather more difficult to make the same case in politics, where long-term decisions need to be made often with poorly received information and on the basis of uncertain preferences.⁹¹ In situations where the external setting is by definition unsettled, rational choice insights are limited in their applicability.⁹²

To maximize utility, actors adopt a calculus approach to behaviour in order to derive the maximum benefit possible from their interaction with the surrounding environment. Thus, rational choice institutionalists tend to see politics as a series of collective action problems; that is, situations where a subject's attempt to maximize utility leads to a collectively suboptimal result.⁹³ However, asymmetries of information that can result in the construction of a false set of preferences and therefore distort rational choice calculations are important.⁹⁴ Institutions play a vital role to the extent that they allow for the conceptualization of a complex matrix consisting of sanctions, rewards and eventual outcomes around which behaviour is centred.⁹⁵ Also, individual behaviour is deemed optimal with regard to the institutional surroundings in which it takes place. As a consequence, the shape of the rules of the game leads to certain types of behaviour.⁹⁶ The inevitable outcome of rational choice calculations is that socio-economic factors are given analytical and explanatory priority in the explanation of political phenomena.

For sociological institutionalists, institutions and culture are blurred as the former also include norms, symbols, and moral templates.⁹⁷ The danger of socio-economic determinism is acknowledged and the limitations of human rationality recognized. Actors are not deemed capable of retaining complete rationality in all their actions.⁹⁸ Instead, this cultural interpretation of the role of institutions adopts the 'logic of appropriateness' to explain individual

behaviour. Institutions are deemed to be of utmost importance as they not only determine preferences but also contribute significantly to their shaping. They provide people with a cognitive chart through which they construct their identities and decide on a course of action based on culturally derived maps.⁹⁹ In a given situation, the subject both responds and recognizes the surrounding environment based on the templates offered through the institutional world.

If rational choice institutionalism suffers from a degree of rationalistic determinism, the same can be said of sociological/cultural institutionalism. The blurring of the boundaries between institutions and culture tends to assign unwarranted importance to both by simultaneously extending and limiting their analytical distinctiveness. The approach is overtly structuralist, as it does not allow for an autonomous space transcending the institutional surrounding. Political behaviour and action is context-dependent because it 'becomes habitual to do something'.¹⁰⁰ The role of agency is hereby neglected, and the problem of recognizing, let alone accounting for, institutional change remains unsolved.

Historical institutionalism (HI) attempts to act as an intermediary between the other two types. The study of intermediate variables, such as trade unions, employer organizations or political parties, occupies centre ground in an attempt to explain political outcomes. One of its central preoccupations is to show how institutions structure the choices open to political decision-making. In many HI approaches, institutions assume a historical quality that places them in a chronologically earlier starting point than any of the policies they wish to analyse. Institutions are perceived as having an enduring quality that goes beyond everyday political interaction. To that extent, institutions restrain change.

Indeed, the core shortcoming of HI is its inability to account for change. While it can explain continuity in policy choices and deals adequately with the freezing of policy regimes, it has difficulty in accounting for sudden changes of policy direction and institutional break-ups that do not conform to a path-dependent orientation.¹⁰¹

HI rejects the deterministic and structuralist accounts of rational choice and sociological approaches. Rational choice approaches account for the resilience of institutions on the basis of solving collective action problems, thus enhancing their robustness. Culturally informed institutionalists deny the possibility of institutional change because of their inclusion in wider patterns of collective construction. Historical institutionalism tends to position itself outside such explanations. While they share a lot of common ground with rational choice in that they deem actors to be strategic and calculative, historical institutionalists acknowledge that institutions are structures whose utility in serving certain goals has to be empirically verified. The outcome of such a process is an open question and hence cannot be *a priori* determined.¹⁰²

Interactions between agents take place in a framework of institutional struggle and the results of such struggles are not necessarily derived from the given institutional framework. In other words, the possibility of political outcomes diverging from the original institutional setup is acknowledged. At the same time, HI stresses path dependency inherent in sociological accounts inasmuch as it subscribes to the view that policy outcomes are in accordance with contextual features arising from the historical evolution of a given polity and the time sequence of events. That is the result of the implicit encouragement offered to societal forces to organize and behave in a specific way or to align themselves to policy legacies of the past.¹⁰³

Institutional stability and change

Two important questions arise: when do institutions change, and under what circumstances? To start with, institutional change is triggered once a crisis or crises that threaten the existent equilibrium of power and allocation of resources is identified. These problems, at the heart of change, need not only be triggered by exogenous factors, such as technological change. They can also result from the growth of inconsistencies internal to the operation of institutional functioning. This, however, is an inadequate

precondition for institutional change. Institutional entrepreneurs are central in triggering change, insofar as political and/or business elites, advisers and intellectuals can frame and 'package' crises in simple terms that can be clearly understood by their desired clientele.

The latter is very important, as institutional entrepreneurs do not operate in a vacuum. They have to rely on supporters and/or sympathizers to attract resources (organizational, financial and others) and persuade them to adopt their preferred options. Once this has been done, they need to ensure that the solution proposed is credible enough to be implemented.

This depends on the degree of legitimacy that the proposed course of action enjoys among their constituents (in our case, trade unions) based on the prevailing norms and values that these constituents have adopted over a period of time.¹⁰⁴ Otherwise, the possibility of resistance and oppositional struggle against the proposed change will be high, leading to inertia. Conversely, should the conditions outlined above be met they are likely not only to last longer, but also to lead to evolutionary rather than revolutionary change. Evolutionary or incremental change is defined as change in which only a few of the institution's main dimensions change. Revolutionary change, on the other hand, is synonymous with a change in most or all of these dimensions.

Change is the result of the interaction between policy entrepreneurs and the context in which they operate. Action and context are in a position of simultaneous strategic interdependence.

There is a wide array of factors leading to change that encompasses: a) the calculations associated with a policy move towards change, b) the actual attempt to form a new framework of change, c) the institutional context in which action is enabled; but also d) 'the shaping of the perceptions of the context in which strategy is conceived in the first place'.¹⁰⁵ Such a formulation enables the resolution of the problem of explaining change inasmuch as it includes an often neglected variable in the more static alternatives of institutionalist thinking: the power and influence of ideas.

Ideas are here defined as ‘road maps that help guide political actors through confused and uncertain periods’.¹⁰⁶ It is ideas placed within institutions that inform preference formation of actors and thereby lead to their changed perception of the desirable outcome. Change results from strategic action by agents. Agents shape the changed polity over a period of time based on an altered set of perceptions and beliefs that is itself the product of ideational mobility. On their own, ideas cannot explain where new attitudes towards institutional configurations are derived from. If, however, placed in an institutional context that assigns primary importance to their interaction with the institutional setting, they facilitate our understanding of the motives and tactical manoeuvring – leading to an altered framework of operation for actors.¹⁰⁷

On the basis of policy legacies, evolution and change can be traced to the interplay of path-dependent political options and path-shaping strategies chosen by policy actors.¹⁰⁸ The privileges that certain groups, here identified with the Swedish labour movement, can rely on result from the successful following of an earlier policy path to which they have substantially contributed, not least through deliberate design but also through ‘long-lasting traditions, learning processes, and chance discoveries’.¹⁰⁹ But this path is not simply the result of labour strategies and grand designs. Occasionally, it emerges from the benefits that employers too accrue from the operation of a given system. The Varieties of Capitalism (VoC) approach is very helpful in this regard.

The VoC approach has made a significant contribution to, *inter alia*, the literature on labour politics.¹¹⁰ VoC developed as a response to the shortcomings of the French regulation school and the decline of neocorporatism by the late 1970s. It seeks to explain how producer groups adjust to a changing economic environment. The main distinction drawn in the VoC literature is between Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs). While the former rely primarily on market mechanisms to enhance their growth prospects, CMEs depend more on non-market patterns of regulation to coordinate their endeavours.

Theoretically, VoC stresses the institutional complementarities and thus the path-dependent nature of such arrangements. It assigns primary importance to the already existent web of formal and informal institutional arrangements responsible for the creation of efficient outcomes. It devotes considerable attention to the LME and CME distinction on the basis of labour market regulation in general and wage bargaining coordination in particular.

An institutional framework that encourages reliance on competitive wage setting and little employee protection in the workplace supports LMEs. CMEs, on the other hand, retain competitiveness through a more tightly regulated labour market framework as well as coordinated wage bargaining.¹¹¹ In the case of CMEs, employers operate in a political economy environment conducive to the development of high-quality products that in turn depends on high levels of collaboration and cooperation with labour.¹¹²

The VoC approach is directly linked to the question of institutional change, as it can help us understand why labour politics is more stable in some countries than others. Still, VoC has been attacked for its apparently overt reliance on microeconomic indicators at the expense of political factors.¹¹³ It is a powerful criticism inasmuch as variables other than macroeconomic performance often enter the calculations of policy entrepreneurs in the form of employers. The neoliberal drive by SAF documented in Chapter 4 is an example of that. However, VoC makes a valuable contribution to the development of a sound theory on institutional stability and change insofar as it stresses the benefits inherent in a given institutional setting that make certain policy patterns habitual for employers.

The policy path that was crystallized in the 1930s through the Saltsjöbaden Agreement permitted the institutional and organizational emancipation of the Swedish labour movement. Its powerful position permitted the freezing of favourable power relations with capital and the centre-right for about 40 years. As Torfing points out, however, a policy path is inherently elastic and subject to constant renegotiation, and contains the seeds of institutional reform.¹¹⁴

The case studies will depict the gradual dislocation of the previous policy path and the emergence of a new one in the 1990s. Nonetheless, the upholding of salient institutional resources by the previously dominant policy actors does not rest solely on short-term factors. It emerges from the unequal distribution of power resources between the competing blocs whose fight for the consolidation of their preferred institutional pattern depends on the interaction between historically informed, path-dependent policy options and the relative power of competing path-shaping strategies.

Applying this type of analysis to the study of Swedish labour relations brings two significant methodological advantages. Firstly, it enables the incorporation of coalition-building practices in an overall framework that explains the creation, stability but also change of policy paradigms¹¹⁵ on the basis of a longitudinal, dynamic interaction between institutions and ideas. For example, an analysis of the breakdown of centralized bargaining needs to incorporate elements that go beyond mere coalition-building and which relate to the multiplication of institutional actors in delivering industrial peace. Secondly, the distinction between macro-structures and their results also facilitates the overcoming of the structure/agency dilemma in explaining policy choices and initiatives.¹¹⁶ Policy entrepreneurs and institutions surrounding them are enmeshed in an ever-changing relationship of 'complex duality'.¹¹⁷ Institutional actors should be treated as dynamic, innovative entities whose evolution and change is ultimately highly correlated with the ideational background with which they interact.

Outline of the Book

Chapter 2 provides the historical background to the growth of the Swedish Model, tracing its foundation to the institutional structure of the Swedish state. It accounts for the transformation of the conflict-ridden industrial relations of the pre-*Saltsjöbaden* era to the consensus-based approach that dominated policy-making for many decades. It also illustrates the mechanisms utilized by Swedish social democracy to build an encompassing welfare state and apply

the productive politics paradigm in the national context. In that process, the role of employers as well as LO emerges as crucial. One of the chapter's aims is to illustrate that employer-centred approaches have a lot to say in explaining not only the demise but also the growth of the Swedish Model.

Chapter 3 traces the decline of policy concertation in labour radicalism. It analyses the wage earner funds debate and provides a practical example of the limits of social democracy in the Fordist age. It highlights the salience of political entrepreneurs in seizing the moment to neutralize opposition and testifies to the role of political agency in mobilizing resources. The wage earner funds are in that sense an instructive case of political miscalculation that inadvertently inaugurated the process of the old Model's death.

Chapter 4 outlines the collapse of the old Model by drawing on the literature on employer preferences in a post-Fordist age. The politics of SAF were strongly motivated by a desire to disengage from corporatist practices and exploit new market opportunities through higher wage differentials. In doing so, SAF explicitly engaged in the political process and sought to reverse the terms on which public policy debate had been conducted until then.

Chapter 5 discusses EU membership and its consequences. Swedish social democracy has followed the lead of sister parties elsewhere in Europe by depicting the EU arena as a potential ally in reviving the traditional social democratic movement and transposing its goals to the supranational arena.¹¹⁸ EU membership introduced a new set of constraints and opportunities for policy makers.¹¹⁹ Trade unions have reacted to the desirability of closer EU integration and collaboration with other European unions based on their position in the production hierarchy. Export-oriented unions have tended to favour integration while the 'sheltered' sector has often interpreted regulations emanating from Brussels as a threat to Swedish levels of spending and welfare.¹²⁰

Chapter 6 brings together the main findings of previous chapters and applies them to the contemporary policy context. Can Sweden still be placed in the category of concertated labour market

regimes, or has the break with the past been of a structural nature? The chapter also investigates the relationship between the two wings of the labour movement. To what extent is the labour movement united today? What forms does collaboration take, and how attractive is it for LO (regarding labour and welfare legislation) and SAP (regarding electoral mobilization and financial support)? None of the answers provided in this chapter is definite. Considering the uncertain nature of political arrangements, best manifested in the election victory of the centre-right in 2006, answers provided can at best be tentative. Still, the ones supplied offer a workable framework on which to assess the real policy effects that changes since the 1970s actually have had on public policy. The VoC literature is particularly useful here, as it draws attention to the increasing costs associated with exit from a historically crafted and institutionally reinforced pattern of political economy. In the case of Sweden, the paradigm of a highly skilled workforce coupled with extensive labour law protection and a level competitive playing field had generated advantages that employers did not wish to undermine.

Chapter 7 concludes by demonstrating the usefulness of adopting an institutionalist approach in studying the Swedish Model. It underlines the heavily path-dependent nature of developments in the Swedish labour market and the welfare arena that resulted from a synthesis of labour- and employer-centred preferences. It also underlines the most important lessons that the Swedish case has to offer to social democrats in Europe and beyond.

The Swedish Model is a loosely constructed theoretical invention that has been interpreted in a multiplicity of ways over time. The starting point of the present analysis places the emphasis on the *Saltsjöbaden* pattern of labour market regulation agreed upon by LO and SAF. Still, an analysis of its evolution would be limited if a core feature of Swedish political economy was left out. This is the alliance between SAP and LO that has historically played a decisive role in Swedish public policy. It also set in motion social democratic policies that inspired much of the theoretical work on power resources and class analysis.

A full understanding of social democratic politics also requires a sound theoretical starting point. Institutional analysis provides a robust framework of discussion and synthesizes continuity and change by evoking the salience of path-shaping strategies in formative moments and the influence of path dependence in increasing the costs of radical policy overhaul. Existing theories on the Swedish Model have revealed important insights as to its growth and crisis, but little analytical light has been shed on its operation since the 1990s, especially in the English-language bibliography. It is this gap that this book seeks to fill. By doing so, it aims to reveal the fruitful results of a theoretical synthesis of institutionalism that assigns due weight to ideational inspiration and cost-derived political activity. It is this interaction that accounts for measured rather than transformative, or evolutionary rather than revolutionary, change in labour politics.

2

The Growth Years

The Swedish people have long been imbued with a feeling of 'proto-national' character, adding to their identification with the homeland and as a result of the fact that the state has been in existence since the thirteenth century.¹ The special status and level of influence that the aristocracy and the peasantry enjoyed was decisive in the formation of democratic principles and party alliances in the twentieth century. On the one hand, the nobility was traditionally the most important of the four Estates that made up the Diet, or proto-Parliament, where interest representation took place, until the two-chamber system was introduced in the 1860s.² It was not elected, unlike the other three Estates: the peasants, the burghers and the clergy.

The aristocracy had a prominent social status and enjoyed privileged access to the King by dominating his Council. Nonetheless, the influence of the nobility on the economy was disproportionately small even in the fifteenth century. It only owned about 10 per cent of the land, compared to about 50 per cent owned by independent peasants.³ By the seventeenth century Swedish aristocrats were dominant in the civil service and the military rather than in land ownership, and any threat of absolutist tendencies was effectively countered by the combined strength of the crown and the peasants.⁴ Also, the aristocracy was heavily involved in commercial and economic life and urban affairs, and this paved the way for the smooth transition to a fully democratic system in the early twentieth century.⁵

The characteristics of the peasantry also prevented the evolution

of Sweden towards a feudal society. The absence of feudal social structures enhanced the possibility for a working class–farmers’ alliance in the 1930s. Peasants, represented in one of the four Estates, owned substantial areas of land.⁶ Moreover, their tradition of collective self-organization meant that they retained a high degree of independence from the ruling elite and played a decisive role in the formation and strengthening of an egalitarian movement.⁷ The Parliament (*Riksdag*) has been in existence since 1435.⁸ The opportunity to express collective interests was successful in instilling a spirit of negotiated compromise among the main social groups.

Interest representation and the checks on monarchical absolutism meant that people were more inclined to seek the defence of their interests through mediation and compromise rather than the exercise of power.⁹ The 1809 Constitution renounced the right of the aristocracy to own privileged land and offered equal rights to all Estates.¹⁰

With regard to the state apparatus and until the middle of the nineteenth century, the privileges of the nobility continued to dominate the bureaucracy. A meritocratic system of selection for public administration recruitment continued to be beyond the reach of the non-aristocratic elements of society until 1866, when the privileges of the nobility were abolished.¹¹ However, the bureaucratization of the state apparatus and the principle of accountability for political deeds were established early. As far back as the 1730s, the Estates had the power to scrutinize all actions and decisions of Diet members.

They sought to exercise this right with great enthusiasm. Through these proceedings ‘the principle of ministerial responsibility to parliament was rigorously enforced’.¹² Core tenets of modern administrative machinery were put in place at the start of the Great Power period between 1620 and 1720. It was then that the King and his consultative Council decided to enhance the strength of the army, and train a more competent and efficient civil service. During the reign of Charles XI (1660–1697), the

re-nationalization of land allowed for the expansion of the tax base and further administrative reform sought to establish meritocratic principles for promotion on the bureaucratic ladder.¹³

By the time the Age of Liberty¹⁴ (1719–1772) had arrived, two crucial trends had been consolidated. First, peasant land ownership increased from 31.5 per cent in 1697 to 46.9 per cent in 1772 and independent peasants could purchase ‘noble’ land.¹⁵ Second, a ‘politically effective and socially conscious middle class’ was on the rise, leading to over half of civil servants being drawn from the non-noble sections of society in 1772.¹⁶ When the King reverted to restrictive measures after the Napoleonic wars, the steadily growing liberal opposition was able to press for reforms and secured a series of measures that transformed the political and social landscape. The Departmental Reform of 1840 officially introduced the principle of ministerial responsibility for the various Departments of State, and in 1842 compulsory school education was introduced. The guilds were abolished in 1846, women’s rights were recognized in 1858 and religious freedom was established in 1860.¹⁷

Democratization, Urbanization, Industrialization

Swedish democratization acquired an evolutionary, gradual character through a series of reform Acts passed in 1866, 1909 and 1918. At the same time, rapid industrialization set the pace for the transition from a rural to an urban polity and the rise of an industrial working class. Building on the previous reform packages, the 1866 parliamentary reform recognized the rise of an industrial middle class, while peasants formed the largest parliamentary bloc.¹⁸ Still, the reform was designed to appease the conservative elements of the establishment, as the franchise remained very restricted.¹⁹ Rapid economic development and the resulting social change meant that by the beginning of the twentieth century and when the issue of the Union with Norway was resolved, pressure was mounting for an extension of the franchise to all.

In 1909, the Conservative government of Arvid Lindman passed a parliamentary motion that introduced proportional

representation to both Houses of Parliament and a universal, equal franchise to the second Chamber.²⁰ In 1917, a coalition of Liberals and Social Democrats took office, as the King was now obliged to appoint a government with a majority in the second Chamber. The new government swiftly introduced a constitutional amendment for equal and universal suffrage in both Houses. The Conservative First Chamber initially blocked the reform, but social unrest, the pressure of influential bankers and industrialists wary of social revolution and the recent Bolshevik Revolution in Russia forced the Conservatives (*Allmänna Valmansförbundet*) to accept it.²¹ By 1920 Sweden had become a fully fledged parliamentary democracy.

As elsewhere in Europe, political change was taking place against a backdrop of rapid economic transformation. The foundations for economic development were put in place in the 1840s when a modern banking system was founded and trade controls removed.²² In the 1850s and 1870s, high international demand for Swedish timber and iron brought about the first signs of industrial development. In the 1870s, the sawmill industry developed and about ten years later the chemical pulp industry began to flourish.²³

Foreign capital began to pour into Sweden, and modern rail connections were established. Between 1870 and 1914 'lumber and forestry products, mining and metal-working, electrical engineering, and modern consumer industries' all grew rapidly.²⁴ From 1870 to 1900 the number of people employed in agriculture dropped from 72 to 36 per cent,²⁵ while the percentage of workers employed in manufacturing, building and the mining industry increased by 14.8 per cent between 1880 and 1910.²⁶ By the early twentieth century, Sweden had been transformed from an essentially agricultural society to a rapidly expanding industrial nation with more than half of the population residing in cities.²⁷

Sweden's late industrialization gave rise to large and concentrated industrial firms. The cooperation between business leaders and, later on, between business and the state, became easier.²⁸ The rapid transformation of the economy went hand in hand with the growth of popular movements. At a time when the *bruke*, the old

rural factory, was becoming less important the Temperance Movement, itself an offshoot of the Free Churches that had broken away from the Lutheran Church, was founded. *Folk* (comprehensive) high schools were established in 1868 and soon spread across the country, while the producers' and consumers' cooperatives were founded in 1899 and 1905 respectively.

It was, however, the labour movement that came to play the most prominent role of all popular movements. Rapid industrialization and the intensification of work meant that conflicts between workers and employers intensified. The first major strike occurred in 1879 and was organized by the Free Church and Temperance movements.²⁹ The state sought to contain the militant tendencies by setting up the Workers' Insurance Committee (*Arbetare-försäkringskommittén*) in 1884. The Commissions set up to look into the Committee's proposals decided to reduce the insecurity of labour through an insurance system and to include representatives from both labour and capital in the Social Insurance Board.³⁰

It is noteworthy that the inclusion of the nascent labour movement as a part of the state apparatus was suggested even before the Social Democratic party was formed in 1889. The legitimacy of the labour movement as a stakeholder in the formation of the new Swedish political economy, sealed in *Saltsjöbaden*, was prepared a lot earlier and in line with the liberals' desire to incorporate labour into state structures. A pattern of compromise on labour issues between representatives of labour and capital began to emerge.³¹

The Labour Movement and Early Industrial Relations

In 1881 August Palm delivered the first socialist speech in Malmö, initiating an intense period of socialist agitation that included craftsmen, unskilled labourers and the unemployed.³² Upon the initiative of Palm, various social democratic clubs, organizations and trade unions formed the Social Democratic Party in 1889, the first modern political party to operate outside the Riksdag.³³ Nine years later, the trade union branch of SAP formed LO.

The Swedish labour movement was built on strong grounds for

two reasons. Firstly, as elsewhere in western Europe, the same people created the party and the unions. As Hjalmar Branting put it in 1898, 'the labour movement is a single entity, working in a trade union direction and in a political direction, neither stifling the other but supporting each other'.³⁴ Secondly, both SAP and LO originated from below and facilitated the development of a movement with organizational links to all parts of the country.³⁵

In 1892, the socialist youth movement (*Sveriges Socialdemokratiska Ungdomsförbund*) and the Stockholm Public Women's Club (*Stockholms allmänna kvinnoklubb*), a forerunner of the Federation of Social Democratic Women (*Socialdemokratiska kvinnoförbundet*), were founded.³⁶ The various branches of the labour movement organized a series of cultural activities. Libraries, theatres and literary works were incorporated in the *Folkets Hus* (Community Hall) and *Folkets Park* (People's Park) that started springing up in different parts of the country.³⁷ The creation of the Workers' Educational Association (*Arbetarnas Bildningsförbund, ABF*) in 1912 facilitated the teaching of economics, political science and contemporary history to large masses of workers. Lack of formal schooling was thus compensated for by the party's organizational strength.

The Social Democratic Party

Social democrats taking part in elections need to appeal to non-working class elements to win, as the working class constitutes a minority of the voting electorate. On the other hand, the broadening of their appeal is likely to undercut working class support and hence reduce their chance of success.³⁸ This trade-off has been a peripheral issue for Swedish social democracy from its very inception. In its first party programme in 1897, SAP clearly stated its willingness to introduce socialism 'by degrees'.³⁹ Seven years later, SAP representatives to the International Socialist Congress refrained from supporting Karl Kautsky's proposal that rejected collaboration with bourgeois parties.⁴⁰

The line of thought aspiring to socialism introduced through democratic means had a strong following, expressed mainly

through Hjalmar Branting, SAP's first leader (1889–1925). Branting stated in 1886 that he adhered to a Marxist interpretation and analysis of the economy and society, but insisted on the need for reformism to improve the plight of the oppressed and needy.⁴¹ His intellectual abilities, combined with a deep sense of humanism and optimism, made Branting very popular. It also made the SAP an electoral force to be reckoned with, as well as a pragmatically oriented party. From the start of the twentieth century until the 1920s, leading figures in the Social Democratic Party went beyond an economy-based definition of social democracy and expanded their analysis to incorporate spiritual and humanitarian needs. In the process, the Swedish Social Democrats started developing a framework of operation that they would first be able to put into practice in the 1930s, when the influence of certain policy entrepreneurs allowed them to shape the contours of public debate. More importantly and in contrast to other socialist parties in Europe, SAP adhered to an undogmatic and flexible interpretation of Marxism from its very inception. As Sheri Berman has shown,⁴² this proved decisive in fostering social democratic hegemony in the years to come and avoid the collapse of liberal democracy as witnessed in Germany, Italy and beyond.

The evolution of the Swedish state and the character it had assumed over centuries persuaded the Social Democrats to treat it as a potential ally. Hjalmar Branting emphasized in 1902 that the state was not necessarily an instrument of class domination. It could play a critical role in alleviating the misery of the poor and assist them in improving their material conditions.⁴³ In a speech delivered in October 1906, Branting went on to explain the contribution of Marx to SAP thinking and praised the notion of socialism. Pointedly, he stressed that SAP would retain the essentials of Marxism despite the fact that the latter's thought was not infallible and that socialism would only be achieved 'step by step'.⁴⁴

Ernst Wigforss went as far as embracing individualism as early as 1908, and to the extent that individual freedom was conducive to the transformation of society along socialist lines.⁴⁵ For Swedish

social democracy Marxism thus often became associated with the goal of a better and fairer society, described and analysed along humanitarian principles and centred on a core of ethical beliefs. The country's liberal state tradition contributed to an interpretation of socialism that could appeal to large parts of the liberal, urban middle classes. At the same time, the party benefited from its near-total exclusion from political influence at the end of the nineteenth century, thus making political reform an immediate political goal. In countries where political participation by the left was more pronounced, such as France and Germany, adherence to Marxist dogmatism and a rejection of reformism dominated inner-party debates.⁴⁶

Strong reformist tendencies in the party's top echelons did not mean the immediate rejection of socialization and the class struggle. The 1914 SAP programme reiterated earlier calls for the working people to be allowed to enjoy the fruits of their labour to the full. However, the party's reformists, led by Branting, succeeded in broadening the party's self-identification beyond the working class. In the same party programme, capitalism is said to oppress not only the working class but also 'small traders and peasants'.⁴⁷ Though the official goal of socializing all land was still part of the programme, at the party conference three years earlier social democracy had been conceived as a force of unity for all 'small *folk*', including workers and farmers.⁴⁸ A concentration of agricultural units was, according to writings of Branting dating from 1907, all but inevitable.⁴⁹ A community of interests between workers and agricultural labourers was therefore a distinct possibility. Axel Danielsson, one of the SAP's foremost intellectuals, adhered to the view expressed by Georg von Vollmar in the German SPD that small farmers and industrial workers shared a community of interests; small-scale agricultural workers should thus be treated differently from large landowners.⁵⁰

Class conflict as analysed by Marx and adhered to by the SPD among others did not fit the evolution of the Swedish polity. Society was organized along non-feudal lines with an independent

peasantry and a weak bourgeoisie and aristocracy. The preconditions for class conflict were absent, and this factor played a decisive role in the relatively easy takeover of the party by the reformists. In 1917 the SAP joined the Liberals in government for the first time and revisionist socialist principles became official party policy.⁵¹ The communist wing of the party broke away, and a year later the SAP–Liberal coalition that introduced universal suffrage was formed. Branting extolled the two parties' cooperation by expressing his 'greatest of satisfactions' for the work done, rejecting not only the inevitability but also the desirability of a class war.⁵²

SAP in the 1920s

The positive effect of SAP reformism was an increasingly attractive political package striking a successful balance between socialist ideology and political reality. There were two problems, however: on the one hand, a confused political message, exacerbated by internal divisions over the direction of party policy. Branting and his followers had managed to make reformism widely acceptable, but party radicals refused to shift their attention from the working class.⁵³

Moreover, SAP was unable to formulate an alternative economic strategy to the one advocated by the bourgeois parties. In 1920 the SAP considered nationalizing key industries. In that year, the party's programme was extensively revised for the first time, detailing the reasons for the existence of poverty and economic inefficiency through the existence of capitalism.⁵⁴ Still, the programme remained conspicuously vague as to what shape an alternative economic order would take.⁵⁵ The government was reluctant to proceed with a move that would be interpreted as contrary to its moderate profile.

After setting up a Nationalization Committee to look into the issue, the government issued directives to the committee diluting the analysis of the party and repudiating the general principles of its position.⁵⁶ After criticizing the existing economic mode as failing the interests of society, it called for a form of economic

organization that would serve the general public by fostering free initiative. In order to make the point explicit, the directives rejected a 'schematic nationalization of total production'⁵⁷ as antithetical to the goals of Swedish social democracy.⁵⁸ Throughout the 1920s, at which time they held power three times for a total of four years, the Social Democrats refrained from legislating on the nationalization issue – indeed, the issue was totally forgotten, only to reappear in 1932. After this experience in government, the party started behaving more and more, both inside and outside Parliament, as a normal party.⁵⁹

On general economic policy, the 1920s Social Democratic governments were reluctant to differentiate their policies from those of other parties. The country suffered a heavy depression in the early 1920s. Nonetheless, the government was determined not to derail the possibility of an economic upswing by raising wages paid on public works too much, lest this upset the market. Depression and deflation were held to be cathartic phenomena that would restore a functional equilibrium to the economy and stimulate a recovery.⁶⁰

The obsession with the need to return to the gold standard with the 1914 parity added to the economic difficulties. Despite a 4 per cent rise in real export volumes per year, structural unemployment continued to hover around 10–12 per cent throughout the 1920s. The Social Democrats saw this as part of the business cycle. SAP was relatively weak and divided, split as to the future direction of society and lacking a coherent message.⁶¹ Losses in the 1928 elections were the first serious setback in its history and prompted a major internal debate as to the causes of the setback.

Industrial relations 'on the way to Saltsjöbaden'

Craft unions dominated the early years of unionism, mainly as a result of *bruk* industrialization and the absence of large-scale industrial unions.⁶² Shoemakers, tradesmen and printers formed the first Swedish unions in the 1880s.⁶³ By 1910, however, this picture had changed, as social democratic emphasis on the need for better organization and a shift to large-scale industrialization brought

many unskilled industrial workers to the cities and reduced the ranks of artisans.⁶⁴ The early years of industrialization were characterized by anarchic conditions in the labour market with no legal right to strike and a staunch refusal by employers to sign collective agreements. This resulted in a high number of industrial disputes. From 1890 until 1930 Sweden led the industrialized world in strikes and lockouts. In 1928 alone five million workdays were lost due to work stoppages.⁶⁵

Rapid industrialization after the 1890s shaped new conditions for the labour movement. A large number of agricultural labourers migrated to the cities in search of employment and joined trade unions. By 1907 Sweden's unionization rate was 48 per cent, the highest among all industrialized countries.⁶⁶ The strike weapon was seen as especially potent, but the effectiveness of strike action was called into question as employers easily defeated costly disparate strikes. The party realized the futility of supporting unorganized strike actions and often described such action as meaningless.⁶⁷

LO had for the first ten years of its existence been dominated by craft unions with a loose sense of comradeship. By 1908, however, its sense of common political purpose had increased. Whereas in 1905 only 16 per cent of the working class turned out to vote, in the 1908 elections the equivalent figure was 25 per cent.⁶⁸ The loose, decentralized organization created in 1898 was now beginning to integrate its operations to respond to the proliferation of collective agreements and the growing organizational capacity of the employers' organization SAF (see below). The latter helped in the growth of LO too. SAF was committed to dealing only with LO unions in industry and, along with LO, disapproved of splinter and minority unions. Its strikebreaking activities against communists and syndicalists helped LO in membership recruitment. In 1910 the Central Organization of Swedish Workers (SAC) was formed as a splinter from LO. The power of LO has usually overwhelmed it. By the end of the 1990s, SAC had a membership of about 10,000 employees.⁶⁹

Relations between the unions and SAP were tested by the issue

of compulsory affiliation of LO members to the party. Even before the official formation of LO, union leaders attempted to withdraw any references to compulsory affiliation from the Confederation's statutes, while the party launched a strong campaign to include such a reference. The first LO Congress in 1898 did include the obligatory affiliation clause forcing every LO union to become affiliated to the party after a maximum of three years after its inclusion in LO.⁷⁰ Additionally, the constitution of LO prescribed that the SAP would appoint two out of the five members of LO's executive committee. The first LO President, Fredrik Sterky (1898–1900) was not a union member but 'an active Party leader'.⁷¹

However, growing opposition by many unions and the refusal of eleven union associations to join in 1898 led to the withdrawal of the compulsion clause in the 1900 Congress.⁷² Instead, LO 'recommended' the affiliation of member unions to the Workers' Communes (*Arbetarekommun*), the party's local organizations. The same Congress ended the right of the party to appoint two members to the LO executive committee. Finally, the 1908 SAP Congress decided to introduce the right to reservation, thereby giving every member of an affiliated union the right to remain outside the party. A year later LO dropped the recommendation clause altogether and the question was transferred to the local union organizations.⁷³

What the compulsory and collective affiliation dispute reveals is that an interest-based approach dominated the labour movement even before *Saltsjöbaden*. The relationship of mutual dependency between party and unions in the 1890s was transformed into one of party dominance, to be levelled out again later with the growth of LO. Additionally, the larger and more independent unions campaigned from the start for more autonomy from the party while the smaller unions favoured closer ties with SAP.⁷⁴

Employers were quick to recognize the general strike of 1902 as a sign of worker radicalization. In response, they formed the Employers' Confederation, SAF, in the same year.⁷⁵ At that time a discrepancy existed between unions that controlled the weapons of conflict – the local unions; and those responsible for the economic

consequences of strike actions – the nationally organized unions.⁷⁶ Consequently, both unions and employers saw fit to increase their level of internal coherence in order to confront each other more effectively.

As early as 1904, SAF had defined its principal goals as wage standardization and the freedom to work, both of which could be achieved through collective agreements.⁷⁷ These were mostly confined to the local level and applied to a single workplace. In 1908, 43 per cent of workers had workplace agreements, 33 per cent local, 8 per cent regional and only 16 per cent national ones.⁷⁸ Moreover, SAF designed a strike fund that functioned along the lines of an insurance company, specifying the obligations of SAF co-owners in cases of industrial disputes as well as the amount of compensation a company could claim. Annual fees paid by companies went straight into the coffers of the fund. SAF was allowed to decide what course of action the individual companies would take and thus managed to absorb other employer associations.⁷⁹ A year after its formation SAF already had 101 member companies, and four years later that number had increased ten times.⁸⁰ From 1907 SAF became the undisputed leader among private sector employers' associations.⁸¹

LO, on the other hand, was strengthened by its intimate links with a growing social democratic party and the introduction of the ownership principle (*äganderättsprincipen*). According to that principle, all workers with a common employer organized in one union and signed a single collective agreement.⁸² The pattern of LO following the lead of the employers regarding its operational structure was established, and it would be repeated in the 1950s and the 1990s.

The limitations and patchy results of strike actions were also recognized and the prelude to *Saltsjöbaden* was achieved in the 1906 'December Compromise'. According to that agreement, LO had won the right to organize and bargain collectively, while SAF retained the right to 'hire and fire' and to organize production.⁸³ The Trade Union Confederation emerged triumphant, as the right

to organize had previously been rigorously contested. However, tensions between the two sides did not diminish and in 1909 a General Strike was called by LO after the declaration of an employer lockout. The result of the strike was a big defeat for the unions, which saw their membership decline drastically.⁸⁴

This sparked a thorough internal debate in LO and bolstered the big unions' call for centralized control. Relations between LO and SAF, and between the Social Democrats and LO remained conflict-ridden until the 1930s. LO viewed industrial relations legislation as serving the interests of the employers or, at any rate, those of a state set against the working class. A lockout by SAF in the building industry, after the first minority SAP government had presented an ambitious housing policy programme, led to a protracted dispute. The governmental proposal for ending the conflict was emphatically rejected by the union leadership, regardless of the consequences that such a stance could have for SAP in the upcoming parliamentary elections.⁸⁵

The breakdown of corporatist institutions at the beginning of the 1990s has often been seen as symptomatic of the dissolution of the Swedish Model. It has been argued that the early inclusion of the labour market partners in corporatist arrangements paved the way for the domination of the reformist wing of the labour movement over its more radical elements.⁸⁶ In a similar fashion to other west European states, there was a strong correlation between long tenures of Social Democratic governments in office, a trade union confederation institutionally linked to the social democrats and a high degree of corporatist influence in public policy.

Furthermore, both sides in the labour market became acquainted with the idea of representation in boards and agencies of the state before the introduction of equal and universal suffrage. In a homogenous society, the importance of class was accentuated and the emergence of corporatist bodies of representation facilitated the integration of diverse interests into orderly modes of representation. Lipset's argument on the positive correlation between working-class radicalization and the rigidity of the class

system before the First World War⁸⁷ was not upheld in the Swedish case.

Two core variables should be added to this analysis. These are, on the one hand, the historical development of the Swedish state, which has allowed the constellation of social forces in a manner conducive to broad coalitions under the banners of labour and capital respectively. On the other hand, the political transformation of the Swedish state through the electoral dominance of the Social Democrats for more than four decades was also important. Union representatives declined to become fully engaged in the proceedings of the new bodies until a Social Democratic government was returned to power. The effective functioning of corporatist institutions, therefore, is intimately linked to the strategic calculations of both labour and capital in the 1930s as to the prospective dominance of the state apparatus by the Social Democrats.

The first institutions where employees and employers were equally represented were established in 1902 through local labour exchanges and in 1903 in the form of public employment offices.⁸⁸ Social Democratic fears that the absence of universal suffrage would favour employers were soon dissolved, and their operation was not seriously questioned. The party's reformism was not merely the result of careful political and electoral considerations, or the particularities of the state machine. It was also assisted by the fact that the unions, albeit reluctantly, took part in the activities of the institutions mentioned above. Soon after the employers decided to set up their own employment offices in 1907, a series of corporatist institutions were established with little or no opposition. These were the National Social Welfare Board (*Socialstyrelsen*) in 1912, the National Pensions Board (*Pensionstyrelsen*) in 1913, and the Work Council (*Arbetsrådet*).⁸⁹ The LO stance towards those institutions was negative. The Confederation left the Unemployment Commission (*Statens Arbetslöshetskommission*) in 1926 because of the dominance of employers and state officials holding 'overtly liberal' economic views. The Labour Court, meanwhile, was perceived as supportive of the employers' agenda.⁹⁰

In the 1920s that issue was particularly pertinent as employers wished to see non-specialized employees working alongside builders in the construction industry, particularly at low-growth periods, to reduce their high hourly wages.⁹¹ Employers were able to do so because of the unemployment policy introduced in 1918 according to which the unemployed, instead of receiving benefits, were sent to different regions in the country to perform relief works.⁹² The high wages of builders had a negative impact on the remuneration of metal workers and made them susceptible to communist appeals.⁹³ Inter-industry pay differentials were threatening LO cohesion.

Social Democratic Ascendancy:

Keynesianism Before Keynes, and the People's Home

The electoral setback of 1928 was interpreted as a failure to combine loyalty to a Marxist understanding of social and economic reality with the need to carry out far-reaching reforms.⁹⁴ The Liberals exploited fears over Bolshevism to reduce the strength of the SAP, while the Farmers' Party expressed the worries of the rural lower classes, arguing that high industrial wages were increasing the prices of manufactured products on which farmers depended.⁹⁵ The Social Democrats were in need of a new strategy. A close circle of intellectuals, led by Ernst Wigforss on issues of economic policy and Gunnar and Alva Myrdal on social policy, introduced a new understanding of the labour movement. They attempted to rationalize Swedish life, arguing that scientific principles had to dominate over emotionalism in decision-making.⁹⁶

The contribution of Ernst Wigforss in this process is of central importance. Up to the end of the 1920s, the Social Democrats remained torn between the line adopted by the German Social Democrats on the need to destroy capitalism and the British Labour Party's orthodox approach on the need to maintain balanced budgets and reduce wages to boost the business cycle.⁹⁷ Starting from the late 1920s, Wigforss opened the way for Social Democratic dominance. Having studied Keynes' 1929 pamphlet 'Can Lloyd George Do It?' as well as the Yellow Books of British

Liberals, Wigforss could find no causal connection between low wages and high unemployment.⁹⁸ He argued that higher wages would increase the purchasing power of consumers and enable more outlets for the products of manufacturers, resulting in higher employment and growth. In a pamphlet for the 1932 election entitled 'Can We Afford to Work?' (*Har vi råd att arbeta?*), Wigforss argued in favour of increased levels of public spending to offset the lack of private investment.⁹⁹

Justifying his thesis on the basis of the rectifying role of the state to provide employment and steer production when private enterprises failed, Wigforss used social democratic principles and combined them with an appeal to a new generation of economists whose outlook on the correct equilibrium between the state and market had yet to be framed. The economists working on the Unemployment Commission soon adopted this new set of ideas. The role of the Commission in legitimizing Keynesian ideas was decisive, not least because it brought Keynesian economists in touch with policy-makers.¹⁰⁰

Outlining Keynesian views before Keynesianism became dominant, Wigforss pioneered a line of thought that dominated economic thinking for the next 40 years. It allowed SAP to deliver on a range of labour market policies and housing services. Wigforss changed the parameters of the unemployment question and allowed the Social Democrats to become the party associated with economic recovery and sound macroeconomic management. In contrast with many other European social democratic parties, the SAP was successful in facing off right-wing challenges on the management of the economy.

Over the 1930s and 1940s, Wigforss' ideas would become orthodox due to memories of the Depression and the support they received among the Stockholm School economists such as Gunnar Myrdal and Bertil Ohlin.¹⁰¹ His intellectual abilities allowed him to formulate a vision of socialism as an offspring of liberal ideas rather than Marxist determinism.¹⁰² The principal values of Swedish social democracy as outlined by Wigforss, resting on (positive and

negative) freedom, democracy and security, went a long way towards reassuring the middle class about Social Democratic intentions and solidified working class support. The Social Democrats became the prime beneficiary of the widespread acceptance of full employment as an ideological goal.¹⁰³

For all the dramatic changes in the Model's operation, that ideology remains dominant in the Swedish political discourse. In 2006, the centre-right Alliance for Sweden (*Allians för Sverige*) used the high rates of unemployment as its electoral weapon and won the election largely as a result of that strategy. Paradoxically, the Social Democrats chose to downplay the issue of unemployment, which had acquired high visibility due to high levels of youth unemployment, and suffered their worst electoral defeat since the 1920s.

The 1933 'red-green coalition' enabled SAP to implement its crisis programme to combat unemployment.¹⁰⁴ The Farmers' Party joined SAP in office. At first sight, the agreement is explained by the ideological revisionism of SAP following the 1911 Party Programme and the willingness of the Farmers' Party to support SAP in return for state subsidies for agricultural produce.¹⁰⁵ However, the agreement is also derived from the evolution of the Swedish state and the character of the Swedish peasantry, in particular its willingness to consider alliances with the social democrats. Social democratic revisionism, which was decisive in enabling this alliance, is itself a product of societal stratification in the Nordic states that allowed both SAP and the Farmers' Party to display a positive predisposition towards collectivism in the 1930s.

The new policy soon paid off in terms of combating unemployment. Unemployment fell from 139,000 in 1932 to 21,000 in 1936. Deficit-financed public works projects led to a demand-pull for the manufacturing sector. Currency devaluation and a low interest rate regime increased export revenues.¹⁰⁶ Marquis Childs asserted that due to the efficient growth of the consumer and housing co-operatives and the role of the state in averting private monopolies, capitalism had been tamed.¹⁰⁷

While the economic preconditions for a series of welfare policies were put in place, the Social Democrats were expanding on the notion of the 'People's Home' (*Folkhemmet*) popularized by SAP leader Per Albin Hansson in a *Riksdag* speech in 1928. Just like in a family home, Hansson declared, the society that SAP strives for is one based on mutual trust, assistance and solidarity.¹⁰⁸ Echoing Branting, Hansson emphasized that, notwithstanding class origins and background, all should be part of welfare Sweden.¹⁰⁹ By utilizing the 'People's Home' concept so familiar to the masses, Hansson popularized a phrase that had fallen into obscurity. His handling of the Second World War strengthened his image.

The conception of the 'people's home' not only used a central opposition symbol to convey the social democratic values of security, equality and solidarity, but it equipped Swedish society with a powerful symbol of the democratic community in opposition to Nazism. Humankind does not live by policy statements and rational choice alone, a fact Per Albin Hansson appreciated and utilized by expanding on an extraordinarily evocative and effective political image.¹¹⁰

At the same time, Gunnar and Alva Myrdal through their book *The Population Question* (*Befolkningsfrågan*) suggested a series of redistributive and welfare policies.¹¹¹ The Social Democrats were attempting to forge a progressive coalition of intellectuals, unions and the masses to bring about a transformation of Swedish society in both material and intellectual terms. As a result of their popular policies, they reached the apex of their popularity by winning 134 of 230 seats in the Lower *Riksdag* in the 1940 elections, or 53.8 per cent of the popular vote.¹¹² Even under the special circumstances of the Second World War, it was a remarkable achievement for any democratic party.

Electoral Hegemony and Political Dominance: Welfare Sweden

As elsewhere in Western Europe, the war experience and memories of the Depression permitted the formation of a widespread consensus across party and industry lines on the positive effects of

state intervention. The Keynesian 'Golden Age' of Europe's economic recovery was about to begin and the Swedish Social Democrats were well placed to capitalize on this.

This did not mean, however, that ideological arguments over the function of the public sector disappeared. When the SAP outlined the 1944 Postwar Programme, it promised to introduce more democracy in the economic sphere. It underlined the need for a 'comprehensive political and economic reorganization' to address the fundamental problem of the existent economic system, namely the concentration of ownership and capital in the hands of a few entrepreneurs.¹¹³ The 27-point document called for: the socialization of investment decisions (point 18), state ownership of monopolistic big companies (point 23), the creation of an administrative authority to supervise price, wage and profit setting (point 24) and 'increased worker influence over production' (point 27).¹¹⁴

In the party conference of the same year, Wigforss justified the drive for the 'democratization of industry' as part of the party's wish to promote enterprise efficiency.¹¹⁵ The Postwar Programme dressed the more radical passages on nationalization in the language of economic productivity. Investing in the country's social capital was the best way to guarantee prosperity in the years to come, Wigforss claimed, and labour market policy should aim at full employment through worker mobility and a rejection of passive benefit-claiming.¹¹⁶

The reaction of the bourgeois bloc and press was fierce. The centre right attacked the plans as an attempt to introduce communism through the back door and curtail individual liberties. The conservative daily *Svenska Dagbladet* warned of the dangers of economic tyranny, as the leader of the Conservatives attributed the 'successful solution of a number of difficult problems in the 1930s' to the good luck of the government rather than to its policies.¹¹⁷ Leif Lewin, by describing the ideological antagonism over the issue of the state's role in the economy as the fiercest battle in contemporary Swedish history,¹¹⁸ was in many respects pre-empting the reactions caused by the labour movement's proposals for wage-earner funds in the 1970s.

Whereas in 1944 the Social Democrats retained 46.7 per cent of the popular vote, four years later their share had fallen slightly to 46.1 per cent. The support enjoyed by the Communist Party (*Vänsterpartiet Kommunisterna*, VPK) had dropped from 10.5 to 6.3 per cent. Moreover, a) the increase in the non-socialist vote from 42.4 per cent in 1944 to 47.5 per cent, b) the unanticipated economic boom that meant higher inflation instead of the projected depression and c) the takeover of power in Czechoslovakia by communist forces sufficed to persuade the government to shelve its socialization plans.¹¹⁹

Nevertheless, a wide range of welfare services funded by general taxation was introduced after the war. The government introduced preventive health services in 1937, 1938 and 1943, family allowances in 1947, rent subsidies in 1941, 1942 and the 1948 child allowance and care for the elderly.¹²⁰ The creation of this web of welfare services was premised upon the core features of all Nordic states regarding the inclusion of the rural middle classes in social policy schemes,¹²¹ but acquired its own Swedish characteristics as a result of the country-specific political power constellation. The identification of the Social Democrats with the universalist welfare state was not a consciously planned policy but largely a reaction of the party to the reorientation of its main political opponent, the Conservatives, and the need to enhance its appeal to the middle class. While this is not to deny that the foundations of the renowned 'Nordic welfare states' were laid in the 1930s,¹²² it is important to assess the development of the welfare state as a historically informed process, intimately linked to the origins of the Swedish polity and its century-long evolution.

The Liberals decided on the introduction of the first 'People's Pensions' (*Folkpension*) in 1913. The Social Democrats accepted the principle of universal, tax-funded pensions, as small employers and farmers constituted a significant constituency that often relied on poor relief. The measure would also assist the party in its quest for power after the electoral reforms of 1907 and 1909.¹²³ Swedish economic development was dissimilar to the industrialization

pattern of Germany or Britain; therefore, contribution-based social insurance had little chance of success. The 1946 Pension Law extending a flat-rate universal pension to all on top of means-tested benefits was premised on the principles and structures founded 35 years earlier.¹²⁴

The opponents of universalism and supporters of a means-tested alternative included Prime Minister Per Albin Hansson, Ernst Wigforss and later Prime Minister Tage Erlander.¹²⁵ The Conservatives, erstwhile opponents of extensive social welfare, changed their policy on the issue in 1946 to appeal to the increasing ranks of salaried employees: party competition to attract middle class support ensued in the 1950s.¹²⁶ The Social Democrats were exposed to the argument that their historical role had by that time been fulfilled. The theory was that the introduction of universal social policies and a series of labour market institutional measures to combat unemployment now created space for individual empowerment rather than collective solutions.¹²⁷

The SAP leader and Prime Minister Tage Erlander (1946–69) played an important role in securing the dominance of the Social Democrats by building on the *folkhem* ideology. Throughout the 1950s and 1960s, Erlander emphasized that in an ever-more affluent society people will demand more services and welfare provision to satisfy their needs. The state's new role in guaranteeing financial security to more and more people in the country arose out of what Erlander called 'the rise of new expectations'.¹²⁸

To meet new demands, the SAP stressed the need for collective efforts by state and society. Moreover, after outlining the achievements of SAP on full employment and a comprehensive housing policy, Erlander pointed out that 'social Sweden' had not yet materialized.¹²⁹ On that basis, the Minister for Social Affairs Gustav Möller outlined his plans for a continuation of reforms in housing policy and child allowances and promised an increase in the value of both programmes to offset the loss in money value caused by inflationary tendencies triggered by the Korean War.¹³⁰ The Keynesian compromise increased confidence in economic

performance and created a consensus around the notion that demand-led management could now avert the crises previously regarded as unavoidable in a capitalist economy.¹³¹ In the 1956 election, the SAP received 72 per cent of the working class vote and 24 per cent of the middle class vote.¹³²

The Swedish Model and the Historic Compromise

The agreement reached between LO and SAF in *Saltsjöbaden* set the foundations for the Swedish economic miracle. It secured an amicable relationship between the Social Democrats and SAF, which went a long way towards securing Sweden's long-term prosperity.

By the 1930s, SAF had achieved a high level of centralization and exerted tight control over its members. Moreover, it realized that the electoral dominance of the Social Democrats and steady rates of union growth created an unfavourable environment for unilateral action.¹³³ At the same time, the People's Home ideology tamed SAP radicalism, and the role of industry in building a prosperous country was bound to be vital. On the LO side, the growth of the SAP meant that the leadership was more willing to collaborate with employers. High levels of industrial strife hampered economic expansion.

Finally, the institutional preconditions for the Agreement were put into place by 1938 through a series of Acts, such as the 1920 Act on mediation in industrial disputes, the Act on collective bargaining in 1928 and the 1936 Act on freedom of association.¹³⁴ Importantly, SAP encouraged the growth of LO and its affiliated unions in the 1930s by making the unions responsible for the administration of unemployment insurance (*a-kassa*), despite initial union protests.¹³⁵ Union membership was encouraged with non-union members saving on the membership fee but benefiting through union-negotiated wage increases. In the 1970s unemployment benefit societies were created and the burden of financing the system shifted towards the employers. Throughout the process, the unions have remained responsible for administering the system.¹³⁶ Recent changes in the relevant law, however – most

recently in 2007 – have weakened the link between *a-kassa* and union membership, sharply reducing the number of *a-kassa* members.

The Saltsjöbaden Agreement of 1938 established the core principle of self-regulation in the labour market. Unions and employers committed themselves to direct negotiations for the implementation of labour law through the Labour Market Council that was expected to expand collective agreements to the industry level.¹³⁷ The agreement stipulated negotiations in cases of industrial disputes during a collective agreement, and included concrete rules governing dismissals and lay-offs. The last-minute LO attempts to withdraw paragraph 23,¹³⁸ stipulating the right of managers to manage their companies as they saw fit, failed.¹³⁹ The two sides agreed on the principle of social partner autonomy whereby the state would be excluded from negotiations not only on the determination of wages but also on the implementation of labour law. *Saltsjöbaden* signifies the moment when unions and employers acquired tremendous powers in labour market regulation. Some of these powers have been curtailed since then, but most remain intact.

A bipartite system was created. SAF wished to see such an outcome from the very beginning, fearful as it was of the increasing power of the Social Democrats. It is less clear why the unions would agree to such an outcome. In fact, the Agriculture Minister Per Edvin Sköld suggested a tripartite system of wage determination to add state power to LO's decentralized form. LO President August Lindberg (1936-47) was sympathetic to the idea despite the opposition of some big unions, such as *Metall*, which pushed for centralization.¹⁴⁰ Tripartite corporatism was defeated when SAF informed LO that such a proposal could not be accepted. LO aspired to a central agreement with the employers to satisfy its members' calls for higher wages and pursue its centralization aspirations. It informed the government that tripartism had been rejected.¹⁴¹

For a number of decades, *samförstånd* became the order of the day. Willingness to compromise and reach mutually acceptable solutions was displayed by both sides. Works councils were established in 1946, and remained in force until 1977, to provide

employees with information and advice on the pace and type of changes at the workplace. These councils were established by mutual agreement rather than legislation.¹⁴² Employers became involved in information gathering and research by appointing several experts to different state commissions and establishing links with the government through organizations such as the Industrial Research Institute (*Industrieforskningsinstitut*) to advise the state machinery.¹⁴³

The Rehn-Meidner model and pension reform: a union-controlled government?

The *Saltsjöbaden* Agreement favoured industrial unions. Some LO unions, *Byggnads* and the 'Transport Workers' Union (*Transportarbetareförbundet*; 'Transport') among them, refused to sign it.¹⁴⁴ This reaction brought to the surface the fact that LO's constitutional structure had remained decentralized. The Confederation's co-signing of the Agreement meant that it was now responsible for maintaining industrial peace, and was thus obliged to curtail the individual powers of its unions.

In 1926 the LO Secretariat decided that dissolved unions should merge with others to create viable unions. This way, the Confederation gained a decisive say over the reorganization of unions and could keep out mavericks that did not wish to affiliate with a bigger union.¹⁴⁵ Constitutional changes meant that LO centralized its operations. In 1941 momentous changes were made. The Confederation gained the right to decide over the right to strike and, through the principle of 'representative democracy', made Congress the highest decision-making organ. Power was structured in such a way that even marginal support by union members over any given issue was translated in Congress as unanimous support by that union. Individual issues slowly replaced general debate on the policy line, thus forestalling the formation of solidified blocs opposing the leadership.¹⁴⁶ The institutional reorganization of LO allowed its centrist/liberal elements to dominate over more militant elements. That the LO commanded great leverage over the government and labour market policy in the postwar years is the clearest example of that.

In 1936 and 1937, the Social Democrats set up an Efficiency Enquiry and a Committee of Unemployment Experts respectively to offer advice on the unemployment question. Their findings resulted in the creation of the Labour Market Commission (*Arbetsmarknadskommission*, AMK) in 1940 and the Labour Market Board (*Arbetsmarknadsstyrelsen*, AMS) in 1948.¹⁴⁷ The role of AMS was to achieve full employment through a series of active policy measures, mainly workers' retraining and occupational mobility, which would be set by the Board with a minimum of governmental interference.¹⁴⁸

The government ensured that the institutional set-up of AMS was weighted in favour of the unions, as the board included more union than employer representatives. SAP would thus be able to count on AMS to help with the delivery of social democratic policies.¹⁴⁹ AMS undertook responsibility for unemployed people who were not covered by benefit schemes. Emphasis was placed on strengthening AMS through generously funded public campaigns underlying the salience of an active labour market policy and the desirability of full employment. In fact, SAF supported AMS when the opposition attacked it in the 1960s.¹⁵⁰ To the extent that AMS delivered on the goal of more employment, employers realized that their long-term interest lay in supporting its mission.

At the 1951 LO Congress, two chief economists of the Swedish Trade Union Confederation, Gösta Rehn and Rudolf Meidner, designed a policy package aiming at combining full employment with low inflation. The key proposals were the pursuit of: a) a solidaristic wage policy through the implementation of b) an active labour market policy as well as c) a restrictive fiscal policy. It has been argued by one of the Model's creators that the third element of the Model was periodically put aside by the government, thus contributing to the breakdown of the old Model in the 1980s.¹⁵¹

Centrally coordinated wage bargaining, suggested by SAF and accepted by LO in 1952,¹⁵² would allow the unions to strive for both wage increases and wage equality¹⁵³ as the inter-union rivalry that led to the creation of a wage and price spiral would disappear.¹⁵⁴ Achieving the goal of wage equality for different sectors

meant setting the wage rate at a 'just' level, rather than according to the individual firm's ability to pay.¹⁵⁵ Efficient and productive firms would be provided with extra labour supply and gain incentives to expand. Higher rates of growth would follow, strengthening the competitiveness of the Swedish economy. Inefficient firms would be hard-pressed by the resulting profit squeeze.¹⁵⁶

To facilitate the movement of workers from the wasteful to the productive sectors of the economy and abolish 'islands of unemployment', the model advocated an active labour market policy. The state would assume responsibility by providing employees with educational skills, training and retraining schemes and encourage occupational mobility.¹⁵⁷ AMS would remain at the heart of the transition process from unemployment to paid work.

Regarding fiscal and monetary policy, the model advocated tight control over the economic cycle to guarantee price stability. Total demand should be restricted in order to avoid an overheating of the economy and an increase in wage and labour costs. Gösta Rehn published an article in 1957 entitled 'Hate Inflation' to emphasize that full employment should not be bought at the cost of high inflation.¹⁵⁸ The Rehn-Meidner Model avoided the risk of the eventual use of unemployment as a tool for achieving economic policy objectives.¹⁵⁹ After introducing Keynesianism in the 1930s, the labour movement pioneered a further economic pattern that increased its attractiveness. The adoption of the Rehn-Meidner Model by the government after the mid-1950s reinforced the role of the unions in Swedish society.

In much of the literature on wage bargaining centralization a fundamental misconception is evident. In line with labour-centred approaches, it is often assumed that LO sought to centralize bargaining to enhance its power. In reality, it was employers who opted for centralization to avoid distortions through unfair competition. In the early 1950s SAF pushed for centralization by accepting the principle of equal pay for equal work, with the minor exception of the construction industry.¹⁶⁰ In fact, SAF negotiator Hans Söderlund accepted the premise of the Rehn-Meidner Model

regarding unfair competition and called for centralization to avoid the implicit subsidization of inefficient industries.¹⁶¹ As soon as the principle was accepted within SAF, the task of the organization became the formation of a reliable job evaluation system to make the new policy work. It was, *inter alia*, the failure to reach agreement on such a system that Rudolf Meidner lamented in the 1990s as the Rehn-Meidner Model came to an end.¹⁶²

The effects of labour market policy were positive. Unemployment remained at very low levels through retraining programmes and a vigorous implementation of occupational mobility schemes. Solidaristic wage policy and full employment legitimized LO in the eyes of its members and added to its sense of implementing a reformist yet socialist programme. Low-paid workers in industry saw their incomes rise while the export and automotive industry benefited greatly from moderate wage increases.¹⁶³

Over the 1960s and 1970s wage differentials narrowed substantially, while industrial conflict was kept at minimum levels. All this elevated LO to a status higher than that of a mere trade union confederation. 'The LO has persistently taken the lead in urging important postwar ideological and policy initiatives upon the party leadership ... inducing the SAP to sustain its role as a conscious agent of active social change.'¹⁶⁴ Nevertheless, the ascendancy of the labour movement in the formation of public policy should not be confused with the party political battle of ideas. Although the Social Democrats had become increasingly powerful in determining the contours of that debate, the opposition often contested their proposals. The ATP controversy surrounding the pension reform of the 1950s is the best illustration of this antagonism, the ultimate outcome of which rested on contingency as well as resources.

The 1946 legislation on pension providing for a flat-rate universal pension was regarded by the SAP leadership as adequate in providing a minimum income for all. Nonetheless, the rising cost of living increased the expectation of pensioners to share in the rising prosperity and contributed to a widening gap between those securing private pension schemes, mainly white-collar employees,

and recipients of the *folkepension*, mostly LO members.¹⁶⁵ In fact, the minimum income guaranteed through the flat-rate pension system corresponded to a mere 10 to 20 per cent of average wage.¹⁶⁶ LO took the initiative again and called for an income-related, public pension scheme.¹⁶⁷

At the insistence of LO, the government proposed a supplementary, earnings-related plan, compulsory for both public and private employees. The proposal satisfied the principle of intra-class solidarity, as the scope for private pensions for higher-income earners was reduced. It also accepted the principle of wage differentiation between different types of employees, since final pension earnings would closely resemble individual income standards. The reaction to the ATP initiative by the opposition parties and business was negative. Alternative proposals varied from a voluntary private pension (Conservatives and business) to state-subsidized but voluntary insurance (Farmers' Party).

The Liberals claimed in 1958 that the ATP system would lower living standards; the Conservatives that the government wanted to expropriate 20 per cent of people's wages.¹⁶⁸ Opposition to the reform remained vehement throughout the late 1950s and a referendum took place in 1957 to decide on which of the three proposals mentioned above should be adopted. A plurality of voters supported the SAP proposal, but the issue had not yet been resolved. The Farmers' Party left the second red-green administration after the referendum, and the minority SAP government proposed new legislation in Parliament, which was defeated. New elections were called, in which SAP increased its share of the vote, and thus submitted a new version of the same proposal that offered additional benefits to white-collar workers.¹⁶⁹ When a Liberal Party MP abstained from voting, the bill was finally passed.¹⁷⁰

The pension reform is highly significant for three reasons. First, the ATP controversy strengthened the hold of the labour movement on the parameters of public policy debate. The 1960 election result signified an approval of the SAP's handling of the issue and has been described as 'the crowning achievement of the

Swedish welfare state'.¹⁷¹ An analysis of the 1957 referendum results carried out by the Swedish Institute for Opinion Research (*Svenska Institutet för Opinionsundersökningar*, SIFO) showed that one in four voters supported the labour movement's proposal ('Line 1') as a result of 'trusting the judgement' of either the SAP (10 per cent) or LO (15 per cent). The majority of civil servants (35 per cent) supported the government's line, in contrast to the Farmers' (27 per cent) and Conservative (12 per cent) plans.¹⁷²

Second, pension reform signalled the emergence both of the white-collar vote as decisive in shaping electoral outcomes and of the white-collar unions as powerful power brokers.

Third and most importantly, the reform was premised on three separate funds, administered by the public, private and independent sector respectively but borrowing the bulk of the funds accumulated to the public sector, thereby funding the government's ambitious housing project.¹⁷³

The ATP funds were added to the 1955 investment funds whereby corporations could receive tax-free income on profits of up to 40 per cent if they placed these in a special investment fund deposited with the Central Bank, on an interest-free basis, and released at times of economic depression. By the end of the 1960s the pension funds accounted for about half of all capital investment.¹⁷⁴ The creation of the funds signified the willingness of the labour movement to move beyond conventional social policy reforms, reduce the state's reliance on private capital markets and move the public policy debate towards the structural conditions of economic power.¹⁷⁵ LO was clearly satisfied with the outcome as it strengthened its role in public policy. SAF opposition to the labour movement's proposal, however, indicated to the union leadership that bargaining on social reforms might not be the best way forward. On welfare policy, the labour movement needed to impose its agenda.

The institutional prerequisites that the Swedish labour movement built on over the course of the twentieth century enabled the formation of a particular political and economic paradigm after the 1930s. The Rehn-Meidner Model helped social democracy

overcome some of the economic constraints placed upon the government in its quest for high productivity combined with solidarity. Despite occasional disagreements between LO and SAP on policy implementation, the decision by SAP to follow the Rehn-Meidner Model led to the strengthening of LO.

Cultural explanations of the Swedish Model have little analytical value considering the different phases of early labour relations. While it is undoubtedly true that a culturally homogenous character and small population provided Swedish workers and employers with a feeling of inter-connected interests, the 'spirit of *Saltsjöbaden*' was not inevitable. Its formation rested on a set of very specific political and economic developments that are the product of the country's historical evolution. First, the growing political power of the social democratic party through the cultivation of a mostly moderate political profile combined with radical policy innovation. Second, the realization by LO that close collaboration with the employers would deliver legitimizing benefits to their members and promote the goal of combining economic expansion with a universal welfare state.

There is nothing inherently cultural in the Swedish pattern of collaboration between labour and capital. A series of processes informed by historical and institutionally crafted policies are the main drivers of policy evolution. In that respect, it is interesting to note how the 'spirit of *Saltsjöbaden*' is even today conflated with supposedly 'Swedish' characteristics of conciliation and dialogue.¹⁷⁶ Assumptions of a distinct Swedish way of cooperation and compromise tend to ignore empirical evidence and conflate cause with effect.

The direction of the Swedish Model by the 1960s appears conducive to an almost idyllic picture of a growing economy, rising labour productivity and low strike levels in the context of solidaristic wage policy. In reality, however, the Historic Compromise was, during the Golden Age, entering its first precarious period. It was labour which, through the wage earner funds proposal, undermined the foundations of the Swedish Model and allowed the employers' offensive to take place in the 1980s.

3

Decline: Labour Radicalism

The success of the Swedish Model was premised upon the ideological flexibility of the Social Democrats, who developed a new approach towards unemployment in the 1930s. Also, the Rehn-Meidner Model linked welfare redistribution with labour acquiescence *vis-à-vis* a profitable private sector dominated by large export companies. In both of these conjunctures, the Swedish left was able to argue its case with reference to the requirements of the economy and strengthened its progressive political character. Furthermore, the collaboration of the unions and the party has not been without its problems.

The notion of a unified labour movement advancing the cause of social democracy in the Fordist Golden Age needs therefore to be problematized. The wage earner funds analysis will confirm this. The postwar compromise rested on an implicit understanding between labour and management regarding the role of private enterprise. Paragraph 32 of the *Saltsjöbaden* Agreement was central to the smooth functioning of the Model. When the unions questioned that prerogative in the early 1970s, SAF expressed its disapproval of LO actions without, however, questioning the legitimacy of its partnership with the unions. When, however, LO pushed for the adoption of the Meidner Plan for wage earner funds, the Swedish business community found a good opportunity to 'exit' the old Model and attempted to bring about a decisive shift in the balance of power.

Therefore, the decline of the Swedish Model is best attributed to growing trade union militancy and economic decline resulting from

the crisis that affected the developed world in the 1970s. Pontusson (1992) has described this process as a 'labour offensive' and divides it into three stages. It begins with an active industrial policy that enhances the role of the state in industrial restructuring, proceeds with the legislative package of the Social Democrats to introduce industrial democracy in the workplace and culminates with the wage earner funds proposal aiming at the collective ownership of industry.¹

The wage earner funds case is an illustration of the move from the Keynesian consensus to a more radical interpretation of economic justice. It represents a policy incident of enormous importance for social democrats in their quest to consolidate political power. On a theoretical level, the wage earner funds incident illustrates the need to incorporate 'normative and cultural dimensions which go beyond rational calculations'² to the politics of labour. A utility-maximizing approach, helpful as it may be in framing options, tends to obscure the salience of informal institutional settlements. These, however, played a decisive role in the process of transformation and decline. Unions and employers need to be understood not only as partners in the labour market but also as political actors whose identification with certain goals may override the expediencies of micro-level interests. The trade union offensive, it will be argued below, was the result of rational calculations as to the viability of its solidaristic wage policy as well as an ideological project that disregarded the concerns of the Social Democrats to satisfy LO members' demands.³

Based on the classification of Pontusson, this chapter begins with the 1960s socio-economic changes and labour radicalization, the product of overlapping factors. For the purposes of analytical distinction, they comprise: a) the effects of labour rationalization in the context of the Rehn-Meidner Model, b) the dilemma of LO regarding the maintenance of a moderate wage policy at a time of rising company profits and growing pressures for compensation, and c) the drive towards greater equality introducing a left-wing turn in party politics.

Origins and Preconditions of the Wage Earner Funds

Sweden had managed to achieve impressive rates of economic expansion after the war, averaging 4.9 per cent per annum from 1960 to 1965.⁴ Nevertheless, this growing prosperity was taking place at the same time as the Fordist economic paradigm was beginning to show signs of decline.

The Fordist mode of production, synonymous with the Keynesian welfare state in much of the Western world and based on assembly-line efficiency and Taylorist division of labour,⁵ was reaching the limits of its effectiveness at the end of the 1960s. Economies of scale were hardly effective any longer. The rationalization process of the Rehn-Meidner Model and the dislocation of workers were proving injurious and difficult to adjust to.⁶ Technical evolution was no longer held to be synonymous with progress as the rate of productivity began to fall. LO and TCO began to see labour mobility more as a short-term measure of expedience than a coherent strategy in itself.⁷

Prevailing production methods were unable to deal with the demands of the workforce and the labour market partners began to look for ways of addressing the issue. In 1960 SAF set up a group to examine the question of democratizing working life, and four years later both SAF and LO decided to enlarge the areas of consultation and information exchange. In 1968 a Development Council (*Utvecklingsrådet*) was established to experiment with a transition to post-Fordism accompanied by flexible specialization and an adaptable workforce.⁸ This necessitated increased worker involvement in developing a more flexible production system and a deepening of democracy in the workplace.⁹ The best examples of such efforts were the 1974 car plant in Kalmar based on individually controlled carriers replacing the conveyor belt¹⁰ and the work groups introduced by Saab in Trollhättan.¹¹

The democratization of working life demanded by employees was facing an intractable obstacle in paragraph 32, which SAF was not willing to negotiate on. Moreover, LO members opposed the increasing centralization of LO, and a growing distance emerged between

decisions taken in Stockholm at the elite level and the harmful consequences of active labour market policy and shop floor power relations.¹² LO failed to secure greater local union control over the content of work in its negotiations with SAF on occupational safety in 1968.¹³ It was not able to channel calls for more local autonomy effectively owing to the very structure of the Swedish Model. The Rehn-Meidner Model with its worker relocation programmes, full employment and centralized bargaining controlled by LO was 'minimizing the importance of union power at the workplace'.¹⁴ In moving job and region, workers often had to face financial and emotional stress. Despite the assistance offered by the state and AMS, many employees could not cope with the pressure. The Commission on Long-Term Employment Policy studied workers who moved from Northern Sweden. It concluded that two years after their departure 57 per cent were still in the new location, but 29 per cent had returned home.¹⁵

In 1969, frustration at the workplace found its expression in a wildcat strike organized by employees in the LKAB (*Loussovaara-Kiirunavaara AB*), a state-owned mining company in Kiruna. Although the official demands of the strikers related to higher pay,¹⁶ the strike was also a result of the growing frustration with rationalization. It was a vivid illustration of the Swedish Model's difficulties. Heclø and Madsen transcribed some of the accounts offered by striking miners. An example follows.

There are no seats in my work place. And it is certainly necessary to be active all the time. But five minutes every hour you can relax from the guarding. My mate and I brought a box to sit on and we rested there during those five minutes. The box disappeared ... two engineers come when you have been sitting for four minutes. They walk by and say 'Hi'. Nowadays they rarely say 'What sort of task do you have in the plant?' or something like that. It's only 'Hi'. But you know what they are thinking.¹⁷

Electoral considerations were instrumental in the increasingly radical stance adopted by the Social Democrats in the 1970s. The high volume of labour legislation introduced confirmed the party's willingness to match the rhetoric of its more radical wing and that of LO. As the unions faced great problems in persuading employers to enhance employee participation in the running of firms, the unions published a programme for industrial relations reforms in 1971. When they failed to gain the consent of employers, they resorted to legislation to 'democratize working life'.¹⁸ In doing so, they found a staunch ally in TCO, whose stance also forced the Liberal and Centre Parties to come out and declare their support for codetermination in the workplace.¹⁹

The SAP government introduced guaranteed paid leave and freedom of access throughout the plant for union work to shop stewards in 1974. The Security of Employment Act (*Lagen om Anställningsskydd*, LAS) in the same year forced employers to show 'just causes' for a dismissal and established mandatory provisions regarding dismissal notices.²⁰ The Work Environment Act of 1974 (*Lagen om Arbetsmiljö*) expanded the concept of occupational health and safety to 'include opportunities for involvement and personal development through work'.²¹ From 1975, employees gained the right to take time off work to continue their education. In 1976 the Co-determination Act (*Medbestämmandelagen*, MBL) Act expanded the areas subject to collective bargaining, incorporated collective bargaining legislation from 1920, 1928 and 1936, and exerted pressure on employers to enhance information and consultation procedures with unions.²²

The decision by the unions to bypass business and seek the direct help of the government was in clear breach of the social partner autonomy principle to which both sides had agreed in Saltsjöbaden. SAF later claimed that, during the seventies, a new law restricting business life was introduced every tenth day.²³ Though such pronouncements served the ideological purposes of SAF, they clearly indicated the dissatisfaction of business with the legislative turn of the Swedish Model. Their muted reaction at the time was a

result of the fact that core business prerogatives were threatened but not removed.

Although the 1976 MBL Act was in breach of paragraph 32 to the extent that it limited firms' exclusive right to manage, it was still subordinate to corporate law. Union involvement stopped short of decisions related to investment, choices of products or restructuring. Moreover, the legal formulations of the MBL did not interfere with a market economy. Unions had to negotiate to receive information and entitlement to consultation and were thus still reliant on the collaboration of employers. LO functionaries suggested that the new laws were not going far enough insofar as SAF retained its 'unlimited rights' at plant level. It would need the wage earner funds debate for the leadership of SAF to take a political stance against the 'funds society'. Nevertheless, the passing of the MBL Act provided the first serious crack in the operation of the Model regarding the core principle of social partner cooperation. LO and TCO withdrew from works councils to force through codetermination agreements once the MBL Act was introduced. Their goal was finally achieved in 1982.²⁴

The wage policy dilemma

A second factor leading to wage earner funds, and possibly the most important one, was the complicated position of LO regarding the consequences of solidaristic wage policy. While the policy had proven particularly successful regarding growth and welfare expansion, it also generated big profits for export firms. Big profits meant higher than agreed wage increases for skilled labour, as companies sought to invest in productive labour force. This led to calls for compensation by lower-paid workers in other sectors to maintain the politics of solidarity.²⁵ The union leadership became vulnerable to accusations of passivity in the face of 'excess' business profitability.

LO recognized its responsibility to maintain wage restraint. However, the growth of a new sense of egalitarianism in the 1960s and 1970s, spurred on by the feminization of the workforce and

subsequent calls for gender equality, forced the leadership to cling to wage egalitarianism. As a result, profits were successively squeezed and then relaxed again in 1974, 1975 and 1976. LO tried to balance economic expansion through company profitability and the wage politics of solidarity but often lost control.

Important as the material dilemmas of the Confederation were, they were not limited to employee dissatisfaction with wage distribution. In fact, welfare state achievements were increasingly questioned by LO. A 1966 Congress Report 'stated that there had been no marked change in the nominal income distribution among married persons as a group and the same was true for single persons'. The same report underlined that there had been an increasing concentration of wealth from 1957 to 1961, with a 26 per cent increase in accumulated wealth but a 48 per cent increase in wealth for high earners.²⁶ By 1971, the Economic Bureau of LO argued that the pattern of growth followed since the Model's start in the 1930s had failed to tame capitalism's tendency towards social destruction. Instead, new patterns of poverty and inequality were emerging.²⁷

The stage was therefore set for LO to experiment with newfound ideas regarding the redistribution of power in the workplace. Rudolf Meidner broke new ground in 1961 when he proposed 'branch rationalization funds' to be agreed upon by employers and unions through collective bargaining. These would assist the formation of collective capital by helping expanding firms while avoiding more wealth concentration in the hands of employers. The big unions, particularly *Metall*, met the proposal with a polite rejection, because of its rather academic character.²⁸ Still, the proposal initiated a series of suggestions that challenged the accommodating nature of the relationship between capital and labour.²⁹ The proposal's trajectory also reveals the shifting ideological climate. When the same scheme was presented at the LO Congress five years later, the project was simply termed 'branch funds' and talk of helping firms was dropped in favour of support for macro-level economic restructuring along more egalitarian lines.³⁰

At the 1968 LO Congress, delegates of the biggest Municipal

Workers' Union (*Kommunalsarbetsareförbundet, Kommunal*) called for an extension of the principles of solidaristic wage policy *across* the different work sectors.³¹ The changing interpretation of the Rehn-Meidner Model had by the 1960s meant that inter-industry wage structures were starting to level out.³² In 1969, some Congress delegates warned the Confederation that wage earners might turn against each other instead of the employers in their effort to receive 'just pay'.³³ The delegates' prediction proved true when the funds idea collapsed and *Metall* broke away from centralized negotiations in 1983. By 1970, delegates of *Metall* were openly criticizing the leadership for the failure of its wage policy. They charged that the LO line led to wage redistribution among wage earners instead of increases through a surcharge on company profits.

Between 1965 and 1971, there had been 16 motions at LO Congresses calling for equality between employers and employees in issues employees 'have an interest in'. In 1971 alone, 25 such motions were tabled.³⁴ LO now faced growing opposition to its policy. *Metall* delegates at the 1971 Congress tabled a motion on creating funds to increase employee influence in the workplace and democratize working life. The LO presidium instructed Meidner to form a study group on how the unions could 'get engaged in collective capital building and increase the influence of wage earners in the development of enterprises'.³⁵ In line with union demands, the leadership decided to embrace a rhetoric that challenged not only the principle of social partner autonomy but also the prevailing power equilibrium in the economy. It was the high point of labour radicalism.

The debate on how to increase investment as well as employee influence in the workplace was not solely a Swedish preoccupation. West Germany, France, Holland and Denmark all pondered the same questions, though on the basis of different schemes. Meidner claimed that his plan was actually an adaptation of the German idea.³⁶ Nonetheless, West German attempts to democratize economic life differed markedly from the Swedish initiative. The German goal was to continue with the reforms introduced in the 1950s – reforms that

were restricted to codetermination issues. Contrary to the Swedish pattern, codetermination was to be decided by individual companies, which restricted the policy manoeuvring of unions.³⁷

Industrial policy and industrial democracy

The wage-earner funds were propelled to the public arena as a result of political changes, too. The consequences of employee anxiety and left-wing rhetoric were felt by the Social Democrats, who received 42.2 per cent in the 1966 local elections – the worst result in any election since 1934. This was attributed to the shift of disgruntled social democratic voters towards the Communist party.³⁸ There was a widespread sense among the labour movement's supporters, and particularly its more radical wing, that the postwar strategy of SAP had failed to enhance equality.³⁹

The party's response came after an extraordinary Congress in 1967 agreed on a new industrial policy. The goal of that initiative was to underline the need for more social influence over the economy.⁴⁰ This new orientation entailed a series of institutional innovations such as the creation of a Ministry for Industrial Affairs, an executive agency (*Statens Industriverk*), and the merging of R&D institutions to coordinate research and development through the Technical Development Board (*Styrelsen för teknisk utveckling*). The same period witnessed the creation of a new bureaucracy whose goal was to integrate industrial and labour market policy. A number of industrial state enterprises were created and coordinated from 1969 onwards through the State Enterprise Corporation (*Statsföretag AB*).⁴¹ The formation of a fourth ATP Fund in 1973 to encourage public pension savings in the stock market demonstrated the conviction that capital markets could be subject to state intervention.⁴² The sharpening of the social democratic ideological image allowed the party to reap electoral benefits. Erlander's last election was a triumph: in 1968 the party received 50.1 per cent of the vote.

Although the new policy programme asserted the benign effects of state intervention, it did not go as far as the Postwar Programme – thus protecting the party from accusations of a socialist threat.

The programme stopped short of calling for implicit or explicit changes in the structure of the economic system. SAP hesitated to go beyond what it deemed necessary to revive the fortunes of flagging capital investment.⁴³ It refused to nationalize commercial banks as requested by its rank-and-file, opting instead for government representation on their Boards.⁴⁴ Governmental policy had a defensive and protectionist character that was contrary to the innovative approach the party had adopted on combating unemployment. The intensification of international competition in engineering and other advanced industrial sectors meant that firms sought to rationalize operations by reducing labour costs and invest in labour-saving equipment. The Social Democratic policies of state control amounted to little more than *ad hoc* measures designed to relieve immediate economic pressures and convince the public of the party's egalitarian credentials.⁴⁵

On the other hand, to bolster its rank-and-file, SAP put the phrase 'Increased Equality' on every election poster for the 1970 election campaign,⁴⁶ and the 1975 SAP Congress talked of the need to move to the 'third step' of the party's ambitions by introducing economic democracy after having achieved its political and social variants.⁴⁷ In contrast to the *Folkhemmet* slogan, 'Increased Equality' was quickly replaced by more 'anonymous' slogans after 1975.⁴⁸

A further decisive factor in the left turn of the Social Democrats was the international radicalization of the late 1960s.⁴⁹ Indicative of the wider shift in perceptions is the fact that the opposition agreed on the need for greater equality, though the tactics differed from party to party. The Liberals claimed bureaucracy stifled progress while the Centre Party focused on the environment.⁵⁰ The SAP programme of 1972 affirmed the egalitarian goals of the party and responded to such criticism by stressing the objective of social democracy to decentralize power.⁵¹ It has been argued that the policy stance of the Centre Party and the Liberals in the 1960s and 1970s was much closer to that of the Social Democrats than the Moderate Party (*Moderaterna*), despite the break-up of the Social Democratic-Centre Party coalition.⁵²

The Liberals in particular had long accused the Social Democrats of lacking an industrial democracy programme. After the SAP launched its industrial policy reforms, the Liberals went a step ahead. The 1972 Party Congress endorsed the idea of greater equality to ameliorate the negative effects of the free market and, in 1974, a Liberal motion called for 'a legislative right of wage earners to a percentage of firms' capital growth to be developed in such a way that it would work against state and individual concentration of power in economic life'.⁵³ The Social Democrats persisted in rejecting the Liberal calls for more employee participation in capital growth *as antithetical to the spirit of Saltsjöbaden and the principle of collective bargaining*.⁵⁴ In May 1974, however, and in the extraordinary conditions created by the hung Parliament of 1973, Social Democrats and Liberals agreed to appoint a state commission on the wage-earner funds issue in the context of the 'Haga Agreement' – a type of social contract involving all major interest groups and parties.⁵⁵ Even as late as 1978, the new Liberal Party leader Ola Ullsten asserted the party's centrist position by stressing that the debate on extra capital for firms was an important one that should be held without confrontation.

The economic crisis of the 1970s led to a structural downturn as soon as the boom resulting from the rise in raw materials ended. Unemployment increased to more than 3 per cent in 1971, a high percentage by Swedish standards. By 1973 the Social Democrats had lost popular trust on securing more jobs and handling the unemployment question.⁵⁶ It was the same perception of ineptitude regarding unemployment that caused SAP to suffer a heavy defeat in the 2006 elections, despite the healthy economic outlook.

The funds controversy

The committee of experts headed by Rudolf Meidner submitted its report to the 1976 LO Congress.⁵⁷ Three months before a general election, the report highlighted three goals that could be reached by establishing 'wage earner funds' (*löntagarfonderna*). First, the funds would assist the implementation of solidaristic wage policy by

curbing 'excess firm profits'. Second, they would counteract the concentration of power in the hands of 'traditional ownership groups' and third they would increase the influence of wage earners in the economy.⁵⁸

The plan foresaw that firms employing more than 50 employees would be required to issue new shares to an 'equalization fund' corresponding to 20 per cent of their pre-tax profits. Trade union representatives would administer the fund and the shareholding rights would rest partly with union-appointed boards and partly with representatives of the firm's employees.⁵⁹ Half of the funds' value would be dedicated to educational workers' purposes and the other half to investment in capital stock. The amount of equity capital received by workers would depend on the relationship between the value of the company and its profits. Higher profit returns would mean a quicker rate of ownership transfer.⁶⁰ On the basis of union calculations, it would take approximately 20 to 30 years for unions to acquire majority ownership in the most profitable Swedish businesses.⁶¹ The conclusion of the report left no doubt as to its intentions. Wage earner funds would change the ownership structure of Sweden's economy.⁶²

The Congress endorsed Meidner's proposal immediately, although LO President Gunnar Nilsson (1973–83) encouraged delegates to think hard about the kind of socialism they wanted.⁶³ The proposal became LO policy without any consultation with SAP.⁶⁴ Although it supported the plan in principle the party was caught off guard, unprepared for such a proposal three months before a crucial general election.⁶⁵ It decided to try and 'bury' the issue until after the election and consulted LO without accepting the Meidner Plan in full.⁶⁶

In the spring of 1977 a working group composed of LO and SAP representatives looked into alternatives and in 1978 the group presented a changed plan. It was composed of two separate parts designed to please both LO and the party.⁶⁷ The 20 per cent profit tax was maintained but would now apply only to the 200 largest Swedish firms. Companies subject to it would employ 500

employees or more, while regionally elected representatives would manage the funds along with trade unionists.⁶⁸ The second part reflected the anxieties of shadow Finance Minister Kjell-Olof Feldt, who sought to increase savings as the first generation of ATP pensioners was claiming its due. Feldt proposed the creation of 24 'development funds' financed by a payroll tax of 3 per cent on all earned incomes aiming at increasing capital formation.⁶⁹ Furthermore, the new plans proposed the establishment of a national codetermination fund financed through employer contributions to increase the influence of employees not taking part in profit sharing. A fourth goal was added to the funds' mission: increase savings and contributions to capital build-up.⁷⁰

The party accepted the proposal in principle at its 1978 Congress but tried to make sure that the issue would not dominate the 1979 election. It asserted that 'technical and legal problems' remained unsolved and a meaningful debate on the issue could not take place before the 1982 election.⁷¹ A larger working group was formed in March 1979⁷² and decided on the 1981 proposal that became part of the SAP manifesto.

The original Meidner Plan proposals were now diluted. Obligatory share issues were replaced by a 20 per cent tax on excess profits⁷³ as well as a one per cent payroll tax for firms in their ATP contribution. In this way, wage earners were given a stake in that the funds would contribute to their future pensions. The funds would be established in each of Sweden's 24 counties, be run by a Board of Directors and the accumulated capital would contribute to economic growth through share purchasing.⁷⁴ Imitating investment companies, the funds would seek profitable returns by investing all over the country.⁷⁵

In December 1983 the returned Social Democratic government legislated on the issue. Watering down the 1981 proposal further, the law provided for five regionally based funds run by government-appointed nine-member boards, of which five members would be union representatives.⁷⁶ The payroll tax financing the funds was reduced to 0.2 per cent and their build-up period was limited to

seven years, after which the funds could not receive any more revenues. The 20 per cent levy on real profits was retained and the businesslike approach of the 1981 proposal was now strengthened as the law underlined the function of the funds as portfolio investors.⁷⁷ The funds were obliged to show a minimum 3 per cent return on their investment. Finally, no single fund was allowed to own more than 8 per cent of a company's shares.⁷⁸

By the time legislation was introduced, opposition to the funds had grown enormously. Restrictions placed on the funds meant that by the end of 1990 they accounted for a meagre 3.5 per cent of the value of all corporate shares in the stock market.⁷⁹ The 1991 centre-right government kept its pre-election promise and abolished the funds.

'Say no to fund socialism'

With regard to the employers and the opposition parties, the initial reactions were very different from the outright hostility that united them in the 1980s. As part of the widespread consensus that more capital investment was necessary, SAF and the Industry Federation (*Sveriges Industriförbund*) had formed their own committee and published their report in May 1976. In that report, the proposals of Meidner were rejected to the extent that they would lead to 'state socialism' and add to the bureaucratic burden. However, the report was positive to the Meidner Plan insofar as it would be individually oriented and allow the cashing in of shares after a certain period of time. What many senior SAF executives rejected was the collectivist nature of the Meidner Plan rather than higher savings and wider employee participation.⁸⁰

In contrast with the accommodating stance of the Liberal Party, the Centre Party was split on the issue. Although its leader and Prime Minister Thorbjörn Fälldin (1976–78, 1979–82) rejected the plan, vice chairman Johannes Antonsson suggested the creation of regional funds to support small and medium enterprises (SMEs). The Moderate Party was the only one to denounce the fund plans outright, branding them an attempt at 'covert socialization'. Party

leader Gösta Bohman (1970–81) claimed that Sweden was to be turned into a factory for socialist experimentation. The different opinions regarding the funds had been replaced by unity in the non-socialist camp by the beginning of the 1980s. Political considerations were paramount in that change.

At a time when ideological polarization was on the increase, the non-socialist parties discerned the opportunity to inflict damage on the Social Democrats and exploit the divergent attitudes of the SAP and LO leaderships. From the late 1970s onwards, the opposition parties had no incentive to support the Social Democrats and the funds became a rallying point for unity in the non-socialist camp. Fälldin's objections gradually became sharper and were soon indistinguishable from the language used by Bohman and SAF. The ideological campaign launched by SAF in the late 1970s was crucial in associating the funds with authoritarianism and state socialism. Although the politicization of SAF in this period will be analysed in the context of its drive for the decentralization of collective bargaining, a full explanation of the funds issue requires a discussion of the role of business.

After the publication of its counter-report in 1976, SAF adopted a less accommodationist stance. It positioned itself at the forefront of a vocal campaign that culminated in an anti-funds demonstration in central Stockholm on 4 October 1983 attended by around 100,000 people. The ideological nature of the campaign was made clear in 1979 when SAF linked the 1978 proposal to the Soviet model of economic development and claimed that introducing the funds amounted to a contravention of the UN Declaration on Human Rights.⁸¹ In February 1983, Deputy Prime Minister Ingvar Carlsson was compelled to respond to an article in the SAF newsletter (*SAF Tidningen*) that compared Sweden to East European states in terms of individual freedoms.⁸²

Before its intense ideological engagement, SAF had campaigned more cautiously against the funds. A 1976 report justified its existence on grounds of relentless left-wing propaganda against the role of business and its contribution to prosperity.⁸³ SAF declared

that full employment was a goal it shared with the unions, that many businesses were sympathetic to the Social Democrats and that a majority of people supported the need for enhanced company profits to secure full employment. The Confederation called for a break in the wage-price spiral to secure real economic growth.⁸⁴ It was a message that LO could hardly argue against.

The confrontation between LO and SAF was tilted in favour of the latter as economic change reduced the salience of the state in credit supply, thus removing a large part of the unions' arguments. As Blyth explains, the collapse of the Bretton Woods financial order and the crisis of the 1970s meant that 'companies' debt management structures changed to accommodate greater financial volatility'.⁸⁵ As business financing changed from debt financing to equity issues 'the primary responsibility for the supply of credit fell no longer to the state ... but ... to stakeholders ... in this new and uncertain context, the idea that the funds could assist in capital formation struck business as an obsolete idea at best and political camouflage for nationalization at worst'.⁸⁶

The Employers' Confederation was therefore successful in belittling the funds' importance due to a new set of economic realities and a well-organized political campaign at a time when neoliberal economic ideas were in the ascendancy. The wage earner funds rapidly became associated with a policy proposal that went beyond the established order of the *Saltsjöbaden* period. The opposition was successful in branding the funds a threat to the mixed economy and the prevailing socio-economic order. In so doing, it was assisted by the Social Democrats.

Social democratic uneasiness

SAP ambiguity towards the funds sowed the seeds of defeat. Ever since the 1944 Postwar Programme, the party's leadership had limited itself to the existing power structure and supported a limited role for the state in the economic system. The acceptance of the plan by LO meant that SAP could hardly denounce the plans in public. Compston has shown that from the 1970s until 1991 the

bulk of Social Democratic economic policy was made in collaboration with LO.⁸⁷ It could be argued that this did not necessitate the cooperation of SAP with a policy proposal that upset the prevailing power balance. This would, however, neglect the importance of ideological confrontation in the 1970s and the collectivist spirit that permeated the labour movement. An outright rejection of the Meidner Plan would weaken the LO when its financial and organizational resources were as necessary as ever in the face of growing opposition.

The records of the Social Democrats and Prime Ministers Palme (1969–76, 1982–85) and Carlsson (1985–91) reveal the uneasiness of the party. Aware that SAF adopted an initially moderate stance, the SAP executive committee declined to take a position on profit sharing.⁸⁸ SAP was trying to avoid accusations of a union-controlled solution to a problem that could have been solved along the lines of the Liberals' proposal. Moreover, the political dominance of social democracy was constructed on the basis of blue- and white-collar collaboration. The Meidner Plan split that alliance.

At first, TCO responded positively to the original proposal and its 1979 Congress supported the idea on grounds of the need to increase wage earner influence in the workplace.⁸⁹ However, there was little in the Meidner Plan that TCO members could concretely aspire to. In 1980, a working group set up by the Confederation declared that wage earner funds did not provide guarantees for individual employees to assert their influence.⁹⁰ In contrast to the legislative reforms between 1973 and 1976 that TCO had supported, the funds did not meet the same criteria. Gradually, opposition grew within the ranks of TCO and particularly in the industrial union SIF, which launched an energetic campaign against the funds.⁹¹ One of the disadvantages of the proposal was that it was 'conceived solely for the working class, for industrial workers in the traditional sense'.⁹²

SAP economists started warning the party of the uncertain economic consequences of the funds. The SAP elite worried that the proposal ran counter to the politics of accommodation with capital.⁹³ The shifting rhetoric of the Social Democrats revealed the

attempt of the party to retain its flexible ideological approach, as changes in the external economic environment raised the stakes of confrontation with business. The SAP/LO proposal of 1978 attempted to depoliticize the debate by stressing the importance of increasing the rate of investment rather than redistributing wealth and power.⁹⁴ The shift in discourse accelerated as the opposition parties discerned the unpopularity of the funds.

Whereas in 1977 Olof Palme expressed a wish to see capitalism replaced by economic democracy,⁹⁵ at the 1981 Congress he portrayed the funds as decisive in securing employment and a better economic future. He also emphasized his support for the mixed economy. In the 1979 elections SAP linked the funds to security and a guarantee for future pension payments.⁹⁶ By 1981 the party manifesto reinterpreted economic democracy by stressing the need for wage earners, consumers and citizens to gain more opportunities to influence companies, *'taking into account economic realities'* (italics added).⁹⁷ Minister of Finance Gunnar Sträng (1955–76) often expressed his frustration with the idea in the early 1980s.⁹⁸ He reluctantly endorsed the 1978 version of the plan provided it would be financed by a value-added tax and be an extension of the ATP pension funds.⁹⁹ The support that the SAP leadership gave to the Meidner Plan was in all probability more a reflection of grass-roots pressure than a genuine attempt to convince a sceptical public. After all, the idea of workers retaining an individual stake in the firms that employed them was originally a Social Democratic proposal by Finance Minister Per Edvin Sköld (1949–55).¹⁰⁰

Public discourse and the popularity factor

On top of a changing economic reality, opposition politics, ideational polarization and Social Democratic uneasiness, the funds could hardly mobilize widespread support, even among the labour movement's grassroots. The problem was of a highly technical nature and contrasted sharply with the more recognizable issues of social welfare and employment. In 1976, a majority of people were in favour of some kind of funds. Most, however, preferred the SAF

proposal to the Meidner Plan.¹⁰¹ Among SAP voters, 45 per cent were either negative or uncertain about their attitude.¹⁰²

The rank-and-file had adopted a line befitting the labour offensive. A joint consultation exercise of LO and SAP in 1978 in which 65,000 SAP and LO members took part showed that 84 per cent of respondents asserted the right of wage earners to co-own firms. Thirty-six per cent of SAP groups consulted (study circles, women's and youth organizations) responded to the questionnaire whereas the corresponding figure for LO unions was 59 per cent.¹⁰³ The Social Democrats had great difficulty convincing even their own members of the funds' desirability.¹⁰⁴ In 1982, 43 per cent of SAP voters approved of the funds, 29 per cent rejected them and 28 per cent were uncertain.¹⁰⁵ Even the SAP-sympathizing press started wondering whether the whole debate had been a big mistake.¹⁰⁶

Among the general public, the popularity of the funds declined steadily. 32 per cent were in favour and 45 per cent against by 1979. Three years later, the corresponding figures had become 22 and 61 per cent.¹⁰⁷ Despite its official allegiance to some sort of funds, the Social Democratic party knew that the issue was an electoral liability. A survey conducted in February 1974 revealed that most people thought that 'trade unions' had a disproportionate influence on policy in relation to their trustworthiness.¹⁰⁸

Their association with the funds in popular discourse made things worse. In 1976 the percentage of people who thought that unions had too much power was equal to the number rejecting such a claim. By 1984, union power was deemed excessive by a majority of 39 per cent.¹⁰⁹ Although there is some disagreement on whether the funds issue played a marginal role in the 1976 Social Democratic election defeat¹¹⁰ or was decisive in the outcome,¹¹¹ what is beyond doubt is that the funds equalled electoral losses. The funds played a very marginal role in the SAP re-election in 1982, with 72 per cent of respondents stating that their vote had nothing to do with the Social Democratic backing of the idea. Moreover, the funds registered only in eighth place out of ten priority issues prior to the 1982 election.¹¹²

The Social Democrats were by the early 1980s supporting a reform that was technical, complex, and staunchly opposed by a majority of white-collar unions, opposition parties and business. They were, however, bound by their earlier support and could hardly renege on the promise to legislate.¹¹³ The party's attempt to shift the contours of the debate towards the economy in general met with little success. The centre-right and SAF conveyed the message of a union-dominated solution to a public increasingly wary of trade union influence. When the LO economist Per-Olof Edin published the proposal that was to become law in 1983, the press reaction confirmed the fears of the SAP executive.

With the exception of the Social Democratic *Arbetet* that saw the proposal as an important step to economic democracy,¹¹⁴ the national and regional press reacted mostly angrily. *Svenska Dagbladet* saw Sweden moving to the East,¹¹⁵ the tabloid *Expressen* saw power-political motives behind the funds,¹¹⁶ the liberal *Dagens Nyheter* adopted a neutral stance¹¹⁷ and the left-leaning tabloid *Aftonbladet* was just prepared to 'give the funds a chance'.¹¹⁸ In the regional press, the funds did not meet with any more enthusiasm. Though *Smålands Folkblad* welcomed the funds,¹¹⁹ *Värmlands Folkblad* called the reactions to the plans hysterical¹²⁰ and parts of the non-social democratic press, such as *Stockholms Tidningen*, stressed the calm reaction of the stock market,¹²¹ *Göteborgs Posten* took a stance against the 'funds society',¹²² *Göteborgs Tidningen* claimed that the government wanted to introduce socialism,¹²³ *Vestmännlandsläns Tidning* called for their immediate abolition,¹²⁴ *Blekinge Läns Tidning* declared that LO was on its way to turning Sweden socialist¹²⁵ and *Smålands Posten* published a survey showing the unpopularity of the funds among SMEs.¹²⁶ Perhaps *Norrköpings Tidningar* summed up the entire 1980s controversy best. Despite the Prime Minister's protestations against 'aggressive right-wing forces', the paper claimed, a 'right-wing wind' and a spirit of individualistic values were permeating the country.¹²⁷ The attempts of the Deputy Prime Minister Ingvar Carlsson to accuse the opposition of oversimplification failed to reverse the image of an unpopular piece

of legislation.¹²⁸

The Salience of Interests as Ideas: Explaining the Funds' Proposal

Power resources analysts interpreted the wage earner funds as the culmination of labour's growing power. By the 1970s, the argument went, labour had accumulated enough resources to strive for the fulfilment of its third historical step towards democratic socialism, namely economic democracy.¹²⁹ According to Stephens, Sweden was a different type of European welfare state as it had moved from welfare statism to production politics. It managed to place issues of ownership and control at the heart of the political debate.

The funds provided a 'brilliant solution' to the political and tactical problems of social democracy by allowing a gradual, cost-free transition to socialism.¹³⁰ Wage earners had accepted for a long time the concentration of capital in a few private hands but their gathering strength in the 1970s allowed them to concentrate on equality much more forcefully than before.¹³¹ At the end of the 1970s, the inherent contradictions of capitalism – with its co-existence of private production relations and the social character of productive forces – were posing serious challenges to SAP, but the working class prepared for the possibility of socialism.¹³²

Andrew Martin held that the evolution of Swedish political economy meant that the institutional changes suggested by the unions would encroach on the character of the capitalist economy. Such a turning point could be reached because of the favourable power configuration in the political arena and the labour market.¹³³ Walter Korpi saw in the funds the possibility of articulating anew the Historic Compromise.¹³⁴

This line of thinking downplays the interest-derived motives of LO in calling for the funds. Wage earner funds were the product of LO's strategy to guarantee wage equality and resolve the problem of wage restraint resulting in 'excess' business profits.¹³⁵ The downturn in the economic cycle meant that LO found it hard to calculate the degree of wage restraint necessary to maintain competitiveness

in the export sector. The fact that multinationals were increasingly investing abroad undermined the legitimacy of solidaristic wage policy.¹³⁶ In addition, the power resources theory is found wanting when assessed in the light of the Social Democratic stance. Far from pushing for a transition to the next step of democratic socialism, social democracy was reluctant to pursue a strategy whose consequences entailed a departure from the Historic Compromise.

Swenson asserts that the proposal was not the result of ideological change in the rank and file or the leadership, and that there was 'limited spontaneous support' from LO members for the scheme.¹³⁷ Even so, a hard core of the rank-and-file who sought to make their voice heard staunchly defended the funds. LO had little choice but to adopt their calls, considering its reliance on *Metall* to deliver wage restraint.

Ideological factors need to enter the analysis more forcefully. If not, we face great difficulty in explaining the persistence of LO on the funds after SIF, the largest white-collar union, declared its unwillingness to support the scheme. It may well be that, as Blyth has argued, 'LO did not see the funds as an assault on the rights of business' and was capable of justifying their 'necessary' character on the basis of similar proposals in the 1960s. The branch funds would also have meant an increase in trade union power.¹³⁸ Still, the strategy of LO was conditioned by its relationship to employers and its affiliated unions as well as the Social Democrats. Even if SAP did initially consent to the funds to 'give [the unions] something in return for wage restraint',¹³⁹ it is difficult to explain how LO persisted with its policy in the face of popular disapproval and Social Democratic uneasiness without having its own ideological motives.

Labour's offensive and the institutional asymmetry

The wage earner funds debate had serious consequences for the Swedish Model. It provided the backdrop against which SAF could push for the abolition of centralized bargaining and its withdrawal from corporatist decision-making. It was, however, LO that encouraged the turn to rhetoric unrepresentative of the Model's

operation. The funds are also indicative of the wider changes that the labour offensive sought to bring about. By deciding to bypass the employers in addressing workplace problems, LO discarded a functioning principle of the Historic Compromise. In this context, the MBL Act of 1976 served as a signal to SAF as to the intentions of LO. Business saw the MBL Act as a major political defeat leading to an institutional asymmetry with regard to the resources of the two sides in protecting their interests.¹⁴⁰

The Swedish Model's strength was derived from a common understanding between capital and labour as to the necessary political and economic framework measures to deal with emerging problems. When the political dominance of social democracy ended with the 1976 election, the favourable momentum for labour was reversed. Now that the threat of legislation had been lifted, SAF could abandon its defensive strategy and count on governmental neutrality, if not sympathy, in reversing the legislative trend of the early 1970s.¹⁴¹

If the MBL Act was a tactical defeat for SAF, the 1976 Meidner Group report left little doubt as to the unions' ambition to abolish paragraph 32 *de facto*, if not *de jure*. Paragraph 32 was accordingly characterized as 'a serious obstacle to the democratization of working life'.¹⁴² The salience of the funds in facilitating the u-turn of SAF in the late 1970s is further revealed in three episodes.

After the 1978 proposal, SAF decided to end its institutional collaboration with the unions and the state on the issue. In 1982, it refused participation in a consultation group on economic policy. In an open letter signed by, among others, the Confederation's chief executive Curt Nicolín (1976–84), SAF signalled its complete rejection of 'collective funds'.¹⁴³ Second, when Finance Minister Feldt (1982–90) complained of SAF intransigence, Nicolín replied that SAF had cooperated with all governments until the funds' introduction.¹⁴⁴ Finally, the change of heart regarding the usefulness and viability of the funds by the Liberal and Centre parties was not only a result of their party political calculations. As part of its counter-offensive, SAF deemed it appropriate to meet with those

Liberal and Centre Party members positively predisposed towards the funds, to dissuade them from continuing their support.¹⁴⁵

The wage earner funds controversy was the first significant crack in the Historic Compromise structures. It entailed a partial yet significant abandonment of the social partner autonomy principle on the part of LO. It was also the high point of the labour offensive, which stemmed from ideological factors related to the transformation of Swedish society and interest-based calculations regarding wage restraint and the solidaristic wage policy. The failure of the funds was as much a function of employer and opposition reaction as it was of Social Democratic uneasiness. SAP was not prepared to throw its weight behind a proposal that did not guarantee the maintenance of the blue- and white-collar alliance on which the party had relied for its political dominance. In addition, global economic changes meant that the significance of the funds had by the 1980s been restricted to such an extent that their unpopularity made them a burden, rather than an asset, for the social democrats.

The smooth functioning of the Model was also premised on the implicit acceptance by the unions of the veto power that business retained on the direction of economic development. For the social democrats, collaboration with business had always been a precondition for the pursuit of welfare politics. Occasional disputes between the two sides were resolved in such a way that 'the interests of capital did not suffer and radical notions of economic planning or the collectivising of industrial ownership had to give way'.¹⁴⁶ Beginning from the late 1960s, employee dissatisfaction with the workplace, economic reorganization and ideological radicalism pushed LO to the left. To satisfy its members, retain influence over policy-making and solve the wage dilemma, LO embarked on an offensive starting with the abandonment of collective bargaining on workplace problems and ending with the Meidner Plan.

Apart from the interest-based calculations of the Meidner Plan, the rhetorical devices applied by LO in the 1970s underline the role of ideas in policy formulation and explain changing preferences

regarding the Model's functioning. After all, the proposal was outlined in the context of a still-dominant Keynesian consensus regarding the role and responsibilities of the state in economic policy.

The importance of ideas was evident in the initial policy response of the Social Democratic, Liberal and Centre parties, whose inclination was to work with LO and reach a widely acceptable compromise. If ideas and perceptions about ideas do not matter, the policy u-turn of the Liberals and the Centre within the space of a few years is impossible to explain.¹⁴⁷ In an institutional context tilted in favour of the labour movement, the unions opted for a left-wing change without calculating the gradual change of ideational discourse away from collectivism.

As March and Olsen argue, for all their importance in explaining and analysing institutional change, ideas tend to change only gradually, resulting in significant time lags in the absorption of new institutional constellations.¹⁴⁸ LO actions facilitated the employers' counter-offensive and provided them with enhanced legitimacy. The ideological reversal that accompanied the intensification of post-Fordist restructuring and an alteration in the composition of the Swedish labour market meant that the wage earner funds had unwittingly prepared the ground for the business counter-offensive. This counter-offensive dealt a further blow to the old Swedish Model and challenged the social democratic hold over ideas and policies.

4

Demise: Employers' Radicalism

If the wage earner funds debate was the culmination of the labour offensive, the reaction of the Employers' Confederation revealed their determination to react strongly to the 'provocation'. SAF sought not only to decentralize collective bargaining. It also opted for the politicization of its role by taking an active stance in the ongoing ideological debate. It launched a series of attacks against the 'trade unionization' of political economy and the 'rigid' character of the labour market. Due to the solidaristic wage policy and far-reaching labour laws, it claimed, entrepreneurship had been undermined and had been combined with a 'wasteful, spendthrift' welfare state.¹

The employers' counter-offensive constituted a second significant break with the historic compromise. It went beyond issues of distributional efficiency and challenged the dominance of labour over distribution. Technological change and the emergence of a global economic system obliterated the usefulness of a neocorporatist settlement for SAF.

Collective bargaining decentralization is singled out as decisive in 'changing the politics of economic decision-making'.² The successful attempt to decentralize bargaining should be viewed as part of a broader ideological offensive that sought to undermine the usefulness and relevance of a negotiation-based policy pattern. Decentralization restored the initiative in industrial relations regulation to management and emphasized the importance of company-level decision-making, where management is superior, as opposed to the industrial and national level favoured by the unions.³

The goal of SAF at the end of the 1980s was for wage negotiations to be conducted solely at company level. This policy goal has not been entirely successful, though, due to two main reasons.

- a) Industrial employers recognized their reliance on labour in a post-Fordist era and the need for just-in-time delivery.⁴ The 1995 bargaining round exposed them to the vulnerabilities of complete non-coordination: a costly and self-defeating policy. More generally, employers recognized the drawbacks of overhauling the coordinated type of economy they inherited from previous generations. Unions and employers have become embedded in a dense web of relations. Assuming that the employers' goal is the transition to a variant of LME, moving in such a direction entails institutional disadvantages and high transition costs. Employers are reluctant to resign from existing benefits for uncertain gains tomorrow, especially where the power of organized labour remains formidable.
- b) Unions, on the other hand, have retained their relevance in policy-making by reformulating their strategies ever since the early 1990s. A process of *bricolage*⁵ was launched, resulting in the maintenance of high levels of organizational coherence. LO also retained strong financial resources, along with its links to the Social Democrats. Undermining the Swedish type of negotiated settlement in the labour market is much more difficult than many in SAF may have thought possible in the 1980s. Institutional complementarities are largely responsible.

An interest-based approach is useful here, as it underlines how global economic change and the particular characteristics of Sweden's institutional development permitted a re-alignment of forces conducive to a weakening of intra-union solidarity. Nevertheless, an 'interests-only' explanation is inadequate. The salience of ideas in persuading key actors of the need for change accompanied the collapse of Keynesianism and the onslaught of globalization. All of these factors, to a greater or lesser extent, contributed to the

formation of a power equilibrium that favoured a shift away from centralized bargaining and a corporatist style of policy-making towards decentralization and greater employer autonomy on investment, production and working conditions.

Special attention should be paid to two important developments in the labour market: a) the fortification of TCO power resources and the concomitant growth of SACO (*Sveriges Akademikers Centralorganisation*), and b) the expansion in women's employment opportunities, facilitated by the gender equality drive and supported by a set of policies aiming at women's emancipation. Economic change complicated wage bargaining and undermined the old settlement. Technological change and the growing exposure of the domestic market to venture opportunities abroad played a crucial role in the institutional differentiation *within* labour and capital. Still, an exclusive focus on economic incentives ignores the salience of ideological convictions with clear political repercussions. These strengthened the employer counter-offensive. The ideological turn of SAF is crucial to understanding the old Model's collapse.

New Policy Actors and the Fragmentation of Decision-Making

By the late 1960s, the parameters of the Swedish Model's operation had shifted. This did not necessarily represent a break with established practice. For instance, the centralization of collective bargaining was only introduced in the mid-1950s on the insistence of SAF and proved successful for no more than 10 to 15 years. Collective bargaining decentralization is not an aberration from the politics of compromise *per se*. It is rather a representative case of a politically motivated attempt by the Employers' Confederation to disarticulate the Historic Compromise by means incompatible with those on which the Model was initially founded.

Until the 1960s, certain factors provided a sense of continuity in the Model. First, the relationship established over years between leaders such as the LO President Arne Geijer (1956–73) and the Executive Director of SAF Bertil Kugelberg (1947–66). That they had been involved in negotiations from the early postwar period

meant they shared a common understanding on the operation of the labour market.⁶ Second, most wage earners were LO members. This allowed the solidaristic wage policy to function. 'It was relatively easy to reconcile the two components of solidaristic wage bargaining (redistribution and restraint) in the 1960s because there were only two major actors in the bargaining process...'⁷ Finally, both labour market partners and the state benefited from collaboration and negotiation as the Swedish economy boomed during the Golden Age.⁸

From the 1960s onwards, new actors joined the negotiating table alongside LO and SAF. TCO, founded in 1944, grew considerably. This allowed it to become a partner of LO on issues of social and economic policies, breaking the blue-collar monopoly of wage earners' representation.⁹ From 1945 to 1975, union growth rates increased (Table 4.3) but the LO membership share fell from 79 to 63 per cent whilst that of TCO increased from 14 to 32 per cent.¹⁰ (Tables 4.1 and 4.2) This reflected changes in the organization of production. From the 1950s to the 1980s the percentage of workers employed in the manufacturing industry dropped from around 40 per cent to approximately 20 per cent.¹¹

TCO became an active participant in corporatist policy-making by increasing its representation in public bodies tenfold between 1950 and 1980.¹² Its organizational capacity, in a country where civic participation in voluntary associations and unions has always been high, also improved markedly. In 1990, TCO employed 116 professional staff compared to 269 employed by LO.¹³ The union confederation of academically trained professionals, SACO/SR, was founded in 1947.¹⁴

In 1966, public sector employees gained full bargaining rights and the right to strike: SACO utilized this opportunity and organized a teachers' strike.¹⁵ In 1971, higher civil servants and professionals in SACO and SR went on strike again in reaction to wage drift in the blue-collar sector and pay egalitarianism in the public sector.¹⁶ Such strike action, in combination with the uneasiness in LO unions related to changes in work organization, was a clear indication that the Model was entering a new phase, not least

Table 4.1: Union growth rates, percentage of union density

<i>Year</i>	<i>LO</i>	<i>TCO</i>	<i>SACO</i>	<i>SR</i>
1945	78.5	14.1	0.5	1.0
1950	77.9	16.9	1.0	1.3
1955	76.1	19.2	1.8	0.8
1960	74.4	20.6	2.2	0.8
1965	70.6	24.3	2.8	0.8
1970	66.3	28.3	3.2	0.8
1975	62.9	31.9	4.3	—

Source: Kjellberg, A. 'Sweden', in *The Societies of Europe*, P. Flora, F. Kraus and F. Rothenbacher (eds.) Basingstoke: Macmillan 2000, p.650.

Table 4.2: Union membership, growth by Confederation, in percentage

<i>Year</i>	<i>LO</i>	<i>TCO</i>	<i>SACO</i>	<i>SR</i>
1945–50	2.8	6.8	17.2	8.2
1950–55	1.4	4.4	15.4	7.4
1955–60	1.2	3.1	5.9	1.3
1960–65	0.9	5.3	6.7	0.8
1965–70	0.8	5.2	5.2	1.6
1970–75	2.4	6.0	9.7	—

Source: Kjellberg, A. 'Sweden', in *The Societies of Europe*, P. Flora, F. Kraus and F. Rothenbacher (eds.) Basingstoke: Macmillan, 2000, p.650.

Table 4.3: Union membership in thousands, 1950–1980

<i>Year</i>	<i>LO</i>	<i>TCO</i>	<i>SACO</i>
1950	1.278	272	44
1960	1.486	394	73
1970	1.680	719	115
1980	2.127	1.043	225
1990	2.230	1.276	330

Sources: Kjellberg, A. 'Sweden', in *The Societies of Europe*, p.618; Peter Gourevitch et al., *Unions and Economic Crisis: Britain, West Germany and Sweden*, London: George Allen and Unwin, 1984, p. 344.

due to the lower levels of collective agreement coverage, organization and union density that characterize the service sector.¹⁷

Public sector expansion and gender equality

The right to strike offered to public sector employees resulted from the growing importance of the public sector in overall wage agreements. Until the mid-1960s and early 1970s, Sweden was not very different from other OECD countries in terms of the size of the public sector.¹⁸ After that period, public sector employment increased sharply. Between 1965 and 1977 the average annual increase was 5.7 per cent and by the end of the 1980s the state employed one in three workers.¹⁹

The public sector was embodying the drive for democracy supported by LO and TCO, whereas private firms were deemed unaccountable by a large part of the labour movement.²⁰ Political considerations on the part of SAP were clearly at play, as work in education, health and social services was seen as promoting social solidarity.²¹ Public expenditure rose from about 43 per cent in 1970 to over 60 per cent in 1989 (Table 4.4) and public consumption increased from 16 per cent in 1960 to 30 per cent in 1983.²² The growth in public expenditure resulted from the fact that the Swedish welfare state was mainly reliant on tax-financed social services rather than the social security contributions typical of the Continental welfare model.²³ The growth in social expenditure meant that the ratio of those employed in the public sector or living on state benefits to market-financed individuals rose from 0.38 in 1960 to 1.51 in 1990.²⁴

The role of women in this process has been crucial. Female rates of employment shot up from approximately 30 per cent after the Second World War to 50 per cent in 1960 and 74 per cent in 1980.²⁵ Social policy was a prime factor behind this growth. Along with subsidized childcare facilities, universal child benefit and care for the elderly outside the household,²⁶ the 1974 Parental Insurance Act enabled parental leave for both men and women. A tax reform at the beginning of the 1970s entailed an individual assessment of

incomes to enhance the attractiveness of paid female employment.²⁷ In 1979, an Equal Status Act was passed offering legitimacy to women's needs.²⁸ Bargaining between LO and SAF led to the abolition of 'women's wages' in 1960.²⁹ The side effect of this growth has been the extremely high levels of segregation in the labour market. Women mostly occupy low-paid public sector jobs, very often on a part-time basis, and men concentrate in the higher-paid private and professional sector.³⁰

Table 4.4: Public government outlays, percentage of GDP

<i>Country</i>	<i>1970</i>	<i>1975</i>	<i>1979</i>	<i>1984</i>	<i>1989</i>
USA	31.6	31.7	36.5	35.8	36.5
Japan	19.4	31.6	33.7	33.2	32.9
Germany	38.6	47.6	49.4	48.0	45.1
France	38.5	45.0	50.4	52.0	49.3
UK	38.8	42.5	46.9	47.2	39.7
Sweden	43.6	61.0	66.3	63.5	60.6

Source: OECD Working Paper 1991 (90), Table 6, p.38

Separate wage negotiations were initiated involving different cartels at different levels as a result of public sector expansion. This inevitably complicated collective bargaining. In the private sector, bargaining was now taking place between LO, SAF and PTK (Council for Negotiation and Co-operation), a white-collar union cartel comprising both TCO and SACO unions. In the public sector, wage determination resulted from negotiations at two levels. At the national level, the National Agency for Public Employers (*Statens Arbetsgivarverk*, SAV) negotiated with a cartel comprising unions affiliated to LO (*Statsanstalladas Förbund*, SF), TCO and SACO/SR-S.³¹ Regionally and locally, SKAF (later renamed *Kommunal*), KTK (*Kommunal tjänstemannakartellen*) representing TCO and SACO/SR-K (*Kommunerna*) was responsible for negotiations with SK (*Svenska Kommunförbundet*), the Swedish Association for Local Authorities and LF (*Svenska Landstingsförbundet*), the Federation of County Councils.³²

Four bodies enjoyed very similar strength in wage negotiations. LO, PTK and the public sector unions represented LO and TCO unions. This 'Gang of Four'³³ signified the end of uniformity in determining the parameters of the industrial relations system. The distributional equilibrium prevalent until the 1960s changed and offered little incentive to private employers to continue with centralized negotiations. According to SAF, the new environment violated the norm of fairness in wage distribution.³⁴ The institutional preferences of key actors changed as a result of shifting interests and a new constellation of power between the public and private sector.

Solidaristic wage policy under strain

The politics of wage solidarity that LO adopted through the Rehn-Meidner Model ran into difficulties. A crucial factor in that, apart from the increasing profitability of export-oriented firms, was the growth of white-collar unions. Whereas the coordination of wage policy had earlier equalled wage settlements in line with economy-wide competitiveness, after that period they became synonymous with income settlements for all income groups and occupational sectors.³⁵ The LO-SAF agreements were until then seen as defining the upper limits of white-collar demands. After the 1960s, they defined the minimum acceptable limits.³⁶ This complicated the attempts of LO to reconcile real wage increases with a narrowing of wage differentials at a time when solidaristic wage policy had begun to have a real effect on inter-industry wage levels.³⁷

Between 1970 and 1980 wage dispersion among manual workers dropped by 54 per cent. For white-collar workers the reduction was 26 per cent between 1972 and 1980.³⁸ LO unions with predominantly low-paid members had formed a powerful cross-union alliance, supported by *Metall*, and enforced a successful policy of wage solidarity across the board. Moreover, the agreements between LO and SAF after 1969 went beyond the original Rehn-Meidner proposals. Aside from inter-industry wage levelling, the principle of 'equal pay for equal work' started to mean wage equalization *within*

firms too, thus squeezing wage differentials.³⁹ The attempt by LO to defend wage levelling across the board was premised on the belief that wage differentials were too high to be justified on the basis of job and skill differences. The radicalization of the labour movement played a decisive part in the LO stance.

Wage levelling undermined the competitiveness of the Swedish economy. As Erixon has argued, 'in practice, solidaristic wage policy followed the principle of "equal pay for unequal work" as much as the original principle of "equal pay for equal work"'.⁴⁰ The introduction of detailed clauses in the agreements during the 1970s meant that there was less room for adjustment to market conditions.⁴¹ While this change was in line with part of LO's wage politics of solidarity, the employers, especially in the engineering sector, were less than happy. The Association of Engineering Industries (*Verkstadsföreningen*, VF) first suggested that wage bargaining should become decentralized in 1974. By 1975, it became the first important SAF member to consider steps in that direction, although the SAF leadership was not yet convinced of the proposal's merits.⁴²

The VF rejection of the changed Swedish Model resulted from their reduced margins and competitiveness. Employers had until then used wage drift at the plant level to reinstate some form of wage differentials.⁴³ New provisions added to LO-SAF agreements, however, meant that unskilled workers were now compensated for the wage drift enjoyed by skilled workers during the previous year. Company-level union officials often attempted to please all sides by securing certain wage increases but without abandoning the increase for low-paid members. A form of 'secondary drift' ensued.⁴⁴

Wage drift had become significant in 1964, when it exceeded contractual wage increases by more than two times.⁴⁵ The influx of more bargaining players led to more drift. SIF and PTK attempted to pre-empt the wage drift built into LO contracts and called for the adoption of earnings development guarantees safeguarding a drift of up to 100 per cent to the one achieved by LO.⁴⁶ To maintain the solidaristic wage policy, LO adopted a wait-and-see

approach in wage bargaining and this caused friction with the other negotiating bodies.

In the context of blue- and white-collar rivalry, wage drift became a major source of economic instability, characterized by up- and downward cycles of wage increases that reduced the real purchasing power of employees due to inflationary pressures. In 1974, nominal wage increases reached the highest level since the 1950s but real earnings were only marginally higher. Between 1970 and 1992 wage costs rose 700 per cent whereas real wage increases were between 10 and 20 per cent.⁴⁷ Combined with the acceptance of consistently high inflation, contrary to the Rehn-Meidner Model's prescriptions, this wage-price spiral was attacked by SAF in its 1976 Report.

Threatened by the growing importance of TCO and SACO, LO attempted to assert its dominance.⁴⁸ LO leaders used to proudly proclaim that "we decide everything" and TCO and SACO have to adapt to these positions.⁴⁹ In 1964, LO started a campaign against TCO and threatened to abandon wage restraint.⁵⁰ Five years later it launched a bid to coordinate all bargaining under its leadership.⁵¹ Threatened by SIF with industry-level bargaining if it did not agree on a separate central agreement for white-collars, LO retreated; in December, SAF signed a separate five-year agreement with what became PTK a few years later.⁵² The leading position of LO was not guaranteed any longer and the Confederation opted for a wait-and-see tactic before the 1971 bargaining round to negotiate on low-wage earners from an equal footing.⁵³ LO were waiting until PTK was ready with agreements ... they were spying on each other, waiting for each other and were in clear competition.⁵⁴

The old Model was not working. Still, common solutions and proposals were negotiated between the parties. In 1968, LO, TCO and SAF set up a working group to establish a new wage negotiation prototype.⁵⁵ They realized that productivity growth rates in the domestic sector lagged behind those of the competitive/export sector,⁵⁶ and that domestic-oriented services and industries were able to pass on wage increases by raising prices.⁵⁷ An LO-SAF commission was set up to look into wage development. It

comprised the chief economists of TCO Gösta Edgren, SAF Karl-Olof Faxén, and LO Clas-Erik Odhner, and became known as the EFO model.⁵⁸ A distinction was made between the competitive ('C') and the sheltered ('S') sector of the economy. The operating principle of EFO was to tie wage increases to productivity growth in the export sector and add world inflation.⁵⁹ Increases in prices for the C sector were taken to be externally determined. Equal productivity growth levels in C and S meant that unions and employees in the latter would have to accept lower wage increases.⁶⁰

In the 1970s, economic stagnation and falling productivity exacerbated the problem of coordinated bargaining. World production and foreign trade rates declined. Sweden was particularly hard hit due to its high dependence on industries such as iron ore, forestry and shipping.⁶¹ The state sought to control events by taking an active part in wage formation, by manipulating tax policies and changing the level of employers' contributions. In effect, state incomes policies were legitimized and the state took part in the concertation process to improve economic conditions.⁶² The 'Haga talks' brought together all major parties, interest groups and labour market partners to reach an agreement on after-tax wages.⁶³ The agreement reached and the acceptance by firms of higher wage increases proved to be an illusionary settlement.

Due to an unexpected profit boom in raw material prices and high international demand for investment products, employers agreed on higher wages, as wage drift was very high.⁶⁴ This was in line with the Rehn-Meidner Model's assumption that a simultaneous profit and export boom leads to high wage drift as demands for compensation become more vocal. The rise in inflation in 1974 led to the growth in the wage-price spiral⁶⁵ and was succeeded by fluctuating policy cycles in the periods 1973–76 and 1977–80.⁶⁶ The increase in payroll taxes from 1973 to 1977 compounded the country's economic problems.⁶⁷ Wage drift reduction from 6–7 per cent in 1974–76 to about 3.5 per cent in 1979 was more the result of falling profit margins than a sign of union restraint.⁶⁸ In the words of Assar Lindbeck,

A basic idea in Swedish economic policy during the 1970s and 1980s was to replace market mechanisms with political and administrative decision making, including selective taxes and subsidies ... a reduced role for economic incentives and markets was supposed to be compensated for by selective government financial support and interventions.⁶⁹

State income policies and selective state intervention to prop up the economy were not only antithetical to the traditional Swedish Model. They were also ineffective, as the internationalization of large parts of the Swedish economy meant that unions could hardly influence variables central to the agreements reached. This is the also the main reason for the failure of the EFO model in the 1980s, with the union and business sides split over future inflation projections and acceptable wage increases.⁷⁰

The operation of the Rehn-Meidner Model was distorted with regard to labour market policy. Instead of stimulating restructuring, labour market policy now accommodated the expansion of the public sector in the face of economic stagnation.⁷¹ Instead of encouraging labour mobility, it was increasingly used as a means of substitute employment for those regions registering surplus labour.⁷² Whereas in the 1960s about 0.5 per cent of the labour force was taking part in labour market retraining schemes, a decade later the percentage had risen to 1.5 to 2 per cent. Its apogee would be reached in the early 1990s, when 5 per cent of the labour force was enrolled in such programmes. Interestingly, this occurred under the auspices of the centre-right Bildt government, otherwise committed to dismantling social democratic policies.

The non-socialist coalition government (1976–82) did little to change the situation. Public expenditure rose further during that period.⁷³ In terms of industrial policy, the centre-right actually 'nationalised more industry during their first three years in office than the Social Democrats had done in the previous 44 years'.⁷⁴ The government's social policies continued along the lines set by its predecessors. Avoiding welfare reductions as well as tax cuts

meant that by 1982 the public deficit had reached 13 per cent of GDP.⁷⁵

Finally, regarding the pay structure, the centre-right governments of 1976 to 1982 attempted to inhibit a rigid pay standardization for public employees; but in a position of political weakness, and confronted by LO, they were less determined than their Social Democratic counterparts to change the system.⁷⁶ Many of their own supporters accused the centre-right parties of trying to outdo SAP by implementing its policies more efficiently.⁷⁷ The government sought to convince the electorate that the social democratic consensus could be maintained under a non-socialist administration.

In that respect, interesting parallels have been made between the 1970s government and the *Allians för Sverige*. The description of the Moderate Party as the 'light' version of SAP by the Swedish media was a constant theme during the 2006 pre-election period. It also captures, at least to a certain extent, the shift of the erstwhile neo-liberal Swedish party towards the centre of the political spectrum, at least with regard to its policy discourse. The party leader since 2003 and Prime Minister since 2006 Fredrik Reinfeldt is credited with that change, following similar attempts at 'rebranding' the centre-right elsewhere in Europe, such as the UK Conservatives under David Cameron, the Spanish Popular Party under former leader Jose Maria Aznar and the Greek New Democracy Party headed by Kostas Karamanlis.

Flexible Specialization and the Cross-Class Alliance

The transition to post-Fordism was associated with growing employee dissatisfaction. Nevertheless, post-Fordism entailed a set of opportunities for business on the basis of which the export sector, particularly the engineering branch, was able to push for the decentralization of bargaining and exploit flexibility in production techniques. Nonetheless, complete decentralization of bargaining soon ran counter to the sector's cherished goal of industrial peace,⁷⁸ and by the end of the 1990s efforts to coordinate wage bargaining were well under way.

Central to the process of decentralized bargaining and the emerging dichotomy between export-oriented and domestically oriented capital and labour has been the concept of flexible specialization associated with the rise of post-Fordist production techniques. Post-Fordism is a vaguely defined concept. It has been argued that industrial restructuring in the 1970s was accompanied by a series of new production options and possibilities, ranging from the division of labour along post-Taylorist lines to the growth of small-scale network firms operating alongside big conglomerates aiming at the delivery of specialized products.⁷⁹

For the purposes of explaining the emergence of a 'cross-class alliance' between export-oriented capital and labour,⁸⁰ flexible specialization is the core theory. 'The widespread application of numerically controlled, multipurpose machinery during the 1970s and 1980s led to a shift away from standardised mass production to diversified quality production.'⁸¹ Taylorist methods reached the limits of their effectiveness. They were replaced by a mode of production emphasizing the 'responsible autonomy' of workers, who were given multifaceted tasks to deliver 'just-in-time' products.² The clear-cut Fordist distinction between skilled and unskilled workers gave way to a less hierarchical pattern of product organization that stressed individual abilities as a core element of value added. In that context, John Matthews has defined post-Fordism as

[Focusing] on the need for flexibility and a capacity for innovation in an economy geared to dynamic structural adjustment. It is distinguished from competing neo-Fordist perspectives in its insistence that flexibility and productivity are most efficiently based on the skilled input of workers taking increasing levels of responsibility for the design of their jobs, their workplaces, their products and ultimately the management of their enterprises.⁸³

Swedish unions and employers adopted part of these techniques in the Kalmar car production factory pioneered by Volvo. Lipietz has

defined 'Kalmarism' as the 'external rigidity of the labour process associated with negotiated involvement by producers'.⁸⁴ The reference to external labour process rigidity is probably a reference to the high degree of labour protection laws in the Swedish context. 'Multi-skilling' offered opportunities for personal advancement through retraining but also widened inequalities between different categories of workers.

Employers in the engineering sector greeted the reorganization of production as an opportunity to embrace flexible production techniques.⁸⁵ To achieve economies of scope, they became attracted to the idea of enhancing non-standard forms of payment, such as bonuses, performance-related payments and profit sharing.⁸⁶ In this way, employees would participate in company management in line with Van Tulder's definition and in the context of a form of popular capitalism. Moreover, the adoption of new technologies and specialization techniques was particularly important for the Swedish economy, taking into account the small size of the domestic market and the reliance of its export companies on foreign market accessibility.⁸⁷

By the 1970s and increasingly in the 1980s, therefore, a series of interrelated factors led to the fragmentation of the old Model. The Swedish engineering sector, primarily mass producers such as Volvo, Electrolux and Saab, opted for flexible specialization to increase their competitiveness by attempting efficiency gains in machinery and inventory usage and using non-standard payment to attract skilled workers. The engineering sector had become central in Swedish prosperity ever since the transformation of Swedish industry added more jobs in the engineering sector while diminishing the salience of labour-intensive activities.⁸⁸

The existence of solidaristic wage policy, however, meant that non-standard forms of payment were inhibited, increasing the danger of lost competitiveness as a result of companies' inability to attract high-skilled labour. As early as the 1970s, engineering employers moved to monthly or fixed hourly wages because of the spillover effects of centrally agreed wage drift clauses.⁸⁹ In 1991, a

survey by *Metall* showed that about 55 per cent of its members received some form of incentive pay.⁹⁰ In addition, wage levelling meant that skilled workers were in increasingly short supply as the S sector expanded.⁹¹ Despite the lower levels of public sector productivity that the EFO Model identified, the reallocation of resources from the protected to the competitive sector was not easy to bring about in a context of wage solidarity. 'C-employers' increasingly saw centralized bargaining as reflecting the ability to pay of S firms and employers, undermining their own growth. The demise of Volvo's Kalmar plant was for some a reflection of the rigidity that had become engrained in industrial relations.⁹²

The new production paradigm had far-reaching consequences for the unions. In a similar fashion to the engineering employers' perception of fundamental disequilibria in the moral economy, engineering unions resented the fact that public sector unions were in effect living off their productivity-based wage increases. The separate wage contracts signed by LO and PTK increased the perceived injustice in remuneration for industrial LO unions. Bound by the Confederation's solidaristic wage policy, skilled workers saw their relative pay position worsen compared to their white-collar colleagues.⁹³ Furthermore, the balance of power within LO shifted in line with the public- and service sector expansion. In 1978, 'the traditional dominance of the metalworkers ... was displaced by the largely female Municipal Workers' Union SKAF'.⁹⁴ As elsewhere in Peter Katzenstein's 'Small States' (1985), in Sweden too the erosion of wage differentials between skilled and unskilled labour meant that skilled workers in the tradable sector had no option but to escape from centralized bargaining procedures. What is more, the changing economic conditions and the increasingly salient role of the competitiveness of the export sector added market power to their claims and legitimized these claims in the eyes of the government.⁹⁵ The leadership of *Metall* in particular feared an exodus of its members and their switch to SIF in search of better contracts. There is some evidence that a number of members did indeed make that switch.⁹⁶

Under these conditions VF, which in 1992 was renamed VI (*Verkstadsindustrier*) after merging with the Industrial Association (*Mekanförbundet*) decided to leave centralized bargaining. In 1983 it offered *Metall* the possibility of a wage increase higher than that negotiated between LO and SAF.⁹⁷ Having failed to reduce excess profits through the wage earner funds proposal, *Metall* had by that time seen its relative position diminish steadily. In an impressive u-turn, the union previously backing wage equalization was now the first to break from the centralization pattern by meeting the terms of VF and concluding an agreement outside the LO-SAF network.

A careful reading of *Metall's* position shows that the 1983 agreement was far from surprising. As far back as 1959 the editor of *Metall* newspaper Gösta Svensson had argued against the interpretation of solidaristic wage policy as legitimizing wage leveling across and within different occupational sectors. While supportive of the 'fair wages' argument, he defined just wage levels by pointing out the differences in training, variation in levels of individual responsibility in different workplace sectors and dissimilar career advancement paths resulting from such diversity.⁹⁸ He implied that such discrepancies needed to be part of an overall union strategy regarding wage determination.

The adoption of an inflexible interpretation by LO, staunchly advocated by smaller and public sector unions, ran counter to such a proposition. Further, *Metall* tried in the 1970s to redefine its role at the negotiating table. In its 1973 Congress, a long debate on the precise definition of a solidaristic wage policy took place and the union asserted that wage politics of solidarity could not mean equal wages for all, irrespective of work conditions and demands.⁹⁹ The evolution of VF policy is strikingly similar to that of *Metall*, revealing the accuracy of Swenson's insight into the cross-class alliance. Having instigated earnings development guarantees to enhance wage flexibility and restraint, VF called in 1966 for the pre-calculation of anticipated wage drift in agreements to keep wage rises for those expecting high drift at low levels and permit comparable rises for those with little or no drift.¹⁰⁰ When these

guarantees went beyond the LO-SAF arena of bargaining, VF turned against them. On the union side, public sector expansion deprived *Metall* of its leading role among LO unions.

Predictably, *Metall's* decision was met with an acrimonious reaction by public sector LO unions. The editorial of *Kommunal* newspaper in 1983 described *Metall* as the problematic child of LO, and recalled the leading role *Metall* had played in setting up the solidaristic wage policy.¹⁰¹ The 1986 LO Congress revealed the chasm between *Metall* and *Kommunal*, with accusations traded during the Congress proceedings. *Metall* delegates underlined the problems caused by *Kommunal's* desire to fix its compensation rate for *Metall* drift to 100 per cent.¹⁰² The pattern of wage levelling within industry was now disrupted and market forces were able to determine wage differentials to a far greater extent.¹⁰³ LO had taken a calculated risk at the beginning of the decade. Its 1981 Report submitted to Congress and entitled 'A Wage Policy for the 1980s' (*Lönepolitik för 80-talet*), admitted that the politics of wage solidarity as practised until then might have been a mistake; an opinion that was shared by *Metall*.¹⁰⁴ By that time, however, it was too late to reverse the trend towards decentralization and the paralysis of solidaristic wage politics that followed.

The precise definition of solidaristic wage policy remained elusive. In 1991 an LO Congress Report clarified that wage levelling had mistakenly taken precedence over equal pay for jobs of equal worth.¹⁰⁵ Both LO and TCO decided to focus on an attempt to link pay determination with production issues to emphasize the relevance of unions in members' everyday work experience. The change in approach was to a large extent the result of SAF's successful decentralization strategy.¹⁰⁶ Still, the engineering alliance met with fierce resistance, not only from public sector unions but also from employers in the retail and commercial sector. The Commercial Employers' Association (*Handels Arbetsgivarorganisation*) became the 'most persistent opponent of decentralization'.¹⁰⁷

This resulted from the retail sector's ability to compensate for increasing wages by passing on the costs to consumers through

rising prices. It also revealed the difficulty of *Handels* in locking out its workers, who could easily cross over to 'Konsum and PUB, parts of the huge cooperative movement outside of SAF and friendly to the Social Democrats'.¹⁰⁸ Chapter 6 will show that the discrepancy between *Handels* and the engineering employers, manifested in the 2007 bargaining round, remains as potent today as it was 25 years ago.

The decision by *Metall* and VF to conduct separate wage negotiations in 1983 intensified the pressure on LO. It could hardly keep the coordination of bargaining intact as the antagonism between public and private sector unions and employers' organizations became increasingly manifest. In 1985, a centralized agreement was reached after the government pressurized LO and SAF. A wage ceiling was agreed but the pattern of distribution of this increase was to be determined at plant and industry level.¹⁰⁹ The assassination of Olof Palme and the special circumstances created after his tragic death persuaded SAF to agree to a centralized agreement in 1986. However, greater market determination of wages and the respective pay increases for the private and public sector meant that 'the public sector's moral claim to full inter-sectoral parity without regard to economic consequences' was effectively deflated.¹¹⁰

The 1986 and 1987 public sector agreements spelled the end of the automatic wage adjustment procedure that kept government pay in line with private sector increases. In 1989, an agreement similar to the one in 1983 was signed, with *Metall* and VF concluding a separate agreement.¹¹¹ During the 1980s negotiations between SAF, LO and PTK drifted from the peak to the industry level. The Social Democrats wished to put an end to this by appointing a national commission, the Rehnberg Commission, composed of one national mediator and a representative from each of SAF, LO, TCO and SACO to work out a two-year stabilization agreement.¹¹²

Although it appeared to be a return to centralization, the agreement reached in 1991 was in fact an example of extreme

decentralization. Its provisions stipulated that no local negotiations on the final agreement were allowed, thus offering individual employers the opportunity to determine local pay and obliterating unions from the workplace.¹¹³ By 1993, centralized negotiations had collapsed as the new centre-right government elected in 1991 declined to extend the mandate of the Rehnberg Commission.

Interest and Ideas, or SAF as an Agent of Ideological Change

In February 1990 SAF decided to shut down its statistics unit, established with LO in 1970, as well as its bargaining unit. It delegated authority regarding wages and general working conditions to its member federations.¹¹⁴ But it did not stop there. In September it announced its intention of withdrawing from all corporatist bodies and agencies, including the Labour Market Board (AMS), with the exception of the Labour Court, the Supreme Social Insurance Court (*Försäkringsöverdomstolen*) and the Pension Funds Boards.¹¹⁵ The government then expelled union representatives from most boards and commissions on grounds of SAF's decision.¹¹⁶

The ultimate goal of the Federation was to dismantle the politics of compromise. The crisis of social democracy – not only in Sweden, but worldwide – was conducive to such an attempt. But the employer counter-offensive was not solely the result of developments in the labour market and did not originate in the 1980s. It was planned, organized and gradually executed as a counter-reaction to the radicalization of the labour movement. In deciding to fight employee radicalization with its own politicization, SAF drew strength from the ideological backlash against the Keynesian consensus. In terms of timing and policy results, the employer counter-offensive was undoubtedly rewarding, though not entirely successful.

The ideological counter-offensive can be chronologically located as early as 1968, in a defensive move attempting to ward off the attacks of the labour movement.¹¹⁷ A pilot project launched in response to labour radicalization emphasized how SAF should

strive for the creation of an 'ideology of business' and make sure that its message receives as wide an audience as possible. Disseminating information to schools, clubs, journalists and parliamentarians should be the first goal.¹¹⁸ The 'movement' should strive to capture the virtues of individualism and underline the significance of risk-taking as morally superior to the collectivist notions of the Left. The 1976 brochure discussed in the previous chapter was one of the methods used to disseminate the new message.

When attacked for its members' excessive profits, SAF decided to opt for a different strategy. Its focus moved away from the notion of 'employer interest'. Instead, the Confederation drew attention to the individual entrepreneur and small family units, whose economic survival was threatened by high marginal taxes on labour and an economy traditionally geared towards big consortia.¹¹⁹ Small entrepreneurs could be beneficial for SAF in terms of the image it wanted to project to society as a whole. Hard-working independent businessmen willing to take risks: a world apart from the image that LO cultivated of business as synonymous with near-monopolistic and exploitative tendencies. The emergence of a strong entrepreneurial spirit was also a by-product of the decrease in the average firm size facilitated by technological evolution.¹²⁰ That development facilitated the goal of SAF, as it contributed to an individualization of the workforce and the gradual loosening of solidarity ties usually formed in large-scale production units.¹²¹

It was the first time that SAF had made a critical reappraisal of its functioning and self-image. It sought a platform of unity between the Wallenberg sphere of influence, the export-oriented multinationals, and domestically oriented businesses.¹²² Playing down the image of the independent entrepreneur was a worthwhile compromise. To counter the demands for workplace democracy, SAF, through the Technical Department's operations, sought to redefine the terms of the debate. It now downplayed issues of workplace management and concentrated on the viability and profitability of companies in the face of global competition.¹²³

Apart from the fact that such a line resonated well with economic reality, it was also an ideal platform on which to build the ideological counter-offensive. Social democracy had essentially built its economic strategy on business growth. Reneging on that commitment, SAF calculated, was not a viable option. After 1976, SAF asserted its new role by presenting a series of demands to LO and PTK aiming at neutralizing a large part of the legislation passed earlier, counting on the inability of the unions to circumvent collective bargaining.¹²⁴ A series of provisions outlined in the three-year offer made to LO and PTK diminished recent union gains with respect to union representatives' paid time for union activities, sick leave, holiday entitlements and other bonuses.¹²⁵

The drive in favour of free markets and entrepreneurship was greatly facilitated in 1976 by the change in SAF leadership. Curt Nicolin, chairman of ASEA and one of the top executives in the Wallenberg business empire,¹²⁶ replaced Trygve Holm as Board Chairman.¹²⁷ It was a sign of the changing balance of power within the Confederation. It is also an instructive case of the influence of policy entrepreneurs in shaping the contours of the debate first within organizations and later outside them, too.

The new chairman soon instilled a new fighting spirit, determined to wage ideological war against the labour movement. Nicolin's major achievement at the beginning of his chairmanship was his ability to unite SAF despite the internal split caused by the economic and technological results of the 'cross-class alliance'. He quickly won the approval of the member organizations.¹²⁸

The wage earner funds dispute offered the new leadership a good opportunity to project a strong image by countering LO demands in the name of freedom for businesses. Olof Ljunggren replaced Curt-Steffan Giesecke as Managing Director in 1978. Two men united in their denunciation of the Swedish Model now ruled SAF.¹²⁹ The corporatist generation of SAF leaders accustomed to a conciliatory approach towards the unions withdrew.¹³⁰ The new elite sought to replace the politics of compromise with a new pattern of industrial relations resembling the Anglo-Saxon

prototype of decentralization and ideological warfare over the extent and size of the distribution of profit. Disagreements in the labour market between SAF and LO/PTK allowed the organization to assume a leading position in the non-socialist camp and fight for the promotion and dissemination of neoliberal values.

An indication of its desire to bypass the Historic Compromise was given in 1977 when SAF sought a lockout for about 200,000 TCO members and other salaried employees, but was unable to achieve its goal.¹³¹ When PTK threatened a general strike, SAF had to back-pedal.¹³² The economic downturn of that period meant that many businesses refused to take the risk associated with a lockout, and small firms were still able to free-ride on the lockout because the centralized statutes of SAF had not been revised.¹³³ The loss of face for the new SAF leadership led them to the conclusion that the existent system had to be undermined and then destroyed.¹³⁴

The politicization of the organization proceeded apace with the hosting of its first-ever Congress in the same year, part of a series of moves aiming at imitating the organizational structure of the social democratic movement.¹³⁵ Although Congress had, according to SAF statutes, only an advisory role, it served as a platform for condemning the 'union funds' and attracting valuable publicity around the virtues of the free market. The wage earner funds became the rallying point for an organization in search of ideological unity, as it 'provided the igniting spark for the mobilisation among Swedish industrialists in defence of private ownership and entrepreneurship'.¹³⁶

The transformation of SAF from an organization that supported a regulated labour market to a staunch advocate of systemic change gathered pace over the 1980s. In 1980, SAF was successful in triggering the lockout that had failed three years earlier. What began as a strike by TCO and then LO became a lockout by SAF affecting 3 million employees.¹³⁷ The whole episode proved costly for SAF, as the mediation commission appointed by the government to solve the dispute proposed wage increases above what the unions had expected.¹³⁸ For Curt Nicolín, however, this was an 'investment for

the future'.¹³⁹ It made clear to the government that SAF was unwilling to continue being part of a system rewarding public sector employees for wage increases in the private sector. The Confederation began focusing on a long-term transformation of attitudes. In 1983, the SAF newsletter (*SAF Tidningen*) appointed a new editor-in-chief who published articles critical not only of the wage earner funds but of the Historic Compromise itself, adopting a more populist line and provoking fierce debates.¹⁴⁰

Challenging the Swedish Model and its policy outcomes with regard to the role of the state in economic policy, the appropriate level of taxation and corporatist politics meant that SAF had to energize functions and institutions previously peripheral to its operation. In the 1940s, SAF operated the Directors' Club, a body dedicated to preventing the realization of social democratic postwar plans regarding nationalization. It also founded the Joint Committee for Private Commerce and Industry (*Näringslivets Sammanföning*, NÄSO) and the Swedish Free Enterprise Foundation (*Näringslivets fond*, NÄFO) to keep the labour movement in check.¹⁴¹

The strategy proved successful and SAF cooperated closely with the SAP so long as the party denounced the more radical elements of its 1944 Postwar Programme. The decision by the social democrats to drop their nationalization plans meant that such bodies were reduced to an apolitical role. In the 1970s and 1980s, the wage earner funds and the ideological emancipation of the Right through the monetarist revolution in the USA and the UK meant that such bodies acquired a new, prominent role.

In 1978, SAF augmented its advertising campaign and launched a series of conferences, public meetings and fairs where it promoted the virtues of uninhibited capitalism and reaffirmed its opposition to centralized decision-making (*planbushållningsmotstånd*).¹⁴² Study groups were created, again imitating the functioning of the labour movement. 250 SAF officers and 400 business leaders took part in them between December 1980 and January 1981.¹⁴³ Between January and May 1982, SAF produced 200 recommendations for policy action related to tax and welfare cuts,

privatization schemes and labour market legislation. Along with NÄSO and NÄFO, SAF utilized think tanks such as the Centre for Business and Policy Studies (*Studieförbundet Näringsliv och Samhället*, SNS)¹⁴⁴ and publishing houses like Timbro and Ratio.¹⁴⁵

SNS adopted a neoclassical economic line, emphasizing the wastefulness inherent in state-directed economic activities and the efficiency inherent in market exchanges.¹⁴⁶ Timbro proceeded with analyses on the basis of a public choice approach, highlighting how the growth of the public sector had 'crowded out' the productive sectors of the economy. The Swedish welfare state clashed with principles of efficient resource allocation.

Between 1978 and 1982, Timbro published no fewer than 22 books, half of which were dedicated to a discussion of free markets and the wage earner funds.¹⁴⁷ Electronic media were utilized to an unprecedented degree. Local radio stations broadcast SAF messages that proved successful in big cities and among the young. Its information campaign targeted specific social and occupational groups, such as teachers, journalists and students.¹⁴⁸ A study by Kristina Boréus found that 'new liberal' ideas in op-ed pieces of *Svenska Dagbladet* increased from 30 per cent in 1975 to 70 per cent in 1989 while the corresponding figures for *Dagens Nyheter* in the period 1971–89 were an increase from 15 to 30 per cent.¹⁴⁹

The results were impressive. In 1978, 30 per cent of people thought it important to encourage entrepreneurship and 37 per cent thought of business leaders as efficient. By the mid-1980s the corresponding figure to the first question had become 75 per cent. As for the second, the percentage in agreement had become too high to merit further research.¹⁵⁰ *Ad hoc* political campaigns took place at the time with themes like 'Give Yourself a Chance'. The zenith of business organization was the coordination of an anti-funds campaign culminating in a rally in central Stockholm attended by 100,000 people transported from all over the country.¹⁵¹ The ability of SAF to launch a successful propaganda campaign at different levels was heavily dependent on its financial muscle. Only in 1982 SAF spent around SEK 55–60 million in its

anti-funds campaign. By comparison, all five major political parties together spent SEK 69 million in the 1982 pre-election campaign.¹⁵² The doubling of SAF dues and resources in the 1970s meant that in 1980 the Confederation had double the income of LO and over eight times its strategic reserves. The insurance and guarantee funds that SAF maintained meant that in 1987 the organization could draw on reserves worth approximately \$1.5 billion.¹⁵³

All this is not to say that all echelons of SAF shared the dream of long-term institutional transformation from the beginning. Joakim Johansson has shown how mid-level officials and policy experts took advantage of their key position in the Confederation's structure. They were effective in neutralizing pro-corporatist elements and establishing agreement over withdrawal from corporatist bodies, the best example of successful policy entrepreneurship.¹⁵⁴ The alliance created after the arrival of Curt Nicolin at the top was strong enough in its quest to dismantle the old Swedish Model. VF soon managed to unite SAF around the theme of decentralization and paradigm shift. 'The sector that was pushing for [change] was the manufacturing industry ... but as the debate went on ... the opinions of the sheltered sector changed and when the decision [to withdraw from corporatist boards] was taken it was unanimous.'¹⁵⁵

The political battle

Despite the strenuous efforts of SAF to create a hegemonic project in the 1980s, the Social Democrats, after returning to office in 1982, retained power for nine consecutive years. However, the changes under way in the international economy, as well as the changed policy discourse regarding the relation between state and market, had affected social democracy. A year before returning to government, SAP launched the 'Third Way' economic policy programme and a Crisis Report was distributed to local party branches.¹⁵⁶

The new approach, advocated by Kjell-Olof Feldt and his associates and entitled 'The Future of Sweden' (*Framtid för Sverige*)

called for a reappraisal of economic policy. To restore lost competitiveness, the economy had to transfer resources to the private sector. It became necessary to stimulate industrial profits, which required 'sacrifices by all'.¹⁵⁷ SAF was pleased with the new approach of lowering inflation and the removal of indexation in wage development.¹⁵⁸ The government emphasized the increase in company profits that soon became discernible and allowed it to retain the support of the business world.¹⁵⁹

The policy change seemed impressive but did little more than confirm the traditional Swedish social democratic stance on private enterprise and profitability. SAP continued to defend full employment, an active labour market policy, a strong welfare state and real wage increases.¹⁶⁰ The contrasts with the new SAF approach were still stark. At the same time, the labour movement was called to 'accept' the need of reducing consumption to stimulate production.¹⁶¹ Unions had to accept increased company profits and agree to the need to reduce both the budget deficit and the size of the public sector. The state in general and public spending in particular ceased to be the solutions and became the problems.¹⁶² While the new party line accorded with the cross-class alliance's priorities on wage determination, some policy reforms addressed welfare issues. It thus became a thorn in the relationship between party and LO.

The 'War of the Roses' (*Rosornas Krig*) between SAP and LO followed.¹⁶³ It included fierce disagreements over unemployment insurance changes in 1983 and 1984,¹⁶⁴ a proposed tax reform in 1983–84,¹⁶⁵ labour market policy,¹⁶⁶ the 1986 budget¹⁶⁷ and the privatization of parts of the public sector. It was unions in the public sector in particular that sought to warn the party of its policies' consequences not only regarding the recruitment of members, but also for its electoral prospects.¹⁶⁸

The party–union relationship deteriorated sharply. When the government introduced the 'tax reform of the century' in 1990, agreed with the Liberal Party to reduce the tax burden of companies and make the tax system less progressive, the clash with LO

and TCO was unavoidable. Attempts by Prime Minister Ingvar Carlsson to placate LO fell mostly on deaf ears.¹⁶⁹ LO leader Stig Malm, previously of *Metall*, was openly defiant of the reform and party policy in general, as was his successor Bertil Jonsson (1993–2000).¹⁷⁰ The dispute was structural. The Social Democratic government came out in favour of the engineering ‘cross-class alliance’ by arguing that the wage politics of solidarity fuelled wage drift.¹⁷¹ In 1988, Feldt openly advocated the elimination of indexation of public sector pay to private sector pay, warning of higher unemployment. As LO struggled to keep its unions together, the social democrats made public their reservations about the previous course of action decided by LO. The schism in the labour movement soon grew.

Despite the split in the labour movement, the opposition parties and the Moderates in particular failed to capitalize on the SAF counter-offensive. In 1985, the Moderate Party campaigned on a platform of a systemic shift, in tandem with SAF. The Liberal and Centre Parties distanced themselves from a frontal attack on the welfare state and the SAP warned of the consequences of Moderate proposals regarding the welfare state.¹⁷² The non-socialist bloc remained split, allowing SAP to promote itself as a guarantor of stability. Also, fears of a ‘Thatcherite solution’ due to the neoliberal calls of the Moderate Party meant that SAP remained in office with the support of the Communists. In 1988, the Social Democrats thwarted one more attempt by the Moderates, but in 1990 the austerity measures led to an all-time low in SAP’s popularity.

These measures included the reduction of the sick pay replacement rate from 90 to 65 per cent for the first three days and to 80 per cent for days 4 to 90, as well as an emergency package imposing a wage freeze and strike ban. The election of Mona Sahlin as the new SAP leader in March 2007 initially provoked a sharp response from some LO unions reminiscent of her role in that proposal.¹⁷³ The SAP’s electoral performance in 1991 was the worst since 1928.¹⁷⁴ A coalition government headed by the first conservative Prime Minister for six decades, Carl Bildt, was sworn in.

In 1990, SAF appointed a new Chairman, Ulf Laurin, renowned for his antipathy towards the Historic Compromise. Shortly before its emergency package, the government called for a meeting at Haga to discuss the future of the economy.¹⁷⁵ SAF declined to participate and Ulf Laurin proclaimed the death of the Swedish Model. Following the self-imposed termination of peak-level negotiations, SAF called for 'coordinated decentralization' characterized by plant-level wage bargaining and industry-level agreements on general conditions of employment. Engineering firms started introducing plant-level 'partnership contracts' (*medarbetaravtal*), which encompassed both blue- and white-collar employees and dealt with both wage and general employment issues.¹⁷⁶ It was a powerful assault on the *status quo* supported by LO, focused more on attempting to shift the discursive base of the Model rather than introducing immediate policy results. This is evident in the limited number of partnership contracts signed ever since.

It is noteworthy that even at that late stage in its campaign, SAF was not entirely successful. The Moderates prior to the 1991 election did not adopt its calls for the complete privatization of the Swedish welfare state. It was only the far-right New Democracy Party (*Ny Demokrati*) that endorsed such a platform.¹⁷⁷ In spite of gaining representation in the 1991 Riksdag, that party has since vanished from the political landscape. The new centre-right coalition, in power since September 2006, has also been reluctant to endorse the calls of SAF's successor, *Svensket Näringsliv* (Confederation of Swedish Enterprises, SN), on the need to amend labour law.¹⁷⁸ The New Moderates (*Nya Moderaterna*), renamed as such by Fredrik Reinfeldt, try to avoid confrontation with the unions and have promised to retain the large Swedish welfare state.

An explanation of the change in the policy behaviour of SAF should examine how the stable pattern of interest formation was disturbed after the 1970s due to economic change. Increasing fragmentation in the labour market coupled with technological evolution and the differentiation between domestic and export-oriented capital meant that employers in the engineering and export

sector in general pushed for a systemic shift that incorporated, *inter alia*, the decision to decentralize bargaining. Employers were successful in building an alliance with export-oriented unions, which had seen their relative wage increases stagnate due to the wage politics of solidarity and employment growth in the public sector.

The desire for change stemmed from the opportunities offered to employers through the utilization of new production techniques. They relied on increasing market pressures to determine wage formation.¹⁷⁹ This development should be placed in the context of an interaction of interests resulting from the dual role of labour and capital as actors in both the market and the political arena.¹⁸⁰ Nevertheless, issues beyond wage bargaining were at stake. Due to the historical development of the Swedish Model, the decision of certain sectors within SAF to decentralize negotiations on wages was part of a broader strategy to consign the Historic Compromise to history, characterized by hostility towards LO. This occurred through the decision to withdraw from boards and agencies, and a push for a new power arrangement characterized by neoliberal doctrines and the dismantling of the social democratic welfare state.

Institutional arrangements are vital in helping to 'structure the strategic interaction among ... actors'.¹⁸¹ Both the labour offensive and employer counter-offensive draw attention to the inadequacy of explaining change by focusing only on the altered preference formation of parts of capital and labour. The ideational framework within which interests are formed and defined in the first place constitutes a substantive element of interest formation.¹⁸² In the same way that the interests of *Metall* and LO were conditioned by the ideas that appeared most desirable,¹⁸³ employers had their interests formed as part of a newly defined mental map enabling them to reach certain conclusions regarding the viability and desirability of the Historic Compromise. Since interests are a particular sub-set of ideas, they are crystallized over time and express a particular constellation of ideological influence.

If our analysis holds ideas apart from interests, rather than seeing them as mutually constitutive, then all we are really saying is

'because they wanted to do it, they did it, and because we know they did it (assuming everyone acts on his or her own interests), this shows they wanted to do it'.¹⁸⁴

The international environment plays a decisive role in labour politics and social democratic strategies. It conditions the limits of the politically feasible for political parties and constraints the policy manoeuvre of bargaining in the labour market. The EFO Model was a clear expression of the growing internationalization of the Swedish economy. It is therefore important to place developments in Sweden in a larger context, informed by the twin processes of globalization and Europeanization.

5

Globalization and Europeanization

Sweden's EU membership was a result of a pragmatic approach to regional economic integration and the new economic paradigm set out by multinational firms in the context of globalization. This contributed to the formation of new opportunity structures not only for employers in export-oriented firms but also for internationally oriented trade unions. EU membership is crucial in underlining how the Swedish polity became gradually enmeshed in a distinct type of regional integration whose consequences are far-reaching in a number of policy areas.

In contrast to other types of internationalisation, European policy coordination embeds national political economies ... in a regional governance structure. Once a European strategy is adopted, European priorities become incorporated in domestic politics.¹ In turn, that is the result of a process of Europeanization, defined as the 'emergence and development at the European level of distinct structures of governance, that is, of political, legal and social institutions ... that formalize interactions among the actors, and of policy networks specialising in the creation of authoritative European rules'.² Europeanization and the formation of European-level social partnership patterns has entailed a dynamic interaction of the policy structures associated with the Swedish model of social partnership and industrial relations with those of the other EU member states. As Cowles and Risse put it, 'The shifting of ... competences to the European level is significant not only due to

the resulting EU policies (though they may, in fact, create pressures for domestic change as well), but also due to the resulting change in domestic opportunities for the actors involved.³

Business has played a leading role in European integration, and this is clearly manifested in the case of Sweden. Nonetheless, the European Union's multidimensional character and evolving policy-making competencies have had significant repercussions for the trade unions too. The latter have attempted to utilize European policy-making institutions to augment collaboration with the employers and avoid direct state interventionism. It has been argued, for instance, that changes in the corporatist character of Swedish policy-making have been stopped or even reversed due to the institutionalization of corporate actors at the EU level.⁴ In the context of growing regional integration, understanding the evolution of the Swedish Model in the 1990s and 2000s necessitates an examination of the opportunities and constraints in which its key actors operated.

The Globalization Paradigm

Traditionally relying on the production strategy and innovativeness of its Transnational Corporations (TNCs), Sweden has a long history of economic relations with Europe.⁵ The creation of the European Economic Community (EEC) in the 1950s meant that Swedish industries established more foreign operations in the Common Market area to avoid duty payments.⁶ The growing internationalization of Swedish business affected not only the domestic balance of power but also the relationship between Sweden and the European Union.⁷

In the 1960s, the significance of international trade to the Swedish economy had returned to the prewar level of 40 per cent.⁸ Between 1965 and 1978, the foreign sales share of Swedish multinationals rose from 52 to 70 per cent (Table 5.1) and the share of exports in Swedish industry increased from about 25 per cent in 1960 to 38 per cent in 1975.⁹ Swedish corporations were increasingly willing to relocate production and employment abroad. Whereas in 1965 Swedish TNCs employed about one-third (33.9

per cent) of their workers abroad, by 1990 this figure had increased to 60.6 per cent.¹⁰ The restructuring of the global production system also entailed overseas employment for Swedish employees. In 1980, 113,000 Swedish nationals were employed outside the country and by 2001 this figure had risen to 520,000.¹¹

Table 5.1: Percentage of total Swedish foreign sales produced abroad, 1965–1990

<i>Region</i>	<i>1965</i>	<i>1970</i>	<i>1974</i>	<i>1978</i>	<i>1986</i>	<i>1990</i>
EEC	27	32	32	39	39	47
EFTA	13	12	11	15	17	18
All	27	29	28	34	38	45

Source: Thomas Andersson, Torbjörn Fredriksson and Roger Svernlund, *Multinational Restructuring, Internationalization and Small Economies: The Swedish Case*, London and New York: Routledge, 1996, p.71.

Economic globalization has not only transformed the operation of business but also led to an intensification of trade and capital movement throughout the developed world. This remains mainly concentrated on the Triad of the USA, Western Europe and Japan. Although sceptics dispute the extent to which absolute levels of trade volumes have surpassed those of the pre-1914 era,¹² the level of interconnectedness of trade has increased dramatically since the 1960s. The world export: GDP ratio increased from less than 10 per cent in the 1960s to about 20 per cent by 1997.¹³ Trans-national firms have become more capable of dealing with floating exchange rates.¹⁴ Financial markets have changed in character and there has been a strong expansion of financial interconnection. Manufacturing patterns shifted from the subsidiaries model to international business divisions with production, marketing and distribution all potentially based in disparate geographical territories and coordinated through computerized information systems.¹⁵

Increasing internationalization took place at a time when the Swedish economy was suffering from severe deficiencies, which the

existent pattern of economic development was ill suited to deal with. Labour efficiency in relation to real consumption wages had been declining since the mid-1960s¹⁶ and marginal tax rates on labour, the highest in the OECD world after the Netherlands, encouraged a drop in labour productivity and set the wrong incentives for an increase in investment (Table 5.2).

Prior to the 1990 tax reform, Sweden had one of the least progressive tax systems in the world when measured according to income-related contributions. Wealth and property taxes amounted to little more than 2 per cent of total tax receipts (TTR), corporate profit tax constituted 2.4 per cent of TTR and national income tax 14 per cent. In contrast, regressive taxation dominated intakes, with flat-rate social security tax coming to 30 per cent, flat-rate local income tax 28 per cent and VAT 20 per cent of TTR.¹⁷

The power of capital to exit nationally embedded institutional arrangements was therefore already on the increase by the 1970s. It was not until the launch of the Single Market project, however, that the FDI outflows from Sweden to the European Union area obliged the government to rethink its stance towards the EU.

Table 5.2: Marginal tax rates on labour

<i>Country</i>	<i>Single-earner married couple (with 2 children)</i>			<i>Single worker</i>		
	<i>1979</i>	<i>1981</i>	<i>1983</i>	<i>1979</i>	<i>1981</i>	<i>1983</i>
Denmark	68.5	69.0	71.2	68.5	69.0	71.2
Finland	63.1	63.1	62.5	63.1	63.1	62.5
France	66.9	66.7	68.8	57.5	57.2	59.7
Germany	61.1	60.5	60.9	56.8	56.4	57.0
Japan	40.5	43.9	43.7	35.9	39.4	39.9
Holland	66.8	69.0	73.5	66.8	69.0	73.5
Sweden	74.4	73.5	73.0	74.4	73.5	73.0
UK	51.5	53.4	54.5	51.5	53.4	54.5
USA	47.1	52.9	48.6	40.2	45.2	42.6

Source: Robert P. Hagemann et al., 'Tax reform in the OECD countries: Economic rationale and consequences', *OECD Working Paper No. 40*, Paris: OECD, 1987.

The Single Market and the Role of Business

The economic transformation that European firms experienced during the 1970s and 1980s was accompanied by a realization that the creation of a Common Market would enhance their competitiveness on the international stage *vis-à-vis* US and Japanese competitors. It would also reduce their transaction and logistics costs. A series of cross-border networks was created in the 1970s and 1980s, beginning with Research and Development (R&D) and extending cooperation to other areas beyond the increase of trade flows.¹⁸

The process was facilitated by the exhaustion of national economic policies based on flagship firms ('national champions'), whose growth and prosperity in an increasingly interlinked economic environment was best secured through European collaboration. The example of France's U-Turn in the early 1980s, when President Mitterrand abandoned 'Keynesianism in one country', showed the limits of national economic strategies. It also helped create a consensus around the importance of market liberalization, privatization and deregulation that sparked the debate on 'Euro-socialism' as an alternative to national economic plans.¹⁹

It was in the context of this debate that social democratic modernizers endorsed European integration as a bulwark against neoliberalism. The European Commission was sympathetic to the new stance adopted by European business and politicians alike. The old strategy of interventionism in industrial policy was abandoned. It was replaced by a new role of 'marriage-broker'²⁰ for firms that wished to integrate their research and industrial potential. Upon a French initiative the European Strategic Programme for Research and Development in Information Technology (ESPRIT) was created. The Commission supported it, and it involved major European manufacturers, small firms and universities, confirming the spreading consensus on the need to enhance European economic competitiveness.²¹

The idea of creating a Single Market in the EU could also count on British support, despite the United Kingdom's traditionally sceptical stance over other forms of European integration. Though

normally unimpressed by references to the EU's 'Founding Fathers', Prime Minister Thatcher evoked the original Treaty of the Union when endorsing the plans the Commission was sketching out.²² Closer market integration was not just the result of political expediency and Euro-enthusiasm. It was rather premised on the active support of European business in the form of the European Round Table of Industrialists (ERT), a lobby group first brought together by the Volvo chairman Pehr Gyllenhammar. Van Apeldoorn has shown how the ERT has been able to spur on the Common Market and economic integration by influencing the EU public policy debate.²³

As technological change gathered pace and a series of mergers and acquisitions was altering the landscape of European business, Gyllenhammar launched his idea of a 'Marshall Plan for Europe' in 1982. This called for a pan-European strategy to face off US and Japanese competition. Aware of the limited influence of the Union of Industrial and Employers' Confederations of Europe (*Union des Industries de la Communauté européenne*, UNICE), the chairman of Volvo sought to create a group with political influence by courting the Commission and leading politicians. Cowles has argued that the strategy was particularly successful, and was supported by the Commission. Its vice President and ERT member Étienne Davignon and close aides of President Mitterrand met frequently with Gyllenhammar.

The first ERT Conference in 1983 brought together, among others, the chairmen and chief executives of Fiat, Olivetti, Unilever, Siemens, Volvo and ASEA. In 1984, the ERT initiated its first project, the European Venture Capital Association (EVCA) and ran the first pan-European venture capital group called Euroventures. In March 1985, the new Commission President Jacques Delors outlined his plan for the creation of a Single Market to facilitate the realization of the four freedoms of movement for goods, services, capital and persons.²⁴ In January the same year, the CEO of Phillips Wisse Dekker presented the plan entitled 'Europe 1990' calling for a unified European market by the end of the decade.²⁵ After an

Intergovernmental Conference in 1985 and 1986, the Single European Act (SEA) was signed by EU member states in 1987 introducing qualified majority voting on all issues related to the internal market.²⁶ Following decades of stagnation, the European integration project was reinvigorated.

Enhanced European integration offered an important opportunity to export-oriented Swedish business regarding production relocation and efficiency savings. The asymmetry introduced in the Swedish Model was now reversed. Social democrats and unions lost the ability to steer the national economy on the assumption of a growth-enhancing strategy for multinationals to be distributed according to the priorities set by the labour movement. 'Internationalization limited the applicability of the Swedish Model. The model was designed for a national economy under conditions that made it possible for the national government to make final decisions about stabilization and distributional policies.'²⁷ The labour movement's endorsement of the European project in the 1990s was mainly premised on the hope of exporting social democratic forms of regulation. For business, the new opportunity structure created through the Europeanization of national economies in Europe necessitated a move away from the national politics of business regulation.

As the Single Market Programme was launched, Swedish companies invested and produced in the European Union area in increasing numbers. The creation of a Single Market was bound to have important consequences for 'a peripherally located country such as Sweden which has a large industrial base consisting of footloose industries dependent on economies of scale'.²⁸ The Single Market project, launched in 1986, led to a doubling of Swedish industrial investment in Europe for every year from 1986 to 1990.²⁹ Turnover and number of employees abroad rose by 9.1 and 11.4 per cent respectively in the same period.³⁰ FDI shifted to the EU on a massive scale, as Sweden led all European states.³¹

In 1987 the Federation of Swedish Industries (*Svenska Industrieförbund*) initiated a series of studies regarding the economic effects

of EU membership.³² By 1990, 55 per cent of Swedish investment was in the EU and the Federation of Swedish Industries' studies predicted growth rates of about 4–6 per cent in case of EU membership.³³ Between 1989 and 1991, Swedish firms acquired 82 European firms worth \$82 billion. In the first half of 1990 they acquired more European firms than any other businesses in the world.³⁴ The capital flight to Europe increased the ability of Swedish business to exert pressure on the government. Pressure was not only indirect. Gyllenhammar and Peter Wallenberg of the Wallenberg Group served on the secret advisory board set up by the government to look into the EU question.³⁵ Swedish manufacturers attended cabinet meetings in which they argued that the recorded net losses of jobs and FDI outflows could only be contained and reversed through EU membership.³⁶

The Third Way and the economic crisis at the beginning of the 1990s made the case for EU membership even more compelling. Third Way policies facilitated the integration of Swedish capital to Europe. It allowed the export sector to grow in value added terms between 1982 and 1984 at the expense of the public sector.³⁷ The competitiveness of Swedish industry was soon restored to 1960s levels and the trend of business investment turned positive, with an annual increase of about 10 to 15 per cent.³⁸ The decisions to deregulate capital markets in 1985 by lifting the ceilings on bank loans, to allow foreign banks to open branches in Sweden a year later, and to abolish foreign exchange controls in 1990, meant that Sweden followed the trend of market liberalization. A serious obstacle to membership was lifted.³⁹

The celebration of the party's 100 years in 1989 was characterized by 'a crisis of self-confidence' and attempts to experiment with new policy ideas.⁴⁰ SAP rephrased its programmatic ideas in 1990 by defining the goal of social democracy as the realization of full democracy through which all individuals can lead 'a rich and meaningful life'.⁴¹ Programmatic modernization meant that EU membership was no longer antithetical to the goals of the social democracy.

The economic crisis of 1990–93 resulting from the overheating of the economy following the deregulation of capital markets and accelerating housing prices⁴² also helped. It led to a six-fold increase in unemployment, which reached 12 per cent in 1993 and, despite some progress, remained as high as 8 per cent by the middle of the 1990s.⁴³ Real Swedish GDP declined 7.5 points between the first quarter of 1990 and 1993.⁴⁴ Low inflation replaced full employment as the government's first macro-economic priority in the 1991 Social Democratic budget.⁴⁵ Political parties, interest groups and the media described the EU as a solution to economic hardship and an essential motivating force conducive to economic restructuring.⁴⁶ EU membership was a policy tool that all mainstream parties, except for the Left and Green party, saw as a saving grace in the midst of crisis.

Sweden was now fully exposed to the global financial system. The share of foreign investors in Sweden increased from 8 per cent in 1983 to 30 per cent in 1995.⁴⁷ The removal, in the early 1990s, of the remaining barriers to capital flows both freed and constrained the Swedish government, allowing it easier access to capital, but also subjecting it to externally determined interest rate and currency swings.⁴⁸ What is more, the centre-right government of Carl Bildt (1991–94) used the prospect of EU membership to try and bring the Swedish tax and welfare systems in line with average EU levels. VAT reduction in 1992 was not so much an attempt to counter the recession but to adjust the Swedish tax level to the European mean.⁴⁹ EU membership, Prime Minister Bildt asserted, would make tax cuts more or less inevitable. The 1991 Maastricht Treaty provisions regarding the free flow of goods, services, capital and labour meant that the Swedish tax and welfare system would have to change. 'International economic integration would promote those institutional changes that were otherwise impossible to attain.'⁵⁰

The Cross-Class Alliance Lives On:

The EU and the Social Democratic Dilemma

Prime Minister Erlander had first outlined the Social Democratic stance regarding the EU in his speech to the *Metall* Congress in

1961. It was a memorable speech, invoked by both supporters and opponents of membership until the 1994 EU referendum campaign.⁵¹ Erlander asserted that the Swedish policy of neutrality and its socio-economic model of development were incompatible with EU membership.⁵² Nonetheless, in an indication of the economic potential of the Union, Swedish dependency on trade with European countries had already reached 70 per cent in the 1970s.

A government communication to Brussels on 10 November 1970 stressed Swedish willingness to take part in the Common Agricultural Policy (CAP), remove custom barriers for Swedish goods and participate in the Internal Market.⁵³ Nonetheless, the government maintained that its desire to follow 'autonomous social and economic policies' meant that EU membership was not viable or desirable.⁵⁴ Nineteen years later, Prime Minister Carlsson continued to assert that the EU issue was 'untimely'⁵⁵ but the decision to complete the Internal Market had forced the hand of the Swedish government. In similar fashion to its Nordic counterparts, it passed an Act securing 'adequate parallelism between Swedish and [EU] legislation' and tied the Swedish *krona* to the European Currency Unit (ecu) in the same year.⁵⁶

On 26 October 1990 the SAP government unexpectedly announced its decision to seek EU membership.⁵⁷ It reasoned that EU membership entailed 'considerable advantages' that outweighed the possible drawbacks.⁵⁸ Under pressure from the anti-EU parties – the Left and Green Party – the Social Democrats had to consent to a popular referendum that was accepted as binding by all sides.⁵⁹ This was inevitable, considering that the Social Democrats had to rely on the parliamentary support of the Left and Greens during the entire 12-year period in office 1994–2006.

Both the Social Democrats and LO were split over the EU issue.⁶⁰ The leadership of SAP saw the EU as a vehicle for overcoming the crisis of social democracy through European cooperation. The modernizers defended the opportunity offered by the EU to export the Swedish model of welfare and stressed the risks associated with continued non-membership in terms of higher interest rates and

welfare cuts.⁶¹ In a speech to the LO Congress in 1996, Prime Minister Göran Persson (1996–2006) described the EU as the political instrument to control and re-regulate international capital.⁶²

Opposition within the party was, however, extensive and traditionalists worried about the impact of membership on Swedish social, environmental and labour market policies. SAP was openly divided on the issue and the special 'Europe Congress' of 1994 exposed the massive schism within the party.⁶³ The leadership sought to accommodate the strong anti-EU faction and keep the party united, as well as stage the planned referendum at as convenient a time as possible.⁶⁴ Opinion polls in the first half of the 1990s were negative but the 'yes' camp secured Swedish entry to the Union in 1995 with a slim majority of 52.3 per cent.⁶⁵ More than half of SAP sympathizers voted against membership, as did women and LO members.⁶⁶

The stance of LO reflected the internal balance of power and the continuing influence of the 'cross-class alliance'. While export-oriented unions supported membership, 'sheltered' ones were largely against.⁶⁷ Nonetheless, international competitiveness directly affected the Swedish economy and the leadership could hardly ignore the campaigning of *Metall's* president in favour of membership.⁶⁸ LO and TCO assessed the issue on the basis of widespread changes in the global economy. The integration of Swedish multinationals in the internal market was only sustainable with EU participation.⁶⁹ The pressure of the numerically powerful public sector unions, however, meant that LO decided to refrain from endorsing EU participation before the referendum.⁷⁰

The Europe question has continued to divide the party and the unions alike, as witnessed in the debate over Sweden's participation in the Economic and Monetary Union (EMU). The Social Democrats, conscious of the issue's sensitive nature in light of the EU referendum, appointed a special commission to assess the potential impact of EMU membership. The Commission pointed to a wait-and-see tactic, which the SAP was all too happy to endorse.⁷¹ By 2000, the party's modernizers had won the upper hand and

Congress endorsed EMU 'in principle' by 234 votes to 133, subject to a politically binding referendum.⁷²

On the LO side, the disagreements over EU membership were repeated. While *Metall* supported EMU from 1997 on grounds of the benefits it offered to consumers and as a protective device against rapidly fluctuating capital markets,⁷³ *Transport* and *Kommunal* warned of the consequences of deregulation and privatization for the public sector.⁷⁴ LO endorsed EMU on condition of the creation of buffer funds controlled by the social partners and the state and reserved for hard economic times.⁷⁵ The government's refusal to endorse a funds proposal after the experience of the 1970s and 1980s meant that LO remained neutral on the issue. The referendum result of September 2003, with a majority of 56 per cent rejecting EMU participation, settled the issue for some years to come by reminding both SAP and LO of the divisive nature of Europe.

On the elite level, SAP and LO saw the possibility of using EU policy instruments to promote domestic policy goals. For SAP, 'Europeanizing' its support for full employment added legitimacy to its leftist credentials. Amidst an unfavourable economic climate and growing dissatisfaction with its policies, the leadership sought to attract sympathy from its traditional constituencies by transposing the goal of full employment to the EU level. The refusal by the traditionally pro-European Swedish party, the Moderates, to endorse such a policy created a dividing line between the two parties' visions of the Union.⁷⁶

Following the example of the British TUC, which endorsed 'Europe' from 1987 onwards due to the Social Dimension, Thatcherite policies at home and the diminishing ability of unions to meet contemporary challenges at national level,⁷⁷ the leadership of LO approved EU membership in 1991. It hoped to achieve some form of re-regulation of capital that would protect the welfare of its members.⁷⁸ Furthermore, an effective and respected social dialogue in Brussels made many in the Swedish unions perceive the acquiring of 'voice' in the emerging European architecture as an opportunity to re-establish a new mode of collaboration with employers. The

growth of social policy and the Social Dialogue at EU level offered some ground for optimism on the part of the unions.

Liberalization and Enlargement: the European Conundrum

The principle of social partner autonomy remained strong at the time of Sweden's membership in the EU. Legislation on employment and industrial relations issues in Sweden is, beyond a certain minimum, not regularly practised. In 2003 direct collective bargaining covered 94 per cent of Swedish employees and it is through collective agreements that pay, work and employment conditions are settled.⁷⁹ This widespread coverage results from the size of union and employer associations. It strengthens the role of the labour market partners in regulating pay and working conditions.

The Swedish tradition on matters of industrial relations is much less individual-focused than the approach favoured by the legislative initiatives of the Commission in the form of Directives. A good illustration of the latter approach is the Working Time Directive 93/104. The Commission deemed the 1996 transposition by the Swedish government of the Directive unsatisfactory. The government argued that Swedish law was compatible with the Directive and that the social partners had to evaluate whether their collective agreements were in conformity with it. Nevertheless, the Commission found this explanation wanting and initiated an infringement procedure. The Swedish government had to respond and therefore set up a Parliamentary Committee to propose new legislation. Different pieces of legislation had to be incorporated to the proposed Working Time Act incorporating the Directive. This finally happened in 2005 by vote of Parliament. According to the Swedish Working Time Act and in line with the 93/104 Directive, the average weekly working time cannot exceed 48 hours.⁸⁰

In 2002 and following a European Commission initiative dating back to 1998, the Council adopted an information and consultation Directive. The Directive set minimum requirements for the provision of information to and consultation with employees in firms employing at least 50 people in a single Member State or

establishments employing at least 20 employees in any one Member State. The Swedish government set up a special committee in 2004, which recommended changes in the current legislation that only apply to those employers and employees covered by collective agreements.⁸¹ According to the proposals made, the MBL law should be extended to all employers and employees. The government claimed that the legislative changes required were only 'minor' and could be undertaken without major problems. In the case of the information and consultation Directive, this was indeed the case due to the fact that this piece of legislation envisaged social partnership in various stages of implementation and in the event that clarifications were necessary as to its content.⁸²

This is not always the case, however. A possible outcome of such decisions is the weakening of the importance of collective agreements. By extending the MBL law to all employees, for instance, the salience of union membership is reduced as legal protection becomes entrenched for all employees irrespective of union membership. Such instances may undermine social partner autonomy and shift the burden of implementation to the state, as they will provide less initiative for unions to regulate labour market conditions through collective agreements.

Still, Swedish unions and employers agree on the need to keep the state out of collective bargaining procedures and continue with collective agreements, which provide flexibility in decision-making and result in important benefits for both sides.⁸³ EU membership should not be allowed to diminish the freedom of employers and employees to conclude collective agreements at national level. During the preparation of the Constitutional Treaty text, LO, TCO, SACO and *Svenskt Näringsliv* signed a joint statement addressed to the Swedish delegates on the Convention for the European Constitution, arguing for the retention of the right of labour market partners to bargain and settle wage, working conditions and industrial conflict issues on the basis of national practice.

The 2004 EU Enlargement has posed a further challenge to the Swedish arrangement of collective agreements.⁸⁴ This is despite an

article annexed to the accession agreement signed between Sweden and the EU declaring that the Swedish system of collective agreements be seen as adequate in the implementation of EU law.⁸⁵ In April 2004, the *Riksdag* rejected by 182 votes to 137 the proposal of the Social Democrats for transitional rules and work permits to Eastern European workers prior to their entry in the country. LO called for employers to provide information to trade unions on whether collective agreements are being respected.⁸⁶

In February 2004, the European Commission proposed a Directive on Services to complete the internal market, the 'Bolkenstein Directive'. It foresaw, *inter alia*, allowing firms to establish their business abroad whilst bound by the regulations and laws of their home country (the 'country of origin principle'), rather than the host state. Despite the fact that the 1957 Rome Treaty had theoretically enabled freedom of movement for services, in practice administrative and bureaucratic barriers are formidable. With services accounting for roughly 70 per cent of the Union's GDP, the Commission had estimated that the implementation of the Directive would create 600,000 jobs and boost growth figures.

For trade unions and left-wing parties and social movements, the implication of the country of origin principle was obvious. Social and wage dumping loomed large, as Eastern European firms would relocate in western markets *en masse* and drive down labour costs, including wages and social protection rules. In the long term these arrangements would undermine the European Social Model, usually defined as the attempt to combine economic growth with social cohesion. In true EU fashion, a compromise was worked out in the European Parliament's (EP) debate on the issue in February 2006. The EP and subsequently the Council adopted the Directive, but substantial changes were made to it and the country of origin principle was dropped. A number of services, such as legal and social services, public health and public transport were excluded from its provisions.⁸⁷ Swedish unions worked in close collaboration with the European Trade Union Confederation (ETUC), politicians and civil society members to make the Directive acceptable.

The Vaxholm conflict

Among many conflicts between unions and foreign firms in Sweden after the 2004 enlargement, one has attracted particular attention. In October 2004, the Latvian company *Laval un Partneri*, employing both Swedish and Latvian workers in its school building operation in Vaxholm, refused to sign a collective agreement with LO union *Byggnads*.⁸⁸ Due to the fact that Laval was not a member of an employers' organization a collective agreement could only apply to Laval if it agreed to sign an individual agreement with *Byggnads*.⁸⁹ When Laval refused, *Byggnads* called for a blockade. Soon afterwards six LO unions and two TCO unions joined the protest.⁹⁰ When Laval turned to the Labour Court, the latter decided in favour of the blockade.⁹¹

The issue had by then acquired a political dimension. The Social Democrats supported the unions⁹² while *Svenskt Näringsliv* sided with Laval accusing *Byggnads* of protectionism.⁹³ The Electricians' Union (*Elektrikerförbundet*) also embarked on sympathy action but their employers warned that such action was illegal, considering that collective agreements with Swedish companies were applicable on site.⁹⁴ The Latvian ambassador to Stockholm requested the government's intervention to ensure fair competition and the fair treatment of all workers. In December the issue was raised at an EU Council by the Latvian Prime Minister but to no avail, as Laval eventually left the site having suffered heavy financial losses during the conflict.⁹⁵ That decision was taken after a ruling by the European Court of Human Rights stated that the Swedish Labour Court was not partial.

Nonetheless, the Latvian government and Laval continued to claim that it was EU rather than Swedish law that should have applied and that the blockade and all subsequent union action had been unlawful.⁹⁶ The subsequent decision by the Labour Court to seek the opinion of the European Court of Justice meant that both sides still hotly contest the issue.⁹⁷ Tensions flared between LO and *Svenskt Näringsliv* when the latter revealed that it financially supported Laval's court case.⁹⁸ Meanwhile, the Alliance government

defends the union stance⁹⁹ and has thus invited the wrath of neoliberals in *Svensket Näringsliv* and beyond.

The Swedish labour market partners and political parties alike will closely monitor a final decision on the subject, expected in early 2008. The stakes are very high for LO. It fears that a decision in favour of Laval will undermine the legitimacy of the collective agreements system. In May 2007 it received encouraging news when the ECJ's advocate general suggested the preservation of the union right to industrial action so as to compel firms from other member states to offer wage conditions in line with collective agreements usually signed in their own country. The proposal thus sets limits on the Union's internal market, while at the same time asserting that strike or sympathy action needs to be 'proportionate' and in line with antisocial dumping objectives.¹⁰⁰

Although the connections between the Bolkenstein Directive and the Vaxholm conflict seem obvious, in reality this dispute concerns the Swedish system of collective agreement and the application of EU law. Concretely, following the 96/71 EC Directive on the foreign posting of workers,¹⁰¹ employees posted abroad enjoy the minimum standards of protection as laid out by the host state, either through legislation or collective agreement. At the time this appeared as a confirmation of the Swedish Model, establishing the legitimacy of the collective agreement system. However, it is possible to argue that this Directive (and its Swedish transposition in 1999) clash with the fundamental EU principle of the right of business to provide cross-border services.¹⁰² European Court of Justice (ECJ) court decisions have up to now been inconclusive in that respect, and it is in that sense that the ECJ's final ruling is eagerly awaited by all sides involved.

In a separate development, the ECJ has delivered a verdict compensating non-unionized construction workers for 'inspection dues' paid to *Byggnads*.¹⁰³ These were charged to cover the costs of union investigations into whether collective agreements are respected. The case was brought to the Court after five non-union members complained about the charge. The Labour Market

Minister Sven-Otto Littorin supported the decision. The Labour Inspection Board had previously supported the union's claim, due to the fact that the employer for whom the five had worked was a member of the Construction Employers' Association (*Sveriges Byggindustrier*, BI). Attempts by *Byggnads* to continue levying the fee from non-unionized members through the 2007 collective agreement round were unsuccessful.

The ECJ decided that the dues can only be collected to control wages, but did not take a stance on whether they can be voluntary. The issue should be dealt with through bargaining between the union and employers, though the *Byggnads* interpretation of the decision suggests that they feel entitled to continue collecting the fee from non-members. Recently, the decision by the ECJ has invited a new wave of conflict between union and employers in the construction industry. The employers' interpretation of the ruling was that no more inspection dues should be collected. *Byggnads*, however, claims that a unilateral decision by the employers contradicts the collective agreement between the two sides and is therefore unlawful.¹⁰⁴ The dispute highlights the inevitable frictions caused when a law-based jurisdictional paradigm, as represented by the ECJ, conflicts with the collective agreements system reliant on encompassing unions and employers and a state that merely intervenes in case of disagreement between the two sides.

The Limits of Social Democratic Tactics in the EU

A series of agreements have now been reached by the social partners¹⁰⁵ at EU level, often followed by corresponding/supplementary agreements at national level.¹⁰⁶ By the time Article 118B of the Maastricht Treaty foresaw direct negotiations between management and labour on issues affecting the two groups, the relations between UNICE and the European Trade Union Confederation (ETUC) had improved markedly.¹⁰⁷

While in the 1980s UNICE rejected any kind of binding agreement with the unions, it became increasingly worried by the prospect of the Intergovernmental Conference leading to

Maastricht extending the areas of qualified majority voting and imposing statutory work councils on multinationals across the EU. Under pressure from some Belgian and French members, it decided to conduct negotiations with the ETUC and sign Framework Agreements, thereby delaying or cancelling the need for Commission Directives.¹⁰⁸

In 1990, for the first time, the social partners reached a Framework Agreement on vocational training and the establishment of new technology training schemes.¹⁰⁹ Further, an Agreement on Social Policy was reached in October 1991 and incorporated in the Draft Treaty through the Social Protocol. The social partners gained the right of compulsory consultation on proposed Commission legislation, allowing them to hold autonomous talks and reach an agreement without the Commission's intervention, entrusting them with the implementation of Directives as well as concluding agreements in any field.¹¹⁰

Indeed, the social partners reached agreements that became Directives on Parental Leave (Directive 96/34),¹¹¹ and part-time work (97/81)¹¹² and came together in further Agreements on fixed-term work in 1999, Tele-work in 2002 and Stress at Work in 2004. This can be attributed to the 'spill-over' effects and 'unintended consequences' of the Single Market programme¹¹³ as well as the Maastricht provisions enhancing the role of social partnership in the EU. Nevertheless, social policy and the Social Dialogue have not acquired a central function in the operation of the Union.

The EU orientation remains fixed on accommodating the pressures emanating from the reorganization of production and the internationalization of financial structures. It thus places almost exclusive emphasis on the supply-side stimulus of employment and the need for more employee flexibility to maintain competitiveness.¹¹⁴ The central goal of the Union's employment policy, as formulated in the 1997 Luxembourg Council, is an increased employment rate and the means for achieving this rests on activation. It stresses the need for those out of the labour market to actively seek work through skills development, retraining and

collaboration with state and private sector labour market agencies. The absence of mechanisms combining employment strategies with demand-enhancing policies does little to allay trade union suspicions that factory labour has become expedient in the process of structural economic change.

The creation of an organized space for industrial relations as advocated by Delors has not materialized,¹¹⁵ as social and labour market issues remain peripheral to the goal of economic integration and the imperatives of the Stability and Growth Pact (SGP). The debate on the European Constitution was indicative. Despite the reference to the draft Constitutional Treaty of 'high employment' as one of Europe's main goals, the social and employment agenda remained firmly on the margins of negotiations. A working group to deal with such issues was only created after protracted deliberations between the Chairman of the Committee, Giscard D'Estaing and MEPs.¹¹⁶ The subsequent failed referenda in France and Holland, which plunged the EU into its deepest political crisis ever, were strong signals of popular discontent with the type of integration that has been developing over the last 15 years or so.

According to Featherstone, the EMU is 'a system of regulation that rules out certain (budget) options ("negative integration") but which prescribes policy models only in particular "core" aspects of monetary policy ("positive integration")'.¹¹⁷ Overshadowed by the centrality of EMU, European social policy has often functioned as an example of neo-voluntarism¹¹⁸ imposed by the Employers' Confederation and operating on the basis of the lowest common denominator. Worker protection at EU level has often functioned as a corrective mechanism, blocking unfair competition by use of cheaper labour.¹¹⁹ The change in the UNICE stance regarding the Social Dialogue owes a lot to the harmony between the employability agenda and enhanced competitiveness through employee retraining.

The agreements signed thus far between employers and the ETUC remain limited in number. Their provisions have been drafted in a minimalist manner as UNICE has sought to curtail

their scope. To name the first example, the ILO has criticized the part-time work agreement for 'further promoting the flexible form of labour rather than upgrading its regulation'.¹²⁰ In a press release after the Agreement was signed, the ETUC admitted that including more detailed provisions would have meant that no agreement would have been reached. The Parental Leave agreement was also far from a triumph for the ETUC. At the insistence of UNICE, the final draft did not deal with the issue of compensated leave and left all jurisdiction to the discretion of national governments, thus penalizing those member states that had legislated on the issue. Sweden's Act on Equality of 1994, for instance, foresaw a compensation level of up to 80 per cent for the first 68 weeks, a much higher threshold than the one agreed by the European social partners.¹²¹

The fixed-term agreement does not necessarily apply to all employees. According to clause 2, the member-states and/or social partners retain the right to exclude from its provisions those employed in vocational training or apprenticeship schemes as well as those on contracts 'within the framework of a specific public or publicly-supported training, integration and vocational retraining programme'.¹²² When it comes to telework and work-related stress, the voluntary character of those agreements offers few incentives to employers to implement their provisions.¹²³

While agreements such as these address real problems in the labour market, they do not deal with the core issues of pay and wage determination. UNICE refuses to negotiate on these on grounds of their complicated nature and dependence on several factors, such as productivity, taxation and competitiveness. Such issues, it is argued, should be dealt with at national and, preferably, decentralized level.¹²⁴ The heterogeneity and fragmentation of the ETUC has also undermined its ability to act in unison to counter more pressing problems, such as the rise in unemployment,¹²⁵ let alone operate as a unified policy actor in pursuit of pan-European pay negotiations.¹²⁶ Industrial relations institutions at European level remain extremely weak, incapable of exercising effective

authority over national members and coordinating a successful procedure of Europeanizing industrial relations as a whole.¹²⁷

The 'system-wide domestic structure'¹²⁸ of Sweden's industrial relations as developed after the end of the 1980s limits the unions' ability to exploit the supra-national opportunities offered by the Social Dialogue. *Svenskt Näringsliv* sees itself as a lobby organization in Sweden and in Brussels whose goal is to remain outside structured negotiations with the unions. It approaches voluntary agreements sceptically and would prefer fewer initiatives emanating from Brussels.¹²⁹ SN is ambivalent about the Social Dialogue as the latter entails a relatively strong union presence and can lead to a form of 'embryonic corporatism'¹³⁰ at the expense of flexibility and a light regulatory framework. It is hardly surprising that the pace of implementing Framework Agreements in Sweden has proved slow.¹³¹ Along with most of its counterparts in Europe, SN is willing to endorse the Social Dialogue only to the extent that this prevents worse terms imposed through legally binding Directives. The organizational and political ability of unions to disengage from this course and opt for something qualitatively higher is very limited.

By the time Sweden became a member of the EU, the Swedish Model had changed considerably. Swedish EU participation underlines the centrality of business in the process and the conflicting attitudes towards the European Union by both SAP and LO. This ambivalence is largely the result of an evolving policy structure with no fixed direction that often clashes with those of the labour movement. The EU is a multi-faceted structure with varied power layers and a growing influence in domestic politics. It is a constraining and liberating mechanism, depending on the resources and coalition-building capacities of national, regional and supranational actors. The policy implications of the diverse legal traditions at EU level have proved limited, as the collective agreement system withstands the test of time. It is, however, challenged by cases such as the Vaxholm conflict and the approach adopted by SN on collaborating with LO.

The origins of the Single Market programme lie with European

business. The ERT has been the driving force behind economic integration, and European business has maintained not only the 'exit' option but also a form of veto over industrial relations negotiations and social policy implementation.¹³² The 'European' factor is reinforced by domestic developments and the ideological counter-offensive of employers. The progress that LO has made thus far has been checked by the difficulties of fulfilling calls for the EU to become a social democratic project. Globalization and market integration have also affected the domestic equilibrium of power by reinforcing the structural power of business.

Does this entail the negation of policy concertation on the national level? Or does the VoC literature entail significant insights as to business strategies in coordinated market economies? The answer to this question is not only significant for Swedish political economy. It also hints at the strategies available to social democrats in the process of adjusting to a rapidly changing economic environment.

6

The New Swedish Model

Despite manifest changes in both the international economic and political environment and the domestic configuration of power, significant elements of the old Swedish Model's principles continue to inform policy-making and the policy behaviour of labour market and political actors. These actors are informed by a path-dependent attitude to the Model's operation that has actually allowed them to become pro-active participants in the formation of the Model's next stage.

In a moment of crisis, LO and SAP elites succeeded in blocking the transformation of Swedish political economy along neoliberal lines called upon by sections of business. After a period of soul-searching in a context of institutional uncertainty, the new equilibrium has settled at a point still conducive to the party and unions' objectives. In that sense, the social democratic hold in Sweden, though considerably weakened, retains a number of advantages over radical alternatives. It is these advantages that go some way in explaining the reluctance by the Alliance for Sweden, reminiscent of the 1970s and (to some extent) the 1990s, to espouse calls for a radical departure from the social democratic legacy on the welfare state.

The institutional development of the labour market and the role of the social partners are thus important. Searching for an explanation of a new equilibrium, the pattern of 'organized decentralization'¹ needs to be empirically verified and theoretically substantiated. High levels of trade union density and organizational strength, whose roots lie in the formation of an

institutional structure conducive to trade union participation, form important parts of the story. But such labour-centred accounts need not distract from the equally important strategic considerations on the part of business preferences. Post-Fordist production patterns, on which employers rely to deliver efficient outcomes and which reduce the attractiveness of confrontation with labour in the form of costly lockouts,² play a decisive role in the maintenance of power equilibrium conducive to social democratic reformism. It is for these reasons that evolutionary rather than revolutionary change remains the distinguishing feature of Swedish labour relations. In such conditions, the ability of social democratic forces to retain a powerful role in policy-making and the formulation of policy proposals continues to attract grassroots support.

The evolution of the Social Democratic Party, with particular reference to the relationship between SAP and LO, forms an important part of this story and will be discussed below. After all, labour- and capital-oriented preferences require a political articulation in order to receive societal approval or disapproval. The social democratic movement in particular bears a historically heavy responsibility for the expression of an economic settlement in line with the need for sustainable welfare on the part of the electorate. The turbulent 1980s damaged social democracy and called into question the ability of party and unions to reform whilst retaining their salience in public policy. Again, and although the automatic institutional affiliation of LO members to SAP ceased in 1991, the degree of cooperation between the unions and the party has retained its importance for both sides. Finally, with regard to the welfare state, evidence points both to a declining level of resources dedicated to the welfare system but also the retaining of the Swedish welfare state's core principles of universal coverage and tax-financed provision. A sustained political and popular consensus centred on the importance of high levels of public welfare spending and taxation informs policy-making. This is linked to the institutional make-up of the Swedish polity.

Change and Continuity in Labour Market Regulation

The SAF counter-offensive of the 1980s meant that both private and public employers gained the opportunity to set wage levels at flexible rates to reward employees with above-average productivity performance.³ By the early 1990s, SAF had shifted the contours of the debate regarding centralized bargaining and the union politics of wage solidarity. The arrival of the non-socialist government in 1991 meant that SAF could now concentrate on continuing to push for the realization of its plan to 'privatize Sweden by the end of the century'.⁴

The SAF plan called for concrete steps in that direction, almost on a monthly basis. The government should terminate the wage earner funds immediately, sell one million public utility apartments, privatize libraries, ambulance services and fire fighting and allow private companies to take over health care, elderly care and schools.⁵ It was a call for radical change and the organization appeared willing to shed its previous responsibilities centred on the key principle that had dominated its function since its inception in 1902 – that of negotiation.⁶ The plans outlined by SAF were in conformity with international financial changes and a new ownership structure in Swedish business towards a more diffused pattern.⁷ The Bildt government endorsed many of the SAF proposals. It decided to deregulate the labour market, albeit to a 'modest' extent, and abolished wage earner funds.⁸ With regard to the calls by SAF to end the system of social partner representation in boards and agencies, the new government dismantled the apparatus of corporatist representation. A government-appointed commission chaired by Assar Lindbeck concluded that the time had come for power to return to the hands of government and Parliament and away from LO.⁹ It also supported employer calls for the complete decentralization of wage bargaining to the local level.¹⁰

Moreover, the Bildt government secured the collaboration of the Social Democrats and proceeded with a number of welfare changes. Firstly, it reduced the generosity of various benefit systems. The unemployment and social assistance benefits were cut,

a waiting period of five days was introduced for the former, and replacement rates for sick pay reduced. The ATP pension was restructured based on lifetime contributions instead of the best 15 years of employment. Employee contributions were raised to 9.25 per cent.¹¹ 1992 and 1993 saw the introduction of various initiatives aimed at encouraging the fostering of private providers in health care and other social services.¹²

SAF formulated a series of proposals regarding the functioning of the labour market. It campaigned for a reduction in welfare spending, the shortening of unemployment benefits' duration, a reduction in expenditure for union training and new limits on subsidies to unemployment insurance funds.¹³ SAF then called for a rebalancing of labour market legislation away from the collective rights enjoyed by employees through trade union participation and towards a system favouring individual employee protection. It was an attempt to shift away from the Swedish Model of social partner autonomy based on strong unions, towards a more individualistic and law-based pattern of labour market regulation. In this context, the politics of labour market compromise between the unions and employers appeared difficult to sustain in their old form. After all, the call for a more individually focused type of labour regulation not only fitted the changing political economy landscape well but also seemed in conformity with EU-inspired initiatives. A two-level pressure exerted upon the Swedish Model appeared to signal the end of its viability.

The agreement reached between VF and *Metall* in 1993 indicated the arrival of a new labour market regime. According to that agreement, the distribution of wage increases would take place solely at plant level. The collective agreement signed incorporated 'common wage principles for both blue- and white-collar employees' (*medarbetareavtal*), thus breaking with the division between *arbetare* and *tjänsteman* that had been the *raison d'être* for the division of union confederations along occupational categories.¹⁴ In 1994, the percentage of metalworkers who received some form of performance-related payment had climbed to 60 per cent, up from 55 per cent in

1991.¹⁵ With the support of *Metall*, engineering employers fashioned a new job evaluation system to facilitate the creation of a wage system tailored to company and individual needs.¹⁶ If any more proof was needed, the cross-class alliance was here to stay. Agreements such as these, in addition to SAF activism, increased uncertainty.

Research investigating Swedish industrial relations confirmed this uncertainty. 'The Swedish Model of peak-level negotiations will not be resuscitated; it is not clear at which level bargaining will be conducted.'¹⁷ 'It is difficult to predict whether Sweden will retain elements of central bargaining or go further down the road of decentralized bargaining'.¹⁸

Throughout this period, SAF was also undergoing profound changes in its organizational structure.¹⁹ In 1992, and as a result of the diminishing significance of centralized bargaining, the Confederation decided to reduce membership dues, thereby accepting a significant loss of income to remain attractive to multinationals. However, even after that reduction, its revenues for that year were 25 per cent higher than those of the French, German, Italian, Japanese and British employer organizations put together.²⁰

The principle of association to enhance employer power and level the competitive playing field for companies across industry boundaries was an important consideration behind these changes. SAF wished to avoid the dilution of its organizational strength and remained loyal to the logic of collective unity enhancing the bargaining position of its members.²¹ The principle of negotiation established in *Saltsjöbaden* was also left untouched during the transformation process.

Collective agreements have continued to inform the logic of labour market action for SAF and its members, providing flexibility and adjustment to rapidly changing conditions. A final aspect of organizational continuity for SAF is the adherence to the insurance principle, whereby employers accepted mutual responsibility for the consequences of a labour market conflict. Over the 1970s and 1980s with the proliferation of wildcat strikes, even isolated strike

action meant high compensation costs that could hardly be covered by the SAF mutual insurance fund.²² Nonetheless, SAF retained the principle of insurance. The formation of peaceful labour market conditions would allow compensation costs to be covered by the Board's Fund. At the same time, the imposition of heavy fines on companies that did not abide by SAF directives continued through the mid-1990s.²³

The exceptionally strong sense of collective action espoused by Swedish business remained, therefore, intact throughout the period of transformation. Indeed, the amalgamation of SAF and SIF that created the *Svenskt Näringsliv* in 2001 hardly changed that.²⁴ To illustrate, article 24 of SN's Statute obliges members to inform the Confederation of their stance prior to collective agreement negotiations and reserves the right of SN to dictate their stance in the interest of the collective. The case of the 2007 collective bargaining round in the tradable sector outlined below is the best confirmation of how seriously these principles are taken by the Confederation's executive board. There are also clear restrictions on the ability of members to declare a lockout without consultations with the executive board of the Confederation (§ 26). Finally, members and firms are entitled to compensation from the Confederation following industrial conflict subject to their behaviour regarding information, consultation and obedience to *Svenskt Näringsliv's* prescriptions.

The employers' push for change did not entail the dismantling of their own regulative and encompassing role in the context of a coordinated economic regime. Moreover, non-market coordination delivered clear benefits in the form of a well-trained workforce resulting in high value added as well as a level playing field in competing for skilled labour. The post-1980s labour regulation regime based on pre-existent features of the Model and combined with a significant decline in solidaristic wage politics, low levels of industrial conflict and few lost working days is conducive to business growth. Sweden's economic recovery since the late 1990s testifies to business wisdom in choosing not to disrupt a pattern of labour market organization that was conducive to profitability.

In a similar way to the 1950s, SAF showed the way for LO regarding coordination. What is often missed in the discussion on the Swedish case is the extent to which employers rather than unions have been behind strong coordination attempts. 'It was *Svensket Näringsliv* that gave us the role in central bargaining and today it seems to me that they are giving us a coordination role.'²⁵

The decision to create *Svensket Näringsliv* in 2001, delayed for a long time due to internal disagreements between SAF and SIF as to the character of the new body, was accompanied by two core messages. Firstly, SN argued that its primary role would now be to function as a lobby organization in support of entrepreneurship and business growth to restore the country's previously enviable position in high Purchase Power Parity (PPP) as a function of GDP in the OECD world.²⁶ Secondly, the new Confederation denounced any involvement in politics. The apparent ambition of SN was to remain outside the policy-making structures of the Swedish state and campaign solely on the basis of technocratic expertise on behalf of its members, actively supporting initiatives and policy proposals in line with its own vision of a more prosperous economy. On numerous occasions it has attacked the SAP-LO link and accused the latter of lacking credibility in its calls for cooperation with business.²⁷

While the first goal can hardly be denied, it is questionable whether SN has managed to remain neutral in politics. The new leadership under the former Central Bank President Urban Bäckström repeatedly criticized the last Persson government and extended a cautiously supportive hand to the Alliance. If anything, SN seems closer to the neoliberal policy instincts of the Centre Party under the leadership of Maud Olofsson than the new Moderates headed by Fredrik Reinfeldt. Emboldened by the Alliance's victory, SN has been quick to call for comprehensive changes in the country's labour law. For the time being at least, only the Centre Party seems ready to embrace such calls. Its French-inspired proposal to 'flexibilize' the labour market for those under 26 did not make it to the Alliance's pre-election manifesto,²⁸

while Olofsson's suggestion that 'local conditions' should determine wages and the Labour Court should cease to exist have met with little enthusiasm in the Alliance.²⁹ Finally, it is worth noting that SN has created a new think tank in 2003, the Swedish Free Enterprise Foundation (SFN), in collaboration with NÄFO.

The new role of the unions and the gender dimension in wage solidarity

The decision by SAF to decentralize bargaining meant that LO was deprived of its negotiating partner.³⁰ Political change at the top in the early 1990s and again in 2006 meant that the old securities associated with a Social Democratic government sympathetic to the unions' position on labour law and labour market regulation could not be taken for granted. Finally, broader issues regarding the role of the unions in a society increasingly oriented towards individualized solutions were raised. Younger union members adopted an instrumentalist view of their membership and appeared indifferent to the political and ideological goals of LO.³¹

Union activism has been on the decline over the last 25 years, with recent research suggesting that both self-identification as an 'active union member' as well as participation in union activities and meetings has declined for all LO, TCO and SACO members.³² To what extent then could LO retain its relevance as a broad movement capable of mobilization and social democratic reformism? An answer would have to emphasize the centrist tendencies that dominated the Confederation's function for most of the twentieth century.

The initial response of LO to the transformation of work patterns outlined in the previous two chapters was to endorse change. An appreciation of individualized and flexible wage systems would encourage workers to update their skills and advance rapidly in their professional field.³³ The goal was to make 'good jobs' available to all, thus appealing to the increasing numbers of workers and members dissatisfied with the work process. The unions appeared willing to shed collectivist solutions by taking on board the calls for more wage differentiation and more emphasis on the

needs of the individual employee at the workplace. Still, they insisted on the need to relate wage differentiation to a systematic job evaluation, rejecting 'the "subjective" appraisal of individual qualities which would turn pay into an instrument of managerial control'.³⁴

LO initially asserted the need to retain centralized wage bargaining to protect the principle of solidarity in wage policies and avoid intra-union rivalries with regard to the length and duration of collective agreements. It was prepared to accept the need for real changes in the role of its unions, which would now assume greater responsibilities not only in the bargaining sphere but also in local union development. An LO report of 1992, presented in the Confederation's executive committee in 1993, sketched out what was later to become LO's prime function: that of coordinating the wage demands of its affiliated unions and setting the framework of their negotiations. The report called for more attention to be paid to the pay differentials between men and women and called on member unions to take more initiatives in that direction.³⁵

A part of the approach that LO was struggling to reconstruct was the 'solidaristic work policy'. According to that approach, largely instigated by *Metall*, the unions rejected not only the division between blue- and white-collar workers – separated by their differing levels of skill, particularly in high-tech sectors – but also the attempts by employers to individualize worker involvement.³⁶ The unions outlined a programme centred on the importance of solidaristic teamwork. Each production team should be offered the chance to take part in different aspects of the fabrication and distribution process, and assume responsibility for various aspects of the work process, under the coordination of independent contact persons and union representatives.³⁷ The new strategy aimed at reconciling a more individually focused career development path, stressing individual skills upgrading, with the opportunity for all employees to see their individual wages rise. The salience of collective action could be retained, LO argued, through individual enhancement.

In many respects, the union proposals went against the centralized system of old, dominated by big production units and big

unions. Large companies have been experimenting with proposals similar to the ones outlined above. Göran Brulin has shown how small and medium sized companies have also gone along with the new production paradigms and local unions have engaged in the process of workplace development. In the southern Gnosjö region, broad networks of participation have replaced old hierarchies. All employees are expected to move between different parts of the work task cycle.³⁸ A joint stock company that enables employees from one region to learn from the work process of another has been established, co-owned by employers and local *Metall* branches. It is an attempt to introduce a novel feature in the Swedish Model, spreading the culture of network learning and competence development through local co-management of the learning process by the labour market partners.

Union response to the change in work pattern need not be defensive, therefore. Unions can be at the forefront of change by managing it for the benefit of their members. Though it is too early to reach definite conclusions, the reformist tendencies of the labour movement can provide an effective avenue of addressing some of the most pressing problems related to social and economic readjustment.

For all the innovative thinking that went on, however, the role of LO remained under intense scrutiny. *Metall*, and to a lesser extent other unions, set the agenda. It was *Metall* that first called for LO as a coordination body³⁹ and it was *Metall* that developed the localized involvement of union clubs in the learning and competence development process. Moreover, not all unions endorsed the idea of LO as a coordination body. *Metall* made the suggestion to rein in the public sector's calls for compensation, but unions such as *Kommunal* or *Transport* did not necessarily share this view.⁴⁰

The minutes of LO Congresses confirm the desire to engage with a new set of issues. Although the statement 'though LO ... seems to want a new version of solidarity in wage bargaining, it has not yet come up with a convincing package, or an organizational framework that would underpin such a policy'⁴¹ continued to ring

true in the mid-1990s, LO was taking some concrete steps towards redefining its role. At its 1996 Congress, it formally acknowledged the change in the level of bargaining. It also called for a new model of boosting the wage growth of low earners through specific agreements that would guarantee 'at least equal increases for them compared to general wage development'. Such a policy would stimulate the use of the wage system in a way that was conducive to the wage- and competence development of all employees.⁴²

The same LO Congress emphasized the gender dimension in pay differentials as a new expression of solidarity in wage setting.⁴³ Whilst deciding to retain the principle of solidarity in a manner acceptable to all members, LO emphasized that economic growth, and not redistribution within wage groups, would increase the living standards of all members and that economic policy should keep inflation at an average European level.⁴⁴ The 'cross-class alliance' had now become part of LO's economic policy orientation and the Europeanization of wage norms an accepted LO policy. By the time of the 24th Congress in 2000, LO had acquired a new ideological profile. The new politics of solidarity entail four functions: a) full employment, b) real wage increases for all – slightly higher for the lowest-paid, c) just distribution, and d) work development.⁴⁵

At the end of the 1990s, both employers and LO accepted the new politics of decentralized bargaining as the new equilibrium of collective bargaining. Having begun the decade in a confused manner LO appears to have successfully redefined its role in the Swedish labour market.

Despite the clear prevalence of the export-oriented unions in the formulation of LO's new policies, the retention of the wage politics of solidarity has meant that public sector unions continue to adhere to LO membership. LO functions as a pole of attraction for the stabilization of union membership due to the benefits associated with its pension and insurance activities. In addition, it provides a credible insurance policy against union isolationism through its ability to coordinate union activity regarding sympathy strike action and other solidarity policies.⁴⁶ The ability of LO to

retain a key role in labour market regulation goes through developments in wage bargaining, a key area of activity for any union.

The New Wage Bargaining Regime: Whither Solidarity?

In the wage rounds of the mid-1990s, the central institutional issue of contention ... was no longer whether there would be peak-level bargaining but rather how much room industry-level agreements would leave for firm-level bargaining.⁴⁷ The shift to a lower level of bargaining has not been accompanied by the realization of all changes originally envisaged by employers. In the case of the 1993 *VF* proposals this would have meant moving white-collar workers between different tasks and individualizing wages, ending up with 'the best of both worlds, blue-collar job flexibility and white-collar pay flexibility'.⁴⁸ In response, blue- and white-collar unions in the engineering sector formed a bargaining cartel.⁴⁹ This led to the Industrial Agreement of 1997 discussed below. Cross-occupational collaboration became part of the new industrial relations regime. This could prevent enterprise unionism and retain the level of bargaining to the industrial level, thereby forestalling the deterioration of pay and employment conditions.⁵⁰

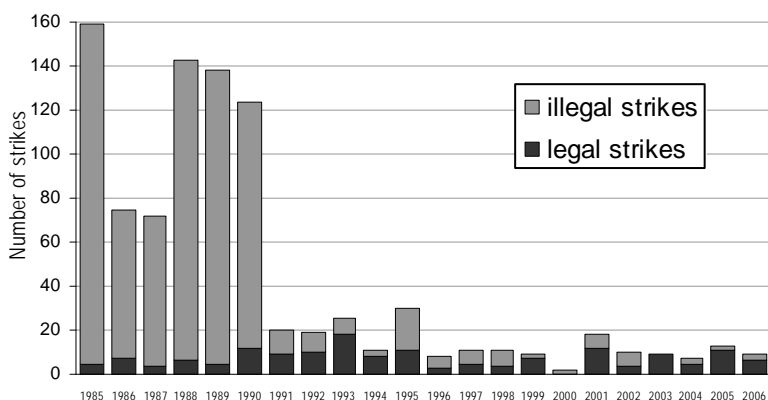
The bargaining round of 1991 was one of the most centralized ever. The Rehnberg Commission was appointed by the government to coordinate bargaining and keep wage increases low. It managed to reach agreements with over 110 organizations.⁵¹ This so-called 'Stabilization Drive' was accepted all over the labour market: wage costs were brought down to 3 per cent at the same time as inflation was reduced to 2 per cent and guarantees for wage drift and compensation were abolished.⁵² State-sponsored agreement meant that the Swedish Model seemed about to be overtaken by events and a new role in labour market regulation was created for actors not directly involved in the production process. The overt centralization of the Stabilization Drive was exceptional, as it occurred at a time when the economic crisis was accelerating. The currency, which the Social Democrats attempted to peg to the ecu in 1991,⁵³ was attacked in 1992, forcing the Central Bank (*Riksbank*) to raise

short-term interest rates to 500 per cent. The government eventually allowed the currency to float.⁵⁴ Pegging the *krona* to the ecu and subsequent efforts to institutionalize the norms and economic practices of the EU in Sweden meant the adoption of a norm-based economic policy (*normpolitik*) to reassure the markets of the economy's trustworthiness.⁵⁵ In these exceptional circumstances, a coordinated wage bargaining round adhered to by both employers and wage earners was the inescapable solution to an economic crisis that affected all sides. Even so, the agreement came too late to avert the crisis.⁵⁶

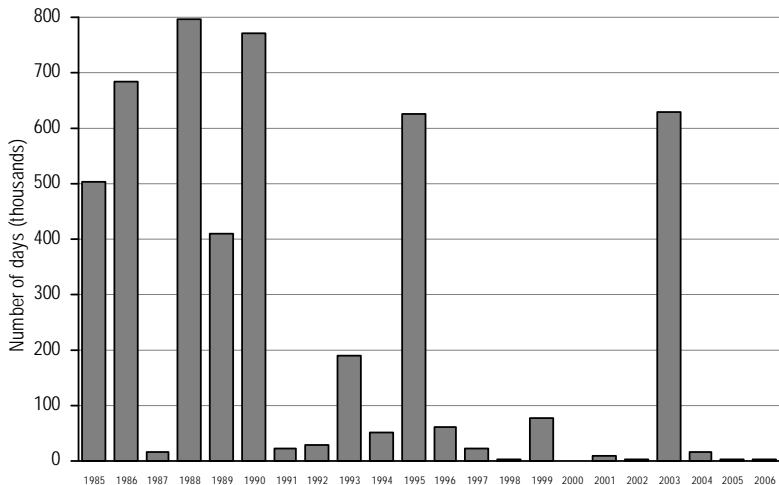
By 1993, the divergent performance of the booming export sector and the stagnation of the home market made the task of mediation more difficult.⁵⁷ Coordination efforts were hampered by the fact that the labour market partners in the pulp and paper industry reached an agreement exceeding the norm of 3.5 per cent per year set by the so-called Edin group.⁵⁸ The purpose of the group was to restore competitiveness by calculating the room for wage increases taking into account the performance of Sweden's main competitors. A member of the group described its work in a positive light. 'Some years there was higher growth in the public sector but that was evened out. If we can have the competition-exposed sector as the leader in wage setting it will make it easier for us to live with in the international market.'⁵⁹

The lack of coordination at a time of welfare cutbacks undermined union members' purchasing power and contributed to militant demands. Meanwhile, local wage bargaining was expanding. Approximately 75 per cent of white-collar employees and 40 per cent of blue-collar workers agreed on local wage formation with no individual guarantees negotiated at central level.⁶⁰ Economic uncertainty, state mediation, union confusion and the spread of local wage bargaining indicated that a paradigmatic shift in Swedish industrial relations could be under way.⁶¹

Two types of agreements dominated the 1995 bargaining round. On the one hand, 'fully open' agreements, known in Germany as 'opening clauses', reserved negotiations on wage levels and wage

Figure 6.1: Number of strikes in Sweden, 1985–2006

Source: Swedish Mediation Office

Figure 6.2: Strikes and lockouts in Sweden, days lost, 1985–2006

Source: Swedish Mediation Office

increases to the local level. Industry-wide partners would intervene only in case of a dispute. 'Partially open' agreements meant either general industry-wide wage setting or a division between the

industrial and the local branches. Fully open agreements were reached with 18 per cent of white-collar workers but only 1 per cent of blue-collar workers. Industry-wide agreements for blue-collar workers reached 62 per cent.⁶²

Important changes had been established as new features of the Swedish pattern of labour market regulation. Industrial LO unions such as *Metall* preferred cooperation with white-collar engineering unions rather than LO coordination. This hinted at the possibility of an end to the wage politics of solidarity and possibly *Metall's* LO membership.⁶³ On the other hand, industry-wide agreements with guarantees for general wage increases remained the predominant mode of wage formation with unions such as *Kommunal* and *Handels* securing large wage increases.⁶⁴ In the bargaining round of 1998 the main difference compared with previous rounds was the timely conclusion of agreements, particularly in industry. Industrial action was kept at a low level and unlawful industrial action was minimal. The new labour market regime of the 1990s has been accompanied by a substantial reduction in the number of strikes, which continued throughout the first decade of the new century (Figure 6.1), as well as lockouts. The two exceptions, 1995 and 2003, resulted from industrial action by *Kommunal* in the municipal and county council sector (Figure 6.2).

With regard to the level of bargaining, decentralization and local negotiations became the norm in a series of collective agreements. Local partners assumed responsibility for the level and distribution of wages. Once again, however, the prerogative of employers to reward particular workers was curbed due to 'cut-off' provisions that, in the case of disagreements, specified the extent of wage increases a firm could apply as well as the minimum wage increase for every individual worker.

This regulation tied the hands of local negotiators and left little room for wage differentiation similar to that of the 1993–97 period. The difference between the new pattern of bargaining and the centralized system of the 1970s for white-collar unions is not always clear, as such 'cut off' provisions are reminiscent of the

agreements that PTK agreed with SAF in the 1970s.⁶⁵ The bargaining round of 2001 was very similar to that of 1998. Local bargaining continued to rise for white-collar professionals and many agreements stipulated minimum wage increases for the lowest paid, as well as the lowest vacation pay.⁶⁶ There was, however, a substantial difference. Coordination within LO was achieved for the first time since the crisis.

Before the start of the 2001 bargaining round, LO made a series of recommendations to its member unions regarding minimum pay increases and the higher wage increases to the lowest paid. The Confederation supported the notion of the competition sector as the pacesetter for all negotiation.⁶⁷ Despite the special arrangement that some LO unions have with the engineering unions of TCO and SACO, all LO unions were bound by the accord and agreed to its recommendations. After a protracted conflict, the agreement reached between *Kommunal* and employers in the municipal and county council sector in 2003 entailed no individual guarantee but only general wage increases.⁶⁸ The extent to which *Kommunal* would be able to count on the support of other unions is crucial in this respect, not least because its members are mostly concentrated in the low-pay sector. On that occasion and in line with its efforts to combine LO solidarity with the Industrial Agreement, *Metall* strongly supported *Kommunal's* demands.⁶⁹

In the bargaining round of 2004, LO followed the same procedure and its role in coordinating wage demands for member unions became widely accepted.⁷⁰ In fact, the role of LO was now more pronounced, as individual unions did not make amendments to the text agreed at confederal level before placing their demands to their respective employers.⁷¹ Part of the coordination drive of 2004 was the unanimous decision to make demands related to the improvement of the work environment.⁷²

The newfound coordination role of LO does not mean that the Confederation's authority *vis-à-vis* its member unions has been restored to the levels of the centralized period. However, the power of LO to coordinate wage demands has been increasing over the

most recent bargaining rounds and its ideological, political and economic agenda has stabilized. Agreement on lifting the lowest paid from the lower end of collective agreement provisions constitutes an LO strategy with unanimous acceptance by industrial and non-industrial unions alike. What is more important is the fact that, according to statistics provided by *Svensket Näringsliv*, it has also been moderately successful. In the period 2004–2007, while local agreements continue to be very influential regarding final pay, above-average increases for the lowest paid have been recorded in ‘many collective bargaining rounds’.⁷³

As part of its recently established role, LO set the negotiation framework for its union members prior to the 2007 bargaining round. The main goal was to offer above-average wage increases to the lowest paid.⁷⁴ This was a priority for all unions, including *IF Metall*,⁷⁵ which nonetheless put up a stiff fight against women-targeted wage increases favoured especially by *Kommunal*.⁷⁶ In the end, *IF Metall* also agreed to abide by the coordination requirements, including the obligation to support other unions in the event of conflict over women’s wage increases.⁷⁷

LO unions agreed to an ‘equality pot’ of SEK 205 to be distributed to women earning less than SEK 20,000 per month in proportion to their number within the scope of an agreement.⁷⁸ Until this year, attempts to reduce wage differentials between men and women were carried out through demands for higher wage increases to the lowest-paid. This policy has had little positive effect on female wage conditions, so a new step has now been taken. Female LO members, usually employed in the low-paid communal and county council sector, have been particularly badly hit by the reduction in public expenditure and 91 per cent of them, about 750,000 people, belong to the lowest paid category with a monthly salary of less than SEK 20,000.⁷⁹

Further LO recommendations before the 2007 round were a minimum wage increase of 3.9 per cent, or SEK 825, for every agreement and a minimum increase of SEK 910 for those currently receiving the lowest wages of an agreement. The LO, TCO and

SACO unions allied as part of *Facken inom Industrin* agreed to a very similar, albeit slightly higher,⁸⁰ level of wage demands. The 2007 bargaining round was concluded with no major strike or lockout, and the Industrial Agreement functioned once more as a pacesetter for the rest of the labour market. What is more, the vast majority of LO unions have struck three-year deals that greatly improve pay conditions for those on the lowest rung of the pay scale.⁸¹ This is important because it counts as one of the most important indicators for wage inequality within branches. Interestingly, statistics and analysis after the conclusion of industry-wide negotiations (local agreements follow) indicate that *IF Metall* achieved the highest wage increase for its lowest paid members since its 1983 deal with VF.⁸²

In contrast with earlier bargaining rounds, the 2007 round failed to halt above-Industrial Agreement wage increases that unions such as *Handels* and *Kommunal* managed to agree with their employers.⁸³ It has therefore been suggested, not least by SN, that the high wage increases, agreed for a three-year period for most unions, threaten to undermine the government's goal of reduced unemployment and lead to inflationary pressures. LO has sought to fend off such accusations.⁸⁴ It remains to be seen whether such fears will materialize. What is certain is that the *Kommunal* agreement includes provisions for an equality pot, the result of intra-LO coordination, which can become a substantial first step towards reducing wage inequality in the public sector.⁸⁵

A second remarkable event in the 2007 bargaining round was the stance taken by SN on the collective agreement reached between *Handels* and its respective employer organization. Following the above-IA levels agreement reached between the two sides, SN went public with its disagreement and mediators were called in to resolve what amounted to an intra-employer conflict. When the cost of such an open break with employers in the tradable sector became clear to SN, it decided to back down and accept the agreement.⁸⁶ The dispute is an indication of the continued centralizing role that SN seeks to perform on the bargaining tactics and decisions of its

member associations, contrary to its proclamations that it functions purely as a lobby group.

Regarding the change in European industrial relations systems in the 1990s, Colin Crouch has argued that Scandinavia as a whole can be seen as exemplifying a neo-corporatist pattern characterized by strong central union confederations as opposed to countries with low union density and decentralized organization structures.⁸⁷

This may be true as far as it goes, but it is important to remember that strong unions are only one element of the industrial relations puzzle. The institutional legacies of the past associated with clear benefits from strong non-market regulation of the labour market meant that Swedish employers refrained from overhauling their organizational structure and relationship with unions. In fact, *Svenskt Näringsliv* worked hard to achieve employer coordination prior to the 2007 bargaining round,⁸⁸ and went public with its determination, ultimately unsuccessfully, to resist higher wage increases to the lowest paid.⁸⁹ Thus, employer preferences need to be added to the exceptionally powerful resources of the Swedish unions to arrive at organized decentralization, characterized by a pacesetter function of the export sector.

The Industrial Agreement and the Europeanization of Political Economy

The Industrial Agreement of 1997 has played a major role in the stabilization of collective bargaining patterns and established the principle of the industrial sector as the leading sector in wage formation.⁹⁰ In 1996, the Social Democratic government requested the cooperation of the social partners to avoid inflationary pressures and a further increase in unemployment, calling for wage increases that would be internationally competitive.⁹¹ While TCO and SACO did not favour any changes in the newly established system, LO and SAF concentrated on the need to strengthen mediation procedures.⁹² Trade unions in the manufacturing industry took a more concrete initiative, inviting a broad dialogue

encompassing employer organizations and trade unions to set the rules of the game and a framework for collective bargaining.

In March 1997, the Industrial Agreement (IA) was signed by 12 employer organizations and seven trade unions, including the engineering union members of TCO (*SIF*), and SACO (*CF*; *Civilingenjörsförbundet*) that went along with the proposals of *Metall*.⁹³ The increasing importance of the internationalized metal industry sector has been decisive in that process. The metal industry unions of LO (*IF Metall*), TCO (*SIF*) and SACO (*CF*) have called for stronger intra-union collaboration so as to prevent the deterioration of pay and working conditions due to globalization.⁹⁴ The Europeanization of Sweden's political economy poses new challenges with regard to competitiveness, the maintenance of high labour standards and the delivery of quality products that will conform to the unions' goal of avoiding wage dumping.

But the IA was not simply the result of union strategy. Employers too realized the undesirability of uncoordinated bargaining in 1995, when a high settlement in the paper industry led to corresponding calls for a high settlement by *Metall*.⁹⁵ VI did not contemplate confrontation because of the high costs involved in disrupting production at a post-Fordist time increasingly dependent on just-in-time delivery. Employers welcomed the willingness of the unions to reach a comprehensive agreement that would go beyond the bread and butter issues of wages and salaries and deal with the wider macroeconomic framework. A negotiator of the IA on the employers' side has gone as far as to state that the agreement has reinvigorated the Saltsjöbaden spirit between employers and the unions.⁹⁶

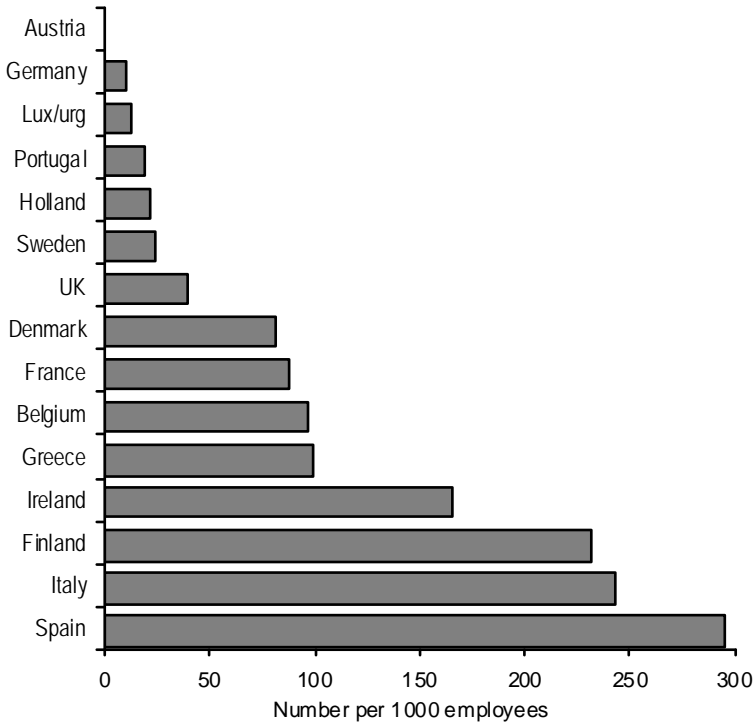
The Agreement set out to offer a new mode of regulating the labour market by concentrating on the need to avoid industrial action for as long as possible, promote industrial development and enhance profitability to secure sound wage development.⁹⁷ It also backed industry-wide coordination of bargaining. The partners agreed on the establishment of an Industrial Committee. This would be composed of employer and union representatives, be

responsible for the supervision of bargaining and have the power to intervene in the negotiations prior to the expiry of a collective agreement. It could then force the parties to halt industrial action. All demands from the two sides would have to be put forward at the start of the negotiations, with no additions allowed once an agreement had been reached. In case an agreement ran out before it could be renewed, an impartial chair of the Industrial Committee would be given the authority to intervene, put forward his/her own proposals and delay industrial action for up to 14 days.⁹⁸

The IA replaced legal stipulations on mediation and was tested in the bargaining round of 1998 for the first time. It turned out to be a success. All timetables were kept, industrial action was not contemplated and the wage levels agreed became the norm for the rest of the labour market.⁹⁹ Crucially, the Industrial Agreement reconfirmed the spirit of *Saltsjöbaden* in a key policy area. Unions and employers reasserted their adherence to the principle of social partner autonomy.¹⁰⁰ This has had clear effects on industrial peace. Compared to the rest of the EU, the number of lost working days in Sweden was below average over the period 1990 to 2000 (Figure 6.3). The stabilization of the labour market resulting from the IA has been welcome news for LO, insofar as the acceptance of the export sector as the pacesetter for bargaining has facilitated its coordination role. However, the institutionalization of collaboration has also been accompanied by complications for the new solidaristic wage policy due to the continuing aspiration of LO for a class-oriented cooperation to reduce wage dispersion.¹⁰¹ After all, the union division along occupational lines reinforces LO's mobilizing character as a social democratic Confederation at election time and beyond. The reduction in the Confederation's centralized power may also prove an obstacle for close LO-wide coordination due to the diminishing importance of smaller unions.

The provisions of the IA regarding mediation encouraged the government to push forward with its plans for creating a new institutional body responsible for overseeing an orderly wage formation. The strong reaction of both trade unions and employers

Figure 6.3: ‘Lost’ working days as a result of labour conflicts in the EU, 1990–2000



Source: Eurostat

to the establishment of a body that would infringe on the principle of social partner autonomy meant that when the Mediation Office (*Medlingsinstitutet*) was created in 2000 its originally envisaged powers were curtailed.¹⁰² Its task is to promote an ‘efficient wage formation process’ and be responsible for wage statistics. The Mediation Office gained the right to appoint mediators for a potential industrial conflict and request a ‘cooling off’ period of up to 15 days before industrial action begins. Mediators intervening in disputes, however, were given no authority to halt industrial action. The creation of the Office did not challenge the position of employers and unions as the ultimate arbiters in the labour market. ‘The social partners themselves have long been responsible for

concluding wage agreements, without any state interference. This still applies.¹⁰³

Following the example set by their counterparts in the industrial sector, employers in the state sector took the initiative for an agreement in 1997.¹⁰⁴ Building on that momentum, the two sides proceeded with two agreements on the bargaining sector in 2000: 'the mutual trust established in the bargaining round of 1998 was codified in the cooperation agreement two years later'.¹⁰⁵ Thus, the acceptance of the export sector as a 'pointer' for wage development became established practice and both sides in the labour market as well as the Social Democratic Party today welcome the IA as a stabilizing force.¹⁰⁶ In 2002, about 60 per cent of the Swedish labour market was covered by the IA and the state-sector agreements.¹⁰⁷

Nevertheless, it is important to point out that evidence from the most recent bargaining round that included most of the country's major employer associations and trade unions indicates a weakening of the IA as a pointer for wage development. For domestically oriented employers and unions, the 10 years of the IA have led to below-par wage increases and growing resentment. The extent to which LO will be able to maintain the fine balance between supporting the IA and its new wage policy of solidarity through coordination and support for low-income groups, especially women, remains to be seen.

Collaboration at the local level has not diminished throughout the period of change. The National Institute of Working Life¹⁰⁸ (*Arbetslivsinstitutet*) has tried to estimate the level of collaboration between the labour market partners at company level. A 1998 survey measured the effects of the 1973 Act on trade union representation on company boards. Cooperation between employee representatives and other board members was deemed 'good' or 'very good' by 80 per cent of companies¹⁰⁹ and not more than 10 per cent of managing directors believed that employee participation 'weighted down' the decision-making process. Nine out of ten companies recorded 'good' or 'very good' cooperation between managers and trade unions.¹¹⁰

In a similar survey carried out by the same institute in 2003, surveyed firms asserted that consultations with trade unions are seldom financially burdensome. Although the influence of employees had diminished since 1996, the benchmark year, 48 per cent of them saw employees as playing a decisive role in regulating issues affecting working time and the working environment.¹¹¹ The climate of cooperation between the two sides was in this survey described as 'good' or 'rather good' by 81 per cent of enterprises. Sofia Murhem's study on the attitude of small businesses to trade unions showed that employers were sympathetic to the unions, though less enthusiastic about the benefits of membership in an employer association.¹¹²

If industrial relations at the local and company level have remained stable, the decentralization of bargaining and the politicization of SAF appeared to threaten collaboration on the confederal level. The ideological nature of the Employer Confederation's decisions and its proclamations were unique in the Nordic states.¹¹³ Even at the peak level, however, it is difficult to establish a clear-cut case of a definitive break with past practices. *Samförstånd* still informs the policy attitudes of LO and SN, at least regarding the broad contours of labour market regulation. The increasing importance of European-level agreements and the need to respond to the challenge of Europeanization has strengthened that process. In fact and as suggested above, employers have facilitated the reaffirmation of LO's role. An example is the September 2000 agreement between LO and Swedish Service Employers Association (*Tjänsteföretagens Arbetsgivareförbund, Almega*) on the right of LO-affiliated temporary personnel to receive equal pay and working conditions to permanent staff.¹¹⁴ This came after the agreement at European level on temporary work.¹¹⁵

Hostility of some employers to cooperation is often sacrificed for the sake of: a) maintaining industrial peace, b) preventing uninterrupted productivity and c) avoiding governmental interference in the labour market through legislation which, due to Social Democratic dominance in power, is perceived as advantageous to the unions. Such fears are currently verified: the centre-right

government refuses to change labour law, admittedly one of the most pro-union legal frameworks in the Western world. On the other hand, the increasingly vocal calls by SN and other business lobbies (such as *Företagarna*, the SMEs confederation) for labour law to be made more 'flexible' points to the continuing threat of using politics to achieve goals traditionally fought for through negotiations. Changes in the unemployment insurance system underway may, in fact, be an indication that broader changes will be introduced by the government at a later stage.

In 1998, on the initiative of LO economists, the three union confederations agreed to present a package of issues for negotiations with SAF, including EMU, wage bargaining, labour legislation, taxes and 'competence development'.¹¹⁶ These were the 'Alliance for Growth' (*Allians för tillväxt*) discussions, the successful conclusion of which would have strengthened the argument on a neocorporatist revival. After a long period of backdoor consultations, the labour market partners made public their intention of signing a 'second *Saltsjöbaden* agreement'.¹¹⁷ Although by December it appeared that an agreement was about to be signed, LO left the negotiation table and the agreement collapsed.¹¹⁸ The reasons for failure seem mostly related to the refusal of TCO, SACO and SAF to contemplate a strengthening of coordinated bargaining and a strong role for a state mediator as advocated by LO.¹¹⁹ Nonetheless, SAF agreed to the establishment of a bipartite arbitration board to intervene and settle wage conflicts, which would have meant a strengthened role for LO in the bargaining process.¹²⁰

Research by Stephens (2000) reveals different explanations for the collapse of the talks, ranging from the TCO and SACO objection to the re-centralization of bargaining to a split with the confederations over the EMU issue. SAF made EMU approval by the unions a precondition for the talks' success, but TCO did not commit itself to an official endorsement of Economic and Monetary Union.¹²¹ TCO and SACO were indeed reluctant to see a return to a more centralized pattern of wage bargaining. Their

objection removed the key incentive for LO's decision to endorse EMU, modify the Law on Employment Security (LAS) and call for a return to the 1990 tax reform, which SAP modified after 1994 by raising the top tax rate.¹²² The broad agenda did not suit the anti-corporatist objectives of SACO, whose members can rely on higher education levels from TCO and LO members to achieve their demands in the absence of centralized agreements.¹²³

Despite the failure of the two sides to reach agreement, the outcome does not signify the demise of a consensus-seeking approach to labour market regulation. Tendencies both for and against strong centralized regulation exist. Politics is as important as ever. To illustrate, the decision by LO and *Svensket Näringsliv* to solve the problem of foreign firms operating in Sweden, outlined below, may lead to a renewed attempt at setting broad economic objectives. On the other hand, the increasingly militant position of SN makes such an outcome less likely than such agreements suggest.

The growth of small and medium sized enterprises, with two-thirds of all *Svensket Näringsliv* member companies now employing up to nine employees, has changed its internal composition. Increasing reliance on SMEs means that SN has become more vocal in its opposition to sympathy strike actions and has repeatedly called for proportionality in labour law. Industrial enterprises, on the other hand, are well served by a system of coordination that allows just-in-time delivery and guarantees labour peace, binding under collective agreements. Furthermore, agreements at the confederal level also result from the powerful role of the trade unions in the labour market, itself the result of very high levels of union density and an elaborate network of social policy and labour market legislation. The confederations of labour and capital continue to adhere to the notion and practice of labour market regulation to direct policy outcomes towards growth and efficiency.

A good illustration of this is the agreement between LO, PTK and *Svensket Näringsliv* in April 2001 on an occupational injury scheme. According to this agreement, the injured employee receives full compensation for loss of income and is no longer obliged to

prove the fault of the employer. LO and *Svensket Näringsliv* also agreed on two supplementary agreements: on sick pay (*Avtalsgruppsjukförsäkring*, AGS), and an insurance scheme against job loss (*Avgångsbidragsförsäkring*, AGB). The two sides have created a co-owned company, AFA, responsible for collectively agreed insurance against death, work injuries, illness and redundancy.¹²⁴ About three million people are insured against at least one of these risks with AFA. LO and *Svensket Näringsliv* have also established a Safety Foundation (*Trygghetsfonden*, TSL) in September 2004 to manage the support of employees made redundant.¹²⁵ The 'security agreement' (*Trygghetsavtal*) has helped secure new jobs for 80 per cent of redundant white-collar workers and 86 per cent of workers in the year 2006.¹²⁶ This has come after another agreement between the two sides regarding the need for an 'insurance for change' (*omställningsförsäkring*) was reached in 2004, and foresaw negotiations between managers and local trade unions in the event of forced redundancies to provide individual help in the search for new employment.

Finally, in 2007 new pension agreements were reached first between *Svensket Näringsliv* and PTK,¹²⁷ and subsequently between *Svensket Näringsliv* and LO.¹²⁸ As a result pension conditions for white-collar and blue-collar workers have been readjusted to the benefit of LO members. These results come as no surprise. Cooperative relations with unions at the plant level are a precondition for employers to adjust efficiently and quickly to changing market conditions.¹²⁹ At the same time, pension agreements function as a pool of attraction for unions to the extent that they relieve the individual employee of the task of negotiating a separate pension agreement with his/her employer. The fact that such an attitude complements the historical trajectory of Swedish industrial relations reinforces its popularity.

The Vaxholm conflict is a further sign of the coordinated market economy type that Sweden has settled for after the crisis. In light of the consequences that similar conflicts could have on the labour market regarding unfair competition between its members,

Svensket Näringsliv agreed on negotiations with LO to set up guidelines for foreign firms operating temporarily in Sweden. The agenda of the two sides ranged from insurance to principles of wage determination.¹³⁰ An agreement was reached in the summer of 2005, whereby LO and *Svensket Näringsliv* 'recommended' to their members that they should ensure that temporary employment in Sweden from outside the country should be subject to the Swedish Model through the affiliation of employers to one of SN's members.¹³¹

The agreement included a series of loopholes and SN did not commit itself to its application to those firms already bound by a collective agreement in their home country. On the other hand, however, the agreement has rightly been described as a victory for LO and the Swedish Model.¹³² It was proof of the commitment of both sides to the regulation of the labour market through the establishment of mutually acceptable compromises, as well as of their desire to adjust the new Swedish Model according to the framework of operation created through EU enlargement and the challenges that this poses. At the same time, the employers needed to show willingness to compromise by taking into account public sentiments. An opinion poll by SKOP at the behest of TCO showed that although only 17 per cent of companies had a more positive stance towards the unions after the Vaxholm affair, 73 per cent agreed with the principle behind the unions' action. The same percentage supported the principle that Swedish legislation and collective agreements should be valid for all companies operating in the country.¹³³ For *Svensket Näringsliv* to remain true to its commitment of securing fair competition to its members, the agreement with LO was vital.

A path-dependent dynamic has thus evolved, maximizing employers' payoffs by sticking with the current system. Departing from the model of collective bargaining and autonomy entails the threat of shifting to a model conducive to labour poaching and unfair competition. The costs associated with such a switch seem, to most employers, prohibitive. A similar opinion poll to SKOP at

the end of 2004 showed that, among the general public, the Swedish system of collective agreements was supported by around 80 per cent of the population and more than half (56 per cent) viewed the role of unions more positively after Vaxholm. Half of respondents agreed that were the unions to lose the core argument at stake in the Vaxholm dispute, pay and working conditions would deteriorate for all employees in Sweden.¹³⁴

Beyond neocorporatism: the fallacy of change?

The pronounced turn away from corporatist interest representation is significant for the Swedish Model insofar as it would restrict the ability of unions to exercise a degree of influence over political decisions that relate directly to the wellbeing of their members. Existing evidence does not support the notion of a complete break with the old pattern of organized interest representation, although the changed composition of boards and agencies has reduced the ability of employers and trade unions to influence decision-making.¹³⁵ After 1991 and the decision of SAF to withdraw from boards and agencies, Parliament abolished 'administrative corporatism', defined as the invitation by the state to certain interest groups, civil servants and politicians to serve on the boards of different companies.¹³⁶

Nonetheless, this transformation is much more apparent than real. 'Many of the former representatives of interest groups still hold seats on the boards, since the government appointed them to the same boards on "personal mandates"'.¹³⁷ The Board of the Work Environment Authority (*Arbetsmiljöverket*, AV) is an example of such an arrangement. LO and *Svenskt Näringsliv* each have a representative on the Authority's board though they appear in a personal rather than professional capacity.¹³⁸ This change has reduced the ability of outside actors to hold trade unions and employers accountable for decisions, but it does not equal a loss of influence in the decision-making process. LO used the return of the Social Democrats in power in 1994 to regain a place in the AMS Board.¹³⁹ Both unions and big business with connections to employer organizations continue to exert informal influence on

decision-making through their links to political parties or individuals in the Ministries and the state machinery in general.¹⁴⁰

The Salience of Institutional Legacies and Policy Concertation

Over the last 15–20 years the degree of change in the function and goals of the labour market partners has been rapid and outstanding.

There has been a shift away from centralized agreements and an increase in wage differentials between blue- and white-collar workers. The wage politics of solidarity have been undermined by an increase in wage dispersion, and the cross-class and cross-union alliances. There is also evidence of growing income differentials in the period 1995–2004.¹⁴¹ The Industrial Agreement permits big differences in profits and wages across the different sectors, in particular the public sector where local bargaining *and* wage distribution has become dominant.¹⁴² Changes in the global economy, the Europeanization of Swedish economic policy after the 1980s and the growing individualization of labour have meant that the traditional agenda of LO has been undermined. A return to more centralized bargaining has been ruled out. The public sector has certainly been no exception to the pattern of differentiation and inequity. The adoption of a decentralization agenda by SAP in the 1980s has been accompanied by the introduction of pay systems based on flexible and individual pay rates. In 1984, a market salary supplement to the salaries of public sector employees was introduced to enhance the attractiveness of public sector employment compared to private enterprises. The purpose behind these attempts has been to retain the loyalty of the most valued employees, and intense antagonism between unions has facilitated this development.¹⁴³

According to LO data, the wage increase for blue-collar workers was 36 per cent over the period 1994–2003 whilst the equivalent increase in wages of white-collar workers was 44 per cent.¹⁴⁴ Inequities in wage compensation between these two big occupational groups are higher if calculated on the basis of real increases in income. Blue-collar workers received 74 per cent of a white-collar wage in 1994 and that figure had gone down to 70 per cent nine years

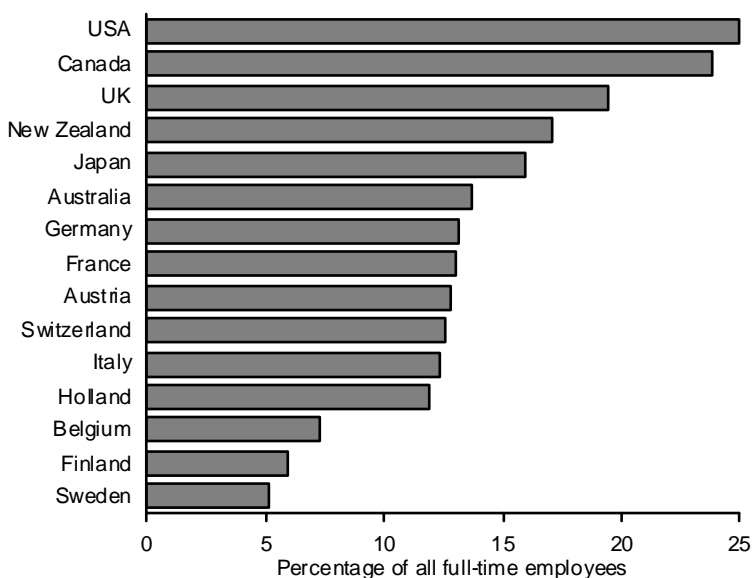
later.¹⁴⁵ A compilation of different statistics shows that wage differentials had increased to the level of the mid-1970s by 2003.¹⁴⁶ This divergence has not been uniformly applied to all categories. While employees in the communal sector have been the biggest losers, white-collar employees in the industrial sector have enjoyed the highest wage increases. A revolutionary change has not occurred, however. With regard to the new solidaristic wage policy, the line that LO has followed over the past few years, though unable to fulfil the more egalitarian ambitions of earlier periods, has been marked by some success.

Collective agreements have increasingly focused on the need to reduce male and female wage differentials in accordance with the 'equal pay for job of equal worth' principle. Some progress has been made. In 2003, 'female wages' rose more than 'male' ones, by 3.9 per cent compared with 3.3 per cent for men.¹⁴⁷ It was the first time that such a development had taken place since the early 1990s as *Kommunal* was able to push through its collective agreement in 2003 supported by LO. In the 2004 wage bargaining round, more rules were agreed to reduce wage disparities between the sexes.¹⁴⁸ The industrial sector achieved a working time reduction of 0.5 per cent over the three-year contractual period and the lowest paid blue-collar workers were offered average wage increases of 9 per cent over three years without working time cuts.¹⁴⁹ The outcome of the 2007 bargaining round, one of the most comprehensive in recent memory, is a further important indicator of the new equilibrium's sustainability, as well as the ability of the unions to extract better pay conditions for their members in conditions of sound economic growth.

Though income inequality is rising, Sweden's labour market remains strongly egalitarian. According to Eurostat's *Structure of Earnings Survey*, Sweden had, in 2003, the lowest wage dispersion before tax in the European Union. Figures from the (admittedly slightly dated) 1996 OECD Employment Outlook show that Sweden had the lowest percentage of low-paid employees, defined as receiving a salary less than two-thirds of the average wage of a

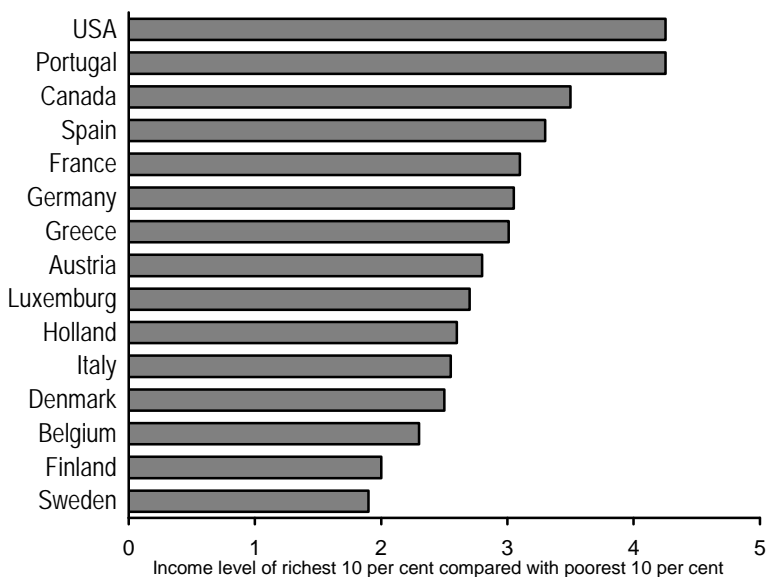
full-time employee (Figure 6.4). Furthermore, the OECD published data in 2003 on wage dispersion comparing a range of national economies. It is based on the relationship between the highest and lowest decile of the average wage earner, where a higher percentage signifies higher dispersion between the highest and lowest salaries. Sweden emerges as the economy with the lowest wage dispersion (Figure 6.5).

Figure 6.4: Low-paid employees, selected countries



Source: OECD Employment Outlook 1996

Underpinning the strength and encompassing character of LO unions is the high level of union density. Sweden is part of the wider Nordic approach to union membership that favours high unionization rates irrespective of the level of collective bargaining.¹⁵⁰ At the beginning of the 1990s, unionization rates began to decline amidst a tight labour market and the increasing emphasis on individual wage increases. The departure from the policy of full employment in the 1990s weakened the position of the unions and facilitated the decline in unionization.¹⁵¹

Figure 6.5: Wage dispersion, selected countries, 2003

Source: Eurostat, OECD, Statistics Canada

The process has accelerated and in 2006 LO reported a unionization rate of less than 78 per cent.¹⁵² For the first time ever, the combined membership rate of TCO and SACO in 2006 surpassed that of LO. While TCO rates are also slightly down, SACO continues to grow. The phenomenon of declining blue-collar union participation has also been observed in Denmark, Finland and Norway, and can be at least partly attributed to the growing proportion of the labour force employed in the professional, white-collar sector. Changes in employment patterns mean that more people enter university and delay their entry to the labour market. Moreover, the decentralization of bargaining and the wider shift towards more individual-oriented solutions mean that the current structures of union organization hardly reflect changing societal attitudes and values.¹⁵³ In that respect, the earlier ability of LO to be a promoter of social values in its own right has now disappeared.

There are more positive trends in unionization rates worth mentioning, however. Apart from the institutional link analysed

below, non-unionized employees do not reject the possibility of future entry to a union. In fact, more than half of respondents to a 2007 survey said that they would 'certainly' or 'probably' join in the future.¹⁵⁴ The growing influx of migrant labour in the 1990s could pose a serious challenge to unionization rates, assuming that the 'union culture' of Sweden is much weaker in other parts of the world and particularly outside Western Europe. Nonetheless, a 2004 LO report showed that women stemming from a non-European country had a rate of unionization that reached 74 per cent and most of them were members of an LO union.¹⁵⁵ In addition, separate poll findings indicate that whilst most people are union members because of the unemployment benefit linked to union membership (67 per cent), 65 per cent of respondents also argued that union membership is a way of safeguarding their interests in the workplace.¹⁵⁶

Cultural explanations of a distinct Nordic approach to labour market regulation, where membership of a union is an expression of a society's organizational pattern, have often been put forward to explain high union membership rates.¹⁵⁷ Indeed, the cultural evolution of the Swedish polity signifies the importance of paying due attention to a high level of societal organization based around collective decision-making and a continuous search for consensus. However, unionization attributed to a culturally prescribed behavioural pattern contrasts sharply with a new reality in the Swedish polity. This is characterized by a large influx of foreign labour and the gradual transformation of Sweden as a net receiver of migrant population.

High union density rates should instead be attributed to the durability of institutional patterns, developed over time, and closely related to the maintenance of an overall labour market framework conducive to a strong union role. Such an explanation underlines the critical role of institution-building during the formative years of the Swedish Model. This pattern has developed in a mutually beneficial settlement for employers and unions alike.

To give but one example, at no point during their counter-

offensive did employers seek to discourage union membership. They have stuck with unions in the knowledge that removing some non-market regulatory elements from the country's industrial relations system entailed high costs. In particular, it involved the renegotiation of an institutional settlement that provided employers with industrial peace, flexibility through collective agreements and the opportunity to build upon a highly skilled workforce to compete in global markets. Unions had no reason to upset this settlement, which delivered real wage increases, important regulatory and legal powers as well as access to decision-makers through their links to the Social Democratic party.

The centralization of industrial relations in the early twentieth century meant that firm-by-firm struggles were largely avoided and 'extensive union access to workplaces helped maintain rank-and-file contact and organize workplace bargaining'.¹⁵⁸ The ability of both unions and employers to centralize and gain access to the workplace is derived from the historical character of the Swedish state and the concomitant emergence of industrialization and democratization. These facilitated the growth of strong unions as part and parcel of a democratizing polity. The labour movement consolidated its numerical strength in the absence of a coherent conservative counter-force due to the democratic instincts of the peasantry and the reformist character of the Social Democratic party. The latter co-opted the unions to a collaborative pattern of labour market organization. Social partner autonomy helped unionization and employer centralization, raising the stakes for both parties involved.¹⁵⁹

The creation of an optional unemployment insurance fund along the lines of the Ghent model subsidized by the state meant that a set of very concrete incentives was built into the system in the 1930s. It encouraged union participation and the increase in the collective power of labour.¹⁶⁰ The original balance in payments between unions and the state was slowly tilted in favour of the unions, with the state paying almost all costs from the 1970s. Moreover, although an individual can be a member of an insurance

fund without being a union member, in practice the unions have made such a choice very difficult.¹⁶¹ To illustrate, although the current legislative framework does not allow for any discrimination between *a-kassa* members on the basis of union membership, practical benefits on pay and information continue to be enjoyed by union members.¹⁶²

Similar to the unemployment insurance funds are the rules and laws that prescribe the use of strike and lockout funds. The latter are only available to unionized workers, further enhancing the attractiveness of channelling disputes through union representation.¹⁶³

Path dependency has reduced the attractiveness of overhauling the current system. The leader of the Moderate Party and Prime Minister, who had recommended that the state take over the unemployment funds whilst in opposition, changed tack. Fredrik Reinfeldt says that a change of administration would be difficult considering that unions represent broad social groups.¹⁶⁴ In further revealing statements, Reinfeldt declared prior to the September 2006 elections that it is his party which is now the Party of Work (*Arbetspartiet*),¹⁶⁵ and that a centre-right government will increase expenditure on the welfare state.¹⁶⁶

At the time of the introduction of the unemployment insurance reform, the Social Democrats could hardly expect political gains, as the majority of workers were not unionized. Nevertheless, the reform was part of an overall strategy that aimed at creating a political and economic climate conducive to the goals of social democracy beyond the immediate electoral cycle. Far from relying on sociological explanations, an exegesis of the new Swedish Model's relevance in a different political and economic context from that of its original inception has to be traced to the constellation of a set of institutional variables.

These findings need, however, to be qualified in the face of legislative initiatives by the Alliance, as well as broader changes in the welfare system. After all, any institutional settlement in coordinated market economies has to be judged on political terms,

where the process of readjustment is continuous and dependent on available resources to relevant actors. For all its proclaimed commitment to collective agreements and strong trade unions, the Alliance has introduced cuts in unemployment insurance benefits and a steep increase in unemployment insurance fees (*a-kassa*). Concretely, the Alliance has promised a reduction of unemployment insurance benefit from 80 per cent of average wage to 70 per cent after 200 days out of work and 65 per cent after 300 days.

Reducing unemployment is thus linked to a reduction in state benefits, in an apparent attempt to make employment more attractive and increase income differentials between those at work and those reliant on benefits (*bidrag*). At the same time, *a-kassa* fees become directly linked to factors unrelated to the fund, such as the unemployment rate in that particular branch of the economy. Clearly, the consequence of this decision is to penalize union members and unemployment funds where unemployment is highest, reducing the solidaristic element in the system. The government has also announced its intention to remove the right of entitlement through education.¹⁶⁷

The combined effect of such measures is likely to reduce unionization rates further, considering the steep rise in dues for both union and *a-kassa* participation. In fact, there is already some evidence that the sharp increase in unemployment insurance fees is contributing to an exodus from *a-kassa* membership.¹⁶⁸ The reduction in *a-kassa* members has in turn led to reduced state revenues,¹⁶⁹ which were eagerly anticipated by the government to deliver on some of its promises regarding income tax cuts. This, in turn, means that the proposal has now been put forward to make *a-kassa* membership obligatory for all – a prospect utterly unwelcome to the unions.¹⁷⁰ Combined with the fact that more and more workers are choosing to become members of a fund unrelated to the unions¹⁷¹ (*Alfa-kassan*), this is a bad omen for the sustainability of high unionization rates in the future. The immediate response by LO was to explore the possibility of organizing its own unemployment insurance fund, but this has stumbled in the face of

evidence suggesting that low-paid members would be subject to the highest premiums.¹⁷²

To make things worse, governmental policies are only one aspect of the problem. As Anders Kjellberg has suggested, the loosening link between unions and *a-kassa* is also undermined through a) the trend of disassociation from unions and membership only to *a-kassa* that preceded the reforms introduced since September 2006, b) the fact that, even prior to the reforms, only half of all employees actually received the nominal replacement rate of 80 per cent through their *a-kassa* and finally c) the multiplication of income insurance schemes among trade unions, especially among TCO and SACO unions, has not reduced the number of those choosing to be only members of *a-kassa*.¹⁷³

Combined with reduced spending on labour market programmes, current policies on unemployment insurance and pre-existing trends that were inadequately addressed by the social democrats and the unions alike can endanger the encompassing role of LO unions in Swedish public policy.

Generous unemployment insurance, LO argues, has been at the core of the Swedish Model's flexibility and adaptability of the workforce. Reducing security leads to a more risk-averse labour force, gradually stifling innovation and the economy's competitive edge, not to speak of the social repercussions of such a policy. Reducing replacement rates means that unemployment insurance is transformed to a form of social assistance,¹⁷⁴ and the redistributive character of *a-kassa* manifested in its cost-sharing character is gradually evaporating.

Social Democrats and Unions: Continuity and Change

The War of the Roses in the 1980s inflicted serious damage to the relationship between the Social Democrats and LO. Even during the 1970s, the traditional link between the party and the unions was crumbling, as the Social Democratic party had been drawn into labour conflicts as a public sector employer.¹⁷⁵ At the 1987 SAP Congress the increasingly powerful role of SAP functionaries in

important positions with no union links contributed to the decision to replace collective union affiliation to SAP with 'organizational affiliation'.¹⁷⁶ This was based on the principle that party membership can only be individual; individual members of a union section affiliating to the party must decide voluntarily to join SAP.¹⁷⁷ The change was carried out gradually until the end of 1990 and included the stipulation that all union organizations, such as clubs, branches or sections, would have to decide whether they wished to take part in the process.

The principle of collective affiliation had been crucial in the development of SAP as a mass party. In 1983 party membership had reached a staggering 1.2 million or 15 per cent of the Swedish population at the time.¹⁷⁸ The end of compulsory affiliation was no surprise. Unions and outsiders had always questioned the principle of collective affiliation as harmful to the image of SAP. In the 1980s the top echelons of LO also started questioning the usefulness of institutional affiliation. Stig Malm, then LO President, described collective affiliation as 'a millstone around the neck of the labour movement'.¹⁷⁹ Financially, the end of collective affiliation has had little consequence. Party membership fees are less important than state support, institutionalized in 1965 through public subsidies to political parties. Party and unions usually agree on an annual grant by LO to SAP. It has been estimated that organized labour contributed approximately \$8.8 million to SAP for the 2002 elections.¹⁸⁰

It is also important to note that the Swedish model of affiliation was never as encompassing as the British equivalent affiliation of the TUC unions to the Labour Party. Other forms of affiliation are membership in Social Democratic associations based on the individual members of a local section of a trade union (union clubs) or workplace associations; that is, associations based on a local firm that may include members of different unions.¹⁸¹ Such forms of affiliation have gained in importance after the end of collective affiliation. On a national level, the links between the two sides have barely been interrupted. Traditionally, the LO President retains a

permanent seat on the party's executive board, the second most important decision-making organ after Congress.¹⁸² The leaders of major LO unions, such as *IF Metall* and *Kommunal*, are also represented on that body.

The continuing links between LO and SAP result from a mutually beneficial relationship. It has delivered election victories for the party and enhanced welfare and labour legislation for the unions. The large size of LO means that its continuing support to the Social Democrats is an indispensable tool during election campaigns. Moreover, the domination of party politics by the Social Democrats guarantees LO a strong voice in policy development. LO election campaigns are very active on behalf of the Social Democrats. About 4,000 LO functionaries supported the party's pre-election efforts in 2002 and many of the 23,000 LO union officials made use of their right to receive paid time off work to campaign.¹⁸³ LO organizes meetings, distributes leaflets and coordinates its activities with the party at national, regional and local level, while its unions often organize their own activities in support of party goals.

Maintaining the links between SAP and blue-collar workers hinges on the engagement of LO in political work through the creation of Social Democratic clubs.¹⁸⁴ Evidence suggests that it has become increasingly difficult for union functionaries to persuade their members to become involved in party activity and assume responsibility for SAP policies.¹⁸⁵ Welfare cuts and austerity measures introduced by the 1994–98 SAP government in particular reduced the attractiveness of active political work for many LO members.

After the 2000 LO Congress, a decision was taken to recruit 100,000 new LO members to the party by the time of the next Congress to influence policy-making. By June 2004, however, only around 30–40,000 new members had been added to the party's lists.¹⁸⁶ In the 1990s, the Social Democrats discussed the possible ways through which the party's appeal could be extended to TCO and SACO members. In the 1998 election, only 53 per cent of LO

members voted for the Social Democrats and 150,000 LO members that had voted SAP in the previous election abstained from voting.¹⁸⁷ This analysis prompted combined action by the party and LO and the percentage of LO votes going to SAP increased in 2002 to 59 per cent, but remained short of the 66 per cent recorded in the 1994 election.¹⁸⁸

The existence of a strong party to the left of the Social Democrats combined with a PR electoral system has meant that many LO members have channelled their opposition to SAP policies after 1994 to *Vänsterpartiet*. In this respect, the 2006 election was exceptional. One has to go back to 1991 to see such low support for SAP among LO members, with only 54 per cent voting for Persson's party. What is more, *Moderaterna* are now the second biggest party among LO members (enjoying the support of 11.1 per cent of them), surpassing the support of *Vänsterpartiet*.¹⁸⁹ In the short term at least, Reinfeldt's campaign was successful in convincing LO members of its benevolent intentions, though the trend seemed to have been reversed by early 2007, at which point SAP popularity reached very high levels.

Austerity measures in the 1990s did little to improve relations between LO and SAP. In 1996, LO demonstrated for the first time against a Social Democratic government, and reacted angrily to the SAP decision to reduce the replacement rate for unemployment to 75 per cent.¹⁹⁰ In 1996, the succession of Ingvar Carlsson by his Finance Minister Göran Persson – the instigator of the welfare cuts 1994–96 – added to the tension. The government proposed tightening the qualifying conditions for entitlement to unemployment benefits and increased qualifying levels for basic benefits from five to nine months, and to one year for earnings-related benefits. It also proclaimed that unemployment benefit now be calculated on the basis of the last 12 months at work instead of the five highest earning months previously seen as adequate.

Despite Persson's attempts to underline the historical and political ties between LO and the party in his LO Congress speech of 1996, as well as his assurances that the 'new Swedish welfare

state' would be constructed in collaboration with the unions,¹⁹¹ the unions responded to the speech by slow-clapping and many delegates were restrained from leaving the hall upon the Prime Minister's arrival.¹⁹² The collaboration between SAP and the Centre in that period may have played a role in the attempts of the party to legislate against the wishes of LO members.¹⁹³ Experiences such as the one at the 1996 Congress led the Prime Minister to rethink the extent to which the party could afford constant tension in its relations with the unions; he thus decided to mend fences with LO.¹⁹⁴

Relations between SAP and LO have improved steadily since their low point of the 1990s and are described as highly cooperative and effective by both sides.¹⁹⁵ The power of unions, itself a by-product of the institutional build-up that the Swedish left advocated in the 1930s, remains decisive in the process of decision-making for the Social Democrats. In November 2004 and after a period of intense union criticism against the Law on Employment Protection (LAS) due to its discriminatory provisions against fixed-term employees, the government agreed to reform. It sought to prioritize fixed-term workers in moving to open-ended employment contracts and offer them the opportunity to be re-classified as open-ended employees if they have been employed for three out of five years in the same firm.¹⁹⁶ As if any evidence is needed that party politics matters a great deal, the centre-right government has changed SAP proposals – making fixed-term contracts easier to sign and hampering the possibility of moving to a full-time job.¹⁹⁷

It is through proposals such as the one outlined above that public sector union grievances towards SAP have substantially diminished. Although the issue of affiliation to the Social Democrats has usually been a primary discussion topic among members of *Kommunal*, the issue was not raised in its most recent Congress. As Aylott argues, institutions are much easier to maintain than to set up, and *Kommunal* appears to confirm this interpretation of institutional stability in party–union relations.¹⁹⁸ *Metall* has also confirmed that its willingness to continue and influence political developments goes through its affiliation to the Social Democratic

Party.¹⁹⁹ Such attitudes are now likely to be reinforced considering the common goal of SAP and LO, the removal of the Alliance from power in the 2010 elections. The government's policies on the simultaneous abolition of property and wealth tax, unemployment benefits and the LAS reform reducing the opportunities for open-ended employment have created common causes for party and unions.²⁰⁰

Change and Continuity in Policy-Making

The 1991 Bildt government had secured the acquiescence of SAP in reforming the welfare state and reducing the generosity of a series of benefits.²⁰¹ Party consensus was reached in 1992 over the 'crisis deal', whereby a series of economic and social policies were reformed.²⁰²

The reform of the pension system in 1994 included all the main political parties. However, the Liberals and Centre refused to agree with the Moderates on some of the latter's suggestions regarding the restructuring of the private sector, and the government paid tribute to the universal welfare state.²⁰³ In addition, the government resorted to a more extensive use of active labour market policy to counter growing unemployment than any previous government.²⁰⁴ Approximately 5 per cent of the entire Swedish workforce took part in various labour market programmes in the 1990s.²⁰⁵

If the Rehn-Meidner Model is obsolete in an era of flexible interest rates, and the Europeanization of Swedish business makes the policy of profit squeeze much more difficult to achieve, an exception has been made for active labour market policy schemes.²⁰⁶ The cross-party acceptance of active labour market policies is a potent reminder of the influence that the labour movement has exerted on the creation of the modern Swedish polity. After all, this policy was an LO initiative that was utilized by the Social Democrats after the mid-1950s.²⁰⁷ It served the purpose of reinforcing the instincts of a work-oriented society by emphasizing the liberating effects of work for the individual.²⁰⁸ It is therefore all the more remarkable that SAP ignored this historical

dictum in the run-up to the 2006 election, allowing the new Moderate Party to profit from its successful depiction as 'the new party of work'.

In the 1994 pre-election campaign, the Social Democrats vowed to ease the pressure on state finances and reduce the budget deficit of 10.5 per cent through a combination of budget cuts and tax increases.²⁰⁹ This led to sceptical reactions by domestic and international business. Faced with the threat of relocation by five large MNCs, the government created an industry panel to avert such capital flight.²¹⁰ International business now enjoyed independence from government; the neo-corporatist settlement no longer applied. SAP proposed a four-year crisis package amounting to SEK 61 billion combining a 5 per cent 'recovery tax' on high earners, a rise in national insurance contributions and the lifting of municipal tax ceilings. The package also included defence budget cuts, foreign aid and refugee assistance cuts, student grants cuts, the introduction of a waiting day for sick leave and child as well as pension and invalidity payments cuts.²¹¹ The party defended the welfare state and in a direct appeal to LO vowed to increase employment by 100,000 in four years and restore labour legislation to the pre-1991 rules. It also called for acceptance on the part of LO of flexible working practices.

The decision by Finance Minister Persson to cap public expenditure was received angrily by LO and SAP supporters, but fiscal consolidation was achieved relatively quickly. The budget deficit was reduced to 7.3 per cent in 1995. IMF-estimated government debt fell from 79 per cent of GNP in 1994 to 78.2 a year later and 75.1 per cent in 1997. Inflation was quickly brought under control, and amounted to less than 1 per cent in 1996. The share of the government in the economy fell from 71 per cent in 1993 to 64.3 per cent in 1996.²¹² Employment increased by 276,000 people, or 6.9 per cent, between 1996 and 2001.²¹³ On the other hand, SAP continued the changes in the social insurance and labour market rules instigated by the Bildt government²¹⁴ and kept many of the social insurance reforms of that period intact. It also increased the

overall take of tax and fees from 50 to 54 per cent between 1994 and 1997,²¹⁵ practically cancelling out the tax reform of 1990.

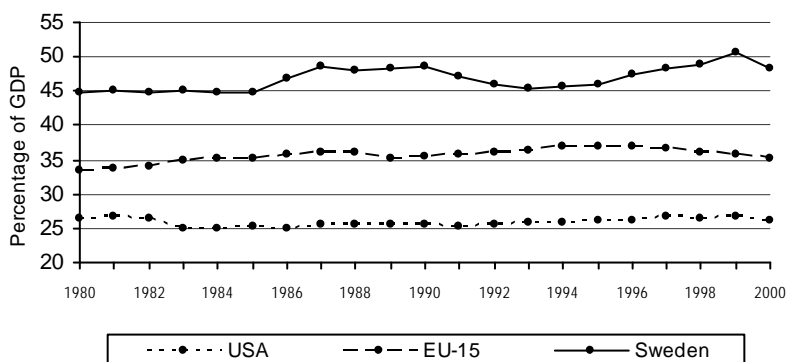
For all the important changes that the Social Democrats adopted in their policy programme over the 1990s, there is little evidence to suggest that SAP policies today mark a decisive break with the past. In addition, the move to the centre ground of politics meant that SAP has moved closer to the ideological profile of its voters.²¹⁶ The Social Democrats have traditionally embraced policy change to support the core goal of welfare redistribution. The support of the welfare state remains a cornerstone of social democratic politics.

While the progressiveness of the tax system was reduced with the 1990 tax reform, overall taxation levels have remained stable over the 1990s around 50 per cent²¹⁷ (Figure 6.6). During the 1998 parliamentary term, the Social Democrats introduced policies aimed at curbing unemployment and protecting the universal character of the welfare state. An example is the ceiling on childcare fees introduced in 2001.²¹⁸ High rates of growth after the mid-1990s have meant that Sweden has climbed up the OECD league table of purchasing power to reach thirteenth place in 2005, after a long period of decline. Swedish growth topped that of the Euro-area by about 1 per cent for 2002 and 2003, and surpassed the OECD average.²¹⁹

Locked in a structure–agency relationship characterized by strategic interaction between the policy environment and the institutional configuration of power, SAP policy rhetoric and debate moved to the centre ground of politics.²²⁰ Cherished policy goals that had become engrained in the postwar consensus have been quietly abandoned in favour of the Europeanization of policy norms and the espousal of a new international consensus centred on the need for sound macroeconomic policies. The substitution of the full employment goal with low inflation in 1991 is the best example of this transformation. Also, the SAP has seen a gradual decline of its electoral support and has only once managed to exceed the 40 per cent mark in a national election over the last five

contests. Still the party of government, SAP is now dependent on the Left and Green Parties to form a majority in the Riksdag. Meanwhile, the impressive rise of the Moderate Party since the 2002 election means that SAP may have acquired a permanent, serious political opponent to its right able to disrupt its near-monopoly of power.

Figure 6.6: Taxation levels, 1980–2000



Source: SNS Economic Policy Group Report 2005 SNS Förlag 2005

Still, despite high levels of electoral volatility with the rise of new parties in the political mainstream,²²¹ there has been little move towards an agenda of identity politics. The left–right axis continues to constitute the main political cleavage. What is more, the end of the 1990s signified the return by the Social Democrats to a more left-wing political agenda. This has partly been a political necessity for SAP following its parliamentary reliance on the Left party between 1994 and 2006 and is illustrated by the abandonment of cooperation with the Centre Party. Former Prime Minister Persson even described the 1990s as a ‘parenthesis in the history of social democracy’ in a 1999 speech.²²² For all the changes of recent times, the historically concomitant growth of SAP and LO and the dominant position that the labour movement acquired as a result of their partnership means that an abandonment of that relationship may cost both dearly. For all their attempts to extend their support

to white-collar and other professional groups, the Social Democrats rely mostly on the support of LO unions due to the latter's exceptionally strong organizational and numerical resources.

Has Swedish labour politics been fundamentally transformed over the 1990s? The answer provides important clues as to the ability of unions to resist neoliberal pressures and continue exerting a strongly regulatory role on the functioning of the labour market. Institutions form a central part of the struggle between competing ideational trajectories as to the evolution of the Swedish Model after its transformation. Policy change results from the interaction between path shaping and path dependency, privileging certain institutional configurations over others.²²³ We return to this issue and discuss it in more detail in the concluding chapter.

The result of the empirical investigation testifies to both continuity and change in labour politics and the macro-level of political relations within which key decisions are taken. The Employers' Confederation's staunch opposition to collaboration with the trade unions subsided over the 1990s. Empirical findings verify a diminishing of the ideological opposition to institutionalized forms of collaboration between unions and employers in labour market issues, such as training and career development. Considering the costs associated with a regime-shifting change and the split between industrial employers and SMEs, this outcome verifies a theoretical approach that pays adequate attention to firm strategies and the political struggle involved in the articulation of a new institutional settlement.

Regarding labour, the period of uncertainty following the passing away of the old balance of power has not led to the disbanding of LO's historically informed aims, although it has been accompanied by a diminished influence in public policy. The established pattern of labour market coordination with the active participation of the labour market partners has survived the transformation of the Swedish political economy.²²⁴ At a time of uncertainty, the unions have been able to draw on the extensive resources inherited from the earlier institutional settlement and

utilize them to avert regime change. The relationship between the Social Democrats and LO has also been discussed in the context of the process of continuity and change, as they impact directly on the balance of power between the two sides in the labour market and inform the extent to which non-market regulation still dominates industrial relations. The relationship between LO and the party as well as LO and the employers offers the picture of a revamped, new Swedish Model, whose core assumptions and practices have withstood the test of time and signify an evolutionary change in labour relations.

Such findings confirm the significant impact of institutional configurations on the development of recent struggles to form a new political balance. After the crisis of the 1980s and early 1990s, the links between LO and SAP have been strengthened and collaboration between the two wings of the labour movement, though not restored to the levels of the early postwar era, has increased.

This comes in direct contrast to the 'modern' interpretation of social democratic strategies, which tends to regard the union link as a liability in the age of globalization. The maintenance of these links was shown to be the result of interest-motivated institutional links that continue to serve both sides well and whose disbanding would accrue significant mutual costs. The relationship between LO and SAP is constraining the degree of flexibility with regard to alternative political strategies by SAP as a result of, *inter alia*, 'normative constructs ... inherited from the past'.²²⁵ Theoretically and empirically, the Swedish case confirms the need to look at social democratic strategies in the twenty-first century in Europe and beyond and reassess their chances of success in light of these findings.

Conclusion

In the early twenty-first century, Swedish labour politics have regained a sense of stability. Policy concertation has increased once more and the new equilibrium of power in the labour market has become widely accepted. Neocorporatism and centralized decision-making will not, however, be making a comeback.¹ As an explicitly political conflict between capital and labour, and also between sections of both in alliance against outsiders, the Swedish case study retains particular significance as a testing ground for the value of institutionalism and its theoretical appeal in the face of change.

This change was not simply the result of a new set of policy preferences by the employers or unions. It was closely connected to the economic crisis of the 1970s and the transformation of the production regime brought about through the introduction of advanced technological equipment and rising competitive pressures.² It is in such a context of uncertainty resulting from work reorganization, and combined with a redefinition of *Metal*'s interests after the wage drift explosion and far-reaching narrowing of wage differentials between skilled and unskilled labour, that the 'cross-class' alliance flourished and led to the decentralization of centralized bargaining.

However, change has been neither revolutionary nor absolute. A coordinated production regime based on collaboration between the labour market partners still constitutes the norm in Swedish labour politics. It is distinguished by the strong political influence of trade unions and the high degree of organizational centralization by the employers, which has remained intact through the transformative

1990s. The *Varieties of Capitalism* literature accurately depicts the cost-related reluctance on the part of employers to push for the complete overhaul of policy structures. It also concentrates on the inherently political nature of both stability and change, pointing to the salience of treating realignments in political bargaining as a fluid process subject to change and reassessment.

Path Shaping, Path Dependency and Institutional Change

However, there is little doubt about the magnitude of change in the Swedish polity, and labour politics in particular, over the last 20 years. The Swedish case is paradigmatic of institutional change, not only with regard to the decentralization of wage bargaining but also the substitution of the full employment goal with that of low inflation. An institutional exegesis is not easy as it suffers from a difficulty in explaining change and depicting the mechanisms leading to it.³ Historical institutionalism in particular has been excessively prone to methodological inductionism and willingness to focus on the meaning that historical actors have attributed to their actions as explanatory variables of analysis. While such a course of action has enhanced the credentials of historical institutionalism as a comprehensive theoretical school, it has also meant that 'institutional creation and change' has not been systematically discussed.⁴

Institutionalism can, however, provide an adequate framework for explaining both the stable, long-term characteristics of institutional outcomes and the pattern of evolution in policy-making that undermined the old equilibrium. It rightly pays particular attention to the strategic calculations of actors in the formulation of institutional games that rational choice proponents rely on.⁵ Policy entrepreneurs are responsible for moving the contours of the debate forward at times of uncertainty and seek to frame the policy debate in ways conducive to their interests.

Two examples are indicative of that. Ernst Wigforss on the part of SAP was instrumental in grasping the opportunity offered to the labour movement in the 1930s. He was decisive in shaping a new

policy environment by delinking employment from a low-wage regime. On the other hand, Curt Nicolin of SAF utilized a series of professional techniques in the late 1970s to undermine the crumbling settlement. He was successful in reshaping the image of business in Swedish society and thus set the framework for a reconceptualization of SAF's role and mission in the Swedish industrial relations arena. He, too, was adroit in grasping the opportunity offered to his constituency, not least due to the wage earner funds controversy. The awareness that these agents operated in an institutional context that facilitated their particular course of action contrary to alternative paths greatly facilitates the explanatory analysis of their behaviour.

A synthetic view of institutionalism goes beyond exclusively utilitarian interpretations of institutional usefulness. It shares with sociological accounts an appreciation for the density of the existent institutional fabric.⁶ Eclecticism, however, leaves institutionalism vulnerable to accusations of cherry picking, devoid of any significant analytical insights and able to justify stability and/or change *ipso facto* by use of any of its apparently contradictory tools. Its historical version in particular, most often associated with the middle ground between a 'rational choice' account and a 'sociological' account, suffers from an inability to 'delineate causal mechanisms underpinning institutional inertia and its influence on outcomes'.⁷

The policy evolution manifested in the transformation of labour relations in Sweden is the result of an interplay that involved path dependency and path shaping by those actors that had most to gain from the formation of an institutional order that would closely resemble the old one.⁸ Path dependency resulted from the institutional legacies of the past and limited the ability of emerging forces to reshape the system at will.⁹ LO and the Social Democrats resisted a radical transformation in the 1990s when the political battle was at its height. Due to the salience of institutional legacies in the formative stages of a new institutional equilibrium, these actors have also retained invaluable resources that have been utilized to shape the policy path of the emerging structure.¹⁰

In the case of LO, the main resources on which the Confederation relies are its regulative and normative role. On the regulatory side, LO sits at the centre of an elaborate legal framework conducive to the preservation of a strong union role in the workplace. The link between *a-kassa* and the unions has added to its regulative power, and the loosening of the link in the recent past presents a major challenge to unionism in Sweden. In addition, LO relies on its links with the country's natural party of government, SAP, to make its voice heard in the highest echelons of political decision-making. The Alliance government is unwilling to engage in protracted war with LO, aware of the resources it commands and the consequences of alienating such a powerful group in society. But the normative role of LO, though certainly downplayed ever since the wage earner funds, continues to add to its power resources by providing a unitary umbrella over its affiliated unions. The reformulation of the solidaristic wage policy is an example of engaging *bricolage*¹¹ on the part of LO. The Confederation used pre-existent notions of solidarity inherent in the Rehn-Meidner Model with new concepts resulting from the individualization of work and globalization to retain a coordinating role in the bargaining process.

It is a strategy that over the last few years seems to have met with a measure of success. It was only possible to implement because of the already existing frame provided by the Rehn-Meidner Model. Its linkage to a successful period of the Swedish Model in the eyes of top LO functionaries and union members made the acceptance of the new LO politics easier to accept. The centrality of institutions in explaining labour politics rests with the fact that the battle over the new power configuration took place within an institutional context strongly influenced by policy legacies. Swedish industrial relations 'embed[s] historical experience into rules, routines, and forms that persist beyond the historical moment and condition'.¹²

The policy path, defined in general terms as a 'complex interaction between deliberate design, long-lasting traditions, learning

processes, and chance discoveries'¹³ was in a state of flux in the 1990s. It struggled to domesticate 'new events emerging at the local, national [and] global scale' and absorb a new economic environment. At times of strategic uncertainty, opposed social and economic forces sought to shape the macro-context of their operation. Change has been less pronounced than seemed possible in the early 1990. It is true that in important respects, the Swedish system has moved closer to the German equivalent.¹⁴ However, it remains far from the Anglo-Saxon prototype advocated by SAF in the early 1990s and even its German counterpart retains a series of features, such as low union density and the hegemonic position of the Metalworkers' Union in the union confederation, that differentiate it from the Swedish prototype. Institutionalism is necessary to explain the policy path followed in the 1990s because relying on purely materialist interpretations fails to provide a satisfactory response to the question of *why* this particular power constellation ('Germanization') has taken precedence over any alternative outcome favoured by the employers at a given moment.

A set of both formal and informal institutions has been shown to be decisive as to the direction of Swedish labour politics. Politically, the PR electoral system facilitated the division of the centre-right. This division was skilfully exploited by SAP until the 1990s. The incentive that proportional representation offered to non-socialist voters to sustain that division through the expression of their foremost electoral preference¹⁵ instead of merely an 'anti-socialist' party contributed to the SAP's ascendancy and the formulation of a credible political project. The 'freezing' of a relatively stable equilibrium of power, distinguished by the political dominance of the SAP and a corporatist pattern of decision-making, lasted until the 1970s.

Alongside the formal institutional arrangements sustaining that equilibrium were less formal structures, such as the links between LO and SAP and a pattern of habituation that arose out of the *Saltsjöbaden* Agreement. In fact, the economic logic of centralized bargaining was undermined long before its eventual demise in the

1980s. The reason for the time lag in that change should be attributed, at least partly, to the 'logic of appropriateness'¹⁶ that had penetrated the mode of interaction between the top echelons of labour and capital, making certain non-confrontational patterns of interaction habitual. The role of policy entrepreneurs in sustaining this equilibrium beyond its practical usefulness was highlighted by the roles of LO and SAF Presidents Arne Geijer and Bertil Kugelberg respectively.

Denying the supremacy of the 'logic of calculus' that rational choice institutionalism tends to assign to institution building¹⁷ should not, however, be confused with a denial of rational choice insights regarding the origins of preferences. 'Taking interests seriously'¹⁸ is paramount to a holistic understanding of the Swedish Model and its future prospects. The important point here is that interests should not be viewed as distinct from ideas: interests constitute a particular interpretation of reality and the opportunities and constraints this offers. SAF pushed for decentralization but, ultimately, stopped short of disrupting the pre-existing mode of labour market regulation. It did so aware of the costs associated with regime change for many of its leading companies and the path-dependent benefits accrued by constructing a coordinated pattern of regulation with high returns on skilled workforce, poaching avoidance and just-in-time delivery.

The formation of the *Saltsjöbaden* Model of labour market regulation was *not* the result of employer acquiescence in the face of the overwhelming resources of labour. Strategic positioning by actors and entrepreneurs within the employer confederation was decisive. The ability of the social democratic bloc to sustain political power was due to its successful political management and the existence of a divided centre-right. The latter's ability to constrain SAP was possible to the extent that SAP and LO moved in a left-wing direction, as for instance in the Postwar Programme or the wage earner funds.

The insistence by the trade unions on formulating a scheme to

secure overarching control of the funds was a decisive factor in the legitimization of the anti-union discourse. The red–green coalition of the 1930s and the 1950s was also premised on a shared platform of interests between the SAP and the Centre. The Rehn-Meidner Model, aimed at securing low inflation and full employment, enhanced the legitimacy and policy influence of LO. The decentralization of wage bargaining and the impact of Europeanization were also utility-maximizing narratives that tilted the balance of power away from the labour movement and towards business. Finally, the staunchly pro-European stance of the 1991 Bildt government was, as seen above, premised on the notion that integration to the new European structure of the 1990s would entail tax and welfare cuts, therefore signifying the end of Swedish welfare and tax exceptionalism. Assuming that institutions give birth to preferences in a sociological milieu independent of interests leads to an overtly structuralist account that obfuscates concrete explanations of change.¹⁹

Still, an account centred exclusively on the economic gains of the principal actors provides an inadequate picture of the underlying forces conducive to institutional change. Ideas need to be taken seriously too. In the words of Peter Hall,

Politicians, officials, the spokesmen for social interests, and policy experts all operate within the terms of political discourse that are current in the nation at a given time, and the terms of political discourse generally have a specific configuration that lends representative legitimacy to some social interests more than others, delineates the accepted boundaries of state action, associates contemporary political developments with particular interpretations of national history, and defines the context in which many issues will be understood.²⁰

The LO attempt to secure wage earner funds in the 1970s failed not only because it ran counter to the main principles of the Historic

Compromise. It was also a policy choice informed by a certain understanding regarding the role of the state and the unions in society. It backfired, not least because the ideational wind was blowing in the opposite direction and SAF used that to thwart the 'collectivization of Sweden'. Swedish business perceived the Meidner Plan as a challenge to its very existence premised upon the principles of competition and markets. More than a pragmatic defence of its interests, the employer counter-attack testifies to the salience of ideas in framing policy responses.²¹

As mentioned above, ideas tend to change very gradually, causing significant lags in the adjustment of institutions to new realities. By the 1970s, the global Keynesian consensus of the postwar period had been crucially undermined by the stagflation crisis and the widespread perception that collectivist solutions were no longer effective in tackling the problems resulting from the crisis. It is more than a coincidence that the reassertion of the employers' political credentials took place at a time when a new faith in the 'benevolent' nature of market forces grew and the public sector was increasingly portrayed as synonymous with waste and inefficiency. Also, the fact that the Liberal and Centre parties failed to challenge the political clout of LO in the 1970s and the subsequent political campaign of the employers to decentralize wage bargaining should be viewed as policy action influenced by ideational change.²²

Rational actors have interests that they will seek to satisfy in the best possible way. But interests do not exist outside the institutional context of a given polity. They are very much part of the way that actors perceive themselves and their function in the political process; part of an ideational understanding. This is reinforced if one considers how not all interests – even those that are 'objectively' given regarding, say, the desire of employers to see higher wage dispersion in order to encourage higher productivity by rewarding certain employees more – assume a politically important function.²³ While SAF fought against what it saw as a declaration of war by

labour, it did not raise as many objections when LO turned to the Social Democratic government to secure favourable labour legislation a few years earlier.

Path-dependent institutional change and path shaping by key players during the process of evolution explains the high degree of institutional resilience regarding labour market regulation. Changes in the Swedish Model resulted from strategic action by key players. These were all the while filtered through a certain ideational environment and within the confines of the existent institutional context with its asymmetric cost and benefits distribution.²⁴ Continuity in labour market coordination through a reliance on non-market mechanisms and the revival of a cooperative spirit of industrial relations is a path-dependent phenomenon.

When the old order collapsed, the struggle between competing forces as to the future direction did not, and does not, occur in an institutional vacuum. It is mediated and affected by remnants of the old order, such as normative structures, institutional regulations and cognitive schemes. What remains from the previous configuration, *and the way it remains*, has a lasting effect on the formulation of new policy strategies and eventual outcomes. The power resources theory overplayed labour strength in dictating the political agenda. A path-dependent, institutional approach verifies the organizational strength of the labour movement as defined by the institutional context in which it flourished. It is this strength, mingled with the uncertainties brought about in the 1990s, that mediates the conflicts over a new equilibrium and forms the conditions for the new policy path of Swedish labour politics in particular and social democratic politics more generally.

Crucially, this is not to say that path shaping always translates to anticipated policy outcomes. Path shaping does not equal predetermined policy results. The disassociation of a large part of the Swedish capitalist class from the social democratic consensus was a major factor behind the breakdown of the old order. The ever-growing dependence of this group on economic developments outside Sweden means that a resumption of the old pattern of

collaboration is highly unlikely, as vested business interests now largely lie outside Sweden.²⁵

It is utopian to assume that a revival of neo-corporatism in Sweden is possible. In addition, the inherently elastic settlement of the institutional order has been brought to the fore following the election of the Alliance in 2006. Its politics are not likely to overwhelm the coordinated character of Swedish industrial relations, assuming such a desire exists in parts of the Alliance. On the other hand, proposals to make *a-kassa* obligatory, combined with the steep increase in dues, are likely to undermine the solidaristic element of unemployment benefit provisions. It could also lead to much lower levels of trade union density and undermine the ability of LO to play an encompassing role in regulating the labour market. In addition, an outcome of the Vaxholm conflict that would favour SN and labour market policy measures by the centre-right government reducing retraining opportunities could intensify pressures on the new equilibrium. Political contestation remains at the heart of the Swedish compromise in the labour market. The new leader of the Social Democrats, Mona Sahlin, has indicated her desire to continue social democratic reformism of old by combining some new policy ideas on welfare with traditional policies supporting the unions in the legislative field. Globalization does not negate social democracy; under the right conditions, it makes it timelier than ever.

This book began by asking whether Sweden can still inspire social democratic politics in the age of globalization. The above conclusions are, to a certain extent at least, heartening for those committed to a progressive political settlement. In the post-neoliberal era, social democrats retain powerful resources at their disposal – but they need to recognize them as such and utilize them to good effect. Encompassing trade unions in alliance with a powerful social democratic party have been able to influence the policy debate in a way unimaginable by the doomsayers of globalization. They did not do so solely during Keynesian times, but

grasped the opportunities of Europeanization and globalization too, while fighting off its less welcome consequences regarding social cohesion. Institutional heritage has allowed them to engage in a process of reconstructing elements of their compromise with capital based on what continues to amount to a win-win scenario, at least for most major players involved. The process has not been without its difficulties, and there is no guarantee that the current power structure in the labour market will last another 40 years. Still, the Swedish case invites social democracy to rethink its relations with labour and capital in a post-Fordist age and devise an institutional setting that will further its ambitious goals. It is a process worth embarking on, for the sake of democracy and social justice.

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7. Conclusion

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