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Managing the Managers

The Swedish Employers' Confederation, Labor Scarcity, and the Suppression of Labor Market Segmentation

Peter Swenson

When Henry Ford horrified fellow employers in the Detroit area – and around the U.S. – by introducing the 5-dollar day in the winter of 1913–1914, they could do nothing about it. In the midst of recession, Ford Motors began offering the great majority of its manual workers double their previous earnings. Ford's newly installed assembly lines allowed and necessitated a pay increase, along with the company welfare programs, that other employers could not match.¹ Ford could get a more stable and docile labor force only at the expense however of other employers, especially in the same area, whose workers would be tempted to leave or strike for similar improvements.

Even employers on the other side of the Atlantic steamed about Ford's eccentric policies and preachings. Georg Styrman of Sweden's Federation of Engineering Employers (VF, or Verkstadsföreningen) reminisced 13 years later that the five-dollar day had been simply motivated by the need to reduce a dizzying rate of labor turnover. Styrman complained now that Ford's fanfare for his new five-day week for six days' pay was an "advertising ploy" for selling more Fords to those who could be fooled by the idea that the shorter workweek without reduced wages would give workers more time and money to consume automobiles, presumably Ford's own. Ford was simply making virtue of necessity, since demand for cars had dropped. If every employer practiced what Ford preached, no-one, including Ford, would be any better off.²

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¹ Turnover was excessively high, and the new technology of production rendered the company highly vulnerable to dissatisfied workers' guerilla tactics on the shop floor. The high productivity possible with the assembly line helped Ford buy quiescence. See Daniel M. G. Raff, "Ford Welfare Capitalism in Its Economic Context", in *Masters to Managers: Historical and Comparative Perspectives on American Employers* edited by Sanford M. Jacoby (New York, 1991); and Stephen Meyer, *The Five-Dollar Day: Labor Management and Social Control in the Ford Motor Company 1908–1921* (Albany, 1976).

² At its Stockholm plant, Ford Motors did reduce the workweek, but the sixth day of pay proved to be "just a bluff" and twenty-five Ford workers got the sack. Georg Styrman to J. Sigfrid Edström, 18 January 1927, J. Sigfrid Edström's Archive, Volume 25 [A3e], Swedish National Archives, Stockholm. Later, in a draft of a statement against increasing wages and therefore purchasing power as a solution

Swedish employers organized in VF and other branch associations in the Swedish Employers' Confederation (SAF) had similar problems with some domestic counterparts, most notably Carl Kempe of Mo & Domsjö (MoDo), a large producer and exporter of lumber, pulp, and paper. The Kempe family had refused to join SAF from the beginning of 1902, and insisted on pursuing independent pay and personnel policies that shared many features of paternalistic welfare capitalists like Ford: relatively high pay, worker home ownership, and other social benefits.³ Kempe was successful not only in reducing turnover. He also succeeded in keeping unionism at bay on his own. Or so he thought.

Other employers considered this rural-industrial *brukspatron* a freeloader and tried to do something about it. The SAF leadership thought that Kempe could be brought into SAF and under control. The powerful J. Sigfrid Edström (executive director at ASEA, a dominant electronics firm, board chairman of VF, and vice chairman of SAF) promoted Carl Wahren, another rural-industrial patriarch, to SAF's board in 1929, since among other reasons Wahren's daughter had married into the Kempe family and might therefore exercise some influence. Wahren did indeed join the SAF directorate, but MoDo did not join SAF. Edström even toyed with the idea of offering Kempe a seat on SAF's board, but was discouraged by a colleague from thinking that this would work.⁴

In 1932 Edström invited Kempe along with other leading industrialists (mostly members of SAF) to a crisis meeting in Stockholm to sound out different strategies for taming the militant labor movement. Practically all present called for continued employer solidarity and militancy (meaning multi-employer, multi-industry lockouts), and tried to talk reason into Kempe. But at the meeting in a restaurant at the Stockholm Opera, Kempe advocated instead company-based strategies, independent wage policies, and a "softer treatment of workers". Afterwards, Gustaf Söderlund, SAF's executive director, called Kempe's approach (if pursued by all), "nothing more than pure surrender".

As long as only one... or several companies follow that course, they may well get decent conditions, but hardly thanks to their own efforts but rather because the organized part of industry takes on the work and costs. Those who in that way profit from others' efforts and troubles ought not expect any real sympathy, and it might well be asked how one in the long run can put up with them and... regard and treat them as good employers".⁵

to the depression, Edström holds Henry Ford particularly responsible for spreading the dangerous idea, but then strikes over the comment. Volume 27 [A3g/Styrelse m.m.], no date, ca 1931.

³ Ragnar Björin, "Egnahemverksamheten vid Mo och Domsjö Aktiebolag", in Bengt Lyberg, Sixten Ulfspärre and Bo Gyllensvärd eds., *Festskrift tillägnad Carl Kempe 80 år, 1884-1964* (Uppsala, 1964); Karl Molin, "Patriarken möter byråkratin: En aspekt på svensk samhällsomvandling 1870-1914", in Thorsten Nybom and Rolf Torstendahl eds., *Byråkratisering och maktfördelning* (Lund, 1989), 218-19; 238.

⁴ Edström to Wiking Johnsson 22 May 1929; Johnsson to Edström 23 May 1929 in J. S. Edström's Archive, Volume 34 [A14d].

⁵ Gustaf Söderlund to Edström 30 April 1932 and "Anteckningar från ett sammanträde på Operakällarens entrésvåning, 22 April 1932", in J. S. Edström's Archive, Volume 34 [A14d].

Between the lines here lurked the unanswered question of how to discipline Kempe for his deviations.⁶

This paper deals mostly with Swedish employers' motives and more or less successful efforts in the 1940s and onwards to control each other's tendencies to pursue strategies like Carl Kempe's. To the extent that they succeeded, they helped limit the inequalities in wages and benefits characteristic of supposedly "segmented" or "dualistic" labor markets like those of the United States, Japan, Germany, and for that matter probably most major economies of the world. By segmentation, I mean the presence of relatively insular sub-markets for labor caused in part by high inter-firm and intersectoral differentials in pay, benefits and working conditions, and by "internal labor markets" (especially within large, high-pay companies) that discourage mobility in and out of the firm except at entry level.⁷ At the same time, they helped set up the institutional and normative foundations supportive of Swedish social democracy's astonishing successes in the redistribution of wages within and across industries in the 1960s and 1970s. Because of their efforts to manage each other, organized Swedish employers share a good deal of the credit (or blame) for the egalitarianism of Swedish industrial relations.

Segmented Labor Markets. American, Japanese, and German labor markets, to name a few, are commonly characterized as "segmented", "structured", or "balkanized". Informal and institutional boundaries – as well as the usual "frictional" ones (geographic, informational obstacles) – divide and isolate workers into relatively distinct though overlapping market spheres. High wage-income differentials between industries reflect labor markets segmented on a "dualistic" basis between a primary sector with high wages and low turnover, and a secondary sector with the opposite. The primary sector, where distinctive personnel and remuneration policies proliferate (profit-sharing and various "corporate welfare" practices) is further segmented by "internal labor markets" within enterprises. The allocation of jobs and wages is determined by seniority and internally generated norms and rules (job evaluation) to the mutual benefit of employers and their *Stammarbeiter*, or core work force.

In the post-war period and until very recently, the Swedish labor market has probably been relatively free of segmentation, if the absence of its supposed consequences – high inequalities – is a true indication. As regards wage differentials between women and men, and between predominantly female and other industries, both crude indicators of dualistic segmentation, the Swedish wage

⁶ Edström, who was closely connected to the powerful Wallenberg banking "sphere", made efforts to get the broadest possible representation of major banking interests on SAF's board. See Wiking Johnsson to Edström 23 May 1929; J. S. Edström's Archive, Volume 34 [A14d]. But Mo & Domsjö enjoyed financial independence from the big banks. Jan Glete, *Ägande och industriell omvandling: Ägargrupper, skogsindustri, verkstadsindustri 1850–1950* (Stockholm, 1987), p. 221.

⁷ The literature on labor market segmentation (or "dualism") is extensive. Important seminal works include Clark Kerr, "The Balkanization of Labor Markets", in *Labor Mobility and Economic Opportunity* (Cambridge, 1954), and Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis* (Lexington, Mass., 1971).

structure is about the most egalitarian in the world.⁸ "You have a perfect labor market!" remarked an American economist recently after seeing the even size of payroll costs across firms of widely varying profitability.⁹ Crude evidence suggests the Swedish labor market (as an institutionally centralized "corporatist" one) adjusts less rigidly to shocks than the 17 others studied, especially the American, such that among other things, unemployment, import prices, and tax changes more quickly bring wage adjustments.¹⁰ For reasons speculated on below, Swedish industry has also been largely free of formal seniority and job-ladder systems that tie workers into internal company labor markets, and that probably help unions and workers accept relatively high wage differentials within firms.¹¹

This historical account of the institutional shaping of labor markets in Sweden in the post-war period focuses on the role of organized employers in creating at least the appearances of limited segmentation. The current view of labor relations in Sweden attributes most of the egalitarian features of the country's labor market to the power of organized labor, just as comparative literature tends to attribute "corporatist" as opposed to "dualist" systems to strong unions and their egalitarian ideologies.¹² The myth that labor's power is sufficient to explain these phenomena has only been strengthened recently by the fact that the new political mobilization of the Swedish Employer's Confederation against social democracy and the welfare state comes at a time when it is also promoting collective bargaining and personnel policies that will increase inequalities. The account developed here shifts focus onto employers as surprisingly active agents in promoting equality as well as in the present movement in the opposite direction.

Furthermore, while earlier literature highlights the victory of organizations over market forces in generating segmentation, this account highlights the role of organizations and institutions in the opposite direction. In Sweden, a powerful and centralized employers' organization was necessary to counteract more decentralized, spontaneous forces toward inequality and segmentation. In the process, organized employers were more originators than opponents of "solidaristic" or egalitarian pay structures. Early forms of solidaristic wage policy, the evidence demonstrates, did not emerge against employer opposition. It could not have

⁸ In the mid-1970s Swedish women's hourly wages as a proportion of men's (85%) were higher than in any of eleven other European countries, according to SAF statistics. In the low-pay garment industries, only Danes did better than Swedes in terms of hourly wages relative to those in manufacturing as a whole. Svenska Arbetsgivareföreningen, *Wages and Total Labor Costs for Workers: International Survey 1966-1976* (Stockholm, 1978). See also Rachel Rosenfeld and Arne Kalleberg, "A Cross-national Comparison of the Gender Gap in Income", *American Journal of Sociology*, vol. 96:1 (July 1990).

⁹ Roland Spånt, *Rehn-Meidner-modellen inför 1990-talet* (Stockholm, 1989), pp. 12-15.

¹⁰ C. R. Bean, P. R. G. Layard, and S. J. Nickell, "The Rise in Unemployment: A Multi-Country Study", *Economica* vol. 53:210 (1986 Supplement).

¹¹ On seniority see Georg Styrman, *Verkstadsföreningen 1896-1945* (Stockholm, 1946), p. 319; on job ladders, Charles A. Myers, *Industrial Relations in Sweden: Some Comparisons with American Experience* (Cambridge, 1951), p. 89; on the relationship between internal labor markets and differentials, see Clark Kerr, "The Balkanization of Labor Markets", p. 43.

¹² See John H. Goldthorpe, "The End of Convergence: Corporatist and Dualist Tendencies in Modern Western Societies", in Goldthorpe ed., *Order and Conflict in Contemporary Capitalism* (Oxford, 1984); Arne Kalleberg, "Unions and the Structure of Earnings Inequality: Cross-National Patterns", *Social Science Research*, vol. 19:4 (1990).

emerged without a centralized organization's desire to maintain and enforce a relatively unsegmented, egalitarian labor market. It had to do so against the powerful impulses in the opposite direction from "disloyal" comrades in the struggle against – but also *over* – labor.

1. Solidaristic versus segmental control

Employers have many conceivable ways of regulating wages to control competition or use labor markets to their advantage. Two broad categories of approaches can be distinguished however. The first I would call the *solidaristic* approach, in which employers join with each other in efforts to standardize and harmonize wage levels and developments. The second I call *segmentalist*. In this case, firms independently try to shell themselves off from each other in labor markets – i.e., immunize themselves either with higher wages or other methods from loss of labor to other firms.

On the one hand, employers can inhibit high turnover and a costly outbidding process by promoting uniform pay policies (wage standards) and then impose some kind of sanction for violations. This is the essence of the solidaristic strategy. To the extent it succeeds, workers' incentive to move back and forth, and ability to play employers off against each other is restricted. Building such an arrangement is no simple matter, because at the same time employers understandably fear losing managerial flexibility in wage setting and handing over autonomy – even to each other – to enforce wage standards. Nevertheless the textile employers' organization in Sweden in the past negotiated fixed wage scales with unions, with upper and lower limits; at various times German and Japanese textile employers appear to have unilaterally set standards without union involvement.¹³

Employers might also approach the problem on an individual basis by paying more than the rest, or most of the rest. The first strategy is a collective one of wage equalization or harmonization tending toward equalization; the second is an individualistic strategy of differentiation. In the individualistic case, employers can attract highly skilled workers and reduce turnover and the loss of good workers. This option is open only under restrictive conditions to a limited set of employers, among them those who enjoy a monopoly position (including over production technologies – like Henry Ford). One might call this a "rent sharing" strategy, in that employers share their monopoly rent with workers. It is also open to the free rider who benefits from other employers' solidaristic strategies (which Kempe supposedly did). Employers responding autonomously to labor market problems in this way tend to "segment" the labor market, creating a privileged stratum of workers generally paid higher than the rest and often, as seen below, managed according to more sophisticated and rule-bound personnel and pay practices. These devices are designed to promote internal mobility (through in-house training for example) while reducing external mobility.

Often employers pursuing segmentalist strategies rely on distinct internal wage differentiation as a complement to wage differentiation relative to competitors.

¹³ Gerhard Kessler, *Die deutschen Arbeitgeberverbände* (Leipzig, 1907), p. 185; Keith Sisson, *The Management of Collective Bargaining: An International Comparison* (London, 1987).

Typical strategies include seniority-based wage increases and benefits, and at the extreme, life-time employment guarantees. Hence they tend to move away from strict performance-based, skill-based, and time-based pay and benefit systems, or at least complement them with other forms of remuneration. Young and unskilled ("port-of-entry") workers can thereby be attracted and held even at standard or even sub-standard market wages, since they have a strong incentive to stay a while and not play the labor market. Older (and *generally* more skilled) workers can be paid above prevailing rates. Firms can then at less risk train the younger workers, since they are less likely to abscond with their "human capital" to other employers.

Problems can arise however for employers using seniority systems, since other firms with their own monopoly advantages in distinct product markets, or perhaps high capital intensity, can still compete to a greater or lesser extent over the same high-priced labor. These firms might attract away the highly skilled and extra-productive worker whose wages are partially held back to subsidize the seniority system and other forms of remuneration shared evenly regardless of skill and effort. Therefore by outwitting market forces in one way, employers using the individualistic strategy leave themselves vulnerable and exposed along other dimensions.

For this reason, employers pursuing segmentalist strategies are likely to enlist compensatory non-wage, non-market, and even anti-market strategies. They can try to bind workers to the firms with cheap psychological devices of personal leadership and somewhat more expensive paternalistic services associated with the "ideology of management familism" – i.e., check their mobility by socially and psychologically cutting them off from the larger economy. They may offer shares in the company to engender a sense of identity rather than anonymity and dispensability. They may try to use their connections with or control over suppliers of other factors and inputs of production (like capital) to choke off labor market competitors. They may also enlist the power of the state, punishing worker and employer alike who use the labor market to their advantage. Here we approach along a continuum – in effect if not legal form – slave, manorial, and guild systems of labor market control.

Employers in other words have many diverse ways to gain control if not advantage in labor markets. Traditions, legal and political constraints, and entrepreneurial inventiveness would lead us to predict all sorts of variations and combinations within and across countries. Within countries, some industries may approach matters in segmentalist fashion, while others pursue solidarity. In Japan heavy industry employers organized in their conglomerate *zaibatsu* pursue (and coordinate) segmentalist strategies ("lifetime employment" for example), while Japanese employers in the "secondary" textiles sector apparently have pursued more solidaristic strategies, forming employers' associations for wage fixing and preventing pirating.¹⁴

Even more complicated combinations can occur, for solidaristic and segmentalist strategies are not necessarily disjunctive. During World War II, aircraft

¹⁴ According to Keith Sisson, "the trade union challenge was very rarely a major factor in bringing about these organizations; or not directly so", *op. cit.*, p. 182.

manufacturers in Southern California drew up a common job evaluation scheme in order to manage intense competition over labor of different skill grades. This was essentially a solidaristic strategy, instigated by government (buyer) pressure to hold down inflationary and disruptive pirating and wage rivalry. On the other hand, the companies also pursued common segmentalist strategies. High pay relative to area rates and seniority practices superimposed on the job evaluation scheme probably also helped reduce intramural and extramural labor market competition.¹⁵

2. Swedish industrial relations from the 1940s to the 1980s

In post-war Sweden, the Swedish Employers' Confederation promoted and with some success enforced solidaristic policies of labor market control, which lasted through the 1970s. The Swedish case provides a fascinating contrast to other countries, like Japan and the United States, where leading employers in capital-intensive heavy industry have more systematically pursued the segmentalist strategy. The same employers dominated the Swedish Employers' Confederation (SAF) and its most important branch associations, and systematically counteracted segmentalism from the 1930s through the late 1950s. What they did at the collective level however, and what they did as individual employers sometimes conflicted. Given the tensions between rational individualism and collective goals and commitments, it would be strange not to see contradictions. Segmentalist tendencies persistently emerged, but were actively suppressed. It was not until the 1970s that employers, for reasons discussed later, began dismantling the system.

The Scramble for Scarce Labor. The comparative literature on industrial relations and labor markets offers few clues about the distinctive character of the Swedish case. Typically, Scandinavian egalitarianism or lack of "dualism" is attributed to the structure and power of the "corporatist" labor movement. Attention to employers is minimal, while understanding of their motivations is nonexistent.

A key to understanding Swedish employers' motives behind their decisive efforts to build a solidaristic system of industrial relations lies in the chronic problems of shortages in the Swedish labor market. For employers the problem begins at the beginning of the century, during an industrial take-off period, when continued emigration to America alarmed dynamic industrialists, and prompted voluminous inquiries and efforts to attract Swedes back to the old country. In 1907 leading engineering employers talked about setting up a bureau in the USA to coordinate efforts to attract workers back to Sweden.¹⁶ In the metal sectors, breaking unions with strikebreakers proved a failure – among other reasons there were probably

¹⁵ Clark Kerr and Lloyd Fisher, "Effect of Environment and Administration on Job Evaluation", *Harvard Business Review* (1950).

¹⁶ Styrelseprotokoll, Verkstadsföreningens Norra krets, 7 November 1907, J. S. Edström's Archive, Volume 21 [A3a/Norra kretsen]. On the SAF leadership's perception of labor shortage, see *Göteborgs Handels- och Sjöfartstidning*, 1 February 1911 (no. 26), p. 3. See also Ann-Sofie Kälveborn, *Reaktionen mot utvandringen: Emigrationsfrågan i svensk debatt och politik 1901-1904* (Stockholm, 1913), which however brings little to light about the debate among industrialists.

simply not enough good ones available. Also, by setting up neutral labor exchanges local governments preempted employers' ability to set up an effective strike-breaking apparatus.¹⁷ Unemployed workers turned to the public exchanges, which employers starved for labor were probably only too glad to use. This is in stark contrast to the American case, when employers in metalworking, in the National Metal Trades Association, abandoned the idea of centrally bargained minimum rates with the International Association of Machinists in 1900, and shortly thereafter began their highly successful union-busting "open-shop" drive. Using their own labor bureaus, finding and mobilizing strikebreakers proved not to be difficult.¹⁸ Though divided on the question, metalworking employers in Sweden settled on the opposite course, and signed the first centralized pay agreement with the Metalworkers' Union in 1905 – complete with minimum rates.¹⁹ Other sectors soon followed suit, some of them negotiating "normal wages" – i.e., standard maximum as well as minimum rates.

Skilled workers have been in particularly short supply throughout most of Swedish industrial relations history. As early as 1920, to discourage pirating in other employers' waters instead of training their own workers, the VF leadership secured general membership approval to discourage advertising for (blue-collar) workers and to "intervene effectively" whenever the advertising "appeared especially injurious to members' interests".²⁰ The decision amounted to a prohibition that would last 50 years due to VF's formal powers to fine and expel, as well as informal resources in the hands of prominent board members.

A ban on advertising could not solve the pirating problem however. In 1929, ASEA's Edström wrote to the engineering employers' director Styrman that it was "unpleasant that we, who devote a lot of work on training skilled people, later have them taken away just when they are ready to perform useful work". The matter concerned Sandvikens Valsverk, a steel firm, which was stealing workers from ASEA. Interestingly enough, Sandviken, though a member of a sectoral association in SAF, was one of the outstanding examples of paternalist segmentalism.²¹ This one appeared more devoted to capturing and generating loyalty among workers than observing loyalty to other employers.

Conditions during World War II and afterwards were even worse. In a letter to Styrman in January 1943, Edström proposed that VF "punish" disloyal employers who poached for skilled workers and was pleased to hear that VF had the authority to fine its members. "But that's not enough", he wrote. "They willingly

¹⁷ Bo Rothstein, *Den socialdemokratiska staten: Reformen och förvaltning inom svensk arbetsmarknads- och skolpolitik* (Stockholm, 1986), pp. 106–11.

¹⁸ David Montgomery, "Machinists, the Civic Federation, and the Socialist Party", in *Workers Control in America* (Cambridge, 1979), pp. 49–63; Howell John Harris, "Getting it Together: The Metal Manufacturers Association of Philadelphia, c. 1900–1930", in Jacoby ed., *Masters to Managers*.

¹⁹ Ragnar Casparsson, *LO under fem årtionden: Första delen 1898–1923* (Stockholm, 1947), pp. 235–55.

²⁰ Verkstadsföreningen, Cirkulärskrivelse N:r 59–1920, 17 May 1920. VF archive F71100-1920. See also Eskil Wadensjö, "Arbetsmarknadspolitik och arbetsgivarna", in Anders Björklund et al., *90-talets arbetsmarknad* (Stockholm, 1988), pp. 107–08.

²¹ Edström to Styrman, 30 September 1929, J. S. Edström's Archive [E26(A3f/Allmänt)]. On Sandviken, see Christer Eriksson, "I huvudet på en bruksdisponent", (unpublished paper, Historiska institutionen, Stockholms Universitet, December 1990).

pay the fines, just as long as they get skilled workers". He went on:

ASEA itself trains its workers and invests great sums on it. It is painful therefore that other firms should take these workers from us. It is impossible for us with such a large workforce to raise wages across the board. This would of course further drive up pay standards . . . I wonder also if VF shouldn't encourage its members to report cases when workers are taken from them, giving details, and then deal with each case separately so that we can give them a fright. I put myself happily at your disposition and can cause them quite a lot of trouble via their banking connections if they prove obstinate.²²

The employers' confederation even felt compelled to approach the government to gain assurances that its facilities for production of military supplies would avoid outbidding the private sector in the labor market.²³

The situation only got worse after the war. In 1934 Alva and Gunnar Myrdal's book *Crisis in the Population Question* had sounded the alarm about declining birth rates, which they argued was largely the result of severely scarce and cramped housing.²⁴ Not surprisingly, then, the lack of workers, including young ones born in the 1930s, was nothing short of "catastrophic" in the hothouse post-war growth, according to some employers.²⁵ The VF ban on advertising within the engineering industry did little to regulate the free-for-all over manpower, in part because of intersectoral rather than intrasectoral flows of labor (i.e., pirating by employers outside of VF). In 1946, while big export industry was trying to hold a firm line on inflationary wage developments, the high-pay construction industry and now small firms were drawing workers away with uncontrolled wage increases. At a 1947 meeting of the "Directors' Club" of executives in the "big five" engineering firms, Thorsten Ericson of ASEA complained that *small firms* in the engineering sector were pursuing an "unsolidaristic wage policy" (*en osolidarisk lönepolitik*). Ericson even directed his complaints at the big electronics firm L. M. Ericsson, two of whose executives were present. The corporation had apparently been giving contracts to small workshops that were outbidding the big firms in the labor market and taking their workers.²⁶

While many of the small firms causing trouble in the tight labor market were members of VF, others, like in the construction trades, were harder to influence. Leading employers in VF toyed with the idea of getting higher-level support from VF and SAF for the idea that the export-oriented engineering sector should be allowed to negotiate extra premiums. This would mean that SAF would have to exert considerable pressure on others not to follow suit. The VF leadership had to reject the idea, since other sectors, after all (including construction), were courting

²² Edström to Styrman, 29 January 1943, J. S. Edström's Archive, Volume 30 [Aej/e (Korrespondens)].

²³ Minutes no. 72, 5 February 1942, Direktörsklubbens Archive, Swedish National Archives, Stockholm.

²⁴ Alva and Gunnar Myrdal, *Kris i befolkningsfrågan* (Stockholm, 1934).

²⁵ For example Gunnar Sundblad of the paper industry (Iggesunds Bruk), due to the loss of young workers to manufacturing industry further south, which was offering wage increases above and beyond ones negotiated with unions. "I hope that SAF will work vigorously to bring industry's recruitment of manpower to a halt", he said. Minutes, SAF-styrelsesammanträde, 28 August 1947.

²⁶ "P. M. angående säkerställande av industriens behov av arbetskraft", and Proceedings, Direktörsklubbens sammanträde nr 100, 1 September 1947, p. 6, in Direktörsklubben, Volume 7, dossier 26.

similar favoritism from SAF, which VF itself had vetoed.²⁷ SAF could not prioritize one sector and count on employers in other sectors following SAF's efforts to promote restraint. Broad-scale lockouts would have been necessary against unions prepared to whipsaw, and no one would have been willing to take on the costs if other employers were being favored by SAF. After all, the purpose of lockouts was to hold down wages, and most who would have to do so felt pressure to raise them, *especially* if others were doing so.

Profit Sharing and Year-end Bonuses. While suppressing the idea of inter-sectoral differentiation, the SAF leadership also did all it could at the time to suppress more individualistic, differentiation in the form of company-based profit sharing. Profit sharing is a common segmentalist strategy for sheltering the firm from such external labor market forces as wage incentives and class loyalties. In 1945 Alrik Björklund, director of Mekanförbundet (the metal trades association) circulated a confidential proposal recommending profit sharing as a wonder drug against worker militancy, low productivity, and disloyalty. His plan included company-based profit sharing in the form of individual profit shares, and partly in the form of "collective" (paternalistic, welfare capitalistic) benefits – vacation spots, day-care for children, medical services, and housing.

SAF's Söderlund joined the Directors' Club, an unusual occurrence, for a discussion of the matter, and objected strenuously, saying if anything this should not be left up to individual employers but negotiated centrally between the employer and labor confederations. Fear of profit sharing as a device for gaining separate advantage in the intense competition over labor lay behind this statement. Others present were nervous about spreading the idea and urged strict secrecy, not least because opposition parties to the Social Democrats were likely to propagate the idea in the contest over votes, and plant the idea in the mind of disloyal employers.²⁸

SAF also actively discouraged year-end bonuses, another practice characteristic of the segmentalist labor market strategy. These bonuses, like profit sharing, are common practice in big firms in segmented labor markets, in particular, Japan. As early as 1937, the practice was discussed and roundly frowned upon in a SAF board meeting, when firms on the upbeat in the steel industry decided to give bonuses worth one-month's wages. Swedish employers were familiar with this practice on the continent, and did not want to see it take root in Swedish soil.²⁹ In a circular issued nine years later to SAF's members in 1946, SAF argued that while firms justify year-end bonuses as a way of sharing the fruits of good years with their workers, "in fact however this motive is often combined with another: bonuses would give the company an advantage in competition over labor, which increasingly characterizes our labor market". On behalf of SAF's executive committee, Bertil Kugelberg, SAF's director sent a letter to the executive of SKF, the internationally dominant producer of ball bearings, requesting SKF to cancel its planned bonus. If such a pace-setting (*tongivande*) company as SKF were also to set off in this direction, Kugelberg wrote, then it would endanger SAF's ability to

²⁷ "P. M. med vissa synpunkter rörande bristen på arbetskraft inom den större verkstadsindustrien", November 6, 1946. Direktörsklubben, Volume 7, dossier 26.

²⁸ Minutes, Direktörsklubbens sammanträde nr 91, 4 October 1945, Direktörsklubbens Archive. See also Minutes, SAF-ombudsmannakonferens, 21 October 1947.

²⁹ Minutes, SAF-styrelsesammanträde, 29 December 1937.

maintain the sanctity of centralized, contractually controlled wages.³⁰ Like profit sharing, year-end bonuses did not, in fact, take root.

Seniority and Company Pensions. Attitudes among higher circles inside SAF were similar toward seniority-based pay differentiation, even when merely complementary to the favored performance and skill-based differentials. Seniority-based systems are characteristic of practices among big employers in segmented labor markets, and are a logical means to bind labor to the firm. In 1947, when "excess mobility" was at its worst, and therefore seniority incentives potentially most appealing to the individual employer, SAF's director Bertil Kugelberg warned against it, invoking an earlier consensus on the matter. The leadership of LO, the blue-collar labor confederation, had brought up the idea recently, and VF had just recently been "forced" by union pressure to accept a premium for workers over 24 years of age with four years in the same firm. Employers in the printing sector had nothing positive to say about their experiences with similar arrangements.³¹

In 1954, when employers in the textile industry (Textilindustriförbundet) agreed to pay holiday wages after four years employment in a firm, other employers were indignant, fearing that demands for holiday pay would spread across industry lines. Although they showed some understanding for introducing the seniority incentive, they found it no excuse for failing to observe the duty to consult the SAF board beforehand. In internal debate Lennart Bratt called holiday pay for manual workers a "revolutionary innovation", which should have been cleared with SAF's board. Also, Matts Bergom Larsson of VF asserted it had been one of SAF's strict principles so far "that wages were only to be paid for time worked".³² Kaj Åberg, defending the textile employers, explained that they had even offered, as an alternative, a pay increase that far exceeded the costs of the holiday pay, but that the "workers had completely rejected it". The SAF board voted reluctantly to approve the textiles agreement, though it had the authority to reject, agreeing that to reject it now would be too confrontational. It issued a statement however that special compensation for holidays with or without seniority conditions "was not a suitable pay form for workers . . . where piece work or hourly wages were the natural payment form". Seniority premiums in and of themselves violated the principle of linking pay to hours, productivity, and skill.³³

³⁰ "Cirkulär till Svenska Arbetsgivareföreningens delägare, "Bilaga A (Appendix A) to Minutes, SAF-styrelsesammanträde, 28 March 1946; Kugelberg to Patrik Rydbeck, 16 November 1946, Bilaga A to Minutes, SAF-styrelsesammanträde, 22 November 1946.

³¹ Minutes, SAF-ombudsmannakonferens, 21 October 1947. In 1950, unions were still pressing for the same. But paper industry representative Gunnar Larsson warned that seniority pay would complicate efforts to push through job evaluation systems for pay differentiation, which did not violate SAF policy of pay only according to work performed and skill involved. Minutes, SAF-ombudsmannakonferens, 11 December 1950.

³² Minutes, SAF-ombudsmannakonferens, 15 March 1954.

³³ Minutes, SAF-styrelsesammanträde, 18 March 1954. The textile employers' association was the same one that met with strong rebuke, threat of expulsion, and a stiff fine of 200,000 crowns by SAF for another act of "disloyalty" in 1947. Hoping to stanch a hemorrhage of workers, especially women, out of the industry, the textiles employers increased pay for evening-shift workers. In their own defense, textile employers said their young women workers were heavily burdened with evening work for their families and needed extra incentives to stay. Their disloyalty helped spur a major reform of SAF's statutes in 1948 that gave it added authority to "deal with different forms of competition among members over labor - advertising, special benefits etc. - which drove wages strongly upward during the current shortage of labor". Minutes, SAF-styrelsesammanträden, 27 February 1947, 27 March 1947, 24 April 1947, and 29 May 1947.

SAF's reformed view on company-based pension schemes in the 1950s can also be understood better in light of its objections to seniority-based benefits. In 1936, SAF's opposition to pension reform had turned on the issue of vesting.³⁴ But in 1953, according to Kugelberg of SAF,

Earlier the opinion had been that employers had a moral responsibility to take care of faithful servants (*trohjännarna*). Increasingly now we have come to the conclusion that long-term employment in industry in and of itself ought to bring with it greater old-age security . . . regardless of whether the worker had worked for one or for several employers.³⁵

Now SAF's own proposal for pension reform, an explosive issue in Swedish politics during the 1950s, included a uniform system of vested pensions. According to the official opinion now, represented by SAF, it had become more important that workers have a "more approving attitude about industry" as a whole, than to display loyalty to any particular firm. On this key issue, therefore, the SAF position was not so far from the union position as the intensely polarized debate would suggest.

Housing. The shortage of workers during the 1940s and 1950s, including but not exclusively the young, unskilled, and female, pushed SAF increasingly to promote a solidaristic labor market strategy – and to acquire the authority to enforce it. This same labor shortage helped bring about a decay of labor market segmentation in another area characteristic of dualistic systems, especially in their traditional paternalistic (and often rural) versions: worker housing. In Sweden, as elsewhere in the world, employers often attracted and kept workers with the help of company housing and low rents – but with leases restricted to the duration of employment. In practice, these arrangements were often limited to workers with families. With the strong encouragement of the SAF leadership, employers in the steel and forest products industries, often located in rural areas, systematically retired their housing benefits by raising rents closer to market levels and adjusting wages partially to buy off discontent. The changes, negotiated with LO unions in 1945, changed the remuneration structure in favor of younger, more mobile workers drifting to other areas and industries. As SAF's executive director Fritiof Söderbäck put it, liquidation "means a correction of the injustice that prevailed up to now between workers who live in company houses and those who do not have that benefit, with the result that wages for unmarried workers have been so low that it was hard to recruit younger manpower".³⁶

SAF's ability to press a solidaristic line on the company housing question was limited however. In the 1948 debates about revision of SAF's statutes to give its board more power to dictate and enforce policy, SAF's new director Bertil

³⁴ Anders Kjellström, *Normbildning och konfliktlösning: En studie om SAFs roll i växelspelet mellan lag och avtal* (Stockholm, 1987), p. 75.

³⁵ Minutes, SAF-styrelsesammanträde, 19 March 1953.

³⁶ Minutes, SAF-styrelsesammanträde, 22 March 1945. See also Minutes, SAF-styrelsesammanträde, 25 January 1945 and Tom Söderberg, "Pappersmasseförbundets första halvskel", in *Pappersmasseförbundet 1907–1957* (Stockholm, 1957), 116–25; and in *Sågverksförbundet 1907–1957* (Stockholm, 1962), Bo Gustafsson, "Sågverksindustrins arbetare 1890–1945", pp. 186–91; and Torsten Thorlander, "Arbetarlönernas utveckling 1950–1957", pp. 402–05.

Kugelberg was forced to make an informal commitment not to use the new authority to dictate members' and their sectoral associations' practices in this realm. The 1948 revision was devised to give SAF the ability to intervene against "incollegiality" in the form of "inappropriate forms of compensation", "disloyal advertising" (for workers), "bonuses without acceptable cause", and work-time reductions, all of which had become instruments in the scramble for labor. Housing benefits, he was forced to point out, are however of "such a special nature", that they could not be included on the list.³⁷ Company housing, especially in rural-industrial communities, had been important not only in attracting and keeping workers. The building of the company houses also gave factory workers employment during slack seasons and conjunctures, when city jobs might beckon.

Housing prerequisites remained a subject of internal contention in the following years: in 1951 Hjalmar Åselius of the steel industry, which a few years before had eliminated its rent subsidies, argued that industry should raise its rents for worker housing in line with recent rent increases allowed by the government, since "it would be repugnant from the standpoint of fairness to favor a relatively small group of employees in company housing with abnormally low rents".³⁸ More important than fairness toward workers, but left unstated, was the issue of fair competition over labor.

In this case, as before in earlier discussions about worker housing, employer leaders invoked egalitarian principles – opportunistically one might add – for eliminating segmentalist practices in labor recruitment strategies. It is interesting to note that the official union position presented by LO at the time was by the same token inegalitarian: in a time of great housing shortage, and a tenants' association campaign against leases with employment clauses, LO defended the practice in 1951 and expressed the confederation's "great appreciation for the contributions of [manufacturing] industry to the building of worker housing. This had made it possible for a large group of workers to get good housing at low rents".³⁹ Whether that was fair to other workers paying market rents appeared unproblematic. In 1943, the Metalworkers' Union had strongly opposed retiring housing benefits for steel workers, but by 1945, the union relented under employer pressure.⁴⁰

Solidaristic Wage Policy. Employer egalitarianism of sorts, prompted by intense competition for labor, reappears again at a major turning point in the formation of the solidaristic labor market. In the 1950s, SAF exerted intense pressure on LO and its unions of private sector manual workers to force them to a common bargaining table for wage negotiations on a centralized, multi-industry basis to hold overall wage increases down. Not surprisingly, employers in structurally vulnerable low-wage industries like textiles were among the most eager promoters of this militant line to hold wages down. But they were also the most eager proponents of "differentiated" pay increases for different industries, *so that they would be allowed by SAF to concede disproportionately high increases to the low-pay unions they negotiated with, while the rest of the employers held an even tighter line.*

³⁷ Minutes, SAF-styrelsesammanträde, 10 November 1948.

³⁸ Minutes, SAF-styrelsesammanträde, 21 September 1951.

³⁹ Minutes, SAF-styrelsesammanträde, 18 October 1951.

⁴⁰ Minutes, SAF-styrelsesammanträde, 25 January 1945.

Those familiar with Swedish collective bargaining from the 1950s onwards will recognize this policy of "differentiated restraint" to be what the unions called a "solidaristic wage policy", whose purpose it was to impose a fairer income structure across the economy. The irony will not be missed on them that employer leaders in SAF, and especially those representing low-pay sectors, were avid proponents of centralized solidaristic wage policy. For employers of course, fairness was not really the issue. Instead, it was the crisis that tight labor markets created for low-pay sectors losing workers to other industries. Most outspokenly solidaristic now were employers in the textiles, clothing, leather, building materials, food processing, and transportation sectors. As Wilhelm Bahrke of the leather industry put it in 1954, "with regard to the current shortage of labor, the high-wage associations should observe restraint . . . In the same way that the workers plead for better pay conditions for the worst paid, so should SAF act to the betterment of the worst-off sectors from the employers' standpoint". Despite the relatively dismal state some of these industries were in, his colleague Einar Hallström maintained that the textiles and garment industries, as well as the low-pay leather industry, had to give extra high increases and "would rather run their companies at a significant loss than empty the factories of skilled workers".⁴¹

The problem for low-pay industries in this extremely tight labor market was the disturbing loss of labor to sectors like engineering whose regular wages and wage earnings were rapidly drifting upwards beyond union-negotiated levels. The problem acquired the name "wage drift" during the period, and would bedevil the system for years to come. Defined as wage increases exceeding negotiated raises, wage drift appeared to be caused in large part by a combination of tight labor markets, productivity improvements, and piecework pay systems. Sectors without piecework tended to be the same ones dependent on low-paid women, with the exception of transportation, whose male truck drivers and dockworkers worked for strict hourly rates, and often relatively low ones. Erik Elmstedt put it on behalf of the transport sector thus: "During recent years actual contract negotiations have increasingly declined in importance because of the great wage drift that took place during the course of contract periods." Failure to respond in centralized negotiations with compensatory or "differentiated" increases for low-pay sectors not experiencing wage drift would mean nothing less than "bankruptcy for the bargaining system".⁴²

3. The Role of the Unions

Most of the credit (or blame) for solidaristic wage policy in Sweden, whose systematic application at a centralized level began in the 1950s, appears on the

⁴¹ Bahrke's remarks in Minutes, SAF-styrelsesammanträde, 21-22 October 1954, and Hallström's in Minutes, SAF-ombudsmannakonferens, 13-14 September 1954.

⁴² Minutes, SAF-ombudsmannakonferens, 13 December 1954. Other statements on which this discussion is based can be found in the Minutes, SAF-ombudsmannakonferenser 16 September 1947, 13-14 September 1954 and 13 December 1954; Minutes, SAF-förbundsdirrektörskonferenser 17 January 1955 and 12-13 November 1956; and Minutes, SAF-styrelsesammanträden 20 September 1951, 17 January 1952, 21-22 October 1954, 18 November 1954, 16 December 1954, 11 February 1955, and 18 October 1956. SAF leaders even felt in 1956 that low-level government workers, pay had to be increased more than average, without everyone else following along. Minutes, SAF-styrelsesammanträde, 18 October 1956.

account of the Swedish labor movement. Employers' acceptance of solidaristic wage policy, at least in its early years, and even their promotion of it, is entirely overlooked.⁴³ So is their role in pressuring the union movement to centralize authority in the 1930s and 1940s, thus creating the institutional basis for centralized negotiations to maintain a solidaristic labor market.

Of course Swedish unions and their unusually strong position early in the century can help explain why individual Swedish employers built and submitted to a powerful centralized organization capable of enforcing solidarity against unions. The instrumentarium of mutual control and authority to use it that SAF acquired proved useful later, in the 1930s, to pressure the unions to give up greater control to their confederation in 1941.⁴⁴ Employer motives in that phase of the system's institutional development included a desire to equalize pay levels and trends between high-pay home market sectors like construction, sheltered from international competition, and more vulnerable low-pay industries producing goods traded in the international marketplace. Even at this early stage employers in SAF began building the foundations of solidaristic wage policy. Early SAF leadership had favored the negotiation of "normal" (maximum) rather than simply minimum wages in order to limit disloyal competition and inequalities within industries; now they were promoting levelling across industries.⁴⁵ This development in turn paved the way for the final stage in the centralization of bargaining, with its more ambitious redistributive purposes, in the 1950s.

Unions and labor market pressures worked hand in hand to motivate employers in SAF to suppress inequalities. Employers collectively recognized the need to suppress initial segmentalist impulses that merely set off an inflationary spiral, did little to reduce turnover for individual employers, and did nothing to improve the supply of labor for employers as a whole. In some cases, individual employers took the segmentalist initiative with strategies to attract and keep labor, but extremely mobile workers (especially the young) helped spread the impulse to other firms and sectors. They hardly needed unions' help. Employers desiring to keep a grip on their workers benignly neglected to restudy work processes and renegotiate piece rates (downwards) in response to rationalization and productivity increases. The resulting wage drift was in turn transmitted by unions and individual labor market actions over to other firms.

The unions in LO were by no means unified behind the solidaristic policies of employers. As mentioned before, unions often sought or defended things characteristic of segmented systems like seniority differentials and worker housing, which SAF frowned upon. No worker or local union body would politely refuse things like year-end bonuses, shift premiums, and holiday pay from employers only too happy to offer them in "disloyal" recruitment strategies. In the 1950s, employers feared for good reason that some unions would reject the idea of higher negotiated

⁴³ A recent exception is Karl-Olof Faxén, "Några kommentarer till SAF:s lönepolitiska uttalanden under 1920-talet", in Eskil Wadensjö, Åke Dahlberg, and Bertil Holmlund eds., *Vingarnas trygghet: Arbetsmarknad, ekonomi och politik* (Lund, 1989).

⁴⁴ See Peter Swenson, "Bringing Capital Back In, or Social Democracy Reconsidered: Employer Power, Cross-Class Alliances, and the Centralization of Industrial Relations in Denmark and Sweden", *World Politics*, vol. 43:4 (1991).

⁴⁵ See Minutes, SAF-styrelsesammanträden 20 September 1921 and 11 November 1921 (and appendix A); Karl-Olof Faxén, *op. cit.*

increases for workers in low-pay sectors to compensate them for upward wage drift enjoyed by already more fortunate workers. Hence centralized solidaristic wage policy originated only when employers flexed their muscles against a labor movement divided on both issues – centralization and redistribution.⁴⁶

4. Tensions and crisis in the solidaristic system

When American industrial relations expert Charles A. Myers came to Sweden in 1950 to study managerial practices there, he observed a pattern of personnel management in Swedish industry with a high level of tension between segmentalist and solidaristic labor market forces. Collectively employers strove to impose a solidaristic system; individually employers tugged at the reins.

On the one hand, the employers' confederation had been fairly successful in centralizing bargaining and harmonizing remuneration policies across firms and sectors. But provision of company housing (relatively rare in the U.S., except in the South), as well as other "social welfare services" continued unabated as a device for attracting and binding workers in a society short on both labor and housing. "Certainly", Myers wrote, "many Swedish employers interviewed believed that if *they* had more attractive houses than another firm, *they* would be able to get more workers and to hold their present workers better."⁴⁷ Despite strong sentiments within the SAF leadership against use of housing benefits, they had been forced to drop the idea of forbidding the continued building of company housing.

In fact, though SAF was somewhat successful in harmonizing wages and checking "disloyal" recruitment practices in the tight labor market, strong impulses to disobey the spirit of solidarism did not subside. For example a "less than satisfactory result" of the wage freezes in the immediate post-war period was a "competition between employers which leads to more and more luxurious washrooms and more and more flowers in the workshops".⁴⁸ Systematic tensions continued to manifest themselves through the 1970s and 1980s in the form of much more sophisticated "humanization" policies than flowers and finer sanitary facilities. High turnover in tight labor markets, and stiff penalties from SAF for wage-based recruitment strategies that violated centrally negotiated wages, are no doubt in large part responsible for Swedish employers' world-renowned experiments of the 1970s and 1980s in "job redesign" – like Volvo's team work and dock assembly at the Kalmar and Uddevala plants. Unions apparently had no part in the initiating and planning. Management's desire to reduce turnover and absenteeism was the real reason for eliminating the assembly line. "In a sense", according to Jonas Pontusson, "work humanization can be seen as a functional equivalent of wage drift" – a way to escape the discipline of labor

⁴⁶ Axel Hadenius, *Facklig organisationsutveckling: En studie av Landsorganisationen i Sverige* (Stockholm, 1976); Swenson, *Fair Shares: Unions, Pay, and Politics in Sweden and West Germany* (Ithaca, 1989).

⁴⁷ Charles A. Myers, *Industrial Relations in Sweden: Some Comparisons with American Experience* (Cambridge, 1951), p. 89.

⁴⁸ Sune Carlson and Per Ernmark, "A Swedish Case Study on Personnel Relations", (Unesco, 1950), cited in Myers, *op. cit.*, p. 95.

market solidarism.⁴⁹ One benefit for Volvo of this strategy, it might be added, was that other worker groups and employers could not include Volvo's expenses in work humanization in their calculation of wage drift to be matched according to their automatic wage-drift compensation clauses.

A management practice associated with segmentation that Myers saw practically none of in 1950 was *formal* "job ladders", "promotion paths" or "career development plans", not to mention seniority-based dismissal and layoffs. One reason for this probably lies in SAF's most zealously enforced policy of forbidding its members to hand over managerial prerogatives in agreement with unions that administration of these systems tend to involve. Also, seniority-based pay differentiation was relatively insignificant, since SAF had long promoted the principle of "pay only for work performed", hence strict time- and performance-based systems, especially piece work, for the sake of productivity. To complicate matters, however, the wage drift that seemed inevitably to result from piece work proved utterly infuriating and impossible to control over the years, and served as an alternative means for some firms at least to keep good workers tied to the firm and maintain one step ahead of the rest in labor market competition.

The accumulated problems that wage drift caused over the years ultimately motivated employers in the 1980s to look about for new approaches, including seniority based pay components and now, commitments to career pathways that blur the lines between manual and white-collar labor, making it possible to train, promote, and keep skilled workers. One of the problems to be solved with these means according to Volvo's personnel chief is that it will be extremely difficult to recruit labor – especially young workers – in the 1990s.⁵⁰

5. Employers in the 1980s and 1990s: rejecting solidarity

Swedish employers promoted union centralization in the 1930s and centralized bargaining in the 1950s for the purposes of creating a solidaristic labor market – to control each other in the competition over labor and in the struggle against labor. By the 1980s, employers in SAF not only had come to reject centralized bargaining, but also the idea of solidaristic regulation of pay setting and the wage structure. Segmentalist practices ranging from profit sharing, employee stock ownership, seniority pay, corporate cultures, and career ladders returned (or appeared for the first time) as fresh new ideas avidly promoted by a new generation of industrialists and employer leaders.⁵¹ The idea of unregulated pay differentiation – and implicitly therefore the free-for-all in the competition for labor – also returned as an attractive ideal for the future. This was true especially for big

⁴⁹ Jonas Pontusson, "The Politics of New Technology and Job Redesign: A Comparison of Volvo and British Leyland", in Pontusson and Miriam Golden eds., *Union Politics in Comparative Perspective* (Ithaca, N. Y., 1992).

⁵⁰ Tommy Nilsson, *Arbetare eller tjänstemän? Ny teknik och fackliga gränsdragningsproblem i svensk verkstadsindustri* (Stockholm, 1988), 92–95; *Lönen – ett medel för tillväxt*, Rapport från policygrupp 1, SAF-kongressen 1987 (Stockholm: SAF, 1987), pp. 29–30; and on Volvo, *Dagens Nyheter* 13 April 1987, p. 14.

⁵¹ On SAF's new position on job ladders or career paths and seniority-based pay see *Lönen – ett medel för tillväxt*, especially, pp. 28–30; On the explosion of profit-sharing in the 1970s, see Barbro Sköldebrand, *Anställd och ägare: Företagsanknutna stiftelser och fonder* (Stockholm, 1990) and Gunnar Gelin and Lars Sundström, *Sanna ägare: Engagemang genom arbete eller konvertibler?* (Stockholm, 1991).

employers in SAF and VF, like Volvo.⁵² Employers in SAF no doubt recognize the risks and contradictions, as is implied in a speech by SAF-director Ulf Laurin in 1990: "The challenge is for SAF to find ways to give companies greater freedom of movement in determining their own wages. *And without shaking fundamental employer solidarity*" (my emphasis).⁵³ In the 1930s, "freedom of movement" had been promoted as the "softer line against workers" in contrast to SAF's harder line by the unsolidaristic rural - industrial patriarch Carl Kempe; in the 1990s it has become the hard line of a new generation of modern transnational corporate executives.

The new official promotion of segmentalist strategies in Sweden must be understood as employers' reactions to something that in large part was their own creation - albeit a creation that in their view got out of hand. In promoting centralization and solidaristic labor market practices from the 1930s through the 1950s, Swedish employers helped lend legitimacy and the institutional backbone to an egalitarianism that became the trademark of the Social Democratic union movement. The idea in turn helped legitimate the assertion of centralized control over a fractious labor movement by the labor confederation.⁵⁴ Individual employers and their sectoral associations had earlier handed over autonomy to a centralized employer authority for the sake of solidarity against unions; unions had then been coerced by centralized employers into handing over power to their own centralized authority. This the unions had defended as necessary for defense against unified and militant employers, and for the fulfillment of unrealized egalitarian aims.⁵⁵

Bolstered by continued high growth and full employment - in other words more or less continuously tight labor markets - LO took centralized regulation of the pay structure far beyond what employers had ever expected. The Social Democratic governments through the 1960s and 1970s helped by maintaining tight labor markets (with labor market policies and expansion of the public sector) and therefore feeding employers' centralizing impulses. Under these circumstances, LO leaders pressed onwards for levelling of wages not only to compensate lagging low-wage sectors for drift in others, as before. By the late 1960s they had begun successfully pushing (1) systematic intersectoral levelling beyond what compensation for wage drift called for; (2) interoccupational levelling within workplaces; and (3) interoccupational levelling within the growing *public sector*, and related to that (4) intersectoral levelling between private and public sector wages, at least when the public sector lagged behind. The result was probably the most egalitarian structure of pay in the world.

In pursuing and obtaining these things the unions took advantage of employers' desire for labor peace and their desire for control over the labor market "free-for-all" that would ensue with more decentralized bargaining and wage

⁵² Göran Brulin and Tommy Nilsson, *Mot en ny svensk modell: Arbete och förhandlingsystem i förändring* (Stockholm, 1991), p. 50.

⁵³ Ulf Laurin, "Marknad och mångfald - SAF under 90-talet", speech to employers at PAF (Paper Industry Employers' Association). Seminar on Employer Policy, Yxtaholm, 24 January 1990.

⁵⁴ See Peter Swenson, *op. cit.* (1989).

⁵⁵ See Hadenius, *Facklig organisationsutveckling* and De Geer, *SAF i förhandlingar: Svenska arbetsgivareföreningen och dess förhandlingsrelationer till LO och tjänstemannaorganisationerna 1930-1970* (Stockholm: SAF, 1986).

formation under conditions of full employment. The costs of the concessionary strategy mounted over time, as employers in SAF saw it. Where once solidaristic wage policy was seen as a way of undoing the unsolidaristic effects of wage drift, or at least compensating those workers (and employers!) who did not benefit from it, solidaristic wage policy increasingly became a *cause* of wage drift. Interoccupational levelling (within firms) appeared to set in motion compensatory drift for high-pay, skilled workers whose pay growth was repressed by centralized policies. Managerial strategies to retain the presence and loyalty of skilled workers, as well as the latter's pressure to preserve wage relativities, fueled this inflationary process.

The rapid growth of the public sector in the 1960s and 1970s, combined with solidaristic wage policy, also caused problems for SAF employers. Public sector workers' newly won right to strike in 1965, combined with their efforts for interoccupational levelling turned that sector into the "wage leader", especially at the low end of the pay scale, causing problems for private sector industry in recruiting and satisfying women and younger workers receiving lower pay than in the public sector. Taxes to pay for the growing – labor intensive – public sector represented a drain on the private sector's ability to pay, and keep up with the public sector in intense labor market competition.

Meanwhile, the traditional ability of key private-sector industries to stay one step ahead of others in labor market competition via wage drift had become self-destructive, as public and private sector groups (especially salaried white-collar workers in the latter) managed to impose automatic "earnings-development" guarantees, compensating them for wage drift in an inflationary wage-wage spiral. Low productivity growth, which interoccupational levelling took the blame for, made it impossible to keep prices under control, and as a consequence of internationally high inflation both Social Democratic and bourgeois coalition governments periodically devalued the Swedish crown. In turn, interest rates increased as a result of both government growth and repeated devaluations, further stifling Swedish employers' ability to invest in productivity-enhancing expansion to keep up with harsh international competition from countries with lower unit labor costs, faster productivity growth and lower inflation.⁵⁶

In the 1980s, employers in SAF reacted to the developments and experiences of the 1970s with an aggressive two-pronged strategy. First, increasingly politicized by the mobilization of the left in the 1960s and early 1970s, SAF aggressively challenged the Social Democrats, and the public sector they built up, for its high taxation and inefficiency, and for its tendency to act as the wage leader.⁵⁷ Second, SAF and key member groups, especially multi-nationals in VF, began promoting and pursuing decentralized, segmentalist pay strategies in the private sector, as mentioned above.

⁵⁶ This discussion draws on, among other works, Erik Lundberg, "The Rise and Fall of the Swedish Model", *Journal of Economic Literature*, vol. 23 (1985); Lennart Jonsson and Claes-Henric Siven, *Varför löneskillnader?* (Stockholm: SAF, 1986); Nils Elvander, *Den svenska modellen: Löneförhandlingar och inkomstpolitik, 1982–1986* (Stockholm, 1988); Hans De Geer, *I vänstervind och högerodg: SAF under 1970-talet* (Stockholm, 1989); Bertil Kugelberg et al., *Fred eller fejd: Personliga minnen och anteckningar* (Stockholm: SAF, 1985).

⁵⁷ See Peter Swenson, "Labor and the Limits of the Welfare State: The Politics of Intra-Class Conflict and Cross-Class Alliances in Sweden and West Germany", *Comparative Politics*, vol. 23:4 (1991).

A political offensive to reduce the size and wages of the public sector is a logical complement to the ideological offensive against centralized, solidaristic wage policy. The success of segmentalist strategies, it would appear from the history of the Swedish labor market, depends on relatively slack labor markets. This would seem to follow logically from the fact that tight labor markets in Sweden are the single most important underlying cause of the development of solidaristic practices. Cancelling the government's commitment to match or exceed private sector wages and its commitment to maintaining Sweden's low levels of unemployment will enable employers more easily to pursue segmentalist strategies. Sweden's membership in the European Community, energetically promoted by SAF, will make it much more difficult for future governments to maintain a full employment economy as in the past, when unemployment levels are so much higher and inflation lower in most of Europe. The ability to pursue "unsolidaristic" wage policies will depend, among other things, on the disinclination of the public sector and the large majority of firms in other sectors to follow suit; unemployment will probably make that the case.

There are good reasons to think that although the vast majority of SAF members are favorable to the idea of reducing the public sector and taking a more aggressive stance against Social Democrats and the union movement's egalitarian wage policy, attitudes about decentralization and segmentalism are still mixed. As late as 1986, 90% of a sample of SAF members viewed SAF's role in restraining wage drift to be one of its important roles.⁵⁸ The need for continued and improved local employer coordination was affirmed at SAF's congress in 1987; this activity had been promoted as early as the 1940s and continues today to counteract pirating.⁵⁹ It may well turn out, as events proceed, that small firms increasingly subject to international and domestic competition will be unable to keep up in labor market competition. The big automobile firms can increasingly play domestic and foreign parts suppliers against each other, pushing down domestic suppliers' prices and making them unable to pay quality wages. This can force them to improve productivity or go bankrupt, in either case freeing labor for the larger firms. Home market firms, which are sheltered from competition and are able to pass on wage costs, will also suffer in labor market competition if Sweden joins the European Community. Import competition and moves to implement the EC's far more stringent anti-cartel rules will make it harder for small firms to pass on the costs of keeping up with larger firms' wages.

According to this logic, the shift to a segmentalist strategy on the part of dominant Swedish employers is a deeply political one requiring supportive political and legislative strategies, and can potentially divide SAF employers among themselves. In decentralized bargaining, many individual employers will be left vulnerable to the unions' old whipsaw tactics that centralization helped neutralize. As decentralization and segmentation proceeds, some might well long for the old institutions of employer control – over unions and over each other.

⁵⁸ Hans De Geer and Hans L. Zetterberg, *Mål motiv och verksamhet – en SIFO-undersökning om delägarnas syn på Svenska Arbetsgivareföreningen och dess förbund* (Stockholm: SAF, 1987), p. 16.

⁵⁹ *Lönen – ett model for tillväxt*, pp. 21–22.

6. Conclusions

Recent comparative research on managerial practices in more segmented or dualistic systems have emphasized the role of pressure from above – governments, unions and business associations – in promoting and shaping individual employers' labor market practices.⁶⁰ The research presented here demonstrates too that pressure from above, in this case from an employers' confederation, explains the remarkable peculiarities of Sweden's solidaristic labor market. The role of unions, while important, was by no means so great as to merit the enormous preoccupation with them in previous research. This applies in particular to the unions' role in bringing solidaristic wage policy to fruition, at least in its initial forms and phases.⁶¹

The role of tight labor markets has also been neglected.⁶² In comparative perspective it seems that Sweden's tight labor markets were decisive in shaping the employers' collective organization, which in turn exercised a strong influence on individual management practices. Emigration at the turn of the century caused a labor shortage which severely restricted the strategies available to employers, forcing them to accept and tame unions rather than destroy them, as elsewhere in the world. The low birth rate and the resulting "population crisis" that Alva and Gunnar Myrdal sounded an alarm about in 1934 probably left a deep formative mark on Swedish industrial relations when it started taking effect on the labor market roughly twenty years later. Then intense competition for young and highly mobile workers prompted employers to develop their solidaristic policies even further. Rapid post-war growth and government expansion as well as Social Democratic full-employment policy each contributed their part in the 1960s and 1970s, keep labor markets tight and hold employers to their solidaristic strategies – at least until the 1980s.

The tensions between segmentalist and solidaristic strategies will not be resolved in the near future, especially if Sweden maintains its traditionally low unemployment rate. Employers continue to coordinate efforts to prevent pirating on a regional basis, even if prohibitions against advertising job openings have been lifted by organized employers. This local coordination strategy is strongly encouraged by SAF and its most important member association, VF. At the same time, employers centrally and officially promote the idea that individual employers should be free to raise wages as they please. Employers are now much more than

⁶⁰ On the U.S. see Sanford M. Jacoby, *Employing Bureaucracy: Managers, Unions, and the Transformation of Work in American Industry, 1900–1945* (New York, 1985), and James Baron, Frank Dobbin, and P. Devereaux Jennings, "War and Peace: The Evolution of Modern Personnel Administration in U.S. Industry", *American Journal of Sociology*, vol. 92 (1986), pp. 350–83. On government pressure and collective coordination in Japan see Richard Cole, *Work, Mobility, and Participation: A Comparative Study of American and Japanese Industry* (Berkeley, 1979).

⁶¹ The most important books on the subject of solidaristic wage policy tend to neglect or ignore employers' role and labor market interests. Jörgen Ullenhag, *Den solidariska lönepolitiken i Sverige: Debatt och verklighet* (Stockholm, 1971); Rudolf Meidner, *Samordning och solidarisk lönepolitik* (Stockholm, 1974); and Axel Hadenius, *op. cit.*

⁶² Ronald Rogowski's *Commerce and Coalitions* (Princeton, 1990) is unusual in its explanation of different politico-economic systems, including Sweden's, with reference to varying supplies of labor, land, and capital. He errs I believe in concluding that labor scarcity produced a capital-exclusive politico-economic alliance in Sweden. See Peter Swenson, "Bringing Capital Back In".

in the past developing "internal labor markets" to enhance mobility within firms, but reduce exit from them; the ability to do so will require greater pay differentiation within firms and therefore pay raises for some workers and not others. Those raises will then be a source of annoyance to other firms, whose incentives for continued solidaristic mutual control will increase even as the chances of obtaining it diminish.

The level of unemployment that future Swedish governments allow will be critical in deciding how the tensions will be resolved – or at least what new kind of balance will be achieved. Higher than traditional levels of unemployment will facilitate employers' new segmentalist strategy by softening their impulses to assert control over each other. In this sense, SAF's relatively new confrontational strategy against the Social Democratic welfare state, and its campaign to bring Sweden into the European Community are of a piece with their rejection of solidaristic labor markets. Harmonizing Sweden's economy with Europe will require reducing inflation, which abandonment of the Social Democrats' full employment commitment will accommodate. In turn, higher unemployment will help accommodate employers' segmentalist ambitions of decentralization, differentiation, and flexibility in wage and personnel policies.

In its early strategies against traditional employer segmentalism, SAF had tried to enlist employers like Carl Kempe's Mo & Domsjö in the 1930s. In 1949 SAF won an important victory for solidaristic labor markets when Carl Kempe's son Eric brought Mo & Domsjö into the fold: he now sat on the board of the Paper Pulp Employers' Association, one of SAF's member associations. The solidaristic strategy continued to make headway through the 1950s, and held sway as official policy in dynamic tension with countervailing forces of individualistic labor market competition through the 1970s. But for employers in SAF the solidaristic wage policy of the 1950s and 1960s had been taken too far by a union movement that had been shaped, empowered, and legitimated by earlier employer action. The destructive effects of the wage drift that ensued from the unions' more radical egalitarian policies increasingly outweighed its benefits as a safety valve for powerful segmentalist tensions accumulating from below. By the 1990s, the segmentalism of Carl Kempe – now in modern garb – had returned for revenge against the solidaristic legacy of J. Sigfrid Edström.