

Lundqvist, Torbjörn

# **The Employers in the Swedish Model**

The Importance of Labour Market Competition  
and Organisation

# The Employers in the Swedish Model: the Importance of Labour Market Competition and Organisation

Torbjörn Lundqvist  
*Institute for Futures Studies, Stockholm*

## Introduction

The term Swedish model has been used to describe many different sets of conditions and policy areas. Originally, it was applied to the partnership between employer and union organisations in the labour market: centralised negotiations and industrial peace. The term has also been used to describe universal welfare policy, the mixed economy as an alternative to both capitalism and socialism, the consensus-and-compromise approach, and the historic compromise between social classes in the 1930s.<sup>1</sup>

In order to understand the Swedish model and the welfare policy in the post-war period, we must place developments in their proper economic historical context. This is how I would describe the situation:

When the Swedish Social Democrats formulated their post-war programme at the end of the Second World War, the mass unemployment they had seen in the 1930s largely shaped their perceptions. Consequently, their vision for the future was: ‘A Society in Full Employment’. What the Social Democrats could not foresee was that the Swedish economy would grow strikingly as a result of the lengthy business boom that followed. Full employment developed of its own accord, so to speak, and the Social Democrats were able to take the credit. Inflation, not unemployment, became the principal economic headache. Economic policy sought to encourage labour supply and dampen demand. Sweden’s transition from a low-tax to a high-tax country can partly be explained by these developments. In the 1950s, the government also introduced a competition policy to help make trade more competitive and thus reduce price increases.<sup>2</sup>

One of the architects of the Swedish model’s economic policies, Rudolf Meidner, wrote an article in the early 1990s entitled ‘The Rise and Fall of the Swedish Model’. He argued that in purely economic terms, “the Swedish Model is a model for avoiding inflation in a full-employment economy”. He also wrote that “full employment and equality are the goals that determine the rest of the model, both of them deeply rooted in the history of the labour movement”.<sup>3</sup>

Full employment raised living standards, boosted tax revenue and reduced social expenditure, which in turn created the scope for welfare reforms. It also led to strong trade unions and responsive employers. In this historic setting, centralised wage negotiations (collective bargaining) and a wage policy emphasising solidarity (or the Rehn-Meidner model) became cornerstones of the Swedish model. The negotiations were to keep down inflation and guarantee industrial peace. The policy of wage solidarity was to help direct the fairly limited workforce toward productive enterprises and sectors via relatively high levels of pay. This would curb inflation by reducing competition for labour, raise real wages, enhance

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<sup>1</sup> See for instance Magnusson 2000, Johansson and Magnusson 1998.

<sup>2</sup> Lundqvist 2000 and 2003.

<sup>3</sup> Meidner 1994: 338.

growth and hasten a productive restructuring process.<sup>4</sup> That, at least, was the theory. All too often, the Swedish model has been described in theoretical terms. My aim here is to lift the lid and examine what happened in reality.

In principle, the centralised bargaining model between the social partners, the Swedish Employers' Confederation (SAF) and the Swedish Trade Union Confederation (LO), lasted from 1956 to 1983. I write 'in principle', as the most important actors broke away and negotiated separately, whereas SAF and LO continued negotiating throughout the 1980s. The engineering industry is a key actor in this area. Via its employer organisation, the Swedish Metal Trades Employers' Association (VF), it had steered Swedish employer policy into new waters in the 1950s by "impelling" the SAF to engage in central wage negotiations, as one of those involved at the time put it.<sup>5</sup> For the next 25 years, the VF would remain a part of the giant employer collective led by the SAF. In the 1980s, however, it broke out on its own and persuaded its labour counterpart, the Swedish Metal Workers' Union (Metall), to join it.<sup>6</sup> Why did this happen, and how? These are the key questions in this presentation. The study is based on an examination of board meeting minutes and other VF documents of key importance.

## An organisational explanation

...collective interest depends at least as much on the way it is organised, as does the structure of the organisation on the interest it is to represent.<sup>7</sup>

From the 1980s, the bargaining system in the Swedish labour market was gradually decentralised to the industrial branch level. At the same time, centralised state authority was decentralised to the municipal level. This parallel development unquestionably shared the same underlying causes. *Ideology*, for instance, was an important factor.<sup>8</sup> From the early 1980s, we see the development of an ideological current emphasising competition and market solutions rather than centralism and planning. This was followed by a doctrinal shift in economic policy emphasising competition and low inflation rather than full employment.<sup>9</sup> These shifts of emphasis were to have an impact on both state organisation and the employer organisations.

During the 1980s and 1990s, *structural* changes in the economy reinforced this new trend. Organisational changes in the industrial sector towards flexibility and greater international mobility underlined the need for decentralised solutions in respect of collective agreements as

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<sup>4</sup> See for instance Erixon 2003.

<sup>5</sup> Albåge 1996: 123. For a comprehensive account of the Swedish employers' actions and strategies in the 20th century, see Kjellberg 2000.

<sup>6</sup> This was a controversial step within both the SAF and the LO. Within the LO, Metall was strongly criticised for having created division in the Swedish negotiating model, see De Geer 1992 and Johansson and Magnusson 1998. Over the next few years, bargaining took place at both central and federation level. In 1986, however, the VF finally decided to negotiate without SAF participation. In 1981, the VF had called for the SAF to be deprived of its bargaining responsibilities. In 1990, this came about. The new employer policy was to be based on decentralisation and marketisation.

<sup>7</sup> Schmitter and Streeck 1985: 19.

<sup>8</sup> A growing lack of trust between the partners has been cited as an explanation for the collapse of the Swedish model, see Rothstein 2000. Stråth 1998, on the other hand, views the model's decline in terms of a deeper ideological process of change in which employee funds played a major part.

<sup>9</sup> Lundqvist 2003, Lindvall 2004.

well. Increased globalisation affected both ideology and the way structures were changed. However, it was the *technological* innovations providing a backdrop to these developments that made the whole process possible.

These ideological and structural changes have been crucial to the institutional transition that the Swedish bargaining model has undergone. To describe institutional change as a result only of external factors, however, would be to misrepresent history. The grand functionalist interpretations fail to take into account an important lesson that history teaches us – that all institutional change also has its own inner dynamic. Actors can influence the course of events by seeking to further their own interests. In this article, I hope to show the importance of the inner process as a factor in the ‘collapse’ of the Swedish negotiating model. The *organisational* explanation that the study arrives at does not conflict with the change in other factors outlined above. Rather, the purpose is to seek a more profound explanation of the process that led to institutional transformation.

The golden years of collaboration between the social partners were the 1950s and 1960s. The partnership deteriorated as a result of the radicalisation of Swedish politics in the 1970s, to which the LO contributed with its controversial proposals for employee funds and legislation instead of agreements in the industrial law sphere. The political aspect was particularly important at the time, but in order to understand and explain the actions of the VF we need to study its role and its experience of employer policy under the Swedish model. Citing political developments or stiffer international competition, or new systems of production, is not enough. In the early 1980s, only a few however important companies were involved in this process of change. The major changes in company organisation were to come later. The timing was not right for this type of structural explanation to the decentralisation of collective bargaining. Also, employer policy has never been a purely instrumental function of economic and technological realities.

Throughout the period, the competitive export companies in the VF showed their dissatisfaction with the employer policies being pursued. As I see it, the employers’ experience of their own policies and organisational development is crucial to an explanation of the changes that took place in the Swedish model. But market mechanisms, too, have been an important force for change. Here, the term market mechanisms refers to the competition for labour that arose between companies as a result of full employment. Perhaps the most important task of employer policy during this period of full employment was to pursue a collective wage policy, which is a way of trying to deal with market mechanisms. Studying how employers deal with labour competition is an unusual line of approach in labour market research. Previous research on wage formation, however, shows that market forces had a considerable impact on wages in the engineering industry.<sup>10</sup> Emphasis in the present article is on the *impact of market mechanisms on organisational change* in the institution we will refer to here as the employer collective.

Organisations change over time, partly as a result of the problems they have to tackle. This process is not without its problems, however. Research on business organisations has shown that there is a conflict between efficient negotiation and organisational democracy. An organisation must speak with one voice to gain the trust of the other side in a bargaining process. If it has different voices sending different signals, it has difficulty gaining that trust. This principle is referred to here as the control principle and is based on what is termed the *logic of influence*. Cohesion in an organisation, meanwhile, is dependent upon members having a sense of participation. In an organisation where this is weak, there is a risk that agreements will not be respected. Small firms may feel overlooked in an organisation dominated by large corporations. Representativity issues come under the second principle,

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<sup>10</sup> Olsson 1971: 41.

that of the *logic of membership*. The question before us here is whether a growing representation problem was present, and if so whether this contributed to the decentralisation of employer policy. Analysis of this organisational problem, then, applies the concepts of representativity and control.<sup>11</sup> In the present study, these terms are linked to the question of horizontal and vertical expansion in employer organisations.<sup>12</sup>

In the horizontal dimension in the analytical model, competition and collaboration in the wage policy sphere are also studied. Wage drift (wage increases over and above negotiated increases) is treated as a competitive problem where solutions are sought via what is referred to here as cartel collaboration.

## Competition and wage drift

After the Second World War, the international business upturn led to an industrial boom in Sweden. A labour shortage ensued, creating competition for this scarce resource in the manufacturing sector and between this and other sectors. Labour supply was boosted both by means of campaigns that sought to bring married women into the labour market and as a result of a comparatively large influx of labour immigration up until 1970.<sup>13</sup>

Competition varied in intensity over time, but was present to a greater or lesser degree throughout the period. It was characterised by high mobility in the industrial sector, especially around 1950, and wage drift. Naturally, wage drift had other causes as well, such as the difficulty of controlling piecework rates. But wage drift in relation to piecework, too, was a problem associated with boom periods. Companies needed to produce quickly and efficiently, and keeping down piecework rates was often a secondary concern.

The unions took advantage of their position of strength to focus on low-paid groups at the bargaining table (wage solidarity). The employers for their part wanted pay differentials between occupational categories. This in fact contributed to wage drift, as companies deliberately re-set the pay scale when low-paid workers were granted rises.

Wage drift was at its highest in piecework industries, which meant that industries with little piecework fell behind in terms of wage growth. In competing for labour, companies were anxious not to lose too much ground. In some cases, employers recommended higher pay rises than those demanded by the union. One example of this was the employer organisation for Swedish breweries in the 1950s.<sup>14</sup>

Under these circumstances, which encouraged wage drift and pushed up inflation, employers saw coordination of wage negotiations as the best option in the 1950s. They viewed centrally coordinated negotiations between the two confederations, the SAF and the LO, as a cartel strategy that would enable them to keep down wage increases, especially local wage drift, and at the same time make it harder for the unions to play off one employer against another.

Competition is of course only one factor causing wage drift. Wage levels were also affected by expectations concerning inflation. Actors, however, do not base their behaviour on the actual state of affairs but on their perceptions of reality, which in turn may be influenced by their scope for action. They may sometimes adopt a particular position for strategic

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<sup>11</sup> Van Waarden 1992 explores the terms control and representativity more closely. In a previous study, Lundqvist 1995 and 1998a, I used these terms in analysing trade organisation.

<sup>12</sup> De Geer 1992 employs a similar approach when applying three analytical concepts in his study of the SAF: the principle of negotiation, the principle of association and the principle of insurance. The first two principles largely correspond to control and representativity.

<sup>13</sup> Lundqvist 2000 & 2004.

<sup>14</sup> Lundqvist 1998b.

reasons. The interesting point in the present connection is that the Swedish employers actually viewed competition for labour as the principal cause of wage drift.

In 1957, the VF conducted an extensive survey among its members, and those companies that reported wage drift were asked to explain the reasons for it. Conditions varied from area to area, but labour competition was described as one of the leading causes. Despite the fact that the companies felt the problem of wage drift was out of their hands, many tried to solve it by means of internal controls. Many other members, however, urged VF to increase its degree of control and encourage unity among employers.<sup>15</sup>

The wage drift problem subsequently plagued the Swedish bargaining model for decades. Employers failed to cope with it despite strenuous efforts, which I will not go into here. On the contrary, both contractual pay increases and wage drift continued to rise in the 1960s and up until the mid-1970s. Every year between 1956 and 1970, wage drift exceeded contractual pay increases in the engineering industry. If bargaining led to a pay rise of 4% in a particular year, wage drift perhaps added a further 5%, which meant a total increase of 9%.

The extensive wage increases paid out between 1974 and 1977 caused the VF to lose faith in the centralised bargaining model. Although the increases fell back to more normal levels in 1978, they remained high, and the situation was further aggravated by the arrival of statutory labour legislation. High wage drift in the mid-1970s was caused by high industrial profits and wildcat strikes at the local level. Wildcat strikes tended to be seen as a means of bringing pressure to bear on employers in local wage negotiations.<sup>16</sup>

From a wage perspective, employer policy in the Swedish model was often a failure. One should not forget, however, that the model succeeded in keeping conflicts to a minimum in the industrial sector. Between the two world wars, the number of lost workdays remained at a constantly high level. It was not until 1942 that the industrial conflict rate reached the low level it was to remain at after the war. A major strike by metalworkers in 1945 was only a temporary setback.<sup>17</sup> The least contentious years in the history of the Swedish labour market were those between 1956 and 1965, which shows that the centralised bargaining model was successful in ensuring industrial peace. In fact, it was not until the late 1960s that it began to fail in this respect. There was a general rise in industrial disputes in the 1970s, culminating in a major conflict in 1980. The fact that the model worked less well over time contributed to the decision to phase it out.

In the VF, centralisation and joint negotiation were blamed for the high wage increases. Starting in the early 1970s, employers discussed a return to bargaining at the association level. The number of executive committee members who favoured decentralisation grew by the year. Following the surge in wage increases in the mid-1970s, the VF took a decision in principle to withdraw from the joint SAF-LO negotiations. However, it did not want to upset the first non-socialist government for 44 years by winding down the Swedish negotiating model during its first year in office. Also, the executive committee was not unanimous, and preferred consensus. Other factors that contributed to the VF's difficulty in reaching a

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<sup>15</sup> VF archives. Compilation and processing of survey data from 1957.

<sup>16</sup> For reasons of space, the diagrams showing the relationship between wage agreements and wage drift are not shown here. This data is available in, *in te alia*, Arbetsmarknadsstatistisk årsbok 1994 and Bergom Larsson 1985: 375.

<sup>17</sup> The Saltsjöbaden Agreement between the social partners, dating from 1938, has been accorded considerable significance by historians describing the Swedish model. Although it focused on conflict management, the biggest industrial dispute in the history of the Swedish Metal Trades Employers' Association occurred in 1945. The basic cause, however, was that communists had temporarily gained control of the Metalworkers' Union leadership.

decision was that the SAF had elected a new chair (Curt Nicolin) and that the new industrial law necessitated collaboration.

In 1982, the VF finally took the step and withdrew from the centralised bargaining arrangement. It was prompted in this by conflicts with the LO in 1980 and with the Union of Clerical and Technical Employees in Industry (SIF) in 1981. Otherwise, 1982 seemed an apt moment for the VF to reach such a decision: employee funds were in the offing and the Social Democrats won the election, Volvo introduced a profit-sharing system for its employees as a politically motivated rebuff to employee funds, demand for labour in the engineering industry was at its lowest since the war, and the LO had appointed a new, unproven leader (Stig Malm). But none of these factors actually caused the breakaway. The events of 1982 simply helped to speed up a decision-making process that was already far advanced and in itself logical.

To sum up, full employment led to labour competition and extensive wage drift. The employers sought to solve the competitive problem by means of a cartel strategy with centralised bargaining. This model did not solve the problem, and the VF sought new paths, both within the model and outside it.

## The importance of organisation

Organisational aspects are of major importance when discussing employers' problems in relation to competition and collaboration, and also when discussing control and representativity. Employer organisations function as one side at the collective bargaining table and must be able to pursue a common policy vis-à-vis the unions. Organisational aspects are evident everywhere. To begin with, we have the VF's place in the larger SAF community. We also have the question of its internal organisation. Employers sought some of the solutions to their problems in organisational change.

### The VF's place in the employer collective

The SAF (1902) and the VF (1896) developed along parallel lines up until 1917, when the VF joined the SAF and became formally subordinate to this executive organisation. From the outset, the VF was its largest member. In 1917, almost a fifth of all workers in SAF member companies were employed in the engineering sector. By 1975, this figure had grown to over 27 per cent. Also, the average engineering company was larger than the average SAF company. As the SAF became broader based, however, the proportion of engineering companies in the confederation steadily diminished (table 1).

Furthermore, VF members included a large number of the country's international companies, many of which were growing rapidly. The 15 largest member companies in 1952, ranked according to the size of their workforce, were: ASEA, LM Ericsson, SKF, Götaverken, Husqvarna vapenfabrik, Kockums, SAAB, Elektrolux, Eriksberg, Bolinder-Munktell, Scania-Vabis, AGA, Atlas Diesel, Volvo och Svenska Järnvägsverkstäderna.<sup>18</sup> Almost all were export industries: motor vehicles, boats, telephones and household appliances, engines and electrical equipment.

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<sup>18</sup> VF list of members 1952.

Table 1. *Relative size of the VF in the SAF 1917-1985.*

Year	A VF share of SAF companies %	B Share of employees %	C Employees in VF companies	D Employees in SAF companies
1917	12.6	19.8	-	-
1930	9.9	20.0	-	-
1945	8.7	21.9	-	-
1955	7.7	26.1	175	51
1965	6.6	24.8	188	50
1975	7.4	27.4	178	48
1985	5.8	27.0	136	29

A: VF share of SAF member companies. B: VF share of employees in SAF member companies.  
 C: Average number of employees in VF companies. D: Average number of employees in SAF companies.  
*Source:* SAF and VF annual reports.

Due to their position both within the SAF and in the Swedish business sector in general, the VF and its leading member companies have always had a significant influence on employer policy. The VF played a key part in bringing about the centralisation of bargaining and later, in the 1980s, of its decentralisation.

Following the costly agreements concluded in the mid-1970s, the VF decided to try and reform the bargaining system. In particular it was anxious to secure greater representation on the SAF board so as to be able to influence the central negotiations between the SAF and the LO, and had high hopes of succeeding in this aim. But the SAF introduced an amendment whereby the VF would only be allowed four seats on the 32-strong board, although this eventually became five. The head of the VF argued that mathematically, considering its size, the Association was entitled to eight of the 32 seats. Thus the VF's wish to be given greater representation was not fully granted.

The fact that the VF did not enjoy full proportional representation on the SAF board was due to the consideration shown the smaller employer associations. The VF companies had some 365,000 employees, or 27 per cent of the employees affiliated to the SAF. The smallest employer organisations represented companies with a combined total of 3,000-5,000 employees. This imbalance made fair representation difficult. Under the existing arrangement supported by the SAF, an organisation had to represent companies with at least 15,000 wage-earners to qualify for a seat on the board. The VF's call for this threshold to be raised was rejected.

The board representation issue had several different dimensions. Besides being an attempt to strengthen the VF's standing in general, it also concerned the Association's inner cohesion. The Managing Director of the VF argued that the engineering industry comprised a heterogeneous gathering of companies and that in principle it could be divided up into a number of different national associations. If the demands for proportional representation on the SAF board were met, it would be easier for the various groupings to pursue their respective interests.

A representative of the smaller companies in the VF argued for instance that the Association should insist on proportional representation as the SAF board functioned as a negotiating partner. If this demand were not met, the VF should consider breaking away from the SAF. Also, the representation of small undertakings needed improving. Despite the fact that 28 per cent of all wage-earners in the engineering industry were employed by small businesses, these were only represented by one deputy member on the board. There was no sign of any "democratisation" in the SAF's proposal. Unless representation was improved,



there was a risk that smaller companies in the industry would break away. Another representative of the small-business group in the VF also declared that the possibility of SAF being “blown apart” could not be ruled out. The major engineering companies, however, argued that the representation issue concerned much more than just the relationship between large and small members. The main thing was to ensure that the country’s competitive industry was adequately represented on the SAF board. As voting was not practised there, the presence of competent individuals on the board was of far greater importance than the number of board members.

The large companies urged that the export industry be given more influence, while the small businesses wanted greater representativity. The VF thus faced a dilemma: if it came out in support of the former approach, it risked jeopardising internal cohesion, while if it chose the latter, more democratic course advocated by the small businesses, this would weaken the interests of the large member companies. As the larger companies wielded more clout, the VF chose the former course. The Association’s expansion of its regional organisation along with increased collaboration at the local level (see below) could however be seen as a way of circumventing this problem.

### The administrative office

The VF head office also grew in size in the 1950s. As in most organisations at this time, the number of staff increased, but there was no appreciable increase in the amount of bureaucracy. Even in the 1960s, a decade of bureaucratic expansion in Sweden, the VF remained a manageable organisation. The 40-strong workforce in the early 1950s grew to 128 in 1973, including three regional offices, a publishing and printing store and a foundry school.

The new administrative setup introduced in 1973 did not bring any major changes. The VF sought to increase its range of skills by establishing specialist departments for industrial law and for public issues. Liaison groups were also set up to coordinate certain areas. At this time, there was little economic scope for dramatic improvements in the organisational regime. As costs in the industry had increased, companies were opposed to paying more to belong to an organisation. In the same year, Sven Schwartz, former head of the SAF, presented a report on the prospects for setting up a national body to be known as the Swedish Business Confederation. The proposal was rejected by the VF as it disapproved both of centralisation and of the costs involved.<sup>19</sup>

Later, in 1991, the administrative situation would change radically when the Swedish Metal Trades Employers’ Association (VF) merged with the Swedish Association for Metal Transforming, Mechanical and Electromechanical Engineering Industries to form a new national organisation, the Association of Swedish Engineering Industries (VI). The chief reasons cited for this move were synergy gains and lower costs.

### Small businesses

The question of allowing family businesses and other small enterprises into the VF was discussed even before the Second World War. The Association’s Managing Director between the wars, George Styrman, notes in his well-informed account of the period that there was “considerable doubt” as to the advisability of admitting small businesses. The problem was both the potential loss of homogeneity in the VF and these companies’ tendency to behave in a “changeable” manner.<sup>20</sup>

In the 1950s, however, the VF began actively recruiting small businesses. Why? We should start by noting that these companies created numerous problems for the SAF. Labour

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<sup>19</sup> In 2001, the SAF merged with the Federation of Swedish Industries and became the Confederation of Swedish Enterprises.

<sup>20</sup> Styrman 1946: 351. He believed small companies’ behaviour unreliable in policy issues.

shortages led to competition both between companies and between industries, and also between large and small businesses. The SAF saw that labour was being attracted away from larger companies to smaller ones and therefore sought to incorporate the latter into the employer collective, which at this time was dominated by the interests of big business. The SAF felt it was being damaged by the “dabbling” of the small-business organisations in the bargaining field. Accordingly, it sought to recruit not only small industrial companies but also organisations representing artisans and retailers.<sup>21</sup>

In the 1950s, further employers’ organisations became members of the SAF, representing paint-spraying shops, the leather industry, bakeries and pastry shops, and plater’s shops. In the 1960s, they were joined by the painting contractors, the hotel and catering trade, the retail trade and the insurance industry.<sup>22</sup>

The SAF’s transition from an employer organisation representing big business to an organisation representing more or less the entire private business sector naturally had important implications. The VF blamed the SAF’s “inadequate power of resistance” against union claims on this development.

Competition for labour was complicated by the fact that the employer organisations, not least the VF, had a relatively low degree of coverage among their own industries. Among companies with at least 6 employees, little more than a third belonged to the VF. It was largely the small businesses that remained outside. A count of small businesses entitled to join the VF in 1953 showed that there were 980 potential member companies. In 1957, the number of VF member companies with 10 employees or fewer was no more than 262.

In view of the relatively low level of affiliation to the VF, recruitment became an essential means of coming to grips with wage formation. This in fact was a concern for the employer collective as a whole, and consequently a special SAF recruitment officer was appointed in the 1950s. The campaign to attract small engineering companies also resulted in them being given two seats on the VF board, along with the Association’s five regions.

By 1968, over 1,000 engineering companies, employing about 23,000 people were still not affiliated to the VF. The majority of these companies had fewer than 50 employees. Only 48 had more than 50.

The number of small businesses in the engineering industry grew steadily. The VF, too, grew in size, due to its emphasis on recruiting. During the period in which wage negotiations were centralised, the number of VF member companies doubled from just over 1,100 to about 2,300. The number of employees in the VF bargaining fold increased by over 60 per cent and totalled 315,000 in 1985. As a result of this upswing, the VF was almost as large in the mid-1980s as the whole SAF had been in the 1930s.<sup>23</sup>

The question of small-business representation was not properly solved in the 1950s and 1960s. Two seats on the VF board was not considered satisfactory. In the 1970s, fears were expressed in some quarters that the interests of small businesses were not being properly looked after in the organisation. As small businesses were so poorly represented in the Association, the critics said, the large companies ruled. This was even truer of the SAF, where no provisions whatsoever were made for small-business representation.

### Regional organisation and local collaboration

The immediate post-war period was a time of unrest in the Swedish labour market, as it was in the VF. The big metalworkers’ strike of 1945 had severely tested employer unity. In a bid to bring member companies closer together, a committee in the VF proposed that meetings be

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<sup>21</sup> Jerneck 1986: 46-51.

<sup>22</sup> De Geer 1986: bilaga.

<sup>23</sup> VF annual reports.

held to discuss the labour supply situation. Engineering companies were competing with one another over labour, which led to proposals for the appointment of special workplace representatives. Thereafter, in the 1950s and 1960s, regional and local organisations were expanded.

In 1962, it was felt that the VF's regional organisation was under-dimensioned. Eight representatives spread across five regions was not enough to provide the Association's 1,800 member companies with the level of service they required. In the new organisation, the number of representatives was increased to 18. The increasingly complicated pay categories and wage-setting methods meant the small and medium-sized businesses needed assistance. This applied particularly to the problem of wage drift, which needed dealing with in a practical manner. Moreover, the arrival of additional representatives facilitated local collaboration between member companies. The idea was for local collaboration both to prevent members outbidding one another and to prevent the unions from playing off one employer against another, in light of the labour shortage. In other words, local collaboration was to curb wage drift. A further reason for building up the VF's regional organisation was a need to respond to the growth of local union organisations.

In time, the organisational expansion that occurred in the 1960s also proved insufficient. Between 1976 and 1979, the five regional offices became 12. Wage drift was still the problem facing this enlarged organisation. The annual report for 1979 noted: "In 1979, too, increased staff resources and greater personal contact with member organisations contributed significantly to the task of combating unsustainable wage drift". Expansion of the VF's regional organisation was undertaken in close collaboration with the SAF, which also strengthened its regional organisation.

Although regional expansion was a relatively uncontroversial measure within VF, some critical voices were raised. It was argued, for instance, that apart from the extra costs involved, the move increased the power of the representatives. Others noted the problem of running 12 different districts and the risk that issues requiring joint consultation would become matters for central negotiation. The proximity of the local representatives might lead to such a development, when instead such issues should be settled at company level. Thus decentralisation might lead to centralisation. The VF leadership was aware that management problems might develop as a result of the rise in information costs, but felt that these were outweighed by the benefits, not least the likelihood of swifter negotiations and the possibility of delegating bargaining to the regions in certain cases. Volvo was even prepared to help develop regional services without delay by providing training programmes for regional representatives.

The local collaboration groups had to be separated from the regional organisation. These were the result of a VF initiative and were the VF's responsibility, but they were not part of the VF in any formal sense. Local collaboration had been on the decline in the early 1960s, which prompted the VF to seek to revitalise it. In southern Sweden, not a single local group was in action in 1962, although the stated requirement was 9 groups. In western Sweden, only 2 of the original 5 groups were still functioning, while the requirement was 7. In eastern Sweden, the level of activity was much higher: the region had as many as 9 groups, although a further 3 were wanted. The northern region had 6 local groups, of which 3 were in the same town. There were also 3 dormant groups. In addition, a further 11 groups were sought. In sum, local collaboration was only working properly in eastern Sweden, while the situation was particularly disheartening in the southern and western parts of the country.

The VF's efforts to revive local collaboration bore fruit. Its annual reports show that the number of groups rose from about 40 in 1965 to 90 in 1975 and 107 in 1983. Most of the groups involved only engineering companies, but in some cases other SAF companies also took part. In areas where non-SAF companies were of importance for wage policy, these, too,

were sometimes members of a local collaboration group. In the mid-1960s, the SAF became interested. It felt such groups were needed throughout the private labour market as a means of improving cooperation between employers on pay issues. The aim was quite simply to reduce labour competition and curb wage drift.

A SAF survey of local collaboration groups looked into the situation at 55 of them, 31 of which were exclusively VF affiliated. The survey shows that the VF groups usually had 5-10 members, that managing directors and job study managers usually took part, that the groups met four times a year, that most of them exchanged pay statistics, and that over 60 per cent of them had agreed not to “steal people”, as they called it, from one another. In other words they opposed labour poaching.

The question was, however, how to bring smaller businesses into the local collaboration programme. In 1971, for instance, 771 of the 1,751 member companies were active in local groups. Although nearly 1,000 member companies were not involved in local collaboration, the 771 companies that were involved represented 76 per cent of member company employees.

As the aim of local collaboration was to promote unity between employers, it is worthwhile examining how this problem was viewed at local level. In 1975, it was generally felt that the problems were considerable. The VF leadership consequently met with the executive committees of cooperation groups in three areas of eastern Sweden. These employers expressed considerable concern about what was happening in the labour market. They found the increasing lack of unity among employers “frightening”. Disloyal employers, even in the same geographical area, were said to be letting wage drift “soar”. They also expressed surprise that wage drift was being allowed to continue without any response from the central-level organisations in the form of sanctions. Another problem was the tendency to “disregard established forms of pay” by switching from incentive wages to more fixed wages. Many of the problems were attributed to a lack of strong organisation. Local branches of the Metalworkers’ Union were said to apply a tactic involving “strategic approaches” that were “downright military in character”. This tactic involved “steamrolling the weakest employer in the area in order to set a precedent, on the basis of which they went about crushing resistance among the other employers”. The solution to the problem, it was felt, was to strengthen regional organisation and review the division of regions.

One problem with the local groups was the fact that the heads of larger companies often chose not to attend meetings but delegated the task to one of their subordinates. This meant that collaboration was not always accorded high priority. In the late 1970s, therefore, to make local collaboration more efficient, the VF began organising regional meetings for managing directors. At these meetings, members discussed “policy matters, etc, relating to the question of employer solidarity in such areas as wage growth, co-determination and the companies’ involvement in local collaboration groups”.

In expanding its regional organisation and local collaboration, the VF was driven by a desire to control or discipline the competition between employers that was causing wage drift. The employers reasoned that if organisations were closer to the market, there was a better chance of success. The 1970s also brought a need for service and guidance to member companies, not least small businesses, in connection with the new laws on security of employment and co-determination in decision-making.

While decentralisation was designed to solve certain organisational problems, it also meant that negotiations at the industrial branch level – when they were subsequently introduced – were more likely to succeed. Also, broader regional organisation and local collaboration was a way of meeting the demands of small businesses for greater representation, or at least a way of making them feel they were playing a bigger part in employer policy affairs. Organisationally, regional organisation and local collaboration were two different things, but

to some degree they shared the same logic. The expansion of VF's regional organisation was partly intended to boost local collaboration, which was a voluntary scheme, albeit a VF initiative. Although it may have brought the market closer, it was nevertheless market forces that were to be regulated. Local collaboration was in essence a local cartel activity aimed at reducing competition over pay. The cartel operation had been decentralised.

It should also be borne in mind that while the proportion of VF companies in the SAF declined, VF company employees as a proportion of the total number of employees in SAF companies increased. The growing importance of the engineering industry in the Swedish economy, however, was not reflected in its degree of influence in the SAF. Once SAF had closed the door on a joint organisational approach, the VF had no alternative but to develop its own organisation as a means of strengthening its influence in the labour market.

## Employers' dilemmas in the Swedish model

### Control or representativity

Organisationally, the problem facing employer bodies is how to exercise control. Companies join the organisation voluntarily, pay a membership fee, relinquish their right of decision in certain respects, and as a result expect to be able to influence the organisation's activities. Organisational logic, meanwhile, suggests that to make itself heard, an organisation must speak with one voice, at least externally. In other words, there is a built-in conflict between representativity and efficiency.

The argument concerning representativity is as follows. The members of an organisation must be able to recognise their own interests in the organisation's policies. If they are unable to do so, there is a good chance that their loyalty will subside or that they will even leave the organisation. Representativity could be said to necessitate small, homogeneous organisations. If the organisation becomes too large, decentralisation is required to meet the needs of those represented. Decentralisation is quite simply crucial to organisational cohesion.

Regarding efficiency, the argument is that when an organisation goes to the bargaining table, it must be credible in the eyes of the partner. This is particularly important in the case of an employer organisation that is involved in negotiations on a regular basis. A bargaining body cannot represent all the disparate interests of its members. Management must have control of the operation. A controlling organisation, therefore, pursues policies that benefit the collective rather than its individual members.<sup>24</sup> Employer organisations must, for instance, be able to mobilise their members for a lockout, even if such a course may be to the detriment of certain members in the short term. This principle is best served by large organisations with centralised decision-making structures.

This argument also has an historical dimension. The employer organisations founded in the early 20<sup>th</sup> century began as minimalistic, representative bodies. In time, they increasingly assumed the character of controlling organisations. The growth of bargaining activities and membership, along with the growing potential for self-regulation, or cartels, necessitated centralisation and greater control. Rising membership led to a more heterogeneous array of interests, which imposed special demands on a controlling organisation. There is always a risk that growth and centralisation alienate members. Greater regional organisation may be a means of reducing the distance between executive and membership. In an organisation striving for greater control, regional expansion only comes about once power has been centralised.

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<sup>24</sup> When organisations pursue policies, they also create those policies. Accordingly, they may be viewed as producers of group interests, see Tolliday and Zeitlin 1991:21.

One mark of an organisation striving for closer control is greater professionalism. The first step is to appoint a neutral official who cannot be suspected of representing any particular interests. This is an important step when organisations seek to regulate the relationship between competitors. In the historical case, these officials eventually came to lead the work of an administrative office comprising a small or larger number of subordinate officials. They then came to be referred to as directors. Their brief was inward communication within the organisation and outward communication vis-à-vis bargaining partners such as the unions or the state. They were responsible for compiling information, and represented continuity as one board succeeded another. This gave them a position of power far in excess of their formal work specifications. The employers on the board allowed this to happen, often finding it convenient to let a professional officer deal with the increasingly complicated issues in hand. They already had their hands full running their companies. Both the SAF and the VF have had very strong-willed heads wielding a considerable amount of power.

As we have seen, the organisations were required to strike a balance between control and representativity. Where the point of equilibrium lies is however difficult to determine. It tends to vary from organisation to organisation. As organisations are constantly undergoing change as a result of external developments, they are constantly seeking the right balance. These principles may be applied in the case of VF, and also to some extent in the case of SAF. They can help to explain the organisational changes that were introduced in the employers' organisations.

The vertical dilemma – striking a balance between control and representativity – was a multi-layered problem. Here, we have discussed the issue in connection with the VF. The vertical dilemma, however, was very much a reflection of the same dilemma throughout the SAF community. Between the 1950s and the 1980s, the SAF as a whole grew dramatically. Both they and the VF sought to improve control by broadening and deepening their organisations. This was part of the cartel strategy. The goal of a broader organisation was partly achieved by recruiting additional members, including smaller companies, the principal aim being to control wage formation. Small businesses soon discovered that their views were making little impact. Thus the organisations had a representation problem.

Meanwhile, the average size of SAF member companies was declining overall. The organisation that emerged in the early 1980s was very different from the one that operated in the 1950s. The VF's drive for greater representation in the SAF was a reflection of this organisational change. The fact that the largest employer body in the collective felt that its interests were not being properly looked after was of course untenable. The SAF argued that the small organisations had to be represented as well. The problem was that the SAF had grown so large that it was no longer able to take all members' interests into account at the bargaining table.

In theory, an organisation should strive for control and rise above individual interests. This was precisely what the SAF had done, and which now led to a backlash in the form of the representativity problem. The control strategy became increasingly unviable. As the stumbling block was lack of representativity in central negotiations, the SAF had eventually to choose between two different approaches. Either it decentralised bargaining to association level and kept the employer collective together in a joint organisation, or it continued as before, ignored the problems and risked seeing the organisation break up from within. The SAF chose the latter course, but was saved by VF breaking away from central bargaining and negotiating with its union partner on its own. A few years later, the SAF realised its dilemma and withdrew as a negotiating party. By that time, neo-liberalism had provided the ideological framework for this inevitable development. In moving towards greater control, the organisation had reached a point at which it was forced to decentralise in accordance with the logic of representativity.

## Competition and collaboration

Employer organisations seek to pursue a common policy on employer issues. The extent to which they succeed in this aim depends on the degree of cooperation between employers, but also on the strength and policies of the unions and of the state. It is unwise, however, to say anything about the impact of union and state actions on employer policies without first seeking to determine the inner strength of the employers, which is closely bound up with their ability to solve the problems of competition and collaboration. Moreover, the most important area of activity, wage formation, is fraught with such problems. This affects employer policy as a whole. The difficulties that arise in connection with the regulation of a dynamic factor such as the market are in fact at the heart of the employers' competitive problems.

In the analytical model I have applied, the horizontal dimension is represented by the 'opposing pair' of competition and collaboration. In practice, they exist side by side and are not mutually exclusive. Cartels, for instance, seek to limit competition, but they can never eliminate it. The model should therefore be viewed as a 'functional' one in the sense of more or less competition on a sliding scale. The focal point is company action over wage agreements. In the ideal case, companies oppose wage increases over and above contractual increases, and no competition-related wage drift occurs. Cooperation here is at a maximum. The companies keep to the agreed wage levels.

The larger the number of companies that allow wage drift, the further we move along the sliding scale towards competition. In the ideal case, maximal competition is achieved when none of the companies comply with collective agreements regulating pay, or rather simply see them as minimum levels. A common misconception otherwise is that the absence of a collective agreement results in maximal competition. It would be unwise, however, to underrate the fact that collective agreements sometimes lead to greater competition as a result of their information-bearing function. Not until actors have access to pay statistics can they compete over wages in an informed and rational way.

In the early 1980s, the employers analysed their own policies. In order to understand them properly, they applied the cartel concept. An internal report claimed that cartel building had always been a key element in employer activities. This was clear, for instance, from Point 1 in the Statement of Aims: "to unite employers and employer organisations in a permanent body". The cartel function meant "adopting measures that are directly binding upon the partner companies", or setting labour prices in joint negotiations. At this time, it should be added, the SAF's cartel activities were a matter of some dispute. This is illustrated, for instance, by the VF's decision to break away from the central SAF-LO negotiations. In an internal memorandum, the VF criticised the cartel function then in evidence:

There is a risk that the SAF, as a result of this cartel function, will become an organisation that is inwardly strong but outwardly weak. Too much energy is being spent on finding a common denominator linking the interests of the various employer associations. It then becomes impossible to forcefully promote vital trade interests beyond general 'minimum interests', as the SAF collective as a whole is hardly prepared to fight on behalf of special interests.<sup>25</sup>

The problems of centrally coordinated negotiations are equated here with the negative aspects of the cartel operation. In the 1980s, marketisation was a keyword and cartel building as a strategy was beginning to be seen as an anachronism.

One option is to view the cartel as just one of a range of functions found in employer organisations. Keith Sissons, an industrial relations expert, identifies six characteristic functions: cartel, aggressive opponent, pressure group, negotiator, problem solver and

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<sup>25</sup> VF archives, PM, Vad ska SAF syssla med? – Samråd med förbunden, 1983.

consultant.<sup>26</sup> The cartel function involves – or seeks to create – a common set of conditions with which members must comply, concerning things like pay, wage systems, working hours and recruitment. Thus it is more a question of employer relations than industrial relations.

Historian Hans De Geer contends that organised collaboration and cohesion were SAF goals in themselves. What he terms the principle of negotiation is based on collective agreements and on “employers joining together to control the price of labour”. The organisation, he says, was viewed as a cartel. Collective agreements were instruments for “honouring internal agreements and making the cartel itself respected”.<sup>27</sup>

An important study in this connection is ‘Managing the Managers’, an article by political scientist Peter Swenson.<sup>28</sup> He describes full employment, or shortage of labour, as the key factor in employer policy. Seen from this angle, he says, the employers acted in a “solidaristic” manner up until the 1970s. By this, he means they displayed a willingness to standardise and harmonise wage levels, etc, and to take action against breaches of contract. Official SAF policy, however, sometimes came into conflict with the actions of individual companies. “Segmentalistic” tendencies constantly emerged but were suppressed by the SAF. The tension between solidaristic and segmentalistic forces was manifested in the attempts by individual companies to circumvent solidarity by engaging in housing construction or other social activities for the purpose of retaining or attracting labour.

Swenson’s use of the word ‘solidaristic’ is not dissimilar from the way other writers use the term cartel, in the sense of limiting competition.<sup>29</sup> Solidarity should thus be seen as a prerequisite for the existence of employer organisations. Other writers express this in such terms as employer organisations being “obliged to construct solidarity among their members, building coalitions among potentially conflicting interests which are redefined by the process of collective organisation itself”.<sup>30</sup> As we saw earlier, the VF developed its organisation in order to enhance mutuality, or solidarity, in what may be termed a cartel strategy.

What in my view characterises an employer cartel is a situation in which competition over labour is present and the employers feel a need to introduce regulation. This type of competitive regulation involves both standardising the price, i.e. wages, and, possibly of equal importance, reducing labour mobility between undertakings. When such aims are regulated and organised within a collective employer framework, this could be described as a cartel strategy. In this context, then, an employer cartel is an organisation of employers that applies its cartel function or operates in accordance with an anti-competitive cartel strategy. The cartel function may be either active or inactive, depending largely on the current competitive situation in the labour market. This is strikingly similar to the traditional industrial cartels from the era when such groupings were legal in that they were usually organised in the form of trade associations.

The collective dilemma in the horizontal dimension could be described as a cartel problem. Wage negotiations put a price on labour. Contractual wage increases were generally considered more than adequate in relation to productivity and international competitiveness. Nonetheless, wage drift was generally as great or greater than the contractual pay rises. This was viewed during the period as the main problem facing Swedish industry, and combating wage drift was felt to be a matter of the utmost urgency. The employers tried to solve the problem in many different ways but failed miserably. The cartel strategy, involving centralisation and closer control, had no effect. Full employment led to labour competition and strong unions capable of pursuing policies on behalf of low-wage groups.

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<sup>26</sup> Sisson 1991.

<sup>27</sup> De Geer 1992: 62.

<sup>28</sup> Swenson 1992.

<sup>29</sup> Others, too, have emphasised the competitive dimension, see for instance Åmark 1986.

<sup>30</sup> Tolliday and Zeitlin 1991: 22.



Wage drift was partly a result of a deliberate wage policy among businesses. Recruitment, for instance, often meant paying new employees a higher wage. Also, when the lowest wages were raised, management often re-set the pay scale accordingly. They felt justified in doing so as they wanted to preserve the wage differentials between unskilled and skilled labour. This was not a particularly serious issue until the industrial crises of the 1970s, which coincided with record pay increases. In 1975, the contractual wage increase was just over 10 per cent, yet wage drift was still 7 per cent.

The wage drift issue touched upon a classic cartel problem. Companies competed with one another and the VF sought to regulate this competition. In order to solve the problem, collectively binding decisions were required, but the costs of establishing such a cartel would have been prohibitively high. What the VF could do was to try and raise consciousness and promote cohesion. At the same time, however, the engineering industry was divided on what powers to give the VF. The dividing line ran between centralisation and decentralisation. The outcome was a middle path: greater collaboration via 'central steering', which meant the VF organising at the local and regional level.

The VF's dilemma was also that while wage drift spelt economic trouble, it represented something that employers lauded in principle – the market principle. Consequently, they spoke in terms of rational wage drift that was to be based on productivity increases. This was a technical view of the market. The wage drift that the employers were contesting was based on the law of supply and demand: companies competing over labour.

As the VF saw it, the solution to this horizontal problem lay in what we refer to here as the vertical dimension – the decentralisation of bargaining and an expanded regional organisation combined with local collaboration.

## Consequences of organisational development

Organisations often make organisational changes. Does such organisational development have any important unforeseen consequences? In my view, development itself is often unforeseen. Here is an example. In the late 19<sup>th</sup> century, the Swedish Brewers' Association built up what was probably the best organised trade organisation of the day. The aim was to try and head off state regulation and taxes directed at the brewery industry. Although the brewers were remarkably well organised, the temperance movement in Sweden was stronger and won the ear of the politicians. The brewers' organisational ability, however, was not wasted. It was put to use in creating and running a nationwide cartel embracing virtually every brewery in the country. This cartel would subsequently have an important structural impact on the industry.<sup>31</sup>

In the present study, we consider whether organisational change brought consequences for the employer collective. Employer policy was centralised for much of the period under review. The SAF's power in the wages sphere was at its peak. Where regional or local organisations are small, there is often no alternative to central management. Decentralisation from central to local government, for instance, did not come about until Swedish municipalities had merged and acquired a particular size and level of proficiency. The move coincided with growing problems at the national level concerning information and administrative control.

One view found in the literature is that broader-based representation in the SAF reinforced conflicts of interest, and that this greater heterogeneity weakened the organisation.<sup>32</sup> I have shown here that the need for decentralisation was a result both of increased complexity and control problems. In the 1980s, the SAF was a much larger organisation than in the 1950s

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<sup>31</sup> Lundqvist 1995 och 1998a.

<sup>32</sup> Kuuse 1986: 210, De Geer 1992: 125.

when centrally coordinated bargaining began. As the employer collective grew, the VF found it increasingly difficult to make its voice heard.

By developing its organisation, building up its regional operation and enhancing local collaboration, the VF was able to go its own way. By 1983, it had grown much larger than in the 1950s. It could, of course, have broken away from the SAF without such organisational growth, but the question is whether it would have dared to do so. The question is hypothetical and difficult to answer. One thing is clear, however: having built up a larger organisation, the VF had developed such a degree of confidence and proficiency that its departure from the 'Swedish model' did not seem to represent much of a risk. Originally, organisational development had been an attempt to solve the wage drift problem.

In what way, then, was this development unforeseen? Full employment contributed to labour competition and an increasingly strong trade union movement. Employers began pursuing cartel policies to soften the impact. These policies were manifested in organisational changes, including the centralisation and coordination of wage negotiations. The outcome was disheartening. In response, a further organisational method was introduced, i.e. organisational development or growth. This involved broadening the SAF by bringing in non-affiliated employer organisations. At the same time, the organisations began recruiting smaller businesses. This organisational approach in turn produced a situation in which it was difficult to reach agreements that suited everyone. Smaller undertakings, in particular, felt neglected. As time passed, wage drift tended to increase. The VF's response was to introduce yet another organisational change. It expanded its regional and local operations and initiated local collaboration between members as a means of combating wage drift. This organisational process involved decentralisation and, in my view, represented an important step towards a new employer policy.

This new employer policy may be seen as a result of several different developments: the radicalisation of the LO and social democracy in the 1970s, the growing importance of the large engineering companies for the Swedish economy, and at the same time greater international competition, new production methods and new work processes. But the present study also shows that the internal development of the employers' organisations and policies is a key to understanding both why and when the changes occurred.

The VF strengthened its organisation significantly during the period. The employers were not weakened to the extent claimed in the literature.<sup>33</sup> Rather, it was a case of the unions growing in strength and acquiring greater influence, as shown by the employment legislation introduced in the 1970s. In organisational terms, professionalism became widespread among employers, especially in the VF. Decentralisation in an increasingly complex world involving negotiations with three equally competent partners – the union bodies representing blue-collar workers, white-collar workers and graduate engineers – imposed greater demands on the organisation than the bargaining at association level had done in the 1950s. The employers' increased organisational strength, therefore, enabled them to dismantle the central bargaining setup. This strength derived from an organisational development that largely grew out of a need to solve the competitive and collaborative problems associated with wage drift.

In my opinion, therefore, the study illustrates the close link between market mechanisms and institutional change in the form of organisational development or growth. The VF sought the solution to market problems in organisational change or development, and in the organisation of bargaining. The importance of past experience and organisational growth for the new employer policy, therefore, should not be underrated. As I see it, this organisational explanation goes a step further than the functionalist explanations that view the new employer

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<sup>33</sup> Kuuse 1986.

policy as simply a result of new needs arising out of the transformation of production and stiffer international competition.

The decentralisation and growing marketisation of wages that began in the 1980s and was accentuated in the 1990s is what I refer to as the new employer policy. We should bear in mind, however, that these ideas were not new. Individual companies complied with the laws of the market by competing over labour, in direct contravention of the collective cartel strategy. This led to wage drift. The new employer policy could therefore be described as formal adjustment to an informal system that had been operating throughout the post-war period.

## Conclusion

The way the labour market functions is a crucial factor in any analysis of the Swedish model. Full employment contributed to the growth of what were probably the two most important institutions in this model: centralised negotiations between the social partners and, secondly, the Rehn-Meidner model, involving pay policies based on solidarity with the low-paid. Here, we have examined the role of the employers in the rise, application and fall of the centralised bargaining model. In this respect, the Swedish Metal Trades Employers' Association (VF), the largest and most important employer organisation in the SAF, was the actor whose interests eventually led to the model's demise. The principal cause was discontent over the way this bargaining model worked in practice. The engineering industries felt their interests were being neglected in the giant employer collective. As the SAF swelled out, the relative influence of these industries declined, despite the fact that their relative importance for the Swedish economy was growing. In the early 1980s, they chose to break away from centralised bargaining and negotiate by themselves with their own partners. A few years later, the SAF followed suit and terminated its bargaining operation. One of the institutions of the Swedish model had thereby met its end.

Empirical investigations of the employer organisations' internal actions such as the one that the present article is based on are few and far between. The method used here, combining economic history with organisation theory, has been used to study the SAF but not the employer organisations. I would argue that the present study shows that the importance of the market mechanism for employer policy during full employment has been underrated. When full employment was present, companies competed over labour, which drove up pay, not least through wage drift.

For 30 years, the VF sought a solution to the problem of wage drift. Significantly, it began by helping to push through centralised bargaining in the 1950s. Thereafter, its principal antidote to wage drift was greater regional organisation and local collaboration between employers. For a long time, the cartel collaboration that came about as a result of full employment – at both SAF and VF level – yielded no benefits whatsoever in the form of reduced wage drift. When wage drift subsequently showed a tendency to decline towards the end of the 1970s, this was seen as a result of more extensive local and regional organisation. Competition and wage drift, it was felt, could be handled better through local collaboration than through large-scale collective action. This approach was not a total success, but instead – and unintentionally – the growth of regional organisation enabled the VF to break out of the centralised bargaining system that it had helped to create. It would thus be fair to say that the importance of organisation was unintended, and that full employment and labour competition were the principal catalysts.

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