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Transformed patterns of labor market governance occupy a central place in the study of contemporary West European political economies. Here, detailed analysis of the dramatic decentralization of wage bargaining in Sweden identifies organized employers, especially engineering employers, as the decisive agents of institutional change. We argue that the employer offensive should be understood as a response to a shift in power within old wage-bargaining institutions, introducing invasive regulation of firm-level pay practices and, at the same time, as a consequence of new flexibility-centered production strategies, giving rise to demands for more firm-level autonomy in wage bargaining. The exceptional features of the old Swedish bargaining and the particular needs of different sectors come into play as we seek to explain the mixed pattern of wage-bargaining changes across Western Europe.

LABOR MARKETS, PRODUCTION STRATEGIES, AND WAGE BARGAINING INSTITUTIONS

The Swedish Employer Offensive in Comparative Perspective

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Recent developments have brought the question of institutional change to the forefront of the research agenda of comparative political economists. In Western Europe, as elsewhere, dramatic changes in domestic politics

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have accompanied equally dramatic changes in internationally determined parameters of economic performance and policy making. It has become commonplace for students of West European political economy to speak of the decline of corporatism, that is, the decline of institutional arrangements for collaborative or tripartite governance of labor markets by representatives of capital, labor, and the state. Along with the profound transformations under way in the national and international governance of capital, product, and service markets, this development would appear to mark a major turning point.

This article treats the decentralization of wage bargaining in Sweden as a case study of institutional change. In the comparative political economy literature, Sweden has stood out as a paragon of institutionalized class compromise, and the system of centralized, economywide wage bargaining was, quite rightly, identified as the keystone of the Swedish system of corporatist market governance. However, this characterization of the Swedish case is no longer valid.

As we shall document, Sweden's powerful engineering employers began to push for decentralization of wage setting in the early 1980s, and they achieved what they wanted, in a fitful and conflictual process, by the early 1990s. At their insistence, the Swedish Employers' Federation (*Svenska arbetsgivarförbundet*; SAF) simply closed down its own bargaining and statistics departments in spring 1990. Because wage bargaining has been so important in the postwar Swedish political economy, its decentralization has altered the overall configuration of political-economic institutions. Decentralization has undermined the authority and political influence of the peak organizations of labor and capital, in turn changing the politics of economic policy making and of electoral mobilization. The campaign to decentralize wage bargaining in fact forms part of a broader business challenge to the postwar settlement (Pestoff, 1991). Advocating structural reforms—privatization, deregulation, and EC membership—leading Swedish businessmen renounced their old role in comanaging the Social Democratic welfare state in the 1980s. In 1991, SAF withdrew its representatives on the boards of state agencies in a highly publicized manner (see Ahrne & Clement, 1994).

Swedish employers have been able to play different union interests against each other in their efforts to reorganize wage bargaining, just as opponents of change have played employers off against each other. Although a comprehensive account of the decentralization of wage bargaining would have to deal with the motives and calculations of different union actors, in this article, we focus on employers because they have held the initiative and clearly have

been the principal agents of institutional change.¹ This is not a new development. Indeed, the system of peak-level bargaining that distinguished the Swedish model of the postwar era was, in large measure, created by SAF as a means to organize wage restraint (Swenson, 1989).

The future structure of Swedish wage bargaining remains contested and uncertain, but it is clear that the institutional preferences of the most powerful Swedish employers have changed. In what follows, we advance two explanations of the change in the institutional preferences of employers. Briefly stated, our first explanation is that long-term changes in the structure of employment altered the dynamics of centralized wage bargaining from the late 1960s onward by increasing the influence of actors sheltered from international competition—in particular, public-sector employers and unions. Export-oriented engineering employers perceived the resulting distributional outcomes of wage bargaining as rigid and heavy burdens that violated the centralized system's foundational and consensual norms of fair labor market governance. Violations set in motion insoluble compliance problems (wage drift, see below), whose spread was accelerated by institutionalized practices. From this perspective, the engineering employers did not abandon the model of wage bargaining that they had helped create in the 1950s; rather, they abandoned a new model that had emerged, over their objections, in the 1970s.

Our second explanation treats the campaign to decentralize wage bargaining as part of a broader effort by engineering employers to reorganize production in response to changes in technology and market pressures. New production strategies led these employers to assign greater value to wage flexibility than they had in the past. The wage rigidities inherent in centralized bargaining as it had evolved in Sweden thus became increasingly unacceptable to engineering employers.

Whereas the first argument suggests that old interests struggled against new rigidities, the second suggests that new interests clashed with old rigidities. At the same time, the two arguments share certain analytical premises, which can be summarily stated as follows:

1. In contrast to the recent emphasis on the institutional determinants of preferences among students of comparative political economy, both of the arguments that we advance invoke societal conditions, exogenous to the institutions of wage bargaining, to explain employer preferences and institutional change.

1. See Lash (1985) and Iversen (in press) for accounts of the decentralization of Swedish wage bargaining that assign a more prominent role to union actors. In previous work, we have challenged the conventional image of Sweden as the land where labor rules, see Pontusson (1984, 1992a) and Swenson (1991a).

2. In both arguments, the exogenous conditions that matter are material (economic) rather than cultural or ideological. In particular, we reject the idea that the growth of postmaterialist values constitutes a significant force behind the breakup of corporatist bargaining arrangements.
3. Both arguments reject simplistic class models of conflict and emphasize conflicts of interest within labor and capital. The first argument derives the impetus behind institutional change from a change in the distribution of power—not between capital and labor, but rather between various sectors of both—and the second treats the change in institutional preferences as a consequence of changing interests—again, within a heterogeneous class of employers.

We put each of these arguments to work in an attempt to explain distinct elements in the timing and evolution of the Swedish employer offensive. The argument about alliances and resulting distribution of power over centralized wage bargaining provides the most compelling explanation of the origins and initial phases of the employer offensive, but the production profile argument (cf. Gourevitch, 1986) explains better why the engineering sector's offensive has continued into the 1990s. Both arguments shed light on variations among employers in their institutional preferences and strategic behavior.

In our conclusion, we will consider the implications of our analysis of the decentralization of wage bargaining in Sweden for general theories of the decline of corporatism and show how our analytical approach might be extended to account for cross-national variations in the extent and nature of change in the institutional arrangements of labor-market governance.

THE SWEDISH SYSTEM OF CENTRALIZED WAGE BARGAINING

The concept of centralization captures what we might call the procedural dimension of the Swedish model of wage bargaining. The model always had a substantive dimension as well, with two major components: wage restraint and wage solidarity. Whereas wage restraint refers to the distribution of income between wage earners and employers, wage solidarity refers to the distribution of income among wage earners (and thereby the distribution of labor supply and wage costs among employers). The meanings of wage solidarity have changed over time, but they always implied boosting the relative position of low-wage workers. The well-known logic of the Rehn-Meidner model, elaborated by the *Landsorganisationen* (henceforth LO) research department in the early 1950s and tacitly accepted by leading employers, stipulated that this wage policy orientation would help to promote not only

income equality but also productivity growth (see Martin, 1984; Swenson 1989, 1992a).

A mutually recognized purpose of restraint in centralized wage bargaining was to help maintain the competitiveness of Swedish exports. Wage solidarity helped, too, for example, by holding back wages in the engineering and, for complex reasons, the construction sector (Swenson, 1991a). Accordingly, bargaining in the 1950s implicitly and later explicitly took account of the room for wage increases (*löneutrymmet*), which was in principle determined by objective criteria that unions and employers, both concerned about international competition, could jointly agree upon.² A more or less egalitarian allocation of allowable aggregate wage increases among different sectors would follow in accordance with the employers' interests in regulating competition over labor and maintaining competitiveness and union leaders' objectives in legitimating centralized control. The unions could sell restraint to impatient members by claiming credit for solidaristic redistribution, whereas the employers' organizations could sell redistribution to aggrieved members by pointing to the overall restraint achieved. On occasion, government pressure and inducements, and nonwage concessions by employers, were necessary to purchase union restraint.

The centralization distinguishing the Swedish model refers to *peak-level bargaining*, that is, wage negotiations between encompassing multi-industry confederations of unions and employers. In the private sector, SAF and its blue-collar union counterpart, LO, first became directly involved in wage bargaining during the World War II. After a few years' hiatus, LO and SAF resumed their role in wage bargaining in the 1950s. From 1956 to 1983, contracts signed by individual LO unions and SAF affiliates followed in time and content the overall settlement between LO and SAF. In the 1970s, bargaining cartels of public-sector unions and private-sector white-collar unions formed to create new arenas of peak-level bargaining for the rest of the economy. At each bargaining round, the two or more separate peak-level settlements tended to be closely patterned on each other (see Elvander, 1988).

In contrast to industry-level *contracts*, peak-level *agreements* were not legally binding but decisive nevertheless, for they indicated which demands LO and SAF would back up with their considerable resources in case of conflict at the industry level. Subsequent local bargaining at individual workplaces, required for implementation of the industry contracts, controlled actual earnings. Indeed, average increases determined at this tertiary level

2. This understanding of the external parameters of wage bargaining was formalized in the so-called EFO-model developed by union and employer economists in the late 1960s (Edgren, Faxén, & Odhner, 1970).

usually exceeded contractual provisions. This extracontractual "wage drift" typically counteracted both the redistributive and the restraining effects of centralization, providing a safety valve for distributive conflicts within the unions and for recruitment problems of companies short on manpower.

THE EMPLOYER OFFENSIVE

The substantive and procedural elements of centralized wage bargaining in Sweden were inextricably linked. Hence, when leaders of SAF's most powerful affiliate, the Association of Engineering Employers (*Verkstadsföreningen*; henceforth VF), decided to exorcize solidaristic wage policy, they gradually discovered they had to destroy the policy's host, centralization.³ VF's discontent can be traced at least as far back as the LO-SAF agreement of 1969, which stretched the norms of solidaristic redistribution beyond those that VF had originally bought into. The wage explosion of 1974-1976 added fuel to employer discontent when peak-level bargaining failed to deliver restraint and led SAF to adopt a much tougher, but ultimately ineffectual bargaining stance in the late 1970s.

The first breakthrough for employer advocates of institutional change came in 1983, when VF successfully enticed the Metalworkers' Union (*Svenska Metallindustriarbetarförbundet*; Metall, for short) to defect from peak-level bargaining. In exchange for concessions, VF offered Metall more than LO was asking (see below). SAF proceeded to negotiate with LO when its other unions insisted on peak-level negotiations. Two separate settlements for blue-collar workers in engineering and the other industries resulted. The next year, SAF joined VF, insisting that there be no peak-level bargaining. High industry-level settlements in 1984 fueled domestic inflation, however, and in 1985, the government intervened to orchestrate a peak-level income agreement capping industry-level and public sector contracts. The following year, SAF once more agreed to peak-level bargaining in the aftermath of Olof Palme's assassination, having advocated decentralization beforehand. But in 1988, SAF again insisted on industry-level negotiations only. The 1989 round looked like 1983 when VF and Metall negotiated separately, while rump SAF and the corresponding LO unions struck their own agreement. As in 1983-

3. The following, highly abbreviated account of wage-bargaining developments draws on Lash (1985), Elvander (1988), Ahlén (1989), Martin (1991), De Geer (1992), and Kjellberg (1992). It should be noted that VF merged with its sister association, *Mekanförbundet*, to form *Sveriges Verkstadsindustrier* in 1992. For the sake of clarity, we stick with the old acronym.

1985, these settlements proved quite inflationary, and the government intervened with a new incomes policy initiative in 1991.

In the early 1990s, critics of centralization became even more ambitious. They increasingly questioned centralized industry-level (multiemployer) bargaining, having now eliminated peak-level (multi-industry) bargaining. In 1993, SAF began advocating *coordinated decentralization*: Working time and other general terms of employment would be regulated at the industry level, whereas wage bargaining would occur at the firm level.⁴ Major engineering firms, most notably Asea-Brown Boveri (ABB), whose chief executive officer was chairman of VF, also began making partnership contracts (*medarbetaravtal*) at the firm level in 1991, encompassing white-collar and blue-collar employees and wage as well as nonwage issues (Kjellberg, 1992, pp. 132-136; Mahon, 1994). Because partnership contracts at the firm level would tend to clash with centralized contracts negotiated separately with blue- and white-collar organizations, employer interests in the innovation created incentives to drop centralized multiemployer contracts altogether.

Modest in their wage demands, the LO unions threatened in 1993 to strike if the employers insisted on company-level negotiations. The engineering employers' continuing campaign to decentralize wage bargaining was also resisted by forces within SAF and the government. In particular, employer associations representing small- and medium-sized businesses, but even larger employers in some sectors, expressed their deep concern that decentralization would intensify wage rivalries, disrupt production and trade, and fuel inflation. In the end, the engineering employers chose to avoid a confrontation and settled for an industry-level wage agreement with the lowest wage increases in more than 40 years.

From the early 1980s to the early 1990s, wage bargaining seesawed between peak-level and industry-level negotiations, but an apparently decisive shift occurred in the first half of the 1990s. Since 1993, peak-level bargaining is no longer a major issue; rather, the question of whether—or to what extent—industry-level negotiations will determine wage setting has emerged as the issue of contention between employers and unions. A realignment of forces within SAF precipitated this shift. The new SAF chairman, Ulf Laurin, an engineering employer himself, was appointed in 1989 to be a strong advocate of change. In 1990, SAF simply shut down its bargaining and statistics units; in 1991, the organization withdrew its representatives from most corporatist bodies. Although it rejected corporatism, SAF adopted

4. Commonly cited as a model by employer advocates of decentralization, a wageless industry agreement was signed by SAF's General Employer Group (Almega) and the Foremen's Union (SALF) in 1992.

a new role as public policy advocate. In a program adopted in 1990, entitled "Markets and Multiplicity" (SAF, 1990a), SAF paid no attention to issues of collective bargaining, shifting emphasis to broad political and ideological concerns. SAF's new look emphasizes the formation of public opinion and lobbying rather than negotiation with government officials and other interest groups in tripartite arenas.⁵

The abruptness of the shift toward decentralization in the first half of the 1990s should not be exaggerated. The peak-level wage bargaining that occurred in the mid-1980s, and again in 1991, was procedurally and substantively different from bargaining in the 1956 to 1983 period. For one thing, it was orchestrated by the government; indeed, there was no bargaining at all between LO and SAF leading up to the settlement proposed by a government-appointed commission in 1991. Second, the peak-level settlements of 1985-1986 and 1991 focused on aggregate wage increases, omitting customary details about the distribution of wage increases within sectors and firms, and the parties to industry-level bargaining abandoned their customary no-strike/lockout commitments even after the peak-level agreements were signed. It should also be noted that industry-level agreements became significantly less restrictive after 1983, leaving more flexibility in the allocation of increases at the local level. Already in the period 1983-1988, these developments were accompanied by a significant widening of wage differentials among blue-collar workers (see Hibbs, 1990).

Although the future structure of Swedish wage bargaining remains contested, the institutional preferences of the most influential Swedish employers have clearly changed, and their new posture precludes a return to past practices. The change is most obvious in the case of the engineering employers, especially the large, export-oriented engineering firms dominating VF. Because it is the largest SAF affiliate, VF holds a large, but not always decisive, share of power in internal SAF politics. Other employer groups figure importantly in the story of the employer offensive, but because our ambitions are explanatory, we focus on the question of why the engineering employers have changed so radically.⁶ There is a genuine puzzle here, for these same employers actively contributed to the building of centralized wage bargaining institutions. For export-oriented engineering employers, the original centralization of bargaining institutions, including authority relations within SAF and LO, represented a means to contain militancy and wage

5. This reorientation began during the wage-earner funds debate of 1978-1982, see De Geer (1992, chapter 16).

6. See Pontusson and Swenson (1993) for a more detailed discussion of internal SAF politics.

pressures in sectors of the economy that were sheltered against international competition, and whose effects spilled over onto others in the form of wage and other cost increases and labor shortages. In the 1950s and 1960s, engineering employers and even SAF affiliates from low-pay sectors favored centralization and solidaristic wage policy as a means to manage union whipsawing and interfirm and intersectoral competition for labor in tight labor markets (De Geer, 1986, chapters 8-10; Swenson, 1991a, 1993).

Clearly, labor market conditions alone cannot provide an adequate explanation of the engineering employers' decentralization campaign, for it spans two very different business-cycle phases. The slackening of labor markets during the recession of the early 1980s might have meant that the engineering employers no longer needed LO's help to achieve wage restraint. However, their campaign continued unabated—indeed, became more aggressive—during the boom in the second half of the 1980s, when labor scarcity returned with a vengeance. Having responded to tight labor markets and inflationary pressures by imposing peak-level bargaining on the unions in the 1950s, they responded under similar conditions by imposing more decentralized forms of wage bargaining in the 1980s.

There can be no doubt, however, that the employment crisis of the early 1990s played a crucial role in the final abandonment of peak-level bargaining.⁷ First, mass unemployment weakened the bargaining position of the unions, especially the bargaining position of the low-wage unions that stood to lose, in relative terms, from decentralization. On the other hand, the employment crisis allayed employer concerns that decentralization would fuel wage-push inflation, and thus it served to galvanize the employer community behind the engineering employers' campaign to reorganize wage bargaining.

As Iversen (in press) argues, the Swedish experience of the 1980s suggests that “decentralization is difficult to reconcile with cost competitiveness as long as the government pursues full employment policies.” From the very beginning, the employers' campaign to decentralize wage bargaining was accompanied by their insistence on macroeconomic policy changes—public spending cutbacks, restrictive monetary policy, and a hard-currency stance—and the ultimate success of this political offensive during the period of

7. Incredibly, the rate of open unemployment rose from about 3.5% at the end of 1991 to more than 8% at the end of 1994, with an additional 6% to 7% of the labor force in government programs. Over the same period, the rate of labor force participation declined from 84% to 77%. Altogether, some 500,000 jobs were lost in the first half of the 1990s—an employment contraction of about 12%.

bourgeois coalition government (1991-1994) sealed the fate of peak-level bargaining.

Changes in macroeconomic policy enabled employers to pursue decentralization in a more consistent and decisive manner, but why did employers want decentralization in the first place? By their own account, employer advocates of decentralization want to achieve two basic things (cf. SAF, 1987, 1990b; VF, n.d.). First, they want wage differentials between export-oriented and sheltered (including public) sectors to rise in order to secure an adequate supply of motivated labor to export-oriented sectors. Second, they want employers to be able to use wages as a means to stimulate employee commitment within firms and thereby stimulate quality improvements and productivity growth. Our puzzle reappears in new form: Why have these arguments become so compelling to engineering employers at this particular time? In other words, why didn't such considerations lead engineering employers to oppose peak-level bargaining all along?

SHIFTS IN POWER AND POLICY WITHIN FIXED INSTITUTIONS

Our first explanation of the campaign to decentralize wage bargaining characterizes it as the engineering employers' response to evolving pay distribution practices within the unchanging structural shell of centralized bargaining. The three-tiered system of wage bargaining established in the 1950s initially provided engineering employers with a mechanism to achieve both wage restraint and wage flexibility. Through the 1960s, LO-SAF agreements did little to disturb wage distributional patterns within private-sector firms and sectors. The peak agreements allocated aggregate increases across sectors, whereas the intrasectoral distribution could proceed more or less as the parties to industry-level and firm-level bargaining wished.

From 1969 onward, however, peak-level bargaining became increasingly invasive in intrasectoral and intrafirm pay setting. Solidaristic wage policy evolved in ways that violated the distributional principles to which the employers had originally agreed, principles that harmonized well with broadly consensual notions of fair competition in labor markets over scarce manpower. As such, the engineering employers' revolt in the 1980s was in part one of old interests against new rigidities. In other words, the engineering employers did not abandon the Swedish model they had helped set up in the 1950s; rather, they abandoned a newer model that had been imposed upon them by a new alignment of forces in the 1970s.

The new invasiveness of peak-level bargaining imposed two major nuisances, according to engineering employers: *interoccupational leveling* and *wage drift compensation clauses*. Pressure for interoccupational wage compression within firms came mostly from Metall's leadership in response to pressure from low-pay members and their militant advocates. Intersectoral leveling, they argued, gave them nothing, for it only held metalworkers' wages back and did not reduce inequalities among them. Meanwhile, inter-occupational compression was gathering steam in the public sector, whose unions gained the right to strike in 1965. Against a pliant Social Democratic employer front, and supported by a severe shortage of labor, especially of women, public-sector unions forced through a more radical solidaristic wage policy in the wage round of 1971. Extra boosts negotiated routinely outside the private-sector bargaining system for low-pay government workers powerfully aided low-pay workers in Metall in the coming years.

Against VF's better judgment, the SAF leadership in the 1970s caved in to demands for intrafirm, interoccupational leveling, hoping to avoid strikes and lockouts. Provisions for interoccupational leveling first introduced in 1969 in fact hit the engineering employers hardest. More militant and facing a comparatively wide wage spread in its sector, Metall was more inclined to pursue interoccupational leveling than other private-sector LO unions. In the 1970s, other unions routinely chose not to push the matter as far, for the peak-level provision was formulated as a default option to come into effect only when unions and employers failed to agree on other distributional principles in their subsequent industry-level negotiations. That other employers were able to escape peak-level invasion into intrafirm pay distribution effectively isolated and neutralized VF on this matter in SAF's internal politics.⁸ Had other employer groups not been given slack by their respective unions, the entire story would have been different.

Whereas interoccupational wage leveling was imposed on the engineering employers in 1969, VF leaders themselves initiated the thinking behind wage-drift compensation, or so-called earnings development guarantees, their other major irritant. However, another alignment of forces thwarted their efforts to get rid of them later. In 1966, VF proposed that anticipated wage drift (extracontractual increases over the contract period) should be calculated as part of the costs of wage agreements, so that those who expected wage drift (especially in engineering, where piecework and related drift were

8. This conclusion comes from a close reading of the verbatim minutes of SAF board meetings and joint conferences of the secretaries of SAF associations in the 1970s. The impassioned pleas of VF leaders seemed to fall on indifferent ears, as other participants voiced understanding but voted to accept the agreements anyway. See also Larsson (1985, p. 378).

common) would accept lower raises. At the same time, those who got little or no drift (many workers outside engineering) would accept comparable agreements, resting assured that they would be compensated retroactively for some portion of the drifting groups' improvements.

The idea was to lower overall negotiated agreements by conceding in principle and in advance the right of groups outside engineering to parity in wage developments, so that they did not insist on high agreements in anticipation of others' wage drift. Other groups within SAF resisted the idea of wage-drift guarantees, but government mediators were at once smitten by the idea and for years to come pushed wage-drift guarantees on labor and employer negotiators to hasten agreement.

Whether or not wage-drift guarantees worked as intended, VF turned against them when the guarantees spread to the growing white-collar and public-sector bargaining units outside the LO-SAF arena. Manual workers in engineering resented white-collar groups riding on their wage drift, which they regarded as a result of increased productivity, especially due to incentive pay systems. Consequently, they insisted on higher negotiated increases relative to what was negotiated for white-collar unions, a demand already legitimated by solidaristic wage policy. Public-sector workers, especially at the low end of the pay scale, were also becoming "pay parasites," and because solidaristic wage policy was accepted by social democratic government employers, they were also getting extra-high increases for the sake of approaching parity with the private sector (Swenson, 1991b). Intended to neutralize one source of inflationary wage rivalry within the private, blue-collar sector, wage-drift guarantees unintentionally unleashed other, more powerful wage rivalries across sectors.

Interoccupational leveling and wage drift guarantees within and outside the LO-SAF arena combined to produce disaster, according to engineering employers (Treslow, 1986, pp. 59-60). Compression of wages from below—imposed from above—forced individual employers to stretch out the pay scale at the top in firm-level negotiations or allow piecework earnings to drift upward to compensate high-pay workers for loss in relative pay. When skilled workers pushed for these compensatory differential-maintaining increases in local bargaining, employers wishing to preserve the managerial and recruitment advantages of wider pay scales frequently conceded. Compliance, in other words, with the centralized system's efforts to restrain wages suffered. Collusion and defection at this level would then register as wage drift and set in motion another round of demands for compensation outside the engineering sector. Interoccupational leveling imposed from above thus produced extra wage drift and launched the inflationary wage-wage spiral boosted by the wage-drift guarantees. For engineering employers as a whole, the choice

was between increasing rigidities on management at the microlevel or high inflation at the macrolevel.

In sum, the original solidaristic wage policy of centrally negotiated interindustry wage leveling (extra increases from below, restraint above) within the private sector helped legitimate centralized union confederation control and restraint of the bargaining process, something engineering employers favored. Chronically tight labor markets in Sweden during World War II and after had helped generate among evolving employers norms of fair competition over manpower that were well served by centralized bargaining and leveling across sectors and within sectors (Swenson, 1991b). Class relations stabilized on the basis of centralized bargaining, and a largely consensual solidaristic wage policy caused employers to demobilize politically, thereby strengthening the Social Democrats' hold on political power. Their hold on power allowed them to expand the welfare state and foster strong public-sector unions. These unions, in turn, together with growing white-collar unions in the private sector, extended the principles of solidaristic wage policy in ways that ultimately generated new inflexibilities and inflation. Unfortunately for engineering employers, the egalitarianism of intersectoral leveling that they endorsed inspired and legitimated strong pressures for *intrafirm* and *intersectoral* leveling, bringing intolerable rigidifying and inflationary consequences.

Isolated against an alliance of unions ready to drag all employers in SAF into a conflict in support of the new peak-level policies, and with government mediators and employers pressuring VF to accept what Metall and LO were prepared to strike for, VF caved in begrudgingly for over a decade of wage rounds. In internal SAF debate, VF leaders expressed increasing indignation and outrage at the turn of events. But other employers in SAF were relatively unhurt by the new policies, and government employers endorsed them; neither wanted to assume the costs of conflict that a return to the old norms would entail. Seeing the initial distributional terms of centralization violated by this alliance, engineering employers finally sought decentralization to dismantle the institutions that housed the alliance. Ironically, they were able to wield enough power to destroy the institutions, but not to control them from within.

NEW PRODUCTION STRATEGIES AND CORPORATE PAY PRACTICES

Changes in the sphere of production also help explain the employer offensive against centralized wage bargaining and solidaristic wage policy.

Like engineering employers elsewhere in the advanced industrial countries (Piore & Sabel, 1984; Streeck, 1987, 1991), and unlike Swedish employers in some other sectors, Swedish engineering employers felt compelled to pursue *diversified quality production* or *flexible specialization* in the manufacture of high value-added, internationally tradable consumer durables and producer goods. This applies especially to Fordist mass producers such as Volvo, Saab-Scania, and Electrolux, but also to smaller-batch manufacturers of electrical, telecommunication, and mechanical engineering products, such as Asea-Brown Boveri (ABB), LM Ericsson, and Alfa-Laval. To improve productivity, flexibility, and quality, and therefore competitiveness in international markets, both of these groups discovered a need for more discretion in the use of wage incentives than the centralized bargaining system allowed.

As capital costs have increased since the mid-1970s, firms have also become increasingly concerned with efficient and flexible use of machinery and reductions in the amounts of money tied up in inventories and unfinished products, which in their view required new strategies for managing and rewarding labor. Teamwork became one such strategy, requiring pay policies flexibly tailored to the worksite. No hard data exist, but many examples cited in the literature suggest that such innovations have spread rapidly throughout Swedish manufacturing industry and especially engineering since the mid-1970s. Volvo's innovation strategy, for one, relies largely on worker skills and initiative in group settings (see Berggren, 1992; Pontusson, 1992b).

The decline of traditional incentive pay practices, which dovetailed with centrally negotiated contracts, substantiates the association between technological and managerial changes and Swedish engineering employers' institutional preferences regarding wage bargaining structures. International comparisons of the postwar period up to about 1970 put Sweden at the top in terms of the use of payment-by-results systems (International Labor Organization [ILO], 1951, pp. 81-88; Organization for Economic Cooperation and Development [OECD], 1970, pp. 42-43). In the 1970s, however, incentive pay began to lose favor among employers, and a drastic decline of piece-rate schemes took place. According to a SAF survey, piece-rates covered 12% of working hours of manual labor in 1985, as compared to 33% in 1970 (SAF, 1986). In the 1980s, while traditional piece-rates continued to decline, new forms of incentive pay spread rapidly. According to a 1991 survey, 55% of Metall's membership received some form of payment by results, usually composed of a basic fixed component, with a personal supplement and bonuses determined by the performance of work teams or larger corporate units (Svenska Metallindustriarbetarförbundet, 1992). Also, all the leading engineering firms, and others, introduced various profit-sharing and convertible-debenture (loan *cum* stock option) schemes for blue-collar as well as

white-collar employees in the 1980s (see Elvander, 1992, pp. 48-54; Kjellberg, 1992, pp. 108-109; Sköldebrand, 1989, 1990).

In Sweden, traditional incentive pay served three purposes. First, it reduced monitoring costs, especially for a country where foremen are heavily unionized and therefore less loyal to management and where tight labor markets have made the costs of "shirking" low. Second, it reduced Swedish workers' resistance to rationalization from above, because incentive pay provided at least an illusory sense to the affected workers that they could through wage drift reap the returns to productivity increases (and not share them with others via redistributive wage policy). Finally, drift resulting from incentive pay allowed engineering employers to pay a premium to metalworkers in a kind of "efficiency wage" strategy for maintaining commitment and reducing turnover. Wage drift kept many engineering workers perpetually one step ahead of where they would be if contracts alone determined earnings.

In part, engineering employers moved to more fixed hourly wages and even monthly wages in the 1970s because centrally negotiated wage-drift clauses accelerated the spillover of wage growth from the engineering sector to low-productivity growth sectors. This was inflationary and it undermined engineering employers' efficiency wage advantages. The incentive effect on output was possibly also reduced for individual workers on piece-rates, because they would benefit from wage-drift guarantees even if their piece-work earnings did not grow.

Equally important, whereas traditional incentive pay had been designed to buy acceptance of unpleasant working conditions and production changes imposed from above, it did little to encourage long-term and spontaneous commitment, flexibility, and innovation rising from below. These qualities in workers, after all, were needed for diversified quality production, which requires active participation in generating new production techniques for new products, not just passive acceptance of new production techniques for old products.

Some of the new incentive schemes of the 1980s probably represented evasive action against interoccupational leveling and wage-drift compensation in central wage agreements and against payroll and income taxation. The benefits that employees derive from such schemes are not included in official wage statistics and cannot be used to justify solidaristic adjustments and drift compensation. In this regard, centralized bargaining provided an incentive, not a problem for such practices. On the other hand, to the extent that centrally negotiated wages, even at the industry level, absorbed a large share of available company income, less would be available for the new incentives. The same would hold true for other innovations in company pay practices.

Technological changes blurring the old lines between blue-collar and white-collar labor in engineering also weakened engineering employers' support for centralized bargaining. Increasingly, skilled workers began programming as well as monitoring computerized machinery, therefore invading white-collar territory (cf. Nilsson, 1988). The number of CNC machine tools per 100,000 employees in the engineering industry increased from 80 in 1968 to 761 in 1976 and 2,218 in 1984; the number of robots in the engineering industry increased from 430 in 1984 to 677 in 1987 (Edquist & Glimmel, 1989). This new technology created the opportunity and imperative to use in-house training, pay increases, and job enlargement to create career pathways (job ladders) to reduce the turnover of skilled employees who know their company's facilities and needs.⁹ Employers also responded with firm-level partnership agreements (see above) for both blue-collar and white-collar employees. Centralized bargaining for the entire private sector, carried out separately with LO for manual workers and PTK and white-collar workers, was difficult to reconcile with firm-based pay schemes harmonizing manual and nonmanual remuneration with training and promotion schemes tailored to the workplace.

New technology-related problems in coping with high labor turnover among skilled workers pushed Swedish engineering employers toward decentralized bargaining in other ways as well. Increasing corporate investment in human capital led to an intensified search for solutions to Swedish industry's chronic turnover problem. The increased effort in the 1970s to improve the quality of industrial work was a groping response to the problem of turnover and absenteeism within the constraints of centralized solidaristic wage bargaining—to reduce turnover without increasing wages and therefore wage drift (Pontusson, 1992b).¹⁰ Later efforts included exploration of the usual efficiency wage (high-wage) and deferred payment (e.g., seniority-based) schemes common in segmented, dualistic labor markets. The system of centralized bargaining proved hostile to such things—even the employers' own confederation had suppressed them (Swenson, 1991b, 1992b).

9. The need for career pathways was repeatedly stressed at the SAF congress of 1987, which resolved that employment conditions for blue-collar and white-collar employees should be the same and that "the outmoded concepts of worker and employee (*tjänsteman*) be abandoned and replaced by the concept of coworker (*medarbetare*)" (SAF, 1988, p. 96).

10. Unions played a relatively small role here: Ideas about work humanization implemented as part of the new production strategies of the 1980s were, in large measure, articulated by SAF's campaign to promote "new factories" in the 1970s, a campaign that SAF conceived as a means to preempt or deflect the labor movement's codetermination offensive. See Schiller (1988, chapter 10).

Furthermore, engineering employers claimed that carefully designed wage incentives were necessary to elicit active worker participation in company-based training in skills required by the new technology. Although employers' Fordist tendencies had to some extent reduced their need to invest in worker skills, enhanced the substitutability of workers, and therefore rendered companies relatively immune to turnover, now sophisticated fixed and human capital investments increased employer sensitivity to turnover. According to surveys carried out by the Central Bureau of Statistics, the proportion of the entire labor force that had participated in some form of training during working hours in the previous year increased from 27% in 1975 to 36% in 1979 and 46% in 1986. The proportion participating in *employer-paid training* increased from 23% in 1986 to 32% in 1989 for the labor force as a whole, and from 21% in 1986 to 27% in 1989 for the engineering industry (SCB, 1990).

The timing of the employer offensive against centralization represents a problem for the production-profile argument developed here. Engineering employers in fact began to call into question the system of centralized wage bargaining in the early 1970s, well before they more than dimly understood the need for wage flexibility as a feature of new production strategies. Therefore, the argument set out in the previous section provides a better explanation of the origins of the employer offensive.

On the other hand, this argument cannot account for the continuation and radicalization of the employers' decentralization campaign through the late 1980s and into the 1990s. In the course of the 1980s, the locus of wage bargaining shifted to industry-level and firm-level negotiations, and the provisions for interoccupational leveling and wage-drift compensation against which the engineering employers initially rebelled were in large part dismantled. If the engineering employers had only wanted to do away with these provisions, their offensive should have stopped at this point. In short, an adequate account of the employer offensive requires us to employ both the production-profile argument and the institutional argument. The two arguments help explain different aspects of the employer offensive.

VARIATIONS AMONG SWEDISH EMPLOYERS

Powerful forces within SAF stalled the engineering employers' offensive against centralized wage bargaining and solidaristic wage policy. One general reason has already been given: the default or escape clause regarding interoccupational leveling that other employers used, with their unions' compliance. There were other, more industry-specific reasons as well, for example in the

commercial and retail service sector organized by the Commercial Employers' Association (*Handelns Arbetsgivarorganisation*; henceforth HAO). HAO was the most persistent opponent of decentralization and the second-largest SAF affiliate after VF, employing 14% of SAF members' entire labor force in 1980, compared to VF's 25% (Kuuse, 1986, p. 151).

Tensions between VF and HAO began when VF questioned HAO's admission to SAF in 1965. Confirming its fears, VF subsequently learned that HAO's growth and representation in SAF meant that "it became increasingly difficult for the engineering industry to gain a hearing within SAF for its arguments that it be the pacesetter in pay increases" (Treslow, 1988, p. 12). HAO's decision to join SAF had been guided by larger department stores and grocery chains that wanted to be included in centralized bargaining. HAO members and negotiators took their cues from the egalitarian pay patterns and trends from the public sector, which was similarly sheltered from international competition and competed for the same service-sector labor.¹¹

In the mid- and late-1970s, HAO proved to be, along with representatives of other important home-market sectors like construction, the most averse to frontal collisions with LO about the wage issues pinching engineering employers' feet. For one thing, HAO's employers had to compete for low-pay labor with the sheltered public sector, where upward compression of wages was being forced by militant public-sector unions. HAO was therefore the target of LO's selective strikes—in 1977, for example—when the outcome of LO-SAF negotiations hung on settlements in the public sector (Andersson, 1977, p. 97; De Geer, 1989, pp. 213-216, 232-233). Second, it was hard to convince HAO members to lock out workers and customers, both of whom could cross the road to Konsum and PUB, parts of the huge cooperative movement outside of SAF and friendly to the Social Democrats (Ehrenkrona, 1991, p. 273).

Finally, the sector was relatively indifferent to centrally imposed solidaristic wage policy, despite its low wages. "HAO and other so-called home-market associations [have] completely different opportunities for compensating themselves with price increases for rising wages," according to SAF chairman Laurin (Olivecrona, 1991, pp. 19-20). Cartel arrangements, legal and legion in the sector, facilitated shifting costs to consumers. Labor and capital colluded in this affair: between 1974 and 1980, clauses in LO-SAF agreements committed both unions and employers in home-market sectors to joint lobbying for relaxation of government price controls to accommodate their concessions to solidaristic wage policy. Because these groups were not

11. HAO's long-standing commitment to centralized bargaining is noted by De Geer (1989, p. 271) and documented by De Geer and Zetterberg (1987, p. 81).

constrained by prices set in the international markets, but by politicians, VF leaders objected (De Geer, 1989, pp. 186, 192, and 243).

All along, HAO leaders believed that centralized wage bargaining guaranteed their members acceptable, and possibly even lower wages despite solidaristic wage policy—and without strikes. Peak-level bargaining remained a source of security for the big retail employers dominating HAO, who had sought shelter in SAF in 1965. Too weak to stand alone against unions in decentralized negotiations, HAO members hitched a free ride on VF's efforts to impose overall restraint at the central level (interview with Olof Ljunggren, SAF's executive director 1978-1989, June 28, 1991).

The contrast between VF's views and those of the SAF's fifth-largest affiliate, the Forest Products Association (*Skogsindustrieförbundet*) is also instructive. Like engineering, the forest-product sector (lumber, pulp, and paper) is highly export dependent—indeed, more so than many engineering industries. Dependence on export markets and the importance of price in these markets severely restricts the ability of forest-product employers to pass on wage increases to consumers. Despite these shared concerns with VF, however, the Forest Products Association advocated “strong central negotiations and restrictions on local freedom of action” through the 1980s (De Geer, 1989, p. 131).

Compared to engineering, the forest-product industry worried less about wages as a management tool and as a cost of production. First, the costs to managerial control of interoccupational leveling was less than in engineering, because employers in this quintessential process industry, generating mass quantities of highly standardized products, did not require new production strategies requiring wage flexibility to the same degree.¹²

Second, the forest-product industries have from the beginning tended to be more capital intensive and became even more so since the 1960s. Therefore, wages as a share of production costs have declined, and the industry has been able to afford premium wages to unskilled as well as skilled employees. From a cost standpoint, the imposition of wage solidarity was a matter of indifference or even immediate advantage for forest-product employers, because lower pay workers, whom there were relatively few, got the higher increases, and the higher pay workers were held back.

Also, capital intensity rendered forest products more vulnerable to industrial conflict than engineering. The costs of shutting down the flow of pulp and paper in a sympathy lockout with VF would have been great, more so because SAF's compensation to firms for lockout losses are determined

12. Even the LO union in the sector did not, at least early on, use the leverage made available in the LO-SAF agreements to force interoccupational leveling, as Metall did.

according to the number of workers employed, not fixed capital costs. Buyers, moreover, of the industry's standardized products could quickly find new suppliers. Overall, then, forest-product employers felt more protected from industrial conflict within existing arrangements than within a more decentralized system and used their influence to block VF's attempts to mobilize SAF for action against solidaristic wage policy.

In sum, our arguments about the engineering industry's peculiarly intense response to the buildup of rigidities within centralized wage bargaining and its distinct need for increased wage flexibility created by new production strategies are consistent with evidence about why other key employer groups, motivated by market considerations, opposed VF's offensive.

THEORETICAL IMPLICATIONS AND CROSS-NATIONAL COMPARISONS

The Swedish case of institutional change in the governance of labor markets speaks directly to the literature on corporatism and its decline. The best thinking on the matter can be found in recent articles by Wolfgang Streeck and Philippe Schmitter, who provide a cogent package of explanations for the phenomenon (Schmitter, 1989; Streeck, 1993; Streeck & Schmitter, 1991). They identify three sets of corrosive developments wearing away at corporatism generally and, by strong implication, centralized wage bargaining. First, Streeck and Schmitter attribute the decline of corporatism to a political transformation in European nations. Fiscal crises, monetary instability, and economic interdependence have "severely limited the ability of national governments, acting individually, to maintain full employment by Keynesian methods and deliver their part of the neo-corporatist social contract" (Streeck, 1993, p. 83). Also, "budget constraints combined with the fiscal crisis of the welfare state sharply curtailed the government's ability to offer unions compensation for restraint in collective bargaining" (Streeck, 1993, p. 83; cf. Streeck & Schmitter, 1991, p. 145).

Second, Streeck and Schmitter invoke changes in social structure and culture, such as the shift of employment to the service sector, the growth of white-collar and female employment, increasing ethnic heterogeneity and individualization in lifestyles and norms. As the social cohesion of the working class eroded, Streeck (1993) argues, unions found it difficult to transform special member interests into general demands and policies. During the 1970s and 1980s, "the substantive content of interest conflicts and the focus of policy attention shifted away from class-based lines of cleavage

toward a panoply of discrete issues focusing on consumer protection, quality of life, gender, environmental, ethical, and other problems" (p. 84).

Finally, like us, Streeck and Schmitter (1991) link the decline of corporatism to changes in the organization of production associated with the decline of Fordism, suggesting that "both unions and employer associations are today finding themselves increasingly shut out of an expanding range of workplace-specific deliberations and bargaining between their local constituents." Meanwhile,

Fragmentation of demand and flexible technology offered firms and their managements a range of choice unknown in the worlds of Fordism and Taylorism, not least of which was the choice between relatively low-wage, low-price mass production and high-skilled, high-wage, more or less customized, quality production. (Streeck & Schmitter, 1991, p. 147)

To the extent that they bear on centralized governance of labor markets, the first two of these arguments are problematic on several counts. To begin with, their diffuse general emphasis on changing structural conditions tends partially to obscure the interests and strategic calculations of the decisive collective actors involved in corporatist bargaining. To the extent that they nevertheless implicitly recognize the importance of strategic actors and instrumental motivations, the explanation for the decline of corporatism strikes us as too labor-centered. In Streeck and Schmitter's framework, governments must "deliver" Keynesian and other policies as their part of the bargain to purchase cooperation of the social partners; by implication, unions are the spoilers. They, after all, are the ones seeking such rewards for cooperation. Cooperation breaks down then because governments fail to gain concessions from labor with policy inducements. The Swedish experience clearly demonstrates that this model does not apply and that attention and analysis should be refocused.

Divisions among Swedish employers on centralization also cast considerable doubt on Streeck and Schmitter's idea that changes in social structure and attendant political culture bear much responsibility for the breakdown of corporatism, at least in Sweden. Individualistic, environmental, gender, or other nonclass or postmaterial issues did not pit members against unions, union against union, union against state, or union against employers in any way that brought decentralization. Metalworkers' motives for joining engineering employers were good old-fashioned material ones, as together they left the centralized arrangement in 1983. Employers' desire for increased wage flexibility had to do with the character and costs of their new technology and market pressure for greater flexibility and productivity rather than with workers' changed mind-sets regarding work or hierarchical authority. The

fact that opposition to decentralization came from HAO, whose members employed a far higher proportion of white-collar and service personnel than manufacturing, the host of more class-oriented values, also casts doubt on the sociological explanation tracing the decline of corporatism to the decline of the blue-collar manufacturing workforce. Opponents of decentralization in SAF have held out against it longest in the white-collar sector generally, even in manufacturing and not just in retail and other service sectors. If their workforce was more postmaterial, then either such employers were more responsive to economic factors, or there is little connection between employee values of this nature and collective bargaining.

By contrast, the arguments advanced by Streeck and Schmitter about the need for diversity and flexibility in production are consistent with our interpretation of the Swedish experience. On the other hand, the strength of the argument is undermined by recent research showing that perhaps the Swedish experience is unique. According to Lange, Wallerstein, and Golden (1995), there is little evidence of a generalized trend toward more decentralized wage bargaining in Western Europe. They code six corporatist countries on a 6-point scale ranging from "industry-level bargaining without coordination" to "peak-level agreement with a ban on subsequent bargaining at the industry or local level," finding that only in Sweden and Denmark has the locus of wage bargaining shifted downward since the late 1970s. The Norwegian and Finnish cases are characterized by the absence of any secular trend; in Germany and Austria, there was no change at all.

Lange et al.'s (1995) analysis suggests that the need for flexibility, which we, along with Streeck and Schmitter, argue is a general, international phenomenon, cannot explain decentralization in Sweden, because it has not had the same effect elsewhere. In other words, their analysis suggests that some of the explanations of Swedish employer behavior that we have advanced are misguided because they rely on independent variables that are not sufficiently idiosyncratic (Sweden-specific). Why hasn't the apparently universal shift to more flexible production strategies led to employer-initiated wage-bargaining decentralization throughout the OECD countries?

To begin with, we do not believe that the Swedish case is as exceptional as Lange et al. suggest. In secondary sources, Katz (1993) finds significant shifts toward lower levels of bargaining in five out of six cases: in Australia, Italy, Sweden, the United Kingdom, and the United States, but not in Germany. For France, Howell (1992) presents quantitative data demonstrating a steady decline in the number of firms covered by industry-level agreements, and the concomitant growth of firm-level agreements in the 1980s.

Furthermore, we believe that Lange et al.'s denial of any "uniform trends" rests on an overly formalistic or procedural index of wage-bargaining cen-

tralization. The existence of a peak-level agreement alone does not provide a very meaningful measure of the degree of actual centralization in pay determination. We cannot truly measure centralization without some information about the substance of agreements struck at different levels, which may change as the apparent structure of bargaining remains the same.

In Sweden, for example, peak-level agreements in the 1980s and 1991 did not reverse the trend toward decentralization of wage formation. As we have seen, peak-level agreements became less invasive and restrictive over time. Similarly, in Germany, Katz's one odd case, Thelen (1991, 1993) demonstrates that plant- and firm-level bargaining has become increasingly important even though the formal structure of collective bargaining has been unchanged since the late 1970s. Implementation of reduced working hours in Germany since 1984 illustrates most clearly the trend toward decentralization within a formally stable institutional framework. Although industry-level agreements have included guidelines for working hour reductions, they left the exact terms and forms of reductions to be determined in plant-level negotiations, producing wide variations across plants and firms.

We question Sweden's exceptionalism with the observation that it has moved with a general trend toward more flexible wage setting within varying institutional frameworks. However, we find our analysis fully consistent with the cross-national variations in the evolution of those frameworks described by Lange et al. (1995). For example, we would argue that new production strategies have led German as well as Swedish engineering employers to introduce new pay systems and, generally speaking, to upgrade the value assigned to wage flexibility relative to wage restraint. The German system of collective bargaining was more decentralized to begin with, and could more readily accommodate new employer interests. In other words, German employers did not have to challenge the existing procedural framework in order to achieve the substantive changes they wanted.

The contrast between Sweden and Austria is perhaps more interesting than the one between Sweden and Germany, because the Austrian system of wage bargaining has long involved a high level of centralized coordination. The Austrian case is striking in that centralized wage bargaining has not involved any sustained effort by the unions to compress wage differentials. In fact, the wage gap between poorly and highly paid blue-collar workers is greater in Austria than in any other European OECD country (Rowthorn, 1992, pp. 91-92). Clearly, wage compression does not represent a serious problem for Austrian employers.¹³

13. See Iversen (in press) and Pontusson (1994) for further discussion of the contrast between Sweden and Austria.

In short, some centralized wage-bargaining arrangements are more flexible and accommodating than others, and therefore less vulnerable to employer challenge. The contingent nature of the process of strategic learning and the political struggles surrounding institutional change represent a second source of cross-national variations. In some cases, employers may have pursued institutional change but failed to achieved their objectives—or may have shied away from an all-out offensive in the expectation that it would fail.

For these reasons, similar changes in the social and economic context may produce different institutional outcomes in different countries. Cross-national variation in the politics of institutional change may also be related to variations in the extent and nature of institutionally exogenous material changes. In some countries, most notably Sweden, public employment grew much more rapidly than in other countries in the 1960s and 1970s, and public policies helped empower public-sector unions (cf. Swenson, 1991b). It stands to reason that the shift in balance of power associated with these developments was more pronounced in Sweden than in most countries.

The same type of argument can be made with respect to new production strategies and changing employer interests. As the Swedish case suggests, the imperatives and opportunities to reorganize production on a more flexible basis are particularly strong in engineering industries. Employers in more capital-intensive process industries have had less incentive to challenge centralized wage bargaining. The fact that the latter sectors (energy and forest products) represent a larger component of organized capital might explain why Lange et al. (1995) find that Norway and Finland have not experienced sustained employer campaigns to decentralize wage bargaining to the same extent as Sweden and Denmark.

Such considerations also bear on the contrast between Sweden and Austria, for the kind of export-oriented engineering firms that spearheaded the Swedish employer offensive are far less prominent in Austria.¹⁴ The Austrian case thus represents a mirror image of the Swedish case: On the one hand, centralized bargaining has not produced the same wage rigidities in Austria and, on the other hand, Austrian employers have not been under the same pressure to reorganize production.

14. The principal characteristic of Austrian industrial structure is its bifurcation into a sector of small firms producing light consumer goods and a sector of large capital-intensive firms (see Katzenstein, 1984).

CONCLUSION

Viewing the Swedish case through comparative lenses suggests that exogenous material changes are a major source of employer preferences for institutional change. However, it also shows that these forces, though international, do not work their way evenly across countries, bringing a uniform demise of corporatism and centralized bargaining. The industrial structure varies across countries; different sectors, including the public sector, respond differently to changing external market and technological forces. Therefore, change in the structure of national bargaining systems, built and maintained by distinct cross-class and cross-sectoral coalitions, will also vary.

From a comparative perspective, Sweden is distinguished, on the one hand, by its large, export-oriented engineering sector in manufacturing and, on the other, by its large public sector. Until recently, it has also been distinguished by a particular kind of centralization, defended by a distinct coalition of interests and by government mediation, that imposed unusually invasive demands on engineering. The engineering sector was therefore the key agent in bringing about change.

Engineering employers' institutional preferences for decentralization derived from material preferences for flexibility. These primary needs were being ignored by centralization's coalition of interests and forces, including those emanating from the public sector, even as engineering manufacturers' perceived need for flexibility increased through the 1970s and 1980s. The institutions manifestly failed to mold and therefore adapt engineering's primary preferences to the rigidities they imposed, just as they themselves failed to adjust adequately to the urgent, exogenously determined preferences of engineering employers. Unable to regain flexibility within the framework of centralization, a conceivable if not politically feasible objective according to our comparative analysis, engineering employers ultimately succeeded in dismantling the system instead.

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