

# Sweden: Transition through collective bargaining

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## **A. Introduction**

### *Basic features of industrial relations*

A basic feature of Swedish industrial relations, which partly explains why the system looks the way it does and without which it would not work, is the very high rate of unionisation. In spite of a decline in union membership during the last decade, trade union density is still over 80 per cent. This is true also for university graduates and public employees, who started to form their own trade unions in the 1930s. Today, trade union density is higher in the public sector than in the private sector.

Another characteristic is that Swedish employers have accepted collective bargaining and collective agreements as instruments for the regulation of working life since the first decades of the twentieth century. In fact, until the 1970s, terms and conditions of employment for employees in the private sector were regulated almost exclusively through collective agreements. From 1974 onwards the legislator introduced a number of laws, and the balance between agreements and legislation was altered. Nevertheless, collective agreements are still the predominant source of norms influencing the contents of individual employment contracts. Furthermore, apart from individual contracts, they are the only instrument for regulating pay. There is no minimum wage legislation in Sweden; both trade unions and employers have always been strongly opposed to the idea that the state should take responsibility for pay determination.

A third characteristic is that the system of industrial relations and collective bargaining encompasses all wage-earners, whether white-collar or blue-collar workers or employed by public or private employers. With few exceptions, they are all covered by uniform labour legislation. Unlike in many other countries, no specific statutory rules apply to white-collar workers in contrast to blue-collar workers. Civil servants are subject to some specific legislation, but the main principles follow the general labour law pattern.

A fourth characteristic – one which may contribute to an understanding of the recent development of collective bargaining practices as described below – is the climate of cooperation on the labour market. In Sweden, trade unions and employers' associations in general recognise each other's interests: for example, the trade unions have always had a positive attitude to technological change and other measures that could increase productivity.

Finally, in spite of some remarkable recent exceptions, industrial relations in Sweden are generally characterised by a high degree of collective autonomy and non-intervention by the state. When trade unions and employers agree to regulate matters themselves, normally government does not intervene.<sup>1</sup>

## **B. Industrial relations in Sweden**

### *Bargaining structure*

There are three major confederations on the trade union side: one for blue-collar workers (Swedish Trade Union Confederation, LO), one for white-collar workers (Swedish Confederation of Professional Employees, TCO) and one for professional/graduate employees (Swedish Confederation of Professional Associations, Saco). The confederations are made up of national trade unions, organising workers in a specific industry or occupation. These trade unions, in turn, consist of regional and/or local trade unions, the latter often tied to a particular company. Usually, there are three local trade unions with their own collective agreements present at each workplace – one for each confederation. As they have different membership criteria, they normally work in peaceful co-existence, although there are cases in which they compete to organise the same workers, for example in sectors in which the distinction between blue-collar and white-collar work is becoming less and less discernible.

Among the confederations, only LO concludes collective agreements. TCO and Saco have never had that role. Instead, trade unions affiliated to TCO and Saco have joined forces in cartels established specifically for collective bargaining. Examples of such cartels are the Federation of Salaried Employees in Industry and Services (PTK) and the Public Employees' Negotiation Council (OFR/SPO).

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<sup>1</sup> Two deviations from this tradition occurred during the 1990s. In 1993 the Conservative Government forced through an amendment to the Employment Protection Act which nullified certain collectively agreed restrictions on fixed-term contracts. In 2001 the Social Democrats modified the same act with the effect that provisions in collective agreements that obliged employees to retire before the age of 67 were invalidated. In both cases, Sweden was criticised by the ILO committee on freedom of association.

There are some small unions outside the confederations, and some of them conclude their own collective agreements. In practice, however, they cannot compete with the dominant unions.

The vast majority of private employers are affiliated to the Confederation of Swedish Enterprise (Svenskt Näringsliv, former SAF). It consists of sectoral associations (*förbund*) organising employers within a specific branch of the economy.

For public employers there are three large organisations: the Swedish Agency for Government Employers (Arbetsgivarverket), the Swedish Association of Local Authorities (Kommunförbundet) and the Federation of County Councils (Landstingsförbundet). Since local authorities and county councils to a large extent employ the same categories of employee, such as nurses, doctors, and so on, the Association of Local Authorities and the Federation of County Councils have regularly negotiated jointly. As from 2005 they will merge and establish one joint organisation.

The Swedish collective bargaining system is often described as highly centralised. However, that is only partly true.

Collective bargaining takes place at three levels:

1. National, intersectoral agreements are concluded by confederations on both sides or, on the trade union side, by a bargaining cartel. However, as a general rule, confederations and cartels do not have a mandate to conclude directly binding agreements. Thus, these agreements do not enter into force until the competent bodies of the individual affiliates have adopted them.

From 1956 to the early 1980s, centrally coordinated negotiations at this level led to the conclusion of wage agreements for the whole private-sector labour market. Even after they had entered into force, they were not immediately applicable to individual employment contracts, but formed a framework for negotiations at sectoral level, where more specific implementing provisions and other terms and conditions than pay were agreed. However, in 1983, the Engineering Employers' Association and the Swedish Metalworkers' Union broke out of the coordinated negotiations and concluded a separate wage agreement. In the following bargaining rounds attempts were made to revive the centrally coordinated negotiations, but in 1990, the Swedish Employers' Confederation finally decided not to negotiate on wages and general terms of employment any more. Thus today, few issues, primarily labour market insurance, are negotiated at this level. A fresh example is the agreement on redundancy support between Svenskt Näringsliv and LO. It provides for a

number of instruments that can be used to help blue-collar workers to find new jobs and to support them financially in case of redundancy.

2. National sectoral agreements are negotiated by national trade unions representing workers in a certain sector or a specific occupation and by sectoral associations on the employers' side. This is where agreements on wages and other terms of employment are concluded today. Such "central" agreements exist for all sectors of the economy. Thus it is estimated that 94 per cent of Swedish employees are covered by collective agreements.

3. "Local" collective agreements are negotiated between the individual employer and the "local" trade union, that is, the company trade union branch or the regional trade union body. These agreements run parallel with, and complement, the "central" sectoral agreements. For example, sectoral agreements normally presuppose that the wage rises agreed at sectoral level are to be distributed to individual employees through negotiations at local level. However, the local trade unions also have the capacity to conclude legally binding collective agreements on any other issue that concerns the relation between employer and employee, as long as they act within the boundaries drawn up by law, superordinate collective agreements and the sectoral trade union's rulebook.

Accordingly, as we have seen, wage negotiations take place both at central and at local level, and that was true even in the days of centrally coordinated wage negotiations. Thus, while the system was extremely centralised in one sense, local trade unions regularly negotiated with the employers and often managed to get a substantial extra rise for their members in addition to the centrally agreed increases.

This relative strength at both levels is another feature that is significant for the functioning of the Swedish system. The position of the local trade unions is consolidated by the Workplace Union Representatives Act of 1974, which grants local trade union representatives time off for trade union activities – without deduction from their wages insofar as these activities concern the employer's own business.

Collective bargaining with a view to reaching a new collective agreement on wages (and other terms and conditions of employment) is classified as negotiation on *issues of interest*. However, local and central negotiations also play a very important role in the resolution of *disputes of rights*, that is, when the trade union questions the employer's interpretation of an existing collective agreement or a statutory provision. For example, if a worker has been dismissed and the trade union thinks that the dismissal is contrary to the Employment

Protection Act, the case cannot be brought before the Labour Court until the trade union and the employer have tried to settle the dispute through negotiation. Normally, such negotiations must take place at both local level and, if the local negotiations fail, central level. In fact, most disputes of rights are settled through this mechanism. The settlement is often a compromise, where, for example, the employer pays substantial damages to the worker on condition that he or she accepts the dismissal, even though it may have been unjust.

### **C. Legal framework of collective wage formation**

#### *Private law approach*

Although the right and freedom for trade unions and employers to take industrial action is guaranteed in the Swedish constitution, collective bargaining rights are not.

The legal framework concerning collective wage formation is based consistently on private (contract) law principles. The rules on collective bargaining are enshrined in Medbestämmandelagen, MBL (“the Codetermination Act”).

It is easy to form a trade union and acquire collective bargaining rights. There are no formal registration or recognition requirements. Any association of employees that, according to its rulebook, has as its objective to safeguard the interests of employees in relation to the employer is a trade union in the legal sense. As such, it has a right to bargain with a view to reaching a collective agreement. Employers have a corresponding duty to enter into negotiations, although they are not obliged to compromise or conclude agreements.

There are still comparably few statutory restrictions on the bargaining parties, although the provisions on mediation were made somewhat more stringent in 2000: for example, there are no rules on ballots on the results of collective bargaining or before a decision to take industrial action.

As long as the “old” collective agreement remains in force, the parties bargain under a peace obligation. If either party plans to take industrial action after the collective agreement has expired, it must give seven workdays’ notice, both to its opposite party and to the National Mediation Office. Trade unions and employers’ organisations for the private sector are entirely responsible for the scale of industrial action. In other words, no principle of proportionality applies. Since 1965, public employees have had the right to bargain collectively and conclude collective agreements on roughly the same footing as private employees. A few special provisions on industrial action exist, but even government officials

have the right to strike for better pay. There is no legislation restricting strikes in essential services. However, both in the public and in the private sector, trade unions and employers' organisations have concluded basic collective agreements (of an indefinite duration) that complement the statutory rules, and in which they undertake not to resort to industrial action that threatens the public interest.

If trade unions and employers have difficulty reaching agreement, they can ask the National Mediation Office to appoint mediators to help them resolve the dispute. Before 2000, this was entirely the parties' own decision. Today, the Mediation Office can appoint mediators without the consent of the parties when it considers that there is a risk of industrial action, and summon them to a "mild" form of compulsory mediation. In addition, it can impose a cooling-off period of 14 days when either party has announced that it intends to take industrial action. In the end, however, the parties decide for themselves whether they will accept any settlement that the mediators propose.

#### *Concept of "just wages"*

According to Article 4.1 of the European Social Charter (ratified by Sweden), member states undertake to ensure workers' right to "fair remuneration". The expression "fair remuneration" or "just wages" can be understood in two ways: (i) in terms of the concept that it is not decent to pay a worker below a certain limit, or (ii) in terms of a concept relating to wage structures, to the factors that determine who is to be paid less and who is to be paid more.

Since pay is exclusively a contractual issue in Sweden, the concept of "fair" or "just" pay is not defined in legislation. However, the fact that collective agreements are generally accepted as instruments for wage setting can in itself be seen to indicate that there is a concept of "just wages", even if it is not explicit. The content of that concept depends on the values underlying the collective agreement. This means that it may differ from time to time and from one collective agreement to another. One principle that has been consistently upheld, however, is that irrespective of an enterprise's economic situation, it must pay the minimum wage stipulated in the applicable collective agreement.<sup>2</sup> A fundamental idea underlying the

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<sup>2</sup> Some examples: the Agreement between the Swedish Metalworkers' Union and the Swedish Association of Engineering Employers for 2004–2007 stipulates that the minimum wage for workers who have reached the age of 18 is SEK 13,500 (EUR 1,471) per month. According to the collective agreement between the Municipal Workers' Union and the Swedish Association of Local Authorities for 2003–2004, workers who have reached the age of 19 must be paid at least SEK 13,000 (EUR 1,417) per month. According to the collective agreement between the Union of White Collar Workers in Industry and the Swedish Industrial and Chemical Employers' Association for 2004–2007 a full-time employed worker shall have at least SEK 12,970 per month as from 1 April 2004, SEK 13,260 as from 1 April 2005 and SEK 13,600 as from 1 April 2006.

solidaristic wage policy pursued by LO for decades was that companies that could not afford to pay the collectively agreed minimum wage should be closed down. The courts also use the collective agreement for the sector concerned as a standard in cases where workers not covered by a collective agreement call for judicial adjustment of unreasonable conditions in their employment contracts.

One could also say that a concept of what is “fair” or “just” indirectly emerges from collective agreements to the extent that they lay down what factors shall be considered when individual wages are set. Another way of putting it is that pay differences must be justified on objective grounds if they are to be “just”.

### *Legal effect of collective agreements*

According to MBL, a collective agreement is binding on the signatories and their members. In other words, the employer (as party to the agreement or as a member of the signatory employers’ organisation) and the members of the signatory trade union are bound in relation to each other. However, the employer is not bound in relation to workers who are not members of the trade union, and there is no general non-discrimination principle which guarantees non-organised workers the same terms and conditions of employment as trade union members. This does not mean that the collective agreement does not affect the conditions of non-unionised workers. First of all, the employer is obliged to apply at least its *minimum* conditions to non-unionised workers. This does not follow from legislation, but it is an obligation towards the trade union, implied in the collective agreement itself and with the purpose of preventing low-wage competition. Secondly, unless otherwise agreed in the individual employment contract, all *general* provisions in the collective agreement have normative effect for the non-unionised workers. This follows from case law and applies irrespective of whether these provisions are favourable or unfavourable for the workers.<sup>3</sup> A special case is where legislation – for example on employment protection – allows for derogations from statutory provisions in collective agreements. In these cases, employers are normally entitled to apply such agreements to trade union members and outsiders alike.

Accordingly, if the employer is bound by a collective agreement, outside workers have to submit to its general terms and conditions even if they disapprove of them. On the other hand, they are also entitled to all benefits that follow from the general provisions of the collective

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<sup>3</sup> Jonas Malmberg, “The collective agreement as an instrument for regulation of wages and employment conditions”, in Peter Wahlgren (ed.), *Stability and Change in Nordic Labour Law*, Scandinavian Studies in Law 43, Stockholm Institute for Scandinavian Law (Stockholm, 2002), p. 205.

agreement. However, a non-unionised worker cannot claim every advantage that follows from trade union membership. As we will show later in this chapter, Swedish collective agreements today contain few *general* rules on wages: collective agreements that decide exact wages for different types of work or specific categories of employee hardly exist any more. To an increasing extent, the sectoral agreements simply establish a framework for negotiations at local level, at which only a small proportion of wage increases are defined in general terms – for example, as a minimum guarantee for every worker – while the rest is distributed on the basis of *individual* factors. In these cases, workers who are not members of the trade union are entitled only to the minimum guaranteed amount.

In consistency with the Swedish private law approach, there is no mechanism for extending the binding force of collective agreements and giving them *erga omnes* effect. The issue was brought to the fore during the 1990s, for example when the EC Directive (96/71) on the posting of workers within the framework of the provision of services was implemented. However, neither the trade unions nor the employers are in favour of such an extension mechanism. This means that there is no statutory guarantee that foreign employers who post workers in Sweden have to pay their employees according to Swedish standards, not even in the building sector. Instead, the trade unions use their traditional means – industrial action if needed – to force these employers to sign Swedish collective agreements for their posted workers.

Once a collective agreement is concluded, its normative provisions are automatically incorporated in employment contracts. These normative provisions are mandatory: employers and employees bound by a collective agreement cannot make individual agreements that conflict with it. This follows from statutory law. Since most collective agreements set a minimum standard, conditions that are more favourable for the worker are normally in accord with the collective agreement. However, should an employer and a worker agree on inferior terms and conditions, the agreement is void.

In the case of employers bound by collective agreements, workers' participation and information and consultation rights are channelled through the trade unions. Thus, apart from European works councils in international groups, there are no parallel structures for workers' representation at the workplace, which means that competence conflicts like those between trade unions and works councils in Germany do not occur.



### *Enforcement of collective agreements*

Finally, some rules have particular significance for the enforcement of collective agreements. If a trade union thinks that an employer is not applying the wage provisions of a collective agreement correctly, the MBL gives the trade union a priority right of interpretation. This means that the employer is obliged to comply with the trade union's interpretation and to pay the workers accordingly, at least until the dispute has been settled. In other words, it is for the employer to bring the case to the Labour Court if it does not accept the trade union's interpretation. A similar provision gives the trade union a priority right of interpretation if there is a dispute about the purport of the employees' duty to work according to the collective agreement. Also, trade unions have the authority to act on behalf of their members before the Labour Court. Thus, disputes concerning the rights of individual trade union members that cannot be settled through local and central negotiations are tried in court, without the worker having to take any financial risk.

Another mechanism that indirectly promotes adherence to collective agreements is the trade union right of veto when the employer plans to engage an outside contractor to carry out certain work instead of letting its own employees do it. If it is reasonable to assume that the contracting out will contravene legislation, a collective agreement applying to the employer or the contractor, or generally accepted practice in the industry concerned, the trade union can exercise its right of veto. As a consequence, the employer is prevented from realising its plan, provided that the veto is not unjustified.

### **D. Current challenges**

During the last decades of the twentieth century, wage costs in Sweden increased more than in other western European countries. According to leading economists, collective agreements were inflationary: for example, many of them contained "catch-up guarantees" which ensured the employees pay rises corresponding to increases in other sectors in which there had been wage-drift while the agreement was still in force. Other clauses guaranteed an extra wage rise if the retail price index increased above a given limit. As a result, real wages in fact fell, although nominal wages rose considerably. In the general debate, this was explained by malfunctions in the system of collective bargaining. Part of the criticism was directed at the provisions on industrial action. It was too easy – and too cheap – to go on strike, it was argued: trade unions were able to cause much harm at low cost to themselves by bringing only a small number of members in key positions out on strike.

During the same period, unemployment rates increased beyond anything experienced in Sweden during the post-war period. Also, it was perfectly clear that Sweden would have to bring inflation down as it prepared to join the European Union: according to prevailing economic theories, it would not be possible to reduce unemployment unless wages were kept at a “European” level.

In parallel with this development the employers, notably SAF (and its successor Svenskt Näringsliv), pursued the decentralisation of collective bargaining and deregulation with neo-liberal overtones. SAF’s decision on 2 February 1990 to finally opt out of the centrally coordinated wage negotiations had been in the pipeline for several years. In ICT and other “new” sectors there was a tendency for employers to break with Swedish traditions and not apply collective agreements at all. One employers’ organisation even introduced a new form of membership which made it possible to be a member without being bound by the collective agreements that the organisation concluded. However, apart from attacks on the right to strike, which of course is an indispensable building block in the collective bargaining system, SAF/Svenskt Näringsliv never seriously called into question the legislative framework as such. It concentrated on achieving change within the collective agreement system.

The aim of efforts towards decentralisation of collective bargaining on pay has been twofold: (i) to limit total wage costs and (ii) to change wage structures.

Withdrawal from centrally coordinated negotiations was a first step that would serve to reduce total wage costs, since the employers always have to pay something at each bargaining level, SAF argued. Thus, bargaining at three levels inevitably raised costs. However, it is not enough to move from bargaining at national inter-sectoral to sectoral level. Wages determined at sectoral level do not take sufficient account of the individual company’s economic situation. Therefore, ideally, wages should be set at company level.

With regard to the wage structure, the employers pointed to the fact that work in modern companies is organised in a way that gives the individual employee wider scope of action than in traditional manufacturing industry. To a greater extent than before, employees can decide for themselves how to perform their tasks as more and more businesses practice management by objectives. Consequently, the character of work varies with the worker and his or her competence and results. This, the employers argued, called for a new wage policy. Catch-up clauses and clauses that lay down pay minima, guarantee a certain rise for everyone or afford extra money for low-wage earners are simply no longer relevant. Collective agreements must

provide room for individual wages that stimulate workers to develop their competences and improve their results. Wages should not be seen simply as remuneration for work, but as a productive factor.<sup>4</sup>

These challenges would have threatened the collective bargaining system if it had not reacted adequately. The Government demonstrated a firm resolve to take control, if necessary by legislative measures, should wages continue to increase above what was seen as responsible in relation to society as a whole. However, it would not be Sweden if the labour market parties had not in the end averted the threat of legislation by voluntarily imposing restrictions on themselves, even if it was “a conversion on the way to the gallows”. This has happened repeatedly in the history of Swedish industrial relations, and, as we shall see below, this is what happened this time too.

This adaptation to new realities also led to a significant change in the contents of collective agreements, in response to the employers’ calls for decentralisation and individualisation of wages.

## **E. Reactions of the state, social partners and enterprises**

### *State intervention*

Since the 1980s, both social democratic and conservative governments had demonstrated increasing discontent with the outcome of wage negotiations. In the early 1990s, the government started to deviate from the traditional attitude that the state should not interfere with the pay determination process. Its most dramatic move came on 8 February 1990, six days after SAF had decided to withdraw from the central coordinated negotiations once and for all, and in the middle of mediation in the negotiations for the whole municipal sector, a lockout of all employees in the banking sector and wild-cat strikes among employees at social insurance offices. The Social Democrat Government presented a parliamentary bill in which it proposed a two-year general wage-freeze, a two-year moratorium on industrial action for the labour market as a whole and a considerable increase in the damages to be paid by individual employees who violated the peace obligation. The prohibition on industrial action would enter into force after one week. However, the bill was rejected by Parliament and the government had to resign.

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<sup>4</sup> Göran Trogen, “Löneavtalen – norm för kostnadsbegränsningar eller grund för lokal och individuell lönebildning?”, in *Tretton perspektiv på lönebildningen* (National Mediation Office, 2003).

In the subsequent bargaining round, the new government tried to influence the actual contents of wage agreements by appointing a group of experts – the so-called Rehnberg group – to “assist” labour market organisations in negotiations.<sup>5</sup> In the 1993 bargaining round, the same experts were appointed as mediators, and they continued to pursue the so-called policy of stabilisation.

#### *Changes in the organisation and procedure of bargaining*

Governments were not alone in worrying about the outcome of the bargaining rounds of the 1980s and the first half of the 1990s. Both employers and trade unions were increasingly aware of the fact that wage agreements were part of the problem in the Swedish economy. Among other things, a number of attempts were made to establish a new, common “norm”, a formula for defining what wage-cost increases the economy could stand.<sup>6</sup> However, it is difficult for a trade union leader to convince his or her members that they should seek only moderate wage increases, unless he or she is sure that other unions will impose the same restraints on themselves. Thus, from a trade union perspective the solution lies in centralisation and coordination of bargaining. However, as already mentioned, the employers’ strategy went in the opposite direction. It may have been the recurrent government attempts to intervene in the bargaining process and the “threat” of legislation, combined with a severe setback for the employers’ strategy in the bargaining round of 1995, that finally brought a number of private employers’ associations to accept a return to coordinated collective bargaining, albeit in a completely new form.

Among SAF’s affiliates, the most ardent advocate of decentralisation of collective bargaining, even down to company level, was the Engineering Employers’ Association. Its bargaining offer to the Metalworkers’ Union in the 1995 bargaining round was a bold move: the central agreement should lay down a peace obligation and terms and conditions of employment other than pay, but nothing else. Thus wages, including the size of the minimum wage, should be left entirely to negotiations between the individual employer and the local trade union branch – under a peace obligation. In addition, none of the provisions in the central agreement should be mandatory, but subject to adaptations at company level. The employers also wanted to negotiate on deviations from the provisions of the Employment Protection Act. The Metalworkers’ Union responded with an overtime ban. However, in the middle of this

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<sup>5</sup> Nils Elvander and Bertil Holmlund, *The Swedish Bargaining System in the Melting Pot. Institutions, Norms and Outcomes in the 1990s* (Arbetslivsinstitutet, 1997), pp. 17ff.

<sup>6</sup> On the Swedish debate on wage norms, see Nils Elvander and Bertil Holmlund, *The Swedish Bargaining System in the Melting Pot. Institutions, Norms and Outcomes in the 1990s* (Arbetslivsinstitutet, 1997), pp. 52ff.

dispute, another of SAF's affiliates, the Employers' Federation of Swedish Forest Industries, concluded a collective agreement with the Paper Workers' Union, which guaranteed at least 3.8 per cent in both 1995 and 1996. To cut a long story short, this made it impossible for the engineering employers to achieve an agreement that gave the metalworkers less. However, while the agreement was well within the limits of what the forest industries could afford, it was too expensive for the engineering industry. A public quarrel between the two employers' associations broke out. The engineering employers accused the forest industries of breaking employer solidarity. The latter responded that they had acted in accordance with the policy of non-coordination advocated by the engineering employers.

Several other sectors were also bargaining in 1995, and the year was characterised by strikes and lockouts. At the beginning of 1996, the Government invited the confederations on both sides to propose reforms of the system of collective bargaining and wage formation, if possible jointly, before the end of March 1997. The engineering employers' offensive had triggered off a new spirit of cooperation on the trade union side. For the first time, blue-collar and white-collar unions in the metal industry joined forces to defend national sectoral agreements. Now, they involved the other trade unions in the industry and invited their counterparts on the employers' side to talks. On 18 March 1997, eight trade unions representing all three confederations and 12 employers' associations affiliated to SAF announced that they had concluded a "Cooperation Agreement on Industrial Development and Pay Determination".<sup>7</sup>

The agreement – also known as the Industry Agreement – covers the whole of Swedish manufacturing industry and carries on the Swedish tradition of cooperation and mutual understanding between trade unions and employers. In the preamble, the parties state that there is a long tradition of bipartite cooperation in the different industries at both industry and company level, and that they wish to build on this foundation and establish practises for stronger, trust-based joint endeavours in the future. Thus the object of the agreement is to

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<sup>7</sup> Parties to the agreement on the trade union side are the Industrial Union, the Swedish Food Workers' Union, the Swedish Metalworkers' Union, the Swedish Paper Workers' Union, the Swedish Forest Workers Union, the Swedish Wood Industry Workers' Union (all affiliated to LO), the Swedish Trade Union for White-Collar Workers in Industry (TCO) and the Swedish Association of Graduate Engineers (Saco), and on the employers' side the Almega Industrial and Chemical Association, the Employers' Association of Swedish Building Material Manufacturers, the Employers' Association of Swedish Mine Owners, the Employers' Association of the Swedish Food Industry, the Federation of Swedish Forestry and Agricultural Employers, the Employers' Association of the Upholstery Industry, the Employers' Association of the Swedish Steel and Metal Industry, the Employers' Federation of the Swedish Forest Industries, the Swedish Engineering Employers' Association, the Swedish Employers' Federation of Welding Engineering, the Employers' Association of the Swedish Wood Products Industry and the Swedish Textile and Clothing Industries Association

promote “industrial development, profitability and competitiveness”, which will “provide the necessary conditions for reducing unemployment as well as the foundation for a healthy wage development, and good conditions for employees in other respects”.

The agreement consists of two parts. In the first, and most substantial, part the parties to the agreement describe the conditions under which Swedish industry is working and express a number of common views on what is needed to maintain a strong competitive position. Among other things, the parties note that economic policy has changed and price stability has been given a higher political priority. This makes it possible to give employees higher real wages, although nominal wage increases are lower than in the past. Consequently, improvements in real wages can be brought about without adverse effects in terms of high interest rates and erosion of competitiveness. The parties also conclude that the competitive strength of Swedish industry is based on a high level of competence among its employees and on production processes and products that are among the very best in their fields. Here, the determination and drive of its employees to tackle new tasks and to develop their competence are key factors. Apart from the factors under the control of the parties themselves, the agreement also brings up a number of issues that are in the hands of the government, such as the need to safeguard the supply of electricity at competitive prices (as Swedish industry is highly dependent on electricity) and the funding of research and development that meets the needs of industry.

In order to realise the agreement’s objectives, the parties established a committee – the Industry Committee – consisting of leading representatives of the organisations concerned, and an Economic Council comprising four independent economists. The task of the Industry Committee is to monitor and promote the application of the agreement and otherwise to address issues with a view to creating stable conditions for Swedish industry and its employees. It also has specific functions during actual collective bargaining rounds, which will be described later. The task of the Economic Council is to make comments and recommendations on economic issues, when asked by negotiating parties, the person acting as an impartial chair during negotiations or the Industry Committee. The Industry Committee itself does not meet very often, but has set up a number of working groups at which the parties meet regularly. Here they discuss issues of mutual interest such as energy supply, research and development, education, the organisation of production, and so on, and try to reach common positions in order to influence government policy.

The second part of the agreement deals with actual wage negotiations. As before, collective bargaining on wages and other terms and conditions of employment takes place at sectoral level. Thus each trade union still concludes its own collective agreement. However, the agreement lays down a completely new procedure for collective bargaining, promoting constructive negotiations with a balanced outcome, without either party having to resort to industrial action.

The underlying principle is that new collective agreements on wages and other terms and conditions of employment shall be reached before current agreements have expired, which means that there will be no room for industrial action: as already mentioned, the parties bargain under a peace obligation as long as the current agreement is in force. Thus, the Industry Agreement contains a number of mechanisms intended to force the parties to start negotiations earlier than before and to continue them assiduously. Another novelty in Swedish industrial relations is that the parties have agreed to ask outsiders – impartial chairs – to assist them.

The new bargaining procedure means that negotiations shall begin at least three months before the current agreement runs out, with the parties putting forward their demands. After that, additional demands may be presented only if it had not been possible to present them earlier. If no new agreement has been reached one month before the current agreement runs out, an impartial chair appointed by the Industry Committee shall enter into the negotiations on his or her own initiative and, within the limits of the agreement, do what he or she deems necessary to conclude the negotiations in due time. The role of the impartial chair under the Industry Agreement differs from that of a traditional mediator. First of all, whereas a traditional mediator is appointed to a specific dispute when negotiations have already broken down, the new impartial chairs have an ongoing mission, which means that they are informed of and follow the negotiations “from a distance” from the moment the parties present their demands. Thus, they are already well versed in the controverted issues if the bargaining parties turn to them for help. Secondly, the task of an impartial chair is to help the parties reach not just any agreement, but an agreement in which due consideration is given to its effects on the national economy and employment, and which serves to maintain or improve the industry’s competitiveness and increase workers’ real wages. In order to achieve that, the impartial chair can ask the Economic Council for its opinion and set out his or her own proposals. He or she can also postpone industrial action for 14 days. If, nevertheless, industrial action cannot be avoided, all retroactive demands become void. In addition, the

Industry Committee can prescribe that the action be temporarily suspended if the negotiations would thereby benefit.

The parties also agreed that these procedural provisions would apply instead of the statutory provisions on mediation, which, at that time, were entirely voluntary. In fact, the Industry Agreement gives the Industry Committee and the impartial chairs more far-reaching powers than those of the National Mediation Office and state mediators. However, it is the negotiating parties' own system.

It is no exaggeration to say that the Industry Agreement created a sensation. Some commentators greeted it as a modern counterpart of the historic Saltsjöbaden Agreement. Furthermore, in light of the private employers' call for decentralisation of collective bargaining, the Industry Agreement implied a retreat. However, it was far from a step backwards to the old type of centrally coordinated negotiations in which agreements were concluded at cross-sectoral level. Under the Industry Agreement collective bargaining on wages and other terms and conditions of employment takes place at sectoral level, and ultimately each trade union and employers' association is sovereign. At the same time, negotiations are coordinated voluntarily, in the sense that the total cost is about the same as for agreements for different sectors. This coordination is facilitated by the assessments of economic realities provided by the Economic Council and by the impartial chairs.

The Government too greeted the conclusion of the Industry Agreement with satisfaction. Less than a month later, it decided to set up an official committee with the task of proposing measures to improve the functioning of the pay determination process. More specifically, it was to consider whether the legal provisions on mediation and industrial action were well balanced. However, the competent Minister declared that the Government would do nothing that would disturb the working of the Industry Agreement. The committee was the fourth (!) set up to consider these issues since the beginning of the 1980s. No previous committee had led to any legislative changes.

The new committee presented its report in November 1998. It proposed some particularly controversial amendments. A new mediation authority, with a different role and enhanced powers, would replace the National Conciliators' Office. Unlike the latter, which was restricted to helping disputing parties reach an agreement irrespective of its content, the new authority would also contribute to setting wage standards. Furthermore, it would have the power to appoint a mediator without the consent of the bargaining parties, to summon them to



negotiations and to postpone notified industrial action by 14 days. The committee also felt that a shift in the balance between trade unions and employers was necessary, and proposed a couple of rather far-reaching new restrictions on industrial action.

The subsequent Government bill and the amendments finally adopted by Parliament in 2000 were rather modest. With one minor exception, the right to strike was left unaffected. As regards mediation, the new authority, the National Mediation Office, has as one of its tasks to promote “well-functioning wage formation”, but this does not mean that it will impose a state incomes policy. Instead, it is to advise and assist the labour market parties with expert information on the national economy, wage statistics, and so on. Responsibility for the actual contents of collective agreements remains with the bargaining parties. However, in order to avoid industrial action as far as possible, the authority can appoint a mediator without their consent, and the mediator can summon them to negotiations. They are under no obligation to compromise, however. Furthermore, the Mediation Office can impose a cooling-off period of 14 days before industrial action can take place, and propose (but not insist) that the dispute be referred to settlement through arbitration.

Last, but by no means least, the act contains an exception to these rules. Parties that are bound by a procedural collective agreement, whereby they have created a private system of mediation that meets certain standards, cannot be subject to compulsory mediation. This provision is explicitly designed to fit the Industry Agreement. A number of similar procedural agreements have been concluded for other sectors.

The effectiveness of the Industry Agreement has now been put to the test in three bargaining rounds. The general judgement is that it has served its purpose well. With one exception, the parties managed to reach collective agreements, even without the threat of industrial action: previously, industrial action or at least notification of industrial action had been the rule. Also, wage increases in all industry sectors have been more – although still not quite – in step with the European average, according to statistics from the National Mediation Office. At the same time, Swedish industry’s competitiveness has been reinforced due to increased productivity.

The Industry Agreement might not have been so great a success had it not been the result of a genuine and far-reaching concord between employers’ associations and trade unions. A number of other agreements inspired by the Industry Agreement seem to have emerged primarily as a means of avoiding interference by the National Mediation Office. One example, mentioned in the Mediation Office’s annual report for 2003, is the Negotiating Agreement for

the municipal sector, in which large-scale industrial action broke out in 2003. Like the Industry Agreement, the Negotiating Agreement for the municipal sector is based on the principle that new agreements should be concluded before the current agreement runs out; however, its provisions on bargaining procedure do not really force the pace of negotiations. Also, it lacks institutions or mechanisms for continuous cooperation on issues that are important for wage formation – these are as important for the functioning of the Industry Agreement as the rules on negotiating procedure.

#### *Changes in the contents of collective agreements*

Although collective agreements on wages are still negotiated at sectoral level, the *substance* of these central agreements has changed dramatically – for some categories of employees with the effect that wages are now set entirely at workplace level. The most far-reaching examples are found among the agreements for white-collar workers in the public sector, but also large blue-collar unions such as the Municipal Workers’ Union and the Metalworkers’ Union have accepted a decentralisation that has resulted in a situation which differs considerably from that at the end of the 1980s. Looking at the number of employees covered, most collective agreements today explicitly aim at – or in practice lead to – individual wages, albeit within a collective framework.

Comparison of a “typical” central wage agreement from the end of the 1980s and today’s agreements illustrates how decentralisation has evolved. A typical agreement from the end of the 1980s had the following components:

1. It laid down minimum wages for different categories of employee, based on, for example, occupation, age and seniority.
2. It guaranteed every worker a particular rise based on actual wages. This rise could be determined as a percentage of his or her wage, a specific amount (more favourable to those on low wages) or a combination of both.
3. In addition to the individual guarantees, the parties to the central agreement had often agreed that a given percentage of the total wage bill, or a given amount per employee – a “wage pool” – be distributed among the workers through negotiations between the employer and the local trade union branch. If the agreement contained such a clause, it usually also contained instructions on how this wage pool should be distributed, for example to workers on the lowest wages.

4. The agreements for categories of employees that had no wage drift regularly contained a “catch-up guarantee”.

The most extreme examples of the new agreements have the following characteristics:

- They do not lay down any minimum wages.<sup>8</sup>
- They do not establish any guarantees for individual employees. Thus, at least in theory, there may be employees who do not receive any rise at all in a given year.
- They do not even guarantee employees as a group a rise.
- In short: they do not contain any figures at all!

What, then, do they contain? Primarily, they express a set of principles which should govern wage formation and wage setting, and lay down a new procedure for wage setting at local level.

The general idea behind these procedures is that each employer will be forced to adopt a wage policy and create a wage system that is transparent and based on objective factors – whatever they might be. According to some agreements – for example, the collective agreement for graduate employees in the central government sector<sup>9</sup> – the local trade unions are not even supposed to negotiate the concrete wages of individual members, only the principles for wage setting. After that, managers are supposed to discuss his or her wage with each employee. One remarkable feature of this procedure is that employer and employee are free even to make a binding agreement on the individual’s wage. When all these talks have been completed, the employer presents a proposal to the trade union, which can call for negotiations if it finds the outcome unacceptable in individual cases. Thus, where this procedure is consistently applied, the role of the local trade union is limited to *monitoring* the employer’s application of the agreed principles.

The first central agreement without figures was concluded in 1992 between the Association for Managerial and Professional Staff, Ledarna, and the employers’ organisation, Almega, affiliated to SAF. However, wages determined partly with regard to individual factors were nothing new to them as white-collar workers in the private sector. The category that has

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<sup>8</sup> Admittedly, this deviates from the principle that all employers have to pay at least a minimum wage stipulated in the collective agreement. On the other hand, the small number of trade unions that have accepted this represent employees with a strong position on the labour market.

<sup>9</sup> Framework agreement on wages etc for state employees (RALS 2002–2004) between the Swedish Agency for Government Employers and Saco-S (a negotiating cartel formed by trade unions affiliated to the Swedish Confederation of Professional Associations).

experienced the most dramatic changes are members of trade unions affiliated to Saco and employed by central government. In 1988, state employees were still grouped in 52 salary grades, each divided into six salary classes. The central collective agreement specified exactly how much employees in each of these groups were to be paid. Even if this system had already been undermined in practice when it was formally abandoned in the collective agreement of 1989, it has certainly been a giant step from this rigid system to today's collective agreement, which leaves everything for the local parties to decide.

However, it must be underlined that wage agreements without figures are exceptions. The bulk of today's agreements do not go this far:

- Almost all sectoral agreements still lay down a minimum wage for very young workers or those with their first job in the occupation in question. However, salary grades, seniority and qualifications bonuses and other types of “scales” or “steps” have to a great extent been filtered out of central agreements.
- Most sectoral agreements also guarantee every worker some rise, however modest. In some agreements, though, the individual guarantee is merely a default or “cut-off” provision that applies unless the local parties agree otherwise or cannot reach an agreement within a certain period.
- Most sectoral agreements guarantee the workers as a group a given percentage of the wage bill, either in the form of a traditional, centrally agreed “wage pool”, or through default or cut-off provisions that apply unless the local parties agree otherwise or cannot reach an agreement within a certain period. In the latter case, the theoretical point of departure is that the local parties should decide how much the business in question could afford. Thus, the rise agreed in a specific business can be higher – or lower – than the central agreement guarantees. In reality, of course, such default or cut-off provisions affect the local parties' willingness to compromise.
- While the traditional agreements often gave rather detailed instructions on how the centrally agreed wage pool should be distributed in the local bargaining round, modern agreements merely state some general pay policy principles, which vary from one agreement to another. For example, the first principle expressed in the agreements for the public sector is that wage formation and wage setting shall be such as to contribute to the employer's achievement of its operational goals. Agreements for the private sector often express a commitment to enhanced productivity, efficiency and competitiveness. One

general, common principle is that wages are seen as an instrument for stimulating workers to develop their competence. Another common principle is that every worker should understand on what grounds his or her wage is determined, and what to do to increase it. The – perhaps vain – hope is that thereby every individual will accept his or her wage as “just”.

*The Agreement between the Swedish Metalworkers’ Union and the Swedish Association of Engineering Employers*

The collective agreement between the Swedish Metalworkers’ Union and the Swedish Association of Engineering Employers (the “Engineering Agreement”) can serve as an example of how the provisions on pay in an agreement for blue-collar workers in the private sector have changed, taking the agreement for 1989–1990 as a starting point.

The agreement for 1989–1990 laid down minimum wages for workers who had reached the age of 16, 17 and 18 years, respectively. In addition, it stated that workers who had worked for the same company for two or four consecutive years should be paid at least 86 or 172 öre,<sup>10</sup> respectively, more per hour than the minimum wage. These provisions on a *minimum* wage are largely the same in today’s Engineering Agreement (although, obviously, the amounts are different). The interesting change has taken place in the provisions that concern the *wages actually paid*.<sup>11</sup>

Here, the agreement for 1989–1990 states that, as from 1 February 1990, hourly wages will be raised by 60 öre for adult workers and 48 öre for young workers. Piece rates will be raised by a percentage corresponding to a rise of 60 öre in the average piecework wages at the company in question during the second quarter of 1989. The agreement goes on to lay down corresponding figures for combinations of time-based pay and piece rate or other forms of payment by results.

In addition to these general rises that applied to all employees covered by the Engineering Agreement, it provided for a wage pool to be distributed through negotiation at company level. The instructions on how the pool was to be distributed had a clear equalising objective. Particular attention was to be given to categories of workers or individual employees at an unfavourable wage level or with an unfavourable wage development, and the solutions sought

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<sup>10</sup> “Öre” is the smallest Swedish currency unit: 100 öre equal 1 Swedish krona.

should seek to avoid substantial differences in pay between different categories of worker. Workers with no wage drift, and especially those paid by the hour, should be given special attention.

Finally, the Engineering Agreement for 1989–1990 contained a kind of catch-up clause and an index clause (see above).

The first evidence of a move towards more individualised wages appeared in the Engineering Agreement for 1993–1994.<sup>12</sup> While the previous agreements had laid down exactly how much (at the minimum) individual workers' wages should increase, the Engineering Agreement for 1993–1994 merely provided for a wage pool to be distributed among workers whose wages exceeded the minimum wage. The part that dealt with wages actually paid contained a new paragraph with the heading "Wage principles". The first sentence read: "Wages shall be differentiated on individual or other grounds". It was followed by a number of principles intended to guide the local parties when they bargained over distribution of the wage pool. Factors to be taken into consideration included leadership capacity, judgement and power of initiative, economic responsibility, ability to cooperate, and inventiveness and creativity. A worker's wage should increase along with increased responsibility and difficulty and with improvements in his or her performance and capability. Also, market forces would influence wage setting. At the same time, the agreement repeated the instructions that attention should be given to employees with an unfavourable wage level or an unfavourable wage development, and that the solutions sought should try to avoid significant wage differences between different categories of worker.

The fact that the rules on pay had been changed from detailed provisions to general principles was not the only novelty. Equally important was the fact that, for the first time, the wage principles in the metalworkers' collective agreement were exactly the same as those in the collective agreement for white-collar workers in engineering.

However, the metalworkers were not satisfied with how the wage principles were applied at workplaces in the subsequent period. At the same time, they did not want to deviate from the road, once taken. Instead, a further move towards increased responsibility for the local parties

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<sup>11</sup> The provisions on wages actually paid are the most significant, as the vast majority of metalworkers are paid more than the minimum wage.

<sup>12</sup> The agreement for 1991–1992 was concluded after state intervention and is not representative of the parties' own aims.

was made with the Engineering Agreement for 1998–2000. This was linked to a new agreement on competence development included in the overall settlement.

The new agreement stated that all employees should be given the opportunity for personal development at work in order to be able to take on more skilled and demanding tasks. Special attention should be paid to workers who had left education relatively early. It also stated that the local parties should apply wage systems and terms and conditions of employment that stimulate workers to develop their tasks and competences continuously.

The wage principles in the wage agreement were further elaborated to give the local parties a better basis for their negotiations. After the statement that wages should be differentiated on individual or other grounds, it was emphasised that pay differences must be justified on objective grounds. Every worker should know the grounds on which his or her wage was set and what he or she could do to receive a higher wage. Workers should be able to increase their wage successively as their position became more demanding and through increased experience, more demanding tasks, increased authority, increased responsibility and improved knowledge or competence. Wage systems and wage setting at the workplace should be designed in a way that makes them a driving force for the development of workers' competence and tasks. Thus, wage setting will stimulate increased productivity and competitiveness.

The wage pool was to be allocated on the basis of these wage principles, according to wage systems agreed at company level and in consideration of the agreement on competence development. No reference was made to workers “with an unfavourable wage level or an unfavourable wage development”.

Apart from the negotiations on wage pool allocation, the local parties were to review all wages in the company twice during the period, and to adjust individual wages based on the worker's development with regard to competence and tasks, in order to achieve the wage structure that they wanted or to apply locally agreed wage systems. Here, they also had to check that every worker had received at least a given minimum raise. The individual guarantee was therefore established as a retroactive check.

The Engineering Agreement for 2001–2003 went further in the same direction. The agreement stated that wage pools were to be allocated on three given dates during the period. However, the local parties could agree on other dates, which means that they would be able to influence the employer's costs. As regards workers “with an unfavourable wage level or an

unfavourable wage development” the agreement said that the issue of competence development was to be specifically taken into consideration. Thus, instead of giving extra money to low paid workers when the wage pool was allocated, as was the rule in earlier agreements, now they should be given an opportunity to develop their competence in order to *qualify* for a higher wage.

To understand the real purport of this evolution one must know that local collective bargaining has always played a very important role in the engineering industry. Before the conclusion of the Industry Agreement, the metalworkers in fact received the largest part of their wage increases through the local negotiations that followed the conclusion of the central agreements. Today, the proportions are reversed. Thus, in one sense, the central agreements have an even greater impact than earlier. This does not change the fact that the norms for distribution to individual workers are much more open in today’s central agreements.

#### *The Agreement between the Municipal Workers’ Union and the Swedish Association of Local Authorities*

The collective agreement on wages between the Municipal Workers’ Union and the Swedish Association of Local Authorities has undergone an even more dramatic change. As late as 1992, the majority of blue-collar workers in the municipal sector were paid according to a pay scale with 60 different steps specified in the central agreement.

As in the engineering sector, a decisive move in a new direction was taken in 1993. The pay scale was abolished, and the central agreement for 1993–1995 declared that, from now on, local authorities would bear significant responsibility for wage formation. The first clause explained the conditions for wage formation in subsequent years. It stated that the Swedish economy was afflicted by a number of severe problems and that the imbalance between costs and revenues in the municipalities was becoming more and more evident. The need for gains in productivity was considerable and, as a consequence, the scope for increases in pay was extraordinarily limited. The wage policies pursued by local authorities should be such as to secure the supply of personnel in both the short and the long term, and enhance the commitment of all employees. Thus, the parties underlined, it was important that the employees regard wages as “just”.

The only wages specified in the central agreement were minimum wages for workers who had reached the ages of 18 and 19, respectively. Apart from that, the agreement provided for a wage pool of 3 per cent of the total wage bill, to be allocated through local bargaining



according to basic principles laid down in the agreement. These principles were partly identical with those in the Engineering Agreement concluded five months earlier.

Two other provisions completed this radical change in bargaining culture: according to the first, under certain conditions, employers could even agree with individual workers on their wage; secondly, the central agreement authorised the local parties to conclude local collective agreements on merit-based wages and other alternative wage forms.

As in the engineering sector, the transition from detailed central regulation to local wage formation did not proceed without difficulties. The trade union was dissatisfied with how the employers handled their new responsibilities. Consequently, the provisions on “points of departure”, “joint principles” and “basic principles for wage formation” were increasingly elaborated in the two subsequent collective agreements, underlining that each local authority had to have a well defined and consistent wage policy, based on clear and distinct principles, well known to the workers in advance. The central parties also agreed to set up a joint working group that would follow and support the local implementation of the central agreement.

In spite of these difficulties, there was never any question of abandoning the road towards decentralisation and individualisation of wage formation in the municipalities. On the contrary, further steps were taken, including:

- The agreement for 1993–1995 had still guaranteed each worker a minimum raise. In the two agreements that followed, these guarantees were merely cut-off provisions, and the agreement concluded in 2003 contained no individual guarantee at all. Thus, in principle there can be workers who do not receive a raise. However, the central agreements underline that in such cases the employer must talk to the worker and explain what he or she could do to obtain a better outcome in the next bargaining round.
- A novelty in the 1998 agreement was that part of the centrally agreed “scope” for wage increases could be used for other purposes, for example experiments with working time reduction or competence development.
- Up to 2001 the agreements stated that “wages shall be differentiated on individual or other grounds”, the words “or other” indicating that wages could be differentiated on a *collective* as well as on an individual basis. Since 2001 this reference to something other than individual wages-grounds has been filtered out of the collective agreement between

the Municipal Workers' Union and the Swedish Association of Local Authorities, which now says that "wages shall be individual and differentiated and reflect obtained objectives and results". Furthermore, since 2001 the agreement has authorised the local parties to determine the distribution of the centrally agreed scope for wage increases through other procedures than collective bargaining. The "other procedures" that the central parties have in mind are those described earlier in this chapter, in respect of which the role of the local trade union is restricted to monitoring the employer's application of the wage principles.

However, this does not mean that the Municipal Workers' Union is satisfied with the outcome of decentralised wage formation. The gap between the average wage for municipal workers and that for metalworkers has increased since the beginning of the 1990s and, according to the trade union, part of the explanation is that too many local authorities pay new employees the minimum wage routinely, irrespective of how experienced or qualified they are. Thus in 2003 the Municipal Workers' Union gave notice of premature termination of the collective agreement in force and initiated a strike among its members. Its aim was twofold: first, it called for a substantial rise in the centrally agreed minimum wage and a wage pool that would make it possible to reduce the gap between the average wage for municipal workers and that for metalworkers; secondly, it wanted to introduce mandatory provisions in the central agreement to oblige employers and local trade union branches to agree on local wage systems with starting salaries for different positions. The first aim of the strike was partly obtained, but not the second. However, it is worth noting that the trade union stuck to the idea that wage formation should be left to the local level. Even more, it accepted an agreement without any kind of individual guarantee for workers paid more than the minimum wage.

### *Effects of decentralisation*

The degree of decentralisation of wage formation is evident from statistics from the National Mediation Office.<sup>13</sup> It groups the sectoral collective agreements in force in 2003 in seven different categories, based on the degree of local influence over wage formation:

1. Collective agreements that leave wage formation *entirely to the local level*, without any centrally agreed wage margin or individual guarantees covered 7 per cent of employees in the private sector, 32 per cent of state employees and 28 per cent of municipal and county council employees.

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<sup>13</sup>Medlingsinstitutet, *Avtalsrörelsen och lönebildningen 2003* (2004), with English summary, pp. 22ff.

2. Collective agreements that leave wage formation to the *local level in the first instance*, but which contain *cut-off provisions regulating a wage pool*, covered 5 per cent of private sector employees.
3. Collective agreements that leave wage formation to the *local level in the first instance*, but which contain *cut-off provisions regulating a wage pool and some form of individual guarantee*, covered 8 per cent of private employees and 68 per cent of state employees.
4. Collective agreements with a *centrally agreed wage pool, but without any individual guarantees* covered 7 per cent of private employees and 72 per cent of municipal and county council employees.
5. Collective agreements with a *centrally agreed wage pool and an individual guarantee* or a cut-off provision regulating the individual guarantee covered 45 per cent of private employees.
6. Collective agreements with a *general pay increase for all plus a wage pool* for distribution at local level covered 18 per cent of private employees.
7. Collective agreements that provided for a *general increase, equal for all workers* covered 10 per cent of private employees.

Thus, nearly one third of the employees in the public sector, primarily graduate employees and other white-collar workers, are covered by collective agreements which do not specify figures and that leave wage formation entirely to negotiations between individual employer and local trade union branch (or even to individual agreement between individual employee and manager). If you add the third group, agreements in respect of which local wage formation is the rule cover all state employees. Also, all collective agreements for the public sector allow the local parties to decide how the wage frame is to be distributed.

At the opposite extreme are central agreements that provide for nothing more nor less than a general increase, equal for all workers. Today, such agreements cover only a very small proportion of blue-collar workers in the private sector. Taken together, almost two thirds of private sector employees are covered by collective agreements that allow the local parties to decide the whole of the wage margin (as wage pools typically are minimum or default provisions) and/or how it is to be distributed.

Collective agreements are instruments for preventing low wage competition and discrimination between workers. Can collective agreements that leave the main responsibility for wage formation to the local parties – in some cases to the extent that the central agreement

does not set any wage norm at all – really serve these purposes? The answer is that it is too early to say.

There is little systematic information on actual changes in company wage policies. It is plausible that the changes in sectoral agreements have in fact resulted in more individualised wages. At the same time, it is obvious that it takes time for employers and trade union representatives in workplaces to learn the new procedures, especially in the public sector where the most dramatic change has taken place. It requires a great effort from both parties to build a system based on individual wages that is transparent and in which all differences are well founded and based on objective grounds – that is, a system that can gain legitimacy among the workers covered. Thus, the outcome of decentralisation is highly dependent on the strength of the local trade unions.

On the other hand, there are still few areas in which the local trade unions have to rely entirely on their own strength. With some exceptions, the trade unions that have accepted the most far-reaching decentralisation are those that organise workers with a strong position on the labour market, who work in occupations or sectors where they do not have to face low-wage competition. However, there are a few examples of trade unions that have misjudged the “market position” of their members and have called for a return to central agreements with at least a minimum guarantee for each worker. Collective agreements for other occupations or sectors regularly include some type of default or cut-off provisions on the size of the wage margin and/or on a minimum guarantee for each worker. This type of clause reinforces the strength of the local trade unions. In some areas, the local parties can refer the negotiations to a central arbitration board if they cannot reach an agreement. The ultimate protection against low-wage competition is the minimum wages stipulated in the central agreements, which are mandatory under all circumstances. Lately, both the Metalworkers’ Union and the Municipal Workers’ Union have managed to raise the minimum wages more than the average.

If employer and local trade union fulfil their responsibility, individual wages will not be synonymous with “unjust” or discriminatory wages. As regards equal pay for women and men, the Equal Opportunities Act obliges all employers with ten or more employees to investigate each year whether there are any unwarranted differences in pay between men and women. Some sectoral agreements contain specific clauses on gender equality according to which the reviews under the Equal Opportunities Act should be coordinated with the general local pay reviews, and for safeguarding that the wages of employees on parental leave will not lag behind. Statistics from the National Mediation Office show that the pay gap on the labour

market as a whole has remained largely unchanged over the past ten years, and that the pay differences between men and women in the same occupation are very small.<sup>14</sup> Thus, there is no evidence that the decentralisation and individualisation of wage formation has led to increased discrimination between the sexes. What is clear, however, is that a system with individual wages makes it much more difficult to *prove* discrimination in individual cases.

Large international companies such as ABB, Ericsson and Volvo have been at the forefront of the employers' campaign for more decentralised and individual wage setting. One of their objectives was to be able to apply the same terms and conditions – including the same wage forms – to blue-collar and white-collar workers. To a great extent, this is now possible due to the changed contents of the sectoral collective agreements. For example, piece rate, which was the traditional wage form for blue-collar workers, is becoming more and more unusual. In the Engineering Agreement for 2004, the provisions on piece rate and hourly pay are no longer included in the body of the agreement but are relegated to a supplement. Instead, monthly pay is the normal form and, as described earlier, the pay principles are identical with those in the agreements for white-collar workers, in which monthly salary is the traditional wage form. At the same time, new types of flexible pay components – in addition to the monthly wage – are introduced for both blue-collar and white-collar workers. Between 1980 and 2000 the proportion of white-collar workers who received some kind of merit-based wage increased from 5 per cent to 17 per cent, although the proportion of this element in their total wage decreased from 23 per cent to 9 per cent. There are very advanced systems for variable pay. For instance, employers try to tie employees to the company by introducing systems in which the variable part of the wage is not paid until the December of the year after it was earned, and only on condition that the employee is still employed by the company.

With the exception of piece rate systems, which are regulated in central collective agreements, systems for variable pay are normally specific to the individual company. As such, they may be regulated in local collective agreements, but they can also be introduced by way of an employer's decision. Still, different bonus schemes are generally regarded by the trade unions as positive, at least as long as they are based on the results of *groups* of workers. Forms of variable pay based on the results on *individual* workers (other than piece rate systems) are regarded with strong scepticism among blue-collar unions.

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<sup>14</sup> Ibid.

### *Fundamental change in contents but not in form*

Looking at the contents of collective agreements one may feel that the Swedish system of collective bargaining and wage formation has experienced a fundamental change since the 1980s. That is correct in the sense that they reflect a completely new approach to wage policies.

However, there has been no fundamental change in the formal system of collective wage formation in Sweden; rather change has taken place within the system. The legislator has modified the provisions on mediation, but trade unions and employers still have full responsibility for the contents of collective agreements on wages.

In fact, even the great shift in the contents of collective agreements is in line with the Swedish tradition, in which trade unions and employers in general recognise each other's interests.

### **F. Sweden and Germany: differences and similarities in their systems of collective wage formation from a Swedish Perspective**

As regards the Swedish system there is strong ideological and political consensus that the labour market parties should take responsibility for wage formation and wage policy. Our impression is that the state (or other authorities) has a more prominent role in Germany; a fact that can be discerned, for instance, in the possibility of extending collective agreements, which is not present Sweden (see above).

The difference in this respect is perhaps not so evident for the private sector, but clear when we take the whole labour market into account. Here we can refer to what was said earlier about the uniformity of the system encompassing not only blue- and white-collar workers, but also so-called career public servants and civil servants.

Another important difference is the fact that Swedish labour law is based on the assumption that the trade unions are present at both central and local level. This has often been described as being both centralised and decentralised at the same time: that is, a strongly centralised structure is combined with an organisational presence in the workplace. This feature, which is common to the Nordic countries, has often been used to explain the relative success of the Nordic trade union movement in reaching a high membership level and, especially, in being able to maintain it. For example, Kjellberg argues that both one-sided decentralised and one-sided centralised systems tend to have a negative impact on membership figures, while a

balanced combination of centralised and decentralised solutions seems, in an international comparative perspective, to offer the best possibilities for success.<sup>15</sup>

One difference between the German and the Swedish collective bargaining systems seems to be that the Swedish system is based on negotiations at local level between the trade union representative and the employer. These negotiations are frequent and the essence of the collective bargaining system. In Germany, the mechanisms for local level negotiations seem to be weaker due to the fact that local trade union organisations are lacking and the dialogue at company level is conducted through the works council.

In Germany, not only trade unions, but also – and primarily – individual employees are parties (on the labour side) to cases heard in labour courts. In Sweden, employees can be parties in the labour court in exceptional cases, but in cases related to the interpretation or breach of collective agreements the trade unions in fact always act. The integration between local and national level can also be discerned in the fact that negotiations at central level concerning the interpretation of the normative part of a collective agreement will normally take place only where local level negotiations have failed. In the same manner the completion of negotiations at central level is an absolute condition for getting access to the Swedish labour court.

One important feature of the Swedish system is the notion of trade union solidarity, which implies that the centralised, unified trade union movement is striving for common goals. One indication of this historically has been the solidarity wage policy; another, the acceptance of solidarity or sympathy trade union action. Sympathy action plays a significant role in the Swedish industrial relations system. It is a means by which the Swedish trade union movement is able to keep up a broad coverage of collective agreements in different sectors, although there is no “*erga omnes*” extension system in use in Sweden.

The lack of “*erga omnes*” mechanisms can, on the other hand, be described as a significant difference between the Swedish and the German system.

An initial historical similarity of the Swedish and German collective bargaining systems is that the collective agreement is regarded as a private law contract subject to the general principles of contract law. A significant difference seems to be that the Swedish system has retained this feature, while the German post-war development, with the Constitutional Court

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<sup>15</sup> Anders Kjellberg, “Ett fackligt landskap i omvandling”, in Magnus Sverke and Jonny Hellgren (eds), *Medlemmen, facket och flexibiliteten*, pp. 27–49 (Arkiv förlag, 2002).

deciding on important issues related to the industrial relations system, indicates a certain change in this respect.

There are very strong structural and technical similarities between the Swedish and German legal frameworks regulating collective agreements.

The technical solutions are very similar. In fact, the German legislative efforts of the early twentieth century had an impact also on developments in Denmark and Sweden, countries in which the German legal system was generally quite influential.

The structure of the peace obligation is basically similar and so are the fundamental principles of the binding and direct effect of the terms and conditions in collective agreements on individual employment relationships.

Collective agreements are also clearly a well integrated part of the economic and political system in both Germany and Sweden.

### **G. Strengths and vulnerabilities of the German system from a Swedish point of view**

Generally speaking one might assume that the differences in scale between Germany and Sweden might make it slightly easier for the latter to adapt to changes in the economy.

The Swedish system of collective bargaining has always strongly emphasised that the system should promote structural change in the economy. Influential economists such as Rehn and Meidner have developed theories according to which collective bargaining in fact promotes productivity and makes competition based on social dumping and low wages impossible at national level. According to this thinking there should be few obstacles to companies reducing their work force or even closing down; instead, the welfare state should take care of employees' interests. As a result, we find no such institutions as the "*Sozialplan*" in Swedish legislation. That does not mean that companies do not have to pay compensation to laid off or dismissed workers in these situations but that is negotiated between the trade unions and the employer according to rules governing the priority of employees in this respect. Furthermore, there are central agreements or collective arrangements which provide economic protection for employees that have been dismissed or laid off. The difference between Sweden and Germany seems to be that collective solutions based on agreements between the parties are preferred in Sweden, while in Germany the responsibility often lies with the individual employer.



The development of the content of collective agreements has, in our view, had a significant impact on the system's ability to survive. If collective agreements can be flexible procedural tools their value cannot be questioned. The weakness of the German system seems to lie in a combination of lack of legitimacy and inability to adapt to change. On the other hand, the problems in the German economy have been severe and the German debate must be understood in this light.

The shrinking number of employers that are bound by collective agreements is, in our view, an important problem. Still, we believe that the level of trade union affiliation is important for the legitimacy of collective wage formation.

#### **H. Decentralisation and growing flexibility of the German system from a Swedish point of view**

One general challenge facing both Germany and Sweden comprises globalisation, internationalisation and competition from countries with significantly lower wage levels. Companies are moving their activities from high-cost to low-cost countries.

In Germany there has lately been a strong demand for deregulation of labour law and for more flexibility. The rigidities of the German labour market have been blamed for the problems in the economy.

From a Swedish perspective the interesting question is whether Sweden will face the same development as Germany or has been able to solve some of these problems by using the inherent flexibility in the collective bargaining system, which we have described earlier.

One possible interpretation of the German situation is that Sweden in the coming years will face the same problems as Germany today. One could even compare them with the enlargement of the European Union and claim that Germany had its "first enlargement" with reunification. If the costs of reunification are one of the reasons for the problems in the German economy, the costs of EU enlargement might lead to similar problems for Sweden.

Variable pay systems have the advantage that wage costs will to some extent follow the economic results of the employer. As already indicated, new forms of variable pay have been introduced in Sweden recently, although it is difficult to assess how widespread they are in the labour market. This trend of flexible wage policy, advocated by international management consultants, is likely to be present also in Germany.

## **I. Conclusions**

From our perspective the essential structural problem for German collective bargaining is the weakness of its mechanisms in the workplace, where the local trade union organisation as such has no role and the works council performs many of the functions which the local trade union performs in Sweden. It is difficult to see how the problem with a dual system for handling issues related to wages and employment conditions in the workplace could be solved otherwise than by rules of coordination, subordination and a clearer division of powers.

From a Swedish perspective it would be strange to propose the introduction of a statutory minimum wage. A statutory minimum wage can be regarded either as some kind of alternative to an erga omnes extension of a wage clause in collective agreements or as a last instance supplement to these mechanisms. In our view a statutory minimum wage is a real alternative only in sectors in which collective bargaining plays no role. We admit, of course, that this perspective is due to the high level of unionisation in Sweden, but we think that this argument is relevant also for Germany.

The factors motivating young persons to join a trade union in Sweden seem to be lacking in Germany. In Swedish and international literature the unemployment insurance system is often referred to as a strong factor promoting trade union affiliation. We think that the picture is more complicated and that there are in fact several factors that together might promote the general pattern of wage-earners in Sweden tending to organise. One important reason is the strong trade union presence in the workplace. Here the trade union representatives and shop stewards can help and represent the employees in different situations and conflicts. This representation continues at all levels, even, in the last instance, in the courts. Also, the strong influence that trade unions are able to exercise in different situations according to the law does have an impact. For example, the priority rules can be negotiated by trade unions in situations of reduction of workforce (redundancy) and there are several so-called semi-dispositive rules in Swedish labour law on which the trade unions might agree otherwise in collective agreements. One might also refer to the development concerning collective agreements that was described above. When collective agreements contain only general clauses on wages the decision-making process at local level becomes more important and in Sweden the trade union plays an important role at this level.

Much industrial relations research calls for increased flexibility, based on a range of assumptions and factors (globalisation, changed patterns of production, information society,

and so on). Although exaggerations and simplifications are well represented in the debate we are convinced that there is an increased need for flexibility at company level. We think that the lack of local trade union presence and decentralised mechanisms is the greatest challenge for the German system. It seems that the works council system has become an obstacle to adapting the collective bargaining system to a more modern framework-agreement design, combined with procedural mechanisms. This specific German problem probably needs a specific German solution. It must also be emphasised that only within this broader framework might collective bargaining be extended to new areas. This is necessary because wage setting is very much a result of external economic developments and the real scope for the negotiating parties is quite limited.

We think that the need to protect wages against low-wage competition is still a valid, reasonable and important argument for sectoral collective agreements. There are, however, clear differences between sectors in respect of how important this aspect is. It seems to be of greater importance in sectors where competition is at national level than in situations in which huge multinational players compete. It is also of importance for competition between subcontractors to big companies. In our opinion the fundamental significance of collective agreements today as a factor restricting social dumping and low wages cannot be denied. In Sweden this is evident in the practice of sympathy industrial action.

In our view there are profound substantive changes going on in the Swedish collective bargaining system. On the surface, these changes are less spectacular than the factors indicating change in Germany (decreasing rate of unionisation, changes in the legal framework regulating collective agreements, and so on). These factors presented by German authors have convinced us that a fundamental change is taking place in Germany. Both countries are in the middle of the process of change and so the final outcome is difficult to foresee at this stage. At present the main difference seems to be that the Swedish labour market actors believe that a change can be made within the framework of the existing system, while in Germany the employers in particular seem to think that it is not possible to achieve flexibility within that framework. This is leading them to exit the employers' organisations and seek solutions outside the collective bargaining system.

The trend towards globalisation and internationalisation is bringing about an increased tendency towards convergence between the Swedish and German systems.<sup>16</sup> For the

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<sup>16</sup> Niklas Bruun, "The Autonomy of Collective Agreement", pp 1–48, in Roger Blanpain (ed.), *Collective Bargaining, Discrimination, Social Security and European Integration* (Kluwer Law International, 2003).

internationally competing private sector, wage increases are set by comparison with developments in other – especially European Union – countries. On the other hand, development very much builds on national traditions and features. That will be true also in the future.