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Author(s): Torben Iversen

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# Power, Flexibility, and the Breakdown of Centralized Wage Bargaining Denmark and Sweden in Comparative Perspective

*Torben Iversen*

Just one decade ago the Scandinavian countries along with a few other West European countries were widely celebrated for their unique coupling of consensual wage bargaining, egalitarian social democratic welfare policies, and high economic performance. For many observers "social democratic corporatism" (especially in the Swedish variant) represented an ideal way to design political-economic institutions that were fair, democratic, and efficient. Today, the predominant theme in the literature on comparative political economy is not the triumph of corporatism but its crisis and demise. This paper examines and seeks to explain one crucial aspect of this decline: the trend away from centralized, corporatist wage bargaining in the 1980s.

The study draws on modern theories of wage regulation and industrial relations and identifies three logics of consensual wage regulation with whose problems bargaining institutions are designed to cope. The first is unions' free-riding on the wage restraint of other unions; the second is the obtaining of flexible wage structures and working conditions under centralized rules; and the third is the reconciliation of redistributive organizational goals with differentials in the market power of different occupational groups. Depending on how firms and unions are affected by these logics, they will have competing institutional preferences.

Based on this theoretical framework, I argue that in most corporatist countries, including Denmark and Sweden, structural and technological changes in the world economy since the mid 1970s have stimulated the growth of cross-class flexibility coalitions between firms producing high quality goods for fragmented and volatile international markets and groups of highly skilled workers enjoying favorable market positions. Compared to the first three decades after World War II, this development signified a sectoral realignment of workers and employers and was associated with political pressure for a more decentralized and unequal industrial relations system. Governments mediated this pressure through macroeconomic policies that either facilitated or delayed the transformation of corporatist institutions.

Exceptional circumstances may militate against the formation of flexibility coalitions and decentralization of wage bargaining institutions. For example, Norway experienced a recentralization of wage bargaining in the late 1980s, and the centralized Austrian bargaining system exhibited remarkable stability during

the 1970s and 1980s. The model predicts that such divergence may occur when either centralization is dissociated from wage leveling or when a privileged sector of workers exerts a strong inflationary pressure on the economy. For unique historical reasons Austria is an example of a country where centralization has been deliberately decoupled from wage redistribution, while Norway represents a case where the wage control of militant "maverick" unions (especially in the booming petrochemical sector) provided a compelling rationale for centralization.

### **Wage Bargaining in Four Countries: An Overview**

Most analyses of bargaining institutions and union organization identify two institutional dimensions as particularly important for the wage formation process: centralization of bargaining authority and concentration of union membership. In empirical studies these dimensions are usually transformed into a composite index of centralization, although there is no attempt to sort out clearly the conceptual relationship between centralization and concentration.<sup>1</sup> As pointed out by Miriam Golden, different authors can thus place greater emphasis on one or the other, resulting in a very elastic measurement of centralization.<sup>2</sup>

The index I use here to compare the four cases over time is more satisfactory in this respect. To see how it is derived, one should imagine that all bargaining authority is vested in a single bargaining level (for example, national industrial unions). Centralization then is solely a function of the number and relative size of unions. Specifically, I borrow a concept from the literature on political parties, called the effective number of parties, that can be used to calculate a single number,  $N$ , which measures the degree of fragmentation of union membership.<sup>3</sup> This number is defined as:

$$N = (\sum_{i=1}^n p_i^2)^{-1} \quad (1)$$

where  $p_i$  is the share of union members organized by union  $i = \{1, 2, \dots, n\}$ .

$N$  is equivalent to the number of equally sized unions that would have had the same effect on fractionalization as the actual number of differently sized units. The index thus enables us to measure the degree of fragmentation (or concentration) by discounting the role of small and relatively insignificant unions. The degree of centralization,  $C$ , is now simply  $1/N$ .

When several different bargaining levels are involved, it is necessary to weigh each to reflect the bargaining authority vested in it. Thus, if the number of effective bargaining units at each bargaining level  $j = \{1, 2, \dots, m\}$  is denoted  $N_j$ , and the weight accorded each level is denoted  $w_j$ , then the degree of centralization can be expressed in the following formula.

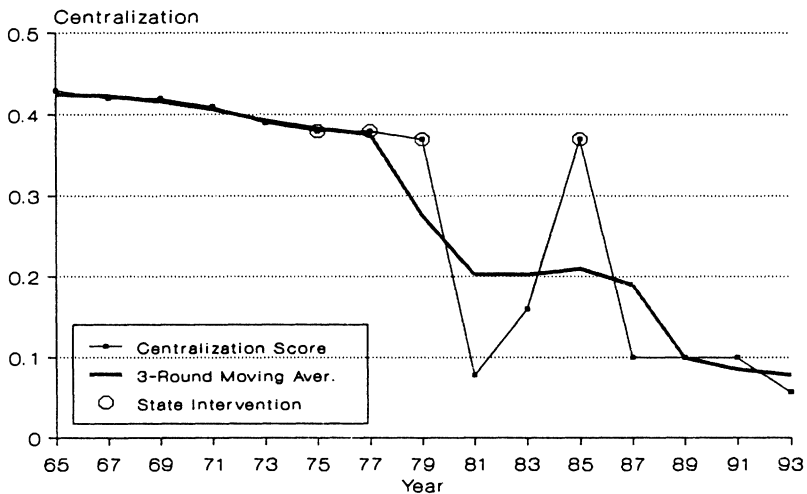
$$C = \sum_{j=1}^m \frac{w_j}{N_j} \quad (2)$$

This index provides a simple and theoretically well-grounded measure of centralization that can take on values between 0 and 1. For example, if all bargaining power is concentrated at one level, and if there is only a single union bargaining wages, then  $C = 1$ . Conversely, if bargaining authority is concentrated at a low level where fragmentation is very high, then  $C$  will approximate 0.<sup>4</sup>

I have used the index of centralization in Equation (2) as the theoretical basis in constructing time-series data for centralization of bargaining from the mid 1960s until the early 1990s in Denmark, Sweden, Austria, and Norway. The operationalization of the centralization index is based on national data on the distribution of union membership and on a detailed examination of individual bargaining rounds according to the locus of bargaining authority (see the Appendix for details). Figures 1–4 show the results for the period 1965–1993.

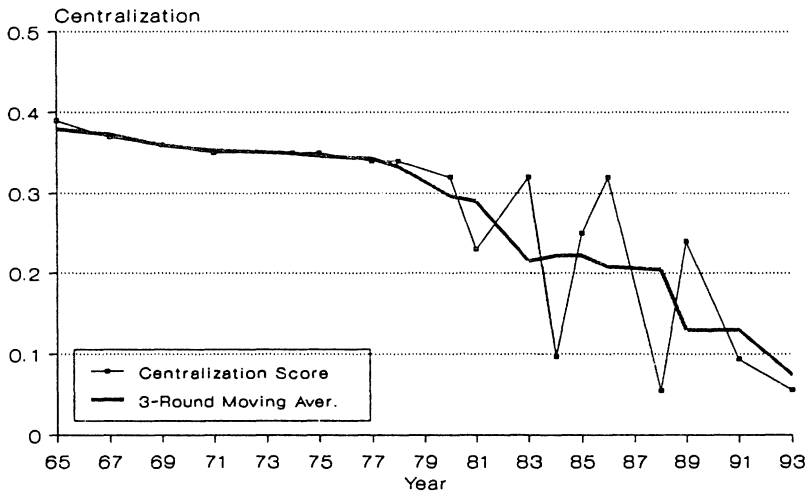
First, through most of the 1960s and 1970s Austria, Denmark, Norway, and Sweden were all dominated by highly centralized and stable forms of wage bargaining. In the Scandinavian countries bargaining was conducted mainly by peak-level associations of employers and blue collar unions, although some wage increases were negotiated at the plant level subject to a peace clause. Affiliated unions of the labor confederations (LOs) played a prominent role in the formulation of confederal wage strategies, and the specific interests and concerns of the largest affiliates could therefore not be ignored. In Austria, by contrast, peak-level

**Figure 1** Centralization of Wage Bargaining in Denmark, 1965–1993



Sources: See Appendix

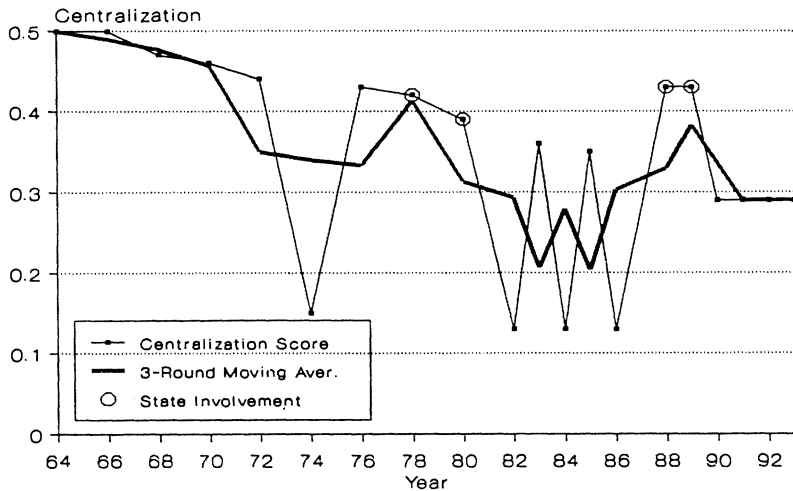
**Figure 2** Centralization of Wage Bargaining in Sweden, 1965–1993



Sources: See Appendix

bargaining was less formal and detailed, but industry-level bargaining was subject to higher-level approval, and unions were clearly junior partners to the labor confederation (ÖGB), which enjoyed a privileged legal status, exercised control over the finances of members, and monopolized representation in the state-sponsored Parity Commission for Wages and Prices (where general wage-price strategies were jointly determined with employers and the government). Another salient difference between Austria and the Scandinavian cases is that all unions in the former, both white and blue collar, are members of the same confederation (ÖGB), while in the Scandinavian countries professional and white collar confederations have developed outside LO.

The growth of competing confederations is the main cause for the slow but steady decline in centralization that is evident in all the Scandinavian cases (see Figures 1–3). The most striking divergence in the evolution of bargaining institutions across the four countries, however, is the result not of growing fragmentation, but rather of the breakdown of peak-level bargaining in Denmark and Sweden in the 1980s. In Denmark, decentralized bargaining between individual unions and their employer counterparts was initiated already in 1981 following the failure to reach centralized agreements in three consecutive bargaining rounds.<sup>5</sup> The relatively centralized bargaining rounds in 1983 and 1985 appear to have been transitory events in a general trend towards a more decentralized equilibrium. In Sweden, the break with over two de-

**Figure 3** Centralization of Wage Bargaining in Norway, 1964–1993

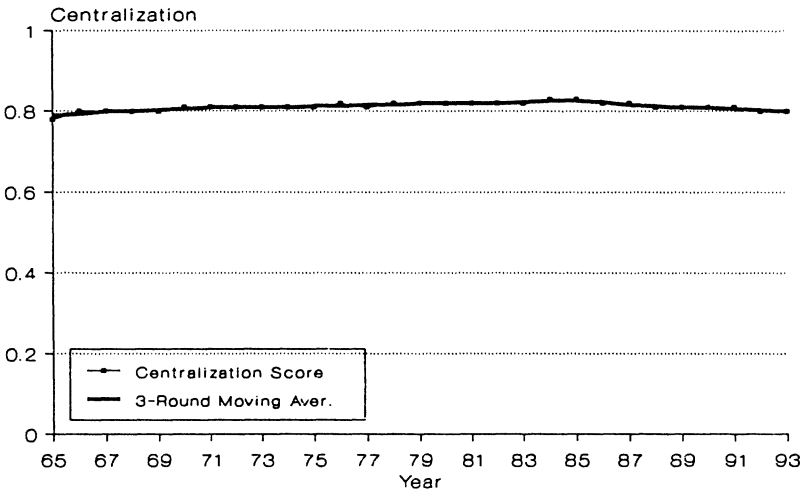
Sources: See Appendix

cases of centralized bargaining occurred in 1983 when the Engineering Employers' Association (VF) allied itself with the Union of Metal Workers (Metall) and concluded separate agreements outside the usual LO and SAF (the Swedish employers' association) bargaining channels. In the following bargaining round, all negotiations were relegated to the industry and sector level. Despite considerable oscillation between centralized and decentralized forms of bargaining since then, the data in Figure 2 support the view that the 1980s marked a significant shift away from centralized bargaining.<sup>6</sup>

The Norwegian case (Figure 3) presents an interesting contrast to the other Scandinavian countries. Although there was a similar move towards decentralization in the early 1980s (accompanied by considerable volatility), in the second half of the 1980s this trend was reversed, and wage negotiations in the late 1980s were some of the most centralized in the history of Norwegian industrial relations. Like Norway, Austria also contrasts with Denmark and Sweden by the persistence of centralized bargaining. However, the evolution of Austrian institutions differs from all the Scandinavian cases, including Norway, by exhibiting a remarkable stability. The Austrian bargaining system is seemingly immune to the forces of change that have caused instability in the Scandinavian systems.

The divergent institutional trends in the four countries present an intriguing empirical puzzle for which there is no obvious solution. For example, in the most

**Figure 4** Centralization of Wage Bargaining in Austria, 1965–1993



Sources: See Appendix

comprehensive comparative study of the small corporatist states, Peter Katzenstein classifies Denmark, Norway, and Austria in the same subcategory of corporatist countries (which he terms social corporatism), while Sweden is considered marginally different by having a more internationally integrated business class.<sup>7</sup> Likewise, since the four countries are similarly inserted into the world economy in terms of economic openness and export markets, explanations of the type Peter Gourevitch has dubbed “second image reversed” are unlikely to account for the considerable variation in institutional developments.<sup>8</sup> Although technological and economic changes in the world economy have important effects on domestic bargaining institutions, as I will argue below, differences in the institutional consequences of these changes must be due primarily to domestic structures and processes. In the following section I propose a theoretical framework to analyze and understand these structures and processes.

### Three Logics of Wage Bargaining

The political economy literature on wage bargaining and industrial relations is dominated by three theoretical perspectives, all of which are pertinent to the issue of institutional design: neocorporatist theory, the theory of cross-class alliances,

and the theory of flexible specialization. These three approaches, though not mutually exclusive, point to different logics of wage bargaining that must be incorporated into a more general framework.

The neocorporatist collective action approach starts from the observation that collective wage restraint is a precondition of low inflation, high competitiveness, and economic growth. These collective benefits of restraint, however, may not be accorded much attention by individual labor unions that care only about the payoffs to their own members. From this perspective, centralization of wage bargaining can be viewed as an institutional instrument to limit the capacity of individual unions to free-ride on the wage restraint of other unions.<sup>9</sup>

While the neocorporatist collective action framework identifies one crucial logic in wage bargaining and helps us to account for cross-country differences in economic performance, it suffers from three weaknesses. First, it does not offer a convincing theory of institutional design. By conceptualizing wage restraint as a collective good, the neocorporatist theory has a functionalist bent whenever it is used to explain the nature of bargaining institutions: centralization occurs because it is associated with beneficial consequences. As a theory of institutional design, neocorporatism therefore lacks microfoundations. Second, neocorporatist theory assumes that employers are concerned with wage costs and thereby overlooks the consequences of the choice of bargaining institutions for other elements of the production function, especially flexibility in designing wage incentive systems and deploying man-power. Specifically, the detailed regulation of wages and working conditions that is associated with centralized bargaining may no longer be compatible with the growing need of firms to respond flexibly to rapidly changing world market conditions. Finally, the corporatist “correlation” between encompassing unions, accommodating government policies, and wage restraint does not pay sufficient attention to the wage competition that may be fueled (rather than contained) by redistributive aspects of centralized bargaining.

The model of cross-class coalitions proposed by Peter Swenson addresses the problem of microfoundations.<sup>10</sup> According to Swenson, early centralization of the industrial relations systems in both Sweden and Denmark came about as the result of a cross-class alliance between groups of workers and employers which imposed norms and institutions of peak-level bargaining on other groups. Low-pay unions in the competitive export sector, unable to externalize the costs of higher wages, allied themselves with organizations of export employers and a reformist state to contain the militancy of workers in the sheltered construction sector who enjoyed both strong market positions and the capacity to externalize wage hikes through price increases. The problem of free-riding, in other words, was overcome through the formation of a government-backed sectoral coalition with both the distributive interest and organizational capacity to enforce centrally negotiated wage rates.

As an account of the emergence of centralized bargaining institutions in



Scandinavia, Swenson's model marks an important theoretical breakthrough. Not only does it provide explicit microfoundations for a theory of institutional design, it also transcends the misleading view of labor and capital as coherent and opposing social classes. However, Swenson's model is not wholly satisfactory when it comes to explaining the disintegration of centralized bargaining in the 1980s. While Swenson shows that the enforcement of solidaristic wage agreements became increasingly problematic in the latter half of the 1970s, he links wage leveling to the norms inscribed in the "moral economy" and only indirectly to the institution of centralized bargaining (which helps to enforce the moral economy).<sup>11</sup> Moreover, even if self-interest made a break with peak-level bargaining a preferable option for some unions, defection would require allies among employers. Yet the forces of change which would give rise to such allies are not made explicit in Swenson's model, which focuses on the question of cost control. Finally, and most important, Swenson does not consider the conditioning effects of the government's macroeconomic policies on the feasibility of alternative institutional outcomes. Because macroeconomic regimes shape the economic environment in which bargaining takes place, they either facilitate or inhibit a transition to decentralization.<sup>12</sup>

These problems can be addressed without dispensing with Swenson's insights. First, wage leveling must be linked directly to institutional design. This link can be made by conceptualizing wage leveling as an expression of nonmarket sources of bargaining power for low wage groups within the confederal union structure. Second, the incentive structure of unions and employers is at least partly endogenous to the macroeconomic policies of the government. Hence, while the theoretical division between sheltered and exposed sectors is valid, empirically the boundary is conditioned by the choice of macroeconomic policy regimes. Finally, it is necessary to identify employers' reasons, beyond cost control, for supporting decentralization.

Such reasons are offered in the theory of flexible specialization which argues that the widespread application of numerically controlled, multipurpose machinery during the 1970s and 1980s led to a shift away from standardized mass production to what Wolfgang Streeck has termed diversified quality production.<sup>13</sup> While the literature on flexible specialization has focused on the implications of diversified quality production for efficient shopfloor regimes, these changes have had important, though less noted, consequences for the viability of different collective wage bargaining systems. I wish to highlight one micro-macro linkage that is particularly salient to the choice of bargaining institutions: the constraints that peak-level bargaining impose on firms' discretionary power over the wage incentive structure.<sup>14</sup> While in a standardized mass production regime uniform wage standards are usually compatible with the achievement of satisfactory levels of worker productivity, in a diversified quality production regime nonstandard

forms of payment—including quality bonuses, profit sharing, seniority pay, and pension schemes—become increasingly important management tools for achieving high work performance and inducing workers to invest in firm-specific skills. To the extent that centrally negotiated wage norms inhibit such wage flexibility, they therefore constrain the pursuit of flexible production strategies.

### **A Synthesizing Model of Institutional Choice in Wage Bargaining**

It is now possible to represent the principal lines of division among both employers and wage earners in a more formal model and to hypothesize the likely cross-class alliances under different market and institutional conditions. I begin by considering conflicts of interests among wage earners.

First, following Swenson's argument, when the adverse consequences of militancy are internalized for some groups of wage earners but can be externalized by others, the former have an interest in restraining the wages of the latter. This cleavage follows the familiar division between a sheltered home-market sector (where costs can be passed on to the consumer) and an exposed export sector (where prices are exogenously given). Second, following the bargaining argument, when bargaining power across different sectors of wage earners is more evenly distributed under centralized bargaining institutions than under decentralized bargaining institutions, weak unions benefit more than strong unions from centralized bargaining (through wage leveling).

Two dimensions of sectoral cleavages can thus be combined into a simple three sector division of workers, each sector representing a distinct orientation towards wage restraint, leveling, and bargaining institutions (see Figure 5). Wage earners with the market power to push for higher wages and the ability to externalize the costs can be called the privileged sector. This coupling of bargaining power with capacity for externalization is explosive unless there are centrally enforced limits on militancy.<sup>15</sup> Workers in the strategic sector also enjoy powerful market positions but have incentives to exercise wage self-restraint in order to preserve the competitiveness of their firms and hence their future capacity to hire and pay workers. This segment of the labor force shares with the market vulnerable sector (workers in weak labor market positions) a vested interest in imposing constraints on the ability of privileged workers to engage in militant behavior that will raise the costs of living.

However, conflicts of interest also exist between market vulnerable workers and better positioned segments of the labor force. Groups that are relatively weak in the market often enjoy organizational power resources that allow them to demand a more favorable distribution of wages in a confederated and centralized union structure.<sup>16</sup> In the language of modern bargaining theory, if the flow of discounted

**Figure 5** Sectoral Cleavages among Workers and Structural Constraints on Wage Push

**Can Costs of Militancy be Externalized?**

		Yes	No
Labor Market Power	High	<p><b>Privileged</b></p> <p>Strong Incentives for Free-Rider Defection</p>	<p><b>Strategic</b></p> <p>Market-Induced Self-Restraint</p>
	Low	<p><b>Market Vulnerable</b></p> <p>Market-Imposed Restraint</p>	

wages under a decentralized wage bargaining system defines the outside options for different unions, then unions' relative organizational resources in the centralized system, their inside options, determine the actual outcome subject to the constraint defined by the outside options.<sup>17</sup> Because inside options tend to favor low wage, low skill groups of labor, bargaining theory implies that intraorganizational bargaining will result in a distribution of wages that is more egalitarian than the distribution resulting from decentralized bargaining. Bargaining theory thus provides a causal linkage between centralization and wage leveling.

Wage leveling also interferes with the capacity of firms to improve flexibility by rewarding employees who acquire firm-specific skills and accept more demanding shopfloor responsibilities. Because rewards of this kind are periodically "ironed out" through central bargaining in accordance with solidaristic wage norms, the goal of greater wage flexibility is difficult to achieve in a centralized, redistributive bargaining regime. Wage leveling is therefore doubly problematic: it increases the likelihood of dissent among strong groups of labor, and it undermines attempts by employers to design new flexible incentive systems. Of course, only employers who pursue diversified quality product market strategies are severely affected by this problem, while employers who are dependent on more traditional production technologies will be concerned primarily with cost containment. As suggested in Figure 6, the dependence on flexibility for competitiveness is therefore one dimension that divides employers. The second dimension is the degree to which producers are exposed to competitive world markets and is analogous to the division between workers who are more or less capable of externalizing militancy.

**Figure 6** Sectoral Cleavages among Firms and Their Requirements for Flexibility and Vulnerability to Wage Push

		Is Firm Vulnerable to Market Wage Push?	
		Yes	No
Is Flexibility Essential for Competitiveness?	Yes	<p><b>Strategic</b></p> <p>Constrained by Need to be Price and Quality Competitive</p>	<p><b>Privileged</b></p> <p>Sheltered from Competitive Pressure</p>
	No	<p><b>Cost Vulnerable</b></p> <p>Constrained by Need to be Price Competitive</p>	

Thus, high exposure precludes the ability to pass the direct or indirect costs of wage push on to prices without loss of market shares.<sup>18</sup>

There are thus three sectors of employers. The cost vulnerable sector is composed of employers who do not depend on a highly flexible work force but are exposed to international competition. These employers are likely to support centralization as a means to contain the wage pressure from privileged groups of workers. In contrast, support for decentralized institutions will be strongest among a privileged sector of employers who are relatively sheltered from international cost competition and manufacture high price, high quality products requiring a large skill-intensive work force. Finally, producers in the strategic sector, like their counterpart among workers, face opposing incentives. On the one hand, they are interested in keeping wage costs under control for reasons of price competitiveness. On the other hand, they depend on wage flexibility in order to retain their nonprice competitiveness.

On the basis of this sectoral classification we can now hypothesize likely cross-class coalitions (see Figure 7). The redistributive cost-control coalition is the classic alliance for centralization described by Swenson: workers who are weak in the market or who can not externalize the costs of militancy form an alliance with cost-sensitive employers to oppose “robbers’ coalitions” of unions and employers able to pass on the bill for higher wages to the rest of the economy. This cost-control coalition implies centralization and tends to have most favorable distributive consequences for workers in weak labor market positions.

In contrast, a high-cost flexibility coalition would leave weak labor segments

**Figure 7** Hypothesized Patterns of Cross-Class Coalitions

		Sector of Workers		
		Privileged	Strategic	Market Vulnerable
Sector of Employers	Privileged	<p style="text-align: center;"><b>High-Cost Flexibility Coalition for De-centralization</b></p>		
	Strategic			<p style="text-align: center;"><b>Low-Cost Flexibility Coalition</b></p>
	Cost Vulnerable		<p style="text-align: center;"><b>Redistributive Cost-Control Coalition for Centralization</b></p>	

without organizational resources to advance their interests, while privileged workers (who enjoy both high market power and the capacity for cost externalization) would benefit the most. Among employers, traditional cost-sensitive firms would be the principal losers, while cost-insensitive firms would benefit from greater flexibility.

Finally, employers who are sensitive to both flexibility and cost and workers who are in favorable market positions but can not externalize wage militancy (the strategic sectors) will be wary of both centralization (because it may imply inflexibility and wage leveling) and decentralization (because it may imply wage cost-push). In the case of these “pivotal” sectors it is therefore necessary to examine the case-specific trade-offs between, on the one hand, different institutional designs and, on the other, wage push, wage leveling, and flexibility. Whenever it is possible to combine low costs with flexibility through decentralization or to dissociate centralization from wage leveling, we expect the strategic sectors of workers and employers to form a low-cost flexibility coalition. More specifically, we can propose the following hypotheses.

*Hypothesis 1* In the absence of an inflationary sector of privileged workers and employers, and in the presence of wage leveling, centralization offers few cost advantages but inhibits wage flexibility that benefits diversified quality producers and high-skilled workers. Under these conditions flexibility coalitions are likely to form to support decentralization

*Hypothesis 2* If centralized bargaining institutions are dissociated from wage leveling, and/or if the economy is exposed to strong inflationary pressure from a privileged sector, cost-control coalitions are likely to remain powerful, and support for centralization will be strong.

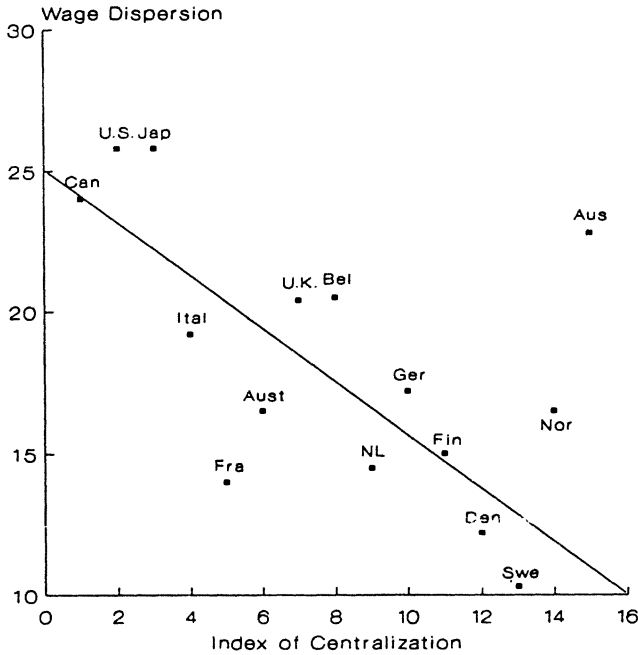
I will argue that the structural-economic circumstances which prevailed in Sweden and especially in Denmark at the beginning of the 1980s approximated the conditions stipulated in the first proposition, thus explaining the trend away from highly centralized wage bargaining. In contrast, because wage leveling was deliberately decoupled from peak-level bargaining in the Austrian wage-setting institutions, pressure for decentralization from both unions and employers was much weaker. Finally, because the Norwegian economy was plagued by militant “maverick” unions in the booming petrochemical sector and by wage competition (aggravated by expansionary macroeconomic policies), support for centralization to curb such inflationary pressure was strong among core groups of employers and unions.

### **Applying the Model: A Comparison of Denmark and Sweden**

Changes in structural-economic constraints during the 1970s and 1980s facilitated the formation of cross-class flexibility alliances in Denmark and Sweden. Radical solidaristic wage policies in the context of technological change, internationalization of product and capital markets, tighter fiscal constraints on the state, and reorientation of economic policy priorities led to an intensification of distributive struggles between different groups of wage earners and employers that induced the formation of flexibility alliances and a decentralization of the bargaining system.

**Repudiation of Solidaristic Wage Policies** The thesis of interunion bargaining over the distribution of wages implies that wage compression is the result of favorable inside options for low-skilled, low-paid workers and is a function of the degree of centralization in wage bargaining. Figure 8 provides some cross-national evidence for this hypothesis among fifteen OECD countries. There is a very strong negative relation between centralization and wage dispersion.<sup>19</sup> As expected, the Scandinavian countries, which have the most centralized

**Figure 8** Centralization of Wage Bargaining and Dispersion of Earnings in Fifteen OECD Countries, 1973–1986



**Note:** Dispersion of earnings is the variance of the logarithm of hourly earnings by industry based on an average of UN, ILO, and US Bureau of Labor Statistics data for the years 1973/83 (UN), 1975/84 (ILO), and 1975/86 (BLS). Centralization are rankings, where a higher number means a higher level of centralization. There is no explicit period reference for the centralization index, but it is reasonably applied to the 1970s and early 1980s.

**Sources:** Dispersion of earnings: Richard Freeman, "Labor Market Institutions and Economic Performance," *Economic Policy* (1988), 64-80; Centralization: Lars Calmfors and John Driffill, "Centralization of Wage Bargaining," *Economic Policy* (1988), 14-61.

bargaining institutions, exhibited the most compressed wage structures. The only outlier is Austria with a far more dispersed earnings structure than would be predicted from its centralized bargaining institutions. (I will discuss Austrian "exceptionalism" below.)

The association between centralization and wage compression is based on the assumption that the labor confederation is a coalition of different interests whose authority is delegated from the national unions to the confederation. This assumption was met in the centralized Danish and Swedish bargaining systems. In Denmark the central negotiation committee of the LO was composed of the

chairpersons of the LO and the major national unions, with the Metal Workers' Union (Metal), the General Workers' Union (SID), and later the Union of Commercial and Clerical Employees (HK) as the dominant players, and the unions jealously guarded their autonomous status within the confederate structure.<sup>20</sup> Because any proposal in the peak-level bargaining process had to be agreed upon in the central negotiation committee, the major unions held an effective veto power, and distributive issues had to be settled through a negotiation process among the unions. "No agreement could be reached without granting rises to low-paid groups," thereby creating a "vigorous element of solidarity."<sup>21</sup>

The Swedish LO's solidaristic wage policy had a more articulated intellectual and ideological justification, while the industrial union structure dissipated some of the polarization on this issue that was evident in the Danish LO. Although such unions as the large Municipal Workers' Union (SKAF) and the smaller textile and agricultural workers' unions with predominantly low wage members formed a majority in LO's collegiate bargaining council, support for solidaristic wage policies extended deep into the ranks of the Metal Workers' Union.<sup>22</sup> Low wage workers thus formed a *de facto* cross-union coalition within LO, capable of vetoing any wage strategy that failed to pay heed to their distributive interests.

Solidaristic wage policies became official LO policy in the late 1950s and early 1960s and left an indelible imprint on the wage structure in the two countries.<sup>23</sup> Available industrial earnings statistics show that between 1963 and 1977 wage dispersion for Danish manual workers diminished by about 54 percent, while from 1970 to 1982 it declined 26 percent for salaried private employees.<sup>24</sup> In Sweden, wage dispersion for manual workers decreased about 54 percent between 1970 and 1980, while it declined 26 percent for white collar workers between 1972 and 1980.<sup>25</sup> During the latter part of the 1970s the trend toward wage compression began to level off, followed by substantially growing dispersion beginning in the early 1980s. This pattern can be clearly detected for both occupational categories and for both countries. Consistent with the theory, this reversal of fortunes coincided with the growing importance of wage negotiations at the industry and firm levels and a corresponding decrease in the wage-setting authority of the peak-level organizations.

As the obvious consequence of wage leveling during the 1960s and 1970s, outside options, *ceteris paribus*, became more attractive for high wage groups. In fact, there are compelling reasons to expect that outside options, measured in terms of relative labor market scarcities, improved for the high-skilled/well-educated segment of the labor force in progression with the greater use of skill-intensive technologies and with the displacement of low skill jobs associated with more standardized forms of production.<sup>26</sup> Evidence from nearly all OECD



countries, including Denmark and Sweden, establishes a clear negative link between peoples' level of training/education and their risk of unemployment and shows that the rise in unemployment during the 1970s was disproportionately concentrated in the group of low-skilled manual workers. Outside options for better-trained and more well-educated workers were thus moving in the opposite direction of their inside options (using wage leveling as an indicator of the latter).

As relative wages grew more and more out of synch with relative market scarcities, some groups of workers found increased opportunities for additional wage increases at the firm level. Unsurprisingly, therefore, several studies have found a positive relationship between wage compression and wage drift.<sup>27</sup> Wage drift is a violation of officially sanctioned distributive norms and contains an element of dissent. However, growing wage drift can not be viewed simply as a form of defection or free-riding by workers with scarce skills since such groups have always existed. Moreover, the intense distributional conflicts that developed within the Danish and Swedish LOs in the late 1970s contrast with the high level of consensus over solidaristic wage policies during the 1960s. What differed in the late 1970s and early 1980s was the desire of a growing number of employers to escape the increasingly narrow constraints on their prerogatives to design internal company incentive structures. In both countries, solidaristic wage policies and the system of compensatory mechanisms which underpinned this strategy came to be viewed by many employers as the principal obstacle to achieving greater production flexibility and international competitiveness.<sup>28</sup>

In response to the changing competitive conditions on international markets, many firms began to introduce nonstandard systems of payment aimed at increasing labor productivity and long-term company loyalty.<sup>29</sup> Terms such as "qualification wages," "result wages," "productivity bonuses," and "profit sharing" became buzz words during the 1980s, especially in the engineering sector where the exposure to new technology and transition to new flexible modes of production were greatest.<sup>30</sup> The increasing use of these new forms of remuneration were often supplemented by more traditional wage hikes that benefited primarily well-trained workers with scarce skills. In seeking more flexible wage systems many employers therefore became cooperative partners for those groups of employees who sought to escape the constraints of solidaristic wage policies.

This gradual introduction of more flexible wage systems created difficult dilemmas within the centralized bargaining structure. Jonas Pontusson and Peter Swenson point out that, as employers placed more emphasis on quality and seniority based wages, they broke the upper limits of centrally negotiated wage standards, which immediately registered as wage drift.<sup>31</sup> In turn, such drift

triggered payments of compensation to other employees in both the private and public sectors, either directly through formal compensation mechanisms (“earnings-development guarantees” in Sweden and wage indexation in Denmark) or indirectly through solidaristic wage demands in subsequent bargaining rounds.

One obvious solution to the problem would have been to allow decentralized wage formation to play a greater role within the confines of centrally determined wage ceilings. A bargaining formula along these lines was in fact adopted in the 1985 Swedish bargaining round when LO and SAF, under pressure from the government (the so-called Rosenbad talks), reached an agreement which set upper limits on wage increases (in compliance with the government’s voluntary five percent guideline) but allowed the distribution of these increases to be determined at the sectoral and local levels. A similar framework for wage bargaining was established in 1991 with the creation of a government-sponsored commission (the Rehnberg commission) charged with setting targets for overall wage increases, while refraining from regulating firm-level seniority, merit, and promotion raises.<sup>32</sup> In Denmark, the employers’ association similarly tried to steer the local wage formation process by imposing wage ceilings on individual companies with the threat of fines for noncompliance.<sup>33</sup> These ceilings were in effect from 1983 to 1991 but proved quite ineffective, especially in the metalworking sector where skilled workers often exceeded the limit by more than 100 percent.<sup>34</sup>

The main problem with wage ceilings was that, as remnants of the old centralized system, they ran counter to the power structure within the confederal union structure, while they simultaneously failed to address the problems of decentralized wage competition. Because low ceilings on negotiated wages benefited groups of labor that were better able to take advantage of subsequent opportunities for drift, low-paid workers and LO viewed them as a threat to the solidaristic wage policy and used the ceilings instead as targets for minimum acceptable increases for their low-paid members. In a sense, therefore, centralized wage coordination in an essentially decentralized institutional setting failed to address both the problem of wage compression and the problem of cost pressure. I shall return to a discussion of this dilemma below.

In both countries, the distributional conflict within the labor movement was exacerbated by radical wage leveling in the public sector. Because the public bargaining system left very little, if any, room for wage drift, wage leveling in it had progressed further than in the private sector.<sup>35</sup> Thus, high wage groups in the public sector generally earned less than their private counterparts, while low wage groups often earned more.<sup>36</sup> Among private sector unions within LO this situation deepened divisions between low wage unions, which saw cross-sector coordination as a way to defend their wages and the principle of wage leveling, and stronger

unions, which tended to view public unions as both free-riders on productivity increases in private industry and wage leaders for low wage unions (through the high degree of wage compression). Wage leveling in the public sector, in other words, intensified the emerging conflict over solidaristic wage policies in the private sector.<sup>37</sup>

In sum, the bargaining power of low-skilled, low wage labor groups is clearly associated empirically with the degree of centralization in wage bargaining as predicted by the intraorganizational bargaining model. During the 1960s and early 1970s this association produced a pronounced compression of wages opposed not only by high skill, high-paid labor groups, but also by employers seeking to "recapture" managerial control over the wage structure while adjusting to knowledge-intensive forms of diversified quality production. The distributional consequences of the centralized wage bargaining system therefore helped to lay the foundation for the sectoral realignment of the early to mid 1980s.

**Internationalization and the Fiscal Crisis of the State** The desire for a more decentralized wage-setting system is always tempered by the risk that decentralization will cause a rise in the overall wage bill and cost of living. The original attraction of centralization, after all, was its capacity to contain the inflationary potential of militant unions in sheltered sectors. However, structural economic changes since 1973 and the policy shifts that accompanied them gradually undermined the cost advantages of centralized bargaining and transformed "ordinary" distributional conflicts into political contests over institutional structure. As domestic markets in Denmark and Sweden grew increasingly subject to international competitive pressure, and as governments adopted more restrictive economic policies to cope with the growing fiscal crisis of the state, the feasibility of controlling wage costs in a decentralized system improved.

Data for the trends in world market exposure for Danish and Swedish manufacturing industries show that for all industrial categories the share of trade out of total production increased substantially between 1970 and 1985. In some industries, such as textiles and chemicals, the increase in exposure was very large (between 27 and 174 percent), while in other industries, such as food, paper, and printing, the increase was more modest. Liberalization has also subjected traditionally protected service industries, such as banking, retail, and insurance, to greater international competition during the 1980s. Although these industries remain more sheltered from competition than manufacturing, the intensified effort of the European Union to harmonize rules and regulations in services is bound gradually to close this gap now that Denmark and Sweden are EU members. Equally important, the effect of even moderately growing world market exposure

on firms' sensitivity to wage costs has been amplified by increasingly integrated capital markets, limiting the possibilities for unions to squeeze profits without causing flight of investment capital.<sup>38</sup> This growing option of capital exit is clearly evident in the Scandinavian countries, where the outward flow of investment capital increased nearly tenfold in Denmark and more than fortyfold in Sweden from 1980 to 1990.<sup>39</sup>

The increasing internationalization of product and service markets has thus undermined unions' attraction to militant wage strategies, and there is a keen awareness among top union officials in the private sector that it requires unions to play a more constructive role in assisting firms to meet the test of changing international markets. This process of world market integration has been gradual and is by no means complete. In particular, the rapid growth of public service employment during the 1960s substantially enlarged a largely sheltered "class" of wage earners. Indeed, scholars within the public choice tradition have argued that the public provision and finance of services remove the market incentives to control the costs of these services, thereby making the public sector inherently inflation-prone.<sup>40</sup>

There can be little doubt that this argument captures an important aspect of the privileged structural position enjoyed by public employees during the 1960s and early 1970s, but it accords too little attention to factors which counteract the bargaining power of public sector unions. Until recently the determination of wages in the public labor market was subsumed under the private sector bargaining system through a dense network of formal and informal coordination mechanisms.<sup>41</sup> From the mid 1970s these mechanisms were strained by the mounting direct economic and political costs of public sector expansion, compounded by persistently low economic growth and increasing debt burdens.<sup>42</sup> Growing budget deficits became associated with both "crowding-out effects" in the private sector and with capital flight in increasingly integrated money markets. Most important, soaring levels of taxation met with intensified opposition from business and private sector unions, and the electoral success of the Danish Progress Party and the Swedish Conservatives in the 1970s—both running on neoliberal, antitax platforms—sent a clear message to politicians that there were electoral costs associated with public sector expansion.<sup>43</sup>

The fiscal crisis of the state and the associated changes in the political cost structure induced governments to take tougher stands against the demands of public sector unions and to reform the budgetary process. Thus, the automatic regulation of public sector wages to compensate for private sector wage drift was restricted and eventually suspended, and Social Democratic and Conservative governments alike initiated cutbacks in public expenditures.<sup>44</sup> In addition, under the leadership of the ministry of finance in both countries, a series of budgetary

and administrative reforms was aimed at bringing public expenditures under control. These reforms were associated with the decentralization and sectoralization of public wage bargaining and the gradual formation of a more differentiated and market conforming wage structure.<sup>45</sup> While hotly contested by public sector unions, new bonus systems were gradually introduced to reward individual employees, and privatization plans have had the explicit objective of exposing public service production (and low wage employees!) to market competition.

There is little doubt that the reorientation of public expenditure policies and the reforms in the public bargaining system weakened the bargaining power of public sector unions. As a percentage of private sector wages, public sector wages fell from 109 to 98 percent between 1971–79 and 1980–88 in Denmark and from 97 to 89 percent in Sweden.<sup>46</sup> Although these numbers are not adjusted for the possible effects of uneven changes in the composition of qualifications and employment contracts, such as education, seniority, and part-time work, detailed correlational studies with such controls show a very similar pattern. The decentralization of public sector wage bargaining has also started to increase wage dispersion, although the full implications of these changes are still to be seen.

In conclusion, from being a privileged sector in terms of personal income and working conditions, the inherent cost-push potential of the public sector diminished significantly during the 1970s and 1980s. From the perspective of private sector organizations, the private-public sector wage coordination mechanisms characteristic of the old centralized bargaining system became increasingly dispensable, even counterproductive, for the task of containing public sector wage costs. Similarly, growing internationalization has increased the exposure of many industries to global competition, thereby reducing incentives for wage militancy in these industries. Both developments have facilitated the transition to a more decentralized bargaining system.

**Full Employment Policies under Attack** In its role as public employer, the government exerts considerable direct control over the power of unions in the sheltered public sector. In addition, its macroeconomic policy goals have an indirect effect on the wage-push potential in the economy. During the 1960s, as part of the postwar settlement, full employment policies created tight labor markets that made the imposition of centralized wage standards a prerequisite for wage restraint and competitiveness. However, from the early 1980s in Denmark and more recently in Sweden the macroeconomic policy regime was altered in a nonaccommodating direction to deter unions and employers from pursuing militant wage-price strategies. Such nonaccommodating policies facilitate decentralization

because their successful application does not depend on peak-level coordination between the government and unions.<sup>47</sup>

In Denmark, this neoliberal alternative to the prevailing macroeconomic regime became a more appealing political option over the course of the 1970s because of the increasing difficulty in reconciling full employment with union wage strategies. LO and specially SID (the unskilled workers' union) refused to observe the government's exceedingly narrow limits on bargained wage increases because they adversely affected wage solidarity. Devaluations would have allowed more "room" for bargained wage increases, while simultaneously improving price competitiveness, but were strongly opposed by the central bank and the financial community, and the government was constrained by its commitments to the European Community and the European currency "snake." Thus, the policies of LO and the government collided despite extensive consultations, and the government increasingly resorted to statutory incomes policies and restrictive high interest policies to contain inflation and speculation against the currency.

However, a decisive policy reversal did not occur until a bourgeois coalition government took office in 1982 after a tired Social Democratic party suddenly dropped the reins. The new government quickly initiated four fundamental economic reforms: the firm pegging of the *krone* to the *Deutschmark*, sweeping liberalization of capital markets, complete elimination of the fiscal budget deficit, and suspension of all cost-of-living indexation. After a relatively short transition period, capital controls were lifted, and dramatically restrictive fiscal policies were initiated (an 8 percent deficit was converted into a 4.5 percent surplus in five years), convincing markets that the new hard currency policy was credible. In addition, by suspending automatic cost-of-living indexation and eliminating compensation of public employees for private sector wage increases, the government reduced the inflationary effects of wage drift.

The new economic policies simultaneously lowered the inflationary costs of decentralized wage increases and deterred unions from pursuing militant strategies. By abandoning full employment as a policy goal and pegging the currency to the mark, the government created an unambiguous bottom line: any changes in wages and prices that were incompatible with the fixed exchange rate policy would be met by a tightening of monetary policies and hence a rise in unemployment. Once this commitment was made, all domestic economic policy instruments were relegated to the sole objective of maintaining confidence in the currency, which meant essentially that the government had to toe the nonaccommodating policy line of the German *Bundesbank*.

For a period in the early 1980s Swedish macroeconomic policies were also drifting toward a more deflationary regime as the center-right government embarked on policies to combat rising inflation and current account deficits. However, a more compromise-oriented policy prevailed as the two center parties

(*Centern* and *Folkpartiet*) agreed with the Social Democrats on a tax reform and a ten percent currency devaluation. When the Conservative Party, more firmly committed to a neoliberal strategy, subsequently left the government, the path was open for the Social Democrats to pursue their “third way” strategy of devaluation-led reflation after the election of 1982. A large sixteen percent devaluation by the new government helped improve the current account, and the unemployment rate (at 3.1 percent in 1982) started to decline.<sup>48</sup> Crucial to the success of the devaluation was LO’s agreement in advance not to demand compensation for the cost of living increases expected from higher prices on imports.<sup>49</sup>

However, the institutional basis underpinning the full employment policy was starting to crumble when the Engineering Employers’ Association (VF) and the Union of Metal Workers (Metall) decided to conduct separate negotiations in 1983 and the white collar bargaining cartel (PTK) refused to coordinate its wage strategy with LO. The government tried to salvage the old bargaining system by putting pressure on the parties to resume peak-level negotiations and met with some success in 1985–86 in the so-called Rosenbad talks. Similarly, the Rehnberg Commission was established to set broad wage guidelines in consultation with the main organizations. However, by legitimizing centralized wage setting but excluding the major organizations from direct influence and responsibility, it generated little support and smacked of traditional incomes policies (similar to those attempted in Denmark in the late 1970s). It also did not achieve what it set out to do. Thus, with tight labor markets and no effective peak-level control, unions in sheltered and booming sectors could exploit their bargaining power and “leapfrog” other unions during wage negotiations.<sup>50</sup> Swedish competitiveness deteriorated rapidly.<sup>51</sup>

For more traditional exporters of standardized goods, especially in the forest and paper and pulp industries, this deterioration was sufficient evidence that decentralization did not work, but for the most powerful Swedish companies, organized primarily in the Metal Employers’ Federation, the failure of the Rehnberg Commission was another reason to push for a more radical transformation of both industrial relations and economic policies.<sup>52</sup> Their coffers were full from the profit boom after devaluation in the early 1980s, and time was on their side. The government was rapidly losing control over the economy. When the current account drifted into deficit, confidence in the Swedish *krona* started to slip, and the Social Democratic government was eventually faced with the choice of either devaluating again or adopting the “Danish” solution of a hard currency regime. In the face of rapidly integrating capital markets, unable to contain inflationary pressures, it knew that another devaluation would require the reinstatement of draconian capital controls (abolished during the 1980s). Such controls would not only have been very difficult to police, but would also have

branded Sweden as a high risk for foreign investment.<sup>53</sup> Instead, the government gave in to the pressures of money markets and pegged the value of the *krone* to the ECU in May 1991.

The new hard currency policy quickly fell victim to the EMS currency turmoil following the deficit-financed German unification. However, the Swedish policy reversal in 1991 was accompanied by a substantial discretionary tightening of fiscal policies, increase in interest rates, reduction in unemployment benefits, and preparation for membership in the European Union and EMS. These policies, initiated by the Social Democrats and developed by the subsequent bourgeois coalition government, resulted in an unprecedented rise in Swedish unemployment, from less than two percent in 1990 to over eight percent in 1994. While the recently inaugurated Social Democratic government has promised more “socially responsible” policies, like its Danish counterpart it does not talk about returning to the full employment policies of the 1960s and 1970s.

In sum, the government’s macroeconomic policies have important ramifications in the wage formation process and thereby influence the relative attraction of different bargaining institutions for different sectors of employers and workers. The restrictive monetarist regime initiated by the Danish government in 1982 facilitated the transition to a more decentralized system, while the Swedish full employment strategy made such a transition more difficult. Despite common pressures toward more decentralized bargaining institutions, Swedish macroeconomic policies fostered countervailing pressures that help explain the oscillation between centralization and decentralization in the 1980s. The tension seems to have been resolved with the reversal of Swedish macroeconomic policies in 1991.

**The Cross-Class Realignment for Decentralization** Swedish employers were initially deeply divided over the wisdom of breaking with a system of wage determination that for the past thirty years had produced industrial peace, full employment, and one of the most prosperous economies in the world. Moreover, unlike the Danish situation, the policies of the Social Democratic government had created an economic environment in which it was difficult to contain wage militancy. Thus, only employers in the most advanced and dynamic sector of the economy, who stood to gain the most from decentralization, were initially prepared to support the long and arduous process of transforming the institutional infrastructure of Swedish political economy.

Divisions were also evident within labor. By the early 1980s large groups of skilled workers found themselves in fortuitous labor market positions, while their job responsibilities and autonomy and the complexity of their work assignments increased. Thus, a growing number of blue collar workers were doing work that was virtually indistinguishable from that of white collar employees.<sup>54</sup> Against this background, the support in Metall for solidaristic wage policies was wearing thin,



but skilled workers could find little sympathy for their problems inside LO. Instead, Metall was able to accommodate its members' grievances through the convergence of its institutional preferences with those of engineering employers. Leaving the LO fold in 1983 for a favorable wage offer by VF had the desired effects on the wage structure and allowed Metall to take on a more central role in the bargaining system.

After the initial break in 1983, wage bargaining in 1984, 1988, and 1993 was conducted between industry associations and the corresponding blue collar unions without coordination by LO and SAF and government-imposed wage ceilings. However, this decentralization was interspersed with more centralized bargaining rounds, sometimes at the government's initiative. Nevertheless, deeper institutional changes in recent years strongly hint that the decentralization process is irreversible. The strongest signal came in 1990 when SAF shut down its central bargaining unit, and since then SAF has withdrawn from virtually all government bodies, including the previously very important Labor Market Board (AMS).

In addition, supporting structures have been changed at the sectoral level, especially in the metalworking industry. Sectoral bargaining cartels have brought white and blue collar workers in the engineering sector together in the same bargaining units, and recently the Engineering Industry Association (VI) was created through the merger of the two powerful employer organizations in the metalworking sector, the Engineering Employers' Association (VF) and the Metalworking Industrial Association (*Mekanforbundet*).<sup>55</sup> The explicit aim of this reorganization is to create a bargaining system (similar to the German and Danish) in which collective wage agreements concluded in the exposed sector are pattern-setting for the entire economy.<sup>56</sup>

In Denmark, the practice of decentralized bargaining initiated in 1981 was also prompted by pressure from engineering employers and from skilled workers, though it was facilitated by state intervention after the breakdown of the three previous bargaining rounds in 1975, 1977, and 1979. The successful conclusion of the decentralized bargaining round in 1981 was the first settlement since the early 1930s that did not involve the main organizations or the Conciliation Board, and it clearly demonstrated to employers and unions alike that an orderly bargaining process was possible in a decentralized system. The experience was therefore water on the political mill of those who advocated decentralization. Even so, there was a partial return to centralized bargaining in 1983, when negotiations began at the sector level but were to be referred to the peak level in case of failure to reach an agreement, and in 1985, when bargaining broke down and the government intervened.

Following 1985, however, DA (the Danish employers' association) definitely rejected centralized bargaining, and an intense conflict broke out within LO between SID and Metal. SID made a strong pitch for a return to centralized and

solidaristic wage bargaining but was vehemently opposed by Metal. SID's organizational dominance in the LO bureaucracy and its allies among other low wage unions made it impossible for Metal to prevent the resumption of solidaristic wage policies, and Metal instead sought a more radical break with LO. In a decentralized system, wages would be determined directly through negotiations between the Metal Industry Employers and the Central Organization of Metal Workers (CO-Metal). The latter was a cartel of both skilled workers (organized in Metal) and unskilled workers (organized in SID and the Union of Female Workers, KAF) with a history predating centralized bargaining. Unlike in LO, skilled workers were in the driver's seat in the CO-Metal cartel, where the chairperson of Metal acted as the chief negotiator. Decentralization, therefore, would effectively marginalize the leadership of SID and hence mark an end to the solidaristic wage policy.<sup>57</sup>

For employers the main issue was how to effectuate decentralization without endangering effective coordination of wages. In the words of Due et al.: "If the structure of Danish industry (and commerce), still characterized by the high percentage of small and medium-sized firms, were not to cause a certain measure of chaos when bargaining competence was decentralized, the organizations would have to be centralized to form entities capable of coordinating and controlling developments."<sup>58</sup> These concerns led to a spate of mergers and reorganizations in the 1980s. Whereas previously DA was divided into approximately one hundred sectoral and seventy-eight local associations, by the end of 1989 there were only fifty-one member associations. Most important, the Metal Industry Employers took the initiative in 1989 to merge with the Association of General Industries, creating one large Industrial Employers' Association (later called Danish Industry).

Though it created a larger bargaining area, the merger actually decentralized the 1991 bargaining round because all wage negotiations between this new association (whose members represented 47 percent of DA's total pay bill) and the various unions and cartels (especially CO-Metal) now took place within the so-called minimum wage area where only minimum (rather than actual) wage rates were negotiated by the organizations. In response to these changes, a reorganization of unions into larger sectoral bargaining cartels ensued. The changes have been most significant in the metalworking sector where a new bargaining cartel, CO-Industry, was formed in 1992 to counterbalance the Association of Danish Industries.

In sum, the combined effect of internationalization, controlled growth in public sector wages, and rising levels of real and threatened unemployment (early in Denmark, later in Sweden) relaxed market-induced wage push emanating from privileged sectors in the economy. Combined further with growing discontent over the distributive consequences of corporatist bargaining institutions, it made a more decentralized and flexible bargaining system increasingly attractive to powerful groups of employers and workers. In both countries, the initiative to break with

decades of centralized wage bargaining came from export-oriented engineering employers and unions dominated by highly skilled and relatively well paid workers. Correspondingly, the decentralization of the system resulted in loss of influence for the peak associations and low wage unions but a strengthened role for unions and employers at the sectoral level, especially in the internationally oriented engineering sector. In terms of the theory, these changes represent a sectoral realignment for flexibilization and cost control.

### **Austrian and Norwegian Divergence**

The institutional changes in the bargaining system in Denmark and Sweden were not matched in Austria and Norway despite similarities in organizational structures and political institutions. In Austria the centralized system exhibited great stability throughout the 1980s, while in Norway attempts were made to increase centralization and cross-sectoral wage coordination. It would greatly strengthen the explanation for decentralization in Denmark and Sweden if the divergent developments in Austria and Norway could be traced to their different positions on the theoretical variables.

Centralized wage-setting institutions in Austria—in particular the Parity Commission for Prices and Wages (and its subcommittee on wages), the Federal Economic Chamber (representing employers), and the ÖGB (the union confederation)—differ in one important respect from those in the other three countries: the distribution of wage increases has never been subject to centralized bargaining. Instead, adjustment of relative wages in response to changes in labor demand and supply is achieved through a complex system of plant and sector level negotiations (under the surveillance of the subcommittee on wages and the ÖGB), and wage increases for particular groups of employees are approved by the commission if they can be justified in terms of changes in relative labor scarcities. Such wage increases trigger adjustments in the wage structure that form the basis for demands in the following round of collective bargaining. Because lower level bargaining rights are delegated from the ÖGB and any agreement is subject to approval by the commission, the peak level exerts an important influence over increases by signaling targets, but it does not attempt to influence wage differentials between industries and occupational groups.

The core principle underpinning the Austrian bargaining process is that, by allowing relative wages to be determined at the sectoral and firm level, negotiators at the peak level can focus on the appropriate adjustments in the economywide level of wages.<sup>59</sup> The centralized leadership thus acts more like a referee in a multilayer game than a player bargaining the outcome directly with employers. This system has allowed wage differentials largely to reflect relative labor

scarcities, and, unlike the Danish and Swedish experiences, the wage structure in Austria has shown no signs of compression.<sup>60</sup>

The absence of centralized wage compression ensures that wage drift occurs primarily as a result of differential productivity gains, and, unlike the Danish and Swedish cases, ÖGB and the subcommittee on wages do not grant compensation for drift to other groups of wage earners. Moreover, in the absence of solidaristic wage policies there is no need for the peak negotiators to anticipate the reverse distributive implications of subsequent drift and to “compensate” for them through higher bargained wages. This approach helps to explain the remarkable capacity of Austrian governments to combine full employment with low inflation. Thus, average unemployment during the 1980s was 3.3 percent—slightly higher than in Sweden (2.4 percent), but much lower than in Denmark (10.9 percent)—while prices increased at an annual rate of 3.9 percent, compared to 8.2 percent in Sweden and 6.0 percent in Denmark.

The tolerance of wage inequality by ÖGB has facilitated flexibility in wage structures and thereby dissipated pressure for changes in bargaining structures similar to those experienced in Denmark and Sweden. Yet this institutional stability comes at the expense of democratic control by unions over the political dispositions of the ÖGB leadership. Unlike the Scandinavian labor confederations, individual unions have little say in the formulation of ÖGB wage strategies. Rather, the ÖGB controls its members. Thus, the confederation exercises very considerable authority over the financing and staffing of its affiliated unions, and it enjoys weighty influence over the formulation of wage strategies by individual unions.<sup>61</sup> The ÖGB member unions have no legal personality apart from the ÖGB itself, and the authority of the confederation is bolstered by legislation which ensures that centrally negotiated wage agreements cover practically all workers, whether or not they are members of unions affiliated with the ÖGB.<sup>62</sup> Individual unions therefore can not affect ÖGB wage policies by threatening to veto or defect from agreements they find unsatisfactory, although they exercise some (delegated) responsibility in the regulation of wages within their own bargaining area.

The unique design of the Austrian bargaining system conforms to a system of political organization which Arend Lijphart has dubbed “consociational.”<sup>63</sup> The defining characteristic of this system is intense elite cooperation in the context of potentially divisive conflicts between groups with opposed interests. The key to the success of the system is the high degree of autonomy of elites from followers; “enlightened” elite accommodation for the sake of mutual gains can replace the destructive distributive conflicts that would otherwise ensue. The underlying assumption is that elites fear a political deadlock and therefore exclude from the political agenda, to the extent feasible, issues that may threaten one.

This interpretation is echoed in historical accounts of the emergence of corporatist wage bargaining institutions in Austria after World War II. Peter

Katzenstein has argued that, unlike the Scandinavian countries, Austrian corporatism was born of elite compromises in the context of sharp social divisions.<sup>64</sup> The loss of World War I, civil war in 1934, and devastating experience of the Left during the Nazi occupation taught Austrian leaders the high costs of political conflict and instilled in them a degree of political caution and risk aversion found in few other countries. As Katzenstein puts it: "In Austria, democratic corporatism is built on both a community of fate (*Astgemeinschaft*) and a community of fear (*Angstgemeinschaft*)."<sup>65</sup> After the war, caution was virtually built into Austrian collective bargaining institutions through a combination of extreme elite dominance over peak-level bargaining and depoliticization of potentially divisive distributive issues through delegation of bargaining power.<sup>66</sup> In particular, Austrian leaders sought to avoid the politicization of wage differentials, which would have deepened the divisions between Catholic and Socialist unions (which had been on different sides in the civil war) and jeopardized the goal of creating a united labor movement.

Austrian exceptionalism may also partly be attributed to organizational and structural factors. It has been suggested that the privileged position of the metalworkers' union in Austria's nationalized economy and the labor movement helps to account for the particular wage policy adhered to by the ÖGB.<sup>67</sup> Because a large proportion of the members of the metalworkers' union is skilled and has relatively well paying jobs, it has been difficult to form a consensus around a solidaristic wage policy. Another contributing explanation may be that, because a nonaccommodating economic regime was in place before the formation of a centralized system, peak-level decision makers knew from the outset that solidaristic wage policies would run counter to monetary constraints (at least after the beginning of the first oil crisis) and therefore left distributive issues to be determined at lower levels in the bargaining hierarchy. For lack of detailed comparative and historical evidence, I leave these ideas as conjectures.

This brief account of the origins and nature of Austrian bargaining institutions clearly does not do justice to their historical complexity, but it does help to highlight those features that make them different from the Scandinavian cases. Because Austrian institutions allow the control of wage costs to be dissociated from wage leveling, external pressures stemming from internationalization and technological change have been absorbed without generating a strong opposition to centralized bargaining as in Denmark and Sweden. Hence, although Austria faced similar challenges from the international economy, they could be addressed without a major restructuring of domestic institutions.

Norway constitutes another exception to the trend toward more pluralist bargaining, but for different reasons than in Austria. The "outlier" status of Norway is related less to any unique institutional features of the Norwegian system than to the political-economic consequences of the oil boom from the early to mid

1970s. Because workers and employers in the oil sector and in industries benefiting from forward and backward linkages to oil production—especially the energy-intensive petrochemical, electrometallurgical, and paper and pulp industries—were sheltered from normal competitive pressure, the linkage between wage push and competitiveness was severed.<sup>68</sup> Thus, rising oil prices and the prospect of high profits in oligopolistic markets generated huge capital investments, drove up demand for labor, and empowered workers to push for higher wages without providing moderating incentives for restraint. Moreover, since workers in the oil industry were being organized largely by unions outside the traditional federations, they were not bound by the established Norwegian bargaining system. The oil industry, in other words, constituted a wage-spiraling combination of cost-insensitive employers and independent, militant unions.

As employees in other sectors sought to defend their relative wage positions, operating from the assumption that the oil revenues would improve the standard of living for all wage earners, the economywide pressure on wages soared. In addition, the revenues from oil exports relaxed fiscal constraints on the state and empowered Norwegian governments to increase public sector employment (up 40 percent between 1973 and 1989) and to pursue expansionary Keynesian policies even during periods when the international economy was on the upswing.<sup>69</sup> The consequences were extremely tight labor markets and intense inflationary pressure, which severely strained Norwegian wage-setting institutions.

These problems were evident already in the 1974 bargaining round when negotiations, under pressure from radical left-wing member unions of LO, were decentralized for the first time in thirteen years. Widespread strikes broke out, and the resulting wage increases were nearly three times higher than in the previous bargaining round.<sup>70</sup> Consequently, international competitiveness deteriorated rapidly, and the export of processed goods dropped eight percent between 1973 and 1979.<sup>71</sup> Simultaneously, the increase in consumption benefited the more sheltered consumer and service sector and caused a rapid growth in imports.<sup>72</sup>

The 1974 wage explosion required a new approach to wage bargaining. When the government proposed multilateral negotiations, the employers' association dropped its previous opposition to government involvement in collective bargaining, and LO seized the chance to restore its authority. However, the tripartite bargaining approach agreed to in the following three bargaining rounds and the mix between local and centralized forms of bargaining adopted between 1982 and 1988 contained wage costs only modestly.<sup>73</sup> Centrally bargained wages covered only part of the labor market, and LO lacked the power to prevent local unions from engaging in inflationary wage competition during the contract period.

These problems became particularly acute during the rapid expansion of consumption under the bourgeois coalition government from 1982 to 1986. Labor costs grew much faster in Norway than in Denmark, Sweden, and Austria, and

competitiveness (measured in relative unit labor costs) deteriorated rapidly.<sup>74</sup> Industrial production declined, imports grew, and nonoil exports fell.<sup>75</sup> When oil prices suddenly dropped in 1986, the cushion of oil revenues was removed, and the long decline in the competitiveness of Norwegian industry was manifested in the rapid deterioration of the external current account. Labor markets, however, remained tight, and the decentralized bargaining formula adopted in 1986 was poorly designed to shore up inflationary wage competition between unions in different sectors. Against this background, the Social Democratic government, which came to power in 1986, declared 1987 a year of “emergency incomes policies” and agreed with LO and NAF that centrally negotiated limits on wage increases were absolutely essential to restore competitiveness to the Norwegian economy. As a condition for accepting such limits, however, LO demanded that the government impose the terms of agreements on the entire labor market, including the ground-rent sectors.

In the 1988 bargaining round this coalition for controlling wage costs generated a settlement in which the government, under protest from some unions, used legislation to extend an agreement negotiated by LO and the newly formed employers’ association, NHO (created as a merger between NAF and a number of other employer organizations), to cover most other bargaining areas and ban local bargaining.<sup>76</sup> A similar highly centralized formula, backed by legislative power, was adopted in 1990, followed by LO-NAF agreements in subsequent bargaining rounds. Thus, wage increases became smaller: average yearly growth in manufacturing earnings was 5.7 percent from 1988 to 1990, only slightly higher than in Austria and Denmark (5 and 5.3 percent, respectively) and far below Sweden (9.1 percent) and other small European countries (7.2 percent).

The recentralization of Norwegian bargaining institutions was a natural consequence of the rapid growth of the oil industry and expansionary fiscal and monetary policies. When the collapse of oil prices revealed the costs of the declining competitiveness of Norwegian industry in 1986, cost sensitive employers and workers in the exposed sectors allied themselves with an “activist” government to control the militancy of privileged “maverick” unions and restore cost competitiveness to Norwegian industry. This solution, of course, very much resembled the dynamic that gave rise to centralized bargaining institutions in the 1930s as described by Swenson.<sup>77</sup>

The trend toward the centralization of Norwegian wage bargaining in the late 1980s and early 1990s should not blind us to the underlying pressures for decentralization. As in Denmark and Sweden, capital market integration has increased, and credit markets were liberalized in the 1980s, thereby restricting freedom in economic policies.<sup>78</sup> Likewise, greater flexibility in production and work organization has created pressures for greater wage dispersion (reflected in the introduction of new pay systems) that run up against the solidaristic wage

policies of LO.<sup>79</sup> Finally, the Norwegian state is experiencing increasing fiscal strains, and unemployment has been rising since the late 1980s, when oil prices failed to recover.

Employers have consequently expressed increasingly vocal criticisms of the centralized bargaining system that they themselves helped to bring about. NHO officially seeks elimination of the guaranteed minimum wage, the cornerstone of Norway's solidaristic wage policy, and there is again talk about employers' breaking with the centralized bargaining system and withdrawing from public corporatist bodies.<sup>80</sup> As the structure of the Norwegian economy and labor markets "normalizes," competition in international energy markets grows, and the government adopts nonaccommodating economic policies, a shift towards decentralization would be consistent with the predictions of the theory.

## **Conclusions**

This paper has argued that since the early 1980s Denmark and Sweden have experienced a cross-class realignment of economic interests in which the post-World War II centralized bargaining regime, predicated on voluntary wage restraint, redistribution, and full employment, has given way to a more decentralized regime based on flexible wage structures, inequality, and market-induced restraint. These institutional changes in the wage formation process have been accompanied by a reordering of economic policy priorities away from full employment and welfare state expansion toward price stability and balanced budgets.

The low cost flexibility coalition that emerged in Denmark and Sweden during the 1980s and early 1990s should be contrasted to the continued support for centralization in Austria and Norway. Here crucial elements for change were missing. In Austria the redistributive goal of wage leveling was institutionally subordinated to the goal of collective gain, and pressure for institutional change was therefore dissipated, while in Norway the wage-cost inflation emanating from the oil sector and the associated deindustrialization of the Norwegian economy renewed support for centralized solutions in the late 1980s. In light of the broad political-economic similarities among Denmark, Sweden, Norway, and Austria, these divergent institutional patterns, anticipated by the model, strengthen our confidence in the explanatory power of the theoretical argument.

More broadly, this study implies that there exists a rather intimate relationship between macroeconomic policy regimes and collective wage bargaining institutions. Thus, when Danish monetary policies moved in a nonaccommodating direction in the late 1970s, LO's solidaristic wage policies became incompatible with full employment, and when a hard currency regime was instituted by the



bourgeois government, it appears to have facilitated the decentralization process. In contrast, Social Democratic governments in Sweden delayed the transformation of Swedish bargaining institutions during the 1980s by adhering to a full employment policy. Yet, once Swedish employers definitely abandoned peak-level bargaining, it proved very difficult for the government to sustain its policies. In Norway, in contrast, expansionary macroeconomic policies, facilitated by high oil revenues, exacerbated an already highly inflationary economic environment and made it exceedingly expensive for the exposed sectors to remain in a decentralized system.

These experiences suggest that centralized solidaristic bargaining is generally associated with a government commitment to full employment, while decentralization is associated with a nonaccommodating policy. The only persistent exception is Austria, where an orderly system of peak-level bargaining has long coexisted with a relatively restrictive monetary regime. In this case, however, the absence of solidaristic wage policies made it possible for the government to pursue low inflation targets without conflicting with the distributive wage strategies of labor. Since Austria is exceptional in this respect, the general proposition of a causal relationship between bargaining institutions and macroeconomic policy regimes warrants further theoretical and empirical exploration.

#### **Appendix: Classification of Bargaining Authority**

Jelle Visser has identified various components of centralization of authority that I have employed in Table 1 to assign weights to different bargaining levels.<sup>81</sup> Visser emphasizes the level of bargaining and the sanctions and strike decision-making authority that higher-level union organizations enjoy over their members. In addition, attention has been paid to the authority exercised by different levels of employer associations, especially the power to call lockouts. Enforceable agreements are associated with centralized control over strike and lockout funds and are backed by a legal system of labor courts and fines for noncompliance. The term nonenforceable targets refers to peak-level wage recommendations that may serve as focal points for lower level bargaining yet are not accompanied by any credible threats. The assigned weights are not logically exhaustive but reflect the range of authority relations that are actually observed in the four cases.

In order to find the centralization scores for each bargaining round, the weights in Table 1 must be combined with information about the distribution of union membership across confederations and unions. For example, in Austria in 1973 there was a single labor confederation organizing both blue and white collar workers (ÖGB) and sixteen industrial unions with the following shares of total union membership (in order of magnitude): .183, .180, .129, .095, .092, .074, .046, .045, .041, .031, .018, .017, .016, .013, .011, .009. Combining this information with the weights in Table 1, Equation (2) yields the following index-score for centralization.

$$[.7*1^2 + .3*(.183^2 + .180^2 + .129^2 + .095^2 + .092^2 + .074^2 + .046^2 + .045^2 + .041^2 + .031^2 + .018^2 + .017^2 + .016^2 + .013^2 + .011^2 + .009^2) + 0*(0.00^2)] = .81$$

**Table 1** Classification Scheme for Centralization of Authority (above the dashed line, Peak-level bargaining, below the line, Industry-level bargaining)

Weights	Definitions
1, 0, 0	National associations monopolize wage bargaining and strike/lockout decisions, and agreements are enforceable. Lower-level bargaining is banned (Norway 1988-1989).
.7, .3, 0	National associations monopolize bargaining and strike/lockout decisions, and agreements are enforceable. Lower-level (primarily industry) bargaining is permitted subject to peak-level approval. (Austria 1960-1991).
.7, 0, .3	National associations monopolize bargaining and strike/lockout decisions and agreements are enforceable. Lower-level bargaining (primarily local) takes place subject to a peace clause. (Denmark 1973-1979, 1983-1985; Norway 1976-1980, 1983, 1985, 1990-1991; Sweden 1973-1982, 1983 <sup>a</sup> , 1985 <sup>a</sup> , 1989 <sup>a</sup> ).
.1, .7, .2	National associations and/or the government set non-enforceable targets for lower-level bargaining, but industry-level organizations retain rights to bargain and to call strikes/lockouts. Local bargaining is permitted subject to a peace clause. (Denmark 1987, 1989, 1991; Norway 1974, 1982, 1984, 1986; Sweden 1984, 1991).
0, .8, .2	Industry-level organizations monopolize bargaining and strike/lockout decisions, and agreements are enforceable. Local bargaining is permitted subject to a peace clause. (Denmark 1981; Norway 1986; Sweden 1988).

<sup>a</sup> In these instances bargaining is simultaneously carried out by peak-level organizations and by industry organizations in the metalworking sector. For simplicity all bargaining is considered to take place at the peak level, while the calculation of the centralization score takes into account the coincidence of industry- and peak-level agreements.

The share of membership by any single union at the local level is assumed to be negligible, an assumption practically always satisfied.<sup>82</sup>

## NOTES

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1. See Philippe C. Schmitter, "Interest Intermediation and Regime Governability in Contemporary Western Europe and North America," in Suzanne Berger, ed., *Organizing Interests in Western Europe* (Cambridge: Cambridge University Press, 1981); Lars Calmfors and John Driffill, "Centralization of

Wage Bargaining," *Economic Policy*, 3 (1988), 14–61; Jelle Visser, *European Trade Unions in Figures* (Deventer: Kluwer, 1989).

2. Miriam Golden, "The Dynamics of Trade Unionism and National Economic Performance," *American Political Science Review*, 87 (June 1993), 439–54.

3. Markku Laakso and Rein Taagepera, "Effective Number of Parties: A Measure with Application to West Europe," *Comparative Political Studies*, 12 (1979), 2–27.

4. For example, if there are one hundred equally sized bargaining units at the lowest level ( $n = 100$ ), and all bargaining power is concentrated at this level, then  $C = .01$ .

5. It should be noted that "decentralized" bargaining in the Scandinavian context still implies a high (and actually increasing) degree of coordination of wages across firms within industries. In this sense the Scandinavian bargaining systems continue to be "centralized." Nevertheless, I use the term "centralized" here to denote multiindustry peak-level bargaining and "decentralized" to denote multifirm industry bargaining.

6. See Jonas Pontusson and Peter Swenson, "Markets, Production, Institutions, and Politics: Why Swedish Employers Have Abandoned the Swedish Model," paper presented at the Eighth International Conference of Europeanists, Council for European Studies, Chicago, March 27–29, 1992; Nils Elvander, *Den svenska modellen: Lonförhandlingar och inkomstpolitik 1982–1986* (Allmänna Forlaget, 1988).

7. Peter Katzenstein, *Small States in World Markets* (Ithaca: Cornell University Press, 1985).

8. Peter Gourevitch, "The Second Image Reversed," *International Organization*, 32 (Autumn 1978), 881–912.

9. Calmfors and Driffill, "Centralization of Wage Bargaining"; David Cameron, "Social Democracy, Corporatism, Labor Quiescence, and the Representation of Economic Interest in Advanced Capitalist Society," and Peter Lange, "Unions, Workers and Wage Regulation: The Rational Bases of Consent," both in John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (New York: Oxford University Press, 1984); Adam Przeworski and Michael Wallerstein, "The Structure of Class Conflict in Democratic Capitalist Societies," *American Political Science Review*, 76 (1982), 215–38; Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982).

10. Peter Swenson, *Fair Shares: Union, Pay, and Politics in Sweden and Germany* (Ithaca: Cornell University Press, 1989); Peter Swenson, "Bringing Capital Back In, or Social Democracy Reconsidered: Employer Power, Cross-Class Alliances, and Centralization of Industrial Relations in Denmark and Sweden," *World Politics*, 43 (1991), 513–45.

11. According to Swenson, the "moral economy" "overrides what self-interest and market power alone would dictate." See Swenson, *Fair Shares*, p. 3.

12. See Torben Iversen, "Wage Bargaining, Monetary Regimes, and Economic Performance in Organized Market Economies: Theory and Evidence," Center for European Studies Working Series, 59 (1995).

13. Wolfgang Streeck "On the Institutional Conditions of Diversified Quality Production," in Egon Matzner and Wolfgang Streeck, eds., *Beyond Keynesianism* (Aldershot: Edward Elgar, 1991). See also Michael J. Piore and Charles F. Sabel, *The Second Industrial Divide: Possibilities for Prosperity* (New York: Basic Books, 1984).

14. Pontusson and Swenson very similarly use the flexible specialization argument in their treatment of the Swedish case.

15. In the special case where all workers and unions fall into this category the dilemma can be analyzed as a multiplayer PD game, the approach adopted in the collective action model.

16. See Michael Wallerstein, "Centralized Bargaining and Wage Restraint," *American Journal of Political Science*, 34 (1990), 982–1004.

17. See Martin Osborne and Ariel Rubinstein, *Bargaining and Markets* (Boston: Academic Press, 1991).

18. In the case of public service producers, vulnerability is primarily a matter of the effect of particular spending policies on political support.

19. Lacking data for several OECD countries on the centralization index, I have employed the measure of centralization developed in Calmfors and Driffill.

20. Jesper Due, Jørgen Steen Madsen, Carsten Strøby Jensen, and Lars Kjerulf Petersen, *The Survival of the Danish Model: A Historical Sociological Analysis of the Danish System of Collective Bargaining* (Copenhagen: DJØF, 1994), pp. 150–1, 189–90.

21. *Ibid.*, p. 189.

22. Swenson, *Fair Shares*, p. 59.

23. Over time the meaning of wage leveling has shifted in Sweden. Solidaristic wage policies were introduced at the 1951 LO congress and meant essentially “equal pay for equal work.” This market conforming (or even market perfecting) form of wage leveling was superseded in the 1960s by a more radical market nonconforming interpretation that emphasized interoccupational (and intrafirm) leveling. See Elvander, *Den svenska modellen*, pp. 30–36, 256–68. In Denmark, solidaristic wage policies always had an interoccupational form because they reflected a compromise among the main unions in a craft-based organizational structure.

24. Calculations are based on Dansk Arbejdsgiverforening, *Lønstatistikken* (Copenhagen: various years).

25. Calculations are based on Douglas Hibbs and Håkan Locking, “Löneutjämning och löneökningstakt under den solidariske lönepolitiken,” *Ekonomisk Debatt*, 8 (1991), 653–65; Statiska Centralbyrån, “Löneutvecklingen 1973–1985,” *Information om arbetsmarknaden* (Stockholm: SCB, 1987); and Statistiska Centralbyrån, *Löner i Sverige 1982–1989* (Stockholm: SCB, 1991).

26. See Michael Piore, “Perspectives on Labor Market Flexibility,” *Industrial Relations*, 25 (1986), 146–67; Paul Windolf, “Productivity Coalitions and the Future of European Corporatism,” *Industrial Relations*, 28 (1989), 1–20; Streeck, On the Institutional Conditions of Diversified Quality Production; Piore and Sabel, *The Second Industrial Divide*.

27. See Robert J. Flanagan, “Centralized and Decentralized Pay Determination in Nordic Countries,” and Torben M. Andersen and Ole Risager, “Wage Formation in Denmark,” in Lars Calmfors, ed., *Wage Formation and Macroeconomic Policy in the Nordic Countries* (Stockholm: SNS Forlag, 1990); Hibbs and Locking.

28. For a representative employer perspective, see Lars-Gunnar Albåge, “Recent Trends in Collective Bargaining in Sweden: An Employer’s View,” *International Labor Review*, 125 (1986), 98–122.

29. See Guy Standing, *Unemployment and Labour Market Flexibility: Sweden* (Geneva: International Labour Office, 1988), pp. 56–63; Anders Kjellberg, “Sweden: Can the Model Survive?,” in Anthony Ferner and Richard Hyman, eds., *Industrial Relations in the New Europe* (Oxford: Basil Blackwell, 1992), pp. 107–12, Ibsen and Stamhus, p. 54; Due et al., pp. 157, 161; Pontusson and Swenson.

30. See Kjellberg; Pontusson and Swenson; Ibsen and Stamhus.

31. Pontusson and Swenson. See also Ibsen and Stamhus, pp. 53–58.

32. See Pontusson and Swenson, p. 19; Kjellberg, pp. 114–115.

33. Ibsen and Stamhus, pp. 61–63.

34. *Ibid.*, pp. 63–67.

35. My examination of the public sector wage data shows that between 1970 and 1982 the wage dispersion between civil servants in the Danish state administration decreased nearly 45 percent, while the comparable figure for other Danish state employees is about 38 percent. In Sweden the picture is very similar: from 1973 to 1980 dispersion decreased by 24 percent in the state sector and by 23 percent in the municipal sector.

36. Nina Smith and Niels Westergård-Nielsen, “Udviklingen i lønforskelle mellem den offentlige og private sektor,” *Nationaløkonomisk Tidsskrift*, 1 (1988), 13–30; Johnny Zetterberg, “Lønstruktur i privat og offentlig sektor,” *Forskningsrapport Nr. 26* (Stockholm: FIEF, 1988).

37. Unsurprisingly, distributive conflicts have also developed within the public sector, despite a collective interest in maintaining parity with private sector wage increases. Public employees with highly marketable skills have generally been in favor of harmonizing the public wage structure with the private sector.

38. Fritz Scharpf, *Crisis and Choice in European Social Democracy* (Ithaca: Cornell University Press, 1991), pp. 238–55.

39. Figures are based on United Nations, *World Investment Directory*, vol. 3 (New York: United Nations, 1993), pp. 155, 411.

40. See James M. Buchanan and Robert D. Tollison, eds., *The Theory of Public Choice—II* (Ann Arbor: University of Michigan Press, 1984); Aaron B. Wildavsky, *Budgeting: A Comparative Theory of Budgetary Processes* (New Brunswick: Transaction Books, 1986).

41. Some of these linkages were direct since some public employees were organized in LO member unions (primarily in the large Swedish and Danish municipal workers' unions, SKAF and DKA). Equally important was more informal coordination between private sector organizations and governments; the latter used agreements concluded in the private sector as the norm for reaching public sector wage settlements. Consequently public sector unions were subjected to private sector wage discipline.

42. Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990), ch. 7.

43. For an analysis of the growing polarization of public and private sector interests in Sweden, see Peter Swenson, "Labor and the Limits of the Welfare State," *Comparative Politics*, 23 (1991), 379–99.

44. See Jesper Due and Jørgen Steen Madsen, *Når der slås søm i: Overenskomstforhandlinger og organisationsstruktur* (Copenhagen: Jurist og Økonomforbundets Forlag, 1988), pp. 42, 55; Peter Nannestad, *Danish Design or British Decease? Danish Economic Crisis Policy 1974 in Comparative Perspective* (Århus: Aarhus University Press, 1991), pp. 159–62; Lars Mjøset et al., *Norden Dagen Derpå* (Oslo: Universitetsforlaget, 1986), p. 261.

45. See Elvander, pp. 314–16; Due and Madsen; Kjellberg; Jonas Pontusson, *The Limits of Social Democracy* (Ithaca: Cornell University Press, 1992), p. 119; Herman Schwartz, "Small States in Big Trouble: State Reorganization in Australia, Denmark, New Zealand, and Sweden, in the 1980s," *World Politics*, 46 (1994).

46. Calculations are based on data from Tom Cusack, "The Changing Contours of Government," *WZB Discussion Paper*, P 91–304 (Berlin: Wissenschaftszentrum Berlin für Sozialforschung, 1991).

47. Traditionally, sheltered sectors such as construction and retail have been vulnerable to such policies because fiscal austerity and high interest rate policies reduce purchasing power and debt-financed investments. See Scharpf and Iversen.

48. With this new devaluation the Swedish krone was devalued by 52 percent since 1976, compared to 24 percent for the Danish krone. See Thorvaldur Gylfason, "Exchange Rate Policy, Inflation, and Unemployment: The Nordic EFTA Countries," in Victor Argy and Paul De Grauwe, eds., *Choosing an Exchange Rate Regime: The Challenge for Smaller Industrial Countries* (Washington, D. C.: IMF, 1990), p. 186; Daniel Gros and Niels Thygesen, *European Monetary Integration: From the European System to European Monetary Union* (London: Longman, 1992), p. 17; Erik D. Hansen, Kaj Kjærsgaard, and Jørgen Røsted, *Dansk Økonomisk Politik: Teorier og Erfaringer* (Copenhagen: Nyt Nordisk Forlag, 1991), pp. 148–49. These sources contain more detailed analyses of Danish and Swedish currency policies.

49. Elvander, p. 291; Pontusson, *Limits of Social Democracy*, pp. 116–17.

50. A perverse example is the 1988 bargaining round, in which an agreement was first reached in the baking sector; it awarded wage increases that were totally unacceptable to the exposed industries. Another example is the decentralized 1984 bargaining round in which public sector wages broke the proposed six percent pay norm.

51. Unit labor costs rose much faster than in the rest of OECD, and in eight of the ten years since 1980 hourly earnings in manufacturing increased faster in Sweden than in Denmark.

52. The concerns of cost-sensitive employers were addressed in 1989 when SAF agreed to return to centralized bargaining with LO (while VF and Metall conducted separate negotiations). The resulting two-year SAF-LO agreement became pattern-setting for other bargaining areas and thus resembled the traditional centralized system.

53. See Jonathan Moses, "Abdication from National Political Autonomy: What's Left to Leave?," *Politics and Society*, 22 (1994), 125–48.

54. Rianne Mahon, "From Solidaristic Wages to Solidaristic Work: A Post-Fordist Historical Compromise for Sweden?," *Economic and Industrial Democracy*, 12 (1991), 295–325.

55. The cartel encompasses employees organized in Metall, the white collar union SIF, and the civil engineering affiliate of the SACO/SR academic and professional union federation.

56. See *European Industrial Relations Review* (September 1992).

57. Steen Scheuer, "Struktur og forhandling: Aspekter af fagbevægelsens strukturudvikling i efterkrigstiden: Ektern struktur, medlemstal samt strukturen i de kollektive overenskomstforhandlinger," in Svend Aage Andersen et al., *Årbog for arbejderbevægelsens historie, 1990* (Copenhagen: SFAH, 1990); Steen Scheuer, "Denmark: Return to Decentralization," in Ferner and Hyman, eds., *Industrial Relations in the New Europe*.

58. Due et al., p. 190.

59. The so-called wage quota (*Lohnquote*) provides the benchmark for determining wage increases. Basically, wage increases are permitted if they do not bring the functional division of income between capital and labor out of synch with macroeconomic requirements. See Randall Kindley, "Rational Organization: Labor's Role in the Emergence and Reproduction of Austrian Neo-Corporatism" (Ph.D. diss., Duke University, 1992), pp. 202, 243, 354.

60. See *ibid.*, pp. 375–83; Edwald Walterskirchen, *Unemployment and Labour Market Flexibility: Austria* (Geneva: International Labour Office, 1990), pp. 54–7; Robert Rowthorn, "Corporatism and Labour Market Performance," in Jukka Pekkarinen, Matti Pohjola, and Bob Rowthorn, eds., *Social Corporatism* (Oxford: Clarendon Press, 1992).

61. Peter Katzenstein, *Corporatism and Change: Austria, Switzerland, and the Politics of Industry* (Ithaca: Cornell University Press, 1984), pp. 47, 61.

62. Since all companies are compulsory members of the Federal Economic Chamber which negotiates wages on their behalf, virtually all employees are covered by collective agreements.

63. Arend Lijphart, *The Politics of Accommodation* (Berkeley: University of California Press, 1968).

64. Katzenstein, *Corporatism and Change*, pp. 181–90.

65. *Ibid.*, p. 189.

66. Scharpf, *Crisis of Social Democracy*, pp. 178–80, 188–90, 193–94.

67. See Kindley, pp. 375–83.

68. Atle Midttun, "Norway in the 1980s: Competitive Adaptation or Structural Crisis? A Comment on Katzenstein's Small-State/Flexible-Adjustment Thesis," *Scandinavian Political Studies*, 13 (1990), 311. It should be noted that the use of the term "sheltered" in this context deviates from the previous use of the term. These industries were not necessarily sheltered from international competition but rather benefited directly from the oil boom and therefore enjoyed a unique advantage over other industries in their capacity to pay higher wages.

69. Lars Calmfors, "Wage Formation and Macroeconomic Policy in the Nordic Countries: A Summary," in Lars Calmfors, ed., *Wage Formation and Macroeconomic Policy in the Nordic Countries* (Uppsala: SNS Forlag, 1990), pp. 26–8; Jon Dølvik and Dag Stokland, "Norway: The 'Norwegian Model' in Transition," in Ferner and Hyman, eds., *Industrial Relations in the New Europe*, p. 155.

70. Robert L. Flanagan, David W. Soskice, and Lloyd Ulman, *Unionism, Economic Stabilization, and Incomes Policies: European Experience* (Washington, D.C.: The Brookings Institution, 1983), pp. 168–69.

71. Denmark and Sweden experienced an increase of about ten percent in the same period. See Mjøset et al., *Norden Dagen Derpå*, p. 233.

72. See Erling Steigum, "Olijan och den norska ekonomin," *Economisk Debatt*, 6 (1984), 375–85.

73. Flanagan et al., pp. 184–91; Lars Mjøset, "Norway's Full-Employment Oil Economy: Flexible Adjustment or Paralyzing Rigidities?," *Scandinavian Political Studies*, 12 (1987), 330.

74. Calmfors, pp. 15–22.

75. Midttun, pp. 313–21.

76. Mjøset, p. 334; Calmfors, p. 33.

77. See Swenson, "Bringing Capital Back In."

78. See Moses; Dølvik and Stokland.

79. Dølvik and Stokland, p. 161.

80. *Ibid.*, pp. 161–63.

81. Jelle Visser, *In Search of Inclusive Unionism* (Boston: Kluwer, 1990), pp. 156–65.

82. In weighing bargaining levels, the monthly monitoring of collective bargaining in the *European Industrial Relations Review* has been invaluable. It has been supplemented with information from other sources, including Flanagan, Soskice, and Ulman, *Unionism, Economic Stabilization, and Incomes Policies*; and Ferner and Hyman, eds., *Industrial Relations in the New Europe*. Union membership data were obtained from ÖGB, *Tätigkeitsbericht* (Austria); *Statistisk Årbog* (Denmark); *Statistisk Årbok* (Norway); and *Statistisk Årsboke* (Sweden).