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12. Turbulent times and beyond: The Swedish experience

DOMINIQUE ANXO

1. Introduction

As a small, export-oriented economy strongly exposed to international competition, Sweden was extremely hard hit by the 2008 global financial crisis. The severe drop in aggregate demand between 2008 and 2009 led to a decrease in employment of around 100,000 persons and an increase in the unemployment rate from 6.2 to 8.3 per cent. However, sound public finances – due, inter alia, to early fiscal consolidation measures and structural reforms initiated during the 1990s – gave the Swedish Government room for manoeuvre. This included an expansionary macroeconomic policy in order to maintain aggregate demand and limit the negative impact of the crisis on employment, household income, consumption and welfare. Wage moderation by the social partners was also a feature during the crisis period. Modest increases in labour costs during the period 2008-10, combined with the depreciation of the Swedish currency on account of the expansionary monetary policy conducted by the Swedish Central Bank during the same period, also helped to mitigate the negative effects of the recession on output and employment. In other words, and without underestimating the role played by expansionary fiscal and monetary policies, there are strong reasons to believe that part of the Swedish “success story” relates to the specificity of the Swedish industrial relations system and the quality of its social dialogue.

One of the fundamental features of the Swedish industrial relations system is a strong contractual tradition based on the existence of powerful social partners, who enjoy considerable autonomy from the public authorities. Fundamentally bipartite, the Swedish model of industrial relations remains characterized by the central role played by the two sides of industry in mechanisms for regulating the labour market, notably wage formation and working conditions. The bipartite and contractual nature of labour market regulations, coupled with the high union density and high coverage rate of collective bargaining, creates a favourable institutional environment for the emergence of negotiated compromises aimed at balancing flexibility and security in the labour market. As stressed in Anxo (2013), Sweden thus constitutes a good illustration of a regime of negotiated flexibility, where the social partners are extensively involved in the regulation of working conditions and wage formation at the industry and company/local levels.
The main objective of this chapter is twofold: to assess the possible impacts of the global financial crisis on the Swedish industrial relations system and social dialogue; and, in a dialectic sense, to analyse the role of this system, as a productive factor, in alleviating the imbalances created by the 2008 economic downturn. Information has been drawn mainly from prior research, current literature and interviews. This chapter is divided up into a number of sections. Section 2 gives a broad description of the macroeconomic context and the main orientations of macroeconomic policies prior to and after the 2008 Great Recession, while section 3 analyses the involvement of the social partners and the role of social dialogue during and after the Recession. Taking a historical perspective, section 4 examines the main transformations of the Swedish collective bargaining system, and section 5 – the last section – provides some concluding remarks.

2. The macroeconomic and political context

2.1 The political context

Between 1993 and 2006, a Social-Democratic minority coalition Government was in place in Sweden. Following the 2006 parliamentary elections, the Left and Green parties lost the election and a new centre-right coalition Government led by the Prime Minister Fredrik Reinfeldt was established. Strongly inspired by neo-liberal ideas, this Government undertook a number of structural reforms during its two successive terms of office (2006-10 and 2010-14). These reforms aimed principally at increasing labour utilization in the long run through essentially supply-oriented measures, such as tax cuts and reforms of the social protection system. Several tax reforms aimed at reducing the tax wedge and increasing labour supply at both the extensive and intensive margins. Reforms of income tax were also implemented gradually, with the most important tax reforms in this context being the introduction of a system of in-work tax credits aimed at strengthening work incentives for low-income earners, and a reduction of marginal tax for high income earners – both reforms entailing a reduction of marginal tax of around 2-3 percentage points. The reform of the unemployment insurance system, particularly the reduction of income replacement rates, also aimed at enhancing work incentives, intensifying the job search and reducing unemployment spells (see section 4).

2.2 Main orientations of macroeconomic policy during the Great Recession

In the wake of the global financial crisis, the Swedish economy started to deteriorate rapidly in the second half of 2008, and in 2009 real GDP decreased by 5.0 per cent. With this severe drop in aggregate demand and output, employment decreased by around 100,000 persons between 2008 and 2009 (a decreased employment rate by 2.1 percentage points from 80.3 per cent in 2008 to 78.2 per cent in 2009). The fall in output and employment was marked in manufacturing, in particular in the male-dominated export oriented industries, with a decrease of 14 per cent.

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126 See appendix for the list of organizations contacted.
127 This coalition Government, the so-called Alliance, was composed of the conservative-liberal Moderate Party (Moderaterna), the Centre Party (Centerpartiet) and the Liberal Party (Folkpartiet liberlalerna).
Healthy public finances at the onset of the 2008 recession – due, inter alia, to early fiscal consolidation measures initiated during the 1990s\textsuperscript{128} – gave the Swedish Government room for manoeuvre in conducting a traditional Keynesian macroeconomic policy in order to maintain aggregate demand and limit the negative impact of the crisis on employment, household income, consumption and welfare.

Confronted by the severe deterioration of the situation in the labour market, the Swedish Government, in the early stage of the crisis (2008–09), implemented a package of recovery and countercyclical measures, ranging from expansionary fiscal and monetary policy, to active labour market policy (ALMP) and educational policy (Anxo, 2011; Anxo, 2013). This included extensive investments in the maintenance and operation of the road and rail networks. In order to stimulate activity and maintain labour demand in the construction sector, work in the form of repairs, maintenance and improvement of one-family houses and rented housing became tax-deductible. Between the years of 2009 and 2010, the Government announced further countercyclical expansionary measures to combat the crisis. These new fiscal measures covered mainly two areas: increased government grants to municipalities and county councils\textsuperscript{129} and more resources for ALMPs.

ALMPs have recurrently played a vital role in Swedish stabilization policies. The preference for the principle of employment promotion (work-first principle) has predominated over benefit options and passive measures for the unemployed. As usual during a period of recession, the level of appropriation of the public employment services increased, as did the number of participants in various ALMP programmes (labour market training, wage subsidies, coaching, etc.). In order to counteract the rise of unemployment, in particular long-term unemployment, the number of participants in the various ALMP programmes was gradually increased – from 171,000 in 2008 to 314,200 in 2014 (Public Employment Service, 2015). Regarding education and training policy, the Government increased the number of places in post-secondary vocational training, local authority upper secondary education for adults, and universities and colleges.

Although the reinforcement of ALMP measures and the various policies of activation and educational measures (in particular the Life Long Learning (LLL) facilities) do not, per se, create new jobs in the short run, they remain sound instruments for securing transitions from unemployment to employment and improving the allocation of resources between sectors. These policy measures, by increasing labour market participation, have favoured social inclusiveness and limited the development of long-term unemployment.

The Swedish economy recovered quickly with an increase of real GDP by 6.6 per cent in 2010 and 2.6 per cent in 2011. Employment also increased by 25,000 persons in 2010, and as much as around 100,000 in 2011. In the aftermath of the economic

\textsuperscript{128} In order to cope with the dramatic rising budget deficit and growing public debt, as a result of the 1993 recession, the Social-Democratic Government (1994-2006) took a number of fiscal consolidation measures. These included a reduction of the income replacement rate of several social protection system and stricter eligibility rules (Unemployment Insurance and Sickness Insurance); and a drastic cut in public employment (a reduction of 200,000 public jobs between 1995 and 2006). In order to ensure the long-run sustainability of the Swedish pay-as-you go pension system, the Government initiated in 1998 a comprehensive pension reform that was fully implemented in 2003. The old benefit-defined system was replaced by a mandatory defined contribution scheme (See Anxo 2015 for details).

\textsuperscript{129} In charge of the provision of social services, health, and pre-school, primary and secondary education.
recession, the average disposable income declined slightly (–1.0 per cent, between 2008 and 2010), while the median disposable income by consumption unit actually increased by above 3 per cent. The crisis’s limited impact on the development of disposable earnings is linked to the extent and generosity of the social protection and transfer systems (economic stabilizers), which, by international standards, remain high in Sweden. Furthermore, the reforms of the tax system initiated by the Government, which entailed a reduction in both average and marginal income tax combined by the Government’s countercyclical measures, such as the increase in the number of participants in ALMP, may partly explain the limited impact on disposable income. Sweden’s relatively quick recovery from the financial crisis in 2009-10 may be ascribed to several intertwined factors. These range from the expansionary fiscal policies conducted by the Swedish government to more favourable macroeconomic conditions, with a quick upturn of exporting industries – thanks to an expansionary monetary policy; and a floating exchange-rate regime and wage moderation (see section 3).

2.3 Impact of the financial and economic crisis on the labour market

At the onset of the global financial and economic crisis (second half of 2008), the Swedish economy started to deteriorate rapidly. With the severe drop in output and aggregate demand, employment declined sharply. The fall in output and employment was particularly marked in the male-dominated manufacturing industries and construction sector, with decreases of 25 and 20 per cent, respectively. In the early phases of the recession, adjustment essentially took the form of a reduction of overtime and a dramatic reduction in the number of agency workers and short-term contracts, in particular among male employees. Between 2007 and 2009 the number of notified redundancies dramatically increased (an increase of 65 per cent), while hiring and new vacancies decreased significantly (a reduction of 33 and 80 per cent, respectively). There was, however, a quick upturn of hiring and new jobs already in 2010 and the following years, reflecting the fast recovery of the Swedish economy. Despite this, the post-economic crisis (2010–14), did not result in lower rates of unemployment. The rate of unemployment has been rather constant at around 8 per cent since 2009. The share of long-term unemployment also increased during the period 2008–13.

As far as gender is concerned, the relatively stronger impact of the crisis on male unemployment relates largely to the abovementioned decline of employment in the male-dominated export-oriented manufacturing sector. Regarding older workers, Swedish companies have used early retirement to accommodate the recession – although to a significantly less extent than in previous economic downturns. The employment rate of senior workers (55–64 years of age) remained almost unchanged in the early phase of the crisis (and has even increased since then), while the unemployment rate among senior workers remained stable.

Youth unemployment and unemployment among non-natives are more sensitive to fluctuations in the business cycle. Indeed, the employment prospects of young people and foreign-born people had worsened significantly by the end of 2008.

130 In Sweden, long-term unemployment is defined as six months or more of joblessness (three months for young people aged 16-24 years).
At the end of 2009, youth unemployment rates reached 29 per cent and those for foreign-born people 16.4 per cent (compared to 7.8 per cent for native workers). Although the issue of labour market integration of foreign nationals has been high on the list of government priorities, the situation of immigrants has not significantly improved throughout the past decade. The increase in unemployment among non-natives relates also to their weak attachment to the Swedish labour market (higher incidence of temporary contracts, lower work experience and concentration in the low skill segment of the manufacturing industry and service sector). In March 2015, the Government initiated tripartite talks with the social partners in order to improve and speed up the labour market integration of newly arrived immigrants. One objective of these discussions was to accelerate this integration by creating fast tracks into the labour market for immigrants with adequate education and work experience. The outcome of these talks was the creation of workplace-based practical work experience schemes or subsidized employment targeted at newly arrived immigrants in industries with labour shortages. Since 2007, a number of educational reforms have been undertaken to meet the needs of the labour market, improve the quality of the educational and training system and ease the transition from school to work. These reforms have placed greater emphasis on vocational training and apprenticeship programmes.

It is interesting to note that the 2008 crisis did not entail an increase in the polarization of the occupational structure. As shown in Anxo (2014), the 2008 crisis predominantly implied a destruction of low-skilled and low-paid jobs, while the number of high-skilled, high-paid jobs rose. If anything, there are reasons to believe that the skills upgrading process during the last crisis slightly increased wage inequality, but the Gini coefficient remained almost unchanged between 2009 and 2012. While cuts in the social protection system and taxation reform – in particular capital taxation and the growth of financial markets – undoubtedly explain part of the rise in income inequality in Sweden, the changes in industrial relations and wage-setting systems might also have contributed to the widening of income distribution since the 1990s (see section 4). The long-term decline in low-skilled jobs and the concomitant increase in demand for high-skilled jobs, combined with the higher return to education witnessed during the past two decades, help to elucidate this increase in wage inequalities. The shift towards decentralized bargaining and individualization has been more pronounced among white-collar and high-skilled workers than among manual workers and low-skilled employees, in both the public and private sectors.

There are strong reasons to believe that this shift towards more decentralized and individualized wage setting has increased wage dispersion, particularly for high-skilled white-collar workers. Despite the tendency for rising wage inequalities, the relatively centralized and coordinated collective bargaining system, and a still compressed wage structure, have prevented the development of low paid/low-skilled jobs in Sweden. On the contrary, they have boosted policies favouring an upgrading of skills. In effect, the large investment in research and development, a well-developed life-long learning and training system, the expansion of tertiary education during the past three decades, as well as a more balanced bargaining power between the two sides of industry, have

131 By “polarization of the job structure” we mean here a concomitant increase of both low-skilled and high-skilled jobs and a destruction of jobs in the middle layers of the occupational structure.
limited the tendency towards job polarization that is found, for example, in liberal market-orientated welfare states. These factors have contributed to the development of a high-skilled knowledge-intensive workforce.

3. The role of social dialogue in national policy-making in the pre- and post-crisis period

As mentioned in the Introduction, the Swedish Model of industrial relations relies on powerful, independent, and all-encompassing employers’ and workers’ organizations that enjoy a strong autonomy vis-à-vis the central government. Essentially bipartite, the Swedish Model of industrial relations is characterized by the crucial role that both sides of industry play in mechanisms that regulate the labour market, notably wage formation and working conditions. Swedish labour law is limited by comparison with labour legislation in other EU Member States, and for the most part is ‘optional’; that is to say, most provisions of labour market legislation may be, wholly or partly, amended by collective agreements. Despite a recent and notable decline, the average union density in Sweden remains one the highest among modern economies – at around 70 per cent in 2014. In the same year, the coverage rate of collective agreements stood at around 90 per cent. It is important to note that the high coverage rate of collective bargaining in Sweden does not relate to the existence of legal provisions for the mandatory extension of collective agreements but rather to the high density rate of employers’ associations and the strong presence of trade unions at the firm/organization level. In fact, Sweden is characterized by well-established and strong employers’ organizations. In 2013, the density rate of employers’ organizations, measured as the proportion of dependent employees working in workplaces affiliated to employers’ associations, reached 87 per cent, a density rate significantly higher than union density (Kjellberg, 2015). With some exceptions, employers’ and workers’ organizations in Sweden are structured along sectoral/industry lines.

Despite a clear tendency towards decentralization during the past two decades, the Swedish bargaining system remains fundamentally a two-tier system, in which bargaining takes place firstly at the industry/sectoral level and afterwards at the company/organization level. It is important to emphasize that by international standards, the Swedish two-tier bargaining model remains centralized and coordinated. Social dialogue is institutionalized and well developed; regular consultations take place with the social partners and are a key element in the Government’s policies related to employment and social policies. Even though consultations and information sharing regarding labour market issues between the Government and the Parliament and both sides of industry have a long tradition, and are a common feature of the political process, the nature of industrial relations in Sweden remains essentially bipartite. Of course, the State is involved in social dialogue in its capacity as employer at the central and local authority levels, but this takes place through the respective employers’ and workers organizations. Notwithstanding its fundamental bipartite nature, tripartite talks do exist and are favoured in Sweden, and they result in either encompassing collective agreements

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132 The social partners are usually represented on parliamentary and government committees responsible for drawing up employment and social policies. In this way, the social partners exert significant influence on the contents of labour market legislation.
agreements or laws/regulations. Regarding the development of social dialogue during the 2008 global financial crisis, the recession had no negative impact on industrial relations\textsuperscript{133} and the period 2008–11 remained characterized by industrial peace – in sharp contrast to the situation during the previous recession in the early 1990s.\textsuperscript{134}

3.1 The role of the social partners in Swedish recovery

Since, as previously mentioned, the bulk of labour market regulations, working conditions and wage setting in Sweden is determined and regulated by collective agreement, an analysis of measures initiated to combat the impact of the economic crisis on employment cannot therefore be limited to government action. In contrast to other countries with weaker industrial relations systems and an unbalanced bargaining power between both sides of industry, the specificity of the Swedish industrial relations system also implies a more balanced sharing of the cost of the crisis in terms of both working conditions and inequalities at work. An analysis of the last two waves of the European Working Conditions Survey (EWCS) conducted by the European Foundation for the Improvement of Living and Working Conditions (Eurofound) in 2005 and 2010 (Anxo 2013) did not reveal a significant deterioration of working conditions in Sweden in the aftermath of the recession. Working time did not undergo large adjustments, work intensity remained almost unchanged, and work satisfaction and work-life balance opportunities seem to have even increased during the period.

As far as wage setting is concerned, experience from the deep economic crisis of the early 1990s shows that wage moderation characterized wage developments during the second half of the 1990s and early 2000s. There were therefore strong reasons to expect that, in the wake of the current severe economic and financial crisis, wage agreements would also be concluded in order to preserve employment stability and limit further increases in unemployment. In effect, an analysis of collective agreements shows that wage moderation, and not wage cuts as in some other Member States, typified the rounds of collective bargaining during and after the crisis. The depreciation of the Swedish currency – due to the above-mentioned expansionary monetary policy combined with wage moderation – resulted in a slowdown in the rate of increased labour costs. This slowdown helped to alleviate the negative effects of the recession on output and employment. The bulk of the adjustment in the public sector also took the form of wage moderation (Anxo, 2013), with the public sector following the same wage developments as in the private sector. According to short-term wage statistics from the Swedish National Mediation Office (2015), the rate of wage increases in 2009 and 2010 for the economy as a whole was 3.3 and 2.5 per cent, respectively; indeed, the increases were significantly below those recorded in the period 2007-08 in both the private and the public sector. The stable nominal wage increase also continued during the post crisis years 2010–13, when wage agreements concluded remained in the range of 2.5–3.0 per cent. In our view, these developments illustrate well the extent of

\textsuperscript{133} Currently, there are in Sweden more than 650 central collective agreements on wages and general terms and conditions of employment. It should be noted that the 2008 crisis per se did not impact negatively on the number of agreements, neither on union density or the coverage rate of collective bargaining.

\textsuperscript{134} The deep recession of the early 1990s took the form of a dramatic employment crisis. In just three years – from 1990 to 1993 – the rate of employment decreased by more than 10.5 percentage points to about 73 per cent, and the rate of open unemployment increased nearly fivefold, from less than 2 to around 10 per cent of the labour force. Furthermore, the Government’s annual budget deficit increased from about zero to some 14 per cent of GNP, whilst the public debt increased from 38 per cent to 76 per cent between 1990 and 1995.
Swedish negotiated wage flexibility during a recession, and the willingness of both sides of industry to share more equally the burden of the crisis and limit the potential impact of the recession on employment, wage distribution and inequality. The deep recession also had no direct impact on industrial relations, and the period 2009–10 remained characterized by industrial peace, in contrast to the situation in the 1980s and during the previous recession (1992–95) (see figures 12.1 and 12.2).

**Figure 12.1 Number of industrial conflicts, Sweden, 1985-2014**


**Figure 12.2 Industrial conflicts, number of workdays lost, Sweden, 1985-2014**

In Sweden, structural changes or economic downturns have seldom been accommodated by public measures aimed at maintaining employment and favouring labour hoarding – for example, by reducing working time or by work sharing measures, as in the case of France or Germany (Anxo 2011).

In Sweden, employment adjustment due to structural and technological change, with the consent/support of the trade unions, has traditionally taken the form of external numerical flexibility combined with ALMP measures. Following this tradition, the Swedish adjustment process in operation during the 2008 global economic crisis was a mix of negotiated numerical flexibility and the active support of dismissed workers through ALMP measures and/or negotiated agreements, which helped redundant workers find new jobs rapidly or enhance their employability. As described in Anxo (2011), in cases of collective redundancy due to restructuring or individual notice due to a shortage of work, the Swedish social partners often negotiate security/adjustment agreements to help displaced workers find new jobs quickly, by way of adjustment measures and financial support. This has been common practice since the early 1970s. The two sides of industry (bipartite organizations) administer these support programmes: the so-called Job Security Councils (Trygghetsråd) and Job Security Foundations (Trygghetsstiftelser). By supplementing the role of local public employment agencies, these agreements, covering about half the labour force, contribute towards improving the security of employees and to enhancing matching efficiency; they played an important role in accommodating the 2008 deep economic downturn. Sweden is in this way unique in that the social partners assume the responsibility of a major part of the active employment policy measures.

It should be noted that in order to alleviate the individual consequences of layoffs and plant closures, the former centre-right Government set up a plan for enhancing and promoting cooperation between stakeholders. These stakeholders generally include the Public Employment Service (PES), the Social Insurance Agency, the above-mentioned Job Security Councils and Job Security Foundations, the European Social Fund (ESF), municipalities, companies, non-profit organizations and trade unions.

Furthermore, even though there was no government measure for maintaining employment by means of short-time working schemes during the early phase of the 2008 global financial crisis, as for example in France and Germany, initiatives were taken by the two sides of industry. By way of illustration: the trade union federation IF Metall and the Association of Swedish Engineering Industries concluded a framework agreement on temporary layoffs, wage adjustments and training in March 2009. The agreement was valid until 31 March 2010, with a three-month notice period. To be valid, the agreement had to be endorsed by local agreement between the employer and the union. Under the agreement, a person temporarily laid off from work could receive at least 80 per cent of his or her usual monthly wage. The Swedish Industrial and Chemical Employers’ Association, the Employers’ Association of the Steel and Metal Industry, the Employers’ Association of Swedish Mine Owners, the Employers’ Federation of Welding Engineering and IF Metall signed a temporary redundancy pay agreement on 2 March 2009, enabling local partners at the firm level to conclude agreements on temporary layoffs. This agreement is similar to the agreement between IF Metall and the employers in the Association of Swedish Engineering Industries. Some 400 companies affiliated to this Association concluded such agreements, of
which most covered both manual and non-manual workers. On average, these short-time working agreements included an 18 per cent reduction in working hours and a 13 per cent reduction in wages; their average duration was a little over six months.\textsuperscript{135} In the wake of the tripartite talks initiated by the Government in 2011, the Swedish Parliament (\textit{Riksdag}) adopted a new law on short time working in December 2013 (SFS 2013:948). According to the law, it is possible to implement a State-subsidized short-time working system in the event of a severe economic recession. The State support is restricted to companies in the private sector covered by a collective agreement at the industry level on short time working. The rules regarding short-time working must be stipulated by a collective agreement at the company level. As further stipulated by the law, the State, the employers and the employees (through wage reduction)\textsuperscript{136} share the cost of short-time working, the contribution of the State being one third of the total cost.

### 3.2 Social dialogue and the European Semester

In order to develop and strengthen the dialogue with the social partners within the national decision-making process and the EU Semester, successive Swedish Governments have, during the past decade, set up reference groups with representatives from the ministries concerned and the social partners.\textsuperscript{137} For example, in 2015 the reference group held regular meetings at strategic points in time for discussions and consultations on the implementation of the Europe 2020 (EU 2020) strategy in Sweden. This initiative was adopted after close consultation with the social partners. According to the Swedish National Reform Programme (NRP) (Swedish Government, 2015), the Prime Minister invited the social partners, in March 2015, to participate in a consultation at chair level on the broader issues of growth ahead of the meeting of the European Council (March 2015). Consultation meetings also took place at senior official level on four occasions after the presentation of the 2015 NRP. By way of illustration, the appendix of the 2015 Swedish NRP includes various contributions from the social partners reflecting the measures and initiatives they have taken in accordance with the guidelines and the objectives that contribute to the fulfilment of Europe 2020 targets. Furthermore, the appendix includes the social partners’ comments on Government policy as regards measures with a bearing on the Council recommendations in the context of the European Semester. The EU Semester decision-making process has admittedly triggered some formal procedures regarding consultations with the social partners within its framework; but these consultations are also a good illustration of the main features of the Swedish industrial relations system and the quality of its social dialogue.

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\textsuperscript{135} According to IF Metall these agreements helped to safeguard between 12,000 and 15,000 jobs.

\textsuperscript{136} The wage reduction is 12 per cent in the event of a working time reduction (WTR) of 20 per cent; a wage reduction of 16 per cent in the event of a WTR of 40 per cent; and a wage reduction of maximum 20 per cent in the event of a WTR of 60 per cent.

\textsuperscript{137} Namely, the Confederation of Swedish Enterprise, the Swedish Trade Union Confederation (LO), the Swedish Confederation of Professional Employees (TCO), the Swedish Confederation of Professional Associations (SACO), the Swedish Association of Local Authorities and Regions (SALAR), the Swedish Agency for Government Employers, and the Swedish Federation of Business Owners.
4. Industrial relations and collective bargaining

4.1 Modification of the Swedish industrial relations system:
An historical perspective.

To understand the major changes in the Swedish system of industrial relations, we cannot restrict our analysis to recent years. We must look at its major transformations during the past three decades. From 1955 to 1983, the Swedish industrial relations system relied on a highly centralized and coordinated collective bargaining system. In 1983, there was a rupture in the country's three decades of centralized and coordinated bargaining. Following the abandonment of national inter-industry agreements in the mid-1980s, collective bargaining in both the private and public sectors is carried out at two levels: industry/sector and enterprise/organization.

The weakening of mechanisms for coordinated collective bargaining, the resurgence of industrial disputes during the 1980s, the threat of State intervention, high wage inflation and the dramatic increase of unemployment during the recession of the early 1990s, all had a decisive impact on the emergence of new compromises regarding industrial relations. The three main trade unions138 in the sector exposed to international competition asked their employer counterparts to consider the possibility of setting up a new collective bargaining system that fostered both industrial peace and wage increases guaranteeing balanced growth and a return to full employment. The ensuing talks culminated in the signing of an 'Industry Agreement' on Cooperation on Industrial Development and Salary Formation in 1997. The spirit of the new Industry Agreement was to ensure industrial peace and promote more consensual industrial relations. One of the main innovative features of the Industry Agreement, apart from its tendency to re-coordinate collective bargaining, is that it explicitly regulates the conduct of negotiations and the resolution of disputes. If there is any risk of industrial action, the social partners concerned are obliged to notify the “impartial chairs” before the start of the notice period for a strike or lockout (Anxo and Niklasson, 2006).

These changes in industrial relations also re-established the pace-setting role of the sectors exposed to international competition and favoured wage adjustments in line with productivity developments. Also worth noting is that these modifications in wage setting led to a perceptible increase in real wages, in contrast to the previous situation (mid-1970s up to the end of the 1980s), which was characterized by real-wage stagnation. The significant changes in the orientation of monetary policy,139 namely the complete autonomy of the Swedish Central Bank and the introduction of a clear inflation target140 (in the mid-1990s, in conjunction with the abovementioned re-coordination mechanisms in wage setting) also clearly had an impact on wage formation and wage developments.

The social partners in both the private and the public sector were aware that wage developments not compatible with productivity growth and macroeconomic balance

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138 Namely the Swedish Federation of Blue-Collar Workers in the Engineering Industry (IF, Metall), affiliated to LO; the Swedish Federation of White-Collar Workers in Industry (Unionen), affiliated to the TCO; and the Swedish Association of Graduate Engineers (Sveriges Civilingenjörförbundet, CF).

139 In particular, the change of the monetary regime (floating rate) in the early 1990s was a clear signal that the Central Bank would no longer conduct an accommodative monetary policy via devaluations, as in the past.

140 Two per cent per year, within a range of plus or minus 1 per cent.
would not, as previously, be accommodated by devaluations but lead to the implementation of a restrictive monetary policy (interest rate increase), with a potential negative impact on employment and unemployment. We may argue that this reorientation of macroeconomic policy played a crucial role in wage development by deterring excessive wage increases and wage inflation. It encouraged wage moderation (but still real wage increases) and rising employment right up to the 2008 Great Recession. But the other side of the coin is that the reformulation of economic policy in the mid-1990s – i.e., the priority given to fighting inflation and ensuring fiscal consolidation measures – clearly reflected a weakening of the political commitment to the goal of full employment, as illustrated by unemployment rates well above those experienced during the Golden Age of the Swedish Model. We may therefore argue that the higher level of unemployment since the mid-1990s changed the balance of power between the two sides of industry in favour of capital and weakened the bargaining power of trade unions.

In addition to the establishment of new procedural rules aimed at insuring industrial peace and a re-coordination of wage bargaining at the industry-sector level, we have witnessed – since the second half of the 1990s – a clear tendency towards a decentralization and individualization of wage setting and working conditions at the company/organizational level. This has been the case in both the private and public sector. In other words, the abovementioned tendency to re-coordinate collective bargaining at the industry level should not be viewed as a weakening of the role played by enterprise-level/organization-level negotiations. Negotiations at the company/organization level play a central and growing role in the setting of wages, as well as in the terms and conditions of employment. In fact, enterprise/organization-level bargaining has tended to gather strength in the past decade, particularly in the public sector (Anxo, 2013). The wages of a large majority of public sector employees are now set locally and largely individualized through performance monitoring, in strong contrast to the previous wage scale system based on seniority that was dominant up to the mid-1990s. The acceptance of a more individualized type of wage formation based on individual skills/characteristics and performance/productivity rather than on job characteristics, as had been the case in the past with the application of the solidaristic wage policy, testifies to societal changes regarding wage norms and norms of fairness, among both private and public employees and their representatives. The marked tendency towards decentralization, differentiation and the individualization of wages and terms and conditions of employment coincides also with a wider dispersion of the wage distribution. It is worth noting, however, that in contrast to other countries with highly decentralized and individualized bargaining systems – such as the United States and United Kingdom – the still strong and powerful trade union organizations and high union density at company/organization level in Sweden lead to negotiated forms of wage individualization and differentiation. There are strong reasons to believe that the tendency towards the decentralization of collective bargaining and the individualization and differentiation of wages will continue. Collective and undifferentiated ways of setting wages seem to be becoming less popular and individualized types of wage formation are being

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141 The solidaristic wage policy involved not only the application of the principle of equal pay for equal work (irrespective of sectors, regions or the profitability of companies) but also efforts to reduce wage differentials between jobs, i.e. to promote a more compressed wage structure. The primary motivation for the implementation of this wage norm was not only fairness and equity aspects but also economic efficiency aspects by fostering and promoting productivity-enhancing structural changes through the closure of unproductive plants and/or rationalization at the company level.
generalized across the Swedish labour market, as a whole. It is worth highlighting that the modification of the Swedish bargaining system was the outcome of a long process that began as early as the mid-1980s, and the 2008 severe economic downturn did not entail changes in collective bargaining mechanisms. However, the dramatic deterioration of the situation in the labour market has, as mentioned in section 2, induced a series of initiatives and agreements from both sides of industry, which are aimed at limiting the negative consequences of the economic downturn.

As previously mentioned, Sweden has experienced a significant decline in union density during the past two decades. A number of factors help to explain the fall of trade union membership in Sweden (by almost 12 percentage points) between 1990 and 2014. It is important here to distinguish between long-term transformations related principally to major changes in employment and occupational structure and short-term factors linked to specific measures or the business cycle. In particular, the reduction of employment in manufacturing industry and the public sector due to fiscal consolidation measures and budget cuts initiated in the 1990s, combined with changes in societal norms (individualistic values), account in part for the long-term decline of union density.

The successive reforms of the employment protection system in Sweden – especially the introduction of short-term contracts not requiring justification from the employer, alongside the deregulation of employment intermediation in the early 1990s – have contributed to a significant increase in employment instability and growing duality in the labour market between insiders and outsiders. The rise of short-term contracts has also played a role in the decline of union density in Sweden; the union density being significantly lower among fixed-term contracts compared to open-ended contracts (47 per cent versus 74 per cent).

Although the long-term decline of union density in Sweden may be attributed to structural factors, the acceleration of this decline after 2006 is closely related to policy measures, in particular the reform of the Unemployment Insurance system (UI) initiated by the centre-right Government in 2007 and 2008. This reform resulted in a notable reduction in the generosity of the Swedish UI system; the income replacement rate fell from 80 to 70 per cent after 200 days of unemployment, and the maximum duration for receiving unemployment benefits was reduced to 300 days. Furthermore, the financing of the UI was modified: the contributions of the various Unemployment Funds administered by the trade unions (Ghent system) were dramatically increased and differentiated according to the unemployment level in the sector/industry concerned. In other words, a system of experience rating was introduced, and individual unemployment insurance contributions increased or decreased depending on whether unemployment grew or declined in an industry. This reform resulted in a large rise in individual monthly contributions; in some cases, UI fees paid by individuals tripled.

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142 The propensity to join a trade union is traditionally higher in these two sectors.
143 The Swedish UI system is a so-called Ghent system based on voluntary membership in UI funds subsidized by the State. Various trade unions covering different industries administer the UI funds.
144 By way of example, between 2006 and 2009 the individual monthly UI fees for construction workers increased from SEK 116 (12.4 Euros) to SEK 465 (48.5 Euros); for workers in engineering industries it increased from SEK 93 (9.9 Euros) to SEK 384 (40.9 Euros); and for employees in hotels and restaurants from SEK 97 (10.3 Euros) to SEK 430 (45.8 Euros) (See Kjellberg, 2014). If you add the normal affiliation fee for being member of a trade union, the monthly cost increase was significant.
The consequence was both a large decrease in union membership and a dramatic decline in the number of dependent employees covered by the UI system: around 500,000 employees left the unemployment insurance system between 2007 and 2008. As reported by Kjellberg (2015), the decline of union density in the aftermath of the UI reform was unprecedented, and as a whole dropped by six percentage points (from 77 per cent in 2006 to 71 per cent in 2008). Obviously, the Government’s main objectives with these UI reforms were to enhance jobseekers’ work incentives and to indirectly influence the outcome of wage bargaining by weakening the bargaining power of trade unions – thereby inducing wage restraint.

The 2008 global financial crisis particularly hit sectors exposed to international competition and blue-collar workers. Against this background, the reform of UI financing had a strong impact on union density among LO members, in particular within manufacturing industries -but also in low-skilled and low paid sectors such as the hotel, restaurant and retail sectors with a high labour turnover and a large share of short-term contracts. There are therefore strong reasons to believe that a significant part of the recent decline of union density in Sweden was a consequence of this reform. It is also worth noting that while the crisis did not break the decline of union density among blue-collar workers, the reverse was true for white-collars. Although the reform of the UI system also affected white-collar workers between 2007 and 2009, the union density of these workers increased again in the aftermath of the crisis, and it subsequently reached the same level as their 2006. In early 2014, the former centre-right coalition Government changed again the rules concerning UI financing, implying that the individual monthly UI fees would come back to their 2006 level. Against this backdrop, the number of UI members has increased during the past two years by almost 55,000 persons, but it still remains below its 2006 level. More recently, the Social-Democratic-Green Coalition Government that took office in September 2014 increased the UI income replacement rate. There are strong reasons to believe that these two recent measures will at least contribute towards stabilizing – and at best increasing again – the level of union density in Sweden.

5. Conclusions

From an international comparative perspective, Sweden seems, up until now, to have succeeded in overcoming the 2008 economic crisis better than a number of other Member States. Despite a long-term tendency towards a reduction in the generosity of the Swedish welfare state, the universal social protection system has helped to reduce the consequences of the crisis on individuals, as the benefit and transfer systems have played their role as shock absorbers and economic automatic stabilizers. The more limited negative impact of the Great Recession on the Swedish economy may also be attributed to the expansionary fiscal and monetary policies conducted by the former centre-right Government. The consistent increase in domestic demand has been a large contributor to Swedish economic growth over the past seven years. This stands in

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145 The share of the workforce covered by unemployment insurance decreased from 80 per cent to 67 per cent between 2007 and 2009.

146 Two main reasons explain this change: a new general election and the fact that the unemployment insurance reform resulted in a large number of wage earners, in particular low-paid/low-skilled employees with unstable employment conditions, lacking sufficient protection in case of unemployment, thereby increasing the risk of social exclusion.
contrast to previous recessions, especially that of the early 1990s, where exports were the main driver. This has been due to additional appropriations to local government securing the provision of welfare services and public employment and an increase in disposable household income, on account of various cuts in income tax and targeted increases in some transfers.

The Swedish industrial relations system remains the archetype, the epitome, of a bipartite agreement-based model of labour market regulation. As seen in this chapter, the 2008 economic crisis did not provoke changes in the Swedish industrial relations system or collective bargaining mechanisms. The Swedish model of industrial relations has not only demonstrated strong resilience during the crisis but has also contributed to Sweden’s relatively rapid economic recovery. In effect, the well-established and well-developed mechanisms of social dialogue and the active involvement of social partners during the crisis acted as a productive factor in helping the economy to overcome the macroeconomic imbalances, contributing positively to the Swedish recovery. The recession had no negative impact on industrial relations and the period 2008–11 remained characterized by industrial peace – in contrast to the situation during the previous deep recession of the early 1990s.

Despite a significant decline in union density, both sides of industry remain firmly in control of labour market regulations and wage setting and have played a determinant role during the recession, in particular regarding wage developments (wage moderation) – but also in other employment and working conditions. The specific features of the Swedish industrial relations system, characterized by a relative balance of power between the two sides of industry, also help to explain the even distribution of the ‘cost of the crisis’ between various socio-economic groups. Sweden still has one of the highest levels of job quality and the recent recession has not adversely affected working conditions in terms of wage cuts, longer working hours, higher workloads or increased work intensity, as has been the case in other EU Member States (Anxo 2013; Anxo, 2015). The Swedish experience remains therefore a good illustration of the positive role played by healthy public finances, developed social dialogue, and a strong social safety net for mitigating and absorbing the negative impact of external macroeconomic shocks.

In short, the Swedish experience during the past recession illustrates the resilience of a societal model based on a universal and generous social protection system, in addition to well-developed social dialogue as a mechanism for regulating the labour market and social policies, and strong public and political involvement in the provision of a wide range of services.147 As noted in Anxo (2015), the ‘Swedish success story’ during the past recession cannot be solely attributable to early fiscal consolidation measures initiated during the 1990s. It is clear that alongside the strong automatic stabilizers embedded in the Swedish societal model, the additional government support (countercyclical Keynesian policy and ALMP/training measures) and social dialogue have also played an important role in mitigating the effects of the crisis on employment, welfare and social cohesion, and appropriately illustrate the resilience of the Swedish social model.

147 Other aspects of this universal system include egalitarianism and pro-active policies for promoting gender equality and fighting discrimination and social exclusion.
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Appendix

List of persons interviewed for the study

Employers’ Organizations
Jonas Berggren, Head of International Secretariat, Svenskt Näringsliv Confederation of Swedish Enterprise

Workers’ Organizations
Ellen Nygren, International Secretary, the Swedish Trade Union Confederation (LO) (Blue-collar)
Mika Domisch, International Secretary and Mats Essemyr, Senior Research Officer, the Swedish Confederation of Professional Employees (TCO) (White-collar)
Åsa Ehinger Berling, Head of International Secretariat, the Swedish Confederation of Professional Associations (SACO) (Professional)