

# ‘Don’t look at what they do, look at why they do it’: Employers, Trade Unions and Power Resources in Sweden

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## **Abstract**

Over the last decade, Swedish labour relations have attracted relatively little scholarly attention, not least due to their ‘normalization’ along the lines of continental European practices. This article argues that the Swedish Model of labour concertation and social partnership has survived the turbulence of the 1990s, and the main reason for that is the salient power resources that unions and social democrats have retained. The Model’s recent resurgence is intimately linked to the ability of the trade unions to co-regulate the labour market, which is a result of the organisational and institutional resources they possess. These are, however, under attack since the election of the Reinfeldt government in 2006. A complete explanation of their contemporary role in Swedish industrial relations necessitates a nuanced theoretical approach that rejects purely materialist and interest-oriented perspectives. Instead, the article suggests a historical institutionalist framework combining interests with ideas embedded in institutional configurations.

*Keywords:* Employers, institutionalism, interests, Swedish Model, trade unions.

## 1. Introduction

Starting in the 1930s and for over five decades, the ‘Swedish Model’ became synonymous with a strong welfare state and harmonious labor relations. The role played by trade unions and employers in this process was crucial: in a spirit of compromise increasingly discernible after the signing of the *Saltsjöbaden*

Agreement of 1938 (Casparsson, 1966), the trade union confederation (LO) and the private employers' confederation (SAF) established a *modus vivendi* characterized by social partner autonomy, important powers over their affiliated members and a mutual willingness to regulate the labor market. Works councils were established in 1946, and remained in force until 1977, in order for employees to receive information and advice on the pace, quality and change at the workplace. Importantly, these councils were established by mutual agreement, signifying the high degree of cooperation and trust that was established during the *Saltsjöbaden* era (Kjellberg, 1992). The centralization of collective bargaining in the 1950s made the role of LO and SAF even more important, and by the 1970s LO had secured labor legislation that made employee information and consultation a precondition for managerial decision-making.<sup>1</sup>

Nevertheless, Swedish industrial relations underwent rapid transformation in the early 1990s. In fact, the viability of the Swedish Model regarding social partnership and the prospects for stable wage development became uncertain after the decision by SAF to withdraw from centralized collective bargaining and all corporatist bodies of representation (Rothstein, 1996; De Geer, 1992). Accounting for the employers' refusal to continue collaboration, which was also accompanied by their espousal of free-market economics and repeated calls for the privatization of the Swedish welfare state 'by the end of the century' (Pestoff, 1995: 165; Visser, 1996: 188), the interest-based or materialist explanation put forward most eloquently by Peter Swenson and Jonas Pontusson (Swenson, 1989; Pontusson, 1995) focuses on two core premises. Firstly, the 'cross-class alliance' between employers and unions in the export sector, and the industrial sector in particular, saw its payoffs diminish following the indexed wage increases that public sector unions and employers had imposed on the negotiating table since the 1960s. Secondly, post-Fordist modes of production altered the payoff matrix for different unions, and the increase in public sector employment to offset low rates of employment creation enhanced the bargaining power of public sector employees vis-à-vis their private sector counterparts.

This paper seeks to advance an alternative theoretical and methodological approach to the 'interest-based' explanation by

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<sup>1</sup> This was part of the provisions entailed in the Co-Determination Act (Medbestämmandelagen). It has been argued that such pieces of legislation led to the demise of the old Swedish Model as they legitimized state intervention in the labor market in contrast to the social partner autonomy principle (Korpi, 1983).

analyzing the development of the Swedish Model, and incorporating the post-1990s era into the analysis. It argues that an attempt should be made to integrate interest-based explanations in an approach that combines the insights of historical institutionalism with the importance of ideas, defined as ‘road maps that help guide political actors through confused and uncertain periods’ (Berman, 2001: 235). Such periods were both the 1930s, at which time the foundations for the longevity of the Swedish labor movement as a decisive player in the development of the country’s political economy were set, but also the 1990s, out of which the Swedish Model has emerged transformed, but largely intact. An approach that goes beyond materialist explanations is necessary so as to account for continuity in social partnership in Sweden. Such an approach confirms the salience of ideas in shaping policy outcomes, enabling institutional actors to shape policy paths during periods of uncertainty.

The first part of the paper will illuminate Swenson’s theory and assert its usefulness regarding the central role of employers in the Swedish Model. I will then argue a theoretical case emphasizing the importance of historical institutionalism and the role of ideas, along with materialist explanations, in the evolution of Swedish labor relations. The paper’s hypothesis is that despite changes both in the international economic and political environment as well as the domestic configuration of power, significant elements of the Swedish Model’s core assumptions have withstood the test of time and continue to inform policy-making. The third part will draw attention to the inadequate attention paid to the labor movement and its institutional innovations by interest-based explanations, before proceeding with the use of empirical evidence to support the paper’s main argument. Finally, the conclusion will summarize the main points.

## 2. The impact of economic and technological change

Peter Swenson and Jonas Pontusson have been the most prominent representatives of an interest-based understanding of Swedish labor relations. By expanding on a well-articulated methodology, they have contributed to a better understanding of the specific circumstances that led to the big changes of the 1980s and 1990s. They have also added the previously neglected dimension of the role of capital in triggering reform.

The notion of cross-class alliances between employers and unions goes some way to depicting the collapse of Swedish

centralized bargaining in the 1980s (Swenson, 1991). Such alliances between some unions and employers are the result of distributional conflicts within the labor movement. Unions and employers that benefit from a given distributional matrix resulting from a decentralized mode of bargaining are likely to push for such an outcome (Swenson, 1992). In the Swedish case, considering that the export sector had long played a pace-setting role in wage negotiations, it is asserted that metalworkers and their employers decided to break the mould when the returns from centralized negotiations were diminishing, and the relative gains of the public sector unions were increasing at their expense (Swenson and Pontusson, 2000). By underlying the importance of such alliances, interest-based explanations have corrected to a large extent the drawbacks of labor-centred theories, which paid scant attention to the internal politics of the labor movement.<sup>2</sup>

Another important addition to the literature on labor relations is the emphasis on the changing nature of work in the 1970s and the rapid increase in public sector employment (Pontusson and Swenson, 1996). It is argued that, during the 1950s and 1960s, wage drift was mainly directed to blue-collar workers since their white-collar counterparts remained outside this unofficial arrangement (Swenson, 1989). Things changed, however, and unequal wage drift between different occupational categories became increasingly difficult to sustain when white-collar unions grew and demanded a seat in the negotiating table. The introduction in 1970 of 'earnings development guarantees' to white-collar unions in the industrial sector was designed to 'reinstate differentials present at the beginning of previous wage rounds, thereby pre-emptively capturing a portion of what LO might obtain for its members in total non-inflationary wage increases' (Swenson, 1989: 149). The effect of such policies played a crucial role in undermining the centrally coordinated wage bargaining model.

The role of employers is here seen in an analytical light. Far from being passive recipients of governmental initiatives, dominated by the Social Democratic party (SAP) and reacting to legislative measures, they take center stage in instituting change (Pestoff, 1995).

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<sup>2</sup> Labor- or power resource theories retained strong explanatory power during the years of Keynesian welfare and stability in the labor market. By the beginning of the 1980s, however, their credibility had been tainted, not least due to their failure to foresee the fate of crucial policy initiatives, such as the "wage earner funds" suggested by LO economist Rudolf Meidner in the 1970s. For representative work of this school see Korpi (1978, 1983), Stephens (1979), Castles (1978).

In fact, Swenson's 2002 book contribution to the debate argues that the cross-class alliance between labor and capital actually goes back to the beginning of the twentieth century (Swenson, 2002). Labor-centered or institutional approaches (Rothstein, 1998) that emphasize the role of LO and SAP miss the point. It is the employers who contributed most to the smooth build-up of the Swedish welfare state and labor market by either actively endorsing social democratic proposals, or opting for silent support. While LO got the credit for labor-friendly reforms after the 1930s, the employers decided not to make their satisfaction with these reforms public. Doing so risked adding to union militancy and dissatisfaction with the reformist LO leadership by extreme elements in the unions. It was only on two occasions throughout the Model's Golden Age, Swenson admits, that a clash between labor and capital can be observed: the 1934 unemployment insurance reform and the controversial pension reform scheme in the late 1950s.<sup>3</sup> Even in those occasions, however, the 'raw' labor-capital clash thesis advocated by institutionalist and power resources scholars can hardly be sustained. After elaborating on SAF archival documentation regarding the 1934 reform for example, Swenson concludes: 'the SAF leadership as a whole probably looked with some favor, or at least benign ambivalence, at the prospect of the unemployment insurance system adding to the unions' membership' (Swenson, 2002: 256).

Going back to the decentralization issue, the employers in engineering industries are said to have been key in that process due to their strategic reprioritization of production techniques enhancing wage flexibility in the 1980s (Pontusson, 1992). What is more, Swenson refutes the power mobilization thesis as regards the dominant position of labor after the 1938 *Saltsjöbaden* Agreement and the centralization of collective bargaining. In fact, it was SAF that insisted on the need for centralizing agreements as the best means of avoiding inflationary pressures, costly strikes and the disruption of productivity (Swenson, 2002). Centralization was necessary, as the Swedish export industry enjoyed a high comparative advantage to its continental competitors after World War II. SAF therefore made sure that even the most recalcitrant unions would accept centralization as a means to an end. An additional motivating factor for the employers (indeed for most Nordic business associations) was the structural

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<sup>3</sup> As the pension reform relates more to explicitly welfare arrangements than labor relations, Swenson's argument will be analyzed only with regard to the unemployment insurance reform.

dependence of industries exposed and/or vulnerable to international trade. Their room of maneuver through raising prices was limited due to their inability to pass increased costs to consumers. Larger countries could afford to resist pressures for international discipline through their wider margins in the domestic markets, but SAF was obliged to regulate pay across the board so as to increase predictability in wage increases and therefore keep export companies competitive. This strategy fitted well the SAP agenda of productive politics, and became synonymous with what has been termed social democratic corporatism (Iversen and Pontusson, 2000).

### 3. Historical Institutionalism and the Swedish Model

One of the central preoccupations for historical institutionalists is to show how institutions structure the choices open to political decision-making (Blyth, 2002). In this respect, institutions limit the choices open to policy-makers by restricting the number of feasible policy ideas (Cambell, 1998). To that extent, they restrain change. Indeed, one of the main shortcomings of historical institutionalism is its difficulty in accounting for change. A further distinctive feature of historical institutionalism is its rejection of deterministic and structuralist accounts inherent in other new institutionalist approaches, such as rational choice and sociological accounts. While they share a lot of common ground with rational choice in that they deem actors to be strategic and calculative, historical institutionalists acknowledge that institutions are structures whose utility in serving certain goals has to be empirically verified. The outcome of such a process is an open question and hence cannot be *a priori* determined (Hay and Wincott, 1998). Interactions between agents take place in a framework of institutional struggle and the results of such struggles are not necessarily derived from the institutional framework within which they occur. Historical institutionalism stresses path dependency, inasmuch as it subscribes to the view that the same institutional configuration can produce very different results in different settings in accordance with contextual features arising from the historical evolution of a given polity and the time sequence of events. That is the result of the implicit encouragement offered to societal forces to organize and behave in a way to align themselves to past policy legacies (Hall and Taylor, 1996).

In a historical institutionalist setting, change is the result of the interaction between actors and the context in which they operate. Action and context find themselves in a position of simultaneous

strategic interdependence. There is a wide array of factors leading to change that encompasses the calculations associated with a policy move towards change, the actual attempt to form a new framework of change, the institutional context in which action is enabled but also, crucially, 'the shaping of the perceptions of the context in which strategy is conceived in the first place' (Hay and Wincott, 1998: 955). Such a formulation enables the resolution of the problem of explaining change, inasmuch as it includes an often neglected variable in the more static alternatives of institutionalist thinking: the role of ideas. Though these should not be treated as autonomous from their institutional surroundings, they interact with the institutional context and give rise to certain interpretations of reality that go a long way in shaping the institutional environment where policy actors come to define their priorities. In other words, it is *ideas placed within institutions* that inform preference formation of actors, thereby leading to their changed perception of the desirable outcome. Change results from strategic action by actors/agents; agents shape the changed polity over a period of time based on an altered set of perceptions and beliefs that is itself the product of ideational mobility. On their own, ideas cannot explain where new attitudes towards institutional configurations are derived from. If, however, placed in an institutional context that assigns primary importance to their interaction with the institutional setting, they facilitate understanding of the motives and tactical maneuvering leading to an altered framework of operation for actors (Blyth, 2002: 307). On the basis of policy legacies, evolution and change can be traced to a historical institutionalist account through the interplay of path dependent political options and path shaping strategies (Torfing, 2001) chosen by policy actors.

Historical institutionalism, by combining an institutionally derived framework of preference formation with the importance of ideational change in informing policy making, can best account for both the crisis in Swedish labor relations but also, by examining patterns of institutional formation, developments after the 1990s crisis. Chief among the benefits of a historical institutionalist approach is its ability to depict the privileged position enjoyed by socio-political forces dominant in the old institutional configuration at times of change. The privileges of these groups, here identified with the labor movement, result from the successful following of an earlier policy path to which they have substantially contributed, not least through deliberate design but also through the input provided by 'long-lasting traditions, learning processes, and chance discoveries' (Torfing,

2001), mainly associated with the historical evolution of the Swedish state apparatus (Andersson, 1956; Andersson and Weibull, 1973). By the early 20th century, Sweden was transformed from an essentially agricultural country to a rapidly expanding industrial society with more than half of the population residing in cities (Andersson and Weibull, 1973). Significantly, Sweden's late industrialization gave rise to large and concentrated industrial firms. Under such circumstances, the cooperation between business leaders and, later on, between business and the state became easier (Berman, 1998: 43).

The policy path that was crystallized in the 1930s allowed the institutional and organizational emancipation of the Swedish labor movement, whose utilization of its beneficial position permitted the long-term 'freezing' of favorable power relations. However, as Torfing points out, a policy path is inherently elastic, subject to constant renegotiation, and contains the sperms of institutional reform (Torfing, 2001). It is this elasticity, resulting from the ability of material as well as ideational factors to come into play, which explains the change of the 1980s and 1990s. Nonetheless, the maintaining of significant institutional resources by the previously dominating policy actors does not rest solely on contingent factors. Rather, it emerges from the unequal distribution of resources between competing blocs, whose fight for the consolidation of their preferred institutional pattern depends on the interaction between historically informed policy options as well as the relative power of competing strategies.

Applying a historical institutionalist type of analysis to the study of the Swedish Model entails a significant methodological advantage. It enables the incorporation of materialist coalition-building practices in a holistic framework that explains the creation, stability but also change of policy paradigms (Hall, 1993: 280) on the basis of a longitudinal, dynamic interaction between institutions and ideas. An analysis of the breakdown of centralized bargaining needs to incorporate elements that go beyond mere coalition building and relate to the multiplicity of institutional actors in delivering industrial peace.

#### 4. A critique of interest-based approaches

##### *4.1. False Homogeneity*

Approaches such as the ones put forward by Swenson and Pontusson have incorporated the salience of technological evolution in their analysis. Swenson's meticulous research has further strengthened his thesis on the salience of a cross-class consensus. Still, their

approach entails important weaknesses. Firstly, work done by Pontusson often assumes a monolithic construction of the Swedish Model with finite starting points and end. The Model is placed in pre-determined boxes of unshakable characteristics whose erosion manifests its demise (Pontusson, 1997). It is of course true that any definition of the Model needs to include certain core aspects. This should not mean, however, that such categories have a) been rationally planned and executed over time and b) are solely the result of labor or capital-directed outcomes. To illustrate, Swenson claims that ‘the labor movement’ assisted employers in the 1940s and 1950s through active labor market policy and compulsory national insurance (Swenson, 2002). This implies that LO and the government can be interpreted as one and the same entity deciding unanimously. Such an approach overlooks differences that have been frequently manifested between them, not least during the ‘War of the Roses’ period in the 1980s (Feldt, 1991). In the case of active labor market policy, the government only accepted the proposals with considerable delay and after senior ministers had dismissed the proposals in public. Swenson himself supports this view and provides the evidence for it (Swenson, 2002: 275-77).

#### *4.2. Dismissing Ideology*

Another shortcoming of this approach is its inflated emphasis on the power of capital in shaping parts of the Swedish Model in different ways and at different times. For instance, the employers’ offensive is analyzed in great detail with regard to potentially underlying material interests. However, there is little mentioning of the ideological character of their decision, and the extent to which the 1980s mobilization assumed regime-changing characteristics. It would be more appropriate to view the decentralization of collective bargaining in the context of ideological transformation, heavily influenced by the neo-liberal shift in public policy (Ryner, 2002). Furthermore, dismissing the political motives of SAF in taking this decision is problematic, even if one accepts the limitations poised by labor dominance theorists. The fact that LO has historically been a complex entity with diverse agendas should not lead to a rejection of its importance and growth in power. The employers had every reason to favor a diminishing of its power (Iversen and Pontusson, 2000), especially after LO had decided to address its demands directly to the government in the 1970s (Delsen and Van Veen, 1992). The

materialist analysis is characterized by a disproportionate sense of economic determinism that assigns overarching powers to the power of economic change in directing political outcomes (Hall, 1993). This becomes evident when analyzing the transformation of SAF in more detail.

In 1980, and after it had triggered a lockout reminiscent of pre-*Saltsjöbaden* practices, SAF signed separate agreements with LO and PTK (*Privattjänstemannakartellen*, white-collar union cartel) in order to limit the effectiveness of coordinated bargaining. The failure of the 1980 lockout played an important part in the decision by VF (*Verkstadsföreningen*, employers in engineering industries 'association) and SAF to proceed with decentralization of bargaining. The agreements signed after 1983, in contrast to established practice, did not include a peace clause binding unions and employers to industrial peace (Kjellberg, 1992). In the same year, the SAF newsletter appointed a new editor-in-chief who commissioned articles critical of the Historic Compromise, adopting a more populist line and provoking fierce debates (Olsen, 1994). Challenging the Swedish Model and its policy outcomes with regard to social welfare, the role of the state in economic policy, the operation of the labor market, the 'correct' level of taxation and corporatist politics meant that SAF had to energize functions and institutions that had previously been peripheral to its operation. Back in the 1940s, SAF operated the Directors' Club, a body dedicated to preventing the realization of Social Democratic post-war plans regarding nationalization. It also founded the Joint Committee for Private Commerce and Industry (NÄSO) and the Swedish Free Enterprise Foundation (NÄFO) to keep the labor movement in check (Blyth, 2002). The strategy proved successful, and SAF cooperated with the SAP so long as the party denounced the more radical elements of its 1944 Postwar Program (SAP, 1944). The decision by the Social Democrats to drop their nationalization plans meant that such bodies were reduced to an apolitical role.

In 1978, SAF augmented its advertising campaign and launched a series of conferences, public meetings and fairs where it promoted the virtues of free market capitalism. A series of study groups were created, and 250 SAF officers and 400 business leaders took part in them between December 1980 and January 1981 (Hyrdman, 1988). Between January and May 1982, SAF produced 200 recommendations for policy action related to tax and welfare cuts, privatization schemes and labor market legislation. Along with NÄSO and NÄFO, SAF also

made use of think tanks, such as the Center for Business and Policy Studies (SNS) (Blyth, 2002) and publishing houses like *Timbro* and *Ratio*. Electronic media were also utilized: local radio stations broadcasted SAF messages and its information campaign targeted specific groups, such as journalists and students (Whyman and Burkitt, 1993).

A study by Kristina Boréus found that 'new liberal' ideas in op-ed pieces of the conservative *Svenska Dagbladet* increased from 30 percent in 1975 to 70 percent in 1989 while the corresponding figures for the liberal *Dagens Nyheter* between 1971 and 1989 were 15 and 30 percent (Boréus, 1997: 263-66). The results were impressive. In 1978 only 30 percent of people thought it important to encourage entrepreneurship, and 37 percent thought of business leaders as efficient in the running of enterprises. By the mid-1980s the figure to the first issue had become 75 percent and as for the second, the percentage of those agreeing that business is efficient had by 1997 become too high to merit further research (Henrekson and Jakobsson, 2003). The ability of SAF to launch a successful propaganda campaign at different levels was heavily dependent on its financial muscle. It has been estimated that only in 1982 SAF spent around 55-60 million crowns in its campaign against the wage-earner funds that LO had proposed. By comparison, all five major political parties spent 69 million crowns in the 1982 pre-election campaign. The doubling of SAF dues and resources in the 1970s meant SAF enjoyed two times the income of LO and had increased its strategic reserves eight-fold in 1980 (Blyth, 2001). The alliance created after the arrival of Curt Nicolin at the top of SAF in 1976 was strong enough in its quest to dismantle the old Swedish Model and inspire the Swedish right with new ideas (Olsen, 1994: 212). VF soon managed to unite SAF around the theme of decentralization.

It is naturally fair to say that the sector that was pushing for [change] was basically the manufacturing industry ...but as the debate went on ... I know that the opinions of what you call the sheltered sector changed and when the decision [to withdraw from corporatist boards] was taken it was unanimous.<sup>4</sup>

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<sup>4</sup> Interview with Sverker Rudeberg, Senior Adviser on Labor Market Policy, *Svenskt Näringsliv*, Stockholm, 18.8.2004.

### *4.3. Institutional design matters: reformism and the Ghent unemployment insurance scheme*

Interest-centered scholars have paid inadequate attention to the role of both institutions and ideas in shaping preference formation. This is hardly surprising in light of their conviction that material interests are at the core of the process and institutional and ideational influences have to be analyzed by prioritizing changes in the material world (Swenson, 1989).<sup>5</sup> Nonetheless, this approach tends to depoliticize decision-making and portray changes in the normative convictions of policy actors as exogenous to their programmatic ambitions. This is a highly questionable assumption, bearing in mind the growth of SAP as the party of government and the opportunities that this offered to LO unions to advance their agenda.

The evolution of the Swedish state and the character it had assumed over centuries made the Social Democrats aware of the benefit to be had in treating the state as a potential ally. In 1902, SAP leader Hjalmar Branting emphasized that the state was not necessarily an instrument of class domination. It could play a critical role in alleviating the misery of the poor and assist them in improving their material condition (Ahn, 1996). Already by the turn of the 20th century, Swedish social democracy had developed a distinct concept of socialism, which it sought to popularize through educational, material and political manifestos. In contrast to their sister parties elsewhere in Europe, the Swedish social democrats discovered the road to reformism early (Berman, 1998).

Until the 1930s, the reformist wing adhered to the economic line of the Labor Party on the need to maintain balanced budgets and reduce wages and prices to boost the business cycle (Martin, 1979). After the electoral setback for SAP in 1928, a close circle of intellectuals led by Ernst Wigforss sought to mobilize society by use of ideas. To do so, they attempted to rationalize Swedish life by arguing on the basis of the need for 'scientific' principles to dominate over sheer emotionalism in decision-making (Eyeran, 1985). Wigforss challenged the prevailing consensus on economic policy, arguing that there was no causal connection between low wages and high unemployment. In fact, higher wages would increase the purchasing power of consumers and thus enable more outlets for the

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<sup>5</sup> Swenson does not dismiss institutionalism as an explanatory tool, but rightly reprimands its followers for assuming a uniformity of interests across countries and within classes and interest groups.

products of manufacturers resulting in higher employment and growth (Lewin, 1967). The ideational justification of full employment went a long way towards appeasing the middle class of Social Democratic intentions and solidified working class support. Thus, the Social Democrats became the prime beneficiary of the widespread acceptance of full employment as an ideological goal and relations with the unions acquired a new dynamism.

In the post-WWII period, the work of chief LO economists Gösta Rehn and Rudolf Meidner consolidated the labor movement's hold in the field of workable political ideas. Centrally coordinated wage bargaining, suggested by the SAF and accepted by LO in 1952, would allow the unions to strive for both wage increases and wage equality (Locke & Thelen, 1995: 344) as the inter-union rivalry that led to the creation of a wage and price spiral would disappear (Vartiainen, 1998: 24). Achieving the goal of wage equality for different sectors meant setting the wage rate at a 'just' level, rather than according to the individual firm's ability to pay (Erixon, 2001: 18). Efficient and productive firms would be provided with extra labor supply and gain incentives to expand in the dynamic sectors of the economy. Higher rates of growth would follow, strengthening the competitiveness of the Swedish economy and enabling the consolidation and expansion of the welfare state. Inefficient firms would be hard-pressed by the profit squeeze resulting from the solidaristic wage policy (Lindbeck, 1997: 1291). To facilitate the movement of workers from the wasteful to the productive sectors of the economy and abolish regional 'islands of unemployment', the model advocated an active labor market policy. The state would assume responsibility by providing employees with educational skills, retraining schemes and incentives to encourage occupational mobility (Erixon, 2001: 19). AMS would therefore remain at the heart of the transition process from unemployment to paid work. Regarding fiscal and monetary policy, the model advocated a tight control over the economic cycle, so as to keep inflation in check and guarantee price stability. Total demand should be restricted in order to avoid an overheating of the economy and an increase in wage and labor costs. Gösta Rehn even went as far as publishing an article in 1957 entitled 'Hate Inflation' to emphasize that full employment should not be bought at the expense of high inflation (Eklund, 2001: 66). After introducing Keynesianism in the 1930s, the labor movement pioneered a further economic pattern that increased its attractiveness to domestic and foreign observers alike. Crucially, the adoption of the

Rehn-Meidner Model by the government after the mid-1950s reinforced the role of the unions in Swedish society.

As stated above, Swenson finds two exceptions to his cross-class alliance paradigm: the 1934 unemployment insurance scheme and the 1959 pension reform. However, both were decisive in shaping the contours of the Swedish Model and their dismissal as mere 'exceptions' tends to negate their significance. It is for precisely that reason that the reform of unemployment insurance system as implemented by the center-right government since 2006 has proven deeply controversial.<sup>6</sup>

The first greatly facilitated the strengthening of unions by increasing their membership levels. SAP encouraged the further growth of LO and its affiliated unions in the 1930s by making the latter responsible for the administration of unemployment insurance, despite initial union protest (Fulcher, 2002). 'Taking effect from 1935, the law provided for government subsidization of private insurance arrangements set up by individual unions – the so called Ghent, or voluntary system' (Swenson, 2002: 254). In this way, union membership was encouraged with non-union members saving on the membership fee but benefiting through union-negotiated wage increases. The creation of an optional unemployment insurance fund subsidized by the state meant that a set of very concrete incentives was built in the system, boosting union participation and increasing collective labor power. Although the creation of the unemployment funds was hardly an electoral asset for SAP at the time, the instigator of the plan, Social Affairs Minister Gustav Möller, was vindicated in his belief that such funds would secure the long-term increase of the power of organized labor (Rothstein, 1992). Swenson accepts that one of SAF's objections related to the potential strengthening of the labor movement. The view of former SAF leader von Sydow was that the new system would 'help drive the workers into unions'. Although SAF did support membership of workers to social democratic unions after a certain time (Swenson, 2002: 254-56), the 1934 reform was instrumental in strengthening the institutional and organizational power of labor, premised on institution building to secure long-term benefits. On a critical juncture, the Social Democrats opted for long-term institution building and structured the possible alternatives in line with their own objectives (Ebbinghaus, 2005). Ideas and material

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<sup>6</sup> Lack of space forbids the analytical discussion of those reforms. Their main goal is the reduction in unemployment replacement rate and the long-term weakening of unions through the transformation of the system into a compulsory one.

interests interacted in a very concrete form to establish the privileged position of the Swedish labor movement.

### 5. Labor market regulation and the Industrial Agreement: path dependence and institutional heritage

Over the 1980s and until the beginning of the 1990s, negotiations between SAF and LO and PTK drifted from the peak to the industry level. The 1990s was a decisive period following the decentralization of bargaining, the politicization of SAF and the decline of labor union power. The decline of LO power witnessed in the 1980s and internal splits in the Confederation, mainly between export-dependent unions and their public sector equivalents, gave the impression that LO decline was almost inevitable. Following the self-imposed termination of peak-level negotiations, SAF called for 'coordinated decentralization' characterized by plant-level wage bargaining and industry-level agreements on general conditions of employment. It was a powerful assault on the superior position of LO at the ideational level, focused more on attempting to shift the discursive base of the Model rather than introducing immediate policy results. This is best manifested by the plant-level 'partnership contracts' (*medarbetaravtal*) that engineering firms introduced encompassing both blue- and white-collar employees (Swenson and Pontusson, 2000), which have been rather limited in number. Meanwhile, 'figureless' agreements were also signed, meaning that no wage increases were agreed at the national level. This was often down, though not exclusively, to decentralization and the inability to coordinate wage demands among the various LO unions.

The pattern of labor market regulation that stood at the center of social partnership has re-emerged after the turbulent first half of the 1990s. Export-oriented employers have stopped short of their threats to disengage from the unions and *Svenskt Näringsliv* (SN), the Swedish Enterprise organization created after the merging of SAF with the Federation of Swedish Industries, has also signaled its intention to retain the collective agreements system and regulate the labor market in partnership with the unions. LO has retained a coordination role regarding minimum wage increase demands, and 'figureless' agreements were on the way down by 2005 (*Medlingsinstitutet*, 2005). According to some observers, Swedish labor relations have met with a revival second only to the *Saltsjöbaden* accord (Elvander, 2002); in fact, signing a 'second *Saltsjöbaden*' is currently on the agenda of Swedish Enterprise and

LO. Essentially, the shift to a lower level of bargaining has not been accompanied by the realization of all changes envisaged by employers, which entailed the possibility for firms to move white-collar workers between different tasks while individualizing the wages of manual workers, ending up with ‘the best of both worlds, blue-collar job flexibility and white-collar pay flexibility’ (Martin cited in Kjellberg, 1998: 88). Faced with the prospect of such a deal, blue- and white-collar unions in the engineering sector cemented their alliance to avoid exclusive wage bargaining to the local level by forming a bargaining cartel (Ryner, 1997: 45). Their collaboration and increasing significance for the Swedish economy led to the Industrial Agreement in 1997. Increased cross-occupational collaboration became part of the unions’ strategy to prevent the development of enterprise unionism and retain the level of bargaining to the industrial level (Thelen, 1993: 47).

In March 1997 and following a *Metall* initiative, the Industrial Agreement (IA) was signed by 12 employer organizations and 7 trade unions across the occupational spectrum. The Agreement set out to offer a new mode of regulating the labor market in the industrial sector by avoiding industrial action for as long as possible, promoting industrial development and enhancing profitability to secure sound wage development (Elvander, 2002). To achieve these goals, the two sides agreed on the establishment of an Industrial Committee composed of employers and union representatives. The Committee became responsible for the supervision of bargaining, and has the power to intervene in the negotiations at an early stage. It can also force the halt of industrial action. All demands from the two sides have to be put forward at the start of the negotiations. In case an agreement runs out before it is renewed, an impartial chair of the Industrial Committee has the authority to intervene, put forward proposals and delay industrial action for up to 14 days (Ohlsson, 2003). The agreement was tested in the bargaining round of 1998 for the first time and was successful. All timetables were kept, industrial action was not contemplated and the wage levels agreed became the norm for the rest of the labor market (Elvander, 2002). By 2005, the Mediation Authority was reporting that ‘the principle of “completion in time” is now established in the Swedish labor market’ (*Medlingsinstitutet*, 2005). The reinvigoration of a spirit of collaboration between employers and unions is mediated by the realization that enhanced competition and the Europeanization of Sweden’s labor market poses new challenges with regard to

competitiveness and the maintenance of high standards regarding pay and the working environment. State interference in collective bargaining, a distinct possibility in the aftermath of the crisis, is now removed from the agenda (Murhem, 2003).

The Industrial Agreement is highly significant for two more reasons. Firstly, contrary to the stance they had adopted until then, employers in engineering industries abandoned confrontation for collaboration and formed a new industrial relations regime for the manufacturing sector (Elvander, 2002). Employers welcomed the willingness of the unions to reach a comprehensive agreement going beyond bread and butter issues. A negotiator of the IA on the employers' side has stated that the agreement has 'reinvigorated the *Saltsjöbaden* spirit' between employers and the unions.

They realized that we would have to have a common [purpose] in a lot of things ... [the agreement] was not only about salaries and wages it was also about taxes and energy and research issues ... it has been successful because the first negotiation agreements should be set within the industry sector and I think that is [the opinion] of LO too ... we have set a platform.<sup>7</sup>

Secondly, employers in engineering industries were not willing to renew collaboration with the unions solely because of the Europeanization of Swedish industrial relations. Employers in the state sector too took the initiative for an agreement in 1997, which was reached a year later, made explicit reference to the IA and even included joint committees for conflict resolution following the Industrial Agreement's example. Building on that momentum, the two sides proceeded with two agreements in 2000: '[t]he mutual trust established in the bargaining round of 1998 was codified in the cooperation agreement two years later' (Elvander, 2002: 203). Thus, the acceptance of the export sector as a pointer for wage development became established practice and both sides in the labor market welcome the IA as a stabilizing force.<sup>8</sup>

With regard to social partnership, the evidence available points to a continuing willingness to reach mutually acceptable solutions. In a 1998 survey measuring the effects of the 1973 Act on trade union

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<sup>7</sup> Interview with Jan Peter Duker, Deputy Director General, *Svenskt Näringsliv*, Stockholm, 22.9.2004.

<sup>8</sup> Interview with Gunnar Wetterberg, SACO Public Policy Director, 31.8.2004 ; Bernt Jansson, Ombudsman for the Social Democratic Party's relations with LO, 24.9.2004 and Anders Jonsson, Ombudsman for Municipalities Workers' Union (*Kommunal*) relations with European Public Service Unions (EPSU), Stockholm, 16.9.2004.

representation on company boards, cooperation between employee representatives and other board members was deemed 'good' or 'very good' by 80 percent of companies. Nine out of ten companies recorded 'good' or 'very good' cooperation between managers and trade unions (Levinson, 2001: 260-66). In a similar survey carried out by the same institute in 2003, surveyed firms asserted that consultations with trade unions are seldom financially burdensome and although the influence of employees had diminished since 1996, the benchmark year, 48 percent of them saw employees as playing a decisive role in regulating issues affecting working time and the working environment (EIRO, 2004a). The climate of cooperation between the two sides was in this survey described as 'good' or 'rather good' by 81 percent of enterprises (EIRO, 2004b).

The reinvigorated spirit of collaboration that both employers and union representatives admit to following the Industrial Agreement has led to more agreements – despite the failure of the 'Alliance for Growth' discussions in 1998.<sup>9</sup> To a large extent, such agreements are not merely the result of willingness to cooperate. They result from the powerful role of the unions in the labor market, itself the result of very high levels of union density. Though evidence suggests a loosening of the link between union membership and the unemployment insurance fund, union density rates remain among the highest in the world at approximately 78% of the workforce and many unemployment insurance funds privilege union members on payment method and lengths of payment period compared to non-unionized members (*TCO Tidningen*, 18 June 2006; *Dagens Nyheter*, 13 July 2006). Under such circumstances, the ideological hostility of employers to close cooperation is sacrificed for the sake of maintaining industrial peace and avoiding governmental interference through legislation.

A good illustration of this is the agreement reached between LO, PTK and SN in 2001 on a scheme for occupational injury scheme, according to which the injured employee would receive full compensation for loss of income and not be obliged to prove the fault of the employer any longer (EIRO, 2001). LO and SN also came together in two supplementary agreements, on a sick pay (*Avtalsgruppsjukförsäkring*, *AGS*) and insurance scheme against job

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<sup>9</sup> On the initiative of LO economists, LO, TCO and SACO agreed to present a package of issues for negotiations with SAF, including EMU, wage bargaining labor legislation, taxes and 'competence development' (Stephens, 2000: 11). Pestoff (2002) elaborates on the negotiations and possible reasons for their failure.

loss (*Avgångsbidragsförsäkring, AGB*). SAF, LO and TCO have also created a co-owned company, *AFA*, which is responsible for collectively agreed insurance against death, work injuries, illness and redundancy (EIRO, 2003). In addition, LO and SN have created a Safety Foundation (*Trygghetsfonden, TSL*) in 2004, in whose board both sides are equally represented, to manage the support of employees who have recently been made redundant (<http://www.tsl.se/AFATemplates/Page.aspx?id=116>). This has come after another agreement between the two sides regarding the need for an ‘insurance for change’ (*omställningsförsäkring*) was reached in 2004 and foresaw negotiations between managers and local trade unions in case of forced redundancies to provide individual help in the search for new employment (*Dagens Industri*, 1 September 2004).

A final reflection of the centrality of trade unions post-1991 is the preliminary outcome of the ‘Vaxholm conflict’. In October 2004, the Latvian company ‘*Laval un Partneri*’ operating in the Stockholm suburb of Vaxholm refused to sign a collective agreement with the LO-affiliated Construction Workers Union *Byggnads* (*Aftonbladet*, 27 November 2004). According to Swedish legislation and due to the fact that *Laval* was not a member of an employers organization, a collective agreement could only apply to *Laval* if it agreed to sign an individual (subsidiary) agreement with *Byggnads* (LO, 2005). In response, *Byggnads* called for a blockade and soon 6 LO unions joined the protest (*Svenska Dagbladet*, 21 January 2005). When *Laval* turned to the Labor Court, the latter decided in favour of the blockade (*Dagens Nyheter*, 22 December 2004). After a period of protracted conflict, *Laval* left the site. That decision was taken after a ruling by the European Court of Human Rights stated that the Swedish Court was not partial (*Dagens Nyheter*, 22 January 2005). The subsequent decision by the Labor Court to seek the opinion of the European Court of Justice meant that the issue was likely to continue being hotly contested by both sides, and the court’s verdict is expected in early 2008.

Following the departure of the Latvian firm and an increase in the number of similar conflicts, SN and LO decided to set up guidelines for foreign firms that operate in Sweden on a temporary basis and, if necessary, assume responsibility for the upholding of these guidelines by their members (LO, 2005; *Dagens Nyheter*, 30 August 2005). Sure enough, the effectiveness of the agreement needs

to be tested in practice,<sup>10</sup> and the two sides continue accusing each other of a hidden agenda.<sup>11</sup> Nonetheless, the Vaxholm conflict points to a continued willingness to jointly regulate the broad contours of the labor market, as befits a coordinated market economy (Svenson and Öberg, 2003).

## 6. Taking stock: the salience of institutional legacies

The historical evolution of Swedish labor politics is of decisive importance regarding its subsequent evolution. The centralization of industrial relations in the early 20<sup>th</sup> century meant that firm-by-firm struggles were largely avoided and ‘extensive union access to workplaces helped maintain rank-and-file contact and organize workplace bargaining’ (Kjellberg, 1998: 617). The ability of both unions and employers to centralize and gain access to places of work, however, is not a coincidence. It is derived from the historical character of the Swedish state, and the concomitant emergence of industrialization and democratization that facilitated the growth of strong unions as part and parcel of a democratizing polity. What is more, this policy included a strong labor movement able to consolidate its numerical strength in the absence of a coherent conservative counter-force due to the democratic instincts of the peasantry and the reformist character of the Social Democratic party (Katzenstein, 1985). Unionization has also been assisted by social partner autonomy that enhanced the attractiveness of union membership (Kjellberg, 1992). The principle of self-regulation in the labor market is again a by-product of an institutionally determined outcome of the balance of power that emerged in the 1930s (Johansson, 1992). Social partner autonomy resulted from an institutional bargain between the labor market partners and the state, based on the unanimous ambition to enhance economic growth. The most revealing example of the salience of historical institutionalism is the creation of a Ghent-type of unemployment insurance fund administered by the unions. Though the Ghent-type has come under attack from time to time, it is unlikely that the current center-right

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<sup>10</sup> A series of agreements modelled on the LO-SN document have since been signed on a sectoral level. *Dagens Arbete*, 12 December 2005.

<sup>11</sup> Under the leadership of Urban Bäckström, former head of the Central bank, SN has toned up its rhetoric regarding labor market “imbalances”, calling for a limit on sympathy strike action. LO, for its part, has sought to mobilize its membership against such calls by pointing to the financial support that SN offered to Laval in the judicial proceedings of the Vaxholm case.

government will attempt to remove the unions from the administration of the system.

At the time of the introduction of the unemployment insurance reform, the Social Democrats could hardly expect political gains, as the majority of workers were not unionized (Garrett, 1993). Nevertheless, the reform was part of an overall reform scheme that aimed at creating a political and economic climate conducive to the goals of the party. It was also premised on the divisions among the party's political opponents at a time of structural economic changes (Garrett, 1993).

## 7. Conclusion

The above analysis does not negate the importance of an interest-based approach in outlining part of the Swedish Model's story. It merely wishes to correct the latter's overstated emphasis on material factors and stress that it is the interaction between interests, ideas and institutions that accounts for change (decentralization) as well as continuity post-1997. The case for such an approach has been strengthened by developments after the collapse of the old equilibrium in the 1990s, when the employers, rightly viewed by interest-based theorists as key in the build-up of the original arrangement, launched an ideological campaign against the existing pattern of labor market concertation.

Historical institutionalism retains its explanatory vigor regarding the Swedish Model not only because of a certain successful resistance to change by LO under SAF pressure, but also because these actors are shown to be informed by a path-dependent attitude to the Model's operation that has allowed them to become pro-active participants. Equipped with policy tools developed through the institutional maturation of the Swedish Model, such as the unemployment insurance scheme, the unions have succeeded in blocking the transformation of Swedish political economy along neo-liberal lines. The return of employers to the negotiating table on minor and major issues, as well as the signing of the Industrial Agreement, reveal the lasting ability of unions to assume responsibility for the regulation of the labor market. It is on that level of responsibility, as well as their relevance in the workplace, that the role of trade unions in Sweden and elsewhere in Europe will be tested in the years to come.

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## Özet

### "Ne yaptıklarına değil, onu neden yaptıklarına bak": İsveç'te İşverenler, Sendikalar ve Güç Kaynakları

Son onyılda İsveç emek ilişkileri, biraz da kıta Avrupası pratikleri doğrultusunda 'normalleşme'leri nedeniyle görece daha az akademik ilgi çekti. Bu makale İsveç emek uyumu ve sosyal partnerlik modelinin 1990'ların çalkantısına rağmen ayakta kaldığını ve bunun asıl nedeninin sendikalar ve sosyal demokratların elinde bulundurduğu göze çarpan güç kaynakları olduğunu iddia etmektedir. Model'in yakın zamanda güçlenmesi sendikaların, sahip oldukları örgütsel ve kurumsal kaynakların bir sonucu olan, emek piyasasını birlikte düzenleme yeteneklerine yakın bir şekilde bağlıdır. Ancak bu kaynaklar, 2006'da Reinfeldt hükümetinin seçilmesinden bu yana saldırı altındadır. İsveç sınai ilişkilerindeki çağdaş rollerinin eksiksiz bir açıklaması katı materyalist ve çıkar yönelimli perspektifleri reddeden ayrıntılı bir kurumsal yaklaşımı gereksinmektedir. Bu makale, bu perspektifler yerine, kurumsal konfigürasyonlarda yerleşik düşünceleri çıkarlarla birleştiren tarihsel kurumsalcı bir çerçeveye önermektedir.

*Anahtar kelimeler:* İşverenler, kurumsalcılık, çıkarlar, İsveç modeli, işçi sendikaları.

