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PONTUSSON, Harry Jonas


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JONAS PONTUSSON

Sweden is everyone’s favorite example of hegemonic social democracy. From
1932 to 1976, Sweden had but three prime ministers, and they were all Social
Democrats. Following a brief interlude of bourgeois coalition governments, the
Social Democrats returned to power in 1982 and handily won the elections of
1985 and 1988.¹ During this, their second tenure in government, the Social
Democrats engineered a remarkable economic recovery, apparently defying con-
ventional wisdom by eliminating a huge government deficit without compromis-
ing welfare entitlements or full employment. As late as 1989, Sweden seemed
immune to worldwide political trends in a conservative or neoliberal direction,
and the hegemony of Swedish social democracy seemed to be as secure as it had
ever been.

Suddenly, this success story unraveled in 1989-1991. Amid a severe recession,
the Social Democrats suffered a historic defeat in the election of September 1991.
Polling 37.6% of the national vote, they did worse than they had done in any
election since 1928. (From 1932 through 1988, the Social Democrats’ share of
the national vote never fell below 41%.) For the first time since 1928, the leader
of the Conservative party, Carl Bildt, became prime minister in 1991, as head of
a four-party coalition government committed to far-reaching reforms of the
welfare state.

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What went wrong for the Swedish Social Democrats? The intent of this article is not to explain why Swedes voted as they did in 1991 nor to provide a comprehensive account of the multifaceted crisis that the Social Democrats currently confront. Rather, I shall focus on a particular dimension of the crisis of Swedish social democracy: the failure of the economic recovery strategy pursued by the Social Democrats in the 1980s, commonly known in Sweden as “the Third Road” (*den tredje vägen*). There can be little doubt that economic issues were the primary concern of voters in 1991. To a far greater extent than in the past, the Social Democrats staked their claim to popular support on their competence in managing the economy in the 1980s, and so they were very vulnerable to the onset of recession. What is more, the downturn in the economy after 1989 came to be perceived by many voters as something more than a cyclical phenomenon. Even Social Democratic economists argued that the economy suffered from structural problems, which had been created or at least accentuated by government policies.

My analysis entertains two different interpretations of the failure of Social Democratic economic management in the 1980s. The first interpretation holds that the Social Democrats made strategic choices that weakened the labor movement, and thus undermined their own political base. The Third Road departed from the Social Democrats’ traditional approach to macroeconomic policy, the Rehn-Meidner model, and failed for reasons that conformed to the logic of this model. The second interpretation holds that the failure of Social Democratic economic management ultimately derives from long-term changes in the structure of Swedish industry and the dynamics of international competition. According to this interpretation, the Social Democrats’ traditional approach to macroeconomic policy would also have failed in the 1980s; indeed, objective conditions forced the Social Democrats to abandon the Rehn-Meidner model.

Both of these interpretations are plausible, and I believe that some insights might be gained by playing them off against each other. Within the context of this one experience of Social Democratic government, it is impossible to separate the political-economic effects of government policy from the effects of long-term structural changes in any definitive manner, but we can (and I will) specify more precisely the issues at stake here. In the end, I lean toward the “structuralist” interpretation because it provides an explanation of why the Social Democrats made strategic choices that they knew (or should have known) might backfire. As Marx put it, “men [sic] make their own history, but . . . they do not make it under circumstances chosen by themselves.” I hasten to point out that this dictum, as I read it, not only asserts that structural conditions matter; it also asserts that a structuralist explanation must demonstrate how structural conditions impinge on the strategic choices of political or economic actors.

My discussion is organized into three parts. The first provides an overview of recent Swedish developments, states my arguments more fully, and situates these arguments in relation to the literature on the political economy of class compro-
mise in advanced capitalist societies. The second part describes how the strategy of the Third Road diverged from the Rehn-Meidner model and identifies its internal contradictions. The third part explores the political implications of industrial restructuring.

1. PRELIMINARY OVERVIEW

It is a commonplace that the bourgeois coalition governments of 1976-82 essentially adhered to Social Democratic policy priorities. Certainly, the bourgeois parties tried very hard to maintain welfare entitlements and full employment in the face of a severe economic crisis. The upshot of their efforts was a huge government deficit (13% of GDP in 1982), and government-subsidized over-employment in declining industrial sectors, several of which were nationalized during the bourgeois tenure in government. (The bourgeois parties nationalized more industry in their three years in power than the Social Democrats had done in the previous forty-four years.)

Returning to power in 1982, the Social Democrats were able to turn the economic situation around with remarkable ease. By 1988, they had effectively eliminated the budget deficit without cutting welfare entitlements. From 1983 to 1988, the economy grew at an annual rate of 2.7%, the balance-of-trade deficit turned into a substantial surplus, and the rate of unemployment fell from 3.5% to less than 2%. The Social Democrats never managed to bring the rate of inflation down to the OECD average, however, and the Swedish rate of inflation accelerated while the average OECD rate decelerated in 1989-90. In 1989, the Swedish rate of inflation was 6.6%, as compared to 4.5% for the OECD as a whole. The competitiveness of Swedish exports suffered as a result, and by the end of 1989, the balance-of-payments deficit exceeded that of 1982.

To deflate the economy and restore competitiveness, the government proposed an austerity package in February 1990 that included a two-year wage freeze and strike ban. When Parliament refused to endorse this package, the government made good on its threat to resign, but it did not call a new election. By this time, the Social Democrats’ standing in public opinion polls had fallen precipitously (one poll put their support at 31.5%), and the government had every reason to put off an electoral contest. In the end, the government crisis in spring 1990 ushered in the formation of a new Social Democratic government, whose economic policies rested on an agreement with the Liberal party. Although the Social Democrats recovered some popular support in the following year, they nonetheless suffered a historic defeat in the 1991 election.3

The loss of electoral support is but one manifestation of the current crisis of Swedish social democracy. In 1989-91, the Social Democrats introduced a whole series of new policy initiatives that departed from traditional Social Democratic policy commitments and, in the eyes of many observers, represented an embrace
of bourgeois policy prescriptions. Some of these initiatives were perceived as
necessary to improve economic performance; others were apparently introduced
to reverse the decline of public support for the government. Whatever the motives
behind new Social Democratic policy initiatives, the terms of public debate
clearly shifted in favor of the bourgeois parties between 1988 and 1991. The
Social Democrats no longer appear able to impose their "image of society" on
other political forces. Indeed, it is questionable whether they really represent a
distinctive image of society any more. 4

In addition, relations between the government and LO, Sweden's powerful
confederation of blue-collar unions, deteriorated markedly in the two or three
years preceding the 1991 election. Closely linked by tradition, the leaders of the
Social Democratic party and LO have diverged on many issues since the mid-
1970s, but the public acrimony of recent years represents something quite new. 5
The government crisis of 1990 also revealed major divisions within the party
leadership itself.

The Arguments in Brief

To reiterate, this article explores the reasons for the failure of the economic
strategy pursued by the Social Democrats in the 1980s. As a first cut, I shall dem-
onstrate that the economic strategy pursued by the Social Democrats in the 1980s
departed from their traditional approach to macroeconomic management, the
Rehn-Meidner Model, by relying primarily on increased corporate profits as the
mechanism to stimulate growth. I shall proceed to argue that unprecedented levels
of corporate profitability led to wage drift and interunion wage rivalries in the
second half of the 1980s and thus undermined the capacity of LO and the peak
organizations of white-collar unions to exercise solidaristic wage restraint. In
other words, the failure of the Third Road confirms the essential insight of the
Rehn-Meidner model: over the long run, it is impossible to combine full employ-
ment, high corporate profits, and wage restraint. One of these objectives must be
sacrificed to achieve the others. 6 At least, this is the case in a situation where a
very large proportion of wage earners are organized in unions (circa 85% in the
Swedish case), and wage restraint has traditionally been linked to wage solidarity.

The Rehn-Meidner model solved the problem of macroeconomic management
by keeping the lid on corporate profits and relying on active labor market policy
to maintain full employment. The question arises, why did Swedish social
democracy abandon the Rehn-Meidner model in the 1980s? One way to answer
this question would be to describe the decline of the intellectual authority of LO's
research department (the source of the Rehn-Meidner model) and the rise of a
new group of Social Democratic policy intellectuals, who came to serve as
advisors to Kjell-Olof Feldt, the minister of finance from 1982 to 1990, and had
been trained in neoclassical economics.
As indicated earlier, I propose to situate this story in a broader context by arguing that long-term changes in the structure of Swedish industry and the dynamics of international competition have altered the politics of economic policy. The Rehn-Meidner model could not be maintained in the 1980s because the behavior of Swedish business in politics and in the marketplace no longer conformed to its basic premises. Having failed to mobilize political support for its own alternative, collective profit sharing through wage earner funds, LO was forced to go along with the profit-led recovery strategy advocated by Feldt and his advisors.

My analysis of long-term changes in the pattern of industrial development emphasizes two points. First, the multinationalization of Swedish business has strengthened its position vis-à-vis labor and weakened its interest in domestic demand stimulation. Second, the diffusion of new production technologies and changes in product-market competition have made it both possible and necessary for manufacturing industry to improve production flexibility and product quality. The need to move beyond traditional "Fordist" methods of production has led employers to prioritize wage flexibility over wage restraint and to seek more decentralized forms of wage determination. Over time, such efforts have undermined the solidaristic class unionism that constituted an essential condition for the success of Swedish social democracy in the postwar era.

*Alternative Perspectives*

I believe that the failure of the Social Democrats' economic strategy is the key to their current crisis, but I cannot prove that this is the case and readily admit that my approach does not provide a complete account of the crisis of Swedish social democracy. Before we proceed further, let me briefly identify some issues and arguments that my analysis ignores.

As indicated by the sudden rise of two new parties, the Christian Democrats and the New Democrats (the latter being a populist antitax party), the 1991 election represents a general realignment of electoral allegiances as well as a defeat for the Social Democrats. Many voters appear to be fed up with traditional politicians and political practices. To understand this phenomenon, we must surely go beyond the politics of economic policy to consider social and cultural changes that have taken place in Sweden in the past decade or so. In a different vein, the current crisis of Swedish social democracy might be related to the collapse of communism in Eastern Europe and to the intellectual crisis of the Left throughout Europe. It might also be seen as a leadership crisis. Certainly, recent conflicts between LO and the Social Democratic party leadership have involved personalities. Somewhat like the drunk looking for his keys under the streetlight, I ignore these dimensions of the crisis because I do not understand them very well and do not know how to assess their significance.
We cannot, however, ignore changes in the occupational composition of the electorate. According to election surveys, blue-collar workers accounted for 53% and salaried employees for 26% of the electorate in 1956. By 1988, the former had fallen to 41%, and the latter had risen to 47%. Clearly, it has become increasingly imperative for the Social Democratic party to mobilize white-collar voters in order to win elections, and this might account for the decline of LO's political influence. The growth of white-collar unions might also be invoked to explain the weakening of LO's authority in the wage-bargaining arena and, specifically, its growing difficulties in securing wage restraint and wage solidarity at one and the same time.

These arguments seem perfectly compatible with the ones that I develop in this article. I do not wish to deny that the expansion of white-collar and service-sector employment has had important political consequences. My analysis focuses on other variables because I think that we already understand these implications fairly well and because I think that they alone do not provide an adequate explanation of the current crisis of Swedish social democracy. Changes in employment structure are simply too long-term and incremental to capture the timing and dynamics of the crisis. As Gösta Esping-Andersen has emphasized, the political success of Swedish social democracy in the postwar era hinged, in large measure, on its ability to combine cross-class electoral support with a firm hold on the blue-collar vote. From the mid-1950s onward, the Social Democrats consciously sought to offset the effects of social-structural changes by mobilizing new support among white-collar strata. This strategy entailed some losses among blue-collar voters, but these losses were smaller than the gains among white-collar voters.

If the polls are to be believed, Social Democratic policy initiatives in 1989-91 alienated large numbers of blue-collar voters without attracting any new white-collar support. Why, then, were these initiatives undertaken? And why did the trade-off between blue-collar and white-collar support apparently become much steeper at this time? These questions invite us to consider the dynamics of economic restructuring and the politics of economic policy in the 1980s.

The Political Economy of Class Compromise

The aim of this article is not only to shed some light on the current crisis of Swedish social democracy but also to further our understanding of the political economy of class compromise in advanced capitalism. Starting with Walter Korpi's path-breaking book of 1978, The Working Class in Welfare Capitalism, the question of class compromise has been the subject of a great deal of theorizing in recent years. Most of this literature proceeds from the premise that it is in the interest of workers to restrain their redistributive claims on capital if such restraint yields increased investment and employment. From the point of view of labor's material interests, the accommodation of capital is probably more rational than
the pursuit of system-transformative changes, for the latter would inevitably involve a disruption of economic growth. The logic of collective action renders class compromise precarious, however, for the trade-off between short-term and long-term gains does not necessarily hold at the level of individual workers or groups of workers. The question becomes, under what institutional conditions will workers and their organizations recognize and effectively pursue long-term gains through collective restraint?

The authors who address this question typically focus on political institutions. For instance, it is a commonplace to argue that unions that organize a large proportion of the labor force—in Mancur Olson's formulation, "comprehensive organizations"—are more likely to pursue class-compromise strategies than will unions with narrower constituencies. Other arguments along these lines include the proposition(s) that durable compromise depends on Left government and/or institutionalized state capacities to intervene in the economy. To agree to short-term restraint, unions must have some reason to believe that their members will share in its long-term benefits. Arguably, unions are more likely to trust Left governments than Right governments on this score.

My objection to this problematic is that it rests on a very abstract conception of capitalism. Class actors may pursue different strategies, but the logic of capitalism is always and everywhere the same. By contrast, my analysis of the Swedish case proceeds from the notion that variations in the institutional (or structural) configuration of capitalism across countries and time shape the politics of class compromise. Inspired by the French "regulationists" and other students of capitalist development, this approach does not reject the claim that institutions matter. Rather, it emphasizes institutional or structural variables overlooked by most of the literature on the political economy of class compromise, such as the sectoral composition of exports, the organization of production, and the mechanisms whereby savings are generated and transformed into investment.

Such variables provide the basis for distinguishing different patterns of capitalist development. Arguably, some patterns of capitalist development are more conducive to class compromise than others. More precisely, I want to use the Swedish experience to illustrate the thesis that different patterns of capitalist development are conducive to different kinds of class compromise and that some kinds of class compromise are more conducive to Social Democratic hegemony than others.

My argumentation links economic-structural variables to political outcomes in two ways. First, I argue that economic-structural changes have undermined the efficacy of traditional Social Democratic policies. Second, I argue that economic-structural changes have altered the interests and political capacities of labor and capital. This perspective suggests that the current crisis of Swedish social democracy should not be attributed simply to the onset of recession in 1990. In part, the crisis derives from the character of the economic boom of the 1980s.
2. LABOR'S ECONOMIC POLICY MODELS

The new Social Democratic government of 1982 dubbed its economic recovery strategy the Third Road to indicate its ambition to steer a path between the reflationary approach of traditional Keynesianism, as practiced at the time by the French socialists, and the deflationary approach of neoliberalism, as practiced by the British Tories. In presenting their strategy in these terms, the Social Democrats avoided the question of its relationship to the Rehn-Meidner model. After all, the Rehn-Meidner model was itself conceived, in the late 1940s, as the labor movement's alternative to traditional Keynesianism. How did the Third Road of the 1980s differ from the Third Road of the 1950s and 1960s?

The Rehn-Meidner Model

The strategic approach to economic management articulated by Gösta Rehn and Rudolf Meidner in the late 1940s and pursued more or less consistently by LO and Social Democratic governments from the mid-1950s to the mid-1970s rested on the premise that productivity growth was an essential precondition for real-wage growth and welfare-state expansion. Perhaps because of the unions' exposure to international competition, this view was already deeply ingrained in the thinking of the Swedish labor movement. For instance, the secretary of LO stated in 1926 that real wages "can only be raised insofar as improvements in production methods and economic organization create conditions therefore," adding that for the unions to believe that their militancy by itself brought higher wages would be "as folly as it would be for the rooster to believe that the sun rises because he crows."15 Similarly, the idea that the LO unions should coordinate their wage bargaining and collectively support the wage claims of the weakest unions can be traced back to the 1920s. The Rehn-Meidner model combined these two strands of labor movement thinking, and legitimated the short-term, redistributive claims of low-wage unions by identifying them with the long-term interests of the labor movement as a whole.

The model asserted that wages should be determined by the nature of work rather than the ability of employers to pay (equal pay for equal work) and that the implementation of this principle would enable the labor movement to avoid the contradictions of incomes policy. To begin with, it would dampen wage rivalries by creating a more "rational" wage structure (the assumption being that workers would be more willing to accept differentials based on the nature of work). In addition, the compression of wage differentials would promote productivity growth by squeezing corporate profits selectively. On one hand, a concerted union effort to increase wages for the low-paid would squeeze the profit margins of less efficient firms and sectors, forcing them to rationalize production or go out of business. On the other hand, wage restraint by the well-paid would promote the expansion of more efficient firms and sectors.
The institutionalization of peak-level wage bargaining (between LO and its employer counterpart, SAF) in the 1950s was a result of employer and government efforts to restrain wage increases rather than LO efforts to redistribute wage increases, but it facilitated subsequent LO efforts to implement solidaristic wage policy. Although the equalizing effects of central agreement were partly offset by wage drift at the firm level, a significant compression of wage differentials among blue-collar workers did indeed occur in the 1960s and 1970s.16

Rehn and Meidner stressed from the outset that the promotion of economic restructuring through solidaristic wage bargaining required the active support of the government. Most important, the unions could not possibly assume the role that the model assigned to them unless the government intervened to compensate workers adversely affected by economic restructuring and help them adjust to changes in the demand for labor. Beginning with the recession of 1957-58, government spending on labor exchanges, retraining programs, and relocation subsidies increased steadily through the 1960s and 1970s. The purpose of such supply-side measures was not only to alleviate worker resistance to economic restructuring but to speed up the pace of restructuring by subsidizing the recruitment costs of “advanced” sectors and to reduce wage drift by removing bottlenecks in the supply of labor.

A potential problem with this strategy was that firms being squeezed by solidaristic wage policy would maintain their profits by passing higher wage costs onto consumers. The solution was to expose such firms to international competition. The Rehn-Meidner model thus provided further justification for the labor movement’s long-standing commitment to free trade. Another potential problem was that more efficient firms might use the “excess profits” generated by solidaristic wage policy to bid up the price of labor (i.e., to pay for wage drift instead of investing such profits in new capacity). While some wage drift was acceptable, the government had to pursue a restrictive fiscal policy to prevent wage drift from getting out of hand. In Rehn’s words, the Rehn-Meidner model prescribed an “unsolidaristic profits policy . . . within the framework of a general policy of low profits.”17

But if the profits of efficient firms were also to be squeezed, wouldn’t this undermine their expansion? For Rehn and Meidner, the solution to this problem was to transform the public savings generated by restrictive fiscal policy into new investment. In essence, the state would absorb corporate profits through taxation and then lend public savings to the corporate sector. Low interest rates would offset whatever negative effects the combination of wage solidarity and fiscal frugality would have on the propensity of firms to invest. While counteracting the concentration of wealth, this “recycling” of profits via credit markets would also promote capital mobility (i.e., increase the supply of capital to more efficient firms). The buildup of public pension funds in the 1960s functioned more or less in the manner prescribed by Rehn and Meidner.18
In sum, labor's postwar strategy promoted productivity growth by accentuating profit differentials among firms and removing obstacles to factor mobility. Under the market conditions that prevailed from the 1940s through the first half of the 1970s, the policies pursued by social democracy favored large, export-oriented firms and promoted the concentration of capital. They also encouraged firms to substitute capital for labor.

The Third Road

Whereas the Rehn-Meidner model challenged the conventional notion of a necessary trade-off between efficiency and equality, the Social Democratic government of 1982 accepted this notion as it adopted the slogan "first growth and then redistribution." The policies of the Third Road rested on the premise that renewed growth required a major increase of corporate profit margins, or in other words, a major redistribution of national income from labor to capital. In his political memoirs, Feldt himself characterizes the new thinking behind the Third Road in terms of the importance and positive value assigned to corporate profits as the engine of growth.19

The centerpiece of the effort to boost corporate profit margins was a 16% devaluation. Undertaken on the new government's first day in office, this devaluation came on top of a 10% devaluation in 1981 and several smaller devaluations in 1977-78. In focusing on labor costs, the approach to the problem of competitiveness adopted by the Social Democrats in 1982 was similar to that of the bourgeois governments of 1976-82.

The economic policy program endorsed by the LO congress of 1981 recognized the need for wage restraint but rejected a policy of devaluation, arguing that domestic demand should be stimulated selectively through increased public investment in transportation and infrastructure. The LO program also insisted that wage restraint be linked to the introduction of collective profit sharing in the form of wage earner funds. By comparison, the program adopted by the Social Democratic party conference of the same year placed much less emphasis on wage earner funds. Moreover, the party program diverged from the LO program in that it stated quite explicitly that economic recovery required public sector cutbacks as well as wage restraint.20

While LO accommodated the devaluation of 1982 by demanding average wage increases of 2.5% in the ensuing wage-bargaining round, the Social Democrats reaffirmed their election promise to restore welfare entitlements cut by the bourgeois parties and introduced legislation that would spread the burden of austerity by increasing taxes on wealth, inheritance, gifts, and stock market transactions. Also, the new government launched a public investment program and ultimately introduced wage earner funds. The recovery strategy pursued by the government thus incorporated elements of LO's program, but the overall thrust of government policy after 1982 conformed closely to the prescriptions of Feldt and his advisors.
and thus must be considered a defeat for LO and its allies within the government. The public investment program of 1982 was financed by cutting other public expenditures, notably state subsidies to industry, and the scope of the wage earner funds legislation of 1983 was very limited indeed. (At the end of 1987, Volvo’s liquid assets exceeded the market value of all equity shares held by wage earner funds and public pension funds.)

Coinciding with the beginning of the world economic boom of the 1980s, the devaluation of 1982 was immediately successful, but domestic inflation gradually erased its positive effects for competitiveness. The growing discrepancy between the Swedish rate of inflation and the average OECD rate from 1988 onward corresponded to a rise in relative Swedish labor costs, and consistent with its previous policy orientation, the government’s effort to reverse the deterioration of competitiveness focused on wage restraint. It seems rather superficial to conceive the problem of “excessive” inflation simply in terms of labor costs, however. Other factors, such as the deregulation of financial markets in 1985-86 and the ensuing credit boom, contributed to inflationary pressures.

More important for present purposes, the sluggishness of productivity growth must be invoked to explain the failure of the Third Road to sustain noninflationary growth. From 1980 to 1990, the employment of labor, measured in working hours, increased by 11%, but labor productivity only increased by 9.5%. The slow growth of labor productivity is commonly attributed to the expansion of service employment, but this is only part of the story. For manufacturing industry alone, the annual growth of labor productivity averaged only 2% in 1983-88, as compared to 2.5% in 1975-83 and 6.0% in 1963-75. Despite increased investment and capacity utilization, the deceleration of productivity growth that began in the mid-1970s persisted throughout the 1980s.

Measured in terms of value added per employee, the annual rate of productivity growth in Swedish industry averaged 1.6% in 1979-88, as compared to an average rate of 2.1% for all European OECD countries. Arguably, the fact that the Swedish rate of productivity growth lagged behind the average for European OECD countries is simply a reflection of the fact that the Swedish level of productivity was higher than the average to begin with. My point here is that the sluggishness of productivity growth has undermined Social Democratic class compromise. This point hinges on a comparison with Swedish productivity growth in the postwar era rather than a cross-national comparison. Because social democracy appears to be in trouble in other countries as well, the fact that productivity growth has been sluggish in most of the advanced OECD countries suits my argument very well.

A number of different factors can be invoked to explain the sluggishness of productivity growth in Sweden and elsewhere in the 1980s. For the time being, it suffices to note that the sluggishness of productivity growth might be viewed as a consequence of government policy. Following the logic of the Rehn-Meidner
model, Lennart Erixon argues that the policies of the Third Road encouraged firms to compete on the basis of labor costs and alleviated the pressure on firms to engage in process and product innovation. Erixon also suggests that the policies of the Third Road favored large, export-oriented engineering firms and thus helped prop up the existing industrial structure.23

As for labor costs as a source of inflation, it is noteworthy that wage drift accounted for just about 50% of the increase of relative labor costs in the second half of the 1980s.24 The profits boom of the 1980s rendered the need for wage restraint less compelling to export-oriented employers and stimulated wage drift through plant-level bargaining over piece rates, productivity bonuses, and the like. Just as the Rehn-Meidner model would predict, the government’s profit-led recovery strategy made it more difficult for LO and the white-collar confederations to exercise wage restraint, in effect playing into the hands of employers that wanted to decentralize wage bargaining.

The government’s incomes policy for the public sector also undermined the position of labor’s peak organizations. As part of its efforts to cut public expenditures, the government began to put the squeeze on public-sector unions in 1985-86, specifying wage ceilings for public sector contracts in advance of private sector settlements and insisting that public sector employees would no longer be automatically compensated for private sector wage drift. At the same time, the government sought to address recruitment bottlenecks and to promote productivity improvements by decentralizing wage determination in the public sector, that is, by allowing more room for variations in wages according to localities and individual effort.25 Both aspects of the government’s incomes policy for the public sector ran counter to the principle of equal pay for equal work and, arguably, contributed to the erosion of the normative consensus that underpinned centralized wage bargaining in the 1960s and 1970s.

A careful analysis of changes in the institutions and outcomes of wage bargaining lies beyond the purview of this article, but it should be noted that employer-initiated decentralization within the private sector and the government’s market-oriented incomes policy for the public sector have been accompanied by a significant increase of wage differentials among blue-collar workers.26

As suggested earlier, the logic of the Rehn-Meidner model provides a ready explanation of the failure of the Third Road: while high corporate profits generated inflationary wage rivalries and weakened the ability of national union leaders to pursue redistributive objectives, the growing importance of market forces in wage determination weakened the pressure on firms to engage in productivity-enhancing innovations.27 Again, the question arises, why did Swedish social democracy forget the lessons of the Rehn-Meidner model? As we have seen, the policy orientation adopted by the government in 1982 diverged from LO’s preferences in certain critical respects, but this characterization of the origins of
the Third Road must be qualified. The fact is that LO went along with the policy choices that were made in 1982, without that much kicking and screaming.

LO accepted the policy choices of 1982 because the Rehn-Meidner model no longer seemed adequate to the task of securing full employment and competitiveness. Having failed to mobilize political support for wage earner funds, LO did not have a coherent and politically feasible alternative to the policy orientation advocated by Feldt and his advisors. At the same time, this policy orientation was clearly intended to and did indeed serve to maintain full employment. The Third Road might have yielded more sustained growth (less inflationary pressure) had the government undertaken to create unemployment, but this was never an option considered by the government. The Third Road can thus be viewed as the manifestation of a stalemate within Swedish social democracy in the 1980s: while LO remained able to insist on full employment as the overriding goal of Social Democratic policy, it lost the ability to define the Social Democratic approach to inflation, productivity, and competitiveness.

What accounts for the decline of LO's influence over Social Democratic policy? Let me simply flag two plausible answers at this point. One answer is that long-term changes in the pattern of economic development have indeed rendered the Rehn-Meidner model inadequate as a framework for economic policy and that LO has failed to develop a politically feasible substitute for the Rehn-Meidner model. Sidestepping the question of the adequacy of the Rehn-Meidner model, the other answer holds that LO's postwar influence over Social Democratic policy depended on its ability to organize solidaristic wage restraint and that this ability has eroded since the mid-1970s. I shall return to the reasons for the erosion of LO's ability to organize solidaristic wage restraint.

Before we consider how the pattern of economic development has changed in the past two decades, the connection between the issue of productivity growth and the Social Democrats' loss of popular support in 1989-91 should be noted. Beyond their claim to be the party most capable of managing the economy, the Social Democrats made three reform promises in the 1988 election campaign: the introduction of a sixth vacation week, the extension of parental leave insurance from nine to fifteen months, and the expansion of public day care so that all preschool children above the age of one-and-a-half years would be ensured a place. As part of a series of crisis measures, the government retreated from each and every one of these promises in 1990. There can be little doubt that this retreat weakened electoral support for the Social Democrats.

Significantly, two of the election promises of 1988, the sixth vacation week and the extension of parental leave insurance, involved a reduction in the supply of labor. Organized business strongly opposed the proposed reforms on this account. It should also be noted that increasing the supply of labor was a major motive behind the tax reform that the government introduced, with the support of
the Liberal party, in 1989-90 and that the announcement of the tax reform marked the beginning of the decline of the Social Democrats’ standing in the polls. Rightly or wrongly, many traditional Social Democratic voters perceived the tax reform as regressive.³⁰

The point here is that the economic growth stimulated by the policies of the Third Road depended on increased employment of factors of production. By comparison to the “intensive,” productivity-based pattern of growth that characterized the 1960s, the growth of the 1980s was largely “extensive” growth.³¹ As available reserve pools of labor power were exhausted, the government sought to counteract inflationary pressures by shelving social reforms that would have reduced the supply of labor and increasing the incentives for people to work more. Such measures were a natural and perhaps necessary extension of the government’s growth strategy; however, they proved unpopular among traditional Social Democratic supporters.

3. INDUSTRIAL RESTRUCTURING AND BUSINESS STRATEGIES

The politics of labor cannot be understood in isolation from the politics of capital. In Sweden, as elsewhere, organized business went on the offensive in the 1980s. On one hand, employer organizations launched a sustained campaign to decentralize the system of wage bargaining and thereby undermine wage solidarity. On the other hand, businesspersons and business organizations became increasingly outspoken in their criticism of the Social Democratic welfare state and their advocacy of privatization, deregulation, and European Community membership.³²

Dating back to the late 1970s, when the bourgeois parties were in power, this two-pronged business offensive is commonly treated as an “opportunist” response to more favorable political conditions. The alternative view that I want to develop here holds that the interests of business have changed as a result of new pressures and opportunities confronted by firms in the marketplace.

I shall first set out some arguments that link the ascendancy of social democracy to the spread of Fordist mass production. Against this background, I will pursue two lines of argument about the political consequences of the restructuring of industry that has occurred in the past two decades. The first line of argument concerns the parameters of economic policy; the second concerns the cohesion of organized labor. Both sets of arguments serve to explain the decline of LO’s influence over economic policy in the 1980s.

Fordism and Social Democracy

Among the advanced capitalist countries, Sweden’s postwar political economy stands out by virtue of its high degree of export dependence as well as its highly institutionalized form of class compromise. From a comparative perspective, it is
tempting to attribute class compromise to export dependence, but a historical perspective requires us to qualify this view. As Figure 1 illustrates, the ascendancy of social democracy and the institutionalization of class compromise in the 1930s coincided with a marked decline in the export dependence of Swedish industry. It was not until the 1960s that Swedish industry regained the level of export dependence of the 1920s.

A number of authors have suggested that the "historic compromise" of the 1930s was first and foremost a compromise between labor and domestic (home-market-oriented) industry or, more broadly, that the ascendancy of social democracy in the 1930s rested on an alliance of workers, farmers, and domestic industry.\(^3\) Against such an interpretation, Peter Swenson argues that the historic compromise should be seen as an alliance of labor and capital in export sectors seeking to curtail the wage demands of workers (and unions) in sectors sheltered against international competition.\(^4\)

These interpretations of the politics of class compromise in the 1930s may be construed as complementary. Arguably, the key to the success of social democracy in the 1930s was its ability to pursue several cross-class alliances simultaneously. This would seem to apply to the postwar era as well. While the supply-side policies associated with the Rehn-Meidner model clearly favored large, export-oriented firms, full employment and welfare-state expansion favored firms oriented toward domestic consumer markets. To a degree, the postwar "growth regime" balanced the interest of domestic and export-oriented industry.

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*Figure 1* Exports as a percentage of total industrial production (at constant prices), 1880-1980. *(Source: Olle Krantz and Lennart Schön, "Den svenska krisen i långsiktigt perspektiv," in *Ekononmisk historia*, edited by Lennart Jörberg [Stockholm: Liber Förlag, 1985], 99.)*
The conventional juxtaposition of domestic and export-oriented industry misses a crucial feature of the postwar political economy of class compromise: the rise of consumer durables and the spread of Fordist mass production principles. Broadly speaking, we can identify three basic components of Swedish industry prior to the Social Democratic era: (1) export-oriented, raw-materials-based industries, distinguished by highly capital-intensive production methods (e.g., mining, steel, and forestry); (2) export-oriented engineering industries, engaged in labor-intensive "craft production" (industrial machinery and other mechanical or electrical equipment); and (3) home-market-oriented consumer industries, employing more or less skilled labor (e.g., foods, textiles, construction, and printing).35

As elsewhere, producers of consumer durables emerged in the interwar period and expanded at an especially rapid rate during the postwar boom. Typified by Volvo and Electrolux, these firms engaged in less capital-intensive production than raw-materials-based industries but in more capital-intensive production than traditional engineering firms. Employing semiskilled labor, they expanded by catering to domestic demand but became increasingly export-oriented in the course of the boom. Fordist mass producers thus occupied an intermediary position between domestic and export-oriented industry and also between the two traditional types of export-oriented industry. More so than other firms, they benefited from both sides of the postwar growth regime, that is, from both supply-side measure to promote rationalization and labor mobility and demand-side measures to promote full employment and raise the living standards of working people. It is no accident that Volvo emerged in this period as the principal representative of the "class collaborationist" wing of the business community.36

Promoted by the policies of the labor movement, the rise of consumer durables and the spread of Fordist mass-production principles to other industrial sectors was undoubtedly a major source of productivity growth during the postwar boom. As rapid productivity growth in turn made it possible for labor to achieve real-wage growth and welfare-state expansion, Fordism might be characterized as a crucial component of the "virtuous circle" of Social Democratic class compromise in the postwar period (to borrow an expression from Francis Castles).

In addition, I want to suggest that Fordism had profound consequences for the ideology and politics of the labor movement. Just as the rise of Fordism entailed the rise of a new stratum of firms, occupying an intermediary and hence politically pivotal position within the business community, so it entailed the rise of a new stratum of semiskilled workers similarly situated within the labor movement. In other words, the rise of Fordism attenuated the traditional bifurcation of the working class into skilled and unskilled. At the same time, the integrated character of Fordist production systems strengthened the bargaining power of unskilled or semiskilled assembly operators. Finally, the political settlement whereby collective bargaining came to be confined to the terms of the employment contract.
(wages, working hours, and benefits) facilitated the aggregation of worker interests by national union organizations.\

The argument here concerns the goals pursued by LO within the framework of centralized wage bargaining. From a comparative perspective, Fordism is neither a necessary nor sufficient condition for the centralization of wage bargaining: there are plenty of cases in which Fordism did not lead to centralization and at least some cases (notably Denmark) in which centralization occurred in the absence of Fordism. As far as labor’s goals are concerned, Fordism alone obviously does not provide an adequate explanation of what is special about the Swedish case. My point is rather that LO’s distinctive “class unionism” might be viewed as a product of the interaction between Fordism and other, more Sweden-specific variables, such as the export dependence of industry, the dominance of industrial unionism, and the legacy of the struggle for universal suffrage as a formative moment for the labor movement. The case for bringing Fordism into our analysis of Swedish labor politics is that it enables us to explain the apparent erosion of class unionism in the 1980s. Before I develop this point, let me briefly spell out how the broad parameters of economic policy have changed since the late 1960s.

The Changing Parameters of Economic Policy

As suggested earlier, the decline of LO’s political influence might be attributed to long-term changes in the pattern of economic development that have rendered the Rehn-Meidner model inadequate as a framework for economic policy. LO’s influence has declined because it failed to develop a new model for economic policy or, more accurately, because LO’s solution to the problems with the Rehn-Meidner model, the introduction of collective profit sharing, was a political failure. From this perspective, the crucial question would seem to be, In what sense has industrial restructuring undermined the efficacy of the Rehn-Meidner model? There are at least three sets of structural changes that warrant our attention in this context: first, the increased export orientation of Swedish industry; second, the multinationalization of large engineering firms; and third, the growing dependence of corporate investment on profits.

The trade dependence of the Swedish economy has increased steadily since the mid-1950s (see Figure 1). While the penetration of domestic markets by imports increased and the decline of traditional home-market industries accelerated, the export orientation of the engineering industry became more pronounced as Fordist mass producers began to outgrow their domestic markets in the 1960s. These developments help explain growing business criticism of the welfare state. It stands to reason, I think, that firms are less likely to support domestic-demand stimulation the more export-oriented they are.

There is a second point about export dependence that is less obvious and perhaps more important. As we have seen, the Rehn-Meidner model prescribed
a restrictive fiscal policy to keep the lid on corporate profits and wage drift. Instead of taxing corporate profits directly, the government achieved this effect by taxing domestic consumption. Clearly, such a policy stance becomes less viable to the extent that the importance of export sales as a source of corporate profits increases. In other words, the growing export orientation of Swedish business has meant that keeping the lid on corporate profits requires direct taxation of profits and has thus brought the logic of the Rehn-Meidner model into more direct conflict with business interests.

The Rehn-Meidner model rested on the premise that the “excess profits” generated by solidaristic wage restraint would translate into increased production and employment in firms or sectors with above-average productivity. This premise has become increasingly problematic as successful firms, especially large engineering firms, have responded to world market pressures by increasing their investment abroad. In relation to domestic industrial employment, the employment of foreign subsidiaries of Swedish corporations increased from 12% in 1960 to 26% in 1978 and to 37% in 1987. Figure 2 graphically illustrates the acceleration of multinationalization in the 1980s. It is tempting to infer from this figure that the profit-led recovery strategy pursued by the Social Democrats in the 1980s failed to generate much productivity growth because a large portion of the profits that it created were invested abroad.

Figure 2  Swedish net investment abroad and foreign net investment in Sweden, billion SEK at 1985 prices, 1970-90.
(Source: Sverige vid vändpunkten, edited by Hans T. Soderström [Stockholm: SNS Förlag, 1991], 50.)
The reduction of labor costs does not appear to have been the primary motive behind the expansion of foreign operations. Typically, firms that invest abroad are more profitable than firms that do not, and solidaristic wage bargaining has favored these firms. Moreover, the bulk of foreign investment has been made in other high-wage countries (Western Europe and North America). Most observers agree that Swedish firms have invested abroad primarily to circumvent barriers to trade and to strengthen their marketplace position.

It is also commonplace to observe that the multinationalization of Swedish business entered a qualitatively new phase in the 1980s. Simply put, Swedish multinationals have changed from being export-oriented firms with assembly facilities and sales organizations abroad to more truly global corporations, drawing on research and development (R&D) and other corporate resources in a number of different countries. The increased import content of Swedish exports provides a useful indicator of this development. More dramatically, several large engineering firms have recently decided to move their headquarters abroad. Along with the internationalization of financial markets, the changing nature of multinational corporations has clearly undermined the internal coherence of the Swedish economy and restricted the ability of the government to pursue economic policies at odds with those of other advanced capitalist states.

The sharp acceleration of investment abroad, shown in Figure 2, coincides with the European Community's (EC) new efforts to forge a single market. Announced as part of an austerity package in fall 1990, the Social Democratic government's abrupt decision to apply for EC membership was a direct response to the outflow of capital. Although according to opinion polls, a sizable majority of Swedish voters support EC membership, this decision appears to have contributed to the Social Democrats' electoral defeat in 1991. Support for EC membership is weaker among traditional Social Democratic voters than among bourgeois voters, but more important, the way in which the decision to apply for membership came about left many voters with the sense that the government was no longer in control of the policy agenda.

Alongside multinationalization, we can discern a second change in corporate investment behavior that has altered the parameters of economic policy. This change concerns corporate preferences for self-financed investment as opposed to borrowed capital. The Rehn-Meidner model assumed that borrowed capital could readily substitute for equity capital. Again, a restrictive fiscal policy was necessary to curtail wages, and public savings were supposed to offset the decline of business savings. The pension reform of 1959 conformed to this logic. In its wake, business savings fell, and the supply of credit increased sharply. Although the rate of return on investment tended to decline from the mid-1960s onward, it remained higher than the rate of interest, and so borrowing served as a means for firms to offset the tendency for the rate of return to decline. Measured as the ratio
of equity capital to turnover, the financial solidity of industry declined from 44% in 1958 to 21% in 1976.\textsuperscript{41}

Business became much less willing to finance new investment through borrowing in the second half of the 1970s. In other words, a given level of investment came to require a higher rate of profitability. This change in business behavior might be attributed to uncertainty and higher rates and thus viewed as a transitory phenomenon, but it might also be viewed as a reflection of more enduring changes in the business environment. Uncertainty itself would appear to be a feature of the new world economy. More specifically, R&D investment has clearly become more important to competitiveness, and the conventional wisdom holds that firms prefer to finance such investment on their own (through savings or equity issues) because of the risks involved. Similarly, their increasingly multinational orientation has forced Swedish firms to rely more on international creditors, whose solidity requirements are higher than what has traditionally been the case for Swedish creditors.\textsuperscript{42}

In its advocacy of wage earner funds, LO recognized that competitive adjustment to world market pressures required an increase in the supply of risk capital to industry. LO’s wage earner funds proposal was designed to achieve this objective without redistributing income from labor to private owners of capital. Again, having failed to mobilize political support for this proposal, LO had to accept a market-oriented response to the change in corporate investment behavior.

It should be noted that the issue of how new investment is to be financed impinges directly on wage bargaining. In the late 1970s, the employers’ federation (SAF) rejected the way in which the overall room for wage increases had previously been calculated on the grounds that raising needed equity capital required larger profit margins.\textsuperscript{43} According to SAF, the room for wage increases could no longer be defined as a function of productivity increases in those sectors of the economy that were exposed to international competition. Rather, it had to be defined as a function of productivity increases in the entire economy. This change in SAF’s view of the parameters of wage bargaining is closely linked to its growing criticism of public spending, for the public sector is by far the largest segment of the sheltered economy and productivity growth (as conventionally conceived) has traditionally been much lower in the public sector than in the private sector.

\textit{The Reorganization of Production}

In this section, I want to argue that the erosion of LO’s ability to implement solidaristic wage policy derives, in part, from employer-initiated changes in the organization of production and attendant changes in wage determination within the private sector. This argument is intended as a complement to (rather than a substitute for) the argument that the decline of LO’s authority and cohesion de-
rives from the growth of white-collar unions and conflicts of interest between private and public sector unions.

Swedish industry responded to the intensification of international competition in the 1960s by intensifying its efforts to rationalize within existing structures of production. This rationalization movement manifested itself in a marked increase of mergers as well as renewed management efforts to automate production and divide the labor process into ever smaller fragments. As elsewhere, the latter efforts gave rise to wildcat strikes and other forms of worker resistance. Quite apart from worker discontent, however, the slowdown of productivity growth from the mid-1970s onward might be seen as an expression of the gradual exhaustion of the potential for rationalization within existing structures. Arguably, sustained growth has come to presuppose extraordinary product and/or process innovations.

Whereas the potential for productivity growth through economies of scale and labor fragmentation has diminished, international competition among high-wage OECD producers has increasingly come to revolve around product quality and customization. The terms of competition have made it necessary for Fordist mass producers to organize production in a more flexible manner. At the same time, the revolution in microelectronics has made the introduction of flexible automation not only possible but affordable.

I have argued elsewhere that the combination of full employment and wage solidarity has reinforced the pressures on Swedish firms to engage in innovations to improve the quality of industrial work. Constrained in their ability to use wages as a means to recruit labor and keep workers on the assembly line, Volvo and other Fordist mass producers have had to contend with very high rates of absenteeism and labor turnover. In part, their "work humanization" efforts can be viewed as a response to this problem, or in other words, as the functional equivalent of wage drift. At the same time, however, these same employers have spearheaded the employer offensive against solidaristic wage policy in the 1980s. Seeking to use remuneration more actively to stimulate productivity improvements, quality consciousness, and worker commitment to the firm, they have not only sought to decentralize wage bargaining but introduced profit sharing, bonus systems, and other remuneration systems that are not formally subject to collective bargaining.

Employer efforts to differentiate wages might be seen as an alternative to job redesign—arguably, a preferable alternative to the extent that job redesign entails some loss of management control—but they can also be seen as a complement to job redesign. It is noteworthy that many new payment-by-result schemes are organized on the basis of work teams or other groups within the company. Typically, job redesign entails training and other exertions by employees. Employers have found (at least claim to have found) that assembly operators are not so interested in participating in workplace reform unless they are compensated.
for their efforts. Moreover, corporate investment in employee training increases the costs of labor turnover.\textsuperscript{48}

To clarify the argument here, we might say that employers always have an interest in both wage restraint and wage flexibility, but these objectives tend to be contradictory, and the weight assigned to each will vary depending on production strategies and market conditions. Confronted with tight labor markets, large engineering employers chose to prioritize wage restraint over wage flexibility in the 1950s and 1960s. Faced with similar labor market conditions in the 1980s, these same employers chose to prioritize wage flexibility. They did so because their production strategies had changed.

The point here is not simply that SAF has become unwilling to cooperate with LO's efforts to organize solidaristic wage restraint. More important, the new employer strategy has created incentives for LO's affiliates, national unions and their local organizations, to circumvent LO's coordination of the wage bargaining process.

The problem that the new employer strategy poses for solidaristic wage policy has been exacerbated by organizational rivalries between blue-collar and white-collar unions within the private sector. The introduction of new, computer-based technologies has generated new jobs that might be classified as either blue collar or white collar. Arguably, it has become necessary for the Metal Workers Union to accept a widening of the wage gap among its members to avoid losing members to SIF, the union of salaried industrial employees.\textsuperscript{49}

Local wage bargaining and payment-by-result schemes must be seen as part of a broader employer effort to institutionalize "firm-level corporatism."\textsuperscript{50} The reform of the system of sick pay introduced by the Social Democrats in 1990 represents another step in this direction, as it transfers financial responsibility for the first fifteen days of sick pay to employers. The growing importance of the firm as the point at which the relationship between labor and capital is regulated poses an obvious threat to solidaristic, class-oriented unionism.

Some readers might object that there is nothing particularly Swedish about the patterns of industrial restructuring identified here, but this is precisely the point: in my view, the current crisis of Swedish social democracy represent a particular manifestation—a particularly late and perhaps particularly acute manifestation—of a general tendency in the advanced capitalist countries.\textsuperscript{51}

**FINAL REMARKS**

The analyses in the second and third parts of this article leave us with two alternative perspectives on the problems confronting the Swedish labor movement in 1990-91. According to part 2, the basic problem confronting labor was that there had not been enough industrial renewal (productivity growth) in the 1980s and that this problem largely derived from the policy choices of Social
Democratic governments. Had the Social Democrats made different choices, there would not have been any crisis in Swedish social democracy. By contrast, the analysis of part 3 treats the policy choices of Social Democratic governments as more or less necessary responses to long-term changes in economic development, which are themselves the source of labor’s problems. In this interpretation, there was “too much” rather than “too little” industrial renewal in the 1980s; more to the point perhaps, industrial renewal assumed forms that weakened labor cohesion.

As we have seen, there is compelling evidence for both of these interpretations. Must we really choose between them? Perhaps they capture different features of a contradictory reality? I can think of two ways to reconcile these two interpretations. First, we might do so by distinguishing between industrial renewal and productivity growth. It may be that a great deal of industrial renewal (new technologies, job redesign, team work, and so on) did occur and did undermine class unionism but did not result in significant productivity increases. Arguably, it is the failure to translate workplace innovations into sustained productivity growth that has propelled employer efforts to differentiate wages.

Second, the two interpretations might be reconciled by emphasizing the unevenness of industrial renewal. According to this formula, there was a great deal of renewal in some firms and sectors, weakening class unionism and perhaps being a source of significant productivity growth as well, but the majority of manufacturing firms and employees were largely unaffected by this renewal movement, apart from its rhetoric.52

More empirical research is needed to test the validity of these arguments. For the time being, it is worth noting that data collected by the research department of the Metal Workers Union show that the proportion of blue-collar engineering jobs requiring few skills and involving physically hard work actually increased as a result of the restructuring of the engineering industry in the 1980s. Machine tools and other engineering segments competing on the basis of worker skills lost ground both to mass producers of consumer durables and to “high tech” segments distinguished by their disproportionate employment of unskilled blue-collar workers as well as well-educated white-collar employees.53

Arguably, the Swedish experience illustrates with particular clarity the problems confronting any and all Social Democratic labor movements in the “post-Fordist” era. If it is indeed the case that the Fordist engine of productivity growth has been exhausted, labor must choose between two alternative growth strategies: one based on extraordinary product and process innovations and the other on wage-cost competition. From labor’s point of view, the former strategy is the only viable one over the long run, but it may well be that wage-cost reduction represents the most effective means to maintain or restore full employment.

This dilemma is compounded by the fact that the process of industrial renewal tends to weaken the cohesion of national labor movements. Many workers stand
to gain from post-Fordist innovations at the workplace, but these gains are unevenly distributed. Moreover, the process of renewal tends to generate decentralization of collective bargaining and greater wage differentiation.

Following the logic of the Rehn-Meidner model, unions should be willing to accommodate greater wage differentiation so long as it corresponds to an upgrading of worker skills and responsibilities. They must, however, resist wage differentiation that reflects variations in corporate profitability. The latter type of differentiation is not only illegitimate from the point of view of class solidarity but weakens the pressure on firms to innovate. In practice, however, it is not so easy to distinguish between skills-based and profits-based wage differentiation. More important, local union organizations do not have as much incentive to distinguish between them as do national union organizations.

The organization of collective bargaining affects the goals that unions and employers pursue and the kinds of compromises that they are likely to strike. Although formal institutions clearly matter, the crisis of Swedish social democracy cannot be understood in these terms. To explain why the substantive objectives and institutional preferences of political-economic actors change we must attend to the dynamics of capitalist development. My account of the Swedish experience illustrates this approach, which ultimately calls for a comparative research strategy.

**NOTES**

1. Following Swedish convention, the term “bourgeois parties” is here used as a collective label for the nonsocialist parties to the Right of the Social Democrats. Until the most recent election, there were three bourgeois parties in Parliament: the Liberals, the Center party, and the Conservatives.


7. The established bourgeois parties of the center also lost support in 1991: whereas the Conservatives advanced from 18.3% to 21.9%, the Liberals’ share of the vote fell from 12.2% to 9.1%, and the Center Party’s share fell from 11.3% to 8.1%. The Christian Democrats increased their share of the vote from 2.9% in 1988 to 7.1%, and the New Democrats came out of nowhere to capture 6.7% of the vote.


14. The first line of argument parallels that of Fritz Scharpf, *Crisis and Choice in European Social Democracy* (Ithaca, NY: Cornell University Press, 1991). Scharpf argues that corporatist political economies did relatively well in the 1970s because their institutions fitted well with the policy imperatives of world economic conditions. Partly as a result of the international of capital markets, policy imperatives changed in ways that were unfavorable to corporatist political economies in the 1980s.


Regime (Cambridge: Occasional Papers, Center for European Studies, Harvard University, 1987).


26. According to Hibbs, Wage Compression, 38, it would have required a relative wage increase of 138% for a worker to move from the 2nd to the 99th percentile of LO wages in 1970. At the trough of wage compression in 1982-83, this figure was 73%. By 1988, it had risen to 88%, and there is every reason to believe that this trend has continued since 1988.


28. The reasons for the failure of LO’s wage earner funds lie beyond the concerns of this article. See Pontusson, The Limits of Social Democracy.

29. The view that LO’s policy influence depended on its wage-bargaining posture is developed by Martin, Wage Bargaining and Swedish Politics.

30. Modeled on the U.S. tax reform of 1986, the tax reform of 1989-90 entailed a dramatic reduction of marginal income taxes and a single-income tax bracket for most wage earners. The reduction of income taxes was financed through increased taxation of capital gains, the elimination of many deductions, and the extension of the value-added tax. The reform’s distributive effects are a matter of a great deal of controversy. If it is true, as its proponents claim, that reform does not entail a regressive redistribution of income, it is true only because the previous system of taxation was not very progressive.


36. Curiously, there exists no scholarship that explores Volvo’s political role or, more generally, the connection between production organization and the political attitudes of different segments of industry in Sweden. Note that the argument suggested here avoids the pitfalls of the “instrumentalism” so commonly, though unfairly, attributed to Ralph Miliband: Fordist mass producers benefited disproportionately from the postwar growth regime not because they were particularly influential but rather because the regime balanced other, more established business interests. At the outset, the principal beneficiaries of the postwar growth regime played only a minor role in the politics of organized business. Also, it should be noted that the concept of “Fordism” is here used in a narrow sense, referring to a system of production characterized by three features: (1) mechanized assembly lines, (2) a high degree of specialization or fragmentation of labor (i.e., short job cycles), and (3) a low degree of worker discretion in the labor process (i.e., tasks being clearly specified in advance by management). Thus conceived, Fordism is compatible with various industrial relations systems and forms of state intervention in the economy.

37. A similar argument is set forth by Rianne Mahon, “From Solidaristic Wages to Solidaristic Work: A Post-Fordist Historic Compromise for Sweden?,” Economic and Industrial Democracy 12 (1991): 295-325. Mahon characterizes the power resources developed by Swedish unions in the postwar era as “Fordist” and suggests that the unions need qualitatively different power resources to realize their program for a progressive “post-Fordism.”


40. According to Carlsson et al., Teknik och industristruktur, 69, the import content of engineering exports increased from 24% in 1957 to 44% in 1980. There is every reason to assume that the trend has continued. Cf. also Swedish Ministry of Industry, Svensk industri, chap. 7.

41. Carlsson et al., Teknik och industristruktur, 40.


44. Cf. Erixon, “What’s Wrong With the Swedish Model?” Among other things, Erixon notes that merger activity continued at a high level in the 1970s but did not yield productivity gains to nearly the same extent that it had in the 1960s.
45. The literature on these trends is immense. To my mind, the seminal work remains Michael Piore and Charles Sabel, *The Second Industrial Divide* (New York: Basic Books, 1983).


47. According to a survey of private sector firms carried out by SAF, *Löneformssundersökning 1985* (1986), payment-by-result schemes other than piece rates covered 30% of working hours in 1970 and 45% in 1985. Over the same period, piece rates as a share of total working hours fell from 32% to less than 15%. As the survey also showed that many firms were planning to reform their pay systems, it seems safe to assume that these trends continued in the second half of the 1980s. On pay practices and local wage bargaining, see Elvander, *Arbetsmarknadsrelationer i Sverige och Storbritannien* (Stockholm: SNS Förlag, forthcoming).

48. Corporate investment in employee training would appear to provide a useful indicator of the spread of new “post-Fordist” management practices. As a percentage of the Swedish labor force, employees who had participated in some form of training during work time in the previous twelve months increased from 27% in 1975 to 36% in 1979, and 46% in 1986/87, according to survey data collected by the Central Bureau of Statistics, *Bakgrundsmaterial om vuxenutbildning* (1990).


52. The pervasiveness of the rhetoric of industrial renewal is itself a noteworthy phenomenon; see Martin Börjeson and Mark Elam, “Fordismens kris och arbetspolitikens retorik,” *Häften för Kritiska Studier* 23, no. 2 (1990), 23-42.
