

THE IMPLEMENTATION OF A WAGE POLICY:  
CENTRALIZED COLLECTIVE BARGAINING  
IN SWEDEN

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## GENERAL BACKGROUND. THE ORGANIZATIONAL STRUCTURE

The Swedish trade union system has a hierarchical structure. The branches, with their factory "clubs", are affiliated to national unions, which in their turn are affiliated to top organizations. On the labour side there are three main top organizations: the blue-collar workers' unions have one top organization, the LO, while the white-collar workers' unions have two, the TCO and SACO.<sup>1</sup> All three of these top organizations organize employees both in the private and in the public sector. The organizing of employers in the private sector is likewise hierarchical. The individual firm is affiliated to a branch organization which in its turn is affiliated to a top organization—the SAF. Thus, in the case of both employers and employees, we can distinguish four levels: (1) the top organization level, (2) the national union and employers' association level, (3) the branch and enterprise level, and (4) the individual level.

The existence on both sides of the employment market of a hierarchical and centralized order, which—at least so far as its all-embracing character is concerned—is unique in the world, has created the necessary preconditions for a system of centralized and nation-wide collective bargaining. In this paper I shall mainly deal with the system of centralized collective bargaining in the LO-SAF area. That bargaining system serves as a model for similar systems in other sectors. It is also the most important system with regard to the number of employees and firms covered.

Centralized collective bargaining on wages was introduced during the second world war. It was connected with the wartime wage freeze. The SAF and the LO concluded central agreements on compensation for increased costs of living. After the war, this policy of restraint ended and in the consecutive years collective bargaining was conducted at the national union level.

From the viewpoint of the top organizations, centralized collective bargaining has great advantages. It should, however, be mentioned that, when entering upon centralized collective bargaining in 1952 and—after an interval—again in 1956, the SAF and the LO had different but compatible objectives in view. For the SAF, the principal goal was to prevent the national labour unions from acting on their own. In a

<sup>1</sup> The following abbreviations are used:

LO—(Landsorganisationen i Sverige) Swedish Trade Union Confederation

SACO—(Sveriges akademikers centralorganisation) Central Organization of Swedish University Graduates

SAF—(Svenska arbetsgivareföreningen) Swedish Employers' Confederation

SIF—(Svenska industriförbundet) Swedish Industrial Salaried Employees' Association

decentralized system of collective bargaining, the national unions present their various wage claims. The strong unions in the profitable branches of industry, where the employers are least disposed to be restrictive, tend to reach agreements quickly and thus to set precedents for the rest of the labour market. The unions in the less profitable branches of industry are not likely to be willing to settle for less. Furthermore, the risk of open industrial warfare is considerably greater in a decentralized system. During the prosperous years of the 1950s, industrial peace was a primary goal of the employers.

For the LO, on the other hand, the primary reason for entering into centralized negotiations was to pursue a wage policy, the so-called solidarity wage policy. It is not possible here to describe this wage policy in full, but a brief outline will be given.<sup>2</sup> The LO wanted to implement the principle of equal pay for equal work in a rather strict sense—workers performing jobs which rated equally according to a job-evaluation system should be paid equally regardless of the industry or firm in which they were employed. According to an economic theory which was adopted as the policy of the LO, this would be brought about by a system of centralized collective bargaining. The LO would exert a firm pressure on the wage negotiations. This would reduce the profits of industry and so remove any temptation for firms to embark on unwise investments. The low-paid workers were to be given large wage increases, whereas the highly-paid workers would hold back on their wage claims. In this way the less profitable enterprises, which were incapable of coping with the increased costs of labour, would be forced to close down or to become more efficient. The profitable enterprises, on the other hand, would benefit from the restraint on the part of the highly-paid workers (it was presumed that the more profitable industrial sectors pay higher wages than the less profitable ones). They would be able to expand and thus create new jobs for the redundant manpower. The mobility of labour was to be increased by means of an active manpower policy on the part of the Government. At the same time the Government must make itself responsible for maintaining economic equilibrium. In this way equal pay for equal work would be achieved, while at the same time a basis for higher wage claims in the future would be created.

In Swedish law the term “collective agreement” normally signifies a

<sup>2</sup> Meidner, R. and Öhman, B., *Fifteen Years of Wage-policy*. Swedish Trade Union Confederation, Stockholm 1972; Meidner, R., *Co-ordination and Solidarity. An Approach to Wage Policy*, Stockholm 1974; Johnston, T. L., *Collective Bargaining in Sweden*, London 1962, pp. 276–8; Levinson, H. M., *Collective Bargaining by Public Employees in Sweden*. Institute of Labor and Industrial Relations, University of Michigan, Michigan 1972, pp. 52–4.

contract regulating wages and conditions of employment for a specific period of time. During its period of validity it is binding on the parties concerned—an employer and a union—as well as on their members. It also entails a peace obligation for the same period. Such a collective agreement lays down rules as to the administration of the terms of employment during the period of the agreement.

The collective agreement which deals with wages and conditions of employment for a period of time may be called the principal agreement. It is to be distinguished from the agreement for the coming into force of the principal agreement. This latter kind of agreement is an interim agreement—its purpose is to regulate the transition from one principal agreement to another. The interim agreement contains rules on wage and salary increases. To some extent it also deals with matters that normally are outside the scope of the principal agreement, such as payment above the rates. In this paper I shall deal mostly with interim agreements and their impact on the administration of the long-term agreement.

Centralized collective bargaining in Sweden usually takes place every second or third year—two- or three-year contracts are made. That an agreement is made for one year occurs less frequently—the employers, private as well as public, prefer long-term agreements. But when the economic situation is unpredictable, both sides may prefer a short-term agreement. (This happened in 1974 during the “oil crisis”. In some instances, for certain groups, the agreement may be for a very long term. Thus the journalists have at the moment a 10-year contract, and in 1970 the white-collar workers in private industry signed a five-year contract.)

In theory, there are several ways in which a centralized collective bargaining system can materialize and be given effect. In a hierarchical system such as the Swedish one, the agreement between top organizations could be made effective at any of the three subordinate levels in the system. From a structural point of view, the least complicated way would be for the top organizations to make the agreement directly effective at the individual level, bypassing the intervening levels. This would involve one or several collective agreements regulating the wages and other conditions of employment for the greater part of the industry of the country. Needless to say, such an agreement would be extremely complicated. Nevertheless, this method is used in some areas.<sup>3</sup> It is applied, for example, in the public sector. The reason why this is possible is, of course, that in that sector the conditions of employment are relatively uniform. In the private sector, however, where the pay rates and other conditions of employment often vary from one enterprise to another, such a system would not work.

<sup>3</sup> Levinson, *op.cit.*, pp. 54–69.

Another possible way would be for the top organizations to make the central collective agreement effective on the enterprise level. This method is used for the white-collar workers in private industry, who have a uniform salary system.<sup>4</sup> The salary of each employee is determined in a personal agreement between him and his employer and it is not related to rates fixed in a collective agreement. The wage increases provided for in the central agreements are also to some extent distributed individually on the basis of the merits of the individual employee. This can only be done at the enterprise level. In addition, separate agreements for each branch of industry would be pointless, since the salary system is uniform.

In the LO-SAF area, however, the central agreement between the top organizations is made effective at the level of the national unions and employers' associations.<sup>5</sup> The central agreement has to be adapted to the various wage systems of the national collective agreements. The national unions and employers' associations that enter into collective agreements distribute the wage increases and the other improvements in the conditions of employment. Within a certain framework, they are allowed to follow their own preferences. They may also in their turn make the national collective agreement effective at the enterprise level—further negotiations on the distribution of the wage increases among the individual workers take place between the enterprise and the local branch of the union. How this is done will be described in some detail later in this paper.

#### THE PROCEDURE OF CENTRALIZED COLLECTIVE BARGAINING IN THE LO-SAF AREA

As noted earlier, the primary reason why the LO decided to enter into centralized collective bargaining was the solidarity wage policy. The powers of the LO to enter into such negotiations are the result of a series of amendments of the by-laws of the LO.

The procedure by which a decision to enter centralized collective bargaining is reached is rather complicated.<sup>6</sup> According to the by-laws of the LO, the Secretariat (i.e. the executive body of the organization) has to consider the issue of centralized collective bargaining well before the expiry of the collective agreements of the member unions. A recommenda-

<sup>4</sup> Johnston, *op.cit.*, pp. 286–8.

<sup>5</sup> *Ibid.*, pp. 239–84. © Stockholm Institute for Scandianvian Law 1957-2009

<sup>6</sup> Johnston, *op.cit.*, pp. 40 f., 263–6.

tion on the matter has to be put before the Representative Assembly. Should the Assembly decide to recommend centralized collective bargaining, each national union must agree to take part in such negotiations unless it wishes to bargain on its own. If the Secretariat finds that centralized collective bargaining is feasible, it has to appoint a negotiating body known as the "delegation". Actually, this body consists of two parts, viz. a "small delegation", which does the actual negotiating, and a "big delegation", which acts as a reference group. The small delegation consists of the chairman, the vice chairman and the negotiation secretary of the LO. In the big delegation the unions involved are represented.

If a central agreement is reached, it has to be approved by the Representative Assembly. The decision of the Assembly on this matter is conveyed to the various unions, and it is for each union to accept or reject the agreement as it sees fit. Thus at this stage, too, a member union can choose to bargain on its own behalf.

It is obvious that the centralization of the LO is not complete. The power to make binding collective agreements rests with the member unions and the LO has no formal power to make the central agreement binding on the member unions or otherwise force them to accept it, i.e. to assume the obligation to implement the central agreement by making collective agreements in accordance with the rules laid down there. On a few occasions, member unions have refused to participate in centralized collective bargaining. Thus in 1966 the Transport Workers' Union preferred to negotiate on its own, and in 1971 and 1973 this union stayed in but refused to accept the central agreement unless certain conditions were met. In 1966 the Transport Workers' Union was forced by the SAF, under the threat of a general nation-wide lockout, to accept the central agreement, but in 1971 and in 1973 it was successful in obtaining extra benefits for some of its member groups.

In some respects the SAF is more tightly knit than the LO. Nevertheless here, too, the right to make binding collective agreements rests with the member organizations. (However, the SAF does have the power to require that its member organizations and member employers shall not sign any collective agreement unless the agreement is approved by the SAF.)<sup>7</sup> The process of entering into centralized collective bargaining is not dealt with in the by-laws of the SAF and the procedure seems to be less formal. The decision to enter into such collective bargaining is taken by the board of the SAF after consultations with the member organizations. Before a central agreement is signed by the SAF, consultations also take place in an

<sup>7</sup> *Ibid.*, p. 78.

informal way. It would seem that the member organizations could refuse to make collective agreements according to the norms of the central agreement, but it is unclear what the result of such a refusal would be. So far it has never happened.<sup>8</sup>

The SAF negotiation committee is set up in very much the same way as that of the LO: a "small delegation", usually consisting of three members, does the actual bargaining, while a "big delegation", consisting of representatives of the member employers' associations, acts as a reference group.

When the central agreement has been reached, the negotiations at the national union level start. According to the central agreement, these are to be concluded within a stipulated time, usually 5–6 weeks. The agreements reached at the national union level are provisional until the top organizations give their member organizations permission to make the agreements definite and binding. This cannot be done until preliminary agreements have been reached by all the organizations at the national union level. After that, negotiations, if necessary, start at the enterprise level. These are conducted under a peace obligation.

#### THE LEGAL CHARACTER OF THE CENTRAL AGREEMENTS

The legal character of the central agreements between the LO and the SAF is basically unclear. The lack of clarity concerns one of the most central points in Swedish labour law—whether a central agreement should be regarded as a collective agreement or some other kind of binding contract or not as a binding contract at all. This question has been very little discussed among the parties themselves and it seems that the problem whether the central agreements impose a peace obligation on the top organizations and their member unions is looked upon in different ways by the SAF and the LO.

Before an attempt is made to answer this question, it is necessary to present some of the main features of the Swedish law of collective agreements. The Swedish collective agreement has a combined effect. It imposes, as a contract at law, obligations on the parties. In addition it is binding upon the members of an organization which is a party to a collective agreement. Apart from the fact that a violation of the contract can give rise to sanctions such as damages, the Collective Agreements Act

<sup>8</sup> Cf. Levinson, *op.cit.*, p. 30.

also imposes a peace obligation and in this respect, too, it has a combined effect.<sup>9</sup> Employers or employees who are bound by a collective agreement may not, during the period of validity of the agreement, take part in industrial actions on account of a dispute respecting the validity, existence or correct interpretation of the agreement or in order to bring about an alteration of the agreement. Nor may an association of employers or employees which is bound by a collective agreement arrange for such industrial action.<sup>1</sup> Sympathetic actions are unlawful if the primary action is unlawful. Disputes on collective agreements are heard and adjudicated in the Labour Court in accordance with the Industrial Disputes Act.

The Collective Agreements Act is mandatory in these respects. A clause in a collective agreement limiting the binding effect of the agreement or the peace obligation would be invalid.<sup>2</sup>

However, the parties are free to limit the scope of a certain provision of a collective agreement in such a way that it only affects the parties to the agreement, while the members have no contractual rights or obligations under the provision. The scope of a collective agreement made between a national labour union and an employers' association can also be limited in such a way as to establish a contractual relationship between the member employer and the union, whereas the individual employees are not affected.<sup>3</sup> A typical example of this is a provision which occurs in several collective agreements on the right of the union to receive advance notice of lay-offs. Only the union is given this right, the individual worker having no claim of his own to such advance notice. This does not mean, however, that there is no peace obligation. It would be unlawful for individual workers to resort to a wildcat strike in order to force the employer to give notice earlier than stipulated or to give it to someone other than the union.

Certain prerequisites must be met in order for a contract to be regarded as a collective agreement at law.<sup>4</sup> Naturally the contract must be a real contract, i.e. the parties must have intended to be bound by their agreement. Further, according to the Collective Agreements Act, it must be concluded between an employer or an association of employers on one side and a labour union on the other side. It must deal with conditions "applicable to the engagement of employees or the relations between employers and employees in other respects". It must be drawn up in writing and, according to precedents, it must possess a certain degree of generality.

<sup>9</sup> Schmidt, F., *The Law of Labour Relations in Sweden*, Uppsala 1962, pp. 112-18.

<sup>1</sup> Collective Agreements Act, sec. 4.

<sup>2</sup> Schmidt, *op.cit.*, p. 95.

<sup>3</sup> *Ibid.*, pp. 101 f.

<sup>4</sup> *Ibid.*, pp. 96-100.

What is crucial here is that the Collective Agreements Act is mandatory on these points, too—a contract that meets these prerequisites is a collective agreement and is not some other kind of contract. It is impossible for the parties having made such an agreement to circumvent the provisions of the Collective Agreements Act by simply calling the collective agreement something else.

There can be no doubt that the central agreements between the SAF and the LO meet all the prerequisites of the Collective Agreements Act.<sup>5</sup> What is doubtful, however, is whether the central agreements are contracts at all—whether the parties intend to be bound by the agreements. The use of the term “central agreement” (*central överenskommelse*) seems to indicate that this is not the case: the word “contract” (*avtal*) would be more natural. However, the tenor of the central agreements contradicts this by no means conclusive evidence. The preamble of the central agreements says that the parties “oblige” themselves to perform certain acts. It would also seem contrary to the traditions of the top organizations to make agreements that are not binding upon themselves. In my opinion, therefore, the central agreements should be regarded as legally binding collective agreements.

However, the legal effects of the central agreements must remain with the contracting parties—the top organizations—themselves.<sup>6</sup> As noted earlier, collective agreements can be made that affect only the contracting parties. In the decision 1963:15 the Labour Court held that a central agreement concluded between the Association of Swedish Cities and the Swedish Municipal Workers’ Union was to be regarded as a collective agreement, although according to the law of municipalities the Association could not bind a municipality by a collective agreement. The Court, however, held that it was possible to bind the Association as such. This seems to apply also to the central agreements between the LO and the SAF. According to the by-laws of both organizations, the power to make binding collective agreements is not vested in the top organizations but remains with the national union or employers’ association, and according to the Swedish law of agency an agent cannot bind the principal without proper authority. This rule applies also to labour unions and employers’ associations. The union, acting as the agent of the member, cannot bind the member to a contract unless it is properly authorized to do so. The authorization may follow from the by-laws of the union—otherwise it has to be given separately. Ordinarily, the by-laws of a labour union or an employers’ association expressly authorize the organization to make

<sup>5</sup> Cf. Schmidt, *op.cit.*, p. 95.

<sup>6</sup> Cf. Johnston, pp. 41, 78.

collective agreements, and the Collective Agreements Act also provides that such agreements are binding on the members. Where there is no such authorization, however, the organization cannot make agreements which are binding on the members, at any rate not when the third party is not in good faith.

There is, however, a difficulty here with regard to the peace obligation. An agreement which is only binding on the contracting parties themselves imposes a peace obligation on the members in so far as they are concerned by the agreement. A member union that has not opted out of centralized collective bargaining of the LO cannot call a strike in order to force the SAF to recommend its member associations to sign better collective agreements than the central agreement provides for, and it cannot call a strike in order to force the SAF to permit the member organizations to sign such agreements. To the extent that such a strike constitutes an attack on the SAF itself, it is unlawful. Therefore the question is whether the SAF and the LO have the power to bind their member organizations in this respect. In my opinion they have. According to the by-laws of the LO as well as of the SAF, the top organizations have the power to bind themselves by collective agreements. They also have the power to forbid their member organizations to undertake industrial actions. This should be regarded as including an authority to bind the members to a peace obligation also by means of a collective agreement.

Another important consequence of the fact that central agreements are collective agreements must be noted: the parties have access to the Labour Court. It is, however, obvious that the SAF and the LO have tried to avoid bringing disputes before the Labour Court. This can to a great extent be explained by the general non-litigious attitude of the parties on the labour market—negotiations are the preferred way of settling disputes. When a party brings a dispute before the Labour Court, it is an indication that the negotiating machinery has broken down. (It could also be argued that in a certain sense the Labour Court has a standing inferior to that of the top organizations. The lay judges of the Labour Court are appointed by the Government on the basis of proposals from the SAF and the LO, and in most cases they are national union officials.) Therefore, in order to forestall the bringing before the Labour Court of disputes concerning the central agreements, the top organizations have set up a special grievance procedure.<sup>7</sup> Disputes concerning the interpretation and implementation of the central agreement between the SAF and the LO as well as between their member organizations are to be resolved by the SAF and the LO through joint measures.

<sup>7</sup> Cf. *ibid.*, p. 285.

It might be added that the chief importance of this grievance procedure is that it gives the top organizations a chance to iron out remaining points of disagreement between the parties at the national union level before the agreements at the national union level become definitive. As to disputes between the top organizations themselves, this grievance procedure alone cannot, for reasons stated below, prevent one of the top organizations from bringing a dispute before the Labour Court. It only imposes an obligation to negotiate before taking this step, an obligation which is more far-reaching than the corresponding duty presented in the Industrial Disputes Act. This statutory duty mainly acts as a procedural hindrance.<sup>8</sup>

The undertaking by the SAF and the LO of joint measures includes the giving of assistance to the national unions and employers' associations in their negotiations, consultations between the top organizations, and also arbitration-like proceedings. Here I shall briefly describe the last-mentioned type of measure. The top organizations have set up an "arbitration board" consisting of the "small delegations". This does not constitute an arbitration board under Swedish law (primarily because it does not have an impartial chairman), and should rather be regarded as a negotiating committee. When the dispute is between a national union and an employers' association, however, the proceedings are conducted in much the same way as before a regular arbitration board. The parties present and argue their cases, and the board renders a decision, if it can do so unanimously.

There are several ways in which the board can render a decision, depending on the character of the case and the powers the board has been given. The method most frequently used is to issue a recommendation which is not binding on the parties, e.g. concerning the particular way in which the central agreement should be adapted to the collective agreement of the parties. The board can also issue a statement, in most cases concerning the interpretation of the central agreement. Provided the board has been given full powers by a national union and an employers' association, it can furthermore make a collective agreement on their behalf. This, however, occurs rather infrequently.

<sup>8</sup> It is uncertain to what extent the parties at the national union level are bound by such a clause. It seems rather that during the period of their own agreements they are free to bring a dispute concerning the central agreement before the Labour Court and are not bound to bring it before the "small delegations", provided they have legal standing on the matter. This problem may become acute if the parties at the national union level have signed a contract over several years, but have specified the conditions for the first year only, leaving the conditions for the consecutive years to be negotiated at a later stage in accordance with the central agreement. Such negotiations are conducted under a peace obligation and here the parties at the national union level probably have legal standing to bring questions concerning the interpretation of the central agreement before the Labour Court. It also seems that, before the agreements at the national union level become definite, the parties are free to refuse to bring a dispute before the small delegations. Here, however, there is no access to the Labour Court.

THE FORM AND CONTENTS OF THE CENTRAL AGREEMENTS

As noted earlier, the central agreements mostly deal with matters of economic significance. The primary subjects of bargaining are—quite naturally—wages, salaries, fringe benefits and other costs of labour. It is important to note that, in the central agreements, wage increases are looked upon as increases in labour costs.<sup>9</sup> The most significant issue, therefore, is the establishment of a framework for the increase in labour costs, to be imposed by the collective agreements. Naturally this cost framework is decided upon in the light of other increases in labour costs that may occur, such as taxes, benefits awarded by legislation, and wage drift. But in the central agreements themselves there is no coordination between cost increases imposed by the central agreements and other cost increases. How this frame is established is purely a matter of bargaining and will not be dealt with in this paper. Instead I shall discuss the impact of the labour-cost approach of the central agreements and the ways in which the increases in labour costs are allocated to wage increases.

A typical central agreement consists of several sections.<sup>1</sup> The first section ususally deals with “general” wage increases. The general wage increase takes the form of a “kitty”, i.e. a certain percentage of the labour costs or a certain sum of money per man hour of a particular branch of industry (or company) is allotted to the parties at the national union level to be distributed by them to the workers.

This is best made clear by an example. Suppose that the SAF and the LO have agreed upon a general wage increase of 1 crown per man hour. According to the latest available quarterly statistics on wages for a particular branch of industry, 2 million man hours were performed during that quarter of a year. In this case the parties bargaining within this industry will have at their disposal a kitty of 2 million crowns. However, the kitty does not indicate the real cost increase. It serves only as a yardstick for the distribution of wage increases to various groups of workers. Should the number of hours of work increase, the total labour costs will, of course, increase too. The parties at the national union level are in principle free to distribute the kitty in the way they wish. They may decide on the following (very much simplified) allocation:

*Kitty*  
2 million crowns

Workers paid on hourly rates receive 0.5 crown per hour as actual wage increases. According to the latest available statistics, 1 million hours were worked on hourly rates during the last quarter.  $0.5 \times 1 \text{ million} = 0.5$  million crowns, which are deducted from the kitty.

-0.5 million crowns

<sup>9</sup> Johnston, *op.cit.*, pp. 284f. © Stockholm Institute for Scandianvian Law 1957-2009

<sup>1</sup> The text of a central agreement is reproduced in Johnston, *op.cit.*, pp. 349-51.

Workers on piece rates receive increases in the piece rates calculated to give 0.5 crown more in hourly earnings. 1 million hours were worked on piece rates.  $0.5 \times 1 \text{ million} = 0.5 \text{ million crowns}$ , which are deducted from the kitty.

–0.5 million crowns

The remainder of the kitty—1 million crowns—is allocated to the low-paid workers. This is to be distributed at the enterprise level. Each company is allocated an amount which depends on the number of man hours worked for which the earnings have been less than, say, 17 crowns per hour.

–1 million crowns

Actually, a central agreement incorporates a number of such kitties, which also may provide for extra wage increases for the low-paid, compensation to groups that have had less than average wage drift, etc.

The top organizations can attach more or less refined steering devices to the kitties in order to influence or force the parties at the national union level to distribute the amounts allocated to them in a particular way. The most commonly used device is a “no-agreement provision”: if the parties at the national union level fail to agree on the distribution of the allocated amounts, the distribution is to be made in accordance with certain provisions of the central agreement.

From a legal point of view it is interesting to note that the central agreements indicate the maximum increase in labour costs that will follow upon the revision of the collective agreements—the kitties must not be exceeded without the permission of the top organizations. The meaning of the central agreement is that the SAF can forbid its member organizations to give more than the central agreement grants. However, as a rule the agreements reached at the national union level and, even more so, at the company level somewhat exceed the increases granted in the central agreement. This seems to be accepted as a part of the negotiating process. Only if the agreements on the national union or company level should significantly exceed the level of the central agreement is the SAF likely to take action. On the other hand, the central agreements constitute no regulation of wage drift during the period of validity of the collective agreement, except in so far as compensation for lack of wage drift is given to groups of workers who happen to fall behind.

The central agreements are also minimum agreements. All the cost increases are to be distributed among the workers.

As noted in the introduction, the primary aim of the LO in entering into centralized collective bargaining was to further the solidarity wage policy. Recent statistics on wages indicate that the aim has been achieved in

part—the wage differentials have diminished. To a great extent this is due to the wage increases given to the low-paid through the central agreements. Each of the central agreements since 1952 has given the low-paid preferential treatment.<sup>2</sup> It should be noted that the attention of the LO has shifted from equalization between branches of industry to equalization between individuals. In the last few central agreements the kitties for the low-paid have been calculated on the basis of individual wage statistics. Each individual who is low-paid according to the definition of the central agreement contributes to the kitty. The no-agreement clause stipulates that if the parties at the national union level cannot agree on the allocation of the kitty, the frame is to be allocated in the same way as it was built up. Each low-paid individual will be awarded an extra wage increase.

From 1969 onwards, the following model has been used. For each branch of industry the kitty is built up in such a way that each individual who earns less than  $x$  crowns an hour “contributes” to the kitty with  $z$  % of the difference between his average hourly earnings and  $x$  crowns. If the parties at the national union level cannot agree on the way in which the kitty is to be distributed, each individual worker will receive as an actual wage increase  $z$  % of the difference between his average hourly earnings and  $x$  crowns.

#### AGREEMENTS AT THE NATIONAL UNION LEVEL

The central agreement between the SAF and the LO is to be transformed into collective agreements between their member organizations. As noted earlier, the power to make collective agreements binding upon the organizations and their members rests with the national labour unions and the national employers' associations. No systematic research has been made as to the extent to which these organizations actually follow the recommendations of the central agreements. However, it seems clear that the level of labour cost increases laid down in the central agreement is never significantly exceeded without the permission of the top organizations. On the other hand, it is obvious that the national labour unions and employers' associations frequently utilize their freedom to deviate from the central agreements in distributing the amounts allocated to them. Particularly with respect to the allocations to the low-paid, the parties at the national union level have made use of this freedom. Sometimes more, sometimes considerably less is given to the low-paid than the top organizations intended.

This freedom is partly a consequence of the independence of the national unions within the LO, and this also applies to the SAF, though perhaps to a lesser degree. From a technical point of view, too, a certain degree of freedom is necessary. Concessions according to the needs and policies of the national unions and employers' associations as well as according to the wage systems have to be made. The employers have pressed hard on this point, particularly with respect to the allocation for the low-paid. Should the system become more rigid, centralized collective bargaining would become impossible. The national organizations, which are hard enough to unite as it is, would refuse to take part in such bargaining. On the other hand, the employers would refuse to accept a central agreement that appears too much like a bed of Procrustes. And the top organizations, for their part, are quite naturally anxious that the results reached in the central agreements shall not be destroyed at the national union level. This creates tensions within the system, and these tensions seem to be increasing.

There has been a tendency, discernible in the last few agreements, to circumscribe the freedom of the parties at the national union level to deviate from the central agreements. The frequent use of the no-agreement clause in connection with the kitties for the low-paid makes deviations more difficult.

However, a study of the national agreements, as well as interviews with the representatives of the national organizations, conveys the impression that in most cases the intentions of the central agreements are on the whole faithfully carried out.

The technical solutions chosen in transforming the central agreement into national collective agreements depend to a great extent on the wage systems in the various branches of industry. This is a complex matter with several aspects. I shall try to discuss some of the most important of these.

In several branches of industry in Sweden (e.g. paper, paper pulp, steelworks) the payment system is based on job evaluation. Here the extra wage increases for the low-paid create particular difficulties. The job evaluation (in these branches joint point evaluation systems are used) is usually linked with the pay for the job in a very simple way. Each marginal unit in job evaluation is "worth" the same amount of money. Thus the relationship between job evaluation and pay can be expressed graphically by a straight line. However, if the low-paid receive larger wage increases than the rest of the workers, this means that the line will be bent, and inequities within the job evaluation system will result.

It can be argued that a job evaluation system is nothing but an expression of the values pertaining to the various jobs in a company or a

branch of industry. In order for the system to be viable it has to be in accord with the going wages—the job evaluation systems express nothing but the values of the labour market in a long-term perspective. However, once a job evaluation system has been set up it seems to have a conservative effect—the values which have been laid down in writing acquire a persuasive strength of their own. Technically, too, they are not easily dismissed or changed. The task of revising a joint job evaluation system is tremendous. It cannot be done very frequently. For such reasons, in industries where job evaluation systems are used, there is a tendency to depart from the low wage profile of the central agreements.

There are several types of national collective agreements. In most cases they stipulate uniform rates and conditions of work. With regard to wage rates, there are two main systems used on the Swedish labour market—the minimum rate and the “normal” rate. In a minimum wages system the going wages may, and in many cases must, exceed the rates. In a normal wages system, on the other hand, it is presupposed that the rates are not exceeded, though there are such systems where payments above the rates are allowed.

When transforming a central agreement into a minimum wage collective agreement, it is necessary to take the rates of the national agreement as well as the going wages into account. Only to raise the minimum rates would mean no wage increase at all for most workers, since often the overpay is quite substantial. Therefore the parties have to agree upon separate increases on the minimum rates and on the going wages. When extra wage increases are to be given to the low-paid, the minimum rates, especially for unskilled workers, are often raised much more than the going wages. The increase in labour costs caused by this is thereupon deducted from the kitty for the low-paid. In a minimum wages system, it is essential for the union to see to it that the minimum rates are raised at least as much as the going wages. In spite of the overpayment, the minimum rates are important as being actually applied in many cases to newly employed workers and workers on new assignments—the employers are often unwilling to grant overpayment to inexperienced workers and, if the overpayment is substantial, a new assignment might mean a considerable loss in earnings. Should the difference between going wages and minimum rates become too great, it would also be harder for the union to exercise control over the wage differentials. (Some other problems connected with the relationship between going wages and minimum rates will be discussed later on in this paper.) The adjustments of minimum rates and going wages just described, giving larger wage increases to the low-paid, are often counteracted by wage drift during the period of validity of the

collective agreement. To some extent the wage drift is caused by claims for compensatory wage increases from the higher-paid workers.

In the normal wage system, the task of transforming the central agreement into a national collective agreement is much easier. The changes in wage structure are accomplished simply by changing the rates of the agreement. Even where overpayment does occur, going wages are usually not raised.<sup>3</sup>

#### AGREEMENTS AT THE ENTERPRISE LEVEL

One important issue in the negotiations at the national union level is the extent to which the distribution of the wage increases should be made by the parties at the national union level themselves and the extent to which it should be made at the enterprise level. Several factors will influence the decision on this matter—one of them is the wage system. Under a normal wage system, it is usually not possible to make the distribution locally. The rates are uniformly fixed in the national agreement. Under a minimum wage system, on the other hand, it is possible—at least to some extent—to allow the going wages to be adjusted at the local level. The minimum rates, however, are fixed in the national collective agreement. The choice whether the organizations at the national union level should distribute all the wage increases themselves or whether they should allocate amounts (kitties) to be distributed locally also depends on the negotiation traditions of the national organizations. In certain branches of industry, e.g. engineering, agreements at the enterprise level have been common for quite a long time. The negotiation traditions are to be viewed in relation to the advantages and disadvantages of local agreements, particularly with regard to the wage structure of each particular branch of industry. It is expedient for the organizations at the national union level to let part of the distribution of wage increases be done locally when the wage structure is heterogeneous, so that agreements can be made according to the conditions at each individual enterprise.

In the SAF-LO sector, collective agreements on wages and other conditions of work of economic significance at the enterprise level are mostly made in connection with centralized collective bargaining. During

<sup>3</sup> The rigidity of a normal wage system, as well as a national piecework list, will on the other hand create tensions within the system. The well-known tendencies of inventing devices to escape the system will grow. Wage drift will also occur under such piecework systems, although less evenly distributed than under an individual piecework system.

the period in which the collective agreement remains in force, the margins for local agreements are extremely narrow—unless, of course, the national collective agreement calls for supplementary bargaining and agreements. Only the parties to the national agreement can modify it—the local parties cannot deviate from a national collective agreement unless the agreement permits this. The technique of establishing a level of increases in labour costs by means of collective bargaining will work as a hidden clause in the various national collective agreements, putting all additional economic claims under a peace obligation.<sup>4</sup> Specifically with regard to wages, local agreements giving better rates than the national agreement are not permitted under a normal wage system. Under a minimum wage system, payment above the rates is to be decided by individual bargaining. (If the individual employee and the employer cannot agree, the grievance procedure applies—in the last resort the agreement can be made between the organizations at the national union level.) Collective wage increases are not permitted. A local union or a factory “club” cannot demand collective wage increases, and naturally it cannot support its claim with threats of industrial action. (It can be discussed whether the demanding by local unions of collective wage increases should be regarded as a breach of contract, which is the position sometimes taken by the employers. In my opinion, this is highly doubtful so long as the local union has not resorted to industrial action or threats of industrial action.) The other side of the coin is that the employers are not allowed by their associations to grant collective wage increases during the period of validity of the collective agreement. The national association as well as the SAF have the right, in accordance with their by-laws, to levy stiff contractual fines on enterprises that grant such wage increases, and there are cases where this sanction has actually been applied.

#### AGREEMENTS AT THE INDIVIDUAL LEVEL

At the individual level, agreements in consequence of centralized collective bargaining on wages hardly occur, at any rate among blue-collar workers. (Among white-collar workers such agreements do occur, though rarely, as a result of an individualized salary system.) However, during the period of

<sup>4</sup> The Labour Court, even before central agreements were made, took the position that wage claims above what the collective agreement granted were under a peace obligation. The Court held that as a *naturale negotii* the contract implied that the benefits given in the agreements were to be considered the maximum that the employer was obliged to grant.

a collective agreement, bargaining and agreements at the individual level take place in the course of the normal administration of the collective agreement.

It is mainly under a minimum wage system that there is room for individual bargaining. As mentioned earlier, such bargaining may also take place under a normal wage system, but this is more unusual. Individual bargaining, too, takes place over piece rates, when these are not fixed in the collective agreement. Particularly with regard to piece rates, one may describe the situation as one of continuous bargaining. The price may be renegotiated every time piecework is put out, and when the labour market is tight the skilled workers frequently make use of their rights. Threatening to leave the enterprise, they demand higher piece rates or higher hourly wages. It is not merely incidental that wage drift is higher in industries where minimum wage systems and/or individual piece rates are used. As a matter of fact, these systems are wide open to wage drift.

Here I shall describe very briefly the individual bargaining under a minimum wage system, with special regard to the impact of the centralized bargaining system on the administration of wages during the period of validity of the collective agreements.

As mentioned earlier, the minimum wage system presupposes that payment above the rates is to be decided by individual bargaining. When agreement cannot be reached at this level the grievance procedure is applicable. But this does not mean that the individual has a right to overpay. The obligation to grant overpayment is on the employer in relation to the union—the individual worker has no right of action to invoke this obligation as against the employer. The obligation of the employer in relation to the union is limited in several respects. The employer is in breach of contract only if he applies the collective agreement in such a way that there is very little wage differentiation and overpayment, which is a reflection of his duty to bargain individually in good faith with each employee. The fact that in the individual case the overpayment is low or inadequate constitutes no breach of contract unless it reveals an intent of the employer to disregard his obligation to bargain individually.

Similar rules apply to individual piece rates as well. In principle, the bargaining has to take place without the interference of the organizations and the individual parties are free to agree on any way of calculating the piece rates. However, in practically all modern collective agreements where piece rates are used there are rules on how the employer should calculate the piece rates he may offer.<sup>5</sup> The piece rate offered must be

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<sup>5</sup> Cf. Johnston, *op.cit.*, p. 243.

calculated in such a way as to give a certain average hourly earning for an average worker. Here, too, the obligation of the employer can be invoked only by the union.

It will readily be seen that, under such systems, the regulation of overpayment in connection with the revision of the collective agreements is extremely important. But increases in going wages do not *per se* protect the new wages from being renegotiated and possibly lowered during the period of validity of the collective agreement. Then the general rules of the minimum-wage system and the individual piece-rate system apply. But naturally the employer cannot escape the labour-cost increases imposed on him by the collective agreement simply by lowering going wages. Under centralized collective bargaining, the level of labour costs of the employer is fixed by collective agreement. This level, however, is fixed only in relation to the quality and quantity of the work performed at the enterprise. Should the employer, for instance, choose to reorganize the operations so that he is able to use less skilled labour, he is also free to pay the workers accordingly and he can in consequence lower his labour costs. However, in the absence of such genuine business reasons the employer cannot lower the wages of the workers. This is also an obligation only in relation to the union and the individual worker cannot invoke it as against the employer. And it is probably limited in a way similar to that of the obligation to bargain individually—the employer is in breach of contract only if he intentionally seeks to free himself from the costs imposed by the collective agreement.

This general protection of the level of labour costs is particularly important with regard to newly employed workers and workers on new job assignments. But, for the workers whose going wages have been raised in the course of the revision of the collective agreement, it is inadequate. Therefore in many collective agreements this general protection of the wage level is combined with other measures for the protection of the wage level. A few collective agreements contain clauses giving guarantees that the going wages effective at the beginning of the period of validity of the collective agreement will not be lowered without the consent of the worker. This is a type of clause that was inserted in the collective agreements during the 1920s and 1930s when wage cuts were still a threat. At that time their importance was still greater, for the revision of the collective agreements often did not include going wages but only the rates of the collective agreement. Thus the level of overpayment was outside the scope of collective bargaining, but was still encompassed by the peace obligation. This kind of guarantee was a simple way of bringing the overpayment under the protection of the collective agreement. However, the effect of

such clauses is limited. They do, at least with regard to hourly wages, give the individual worker a right of action, but they do not protect the level of wages if the conditions of work change, if the worker's ability declines, or if the worker is assigned to a new job. Even if such a clause may protect the earnings of the individual so that it will not be permitted to fall below the level of earnings of workers on similar jobs, it cannot guarantee that this earnings will be the same as in his earlier job. From 1971 onwards, clauses giving such protection have been increasingly common in national collective agreements. Some of them give the worker a guarantee that if he is transferred to another job his earnings will not be reduced until after some time and even then only gradually. In other agreements the previous earnings of a transferred worker are guaranteed for life—the levelling down of his earnings is achieved by giving him smaller wage increases than his fellow workers until he is paid the same as they are.

#### CONCLUDING REMARKS

In this paper, which is based on a part of my dissertation,<sup>6</sup> I have tried to give a brief account of the structure and law of the Swedish system of centralized collective bargaining. Much of what has been said here is already known to lawyers and social scientists in the field of labour relations, mainly through Mr Johnston's very comprehensive book on collective bargaining in Sweden. In giving my account of the Swedish system, I have had two main aims in mind. The first aim has been to follow the implementation of the central agreements through different levels of bargaining and to describe the contractual, constitutional and statutory rules pertaining to the bargaining at each stage and their interrelationship. The second aim has been to describe a type of collective agreement differing from the archetypal principal agreement on which most Swedish writing on labour law has focused. The interim agreement has a transitional character, it is a vehicle for wage increases, and in a system such as the Swedish one, with centralized bargaining, it is of particular importance. I have also pointed to some features of the often complicated interrelationship between the interim agreement and the principal agreement.

This dual system of collective agreements has proved to be very stable. It has been in continuous use since 1956 and so far there are no signs of

instability. On the contrary, it has served as a pattern for collective bargaining in other sectors of the economy and it serves as the hub of a national income policy. Centralized collective bargaining in Sweden is now virtually all-embracing and it is coordinated in such a way that the agreements for all the important sectors of the economy are negotiated simultaneously. During the last few years, the Government has not only played an increasing role as an employer (the Social Democratic administration has endorsed the low-wage profile of the LO wage claims); it has also, by means of tax reforms, smoothed the path for the central agreements. In doing so, the Government has cut national income tax in order to overcome the negative effects of the steeply progressive income tax on the collective bargaining. With marginal rates of income tax as high as 60 per cent for large groups of workers and during a period of rapid inflation, the wage claims of the unions have to be very high in order to guarantee even a modest increase in real income for their members. Actually the tax cuts have been necessary in order to maintain the stability of the system. Here the Government has also had a possibility of pursuing an income policy coordinated with the wage policies of the trade unions. However, it has failed to do so: the tax cuts have tended to favour the employees in the middle income brackets. The author does not feel competent to assess the overall effect of the attempts at coordination of wage policies and economic policies in general.