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Douglas A. Hibbs, Jr.

WAGE DISPERSION
AND
TRADE UNION ACTION IN SWEDEN



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Fackföreningsrörelsens Institut för Ekonomisk Forskning

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Wage Dispersion and Trade Union Action in Sweden*

DOUGLAS A. HIBBS, JR

By the late 1970s Sweden had achieved perhaps the most equal distribution of personal income of any industrial democracy both before and after taxes and transfers. I say "achieved" because reduction of inequality of post-tax and transfer income was an important goal of fiscal policies pursued by Social Democratic political authorities, and compression of market earnings was a key objective of the "solidaristic" wage policies promoted by trade union leaders, particularly leaders of the central confederation of blue-collar unions, LO.

I have two main purposes in this chapter. The first is the relatively straightforward task of documenting trends in the distribution of wages and salaries in Sweden during recent decades. The second is the tougher and more controversial job of determining

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the extent to which the observed compression of relative wages can be attributed to trade union action. My interest in the topic stems from the premise, discussed elsewhere (Hibbs 1990), that the distribution of wages and salaries in contemporary Sweden is the main source of equality of discretionary final income among people available for work.

I. Solidarity Wage Policy

The idea of a "solidarity wage policy" in Sweden was apparently first voiced at the 1936 LO Congress. But the concept lacked much specificity until the early 1950s when it was fleshed out in the writings of the LO economists Gösta Rehn and Rudolf Meidner (Rehn 1948, 1950; Meidner 1948, 1954; Turvey 1952 gives English translations). Up to the mid-1960s the spirit of the policy is captured well by the phrase "equal pay for equal work". Weak industries and firms would not be permitted to survive by paying wages commensurate with their sub-par productivity and profitability. An active labour market policy, providing extensive job placement and retraining services, would ease the pain to dislocated workers created by the forced demise of inefficient firms as human and physical resources flowed toward more efficient ones. Viewed in this way, solidaristic wage policy conformed to orthodox principles, and it is widely believed to have enhanced Sweden's economic performance.

The success of this initial form of solidarity wage policy may help explain why Sweden's inter-industry wage structure appears to correspond better to neoclassical norms than, for example, wages in the United States do. Quite a large body of research indicates that US wages exhibit large "non-compensating" inter-industry differentials, whereas recent empirical work for Sweden shows that inter-industry differentials, net of the usual allowances for variations in labour quality and working conditions, are negligible (see Edin & Zetterberg 1989; Katz & Summers 1989). Moreover, unlike the situation in the United States, wage levels across Swedish firms or industries show no "non-competitive" correlations with profitability, average productivity and capital intensity (compare Krueger & Summers 1988, and SIND 1985).

Around the middle of the 1960s, wage solidarity took a more radically egalitarian form, moving away from the initial concept of

levelling wages among jobs of comparable difficulty, risk and skill, in the direction of levelling wage differentials more or less across-the-board. The shift, which might be caricatured as a transformation of the idea "equal pay for equal work" to "equal pay for all work", was marked by a concerted drive to improve the relative wages of the low-paid, which clearly shows up in the distributional profiles of the central wage framework agreements negotiated by LO with SAF.¹ Framework agreements with pronounced low-wage provisions ("low-wage pots") were a distinguishing feature of wage formation in Sweden from 1964 up to 1983, when central bargaining broke down and the emphasis on equality in the wage formation process (as well as in the political process) began to diminish. Although LO exercised leadership in the drive for wage compression, the white-collar union cartel, TCO, followed suit (especially the unions representing public sector white-collar workers and lower echelon clerical employees), and probably for pretty much the same reason: during these years most Swedish trade union leaders (and rank-and-file members) shared a deep ideological commitment to equality.

II. Gross Dispersion Trends

Wage dispersion statistics suggest that the "low-wage pushes" launched by the unions in 1964 had at least some success. Figures 1 and 2 display squared coefficients of variation (squared CVs) computed from hourly wages of private sector blue-collar workers (LO-SAF) and monthly salaries of private sector white-collar employees (PTK-SAF),² respectively, over the years 1957-1958 to 1987-1988. In the case of blue-collar workers, two estimates of total wage dispersion are shown; one based on data (assembled by LO) on percentiles of hours, the other on data from SAF on individuals.³ The SAF data are especially revealing for the later half of the period because we have statistics on the between-contract-area and within-contract-area components of total wage dispersion.⁴

The squared CVs indicate that the biggest earnings compressions came between the mid-1960s and the mid-1970s, the first decade of the low-wage pushes. Between contract areas, blue-collar dispersion declined by a whopping 74 percent from 1965 to 1975. Over roughly the same period, total dispersion among pri-

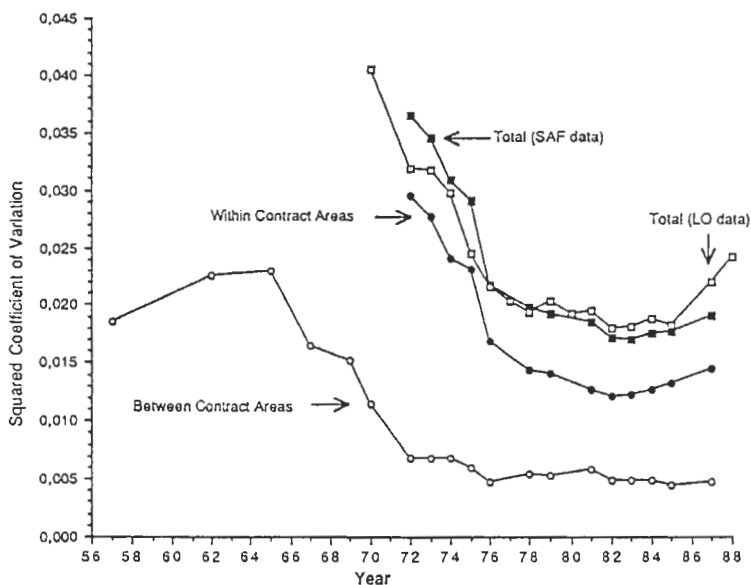


Figure 1. Wage dispersion among private sector blue-collar workers.

Source: SAF, December 1987 and computations from internal LO data supplied to the author.

vate white-collar employees fell by 40 percent. During the 1970s and after, trends in overall dispersion among both blue- and white-collar workers are dominated by developments within contract areas. This is not surprising because by the early 1970s the "within" components made up over 80 percent of the total dispersions. Wage and salary differentials between contract areas had been squeezed to bare bones levels earlier.

Although the SAF statistics pertain to individuals and the LO statistics to hours of work, and the two series are based on slightly different wage concepts, the time paths of total dispersion for blue-collar workers generally evolve in tandem. From 1970, the first observation in the LO series, to 1982–1983 when wage compression bottomed-out, dispersion among blue-collar workers declined by 55 percent. The compression of earnings in the SAF series is comparable. From 1972 (the first SAF observation) to the 1982–1983 trough, dispersion declined by 53 percent. After 1982–1983, some of the compression was reversed in pace with the breakdown of centralized wage formation and solidarity bargain-

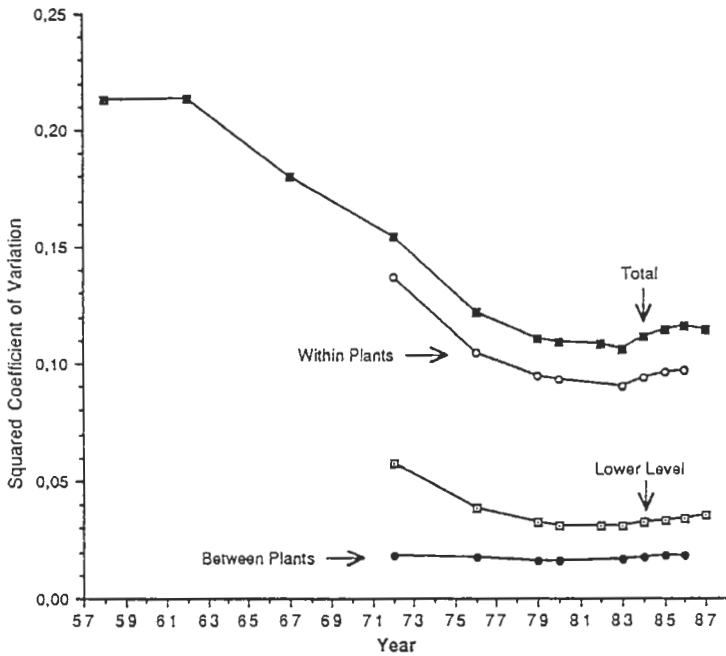


Figure 2. Wage dispersion among private sector white-collar workers.

Source: SAF, January 1985 and updates supplied to the author.

ing. (This is considered in greater detail later.) By 1987–1988 dispersion was back to the levels of the mid-1970s.

Despite the upturns in dispersion after 1982–1983, the squared CV for all private sector blue-collar workers was on the order of 40–45 percent lower in 1987–1988 than in 1970–1972. The corresponding decline for all white-collar private employees was around 26 percent. Within the white-collar ranks, representatives of lower echelon employees are known to have pushed hardest for equality. No doubt this explains why the decrease in the squared CV for the lower white-collar class (“lower”), shown in the bottom part of Figure 2, was greater than the compression of wages among all white-collar employees (“Total”).

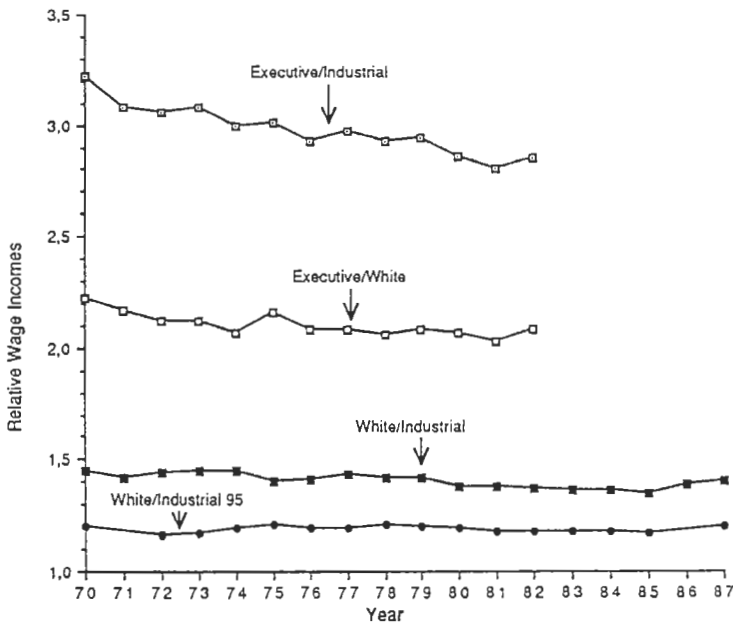


Figure 3. Relative gross wages of white- and blue-collar private sector employees.

Source: SAF, 1983 and 1988.

1. Wage Differentials Across the "Classes"

So far I have looked separately at wage dispersion trends among blue-collar and white-collar workers. Blue-collar wage compression has received the most attention, partly because LO has exercised leadership in promoting wage equality, but mainly because the data available to me on blue-collar wages are much richer. Some informative comparisons can be made, however, of the annual wage incomes of upper and lower echelon white-collar workers and blue-collar workers. The "cross collar" comparisons amount to what sociologists usually think of as income differences between the "classes".

Figures 3 and 4 show annual wage differentials, before and after tax, among two categories of white- and blue-collar workers in the Swedish private sector: lower and upper echelon white-collar employees ("white" and "executive"), and industrial workers at the

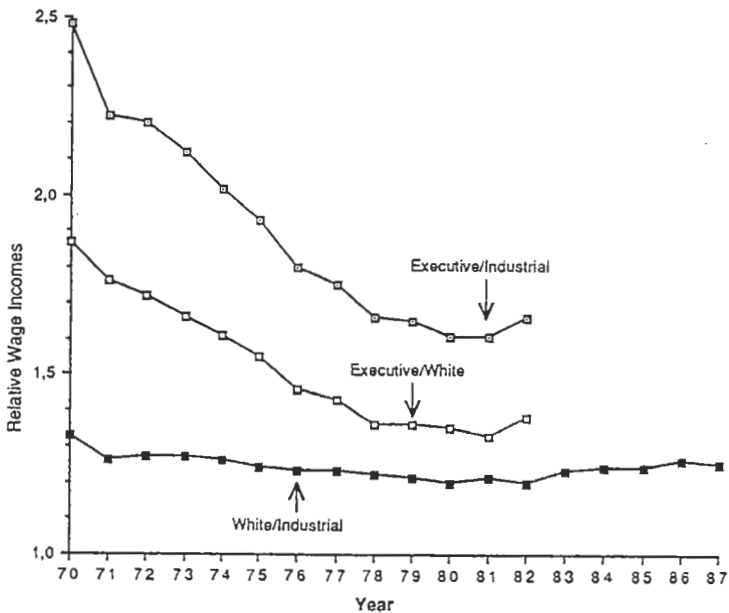


Figure 4. Relative net wages of white- and blue-collar private sector employees.

Source: SAF 1983 and 1988.

average and at the 95th percentile of the annual distribution of blue-collar wage incomes ("industrial" and "industrial 95"). Viewed over the whole period of available data (1970–1987 for blue-collar workers and lower echelon white-collar workers, 1970–1982 for the white-collar executives), the wage relatives either trend in the direction of greater equality, or are flat.

The data for the upper and lower white-collar employees indicate that the general compression of white-collar wages discussed above (Figure 2) tended to close the gap only very slightly between the market incomes of executives and clerical employees. Before tax, the ratio of their annual incomes fell from about 2.2 in 1970 to around 2.1 by the mid-1970s and after. The after-tax decline in the white-collar wage relatives was more substantial. It fell from almost 1.9 in the first year to 1.35–1.40 towards the end of the period.

The most dramatic levelling depicted in Figures 3 and 4 was be-

tween the annual wage incomes of Swedish executives and industrial workers. The pre-tax annual wage relatives between managers and average income workers declined from about 3.2 in 1970 to around 2.8–2.85 in 1981–1982. The intersection of falling wage relatives before tax and rising tax progressivity produced a bigger after-tax equalization: net of taxes, the executive-to-industrial worker wage differential declined from approximately 2.5 to 1.6–1.7 over the period.⁵

Politically, the wage relatives between the lower echelon white-collar employees and blue-collar workers hold the greatest interest. It has been frequently argued, in both SAF and LO circles, that the simultaneous, successful pursuit of egalitarian wage goals by the white- and blue-collar union cartels (LO and TCO) opened up a politically sensitive gap between the relative incomes of skilled industrial workers and clerical employees. LO officials in particular believe that this alleged gap between the incomes of skilled workers and lower-level white-collar employees is the source of their most severe intra-organizational political problems.⁶

Whatever the origins or motivation of this belief, it receives no support whatsoever from the relative wage data in Figures 3 and 4. The most relevant contrast is between the lower echelon white-collar employees (“white”) and the highwage (and, presumably, highly skilled) blue-collar workers at the 95th percentile of the LO distribution (“industrial 95”).

Figure 3 shows that from 1970 to 1987 the pre-tax white-collar premium was essentially flat, oscillating by only a percentage point or two around a mean of approximately 18 percent (a ratio of 1.18). Figures 3 and 4 also show that the income gap between average wage industrial workers and white-collar clerical employees actually declined slightly, pre- and post-tax.⁷

Given the data on the average wages of the classes, the separate white- and blue-collar wage dispersions, illustrated in Figures 1 and 2, may be combined to generate dispersions for the entire private sector labour force.⁸ Such computations indicate that from the early 1970s to 1982–1983, when wage inequality in Sweden reached its post-war trough, the institutionally autonomous processes of wage formation within the white- and blue-collar unions⁹ yielded a net decline in the squared coefficient of variation of wages among all private employees of about 30 to 35 percent.

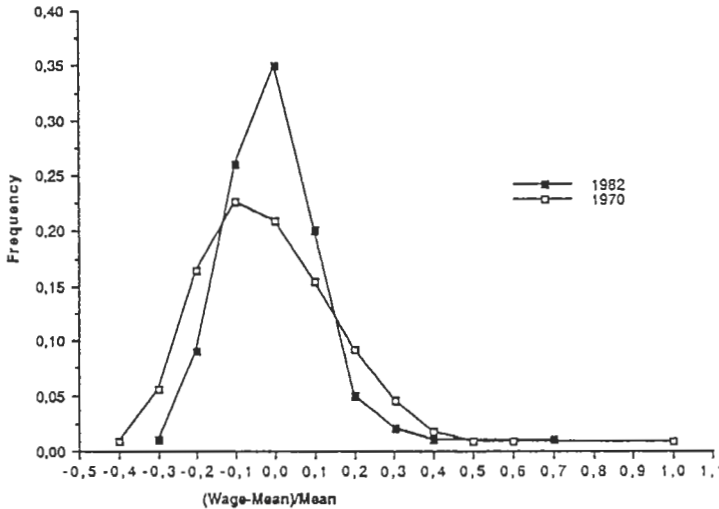


Figure 5. Wage distributions in 1970 and 1982 for private sector blue-collar workers.

Source: Computed from internal LO data supplied to the author.

III. Some Implications of Aggregate Dispersions

1. Relative Blue-Collar Wages

Variance-based measures of dispersion, such as the squared coefficients of variation discussed above, although commonly used in academic studies of inequality, give rather arid conceptions of actual earnings distributions. Figures 5 and 6, which are based on the LO wage series for blue-collar workers, convey a more down to earth picture of just what the trends in the squared CVs meant for changes in the structure of relative pay. Figure 5 shows the complete percentile distributions of wages for 1970 and 1982 – the years with the highest and lowest overall dispersion in the LO blue-collar wage data. It illustrates how much shrinkage in the wage distribution tails, and bunching of wages at the average, underlaid the cumulative decline of nearly 55 percent in the squared CV observed over the period.

In Figure 6, selected percentiles in the distributions are plotted in proportion to the average wage for the entire period covered by the LO blue-collar series. It is a more refined version of what in

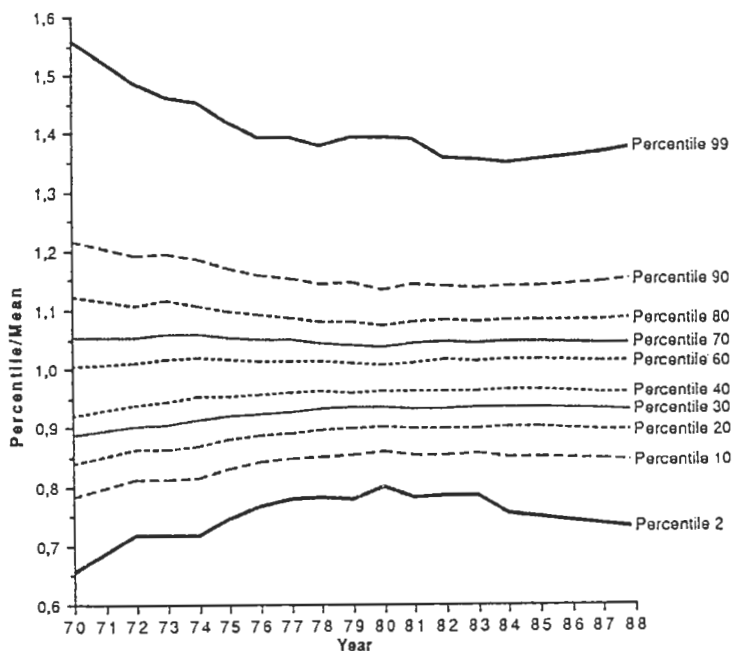


Figure 6. "LO Cone": relative blue-collar wages.

Source: Computed from internal LO data supplied to the author.

Sweden is known as the LO relative wage "cone". Figure 6 shows that the trends in gross dispersion apply quite uniformly throughout the wage distribution, although of course they are much more pronounced at the upper and lower tails than at percentiles closer to the average wage.

Developments at the extremes reveal the upper limits of the compression, and subsequent decompression, of the Swedish blue-collar wage structure. In 1970 a move from the 2nd to the 99th percentile of wages, which amounts to traversing nearly the entire distribution, would have required a relative wage increase of about 138 percent. By 1982–1983 the same move from the near-bottom to the near-top of the distribution could be achieved with a relative increase of only 73 percent. In 1988, after several years of generally rising dispersion, an 88 percent relative wage rise was necessary to move from the 2nd to the 99th percentile. Less comprehensive data for prior years suggest that the compression of

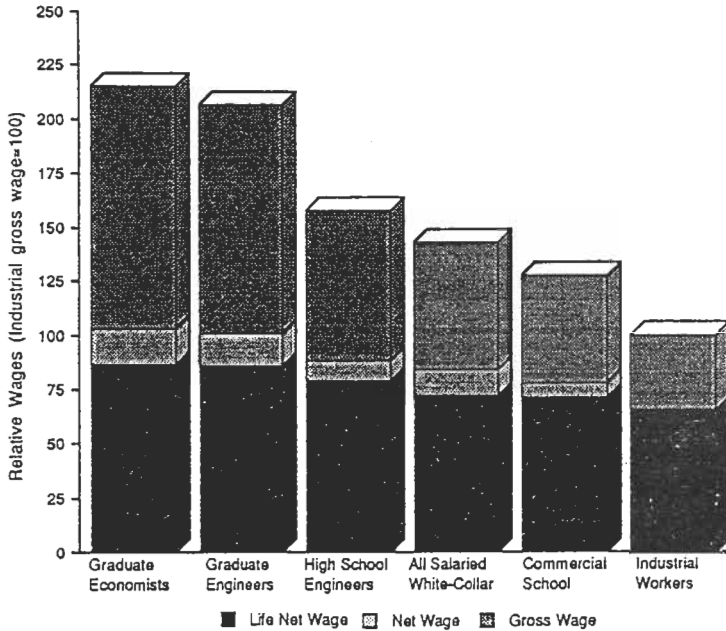


Figure 7. Gross, net and lifetime wages in 1982 private sector occupations.

Source: Based on Jonsson & Siven (1986), pp. 26–27.

relative wages during the last half of the 1960s was as large (and perhaps larger) as the compression from 1970 to 1982–1983 shown in Figure 6 (see for example Figure 1 and LO 1987, p. 30).

2. Equality of Lifetime Earnings

Although the static dispersion of wages at each period over time heavily constrains the set of feasible lifetime outcomes, firm conclusions about the ultimate impact of wage compression on lifetime equality require ideally analyses of the intersection of a compressed earnings distribution with the tax-transfer system and lifetime mobility through the wage structure. The ideal analysis requires panel data of long duration, which are not available to me. Figures 7 and 8, however, present some “second-best” (or, perhaps, third- or fourth-best) data bearing on the issue.

We begin by looking at 1982 market earnings (“gross wage”) differentials for workers of 40 years of age across a broad range of

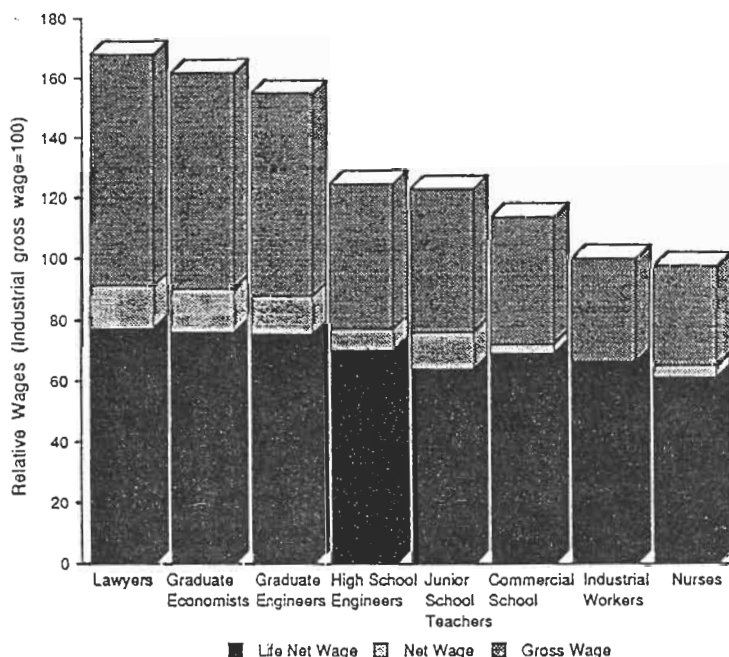


Figure 8. Gross, net and lifetime wages in 1982 public sector occupations.

Source: Based on Jonsson & Siven (1986), pp. 26-27.

occupations in the private and public sectors (considered separately). All incomes are normed to the average annual market wage income of industrial workers (which is set equal to 100). The inter-occupation gross wage differentials yield a more detailed idea for the single year (1982) of the cruder cross-class income differences graphed over time in Figures 3 and 4.

As the Figures remind us, by 1982 the gross wage distribution had become very compressed. In the private sector (Figure 7), the biggest differential shown is the 2.15 to 1.0 earnings ratio of graduate economists to industrial workers; a premium to the economists of 115 percent. In the public sector (Figure 8), it is the 1.7 to 1 earnings ratio of lawyers to nurses, a differential of 70 percent in favour of the former. On top of an already compressed inter-occupation wage structure, the progressive tax system reduces the gross earnings differentials by nearly half.¹⁰ The biggest differential in the private sector falls from 115 to 56 percent as we go from

gross to disposable annual earnings. In the public sector the tax system narrows the biggest gap from 70 to 40 percent.

Our main interest here, however, is equality of net lifetime earnings in a compressed structure of relative wage incomes. The lifetime net wages, shown by the bottom layer of "bars" in Figures 7 and 8, represent the 1982 present value of the net-of-tax wage stream accruing to "statistical" individuals who experience no mobility across the occupational categories from the time they enter the labour force to retirement. The present values of lifetime disposable earnings were computed by holding tax rates constant, applying a 2 percent discount rate, and assuming the age-wage profiles prevailing in the early 1980s. Given the 2 percent discount rate, the differences between the lifetime net incomes and the 1982 net incomes are due to variation in the number of years spent outside the labour force acquiring the extra education necessary to qualify for the occupations. Hence, the difference in the 1982 net income and lifetime net income of industrial workers is nil, while for graduate economists it is 16 percent.

The computations described above imply a striking equality of lifetime net earnings in Sweden during the early 1980s (Lindbeck 1983, reports data for 1979 yielding the same basic picture). Across the entire occupational class structure shown in Figures 7 and 8 – industrial workers to lawyers in the public sector, and industrial workers to graduate economists in the private sector – the income differentials are no larger than 26 to 32 percent. Certainly, if the post 1982–1983 tendency of wage dispersion to creep upwards accelerated over time, and if the sharply progressive structure of marginal tax rates was abandoned,¹¹ the startlingly egalitarian distribution of lifetime net incomes over the classes could swiftly be altered. But as things stood in the first part of the 1980s, it would have taken very large doses of unrecorded income, untaxed perks and the like, advantaging some occupations relative to others, to nullify the great compression of lifetime net incomes depicted in Figures 7 and 8.

IV. Union Ideology and Market Forces as Sources of Trends in Dispersion

By international standards, wage equality in Sweden had evidently gone quite far by the end of the 1970s. Inter-industry data cer-

tainly show Sweden to have less wage dispersion, in most cases very much less, than other industrial market economies.¹² So do available data on individual wage dispersion in the US and the UK. Yet, who knows, wage dispersion in Sweden may have fallen anyway in an unfettered labour market, free of all union ideological pressure for equality, as a result of conventional supply and demand forces. This issue is evaluated from two angles in the remaining sections of the chapter.

First, I will be looking at blue-collar wage compression trends in relation to trends in the dispersion of human capital among Swedish workers. Human capital theory points to skill distributions as the decisive source of wage distributions. Human capital formation, however, is surely endogenous, and its distribution could in some degree represent responses to externally determined relative wage structures, rather than the other way around. Nonetheless, if trends in Swedish wage dispersion conform closely to wage distributions implied by human capital models, one should hesitate before attaching much weight to the unions' egalitarian goals as an exogenous influence on wage dispersion.

Previously we saw that dispersion of Swedish wages declined by perhaps as much as 75 percent from the mid-1960s to the early 1980s – something of a “golden age” of wage equality, during which the so-called “low-wage pot” central agreements (*låglönesatsning*) prevailed in the LO-SAF area. Formalization of these central framework agreements provides a second vehicle to assess the impact of trade union goals on observed trends in wage dispersion. It allows evaluation of how well the compression of relative wages that would have been observed under complete implementation of the central agreements at the lower bargaining levels, tracks the dispersion of actual wages.

It is of course possible that the egalitarian thrusts of the central wage frames merely mimic the effects of (unobserved) market forces running in the same direction. But a close correspondence between actual and frame-derived wage dispersions should be taken as strong evidence that the ideology of equality, as delineated in the central agreements, exerted autonomous influence on the trend toward earnings equality.

The approaches described above for understanding the effects of trade union action and market forces on wage dispersion are flawed, and so neither can supply compelling evidence on the

issue. But, as we shall see, each yields a relevant bit of evidence implying an important role for LO's ideology of equality in explaining the history of wage compression in Sweden.

1. Human Capital Wage Dispersions

Human capital wage theory, interpreted narrowly, gives a supply-side account of earnings distributions. Earnings reflect market returns to investments individuals make in acquiring skills, through formal schooling, vocational and on-the-job training, and the more passive "learning by doing" (job experience). As Jacob Mincer, one of the founders of the human capital school, once put it, "human capital models single out individual investment behavior as a basic factor in the heterogeneity of labour incomes" (Mincer 1970, p. 6).¹³ Yet few would deny that workers' skill endowments raise productive efficiency per unit of labour, so the human capital view is intimately connected to the neoclassical marginal productivity theory of wages. In fact, Mincer wrote "I interpret productivity-augmenting work experience as an investment phenomenon" (Mincer 1974, p. 65).

To evaluate the correspondence of observed wage dispersion among LO workers to that implied by human capital wage theory, I analyzed the dispersions of human capital variables among samples of blue-collar workers from the 1968, 1974 and 1981 LNU surveys and the 1984 and 1986 HUS surveys.¹⁴ First I fitted a standard human capital wage equation (in which the log hourly wage is the left-side variable) to the 1968 sample of workers. Taking the variance of the right-side of this equation yielded the human capital-based dispersion of 1968 log wages implied by the model. (The resulting quantity is, of course, identical to the explained variance of the regression.) Applying the coefficients obtained from the 1968 base-year regression to the variances and covariances of the human capital variables in the 1974, 1981, 1984 and 1986 surveys gave the time path of human capital-based dispersion of log wages in a hypothetical world in which returns to education, training and job experience remained fixed at 1968 values.

The results of this exercise are graphed in Figure 9, together with variances of actual log wages in the LO series described before.¹⁵ To focus attention on trends, both actual and human capital dispersions are shown in proportion to their respective first-year values (which therefore equal 1.0). The change in human

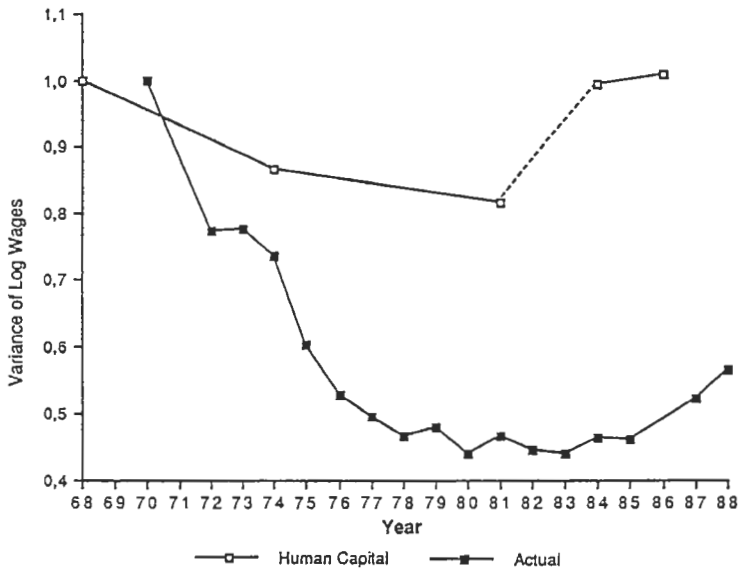


Figure 9. Trends in actual and human capital variance of log wages.

Source: Actual computed from internal LO data supplied to the author. Human capital based on analysis of LNU 1968, 1974 and 1981 surveys and HUS 1984 and 1986 surveys.

capital wage dispersion from 1981 to 1984, which marks the shift from the LNU survey series to the HUS survey series, is shown by a dotted line.¹⁶

Figure 9 shows that the human capital variance of log wages fell much less than the actual variances from the late 1960s to the early 1980s: from 1968 to 1981 human capital wage dispersion declined by about 18 percent, while dispersion of actual log wages fell more than three times that amount.¹⁷ In contrast, after the early 1980s actual dispersion rose markedly, while the trend of human capital dispersion (1984 to 1986) exhibits a much gentler upward slope. The gap between observed and human capital wage dispersions began to close.

Whether these trends in returns to human capital can be attributed to successful implementation of LO's egalitarian wage policies from the late 1960s to the early 1980s, and the erosion of centralized solidarity bargaining afterward, is altogether a different matter. Normal supply and demand forces might account for

changes over the period in wage premiums owing to education, experience and the like. In view of the magnitudes we observe in Figure 9, however, this seems to me improbable (see also Klevmarken 1982). More likely, LO's solidaristic wage policy was able to accelerate the trajectory of market forces, represented here by dispersion of human capital, during the years of centralized wage formation under the "low wage push" framework agreements (see Andersson 1987 for a related discussion). After 1983, as the scope of central bargaining contracted and its egalitarian thrust diminished, raw market forces began to exert greater influence on the wage structure. The next sections develop the distributional implications of solidarity bargaining in some detail.

2. Institutional Setting of Solidarity Bargaining

From 1956 to 1983 blue-collar wage formation in Sweden consisted of a highly integrated, three tier process: a central framework agreement negotiated by the peak union and employer associations (LO and SAF), followed by national industry agreements (*förbunds nivå*), and then local, plant level agreements. The agreements specified wage increases for one, more commonly two, and sometimes three contract years afterward. The parameters of multi-year agreements defined annual wage increases, and the parameters were different for each year of the contract. So for our purposes, central agreements spanning several years may be treated as a sequence of annual agreements.

The central framework agreements specified the aggregate increase in the wage bill for each industrial contract area, and provided strong (egalitarian) norms for its distribution among individual workers. In principle, the aggregate cost constraints specified by the frame for each industry were supposed to be binding at the lower levels. In practice, however, aggregate costs routinely exceeded the frame provisions; wage drift, originating largely at the plant level, was a predictable feature of the system.

The process permitted deviations from the distributional profile spelled out in the frames, but only by agreement among employers and unions at industry level negotiations. Yet we know very little about how industry level contractual practice and local level wage drift affected the distributional thrust of the central framework agreements. Precise investigation of the matter requires formaliza-

tion of the framework agreements, and simulation of the "frame wage" series implied by them.

3. Framework Wage Dispersions and Market Wage Dispersions

LO's big push for wage equalization began in 1964 with the first "low-wage pot" central framework agreement. Under the typical low-wage pot plan, wage increases for each agreement year were composed of: (i) a common flat rate amount specified in crowns going to every worker; (ii) wage drift guarantee amounts designed to compensate workers who were disadvantaged by market drift since the last frame agreement; (iii) cost of living adjustments, usually paid out in a flat-rate manner, which began to appear in frame contracts toward the late 1970s; and (iv) low wage adjustment amounts.¹⁸ Low wage adjustments were targeted on workers whose actual hourly wages observed in the (second quarter of the) previous agreement year stood below a certain reference level wage, originally called the low-wage boundary (*låglönegräns*).

Estimates of the wage distributions implied by complete implementation of the framework agreements have been obtained by simulation of equations that formalized the central contracts briefly described above.¹⁹ Figure 10 graphs dispersions of the frame wages along with dispersions of the actual second quarter wages. The main proposition that the exercise was designed to test receives obvious support: from the early 1970s until the erosion of central bargaining in the early 1980s, the variances of log frame wages exhibit the same pronounced downward trend as the dispersions registered in the market. As I remarked already, I take this as strong evidence that the frame agreements and the ideology of equality embedded in them exerted powerful influences on the course of wage compression.

Naturally, there was slippage from the frame agreements to the market. In every year the frame implied a more compressed wage distribution than is observed in actual wage data. On average, the gap between actual dispersion and frame dispersion from 1972 to 1982 is on the order of 20 percent. Put the other way around, approximately 80 percent of the "planned" compression of frame wages in the SAF-LO area was achieved in the market – not a bad record for LO's egalitarian wage policy, especially if one believes that frame wage dispersions are largely predetermined with respect to anticipated and observed market wage dispersions.²⁰

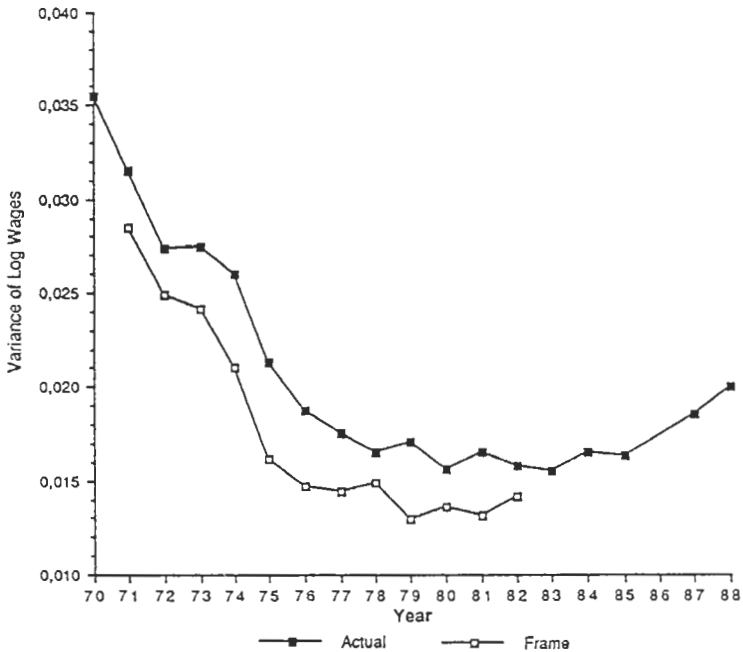


Figure 10. Dispersion of frame wages and actual wages among private sector blue-collar workers.

Sources: Computed from internal LO data supplied to the author.

V. Concluding Word on More Recent Developments in Swedish Income Equality

In the first sections of this chapter I documented that wage dispersion within and, to a lesser degree, across the "collar-lines" declined from the mid-1960s to the early 1980s, and I reported data showing that falling wage dispersion, in combination with high and progressive rates of income tax, very likely produced a great leveling of net lifetime earnings. In the later sections of the chapter I presented analyses indicating that the observed compression of Swedish earnings was driven by the successful implementation of the trade unions' solidaristic, egalitarian wage goals.

Indeed, the substantial rise in wage dispersion after 1982–1983 when centralized wage formation in both the LO-SAF and PTK-SAF areas began to dissolve also implies an important role for the ideology of equality, as reflected in the framework agreements of

the previous era, in explaining wage compression trends. Centralized negotiations were partly eroded in 1983 when the engineering employers association (VF) managed to pry the industry away from peak agreements covering blue- and white-collar workers,²¹ a recurring pattern in subsequent years. In 1984 and 1988 there were no central LO-SAF negotiations, and the 1985 LO-SAF agreement was merely a recommendation to the industrial negotiations. On the white-collar side, 1987-1988 marked the total dismantling of central bargaining: all PTK affiliates bargained separately. During the remaining years the LO-SAF frames were "weak"; perhaps an acknowledgement by LO that the era of centralized, egalitarian wage formation had come to an end in Sweden.

In fact, by mid-1970s standards, the LO-SAF frames had become rather feeble at the beginning of the decade. In 1980 the low wage boundary was raised substantially and the low-wage adjustment factor was reduced by a large margin. In 1981 and 1982, the low-wage adjustment factors were driven still lower, and the boundaries were set so high that for practical purposes the entire SAF-LO work-force fell under the "low-wage pot" umbrella. Attempts to compress the wage distribution further had essentially come to a standstill by the end of the 1970s. Five years later the ideological climate in the central union organizations actually favoured increased dispersion: LO policy called for escalating the relative wages of the (high-skilled) "wrongly paid" and, along with TCO, began to feature the principles of "different pay for different work" and "fair pay differentials".²²

Linked to changes in fiscal policy launched in 1983-1985, and greatly accelerated by the 1990-1991 tax reform announced a year earlier, these shifts in the union thinking and bargaining practice represented a significant retreat from the decades long commitment to equality in both state and market spheres. An attempt to explain these remarkable developments in Swedish wage formation and public finance lies beyond the scope of this article.

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