

# A Viable Alternative: the Scandinavian Model of “Social Democracy”

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**Abstract:** This paper aims at discussing how far the Scandinavian model of “social democracy”, which is assumed to be the Swedish model, still represents a viable alternative for the development of other industrial relations systems. The Scandinavian model, characterised by labour market peace and centralised bargaining, is based on two main pillars: “active labour market” and “solidaristic wage” policies. Its “golden age” lasted more than forty years targeting full employment, therefore here it is argued if it is possible to transfer such a model, as a whole or partially, to Italy. In examining such issue this analysis develops a short comparison between the industrial relations systems in the two countries identifying the main convergences and divergences at the institutional level and considering the possible effects on employment and wage growth.

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## 1. Introduction

Following Kjellberg in Ferner and Hyman (1992) between Nordic countries there are common features in their industrial relations systems. For example, Nordic industrial relations characteristically reflect a relative balance of power between capital and labour: compromises between employers' associations and trade unions are frequent in the Scandinavian countries, although Finland lagged behind. Political deals with other class forces allowed Scandinavian labour movements represented by strong social-democratic parties to extend their already considerable industrial and political strength to the governmental sphere. (Ferner and Hyman, 1992) For many years Sweden has maintained an enviable record of labour market peace. The central federation of trade unions (known as the LO) and the major federation of industrial employers (known as SAF) have achieved a degree of maturity in their relationships, which is remarkable. Sweden adopted a *corporatist model with strong and co-operative labour market parties* in the 1930s, while centralised bargaining became institutionalised in the mid-50s. Until the 1970s, LO and SAF dominated the industrial arena, but their role was increasingly undermined by expanding white-collar and public sector unions. The latter profited from the expansion of the welfare state during the long period of Social Democratic government (1932-1972). (Ebbingaus, 2000) The LO stands out as the prototype of “political unionism” and has made large contributions to the construction of the “Swedish model” with full employment and general welfare as the highest prioritised goals and active manpower policy, *centralised wage policy and the wage policy of solidarity* as fundamental elements. This picture is a correct description of Sweden in the post-war period up to the 1980s, and many of these elements are preserved as the degree of unionisation, which is constantly high and by international comparison at a record level. According to Ebbingaus in order to pre-empt state regulation, LO and SAF concluded the “*Saltsjobaden agreement*” in 1938, which formed part of a broader “historical compromise”, which included the industrial and political arenas. In exchange for labour peace and acknowledging employer prerogative, labour was to be compensated by social reforms and full employment through economic growth. Subsequently, in the 1950s, the centralisation of LO and the institutionalisation of *centralised bargaining* between LO and SAF facilitated the LO’s “solidaristic wage policy”, which added to the cohesiveness of the Swedish union movement. (Ebbingaus, 2000)

The advantages and disadvantages of the above mentioned characteristics in the Swedish model would be discussed in order to evaluate if it represents a viable alternative for the member countries in the European Union.

In conclusion the goal is to see if the Scandinavian model can be transposed, as a whole or in part, to Italy, therefore, a comparison between the Swedish and Italian model of industrial relations, should be useful to get a better understanding of why only some features are exportable.

## **2. The Scandinavian Model: “Active Labour Market” and “Solidaristic Wage” Policies**

Swedish trade unionism has for a long time been exceptionally strong because of its high degree of unionisation and through its close co-operation with the Social Democratic Party. Although specific circumstances and historic traditions have played an important role in making Swedish unions into powerful institutions, the fact that full employment prevailed in Sweden up to the beginning of the 1990s may have been the decisive factor for union strength. Since the beginning of the 1990s full employment has been replaced by mass unemployment in the EC countries. The increase in unemployment in Sweden was abrupt, something which can be explained by a combination of various factors: a deep international crisis, which hit Swedish exports heavily, cuts in the public sector, a collapse in the building and construction industry, and, not least, higher priority to price stabilisation at the expense of the traditional full employment goal. (Sverke, 1997)

Following Thornqvist (1999) this recession had a great impact on industrial relations in Sweden and represented the origins of the Swedish decentralisation in collective bargaining from an historical and comparative perspective. This could be viewed as the death of the traditional Swedish model of industrial relations, whose main features are full employment, “*active labour policy*”, equality and “*solidaristic wage policy*”. Meidner (1992) argues that to create and maintain full employment is the responsibility of government. For many years, Swedish governments have pursued what could be called a “modified Keynesian policy”, i.e. a policy that keeps total demand slightly below an equilibrium level and compensates the deficit of demand in some branches and regions, or categories of employees, by a selective labour market policy. Sweden has a long experience of “active labour market policy”; this implies that supply-side measures aim at training people, assisting them financially to move to expanding parts of the economy. (Meidner, 1992) It can be argued following Delsen (1992) that all these measures determine the room for wage increases. With regard to wages, all employees should receive “*equal pay for equal work*”, regardless of the particular financial position of their employer. The inter-industry and inter-enterprises link between productivity and wages should be broken, and this should produce a more equitable distribution of wages. Gradually wage rate differentials should disappear among industries, enterprises, regions, sexes and age groups. Less profitable companies were unable to pay these wages and were forced to reduce

their workforces or go out of business altogether. More profitable firms were paying wages below the level that they could actually afford. They could not attract labour by paying higher wages, and wage-cost inflation was supposed to be avoided and the excess of profit could be used for new investments. This model of solidaristic wages has been perceived as a way of accelerating structural adjustment and economic growth without renouncing equity goals. (Delsen, 1992). In fact, as Meidner suggests, equality was successfully met in “the golden years of the Swedish model” and the general welfare system was expanded through a number of social reforms. (Meidner, 1992)

Delsen (1992) emphasises the role of centralised wage bargaining that with a “solidaristic wage policy” and “active labour market policy” kept unemployment low and aggregate demand high in the economy. He argues that such an economic policy harbours the danger of inflation and Meidner supports Delsen argument explaining that in Sweden the expected depression did not show up and inflation was the crucial problem, not unemployment. (Meidner, 1992) According to Delsen another element of the Swedish model is a *restrictive fiscal policy*, for this reason the Swedish model is known for the high tax rates. Moreover, progressive taxation was essential to finance the Swedish welfare capitalism, implying a large and growing public sector. Reading Delsen it can be argued that the inflation and the high level of taxation represent the two main disadvantages of the Swedish model. Moreover, Sverke (1997) argues that full employment is a social goal per se, but for the trade union movement it is a necessary condition for union strength and vitality. In the 1980s it happened that in Sweden the service trades, public and private make up the majority of LO’s membership. Tensions between unions in the private and public sectors have arisen which have further undermined the LO’s authority. LO was no longer the dominant organisation on the Swedish labour market, which became more fragmented and this fact induced the crisis of the “solidaristic wage policy”.

According to Sverke the Swedish model, that aims to make compatible full employment and price stability, plays an active role in focusing EU efforts on employment issues. In fact, in his opinion the crucial question is whether a single country with a population of less than ten million is able to restore and maintain full employment whilst practically all other member states have tolerated mass unemployment for decades. There are indications that unemployment has become a central issue for the EU commission and the EU parliament. (Sverke, 1997) On a similar position Delsen argues, that the Swedish model still contains relevant characteristics for other European countries such as the “active labour market policy” that in his view is a way out of the unemployment trap. The Swedish model has proved its value with regard to the duration of unemployment compared with other European countries. The principle of “active” rather than “passive” labour market

policy has prevented an increase in long-term unemployment and counteracted hysteresis. In Delsen's view, countries that suffer from high long-term unemployment can import this part of the Swedish model and in this sense the model is not transferable as a whole but only partially. The Swedish experience has proved that the "active labour market policy" serves as an alternative to deregulation in order to augment the flexibility of the labour market. Although the Swedish labour market is highly regulated, it is as flexible as that of the USA. However, it is an open question whether this model can survive in a setting of decentralised bargaining, increasing wage differentials and in an increasingly competitive world. (Delsen, 1992)

### **3. The Italian Industrial Relations System: Convergences and Divergences**

Katz (2000) argues that even with wide differences in their traditional structure of collective bargaining and distinctive labour market traditions Sweden and Italy share common features in their industrial system. The Scandinavian model as a whole cannot be transposed onto the Italian system for the reasons that will be discussed in the followings.

According to Ebbingaus and Visser (2000) while unionism has been the largest and probably the most influential social movement of the twentieth century, as we approach the end of the century it seems to have lost its importance. After a large growth in membership during the 1970s, at the end of the 1980s most European unions lost members and unionisation rates declined. This happened in Italy and to a lesser extent in Sweden. From Ebbingaus and Visser (2000) it emerges that in Italy and in Sweden the levels of unionisation are quite different, so one of the main aspects of the Scandinavian model does not exist in Italy at present. During the 1970s Italian unions fought against *inequality in the workplace* using attractive platforms: the right to low rent housing, wage increases equal for everyone, regardless of skill level. This bargaining policy, pursued at both macro and micro levels, promoted egalitarianism. Unions were able to hold together different segments of the working class: blue and white collar workers, pensioners, and members of the petty bourgeoisie. (Sverke, 1997) This can be seen as a similarity with the Scandinavian model, but according to Accornero's analysis, egalitarianism became the key reason for union decline during the 1980s. In fact, wage differences being so small, the structure of the Italian working class wages became flat. Unions were responsible for this situation and the reason for union growth during the 1970s became, in the next decade, the reason for their decline.

Accornero (1992) seems to suggest that such an egalitarian structure yielded results very different from the expectations and today the trade unions do not have the same power that the LO had

in “the golden age” of the Scandinavian model. Sverke summarises by saying that in Italy the solidarity within the working class was more difficult to manage, mainly because a large proportion of workers did not join the unions and when they went on strike they often supported the autonomous unions. Further characteristics of Italy’s union movement were the uneven regional development, the strong impact of agricultural workers’ and farmers’ unions, and the conflicts between local and national trade and industry-based union structures. (Ebbingaus, 2000)

Following Ebbingaus it can be argued that co-ordinated and centralised collective bargaining is not a feature of the Italian model considering the contrasts not only within the unions, but also within the employers associations (Confindustria, Confapi). Employers associations vary by ownership type, size, region, and sector of economic activity, with region taking precedence over sector in many aspects. They do not enjoy a great deal of internal cohesion and authority over their member firms, and their ability to deliver on the promises made in bipartite or tripartite central bargaining has often been doubted.

In summary, the picture of Italian industrial relations is characterised by a high level of *fragmentation*, so that the authors previously mentioned seem to suggest that the Scandinavian model actually cannot be transposed onto the Italian model. From the very beginning, the cornerstone of the Italian industrial relations system has been *collective bargaining*. The use of participatory instruments in the broad sense to resolve individual and collective problems of the employment relationship through “co-operation” has never been significant. The legal frailty of the institution of collective bargaining was offset by the exceptional growth of unionisation during the 1960s and 1970s, whereby the general de facto application of collective agreements appeared to be an achievable goal. It has, however, become critical again in a new form with the phase of economic crisis and the profound changes in employment relationships mentioned above. (Gold, 1999)

Baglioni explains that in the later 1970s the change of important aspects of both the economic and the political situation favoured the agreement between Confindustria and the united union confederations CGIL-CISL-UIL in February 1975 to strengthen and reform the wage indexation system (*scala mobile*). This process worked profound changes in the Italian pattern of industrial relations. It brought about a decided, albeit gradual, centralisation of collective bargaining and organisational relations. In brief, in the 1970s the Italian model becomes similar to the Scandinavian considering the higher level of centralisation in the industrial relations and with respect to the economic policy. Explained better, Baglioni argues that the introduction of wage indexation (*scala mobile*) was a decisive step in the *politicisation of collective bargaining*, but it worsened the economic crisis and

produced an alarming wage drift. (Baglioni, 1990) Martin (1999) argues that the 1975 scala mobile agreement and the Swedish Basic Agreement, and the various experiments with social concertation are patterns of analogous arrangements in central and northern Europe failed to recast the industrial relations along the lines of these seemingly more “mature” and “stable” foreign systems. Instead, it was clear that the end of the 1980s had accentuated the long-standing fragmentation and decentralisation of industrial relations in these two countries. (Martin, 1999)

According to Meidner, Sweden failed in managing the inflation increase, but reached full employment through its long experience of “active labour policy”. Delsen (1992) strongly advocated the use of such a policy in countries such as Italy that have a long-term unemployment. In fact, such a policy aims at enhancing mobility of workers, who lose their jobs, without relying totally on the price mechanism. It is supposed to perform the role of wage differentials in balancing labour supply and demand and in achieving full employment. A great variety of measures have been developed under the heading of “active labour market policies” e.g. relocation grants, training or retraining programmes, temporary public sector schemes and private sector requirement subsidies intended to create jobs. This policy stemmed from the idea that the longer people are inactive in the labour market, the more difficult it is to get them back to work. The Swedish model is characterised by the “*right to work model*” instead of the “*right to income model*”. From Delsen’s considerations it can be argued that Italy would benefit from this model, in which the workers would, at least theoretically, find new employment in more viable enterprises and sectors, and higher employment and wage levels would thus be attained in the longer run. (Delsen, 1992)

The recent trend in the Italian model of industrial relations is toward a gradual regulation of a deregulated labour market. (Katz, 2000) According to Martin during the 1970s the unions transformed all “atypical labour contracts” in full-time jobs, whereas in the 1980s hiring procedures were gradually liberalised by increasing the possibility of discretionary, individual hiring for the employers, and then by abolishing anonymous hiring altogether. Part-time contracts were introduced in the attempt to enhance employment flexibility. In sum, a new approach to political-economic regulation seems to be emerging in Italy- one that avoids the usual trade-offs between centralisation and standardisation, on the one side, and decentralisation and flexibility, on the other. The *1992-93 Reforms* that established a more centralised system of wage negotiations did not preempt the possibility for experimentation and democratic participation at the local level. (Martin, 1999)

In conclusion the aspect that can successfully be translated according to Delsen, to the Italian model is the “active labour policy” in order to reach full employment and this target should be realised through the regulation of a very fragmented industrial relations system.

#### **4. Conclusion**

In this paper after a description of the main features of the Swedish model of “social democracy”, it has been argued that it still represents a viable alternative for the European Union’s member countries. The literature here discussed suggests that the model is very efficient in creating full employment but it cannot guarantee price stability in the long run. The Swedish model offers, on one side, a possibility to increase the level of equality in the society, on the other, to reduce the wage differentials, deteriorating the competitiveness of the labour market. Moreover, such a “solidaristic wage policy” can exist only if supported by a restrictive monetary policy. Delsen (1992) argues that this self-regulated system represents a viable alternative to the wild deregulation in the American labour market and it performed very well for forty years.

Comparing Italy to Sweden, it appears that Italian trade unions and employers associations are so fragmented that it is quite hard to introduce the Swedish model based on strong co-ordination between these two actors. In Italy, collective bargaining, based on voluntarism, played a crucial role and the system has been decentralised in the 1980s and only in the 1990s neo-corporatism has been introduced vigorously. As Katz (2000) argues, there is a tendency to regulate the deregulated Italian industrial relations practices and Italy can benefit from the Swedish experience in creating full employment through a self-regulated and centralised bargaining.



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