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Individual Wage Setting, Efficiency Wages and Productivity in Sweden

Abstract:

Swedish wage setting has undergone drastic changes during the last 10-15 years. While Sweden was known for its narrow wage distribution, wage differentiation and wage bargaining at the individual level has become leading principles among white-collar workers' unions. The purpose of the present paper is to analyse the consequences of this wage policy shift. Wage differences have increased drastically among white-collar workers while remained constant or even decreased among blue-collar workers. We show that wage differentiation has had a strong effect on white-collar workers' average wage, and caused a major increase in the wage gap between the aggregates of white-collar and blue-collar workers.

We also show that increases in the coefficient of variation of wages raise productivity in firms with many workers in that worker category.

Last and foremost, we show that the transition to individual wage setting raises the scope for firms

to set efficiency wages and we find support for the fair wage version of efficiency wage setting. The effects of higher wage/ fair-wage rates were stronger in the late 1990s, when wage differentiation increased more, than in the early 2000s.