



## Downsizing, State Ownership, and Modern Labor Management: Severance Pay at the Swedish Tobacco Monopoly, 1915-1928

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Among several forces contributing to early twentieth-century modernization of labor management was increased state involvement in the economy. In this essay, I consider the first known case of severance pay in Sweden: compensation to redundant workers associated with the 1915 nationalization of the tobacco industry. The tobacco monopoly, obliged to make severance payments during the first five years of its existence, continued to do so in the 1920s when downsizing the work force, reflecting the importance of implicit seniority norms and of expectations that the state be an ideal employer. Investigating compensation by worker category, I find that workers with firm-specific skills received a substantial premium and that men were more generously compensated than women. Parliament discussed the severance payments, and large unions representing non-tobacco workers demanded equivalent benefits for members directly and indirectly employed by the monopoly. State intervention in the tobacco industry probably had wider—though unintended—implications for labor management practices in interwar Sweden.

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In early industrial society after the liberalization of labor markets, employment relationships became more transient.<sup>1</sup> Employer and employee

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<sup>1</sup> Sanford M. Jacoby, "Industrial Labor Mobility in Historical Perspective," *Industrial Relations* 22 (Spring 1983): 261-82; Claudia Goldin, "Labor Markets in the Twentieth Century," in *The Cambridge Economic History of the United States*, ed.

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could decide to go their separate ways on short notice. Compared to previous conditions, this implied increased freedom for both parties, but it also increased uncertainty, particularly for the workers who could not insure themselves against unemployment. Demands were raised by early trade unions and by social reformers that the employment relationship be stabilized and formalized.<sup>2</sup> This movement led to the replacement of oral promises by written collective agreements and to the modernization and professionalization of labor management via personnel departments and corporate welfare secretaries. Yet another impetus for the modernization of labor management originated in the increased state involvement in the economy and in the view that the state should behave as an ideal employer.<sup>3</sup>

In this essay I describe how government intervention altered employment relationships in the Swedish tobacco industry.<sup>4</sup> Specifically, I focus on how redundant tobacco workers were compensated in connection with the creation of the Swedish Tobacco Monopoly (STM) in 1915 and during the company's downsizing phase from 1921 to 1928. This is the first known example of severance pay to blue-collar workers in the Swedish labor market. The STM continued to make severance payments even after it no longer was legally obliged to do so. What was the rationale behind that practice, and how was it perceived by management and workers? Given that the STM had a heterogeneous work force, how did the company compensate different categories of workers: men and women, skilled and unskilled, workers with general skills and those specialized in tobacco production?

There is no evidence indicating that severance pay was a common practice in Sweden during the 1920s; STM was in this respect a pioneer. A further

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Stanley L. Engerman and Robert E. Gallman (Cambridge, U.K., 2000), 549-624; Barry Eichengreen, "Unemployment and the Structure of Labor Markets: The Long View," in *Fighting Europe's Unemployment in the 1990s*, ed. Herbert Giersch (Berlin, 1996), 3-22.

<sup>2</sup> Sanford M. Jacoby, *Employing Bureaucracy: Managers, Unions, and the Transformation of Work in the 20th Century* (Mahwah, N.J., 2004).

<sup>3</sup> In the Swedish context, this view is associated with Gustav Möller, who was Minister of Social Affairs in the 1930s, but the way of thinking certainly has roots further back in time.

<sup>4</sup> State intervention in the tobacco industry has occurred in several other European countries, although in different forms; see Eugenio Torres, "Private Management of the Spanish Tobacco Monopoly, 1887-1998," in *Business and Society: Entrepreneurs, Politics and Networks in a Historical Perspective*, ed. Anne-Marie Kuijlaars, Kim Prudon, and Joop Visser (Rotterdam, 2000), 171-81. With regard to labor relations, the best researched case seems to be Compañía Arrendataria de Tabaco in Spain, a private company that acquired monopoly rights in 1887. According to Lina Gálvez Muñoz and Francisco Comin, this company was "a pioneer in social policies and in improving working conditions;" see Gálvez Muñoz and Comin, "Business and Government: Labour Management in the Spanish Tobacco Monopoly (1887-1935)," in *Business and Society*, ed. Kuijlaars, Prudon, and Visser, 159-69, quotation at p. 166.

question, therefore, is whether STM's behavior influenced other actors in the society. I do not fully explore this question, but I consider for some possible avenues of dissemination.

### Severance Pay in Theory and Practice

Employers' compensation to dismissed workers has been given many names, as Everett D. Hawkins noted in his investigation of the phenomenon during the interwar period.<sup>5</sup> Hawkins himself used the concept "dismissal compensation": "defined as a payment, in addition to any back wages or salary, made by an employer to a worker whose employment is permanently terminated for causes primarily beyond the control of the employee."<sup>6</sup> Today, "severance pay" is the most popular term.<sup>7</sup>

Historically, the idea that employers should compensate redundant workers seems to stem from pre-revolutionary Russia.<sup>8</sup> In the United States employers adopted the practice voluntarily during and after the Great Depression, "as a reaction to the large-scale layoffs of long-service workers."<sup>9</sup> In some Latin American and European countries, labor market legislation regulating advance notice and severance pay was introduced in the interwar period.<sup>10</sup> In Sweden, collective agreements regulated industrial relations to a great extent.<sup>11</sup> Little is known about whether or how severance pay was utilized in the Swedish labor market between the wars.<sup>12</sup> Individual

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<sup>5</sup> "Dismissal wage, termination allowance, separation bonus, dismissal compensation, or a score of other aliases. . . ."; see Everett D. Hawkins, "The Dismissal Compensation Movement," *Annals of the American Academy of Political and Social Science* 165 (Jan. 1933): 24.

<sup>6</sup> Hawkins, "The Dismissal Compensation Movement," 24.

<sup>7</sup> In Swedish the equivalent term is *avgångsvederlag*. This word seems to be of quite recent origin; it is not mentioned in encyclopedias from the interwar period.

<sup>8</sup> Edward Alsworth Ross, "A Legal Dismissal Wage," *American Economic Review* 9 (March 1919): 132-36.

<sup>9</sup> These employers were, however, a minority. In the 1950s, about one-sixth of American companies had severance plans for blue-collar workers. Donald O. Parsons, "The Emergence of Private Job Displacement Insurance in the United States: Severance Pay Plans, 1930-1954," 2005, George Washington University, viewed 28 June 2007. URL: <http://ssrn.com/abstract=872331/feb-07>.

<sup>10</sup> Gustav T. Schwenning, "Dismissal Legislation," *American Economic Review* 22 (June 1932): 241-60.

<sup>11</sup> Christer Lundh, *Spelets regler: Institutioner och lönebildning på den svenska arbetsmarknaden 1850-2000* [The Rules of the Game: Institutions and Wage Formation on the Swedish Labor Market 1850-2000] (Kristianstad, Sweden, 2002).

<sup>12</sup> In Nov. 1929, the National Board of Health and Welfare was assigned the task of investigating how trade unions dealt with unemployment. The investigation went through a huge number of collective agreements looking for regulations related to the unemployment issue, but did not report anything about employers having to compensate dismissed workers. *Arbetslösheten inom fackförbunden samt därmed sammanhängande bestämmelser i förbundsstadgar och kollektivavtal* [Unemployment within the Trade Unions and related Stipulations in Organizational Statutes

employers are said to have introduced severance pay, and by the late 1950s the practice was widespread.<sup>13</sup>

Theoretically, compensation to redundant workers may be seen as an alternative to advance notice.<sup>14</sup> As with severance pay, advance notice implies costs for employers, who have to keep full employment for a period after the decision to downsize has been made, along with benefits for the dismissed employees, giving them time to find other jobs. An inverse relationship between severance pay and advance notice was observed empirically in the interwar era.<sup>15</sup>

Generally, demands for severance pay have emanated from workers, who view severance pay as compensation for costs associated with layoffs.<sup>16</sup> Some of those costs are identified in human capital theory and depend on the employees' degree of skill specificity.<sup>17</sup> When the required skills are of a general nature, training is typically financed by the individual, as in apprentice contracts, or by the public education system. The losses associated with being laid off are relatively small for workers with general skills, because they may be able to find equivalent jobs in other organizations. When skills are firm-specific, the potential losses are greater. Few workers would be ready to pay for training in skills that could be used only in one company, because all returns on their investment would be lost in the case of a layoff. Typically, worker and employer share both the costs and the returns of firm-specific training by agreeing on a wage that is somewhat higher than the value of the marginal product during the training phase, thereafter somewhat lower; finally, toward the end of the working life, the wage again exceeds the value of the marginal product. Obviously, such an agreement presupposes a long-lasting employment relationship; we can view severance pay as a penalty fee for a breach of contract.

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and Collective Agreements], Sveriges Officiella Statistik (Stockholm, 1931). A similar investigation was conducted by the Swedish Confederation of Labor (LO) some years later. There it was reported that the tobacco workers were compensated when laid off. Berit Bengtsson, *Kampen mot § 23: Facklig makt vid anställning och avsked i Sverige före 1940* [The Struggle against Article 23: Union Power over Hiring and Dismissal in Sweden before 1940], *Uppsala Studies in Economic History* 74 (Uppsala, Sweden, 2006), 114.

<sup>13</sup> Per Gunnar Edebalk and Eskil Wadensjö, "Varsel, uppsägningar och avgångsvederlag" [Advance Notice, Layoffs and Severance Pay], *Ekonomisk debatt* 21 (Feb. 1993): 118. In 1964, LO and the Swedish Employers' Confederation (SAF) agreed to establish a common fund for severance pay to blue-collar workers.

<sup>14</sup> Cristina Pita, "Breach Penalties in Labour Contracts: Advance Notice and Severance Pay," *Labour* 11 (Nov. 1997): 469-95.

<sup>15</sup> For a reference in this matter, see Parsons, "The Emergence of Private Job Displacement Insurance."

<sup>16</sup> Edebalk and Wadensjö, "Varsel, uppsägningar och avgångsvederlag," 122-23.

<sup>17</sup> Gary S. Becker, "Investment in Human Capital: A Theoretical Analysis," *Journal of Political Economy* 70 (Oct. 1962): 9-49.

The costs associated with layoffs are often thought to be positively related to length of service and age, such that senior workers suffer more from being laid off than the younger and/or more recently hired. It is, for example, more difficult for those who are close to retirement to find another job because employers are reluctant to hire older workers. Furthermore, those workers may have invested more in physical capital and social relations and therefore find it harder to move geographically. Consequently, workers demand not only severance pay, but also severance plans in which benefits are positively related to seniority.

From the employer's perspective, severance pay may at first sight look like an unnecessary cost, but an employer may also obtain advantages from the compensation of dismissed workers. When firm-specific skills are important, employers find personnel turnover costly. Correctly designed, a severance plan may induce workers to stay with the firm. That can be accomplished in two ways, either by offering compensation only to workers with a minimum length of service or by letting the compensation amount grow with length of service. In both cases, workers who quit lose a benefit.<sup>18</sup> Thus, one reason for employers to accept worker demands for severance pay, or to implement it voluntarily, is to reduce unwanted personnel turnover. Another reason is to affect the composition of the work force when downsizing.<sup>19</sup> Often, the optimal behavior of an employer when conducting personnel reductions is to cut both ends of the age distribution: to release the youngest and the oldest workers.<sup>20</sup> In practice, however, such behavior may violate laws or collective agreements if not combined with compensation to senior workers. In present-day Sweden, for example, there is legislation prescribing the principle "first in, last out," if the employer has not made another agreement with the trade union. By offering severance pay to senior workers, such a deal is obviously easier to accomplish.

Even in the absence of formal legislation or agreements, employers may be restricted by social norms of fairness.<sup>21</sup> Donald O. Parsons argues that most severance plans in the United States have been born out of such considerations and could be regarded as implicit contracts.<sup>22</sup> He notes three factors: statements from managers shortly after the introduction of severance pay; the fact that few severance plans are made known to the public; and the absence of reserve funds. If severance pay were used to reward long-term

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<sup>18</sup> Edebalk and Wadensjö, "Varsel, uppsägningar och avgångsvederlag," 121.

<sup>19</sup> Ibid., 121-22.

<sup>20</sup> Lorne Carmichael, "Does Rising Productivity Explain Seniority Rules for Layoffs?" *American Economic Review* 73 (Dec. 1983): 1127-31; Edward P. Lazear, *Personnel Economics for Managers* (New York, 1998), 172.

<sup>21</sup> George A. Akerlof, "Labor Contracts as Partial Gift Exchange," *Quarterly Journal of Economics* 87 (Nov. 1982): 543-69.

<sup>22</sup> Donald O. Parsons, "Nonperformance of Employment Contracts: The Case of Severance Pay," 2004, George Washington University, viewed 28 June 2007. URL: <http://www.ukcpr.org/SeminarSeries/u-sevbankrupt51.pdf>.

commitment, the policy would be made known before layoffs are imminent, and the company would secure its commitment to compensate dismissed workers by creating a reserve fund for that particular purpose. In reality, severance pay has most often been financed on a pay-as-you-go basis.

Another potentially important norm of fairness concerns gender. Work and workers have been categorized according to sex in all known societies, and in the interwar period proponents of a male breadwinner ideal demanded that men, in addition to higher wages, also should be given preference in hiring.<sup>23</sup> This issue was hotly debated in the Swedish Parliament, particularly in the latter part of the 1920s, but the discussion did not result in the introduction of formal marriage bars for working women, as in some other countries.<sup>24</sup>

To sum up, employers have two main rationales for compensating redundant workers: to reduce personnel turnover and to facilitate personnel reductions. When studying how different categories of workers are compensated we may expect workers with firm-specific skills to get greater amounts than those with general skills. We may also expect a premium for seniority. Finally, the existence of a male-breadwinner norm is likely to result in higher compensation for male workers, in particular those who are married, in comparison to female workers.

### **The Creation of the Swedish Tobacco Monopoly**

Before the rise of serious concerns about the health consequences of smoking, governments tended to regard tobacco goods as attractive sources of income. France and Spain created state monopolies in the seventeenth century; other countries on the European continent followed the same path somewhat later.<sup>25</sup> The issue was also discussed in Sweden, but the government did not take action until the outbreak of World War I. According to a proposition put forward in 1914, all Swedish tobacco factories were to be bought and leased to a public-private partnership given exclusive production rights for a defined period. It was hoped that this company could realize economies of scale by concentrating production in fewer factories. Tobacco workers who became redundant in this state-initiated restructuring of the industry were promised compensation as long as they were skilled, permanently employed Swedish citizens, older than 21, and had not been offered “a reasonably similar” job by

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<sup>23</sup> Jane Humphries, “Women: Scapegoats and Safety Valves in the Great Depression,” *Review of Radical Economics* 8 (April 1976): 98-121; Alice Kessler-Harris, *Out to Work: A History of Wage-Earning Women in the United States* (Oxford, U.K., 1982).

<sup>24</sup> Renée Frangeur, *Yrkeskvinna eller makens tjänarinna? Striden om yrkesrätten för gifta kvinnor i mellankrigstidens Sverige* [Professional Woman or Her Master's Servant? The Struggle for the Married Woman's Right to Paid Employment during the Interwar Period in Sweden] (Lund, Sweden, 1998).

<sup>25</sup> Torres, “Private Management of the Spanish Tobacco Monopoly,” 171-81.

the STM.<sup>26</sup> For calculating the compensation amount, the point of departure was the average annual income of the worker in the previous two years. All skilled workers were entitled to compensation equivalent to at least a year of income, but the amount increased with years of service to a maximum of five years' income. Unskilled workers were entitled to half the average of the incomes of the two preceding years.<sup>27</sup> This amount was not related to length of service. The severance pay for each individual was to be decided by commissions, with delegates appointed by the government and the factory owners.

The Tobacco Industry Workers' Union (TWU), which organized about 50 percent of the workers, supported the idea of monopolizing production by state intervention, because the likely alternative was the creation of a private trust. But the union preferred direct state management to a public-private partnership, because TWU was worried that a monopoly with private interests would impose wage cuts and arbitrary treatment of the workers.<sup>28</sup> Previously, mistreated or dismissed workers could always go to another employer. With the creation of a monopoly this exit possibility would disappear. Against that background, the union demanded guaranteed fair treatment.

The tobacco workers were worried about unemployment, not only because of monopolization, but also because of taxation.<sup>29</sup> A public inquiry in 1908 had estimated that the consumption of cigars, cigar-cigarettes, and cigarettes would decrease by 20 percent with the introduction of a tax. The consumption of other tobacco products would decrease by 10 percent. This would place the jobs of about a thousand tobacco workers at risk. The union argued that tobacco workers were particularly vulnerable to unemployment because they often had physical disabilities when entering the profession, or acquired them over time. It was said that work in tobacco factories set a "stamp . . . on the worker already at a young age," making it difficult to find other jobs.<sup>30</sup> According to the union, the proposed compensation scheme was too parsimonious and exclusive. At a meeting shortly after the government proposition was presented the union demanded:

that the tobacco monopoly be owned and run directly by the state;  
that yearly pensions be paid to workers older than 50 (equaling their mean incomes);  
that temporary unemployed workers also be eligible for compensation;

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<sup>26</sup> Tage Lindbom and Evert Kuhm, *Tobaksarbetarnas förbund, 1889-1939* [The Tobacco Workers' Union, 1889-1939] (Stockholm, 1940), 214-15.

<sup>27</sup> Lindbom and Kuhm, *Tobaksarbetarnas förbund*, 216.

<sup>28</sup> *Ibid.*, 178, 210-12.

<sup>29</sup> See article with the signature K-d in *Tobaksarbetaren* [The Tobacco Worker] (Feb. 1911), held in Lund University Library, Lund, Sweden.

<sup>30</sup> Lindbom and Kuhm, *Tobaksarbetarnas förbund*, 216-17.

that those workers who had changed employer in the year preceding monopolization should be regarded as permanently employed and entitled to compensation;  
 that 'vocational training' should not be considered when calculating the compensation amount; and  
 that foreign workers be entitled to compensation, on condition that they had lived in Sweden for at least five years or were married to a Swedish citizen.<sup>31</sup>

Some of the union's demands were put forward by a group of Social Democrats in the Parliament. They emphasized that it was in the state's own interest to bring about a good relationship between the tobacco workers and the future company. They referred to the high employment security in regular state operations and argued that this was even more important in the tobacco monopoly, because tobacco production required special skills from the workers that were hard to replace. The sponsors of the bill proposed that the tobacco workers should have the same rights—when it came to wages, pensions, vacation, sick benefits, co-determination, and apprenticeships—as other state employees.<sup>32</sup>

These latter demands were not directly approved by the Parliament; nor did the Parliament pay heed to the idea of letting the tobacco industry be directly run by the state. But apart from that, the workers' rights were strengthened in several respects compared to the original government proposal.<sup>33</sup> It was promised that the chartered company should, "as far as possible," employ those tobacco workers who had been employed in the industry before the STM.<sup>34</sup> The state representatives on the board also received instructions to treat the workers "with that special responsibility, which comes from the company's position as the sole employer within the tobacco industry."<sup>35</sup> The condition requiring workers to have been permanently employed at a certain factory was abolished. Instead, all redundant workers who had been "permanently employed in the tobacco industry" were entitled to compensation. The rules were also changed by

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<sup>31</sup>Ibid., 218-19.

<sup>32</sup> Ibid., 219.

<sup>33</sup> Johan Hellner, "Det svenska tobaksmonopolets tillkomst" [The Origins of the Swedish Tobacco Monopoly], in *Svenska tobaksmonopolet, 1915-1940* [The Swedish Tobacco Monopoly, 1915-1940] (Stockholm, 1940), 223-327; Lindbom and Kuhm, *Tobaksarbetarnas förbund*, 193-210 and 219-20; Ulf af Trolle, "Femtio år av monopol och konkurrens" [Fifty Years of Monopoly and Competition], in *Om tobak i Sverige: Jubileumsskrift, 1915-1965* [On Tobacco in Sweden: An Anniversary Publication, 1915-1965] (Stockholm, 1965), 9-172, at 15-23.

<sup>34</sup> *Svenska tobaksmonopolet, 1915-1940*, 498.

<sup>35</sup> Eric Vasseur, "A. B. Svenska tobaksmonopolets verksamhet: En översikt" [The Activities of A. B. Svenska tobaksmonopolet: An Overview], in *Svenska tobaksmonopolet, 1915-1940*, 331-482, quotation at 346.

making the age and citizenship requirements somewhat more inclusive.<sup>36</sup> The actual principles for the calculation of compensation amounts were left virtually untouched, but the workers were given the right to appoint delegates in the commissions. Finally, the Parliament decided that workers who were not formally included in the severance pay scheme could receive other financial support.<sup>37</sup>

The right to compensation applied not only to those who lost their employment in connection with nationalization, but also to those who would lose their jobs during the first five years of the monopoly's existence, until June 1, 1920. Workers laid off before June 1, 1917, had the right to full compensation, and those laid off due to the shortage of work after that date were entitled to three-fourths of the full amount.<sup>38</sup> Compensation would also be paid by the monopoly if it became necessary for a worker to move.<sup>39</sup>

Thus, the tobacco workers' compensation was not a contested issue in principle. In its original proposition, the government suggested fairly generous amounts to redundant blue-collar workers; the primary disagreement concerned the qualification criteria. Although the benefits to the tobacco workers may theoretically be regarded as compensation for lost return on investments in human capital, the compensation calculation was not based on whether workers' skills were general or firm-specific. What mattered was the distinction between skilled and unskilled; the former could receive up to five times as much as the latter. The lack of an explicit premium to workers with idiosyncratic skills likely reflects how few workers with general skills were employed in the tobacco industry at the time of monopolization. Compensation rules did treat male and female workers equally; as long as they had the same qualifications, men and women received from the same state benefits.

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<sup>36</sup> According to Parliament, skilled workers only had to be 18 or older and a Swedish citizen at the date of monopolization.

<sup>37</sup> This was, however, not the final word on the compensation issue, which was complicated by the fact that many tobacco workers had lost their jobs the year before the monopoly began its activities. With the fixing of the start date for the new company, a duty was imposed on the import of raw tobacco and a temporary taxation on production. These measures resulted in decreased production and increased unemployment, with the dismissal of 1,159 workers in the autumn of 1914. The situation did not improve with the New Year. On 1 Feb. 1915, the number of unemployed tobacco workers rose to 1,520; by May that figure had doubled. This placed a heavy burden on the Union's unemployment fund. A Social Democratic member of the Parliament proposed that the state take full responsibility for the situation. Although that bill failed, the Minister of Finance admitted that the state had made a mistake. A rule change provided compensation to those workers who became unemployed between 9 Sept. 1914 and the start of the monopoly's activities; see Lindbom and Kuhm, *Tobaksarbetarnas förbund*, 220-21.

<sup>38</sup> Vasseur, "A. B. Svenska tobaksmonopolets verksamhet," 373; af Trolle, "Femtio år av monopol och konkurrens," 69.

<sup>39</sup> Vasseur, "A. B. Svenska tobaksmonopolets verksamhet," 373-74.

### The Monopoly and Its Workers

The state was by far the most important owner of the Swedish Tobacco Monopoly, but, because shares had different voting powers, private interests had considerable influence over the company. A board of directors, half of them appointed by the government, and half by the private shareholders, ran the monopoly. The state-appointed chair of the board possessed the deciding vote.<sup>40</sup> The agreement between the state and STM had a built-in conflict between social responsibility and profit-maximization. On the one hand, the tobacco workers had the promise of a certain degree of employment protection and fair treatment from their employer.<sup>41</sup> On the other hand, the monopoly's principal purpose was to deliver income to the state, and in the charter the board promised to manage the business as rationally as possible.<sup>42</sup>

STM in many ways was an early Swedish example of the large-scale bureaucratic firms that emerged in the early twentieth century.<sup>43</sup> The personnel department at the monopoly's headquarters introduced welfare programs for the workers that were implemented by welfare secretaries at factories around the country.<sup>44</sup> One of their responsibilities was to run the so-called Interest Offices, which offered workers a wide range of services.<sup>45</sup> The offices operated as banks by taking care of savings and payments, helped workers to get access to plots of land for cultivation, and supported workers with "advice and information and promoted hygiene and pleasure."<sup>46</sup>

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<sup>40</sup> This section is based on Lindbom and Kuhm, *Tobaksarbetarnas förbund*, 225-26.

<sup>41</sup> Vasseur, "A. B. Svenska tobaksmonopolets verksamhet," 346.

<sup>42</sup> Hellner, "Det svenska tobaksmonopolets tillkomst," 253-54.

<sup>43</sup> See Jacoby, *Employing Bureaucracy*.

<sup>44</sup> According to company historian Ulf af Trolle, the initiatives can be explained by a combination of personal motivations of the board members and a general belief that a monopoly—and particularly a state monopoly—has a responsibility for its workers. On some occasions, immediate problems enforced the social responsibility. Interestingly, af Trolle also notes that the formulation of the personnel policy was not done in harmony. There were recurring conflicts about this issue between the board and the shareholders, who thought that a personnel policy with social ambitions was a waste of resources; see Ulf af Trolle, "Femtio år av monopol och konkurrens," 12, 64, 70; Benny Carlson, "Signe & Iris—svenska socialingenjörer" [Signe & Iris—Swedish Social Engineers], *Socialvetenskaplig tidskrift* 11, no. 3-4 (2004): 367.

<sup>45</sup> "Styrelsens förvaltningsberättelse 1918," Frans Henrik Kockums Tobaksfabriks arkiv, Styrelse-, revisions- och årsberättelser, B3:1, Malmö Stadsarkiv, Malmö, Sweden [hereafter cited as FHK, Styrelse-, revisions- och årsberättelser]; Henrik Björck, "Den sociale ingenjören på intressekontoret: En studie i svensk välfärdshistoria" [The Social Engineer in the 'Interest Office': A Study in Swedish Welfare History], *Lýchnos* (2002): 103-33.

<sup>46</sup> In practice, this meant that they built up libraries, arranged sports activities, offered courses and some childcare facilities; see Vasseur, "A. B. Svenska tobaksmonopolets verksamhet," 409; "Styrelsens förvaltningsberättelse 1919," FHK,

The main purpose of the Interest Offices was to offer services that could alleviate conditions and improve the workers' lives. However, the monopoly also provided pecuniary benefits to the workers in addition to the severance payments I focus on in this essay. When prices rose rapidly during World War I, the Interest Offices arranged to provide workers with goods and meals.<sup>47</sup> In 1917, the STM took over the responsibility for, and started to subsidize, the tobacco workers' health insurance office.<sup>48</sup> A pension scheme for the higher clerks was introduced in the same year; schemes for lower clerks and blue-collar workers followed in 1918 and 1921, respectively.<sup>49</sup>

The tobacco industry had developed industrial relations before nationalization. They formed a countrywide collective agreement for cigar workers in 1904, which prescribed standardized piece rates, conciliation boards, and regulated apprenticeships.<sup>50</sup> Formal regulation of advance notice came somewhat later. According to the 1914 collective agreement for cigar workers, companies should give at least eight days advance notice for termination of employment. This period was increased to fourteen days in the negotiations between the TWU and STM the following year. The union also managed to restrict the supervisors' power to fire workers; if workers did not accept a firing decision they had the right to complain, first to the factory manager and thereafter to the monopoly headquarters. An agreement made in 1919 regulated reductions resulting from shortages of work; the monopoly, "if possible," should cut working hours before reducing the number of workers.<sup>51</sup> This was as far as the union managed to go in limiting the employer's freedom to hire and fire workers. The Swedish tobacco industry never introduced explicit seniority rules governing layoffs, rehiring, or promotions during the interwar period.

Work in the Swedish tobacco industry before monopolization was mainly manual. Particular in cigar production, the most important branch with regard to employment, few machines were used.<sup>52</sup> There was a pronounced division of labor, with several occupations specialized in the different aspects of raw tobacco preparation; the actual making of cigars was divided between

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Styrelse-, revisions- och årsberättelser, and *ibid.*, 1920; Vasseur, "A. B. Svenska tobaksmonopolets verksamhet," 409.

<sup>47</sup> "Styrelsens förvaltningsberättelse 1919," 12.

<sup>48</sup> Vasseur, "A. B. Svenska tobaksmonopolets verksamhet," 407-8.

<sup>49</sup> af Trolle, "Femtio år av monopol och konkurrens," 68-69.

<sup>50</sup> Arbetsstatistik A:5, *Kollektivavftal angående arbets- och löneförhållanden i Sverige II:1. Förteckning å gällande kollektivavtal, 2. Kollektivavtal inom olika näringsgrenar (i urval)* [Collective Agreements Regarding Work and Wage Conditions in Sweden II], Kommerskollegii afdelning för arbetsstatistik (Stockholm, 1908), 111-20.

<sup>51</sup> "Arbets- och löneföreskrifter vid Aktiebolaget Svenska tobaksmonopolets fabriker och övriga arbetsplatser," Frans Henrik Kockums Tobaksfabriks Arkiv, Arbets- och löneavtal, F8F vol. 1, Malmö Stadsarkiv, Malmö, Sweden.

<sup>52</sup> Henning Elmquist, *Undersökning af tobaksindustrien i Sverige* [Investigation of the Tobacco Industry in Sweden] (Stockholm, 1899).

bunch makers and cigar makers, and the care of the finished goods was in the hands of sorters and packers. In addition there were workers specialized in nailing cigar boxes and pasting labels. The most skill-demanding jobs in the industry were cigar making and sorting, and entry to those occupations traditionally required three to four years of training, though the introduction of molds for cigar rolling in the late nineteenth century simplified work and made it possible for employers to shorten training periods.<sup>53</sup> Many of the workers recruited in the decades spanning the turn of the century were women. By the time of monopolization, a majority of the cigar workers, as well as of tobacco workers in general, were female.

Another important characteristic of the tobacco industry before monopolization was that skills were to a great degree specific to industries rather than to firms. The many different cigar brands had no connection to a particular company. Thus, trained cigar makers could easily move between factories to practice their trade. Employers complained about the “wanderlust” of some workers. In this respect, monopolization brought a great change.<sup>54</sup> Now there was only one employer, and, from one moment to another, the skills of most (although not all) workers became specific to the firm. We can assume that the tobacco workers emphasis on this in the public debate was the main rationale for the somewhat generous compensation.

### **Depression and Mechanization: Severance Pay after 1920**

The early years of the Swedish Tobacco Monopoly were influenced by World War I. Business boomed after the war, with rising prices and increased production.<sup>55</sup> At the end of 1919, the monopoly employed 5,699 workers, a number greater than before or after; many of those workers who were redundant in 1915 and received severance pay were now back in service (see Figure 1). The expansion of the work force was not enough to meet the demand and the monopoly board therefore formed an agreement in 1920 with a German firm to import 50 million cigars.<sup>56</sup> However, later that same year the first signs of a recession appeared.

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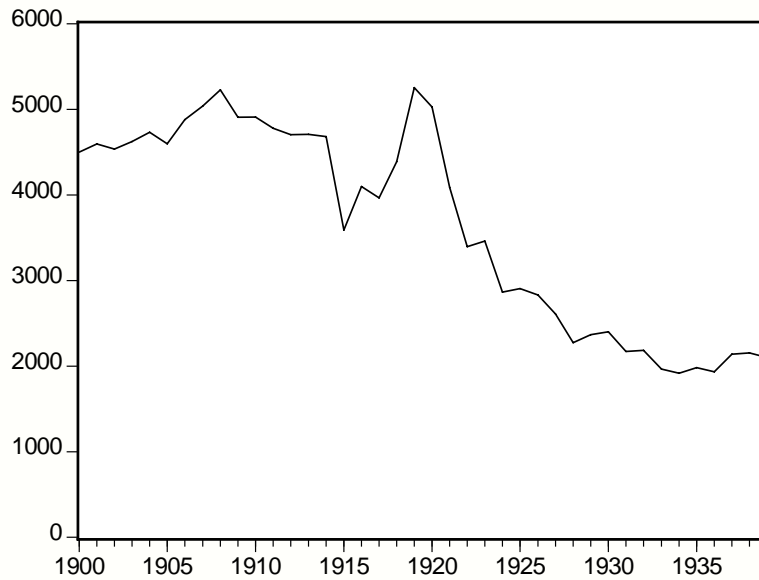
<sup>53</sup> Kristina Rosslund, “Hantverk för män blir fabriksarbete för kvinnor: En studie från tobaksindustrin 1850-1915” [Handicraft for Men Becomes Factory Work for Women: A Study from the Tobacco Industry 1850-1915], *Daedalus* (1995), 71-91.

<sup>54</sup> Elmquist, *Undersökning af tobaksindustrin i Sverige*, 94; Moritz Marcus, *Den svenska tobaksindustrin år 1908* [The Swedish Tobacco Industry in 1908] (Stockholm, 1911), 175 and 189.

<sup>55</sup> The account in this section in part builds on Tobias Karlsson, *Downsizing: Personnel Policies and Industrial Relations at the Swedish Tobacco Monopoly, 1915-1939*, Licentiate-thesis, Department of Economic History, Lund University (Lund, Sweden, 2006), 36-58.

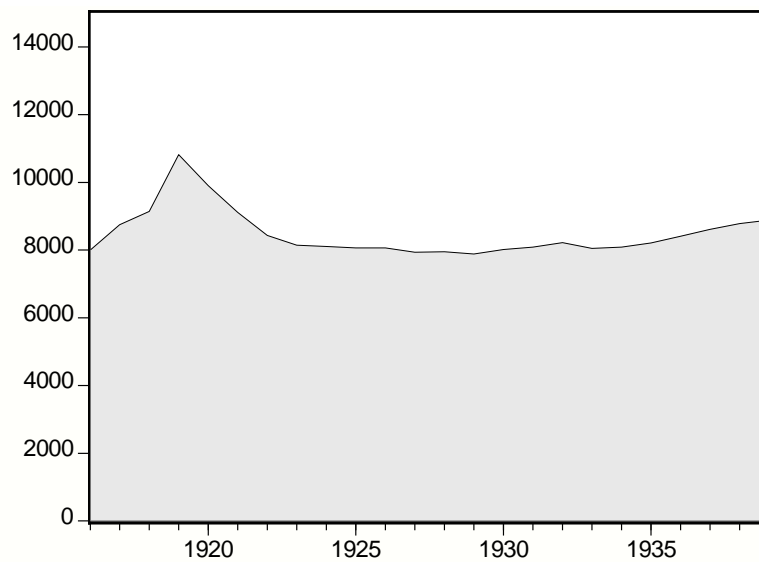
<sup>56</sup> “Styrelsens förvaltningsberättelse 1920,” Styrelse-, revisions- och årsberättelser, B3:1, FHK, MSA, 25.

FIGURE 1  
Number of Tobacco Workers, 1900-1939  
(annual averages)



Source: Compiled from SOS *Industri* (Manufacturing and mining) published by the Swedish National Board of Trade.

FIGURE 2  
Total Sales of Tobacco Products in Sweden, 1916-1939 (in tons)



Source: Vasseur, "A. B. Svenska tobaksmonopolets verksamhet," 429.

Stocks grew at a worrying pace, and there were futile attempts to cancel the import agreement. The situation continued during 1921, when sales of cigars dropped by almost half (see Figure 2).<sup>57</sup> In this situation, the monopoly tried to encourage sales of domestically produced goods by offering retailers discounts and a sales bonus.<sup>58</sup> Although initially considered a success, the initiative could not forestall personnel reductions. A first wave of mass layoffs occurred in April 1921 with the release of four hundred young female workers according to the principle “the youngest of the most recently hired.” The compensation for these workers was 25 Swedish *kronor* (SEK) per week for three months (see Table 1 for a summary of the severance payments made by STM during the 1920s). The total sum was equivalent to 13 percent of the average annual wage for a female cigar-maker.<sup>59</sup> Because the amount was equal for all the affected workers and not dependent on occupation, age,

TABLE 1  
Comparison of the Severance Pay  
for Male and Female Cigar Workers, 1927

Values	5 % discount rate		10 % discount rate	
	Male	Female	Male	Female
Direct severance pay	0	300	0	300
Present value of future benefits	3,046	446	2,916	442
Present value of pension fees	1,556	608	1,141	522
Total value of severance pay	4,602	1,354	4,056	964
Average annual income	3,201	2,046	3,201	2,046
Severance pay as % of average annual income	144	66	127	47

Note: The female cigar worker is assumed to be 35 years old.

Source: *Monopolkontrollutredningens betänkande angående anordnandet av den statliga kontrollen av Aktiebolaget Svenska tobaksmonopolets verksamhet*, Statens offentliga utredningar (Stockholm, 1928); “Styrelsens förvaltningsberättelse 1927,” FHK, Styrelse-, revisions- och årsberättelser.

tenure, or any other characteristic, it was somewhat more generous for workers in low-paid occupations, but this was not a large effect due to the small wage dispersion. For the relatively low-paid preparation workers, the

<sup>57</sup> However, the demand for specific products developed differently; sales of cigarettes, chewing tobacco, and snuff also decreased considerably, whereas sales of cigar-cigarettes were stable, and smoking tobacco increased somewhat. For more details, see Karlsson, *Downsizing*, 107.

<sup>58</sup> “Styrelsens förvaltningsberättelse 1921,” 24.

<sup>59</sup> The annual reports of the STM provide information on the average annual wage for female cigar workers and other occupational categories.

severance pay was equivalent to 14 percent of annual income, and for the relatively high-paid sorters, 12 percent of annual income.<sup>60</sup>

A second major personnel reduction occurred in October 1921. This measure occurred on a very short notice; according to a union source some workers in Stockholm received notice on Monday afternoon that they did not have to show up the next day.<sup>61</sup> As this was an obvious breach of the collective agreement, all the 190 permanently laid-off workers got two weeks' pay. The permanent layoffs mainly hit young women, although not exclusively.

In contrast to the personnel reduction in the spring, management did not follow the "last in, first out" norm; instead, the criteria "maintenance obligation" and "family situation" were considered. The terms for severance pay were similar to the previous personnel reduction, except that the amounts were related to age.<sup>62</sup> Female workers were offered between 20 to 30 SEK, the lower amount to those under 25 and the higher to those over 25, paid weekly for a period of fifteen weeks. Male storage workers got somewhat higher compensation in absolute terms than female workers did: 25 to 35 SEK weekly. Again the lower amount was given to workers under 25 and the higher amount to workers older than 25. The layoffs in October also affected a number of male storage workers. Their severance pay was equivalent to about 13 percent of their annual earnings. With respect to average annual wage, they actually received a lower level of compensation than some female workers did. However, the female workers—whether they were preparation workers or cigar makers—had firm-specific skills, whereas the male storage workers had general skills and most likely could perform their trade at other companies.

In addition to the permanent layoffs in October, STM also released a number of male and female workers close to retirement age.<sup>63</sup> Those workers were given a periodical benefit amounting to 35 SEK (men) and 30 SEK (women) every week, pending a planned pension scheme for blue-collar

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<sup>60</sup> In order to increase the laid-off workers' chances of getting other jobs, the STM also offered free courses in areas such as sewing, cooking, child care, and ironing. Participation in these courses was reported as "rather lively," although not of the expected proportion; see "Styrelsens förvaltningsberättelse 1921," 5; af Trolle, "Femtio år av monopol och konkurrens," 69.

<sup>61</sup> TWU to STM, 29 Oct. 1921, Svenska Tobaksindustriarbetareförbundets Arkiv, Koncept till utgående skrivelser till STM, Central- och skiljenämnd [hereafter cited as STA, Koncept till utgående skrivelser], BII: b vol. 17, Arbetarrörelsens Arkiv och Bibliotek, Stockholm, Sweden.

<sup>62</sup> STM to TWU, 30 Sept. 1921, Svenska Tobaksindustriarbetareförbundets Arkiv, Inkomna skrivelser från Tobaksmonopolet [hereafter cited as STA, Inkomna skrivelser], EIIb vol. 57, Arbetarrörelsens Arkiv och Bibliotek, Stockholm, Sweden; Union circular, 3 Oct. 1921, Frans Henrik Kockums Tobaksfabriksarkiv, Cirkulärskrivelser [hereafter cited as FHK, Cirkulärskrivelser], F8B: 3, Malmö Stadsarkiv, Malmö, Sweden.

<sup>63</sup> About one-third of those temporarily laid off were male workers older than 60 years and the remaining two-thirds were female workers older than 55.

workers. Money had been set aside for the scheme for some years but the imminent need to downsize the work force apparently sped up its launch. The union received the proposal in September, and the annual meeting of shareholders made the decision final in November.<sup>64</sup>

The depression of the early 1920s produced the most dramatic downturn ever experienced in Sweden; unemployment among unionized workers exceeded 20 percent and prices fell dramatically. However, the country overcame the crisis relatively soon. The sales of tobacco products remained relatively stable throughout the interwar period at the level reached in 1923 (see Figure 2). This did not mean, however, that the need to downsize the work force had disappeared.

According to the agreement with the state, the monopoly was to organize its production as rationally as possible. There was certainly a huge potential for rationalization. In 1915, the degree of mechanization was low in the Swedish tobacco industry.<sup>65</sup> In the production of cigars and cigar-cigarettes almost everything was done by hand, with the exception of a small number of machines for bunches.<sup>66</sup> Large-scale mechanization of these branches began in 1920, when the monopoly ordered eighty so-called fresh-work machines from the United States, most of which were delivered and installed the following year.<sup>67</sup> The productivity gains were impressive. Served by three workers, fresh-work machines could produce four hundred cigars per hour. Manually, the same amount of labor could produce about one hundred cigars.

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<sup>64</sup> The intention was for participation in the scheme to be voluntary and for workers and the company to finance it jointly. The hasty decision process did not allow much negotiation between management and union; the main issue of disagreement was whether the scheme should be gender-neutral. The management proposed that male workers should pay higher fees, and consequently receive higher pensions; the union argued, without success, that equal fees and benefits should accrue to both men and women. Lindbom and Kuhm, *Tobaksarbetarnas förbund*, 257-58.

<sup>65</sup> "Styrelsens förvaltningsberättelse 1928," 24, FHK, Styrelse-, revisions- och årsberättelser. We can attribute this to several factors. Some have mentioned the size structure of the industry with its many small firms. Another factor is that discussions about nationalization created uncertainty and discouraged factory owners from investing in new technology; see af Trolle, "Femtio år av monopol och konkurrens," 37.

<sup>66</sup> In contrast to cigar making, cigarette production was largely mechanized at the time of the creation of the monopoly. Considerable technological change had also taken place in snuff production before 1915. The work in snuff production was heavier than that in the other branches, but at the same time relatively simple. Improvements continued after monopolization, and by 1930 machines had been introduced for all tasks. The manufacturing of smoking and chewing tobacco involved a lot of manual preparation work, which was hard to replace with machines. According to af Trolle, the 1920s saw little technological change in this branch. See af Trolle, "Femtio år av monopol och konkurrens," 40.

<sup>67</sup> "Styrelsens förvaltningsberättelse 1920."

Over the course of the decade, machines for cigar-cigarette production and parts of the preparation work were also introduced.<sup>68</sup>

Technological change in the interwar tobacco industry not only saved labor, but also reduced skill requirements.<sup>69</sup> The machines simplified cigar making and shortened training periods from years to months or even weeks.<sup>70</sup> One indication of this development is the narrowing wage gap between preparation workers and cigar workers.<sup>71</sup> In 1919, the gap had been about 20 percent; in the late 1920s, it was virtually nonexistent. Whereas employers before monopolization complained about high personnel turnover, a STM manager in the late 1930s explicitly wished that older workers would quit voluntarily and make room for those younger and swifter.<sup>72</sup>

Thus, machines made many workers redundant, particularly males. In 1923, forty male cigar-makers received severance pay in a lump sum, amounting to between 3,500 and 5,000 SEK.<sup>73</sup> These amounts were equivalent to between one and two year's incomes for the workers in question, and when compared with the compensation paid to male storage workers in October 1921, the importance of firm-specific skills is evident. The gap in raw earnings between cigar-makers and unskilled workers was less than 10 percent, but the compensation to the former group was at least ten times higher. The comparison between storage work and cigar making is, however, not only a comparison between general and firm-specific skills, but also a comparison between jobs with low and high skill requirements. One may ask how the STM would compensate qualified workers with general skills.

The answer to that question came in September 1923 when the STM gave eleven male machine repair workers notice of their dismissal and offered them 45 SEK per week for fifteen weeks, which is roughly the same compensation that the storage workers had received two years earlier.<sup>74</sup> Metalworkers were the highest paid blue-collar workers at the STM. They earned almost twice as much as male cigar makers, but their severance pay was only equivalent to 14 percent of their annual income. Apparently, the STM did not compensate workers according to skill level, but according to the degree of skill specificity.

By 1923, it was evident that hand rolling of cigars eventually would disappear. Nevertheless, the phasing out of this worker category—the old core

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<sup>68</sup> af Trolle, "Femtio år av monopol och konkurrens," 39.

<sup>69</sup> *Arbetslöshetsutredningens betänkande i bilagor, band 2* [Supplements to the Report of the Public Inquiry on Unemployment, 2] (Stockholm, 1931), 69.

<sup>70</sup> *Betänkande angående gift kvinnas förvärvsarbete m. m.* [Report Concerning Married Woman's Gainful Employment] (Stockholm, 1938), 315.

<sup>71</sup> See Karlsson, *Downsizing*, 42-43.

<sup>72</sup> *Betänkande angående gift kvinnas förvärvsarbete m. m.*, 315.

<sup>73</sup> The available sources do not report the exact basis for the calculation of the compensation.

<sup>74</sup> STM to TWU, 29 Oct. 1923, STA, Inkomna skrivelser, EI vol. 38.

of the whole industry—was a sensitive issue, and the STM could not accomplish it with a single blow. In 1927, management tried to release the last hand cigar makers but, after angry protests, was forced to retain some of the on-notice workers. For fourteen layoffs of male cigar makers, the severance pay was in annuities. Assuming a discount rate of 5 percent, the present value of the future income flows was equivalent to more than 125 percent of an average annual wage.<sup>75</sup>

In order to make room for the rest of the male cigar makers, the management released female workers, who received 30 SEK in compensation weekly, but the duration depended on age; workers under 25 received the compensation for ten weeks, those between 25 and 39 for fifteen weeks, and those between 40 and 51 for thirty weeks. In addition, workers older than 25 got an annual bonus, and pension fees were paid for a maximum of six years to those who were older than 35. In contrast to the male cigar makers, the female workers, some of whom were cigar makers, received compensation according to age.

There were different severance plans for males and females, making straightforward comparison difficult. By assuming a discount rate, it is possible to calculate the present value of future income flows and pension fees and attain comparable compensation amounts. I presented two such calculations in Table 1, one with a discount rate of 5 percent and another with a 10 percent discount rate, assuming that both workers were 35 years old.<sup>76</sup> We have related total values of severance pay to the average annual incomes of male and female cigar makers. Irrespective of discount rate, we see that male workers received two and three times more compensation than female workers. Not only was there a raw wage gap between the sexes, suggesting that the work of men and women were valued differently; there was also a gap in the respective valuation of job loss for men and women.

Although the company initially considered severance pay a temporary measure, STM continued to pay compensation to redundant workers after the formal obligation expired on June 1, 1920. It is quite clear that the company did not have a formal plan with regard to severance pay, nor did it have a fund earmarked for future severance payments. Nevertheless, we can discern certain patterns. First, workers with idiosyncratic skills got about ten times as much compensation as workers with general skills. Second, male workers got about twice as much, relative to their average incomes, as female workers.

I summarize the total compensation amounts in Table 2. The STM spent more than 15 million SEK on severance pay in 1921, and the cost never went below 8 million SEK in the following seven years. In relation to the total sales of the monopoly, compensation to dismissed workers was not a major

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<sup>75</sup> Assuming a discount rate of 10 percent, the present value of the severance pay was about 1.5 times an average annual income.

<sup>76</sup> Women's compensation depended on their age, but this was not true of the compensation for the male cigar makers released in 1927 (although we do know all were younger than 37 years old).

expenditure, and the benefits averaged about 2.5 percent of the total wage bill. When contemplating why compensating redundant workers continued, then, one obvious answer is that the company could afford it. As a monopoly it could affect pricing and thus its own profits. The profitability of STM was high during the whole period I investigated.<sup>77</sup> The company did not experience financial difficulties, even in the depression year 1921; to the contrary, at the annual meeting that year, the company agreed to increase its dividend to the state from 31 to 40 percent. Thereafter, profits continued to rise. One year, in 1927, the management even felt the need to excuse its high profit level.

TABLE 2  
Severance Pay in Relation to Total Wage Bill and Total Sales

Year	A. Total Wage Bill	B. Total Sales	C. Severance Pay		
	SEK	SEK	SEK	% of A	% of B
1921	151,670,85	136,273,543	555,000	3.66	0.41
1922	101,891,68	129,831,465	426,000	4.18	0.33
1923	894,840,4	119,675,555	452,000	5.05	0.38
1924	825,910,9	120,569,995	277,000	3.35	0.23
1925	857,915,4	113,638,359	146,000	1.70	0.13
1926	852,546,5	112,574,568	650,00	0.76	0.06
1927	821,920,8	113,504,313	216,000	2.63	0.19

Sources: Compiled from "Styrelsens förvaltningsberättelse," FHK, Styrelse-, revisions- och årsberättelser.

### A Contested Issue

To judge from debates at the TWU congresses, the compensation issue was the major source of discontent among the tobacco workers with STM as an employer.<sup>78</sup> Basically, the benefits given to redundant senior workers were considered too small and inconsistent. At the congress of 1928, two independent bills, one from the Malmö section of the union and one from the Stockholm section, described how the STM had deserted the senior workers in its attempt to rejuvenate the work force.<sup>79</sup> The Malmö section demanded that the state, when renewing its agreement with STM, force the company to provide employment protection to workers "of the old breed" or, if that was not possible, to guarantee early retirement with a pension amounting to 70 percent of annual income. The Stockholm section also put forward two

<sup>77</sup> af Trolle, "Femtio år av monopol och konkurrens," 74.

<sup>78</sup> Lindbom and Kuhm, *Tobaksarbetarnas förbund*, 270-71.

<sup>79</sup> *Protokoll förda vid Sv. Tobaksindustriarbetareförbundets tionde kongress i Stockholm den 1-5 augusti 1928* (Stockholm, 1928), Arbetarrörelsens Arkiv och Bibliotek, Stockholm, Sweden.

alternatives: that STM apply the principle “last in, first out” to personnel reductions, or retirement on generous terms.<sup>80</sup> The congress decided to press for the second alternative. This decision is interesting because it indicates that the majority of the congress delegates assessed employment protection for seniors as an unrealistic strategy. Indirectly, the congress accepted management’s wish to rejuvenate the work force. In return, the “faithful servants” (defined by the congress as those employed in the industry since 1911 or longer) would receive compensation on the terms existing at the monopoly’s creation. Finally, the congress demanded representation on the STM board, in part as a way to assure correct handling of future personnel reductions.

The claims of the TWU congress were advanced to the Ministry of Finance in autumn 1928, convenient timing given that the STM charter was about to be renewed.<sup>81</sup> The union sent a letter criticizing STM management on two grounds. First, the severance pay to middle-aged women (aged 40-50) laid off the same year had been stingy, considering their difficulties in finding new jobs, given the negative effects of tobacco work on the general ability to work:

We would in this context call attention to the fact that a tobacco worker in the age range 40-50 years during the present conditions has particular difficulties in finding another job. The tobacco workers have generally begun in their trade at 17-18 years of age, and after some decades the workers are not suited for unskilled labor; the work in the tobacco industry mainly develops the sensitivity and speed of the hands, but the rest of the body receives little training.<sup>82</sup>

Second, the union accused the monopoly of breaching the seniority principle when allocating jobs. The union did not deny the necessity of reducing the work force due to mechanization, but wanted length of service to govern such reductions. According to the union, the STM had not only failed to follow the seniority principle when it conducted layoffs; it had hired a considerable number of young workers without previous experience even while releasing older ones.<sup>83</sup> It was not fair that senior workers were dismissed from an industry they had served since childhood, giving their best in return for an insignificant wage, particularly in their younger years.<sup>84</sup> This argument resulted not in a strict ban on releasing senior workers, but in a demand for fair compensation according to the principles formulated by the congress.

In their reply, the monopoly leadership did not acknowledge any insufficiencies with regard to the compensation given to the dismissed

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<sup>80</sup> The suggestion was that workers receive an annual pension equivalent to two-thirds of the highest income of the preceding four years.

<sup>81</sup> *Tobaksarbetaren* 14 (Dec. 1928): 7.

<sup>82</sup> *Ibid.*

<sup>83</sup> In the letter, the estimate was that the STM hired at least 140 young workers between 1923 and 1928.

<sup>84</sup> *Tobaksarbetaren* 14 (Dec. 1928): 7.

workers. On the contrary, “[w]hat the Tobacco Monopoly has done for laid-off personnel may probably be more than any other state, municipal or private institution have done in comparable cases.”<sup>85</sup> The STM board forcefully rejected the union demand to make explicit promises regarding severance pay and argued that it would be best to resolve these matters on a case-by-case basis.<sup>86</sup> In June 1929, comment on the response from the monopoly’s management appeared in the TWU journal *Tobaksarbetaren*. Although they acknowledged that the monopoly had been more generous in compensating dismissed workers than other employees, they also argued that the correct comparison was between the compensation given to the tobacco workers who became redundant at the time of the creation of the STM and those who later lost their jobs.<sup>87</sup>

The TWU congress in 1928 expressed its opinion not only to the Ministry of Finance, but also in a letter to the Social Democratic group in Parliament. The result of the letter was a bill written by Carl Lovén. Many of the arguments in the bill are familiar. He argued that the tobacco workers, “after a longer time period of work in this trade,” had few opportunities to succeed in the competition for jobs in the general labor market, and he proposed that redundant tobacco workers receive greater remuneration.<sup>88</sup> A striking aspect of his bill, however, is that unemployed middle-aged female workers (a major concern in the union’s letter to the Ministry of Finance) were not even mentioned. Instead, Lovén emphasized the hardships of the fourteen dismissed male cigar makers, most of whom were “breadwinners.” Lovén’s position on the contemporary debate concerning married women’s right to paid work became even more obvious in his plea for the bill.<sup>89</sup> He told a story about a married couple, both employed by the STM, which had laid off the man, but retained his wife. This in Lovén’s eyes was “somewhat strange”; he thought that male breadwinners should receive preference when there were job shortages.

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<sup>85</sup> “Bevillningsutskottets betänkande,” No. 23, 1929, Riksdagens protokoll [Protocols from the Swedish Parliament’s Proceedings], Lund University Library, Lund, Sweden [hereafter, the parliamentary protocols are cited as Riksdagens protokoll].

<sup>86</sup> The resistance to union representation on the board was less resolute. The board referred to a public inquiry about industrial peace and did not want to precede the recommendations from that body; see *Tobaksarbetaren* (June 1929), 3. The issue was eventually resolved in 1930 when the Minister of Finance asked LO to recommend persons to become shareholders in the monopoly. The chair of TWU, Axel Eliasson, was proposed and accepted. Thus, although the tobacco workers did not succeed in gaining access to the boardroom, they got a representative at the annual shareholders’ meeting; see Lindbom and Kuhm, *Tobaksarbetarnas förbund*, 281-82.

<sup>87</sup> *Tobaksarbetaren* (June 1929).

<sup>88</sup> “Motioner i Andra kammaren,” No. 334, 1929, Riksdagens protokoll.

<sup>89</sup> “AK Protokoll,” No. 32, 1929, Riksdagens protokoll.

### The Wider Importance of Severance Pay in the Tobacco Industry

Severance pay was atypical in the Swedish labor market during the interwar period. We know that the practice of compensating redundant workers eventually spread to other industries, but we do not know much about this process. There are two hypotheses. One is that the adoption of severance pay was a response to structural changes in the economy, such as the increased importance of firm-specific human capital or rationalization efforts that made huge numbers of senior workers redundant. An alternative concerns the power of example and the process of idea diffusion; severance pay was introduced by some actor and later adopted by others, not necessarily because of an immediate need, but because it seemed to be the fair thing to do. The legislation movement in other countries may have been an influence, or the practice may have had internal roots, perhaps related to the nationalization of the tobacco industry. Severance pay then may have spread from the tobacco industry to other parts of the economy. This may have occurred because state involvement made the tobacco industry an object of public attention. As Social Democrats voiced the demands of the tobacco workers in Parliament, the parliamentary debates made the personnel practices of the tobacco monopoly known to a wider audience.

Although investigating the importance of this method of idea diffusion is beyond the scope of this paper, two cases demonstrate the potential power of example. One is the case of the dismissed machine repair workers. These workers belonged to the Swedish Metal Workers' Union, by far the largest and most important branch of the Swedish labor movement at the time, with more than 55,000 members. After receiving notice of dismissal and the compensation offer, the repair workers complained to their union representatives, and the issue went to the executive committee of the Metal Workers' Union. In a letter to the STM, the executive committee demanded that their members should get compensation equivalent to that of the cigar makers.<sup>90</sup> The monopoly management did not accept the demand, with the following explanation:

It seems, according to the opinion of the Tobacco Monopoly, evident that it is not fair to place a skilled male cigar worker on equal footing with a metal worker. While the former only can use his skills at the Tobacco Monopoly and thus cannot find equivalent employment if laid off, the latter can turn to several other companies which may make use of his skills. If laid off by the Tobacco Monopoly the metal worker is thus not in the same difficult position as the male cigar worker. The higher benefits that the Tobacco Monopoly has acknowledged the [cigar worker] have been dependent on the necessity to facilitate his transfer to another trade. . . .<sup>91</sup>

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<sup>90</sup> Copy of letter from STM to the Swedish Metal Workers' Union, 29 Oct. 1923, STA, Inkomna skrivelser, EI vol. 38.

<sup>91</sup> Ibid.

This argument did not convince the union leadership; in a second letter, they referred to the high unemployment among metalworkers.<sup>92</sup> At the time, about 6,000 metalworkers with the same skills as the workers dismissed by the STM were looking for jobs. Because repair workers could not expect to find employment within their trade, the Metal Workers' Union concluded that the STM's policy was not fair. If an agreement was not reached within ten days, the union threatened a strike by all members employed by the STM. How the dispute was resolved remains unclear, but the story illustrates one way that the STM's labor management practices could have spread to other parts of the labor market.

Another route for diffusion of the STM's compensation practices was via the company's suppliers.<sup>93</sup> At the time of the monopolization of the Swedish tobacco industry, the two manufacturers of cigar boxes in the country were concerned that having only one buyer placed them in a vulnerable position. They discussed whether cigar box factory owners and their workers should receive the same compensation terms as tobacco factory owners and tobacco workers. That idea was rejected by the Minister of Finance, who argued that the state representation in the STM board would guarantee fair treatment of suppliers. In 1920, one of the box manufacturers went bankrupt and in the following year, the STM decided to start its own cigar box factory.<sup>94</sup> During the first half of the 1920s, the STM divided its orders between its factory and the remaining private manufacturer, but as the demand for cigars declined and paper packaging replaced wooden boxes, the monopoly realized that its own factory had sufficient capacity to satisfy the need.

In 1928, the owners of the private factory realized it could no longer rely on orders from the STM. This was a serious problem for the company and its workers with their specialized physical and human capital. Both the factory's management and the trade union of the affected workers, the Swedish Wood Industry Workers' Union, wrote letters of protest demanding compensation on the workers' behalf. The argument used was very similar to the TWU's earlier claims. Work at the box factory required certain skills, but little physical strength, making it difficult for the box workers to get other jobs.<sup>95</sup> After up to thirty years in this specialized work, it was not possible to switch to manual labor, the union wrote.

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<sup>92</sup> Copy of letter from the Swedish Metal Workers' Union to STM, 2 Nov. 1923, STA, Inkomna skrivelser, EI vol. 38.

<sup>93</sup> "Motioner i Andra kammaren," No. 425, 1929, Riksdagens protokoll.

<sup>94</sup> This was likely in part a measure to provide employment to redundant tobacco workers.

<sup>95</sup> The following statement was made by the employer: "Most of our workers have been employed at our factory during a long sequence of years and because they have always been working at special machines, which require certain skills but relatively light physical work, it will probably be very difficult for them to get another job." "Motioner i Andra kammaren," No. 425, 1929, Riksdagens protokoll.

Neither the STM nor the Swedish Agency for Public Management, which received invitations to give statements by the National Board of Trade, considered the compensation demands justified because the decreased demand for cigar boxes was not directly associated with monopolization. The National Board of Trade did, however, acknowledge the workers' right to compensation because their unemployment could be explained by STM's act to establish its own box factory. They proposed that the issue be further investigated, and provided the following guiding principles: workers employed before monopolization should be compensated on the same terms as redundant tobacco workers; those hired after monopolization, but before the STM's takeover of the other box manufacturer, should get "some" compensation, and those hired thereafter, none.

Clearly, job losses in the private sector associated with state intervention led to compensation demands in interwar Sweden. It is not surprising that private employers subsequently received comparable demands. After all, firm-specific skills and physical amenities were not found only in tobacco factories. If, for example, metalworkers saw that their colleagues employed in the tobacco industry got compensation when laid off, they could reasonably ask the same of other employers. Although I cannot prove this hypothesis, these two cases show that severance pay was not a matter limited to STM and the TWU.

### **Concluding Discussion**

When the tobacco industry became a state-owned monopoly in 1915, not only former factory owners, but also redundant workers received compensation. Compensation amounts were generous, ranging from a one-half to five annual incomes, depending on skill level, length of service, and age. The degree of skill-specificity was not a factor under consideration, perhaps because the tobacco industry did not employ many workers with general skills at the time. Furthermore, male and female workers received the same treatment with regard to severance pay, receiving equal shares of their previous annual incomes. The monopoly continued to compensate dismissed workers even after their legal obligation to do so had expired in 1920, but it did not have a formal severance plan, and compensation amounts were set in an ad hoc manner. Even though the STM released huge numbers of workers, severance pay never became a major financial burden.

In the debate on the compensation issue, it is apparent that the Parliament's decision in 1914 served to establish precedents for both the employer and the workers. The continued practice of making severance payments after 1920 reflects the efforts of a state-owned enterprise to balance business motives with social responsibility.

The labor-saving and deskilling character of technological change in the tobacco industry reduced the costs associated with personnel turnover. In the 1920s, the main problem for management was how to downsize the work force. Initially, the STM released young and recently hired workers, but as a long-run strategy, this system would have left the monopoly with a stock of

workers of about the same age. Assuming a relatively stable product demand and low rates of personnel turnover, the company would have faced retiring and rehiring the great part of its work force within a short time span, probably not a very desirable situation. Although there were no formal rules governing layoffs, the unwritten code of conduct protected senior workers. Faithful servants could be released, but not without compensation.

The puzzle, however, is in understanding not only why severance pay persisted, but also why workers in some categories received more compensation than others. Severance pay after 1920 related largely to the degree of skill-specificity and gender; workers with firm-specific skills received a substantial premium compared to those with general skills, as did men versus women. The first pattern fits well with the human capital theory. However, work in the tobacco factories was often associated with a reduction of the general ability to work. Thus, it was not only a matter of tobacco workers having to accept jobs with lower wages, but a question of whether they could get jobs at all, considering their weakened physical status. To my knowledge, human capital theorists have not incorporated this issue into the theory's framework.

The male-female compensation gap was not necessarily obvious to contemporary observers because the compensation schemes for men and women looked different, perhaps as a conscious management strategy. If the compensation schemes had been the same, female workers could have demanded equal shares of their incomes in severance pay. One rationale for management's relative generosity toward men was the higher cost of union protests associated with mistreatment of male workers. Although the work force in the tobacco industry was female-dominated, men ruled the union.<sup>96</sup> At the societal level, the compensation gap reflects an underlying acceptance of the male-breadwinner norm—the idea that men should have higher incomes to support a family.

Employers who offered severance pay apparently were unusual in interwar Sweden. Over time, however, the practice became more and more common. Although I did not investigate the diffusion of this practice, I have shown that the STM's severance payments also affected workers beyond those in tobacco production. Directly or indirectly, the STM also employed workers from other trades who wanted the same benefits as their colleagues. Their demands were discussed by the leadership of big unions as well as in the Swedish Parliament. Thus, the creation of the STM and the company's continued compensation of redundant workers may well have had wider implications for labor management practices and industrial relations.

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<sup>96</sup> Karlsson, *Downsizing*, 32.