

# Storming Labor's Last Strongholds: Partisanship and the Liberalization of the Ghent System in Sweden and Denmark

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## **Abstract**

In recent years, liberalization theorists have challenged the ‘varieties of capitalism’-approach by arguing that, beneath the surface of institutional stability, the functioning of institutions in coordinated market economies (CMEs) has changed dramatically. This paper adds to this literature by analyzing changes to the Ghent system of unemployment insurance, the most important institutional driver of unionization in Nordic CMEs. Focusing on Sweden and Denmark, the study shows that the Ghent system is formally intact in both countries but has lost lots of its original power to keep workers in the unions. This was possible because the Ghent system has been systematically eroded, with political actors in Sweden and Denmark opting for different reform strategies to achieve this result. By highlighting the role of parties of the right in this process, the paper also complements recent research on the historical role of left parties in the expansion of the Ghent system.

**Keywords:** Institutional change, liberalization, political parties, Scandinavia, trade unions, unemployment benefits

**JEL classification:** H53, J58, P16

## **1. Introduction**

In the field of comparative political economy the prediction of an ongoing divergence of competing varieties of capitalisms (VoC) has in recent years been challenged by a number of authors emphasizing a universal trend of liberalization. While the former camp points at the

stability of institutional settings in liberal market economies (LMEs) as well as coordinated market economies (CMEs) (Hall/Soskice 2001; Hall 2007; Hall/Gingerich 2009), the critics argue that, underneath the surface of institutional stability, the actual functioning of institutions in CMEs has changed dramatically as a result of more subtle processes such as institutional conversion, layering and drift (e.g. Baccaro/Howell 2011, 2017; Streeck 2009). According to the latter, Nordic CMEs have not been spared from this kind of liberalization. Concerning the paradigmatic Swedish case, Baccaro and Howell (2017: 143-171) argue that under the label of coordinated bargaining there has been a fundamental shift leading to the decentralization and individualization of wage bargaining. In a similar study, Emmenegger (2015) shows how the deregulation of temporary employment contributed to a liberalization of Swedish employment protection. In accordance with power resource theory (Korpi 2006), these authors see a shift in the relative balance of power between labor and capital at the heart of this process, not least due to diminishing trade union power.

In this article, I offer support to liberalization theory by expanding the argument to an institution which has substantially contributed to Nordic exceptionalism by boosting the organizational strength of unions: the Ghent system. This form of providing unemployment insurance in form of union-administered unemployment funds (UIFs) has been shown to be the single most important institutional driver of unionization (Ebbinghaus/Visser 1999; Oskarsson 2003; Rothstein 1992; Scruggs 2002). The exceptionally high levels of unionization in Sweden, Denmark and Finland are thus closely connected to this particular kind of unemployment insurance, i.e. the Ghent system has substantially contributed to labor's strong position when it comes to collective bargaining and other contested issues. Focusing on Sweden and Denmark, the two main proponents of Nordic coordinated capitalism in the literature, I show that the Ghent system remains formally intact to the present day but has lost lots of its original power of keeping workers in the labor unions. This was possible, I argue, because the Ghent system has been deliberately eroded or, put

differently, liberalized (cf. Goul Andersen 2012). Notably, political actors in Sweden and Denmark opted for different reform strategies to achieve this result.

Critics of VoC have emphasized employers' preferences for liberalization in CMEs (Emmenegger/Marx 2011; Gordon 2017; Kinderman 2017). Building on this work, my own focus is on business-friendly actors in the political arena. Thus, I argue reform efforts to liberalize the Ghent system came from market-liberal parties close to business interests, while social democrats and other parties of the left opposed those reforms. By emphasizing the role of partisanship, the paper also connects to recent research on the partisan politics of the Ghent system. But while the related literature has so far mainly centered on the historical role of left parties (Rasmussen/Pontusson 2018; Rothstein 1992), I focus on the role of parties of the right, especially market-liberal parties, in the contemporary politics of the Ghent system. In short, the paper demonstrates that bourgeois governments led by market-liberals accelerated the decline in unionization by liberalizing the Ghent system.

The article proceeds as follows. First, I offer a literature review on the Ghent effect and the role of left parties in its creation. The subsequent section outlines the competing reform strategies of parties of the right, arguing that liberalizing the Ghent system offers attractive reform options. The empirical part of the paper then demonstrates how bourgeois governments in Sweden and Denmark actually proceeded, showing that they opted for competing strategies of liberalization. The final section wraps things up, including a short discussion of Finland, the Nordic Ghent country not covered in the empirical section.

- Table 1 -

## **2. Literature Review: The Ghent Effect and How the Left Fostered It**

In contrast to compulsory state-run insurance systems, the Ghent system, named after the Belgian city where it was first introduced, consists of voluntary unemployment insurance

funds run by unions. Based on Mancur Olson's theory of collective action, Rothstein (1992) famously argued that the Ghent system creates strong selective incentives for workers to join unions, leading to extraordinary levels of unionization (the so-called 'Ghent effect'). As Table 1 shows, a simple cross-country comparison of net union density supports Rothstein's claim of the substantial impact of the Ghent system. In 1990, the three Nordic Ghent countries stood out from the rest. Belgium, which has been classified as a partial Ghent country due to the unions' involvement in benefit payments (Van Rie et al. 2011), had the highest union density among non-Nordic countries. Since the late 1990s, there is a decline in unionization in all Nordic Ghent countries although levels remain by far the highest across OECD countries. Concerning the two Scandinavian Ghent countries, the decline is more pronounced in Sweden than in Denmark. The Danish case study will, however, show that these OECD numbers obscure the actual decline of labor union membership in Denmark.

A substantive amount of cross-country studies that control for economic and political factors confirms the strong correlation between the Ghent system and union density (e.g., Ebbinghaus/Visser 1999; Ebbinghaus et. al 2011; Oskarsson 2003; Schnabel 2013; Scruggs 2002; Scruggs/Lange 2002; Western 1993, 1997). Further evidence comes from studies that take economic crises into account. This research shows that the Ghent effect is especially visible in times of economic depression, with union density generally dropping in non-Ghent countries but rising in Ghent countries (Checchi/Visser, 2005; Scruggs, 2002). For example, union density actually rose during the dire economic crisis of the early 1990s in Sweden (Kjellberg 2009). Finally, Scruggs (2002) demonstrates that while the unemployed are substantially underrepresented in the union movements of most countries, this is not the case in countries with union-led unemployment insurance. In short, there is overwhelming evidence in support of the Ghent effect.

So how does the Ghent effect work? A simplistic explanation is that the creation of union-run UIFs automatically leads to a rise in union membership numbers. But this is at odds

with fresh empirical evidence presented by Rasmussen and Pontusson (2018). Based on historical data, they show that the introduction of the Ghent system does not automatically lead to an enduring rise in unionization. A more sophisticated explanation is that it is in fact the specific design of the Ghent system which affects union density. According to this line of argument, workers will join the unions if the UIFs are designed in a way that creates sufficient selective incentives for doing so, i.e. if potential benefits outweigh potential costs, and abstain from union membership (or leave the unions) if this is not the case (cf. Høgedahl 2014a: 472). Surveys show that UIFs are indeed an important reason for union membership, especially among workers with a high risk of unemployment (e.g. Høgedahl 2014a; Pehkonen/Tanninen 1997; Waddington 2015). But as costs and benefits of UIFs are not fixed, the institutional design of the UIFs can be expected to have a decisive impact on workers' willingness to join UIFs and affiliated unions. Concerning those institutional features, Høgedahl and Kongshøj (2017) point to state subsidization, benefit generosity and the connection between unions and UIFs. While subsidies and generosity affect the costs and benefits of UIF membership, the (perceived) link between unions and UIFs is essential for the Ghent effect to work. The exact mechanisms will be outlined in more detail in the next section.

Given the importance of the Ghent effect for unions, researchers have also analyzed what role political parties of the left played in generating the Ghent effect. Rothstein (1992) demonstrates that the Swedish Social Democrats (SAP) behaved strategically and opted for the Ghent system in 1934 to strengthen the organizational capacity of the allied labor unions. Cross-country analyses, however, show that the Swedish case is rather exceptional and that it was not social democrats but mainly liberals who introduced the Ghent system in other countries (Rasmussen/Pontusson 2018; Rothstein 1992: 43-46). Accordingly, union-affiliated UIFs offered an attractive option for liberals to mobilize electoral support among skilled workers and bolster craft unions. The Swedish case is exceptional in this regard due to the weakness of the Swedish Liberals as well as the strength of industrial unionism

(Rasmussen/Pontusson 2018: 799-802). But even if social democrats are not the original champions of the Ghent system, what about their role *after* the UIFs had been established? Here, Rasmussen and Pontusson are more in line with Rothstein's argument. The latter's Swedish case clearly shows that the SAP used its power to strengthen labor unions by successively increasing state subsidies and raising the generosity of unemployment benefits (see also Hecló 1974: 127-141). The formers' cross-country analysis provides "evidence suggesting that Left governments, inheriting Ghent systems that were not of their choosing, promoted state subsidization in the postwar era and thus helped generate the Ghent effect identified by the existing literature" (Rasmussen/Pontusson 2018: 793).

To sum up, the literature yields the following insights: First, the Ghent system has a substantial positive impact on unionization. Second, this Ghent effect does, however, not result from the mere existence of a Ghent system but from a union-friendly design of the Ghent system. Finally, left parties have used institutional features like state subsidization to strengthen the Ghent effect and boost union membership in the past.

### **3. The Ghent System as a Prime Target for the Right**

Based on what we know about the functioning of the Ghent effect, the Ghent system should present a prime target for market-liberal parties on the rise. This is for electoral as well as ideological reasons. First, union members, especially members of blue-collar unions, are still more likely to vote for social democrats and other leftist parties than unorganized workers (Arndt/Rennwald 2016; for the Ghent countries see Fig. A1 and A2 in the Appendix). A drop in unionization due to a dampened Ghent effect thus promises to be favorable to bourgeois parties at the ballot box, at least in the long term. Second, if power resource theory is right, market-liberal parties will aim to change the balance of power between labor and capital in favor of the latter, as this will facilitate the desired transformation from a coordinated to a liberal market economy. Thus, the organizational strength of labor has a direct impact on

collective bargaining results, such as wage growth and dispersion, as well as employment protection (Baccaro/Howell 2017; Emmenegger 2015). At the same time, weakening labor unions, one of the main proponents of the welfare state, forms a promising strategy of ‘systemic welfare retrenchment’, i.e. facilitating future welfare retrenchment by altering the politico-economic context in which political actors operate (Klitgaard/Elmelund-Præstekær 2014; Pierson 1994: 15-17).

Consequently, market-liberal parties in government will, sooner rather than later, direct their reform efforts at the Ghent system, at least when unconstrained by other political forces. While the abolishment of the Ghent system is one possible reform option, the previous section has demonstrated that it is not the only one. Building on the work of Høgedahl and Kongshøj (2017) on recent reform trajectories in Ghent countries, I identify four strategies: 1) Abolishing the Ghent system altogether (*replacement*), 2) cutting state subsidies and thus raising membership fees, 3) reducing benefit generosity and tightening eligibility criteria (all forms of *erosion*) and 4) loosening the ties between UIF and union membership (*decoupling*). These strategies of which erosion and decoupling result in a liberalization of the Ghent system come with certain advantages and disadvantages and thus differ with regard to their attractiveness for market-liberal parties.

The most direct way to get rid of the Ghent effect is a frontal assault on the Ghent system as a whole, i.e. its complete abolishment. This approach is the most straightforward one to destroy any form of Ghent effect but it is not without problems. First, such an open attack will be seen as a declaration of war by the unions who could call their members to the barricades. Second, the abolishment of the voluntary insurance system means that it has to be replaced by something else, with state-administered unemployment insurance being the most natural option. A switch from a voluntary insurance system to a mandatory one, financed through (payroll) taxes, is, however, rather unattractive for staunch market-liberals. Notwithstanding

these problems, *replacement* represents the most direct option for bourgeois governments to put an end to the Ghent effect.

A second, more indirect approach leaves the basic structure of the Ghent system untouched but pursues the same goal by making UIF membership more unattractive. This systematic *erosion* of the Ghent system incorporates two strategies. Substantially cutting state subsidies for UIFs would lead to a significant rise in membership fees which, in turn, could drive a substantial number of people out of the UIFs and affiliated unions. A similar effect results from lowering benefit generosity and impeding access to benefits by introducing stricter eligibility criteria. Both reform strategies, which can be combined to intensify their effect, will especially affect the cost-benefit analysis of low-income earners in temporary work, who would face higher costs and might nevertheless lose coverage. The strategies of erosion are supposed to be more appealing to market-liberals than replacement, because benefit cuts correspond to their free market ideology and low-income earners are usually not among their core electorate.

A fourth strategy abstains from cutting benefits but targets the link between UIFs and unions. The basic idea is to keep people in the voluntary insurance system while offering incentives to leave the unions, thereby *decoupling* UIF from union membership. Here, we can distinguish a softer and a more aggressive approach. The softer approach mainly consists in raising people's awareness for the fact that union membership is no legal requirement for UIF membership, e.g. by forcing unions to separate union from UIF membership fees.<sup>1</sup> The more aggressive approach goes further by introducing public or private alternatives to the union-run UIFs. The negative impact of those alternatives on labor unions will especially be felt if the former can offer unemployment insurance at a lower price than the union-run UIFs. As reforms that lower insurance costs promise to be more popular with the electorate than higher

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<sup>1</sup> Besides identification with the labor movement and additional selective incentives created by unions, ignorance of the fact that UIF membership is possible without union membership is one of the main reasons for double membership (Clasen/Viebrock 2008: 445-447).



fees and benefit cuts, decoupling presents an interesting option for market-liberal parties who want to appeal to working-class voters.

Overall, we see that market-liberal parties have a number of reform options at their disposal to dampen the Ghent effect, including the promising strategies of erosion and decoupling which will result in the liberalization of the formally more or less unchanged Ghent system. Such reform efforts will, given their supposed negative effects on unions, face the resistance of social democrats and other leftist parties who will on their part try to block or, if possible, reverse them.

#### **4. Design of the Empirical Study**

A study concentrating on market-liberal attacks on unions via the Ghent system is naturally restricted to countries with this kind of unemployment insurance system. While the Ghent system could be found in numerous European countries in the first half of the twentieth century (Rasmussen/Pontusson 2018: 802-806; Western 1997: 50-55), today only four countries can be classified as Ghent countries, namely Sweden, Denmark, Finland and Belgium. Of these four countries only the three Nordic countries have a Ghent system in the classical sense, i.e. earnings-related unemployment insurance is provided by voluntary unemployment funds led by unions. In Belgium, mandatory unemployment insurance replaced the voluntary system long ago. Nevertheless, Belgium can be considered a ‘de facto Ghent system’ (Vandaele 2006) or ‘partial Ghent system’ (Van Rie et al. 2011) since Belgian unions still profit from a Ghent effect due to their involvement in benefit payments.

The empirical study will focus on the Swedish and the Danish cases. This is mainly for two reasons. First, the two Scandinavian countries are the main proponents of Nordic coordinated capitalism, i.e. the characteristics and pathways of Nordic capitalism are generally illustrated using the examples of Sweden and/or Denmark (e.g. Baccaro/Howell 2017; Emmenegger 2015; Thelen 2014). While proponents of liberalization theory have on

the basis of the two Scandinavian countries demonstrated that liberalization in Nordic CMEs is facilitated by a decline in union power, this study complements these insights by showing that union decline in both countries is itself accelerated by liberalization efforts on part of market-liberal parties. Second, political scope conditions for analyzing related reform efforts are favorable in Sweden and Denmark. In contrast to Finland (and also Belgium), the two Scandinavian countries can be classified as political bloc systems, i.e. a left bloc led by social democrats is confronted with a bloc of bourgeois parties including market-liberals which have gained strength over the last decades (Knutsen 2017). Since the early 1990s, social democratic governments have alternated with bourgeois governments led by market-liberal parties in both countries. Consequently, bourgeois governments in Sweden as well as in Denmark had, at times with the support of populist radical right parties, the opportunity to implement changes to the Ghent system, irrespective of social democratic resistance to such changes.

The case studies focus on reform efforts by bourgeois governments but countermeasures of social democrats are also taken into account. In order to confirm the outlined argument, the empirical analysis has to answer three central questions: 1) Have bourgeois governments under market-liberal leadership implemented changes to the Ghent system? 2) If this is the case, did they opt for an outright replacement or did they choose one of the strategies aiming at its liberalization? 3) Have those reforms been ‘successful’ in dampening the Ghent effect and thus contributed to a fall in unionization? In addition, the comparative case studies allow for a closer analysis of the political motives at the heart of reform efforts as they not only include the justifications offered by political actors but also the assessments of reliable observers outside the government. The case studies are based on primary sources like parliamentary debates and policy documents as well as the accounts of country experts.

## **5. Sweden: Failed Replacement, Successful Erosion**

As shown in Table 1, unionization in Sweden was pretty stable from 1990 to 2000, it actually peaked in the wake of the economic crisis of the early 1990s. While this indicates that the Ghent effect remained intact over the 1990s, it does not mean that there were no efforts to reform the Ghent system. In fact, a reform of the Ghent system was one of the main reform projects pursued by the Conservative-led center-right government that took office in 1991. At that time, the Swedish Ghent system provided strong incentives for union membership (Anderson 1998: 269-276): The nominal replacement rate was set at 90 percent, and thus substantially above the level of unemployment assistance, massive state subsidies (including employer contributions) kept UIF membership fees low and union members were legally obligated to join the affiliated UIF (though UIF membership was possible without union membership). As a result, more than 80 percent of the workforce were members of a union and the associated UIF, with double membership being the rule.

First changes to the Ghent system came as part of austerity packages introduced to fight the deep fiscal crisis of that time, including the reduction of the nominal replacement rate from 90 to 80 percent, the abolishment of the automatic adjustment to wages and the doubling of the by then modest UIF membership fees (Proposition 1991/92, No. 38; Proposition 1992/93, No. 150). While these changes meant a slight erosion of the Ghent system, the real reform push came in 1994. Besides increasing membership fees, freezing employer contributions and setting a clear time limit for benefit receipt, the reform included the creation of a state-run UIF that would be in competition with the existing union-run funds (Proposition 1993/94, No. 80; Proposition 1993/94, No. 209). The crucial point was that “the state fund would have a competitive advantage versus the union funds in that wage earners would pay no extra membership fee [in addition to a new payroll tax] while those remaining in the union run funds would continue to pay membership fees” (Anderson 1998: 293). In other words, the Ghent system was supposed to be replaced by a mandatory insurance system which made membership in a union-run UIF dispensable.

The reform debate ran along partisan lines. Labor unions, which mobilized tens of thousands of their members, as well as Social Democrats and the Left Party strictly opposed the “anti-union reform”. The bourgeois government justified the reform with fiscal considerations and – rather unconvincingly due to stricter eligibility criteria contained in the reform bill – concerns for uninsured people. But especially the Conservatives made no secret of the fact that they were pursuing another goal. In the parliamentary debate on the issue, their spokeswoman referred to Rothstein’s work on the topic and acknowledged the importance of the Ghent system for the labor movement:

“In countries, which have chosen the Ghent system, i.e. Sweden, Denmark, Finland and partially Belgium, union density [...] and workers’ parties’ government participation are high. Thus, we can conclude [...] that a corporatist institution like the Ghent system is in a way self-enforcing, because it systematically tends to strengthen the forces which have an interest in defending its existence. And in the Swedish case, the corporatist political structures are a better explanation for the exceptional organizational strength of the working class than vice versa” (S. Rembo [Conservative Party] quoted after Riksdag 1993).

Although the center-right government did not command a majority in the Riksdag, it was due to abstention of many delegates of the right-wing populist New Democracy able to pass the institutional reform in June 1994 (Riksdag 1994a).

The late passage of the bill meant that the fate of the Swedish Ghent system hinged on the September election, as the SAP promised not to implement the changes but to repeal the law in case of an election victory (SAP 1994). Back in office, the Social Democrats with the support of the Left Party<sup>2</sup> immediately repealed the introduction of the state-led unemployment fund. In order to restore the union-friendly design of the Ghent system, membership fees were lowered to the original level and a limit on benefit duration, also introduced by the previous government, abolished (Proposition 1994/95, No. 99). Despite

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<sup>2</sup> Significantly, the center-left Greens which have no close ties to unions favored a tax-financed compulsory insurance and did not support the reestablishment of the Ghent system (Riksdag 1994b).

introducing tighter eligibility criteria and stricter activation requirements against union resistance (Gordon 2017: 11-12), SAP governments succeeded in keeping UIF membership stable, amongst others by making membership fees tax deductible and lifting the benefit ceiling in 2001 and 2002. Social Democrats were, however, not able to stop the slight but steady decline in union membership observable in most advanced democracies (Kjellberg 2018).

Under the label ‘Alliance for Sweden’ the four right-wing parties regained power in 2006, this time commanding a parliamentary majority. Led by the Conservative Prime Minister Fredrik Reinfeldt the new bourgeois government immediately launched another reform initiative directed at the Ghent system. Renewed plans for the introduction of obligatory unemployment insurance supported by the three minor centre-right parties were blocked by the Conservatives who feared the unions’ reaction and regarded mandatory contributions as a kind of ‘penalty tax’ for workers (Borg et al. 2008).<sup>3</sup> Instead, the government decided to leave the institutional structure of the Ghent system untouched and opted for an approach that consisted in raising costs, lowering benefits and restricting eligibility.

Concerning benefit cuts, there were some substantial changes as well as one important form of policy drift (cf. Streeck/Thelen 2005). On the one hand, the nominal replacement rate was lowered from 80 to 70 percent after 200 days of unemployment and, for unemployed persons with children, to 65 percent after 300 days (Proposition 2006/07, No. 15). On the other hand, contrary to demands of the Social Democrats, the upper benefit ceiling, which had not been raised since 2002, was not lifted but even cut from 730 SEK to 680 SEK for the first hundred days of unemployment. Apart from this reduction, the upper ceiling remained at 680 SEK from 2007 to 2014. Though the nominal replacement rate remained unchanged after

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<sup>3</sup> The Confederation of Swedish Enterprise was split on the issue of mandatory insurance, as many businesses feared administrative difficulties and instead preferred the introduction of more competition among UIFs (Gordon 2017: 14).

2007, this led to a steady decline of real replacement rates for an ever-growing part of the unemployed (see Fig. 1). Here, it proved crucial that the indexation of the upper benefit ceiling had been abolished under the previous center-right government since this facilitated policy drift. Finally, access to benefits was also made harder as participation in active labor market measures and periods of study no longer sufficed to qualify for benefit receipt (Sjöberg 2011: 217-221). As a result, the share of unemployed receiving unemployment benefits dropped from about 50 percent in 2006 to about 20 percent in 2011 (Gordon 2017: 17-18).

- Figure 1 -

While the cuts were substantial, the hardest blow to the Ghent system occurred on the financing side, in the form of a massive increase in UIF membership fees. While employer contributions were lowered, membership fees were raised by the introduction of an ‘increased financing fee’ for all fund members (Proposition 2006/07, No. 15: 2). From January 2007, fund members were supposed to cover half of the expenses of unemployment insurance. Since the unemployment rate differed among the occupational groups covered by the individual UIFs, this meant that workers with the highest risk of unemployment, who generally belong to the group of low-wage earners, would have to pay the highest contributions under the new system (see Tab. 2). This link of membership fees to sectoral unemployment was further tightened by the abolition of the so-called ‘balancing fee’ through which better-off UIFs had until then compensated UIFs which bore higher costs. Finally, the increase hit employees even harder, because UIF as well as union membership fees were no longer tax deductible (Proposition 2006/07, No. 1: 163).

- Table 2 -

How did the Reinfeldt government justify these reform measures? The main argument was that the Ghent system in its original form distorted wage formation by passing the costs of unemployment almost entirely on taxpayers and employers, thereby causing unemployment. For instance, in an opinion piece for *Dagens Nyheter* Finance Minister Anders Borg and two of his Conservative cabinet colleagues claimed that “a clear coupling of the membership fee of an UIF to the employment in the according sector will contribute to the fact that the social partners will pay more attention to employment and unemployment in wage negotiations” (Borg et al. 2008). In line with this rationale, the sharp rise of uninsured unemployed after the Great Recession was not met by a general reduction of membership fees but with the introduction of the so-called ‘unemployment fee’ (Proposition 2008/09, No. 1: 24-25), which lowered fees for many workers but strengthened the link between individual contributions and sectoral unemployment even further (see Tab. 2, col. 4).

There is considerable evidence that the government was well aware of the fact that its reforms would affect the unions in a more direct way than via wage formation. Thus, the authors of the economic model on which the reforms were based unmistakably stated that “a rise in the share of benefits financed by union members is likely to reduce wages as well as union membership” (Holmlund/Lundborg 1999: 397). Furthermore, the previous Social Democratic government had published a report on the Swedish Ghent system, which on the basis of different simulations concluded that union density would drop if member fees were raised substantially (Swedish Ministry of Enterprise 2005). Finally, not only LO-economists but also Lars Calmfors (2006), the future chairman of the Swedish Fiscal Policy Council, vocally warned that the planned fee rises would provoke workers with low unemployment risk as well as low-income earners to leave their UIFs. Calmfors also pointed out the inconsistency of an economic policy that used higher fees for workers to partially finance the simultaneous tax reduction on working income. This alleged inconsistency, however, made

sense from a political perspective. According to this, the fee rises promised to kill two birds with one stone by generating revenue for tax reductions, popular with voters and party ideologues alike, while at the same time lowering incentives for union membership.

The consequences for the unions were substantial. While the expected effects on wage formation never materialized, the effects on unionization were felt immediately. As Figure 2 demonstrates, unions and UIFs witnessed unprecedented membership losses in 2007 and 2008. Overall, unions lost about eight percent of their members. LO, the confederation for blue-collar workers, lost about 180.000 members, almost twelve percent of its membership, over the two years. As the last column of Table 2 shows, LO-unions in low-wage sectors were hit hardest, as the combination of low wages and high contributions set strong incentives to leave those unions. This is best exemplified by the union of hotel and restaurant workers which lost almost a third of its members in 2007 and 2008.

- Figure 2 -

Unions and Social Democrats responded with a number of countermeasures. The former reacted by expanding supplementary insurance benefits to top up deteriorating public benefits. This, however, exacerbated benefit differentials among workers, as many LO-affiliated unions could not afford to cover their members with this kind of private insurance (Gordon 2017: 15). In 2014, when it became obvious that higher membership fees did not lead to wage moderation hoped for by the Conservatives but mainly resulted in a rising number of unemployed not entitled to unemployment benefits in the wake of the financial crisis, the Conservatives ultimately bowed to union pressure and lowered membership fees (see Tab. 2, col. 6).<sup>4</sup> Back in office, the Social Democrats raised benefits by lifting the benefit ceiling from

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<sup>4</sup> The fee reduction also helped to secure the unions' support for the government's 'Job Pact' aimed at reducing youth unemployment (Kjellberg 2016: 68-69).



680 SEK to 910 SEK for the first hundred days of unemployment and 760 SEK thereafter (Proposition 2014/15, No. 100: 60). Finally, union membership fees were made tax deductible again in July 2018. Notably, this was a demand by the Left Party which in the subsequent election campaigned for extending tax breaks to UIF fees.

Although these changes may have contributed to a slight increase in union membership over recent years, the effect is, at least thus far, limited when compared to the previous reforms (see Fig. 2). What accounts for these differences? First, eligibility criteria have not been relaxed substantially since 2007, which is why many workers in precarious jobs are not entitled to unemployment benefits. Second, the bourgeois reforms raised the awareness that double membership is not compulsory. Hence, a rising number of people, especially in low-income sectors, opt for UIF membership without joining the affiliated union or *vice versa*, a clear sign of the deterioration of the Ghent effect (Kjellberg 2009: 486-488).<sup>5</sup> Finally, the recent cost reductions and benefit rises have come at a time of falling unemployment. What is actually left of the Ghent effect will not show before the next economic downturn.

To sum up, while the bourgeois parties' failed to abolish the Ghent system, their second reform initiative aimed at its erosion proved successful. The approach of liberalizing the Ghent system by linking membership fees to sectoral unemployment to suppress wages had the big advantage of being in line with the Conservatives' ideology. In addition, the potentially unpopular deterioration of unemployment benefits was obscured by policy drift and compensated for by popular tax reductions.<sup>6</sup> The effect of the liberalization of the Ghent system on unionization was immediate and substantial, as especially LO-affiliated unions suffered massive membership losses. Given the warnings of all kinds of experts, this outcome was anything but an unintended consequence of the reform measures. Social Democrats and

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<sup>5</sup> To restrict membership losses, many unions allowed their members to leave the affiliated UIF without giving up union membership.

<sup>6</sup> The remarkable deterioration of unemployment benefits in Sweden is the subject of a recent study by Gordon (2017). Mirroring the findings of the study at hand, Gordon argues that the Ghent system made unemployment insurance a target for business interests, ultimately leading to substantial benefit cuts.

LO were able to prevent the abolishment of the Ghent system but their countermeasures against its liberalization have so far been of limited success.

## **6. Denmark: Decoupling Labor Unions and UIFs**

In the 1990s, the Danish Ghent system shared many features of its Swedish counterpart (Goul Andersen 2011: 191-195; Lind 2004): With a nominal replacement of 90 percent and the long duration of benefits the system was generous in international comparison.<sup>7</sup> Member contributions had risen somewhat due to reforms by bourgeois governments in the 1980s but the system was still heavily subsidized by the state. Finally, the Ghent system was strictly organized along sectoral lines, i.e. UIFs and affiliated trade unions did not compete for members. The sectoral structure had been at the center of reform efforts by right-wing governments in the 1980s and early 1990s. Based on the same rationale offered by Swedish Conservatives in the late 2000s, i.e. fighting unemployment by forcing unions to exercise wage moderation, reform plans envisaged linking membership fees to sectoral unemployment (Goul Andersen 2012: 175-176). After those efforts had failed, the bourgeois parties had to postpone a renewed reform initiative until 2001 when Liberals and Conservatives were able to form a minority government led by Anders Fogh Rasmussen, the leader of the Liberal Party.

The reform of the Ghent system was one of the first reform measures of the newly elected bourgeois government. Instead of raising membership fees and cutting unemployment benefits, the Danish government opted for a different approach. The original plan consisted in the creation of a cross-sectional public unemployment fund (VK Regeringen 2001: 19). This plan, however, met the resistance of the right-wing populist Danish People's Party, whose support was critical for the liberal-conservative minority government. Thus, the government altered its reform proposal, scrapping the public option but still allowing for the creation of

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<sup>7</sup> The real replacement rate for most recipients was substantially lower due to a comparatively low benefit ceiling.

cross-occupational UIFs, i.e. unemployment funds were henceforth allowed to recruit members outside their own trade or profession (Due/Madsen 2007: 238-239). In June 2002, the reform bill passed the Folketing with the votes of all bourgeois parties, among them the oppositional Social Liberals and Christian Democrats, and the right-wing populists. The Social Democrats as well as the two minor socialist parties opposed it (Folketing 2002).

So why did the liberal-conservative government opt for this kind reform of the Ghent system instead of raising membership fees and cutting benefits? First, unemployment at that time was low compared to the 1980s (and to Sweden in the late 2000s), i.e. linking the reform to fighting unemployment was not essential. Second, the Liberal Party's electoral strategy was to lure working-class voters away from the Social Democrats. In 2001, this strategy had been highly successful as Liberals, Conservatives and Danish People's Party had obtained more than 50 percent of the votes among workers. Cutting unemployment benefits would have been counterproductive to retain the working-class vote (Goul Andersen 2011: 200). Third, the chosen reform approach even promised to be popular with workers since the newly created market for UIFs had the potential to lower membership fees. Ideologically, the reform, which was part of the so-called 'freedom package for the labor market', corresponds to the Liberals' free market approach as it promised to promote individual choice (Venstre 2001: 8; VK Regeringen 2001: 19). Finally, the governing parties, especially the Liberals, openly acknowledged that the freedom package was directed at taking on the unions:

"The proposal is meant to make free choice possible for the individual worker and to increase competition between unemployment insurance associations. This will obviously be unpleasant from the perspective of the unions" (F. Dam [Liberal Party] quoted in Jensen 2014: 107).

The reform was particularly 'unpleasant' for the traditional labor unions because the newly created UIF market was rigged in favor of the so-called 'alternative unions', such as the 'Christian labor movement' (Krifra) and 'The Union House' (Det Faglige Hus), which

organize employees across different trades and professions. From the perspective of the traditional blue- and white-collar unions, the main problem is that alternative unions operate as free riders (Ibsen et al. 2013). Most of these unions do not engage in collective bargaining activities and refuse strikes and other forms of collective action – and are therefore able to offer membership at a much cheaper rate than recognized unions (see Tab. 3). Thus, workers moving from one of the traditional unions to an alternative union could save up to 4.800 DKK per year and still enjoy the advantages of union membership, i.e. goods delivered through collective bargaining and unemployment insurance. The actual cost advantage of alternative unions has been even more pronounced since 2010 when the liberal-conservative government introduced another reform package (again with the support of the Danish People’s Party) to balance the budget after the Great Recession. The reform included the establishment of a ceiling on the tax deduction for union fees which “was set precisely so that the members of the recognized unions no longer could receive a full tax deduction, whereas the alternative unions can continue to do so” (Ibsen et al. 2013: 453).

- Table 3 -

While the decline in union density seems at first sight limited in comparison to Sweden, a different picture emerges when we differentiate between traditional unions and alternative unions (see Fig. 3). Excluding alternative unions, union density dropped more than ten percentage points from 68.9 percent in 2000 to 58.2 percent in 2015. In total numbers, blue-collar LO lost more than 320.000 members over this period, i.e. more than a quarter of its original membership, whereas alternative unions almost quadrupled their membership numbers, gaining about 185.000 new members. This process was driven by thousands of workers leaving the LO unions to join the cheaper alternative unions, with LO’s net losses ranging from 7.000 to more than 20.000 per year and adding up to 120.000 from 2002 to 2012

(Toubøl et al. 2015: 74-76). As a result, the share of workers organized by blue-collar LO has sunken dramatically since 2000. As shown in Figure 3, LO and white-collar FTF, which organizes mainly public-sector workers, nowadays encompass less than 50 percent of the workforce, indicating a shift of power within the union movement.

- Figure 3 -

One reason for the outflows from traditional unions can be found in a ruling by the European Court of Human Rights in 2006 which outlawed closed-shop agreements, allowing workers affected by those arrangements to leave LO-affiliated unions (Scheuer 2007: 243). But surveys conducted among Danish wage earners show that the fee differentials resulting from the outlined changes are a major reason for workers' shifts to an alternative union. In general, access to unemployment benefits is stated as one of the main reasons by Danish workers for joining a union. Gaining access to those benefits is thus particularly important for LO members (46 percent) and members of alternative unions (40 percent), whereas membership in white-collar unions is to a greater extent based on a strong professional identity and other incentives (Høgedahl 2014a: 480-481). What is more, a survey focusing on members of alternative unions shows that 78 percent of respondents named the lower price of the membership fee as one of the reasons for switching from LO to an alternative union (Ibsen et al. 2013: 453-458). As no other reason was mentioned nearly as often, we can conclude that decoupling traditional unions and UIFs by allowing interdisciplinary UIFs contributed substantially to membership losses of traditional unions, but especially LO.

The Social Democrats had no opportunity to enact any countermeasures until they returned to office in 2011, but even then they made no efforts to reverse the previous reforms. There are at least three reasons for the absence of such reform efforts. First, the fact that the coalition led by the Social Democrats had no parliamentary majority made a reversion

difficult. Second, the decoupling of traditional unions and UIFs produced positive policy feedback as many workers profited from reduced costs of unemployment insurance. A return to the former rules would thus have been unpopular with many workers. Third, the separation of LO and Danish Social Democrats has advanced much further than in Sweden (Allern et al. 2007). Consequently, Social Democrats were anxious about provoking any criticism of doing the unions a favor (Kjellberg/Ibsen 2016: 300). Reform efforts thus concentrated on the shorter eligibility period (two instead of four years) and stricter eligibility criteria implemented under the liberal-conservative government. Ultimately, the curtailment of benefit duration was postponed but not repealed, while the establishment of a commission on the future of unemployment insurance resulted in a more flexible system regarding benefit eligibility (cf. Refslund et al. 2017: 217-218). In short, the Social Democrats focused on preventing a further erosion of unemployment insurance but did nothing to reverse the decoupling of unions and UIFs introduced by their bourgeois predecessors.

To sum up, the bourgeois parties, in this case led by the Liberal Party, used their political power to dampen the Ghent effect. But unlike their counterparts in Sweden, the Danish Liberals did not erode the Ghent system but adopted the electorally risk-free strategy of decoupling, in this case achieved through the establishment of UIFs not affiliated to organized labor and with a competitive advantage over union-run UIFs. The negative effects on traditional unions did not materialize as rapid as in Sweden but the lower fees of alternative unions contributed to steady and, over time, substantial membership losses for LO. In addition, the special nature of the reforms makes it almost impossible for Social Democrats to reverse them.

## **7. Conclusion**

The Ghent system and the closely connected Ghent effect have in the past boosted unionization and thus contributed to Nordic exceptionalism. Focusing on Sweden and

Denmark, we have seen that the Ghent system has survived till the present day but without retaining its original power to keep workers in the unions. The main reason for this development is the liberalization of the Ghent system which left its main structure intact but undermined its function as a recruiting device for the labor unions, especially blue-collar LO. In Sweden, this was achieved through the erosion of the Ghent system, i.e. higher membership fees, stricter eligibility criteria and benefit cuts. In Denmark, political actors took a different approach by decoupling traditional unions and UIFs. In both cases, the reforms were introduced under bourgeois governments led by market-liberal parties, more or less openly acknowledging the aim of weakening organized labor. Social democrats in both countries opposed the reforms. While the SAP was able to reverse some of the reform measures in Sweden, although with limited success regarding the Ghent effect, the decoupling undertaken in Denmark seems to be irreversible.

Turning to Finland, the third Nordic Ghent country, we can see similarities, especially with the Danish case, but also some particularities. After unionization had peaked at 81.2 percent in 1993, Finnish unions have suffered membership losses comparable to their Swedish and Danish counterparts since the mid-1990s (see Tab. 1). The liberalization of the Ghent system contributed substantially to this decline, in this case driven by the establishment of an independent UIF in 1992 (Böckerman/Uusitalo 2006). The Finnish case thus provides another example of liberalization through decoupling, although workers in this case did not switch to alternative unions but left the unions altogether (Høgedahl/Kongshøj 2017: 374-378). Another difference to Denmark concerns the establishment of the independent UIF. Though Finland was indeed governed by a center-right government at the time the UIF was created, the government was not the driving force. Instead, the initiative came from some small entrepreneurs looking for unemployment insurance at a time of high unemployment. Their application was approved by the government. However, neither the governing parties nor the oppositional Social Democrats at that time recognized the substantial consequences of this

decision (Böckermann/Uusitalo 2006: 287-288). In other words, the liberalization of the Ghent system in Finland was not so much the result of partisan politics but rather “an interesting historical accident” (R. Uusitalo, personal correspondence) with substantial negative consequences for labor unions.<sup>8</sup>

From a broader perspective, the Ghent system is only one piece in the institutional fabric of the Nordic model but one whose importance should not be underestimated. The decline in unionization accelerated by the liberalization of the Ghent system weakens the bargaining position of labor unions and thus threatens to exacerbate the more general process of liberalization outlined at the beginning. The seriousness of the situation can best be seen in Denmark, where the two largest union confederations, blue-collar LO and white-collar FTF, have reacted by joining forces via merging into one single confederation to “strengthen their political influence and bargaining power” (LO 2018: 2). In Sweden, the liberalization of the Ghent system not only threatens the bargaining power of many LO-affiliated unions. The resulting rise in unemployed people not entitled to unemployment benefits also increases the pressure on the Swedish labor market model. This is best illustrated by recent proposals on the part of the bourgeois parties to create new forms of employment for migrants but also young people, with salaries substantially below negotiated wages (Alliansen 2018). The prospects of such reform proposals hinge to a large extent on labor’s organizational strength. While broader trends such as the collapse of the Fordist growth regime may have shifted the balance of power between labor and capital in favor of the latter (Baccaro/Howell 2017: 197-222), this article has shown that systematic reforms directed at labor’s institutional power resources can considerably exacerbate this process.

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<sup>8</sup> In Belgium, unions do not profit from union-led UIFs but from their involvement in the payments of unemployment benefits (Vandaele 2006; Van Rie et al. 2011). All efforts by market-liberal parties and parties of the radical right to abolish union-run payment services were thus far blocked by social democrats as well as Christian democrats, the latter representing the interests of the exceptionally strong Christian unions (cf. Ebbinghaus/Visser 2000: 111-155).



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## Tables and Figures

Table 1: Union Density in International Comparison

Country	1960	1990	2000	2015
Denmark	56,9	74,6	73,6	68,6
Sweden	64,6	81,5	80,1	66,8
Finland	31,9	72,8	74,6	66,5
Belgium <sup>a</sup>	41,5	53,9	56,2	54,2
Norway	60,0	58,5	54,1	52,5
Italy	24,7	38,7	34,4	35,7
Canada	29,2	34,0	31,2	29,4
Austria	60,1	46,8	36,9	27,4
Ireland	45,3	51,1	36,0	27,2 <sup>b</sup>
United Kingdom	40,5	39,6	29,7	24,2
Netherlands	41,7	24,6	22,6	17,7
Germany	34,7	31,2	24,6	17,6
Japan	32,2	25,2	21,5	17,4
Switzerland	31,0	22,5	20,2	15,7
Australia	50,2	45,4	24,7	14,6 <sup>b</sup>
United States	30,9	15,5	12,9	10,6
France	19,6	9,8	8,0	7,9

<sup>a</sup> State-controlled system but unions play a strong role in benefit payments.

<sup>b</sup> Data from 2016 (no data available for 2015).

*Note:* Countries with Ghent system highlighted in grey.

*Source:* OECD Statistics



Table 2: Membership Fees of Selected Unemployment Funds (2006-10) and Changes in UIF and Union Membership (2006-08) in Sweden

	Membership Fees per Month (SEK)						Members 2006-08	
	Dec. 2006	Jan. 2007	Sept. 2008	Dec. 2010	Dec. 2014	Change 2006-10	UIF	Union
Teachers	97	247	148	90	100	-7	-4.1%	-2.7%
AEA <sup>a</sup>	90	240	150	90	90	0	-2.4%	+0.7%
Finance and Insurance	86	244	118	90	85	+4	-3.1%	-0.2%
Municipal Workers*	100	340	226	144	87	+44	-13.8%	-9.2%
'Unionen' <sup>b</sup>	90	331	214	214	97	+106	-11,8%	-8,9%
Service and Communic.*	104	349	193	278	118	+174	-13.7%	-10.7%
Food*	102	359	327	297	102	+195	-15.8%	-16.7%
Transport*	106	361	296	306	120	+200	-12.8%	-14.9%
Commercial Employees*	95	346	305	315	120	+220	-15.1%	-15.2%
Maintenance*	100	351	351	325	115	+225	-15.3%	-12.8%
Building*	116	366	296	375	130	+259	-11.9%	-11.3%
'IF Metall'*	93	339	224	390	96	+297	-8.5%	-9.9%
Hotel and Restaurant*	97	361	397	405	140	+308	-35.3%	-31.0%
Musicians*	115	415	415	444	120 <sup>c</sup>	+329	-37.7%	-18.5%
„Polarization“	29	175	297	354	55			

\* Affiliated to LO.

<sup>a</sup> AEA is the unemployment fund affiliated with Saco, the Swedish Confederation of Professional Associations.

<sup>b</sup> 'Unionen' is Sweden's the largest white-collar union.

<sup>c</sup> The UIF for musicians merged with the UIF for commercial employees in 2012.

Sources: Kjellberg 2009, 2016; Swedish Unemployment Insurance Board

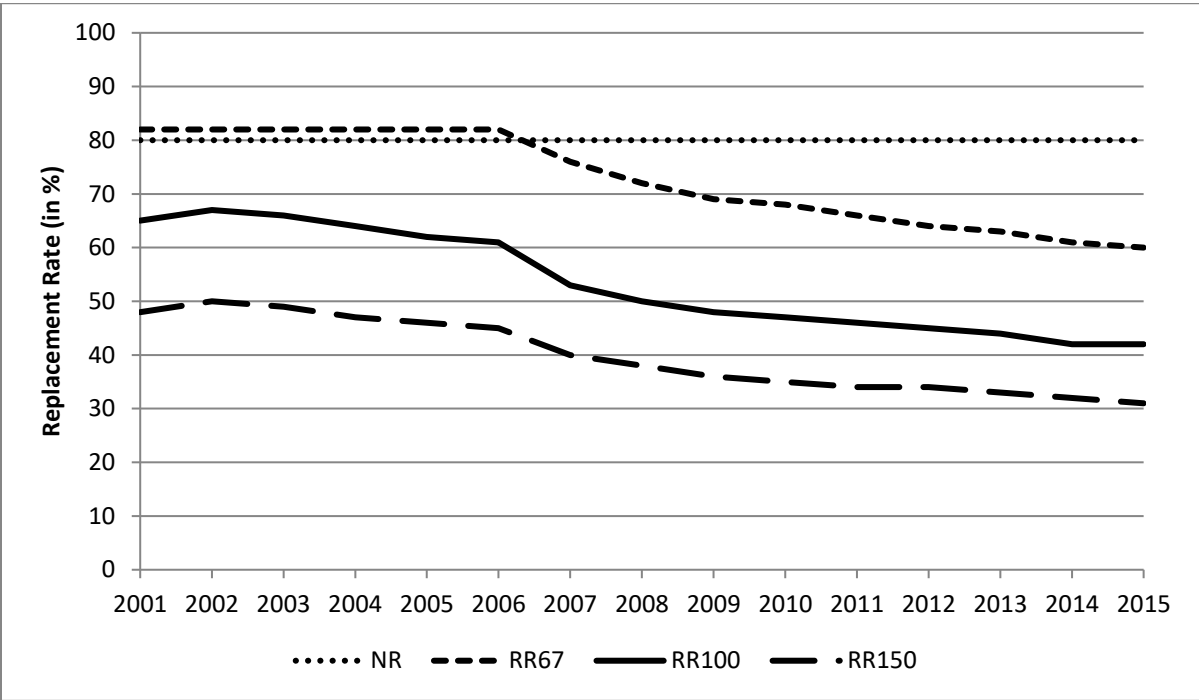
Table 3: Union and UIF Membership Fees in Denmark, 2012

	Membership Fees per Month (DKK)		
	Union	UIF	Total
<b>LO</b>			
Metal (Skilled manual)	489 (405)	468 (311)	957 (716)
HK (Office and clerks)	403 (319)	451 (300)	854 (619)
3F (General workers)	466 (382)	474 (315)	940 (697)
<i>LO weighted mean</i>	<i>454 (370)</i>	<i>460 (305)</i>	<i>914 (675)</i>
<b>FTF</b>			
DLF (School teachers)	506 (422)	411 (273)	917 (695)
DSR (Nurses)	451 (367)	396 (263)	847 (630)
BUPL (Kindergarten teachers)	504 (420)	420 (279)	924 (699)
<i>FTF weighted mean</i>	<i>436 (353)</i>	<i>411 (273)</i>	<i>847 (626)</i>
<b>AC</b>			
DJØF/AAK (Lawyers and economists)	298 (214)	415 (276)	713 (490)
IDA (Civil engineers)	287 (203)	405 (269)	692 (472)
DM (Science and humanities graduates)	380 (296)	462 (307)	842 (603)
<i>AC weighted mean</i>	<i>324 (240)</i>	<i>424 (281)</i>	<i>748 (521)</i>
<b>Alternative</b>			
Krifa (Christian Union)	155 (103)	453 (301)	608 (404)
Det faglige hus (The Union House)	99 (85)	455 (302)	554 (387)
<i>Alternative weighted mean</i>	<i>128 (85)</i>	<i>454 (302)</i>	<i>581 (387)</i>

*Note:* Table shows pre-tax fees, post-tax payments in parentheses.

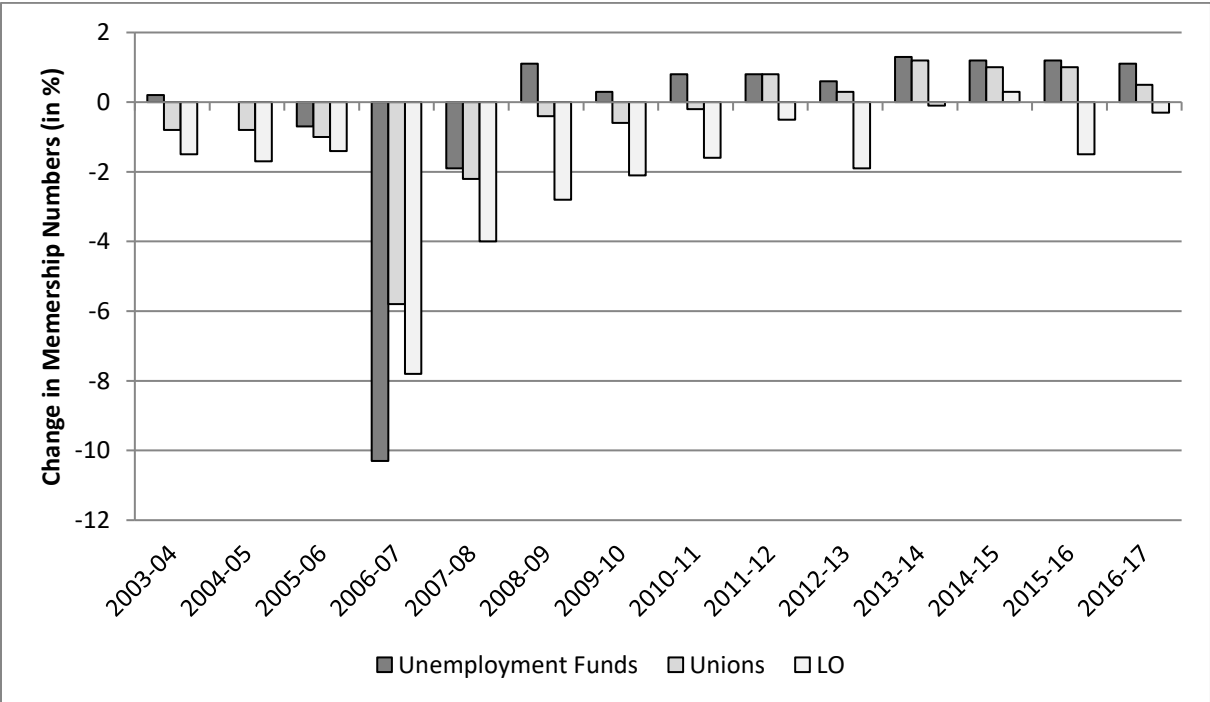
*Source:* Modified table based on Høgedahl 2014b: 112-115.

Figure 1: Net Replacement Rates in the Swedish Unemployment Insurance, 2001-2015



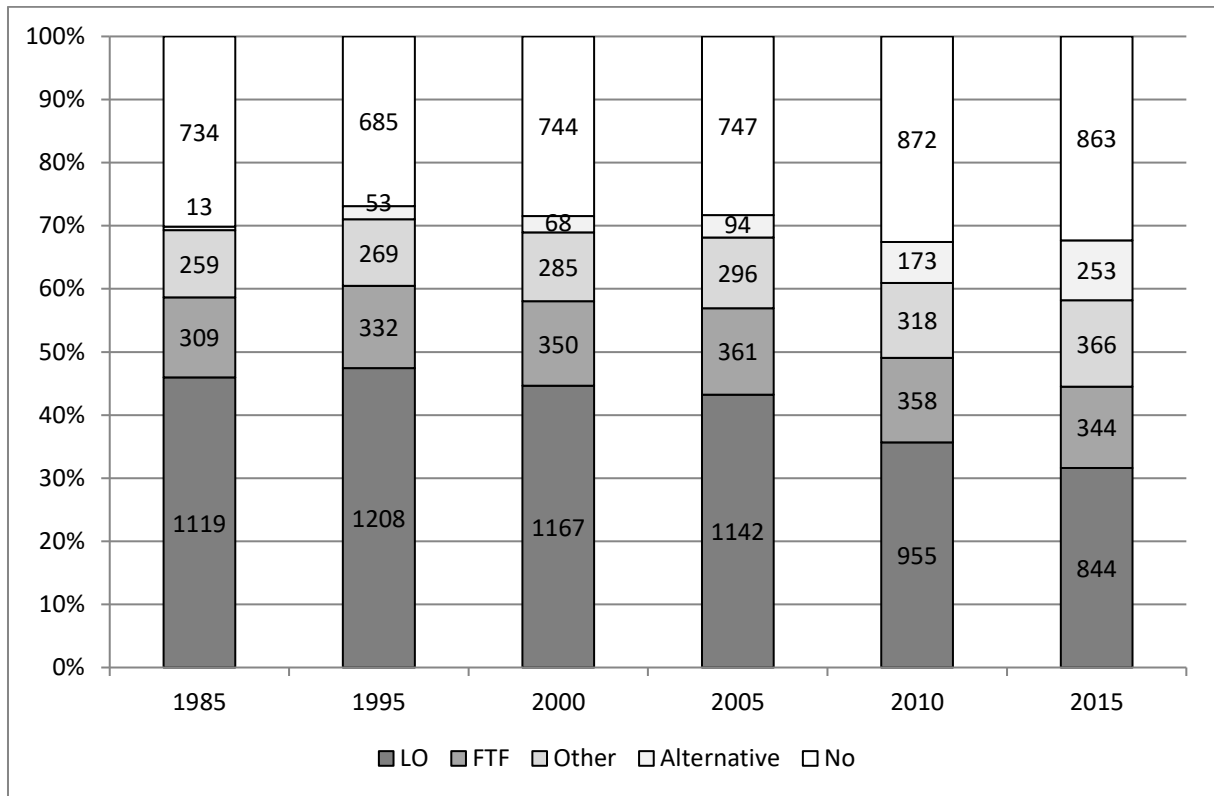
Notes: NR = Nominal replacement rate (days 1-200), RR67 = Net replacement rate for single with 67% of average wage (no children), RR100 = Net replacement rate for single with average wage (no children), RR150 = Net replacement rate for single with 150% of average wage (no children).  
 Sources: Swedish Unemployment Insurance Board; OECD Statistics (Benefits and Wages)

Figure 2: Changes in Union and Unemployment Fund Membership in Sweden, 2003-2017



Sources: Swedish Unemployment Insurance Board; Kjellberg 2018 (own calculation)

Figure 3: Union Membership in Denmark, 1985-2015



*Note:* The category ‘Other’ includes unions affiliated to AC (Danish Confederation of Professional Associations), the Association of Managers as well as independent unions.

*Source:* Ibsen et al. 2015 (own figure)