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# The Swedish Ghent system and trade unions under pressure

Anders Kjellberg\*



## Summary

*In January 2007 the Swedish centre-right government in office since September 2006 raised considerably fees for union unemployment funds. Union membership (fund membership included) therefore suddenly became much more expensive. Trade unions lost 8% of their members over two years and union density fell by 6 percentage points, while unemployment funds were hit by a still larger decline. In 2008, fund fees were more closely linked to the rate of unemployment among the members of each fund. The result was a marked social polarisation of fund fees, in 2009 further sharpened by accelerating unemployment. In addition to describing the consequences of the government policy, this article discusses the ambition of the government to influence wage formation by remodelling the Swedish Ghent system.*



## Sommaire

*En janvier 2007, le gouvernement suédois de centre-droit, au pouvoir depuis septembre 2006, a imposé une forte hausse des cotisations aux caisses d'assurance chômage gérées par les syndicats. En conséquence, les cotisations syndicales (y compris les cotisations aux caisses) ont brusquement grimpé en flèche. En deux ans, les syndicats ont perdu 8 % de leurs adhérents et le taux de syndicalisation s'est affaïssé de 6 points, tandis que les caisses d'assurance chômage ont enregistré un recul encore plus net. En 2008, les cotisations aux caisses ont été plus étroitement corrélées au taux de chômage parmi les membres de chaque caisse. Il en a résulté une polarisation sociale marquée de ces cotisations, aggravée en 2009 par la progression du chômage. Outre une description des conséquences de la politique du gouvernement, cet article propose une analyse de la volonté de ce dernier d'influencer la formation des salaires en remodelant le système de Gand à la suédoise.*



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### Zusammenfassung

*Nach ihrem Amtsamtritt im September 2006 hat die schwedische Mitte-Rechts-Regierung im Januar 2007 die Beiträge zu den Arbeitslosenkassen der Gewerkschaften erheblich erhöht. Dadurch wurde es plötzlich wesentlich teurer, Mitglied in einer Gewerkschaft (und in der Arbeitslosenkasse) zu sein. Innerhalb von zwei Jahren verloren die Gewerkschaften 8% ihrer Mitglieder, der gewerkschaftliche Organisationsgrad sank um 6 Prozentpunkte, bei den Arbeitslosenkassen war der Rückgang noch stärker. 2008 wurde die Höhe dieser Beiträge enger an die Arbeitslosenrate unter den Mitgliedern der jeweiligen Kasse geknüpft. Dies führte zu einer sozialen Polarisierung der Kassenbeiträge, die sich 2009 durch die zunehmende Arbeitslosigkeit weiter verschärft hat. Dieser Beitrag beschreibt die Folgen der Regierungspolitik und erörtert die Bestrebungen der Regierung, durch die Umgestaltung des schwedischen Ghent-Systems Einfluss auf die Lohnbildung zu nehmen.*



**Keywords:** Ghent system, union unemployment funds, union density, density of employers' associations, coverage of collective agreements

## Introduction

Between 2006 and 2008 Swedish union density fell by 6 percentage points. In the course of two years, trade unions lost almost 8% of their members. Up to 2007, the attractiveness of the available union unemployment funds led to a very high Swedish union density (77% in 2006). In January 2007, however, the centre-right government raised fund fees considerably, which made trade union membership much more expensive as union fees generally include fund fees, although many unions subsequently separated them. It became quite expensive for a worker to join both a trade union and an unemployment fund, as a result of which a growing number are choosing to abstain from one or the other, sometimes even both. In 2007, union unemployment funds lost almost twice as many members as the unions did, while the proportion of union members who are not members of unemployment funds doubled. In 2008, this category and the share of persons directly affiliated to union unemployment funds expanded.

This article discusses the remodelling of the Swedish Ghent system carried out by the centre-right government, which came to power after the September 2006 elections. While the fees of all unemployment funds were raised sharply in 2007 – although with some variations – in July 2008 the system was again remodelled when fees were

differentiated strongly with respect to the unemployment rate among members of a given fund. The 2009 economic crisis reinforced this pattern, polarising funds between those with low and those with very high fees.

As trade unions and unemployment funds are linked in a Ghent system, the strong social segregation of Swedish unions is reflected in a socially segregated fund structure. As a result, the polarisation of fund fees acquired a social dimension, in general meaning that high-wage groups had to pay least and low-wage groups most. Sweden has the most socially segregated trade union movement in the world owing to the existence of separate national unions and union confederations for blue-collar workers (LO – Swedish Confederation of Trade Unions), university-educated professionals (Saco – Swedish Confederation of Professional Associations) and other white-collar workers (TCO – Swedish Confederation of Professional Employees).

The article also looks at the government's declared main motive for changing the financial basis of unemployment funds, which is to influence wage formation, since – it is alleged – fund fees function as a kind of penalty tax on wage increases that result in rising unemployment. Up to the 2009 Crisis Agreement between IF Metall and the employers' associations, this aim underlying the modification of the Ghent system did not seem to have had any discernible success. On the other hand, no previous state intervention in Swedish industrial relations has caused such a large fall in union density as this one. As a result, the density of employers' associations is now considerably higher than that of private sector trade unions.

## **Decline of union density unique in modern Swedish history**

Sweden has one of the highest unionisation rates in the world. In 2007, in contrast, Swedish union density distinguished itself in an entirely different way when it fell by 4 percentage points in the course of a single year. The magnitude of this decline is unique in modern Swedish history; to find something similar it is necessary to go back to the union defeat in the 1909 general strike. After climbing continuously since 1912 – with the exception of the early 1920s – Swedish union density reached a historical peak in 1986, when almost 85% of all wage- and salary-earners were union members. Since then the rate of unionisation has been more unstable. The tight labour market in the late 1980s made a significant number of workers feel that they could manage fairly well without being members of a union and union density declined to 81% in 1990. When unemployment increased from 1.7% in 1990 to 9% in 1993, union density reached a new peak. Again, 85% of all employees were affiliated to a trade union (Table 1, below). Blue-collar density was as high as 86% in 1993.

**Table 1: Union density in Sweden by age and category, 1990-2008**

Age/ category	1990	1993	2000	2006	2007	2008	1990- 2008	1993- 2008	2006- 2007	2007- 2008	2006- 2008
16-24	62	69	52	46	40	36	-26	-33	-6	-4	-10
25-29	78	81	74	68	64	61	-17	-20	-4	-3	-7
Total 16-29	69	76	64	58	53	49	-20	-27	-5	-4	-9
30-44	85	86	82	77	74	72	-13	-14	-3	-2	-5
45-64	88	89	88	85	82	81	-7	-8	-3	-1	-4
Total 16-64*	81	85	81	77	73	71	-10	-14	-4	-2	-6
Blue-collar	82	86	83	77	74	71	-9	-15	-3	-3	-6
White-collar	81	83	79	77	73	72	-9	-11	-4	-1	-5

Note: Annual averages, employees aged 16-64, excluding full-time students working part-time.

\* All workers (blue-collar and white-collar).

Source: Labour Force Surveys.

In contrast to countries with no union unemployment funds, Swedish union density up to the mid-1980s expanded both during economic depression – except for the early 1920s – and during the long period of ‘full employment’ after World War II. From the mid-1980s to the mid-1990s, unionisation followed a markedly contra-cyclical pattern. In insecure times, the existence of union unemployment funds is not the only significant recruitment incentive; since the 1970s, the Act on Employment Protection has provided unions with important negotiating tasks in case of redundancies. However, changed attitudes, implying a more critical stance towards union membership, particularly among young workers, therefore have the greatest impact during favourable business cycles.

Since 1993-1994, Swedish union density has again declined, particularly among young workers (Table 1). A contributory factor in this respect is that every second worker aged 16-24 today has a temporary job, which has loosened their links both to the individual workplaces and to the labour market as a whole. Owing to high youth unemployment many young workers with temporary contracts sandwich periods of work with periods of unemployment. Secondly, the changing composition of the labour force is pushing union density downwards, above all by contracting public sector and manufacturing employment. The changing composition of the labour force naturally has its greatest impact on newcomers to the labour market, a large proportion of whom are young people. In addition, declining unemployment after 1993 broadened the scope for more individualistic behaviour based upon calculation of the costs and benefits of union membership. Nevertheless, in 2006 no fewer than 77% of all workers were still union members, with as many as 83% in manufacturing industry and 88% in the public sector (Table 2).

**Table 2: Union density in Sweden for blue-collar and white-collar workers by industry and sector, 2000-2008**

	2000	2005	2006	2007	2008	2000-2008	2006-2007	2007-2008	2006-2008
<b>A. Blue-collar workers</b>									
Manufacturing	89	86	86	83	83	-6	-3	0	-3
Construction	87	81	82	77	73	-14	-5	-4	-9
Retail/wholesale trade	68	64	64	61	57	-11	-3	-4	-7
Other private services	72	68	66	62	57	-15	-4	-5	-9
Total services	70	66	65	61	57	-13	-4	-4	-8
Total private sector	79	74	74	70	67	-12	-4	-3	-7
Public sector	90	86	87	85	83	-7	-2	-2	-4
Both sectors	83	77	77	74	71	-12	-3	-3	-6
<b>B. White-collar workers</b>									
Manufacturing	80	81	79	76	75	-5	-3	-1	-4
Retail/wholesale trade	61	65	62	59	56	-5	-3	-3	-6
Other private services	65	68	66	63	61	-4	-3	-2	-5
Total private services	64	67	65	62	60	-4	-3	-2	-5
Total private sector	70	70	69	65	63	-7	-4	-2	-6
Public sector	93	90	89	86	85	-8	-3	-1	-4
Both sectors	79	78	77	73	72	-7	-4	-1	-5
<b>C. All employees</b>									
Manufacturing	86	84	83	80	79	-6	-3	-1	-4
Construction	85	80	80	76	72	-13	-4	-4	-8*
Retail/wholesale trade	65	65	63	60	57	-8	-3	-3	-6
Other private services	68	68	66	63	60	-8	-3	-3	-6
Sum private services	67	67	65	62	59	-8	-3	-3	-6
Sum private sector	75	72	71	68	65	-10	-3	-3	-6
Public sector	92	89	88	86	84	-8	-2	-2	-4
Both sectors	81	78	77	73	71	-10	-4	-2	-6

Notes: Annual averages, employees aged 16-64 years, excluding full-time students working part-time. Manufacturing and construction include workers in public employment. Due to the relative lack of white-collar workers in construction this item is excluded.

\* When one decimal place is used the decline was 9 percentage points.

Source: Labour Force Surveys.

Between 1993 and 2006 union density declined by 8 percentage points (Table 1), but by around one point or less per year, averaging 0.6 points per year. In 2007, however, something quite exceptional happened as union density fell from 77% in 2006 to 73% in 2007. Between 2006 and 2008, density fell by 6 percentage points, to 71%. Both blue-collar and white-collar unions experienced severe losses (Tables 2 and 3), although there were significant differences between individual unions and between union confederations.

How can such a large drop in just a few years be explained, not to mention the fact that some unions lost substantially more members than others? It is unlikely that the changing composition of the labour force was responsible for such a sudden and large fall in union density; the same could be said about workers' attitudes towards unions. Instead, the main explanation is to be found in the political sphere.

The remodelling of the Swedish unemployment insurance had a prominent place on the agenda of the centre-right government, which assumed office in autumn 2006. Since 1935, Sweden has had state-supported, union-led unemployment funds, known as a so-called 'Ghent system'. One ostensive motive behind changing the system was to influence wage formation. From January 2007, the unemployment funds were required to finance a larger share of benefits and therefore had to raise their fees considerably. This had significant consequences, owing to the fact that, in Sweden, fund fees have traditionally been levied as part of union fees.

In 2007, the number of union members fell by 6%, a decline six times larger than in the preceding year (Table 3). The LO unions were hit hardest (–8%), in sharp contrast to the Saco unions (–1%). The declining share of blue-collar workers and the rising share of university-educated professionals in the labour force explain a small part of the LO-Saco divergence: compare 2006, when LO lost 1%, while Saco gained 1%. The most significant factor, however, which caused the substantial divergence between LO and Saco unions in 2007, and again in 2008, is the generally higher fees of LO unemployment funds compared to the Saco fund, the AEA (which is common to all Saco unions and the TCO nurses' union, the Association of Health Professionals). Also, the union fee proper – that is, when the fund fee is excluded – is lower among Saco unions than LO unions. Thirdly, as the wages of Saco members in general are higher than those of other categories their capacity to pay is greater.

**Table 3: Changes in the number of union members, members of union unemployment funds and union members who are not also members of union unemployment funds**

	Union members****			Members of union unemployment funds		Union members outside union unemployment funds***		
	2006	2007	2008	2007	2008	2006	2007	2008
LO	–1%	–8%	–4%	–11%	–3%	1.5%	5.5%*	6.4%*
TCO	–1%	–5%	–2%	–11%	–2%	4.6%	10.2%	10.8%



Saco/AEA	+1%	-1%	+2%	-5%	+3%	8.5%	10.4%	11.2%
Others	-1%	-4%	+4%	-11%	-1%	2.5%	11.9%	22.3%
All unions	-1%	-6%	-2%	-10%	-2%	3.7%	8.0%	9.1%
Number**	3 101 200	2 921 300	2 866 400	3 170 600	3 115 200	113 300	230 900*	258 100*

Notes: Changes from 31 December to 31 December. Active union members (employed and unemployed). Members of union unemployment funds include those who are directly affiliated.

\* Excluding Electricians.

\*\* On 31 December 2006, the total number of members of union unemployment funds was 3 514 700.

\*\*\* 31 December.

\*\*\*\* Between 31 December 2006 and 31 December 2008 (=in the years 2007 and 2008 together) the number of LO members declined by 11.4%, while TCO members decreased by 6.6% and Saco members increased by 0.7%.

There are three choices available for workers who want to avoid high fees: (1) give up fund membership but remain a union member, (2) join an unemployment fund without being a union member, or (3) abstain from both.

## Union members abstaining from fund membership

In 2007, union unemployment funds lost considerably more members than the trade unions did. By the end of the year, the LO and TCO funds had 11% fewer members, while the Saco fund had lost only 5% (Table 3). A new phenomenon contributed to this development. The share of union members abstaining from fund membership more than doubled during 2007, from 3.7% at the end of 2006 to 8% a year later. In 2005, this share had been only 2.9% of active union members. In 2007, many LO unions – although not IF Metall – gave way to pressure from those wishing to leave unemployment funds, but remain union members. As a result, the share of LO members outside unemployment funds more than tripled. A significant number of union members with only a few years left to retirement left unemployment funds but remained union members. The rule ‘last in, first out’ laid down in the Law on Employment Protection reduced their risk of losing their job in case of redundancies. Despite the high risk of unemployment among hotel and restaurant workers (Table 6), no less than 12% of the members of the Hotel and Restaurant Workers’ Union had abstained from the unemployment fund by the end of 2007. In July 2008, the union completely separated union dues and fund fees. White-collar unions introduced this as early as January 2007 when unemployment insurance was remodelled.

## Fund members abstaining from union membership

The proportion of directly affiliated fund members – that is, those who are members of union unemployment funds but abstain from union membership – did not change appreciably in 2007. The average proportion of those directly affiliated

remained unchanged at 15% at the end of 2007, or 17%, if the independent Alfa Fund is included (for 1980-2005, see Kjellberg 2006: 89). Direct affiliation to some LO funds within the private service sector, however, rose markedly, in particular to the Hotels and Restaurants Fund (from 23% in 2006 to 30% in 2007), but there was a massive number of drop-outs from the Fund overall. This Fund lost as many as 25% of its members in 2007, while 20% of members left the Hotel and Restaurant Workers' Union. The fund fee of hotel and restaurant workers experienced one of the highest rises. Bearing in mind that their wages are among the lowest in Sweden and that many are part-timers it is not surprising that many reconsidered their union and/or fund membership. The union's heavy membership losses show clearly that the changes in unemployment insurance reinforced the tendency of blue-collar union density to decline more quickly in private services than in manufacturing.

In 2008, both the proportion of union members staying outside unemployment funds and the share of those directly affiliated to unemployment funds expanded: from 8 to 9% of union members (Table 3), and from 15 to 16% of members of union unemployment funds (or from 17 to 18% if the Alfa Fund is included). At the end of 2008, no fewer than 36% of the members of the Hotels and Restaurants Fund were non-union members. The same applied to 26% of the members of the Transport Workers' Fund (19% in 2006 and 24% in 2007) and 22% of those affiliated to the Commercial Employees' Fund (19% in 2006 and 21% in 2007). All three funds are associated with LO unions in the private service sector. In contrast, the proportion of those directly affiliated to the IF Metall Fund remained at a lower level (8% in 2006-2008). The high and rising proportion of people directly affiliated to the Hotels and Restaurants Fund and the high and rising proportion of members of the Hotel and Restaurant Workers' Union abstaining from fund membership (12% in 2007 and 19% in 2008) clearly illustrate the problems experienced by a low-wage group with a very high total union fee, owing to the extremely high fee for their unemployment fund.

## **Density of Swedish employers' associations considerably higher than that of trade unions**

As a consequence of the large fall in the number of union members in 2007 and 2008, the density of employers' associations is now considerably higher than that of trade unions. As is evident from Table 4, no fewer than 80% of all private sector employees in 2008 were found in firms affiliated to employers' associations. In the same year, 65% of private sector employees were union members, compared to 71% in 2006 and 75% in 2000 (Table 2). In contrast to the unionisation rate, the density of employers' associations has remained steady over the last 13 years (Table 4). Between 2006 and

2008, Swedish employers' associations increased their coverage of private sector employees, from 77% to 80%. Those affiliated to SN (Confederation of Swedish Enterprises) alone in 2008 covered 67% of private sector employees, exhibiting rapid growth since 2000, when the corresponding share was 62%, and also above the 1995 SAF share of 65%.

**Table 4: Share of employees covered by collective agreements, employers' associations and trade unions, Sweden (%)**

Sector	Coverage of collective agreements			Density of employers' associations					Union density			
	1995	2005	2007	1995	2000	2006	2007	2008	1993	2006	2007	2008
Private	90	90	87	77	74	77	80	80	78	71	68	65
Public	100	100	100	100	100	100	100	100	94	88	86	84
All	94	94	91	86	83	84	86	85	85	77	73	71

Note: In some international publications, the figures on the density of employers' organisations in Sweden are far too low. To get a correct calculation it is necessary to include about 20 private sector employers' associations other than SN. Another common mistake is the failure to transform full-time equivalents (SN statistics) into individuals (labour force statistics).

Sources: For collective agreements and employers' associations, author's calculations from statistics of the National Mediation Office, the Swedish Statistical Office and employers' associations. For 1995, see Kjellberg 2001: 204 ff.

The high density of employers' associations is conducive to both a high union density and a high coverage of collective agreements. Almost nine out of ten Swedish private sector employees were covered by collective agreements in 2007, despite the absence of state extension mechanisms (Table 4). Several unaffiliated employers have substitute agreements with trade unions, which means that they apply the conditions stipulated in industry agreements. Including public sector employees, the rate of collective bargaining coverage was as high as 91% in 2007, a small decrease in comparison with 2005, when the share was 94% (90% in the private sector).

## Considerably raised fund fees – massive membership losses in 2007

In 2006, fund members in general paid fees of SEK 90-100 per month (Table 5, below). From January 2007, most fees went up to about SEK 340-370 per month. Due to the abolition of tax reductions, large groups of members experienced a six-fold net increase, not infrequently from about SEK 60 (SEK 100 minus 40% tax reduction) to about SEK 360 (no tax reduction).

**Table 5: Fees of unemployment funds, 2006-2009, and change in the number of members in selected unions and funds, 2006-2008**

	Fees of unemployment funds (SEK)					Change in number of members	
	31 Dec. 2006	1 Jan. 2007	1 Sept 2008	1 Sept 2009	Change 2006-2009	Funds 2006-2008**	Unions 2006-2008**
Teachers (TCO)	97	247	<i>148</i>	<i>90</i>	-7	-4.1%	-2.7%
AEA (Saco)	90	240	<i>150</i>	<i>90</i>	0	-2.4%	+0.7%
Finance and insurance (TCO)	86	244	<i>118</i>	<i>90</i>	+4	-3.1%	-0.2%
Electricians (LO)	92	326	<i>155</i>	<i>155</i>	+63	-7.9%	+2.4%
Municipal employees (TCO)	99	331	<b>200</b>	139	+40	-18.3%	-7.9%
Commercial employees (TCO)*	106	353	<b>(214)</b>	<b>(214)</b>	+108	—	—
Manufacturing industry (TCO)*	90	331	<b>(214)</b>	<b>(214)</b>	+124	—	—
Unionen (TCO)*	—	—	<b>214</b>	<b>214</b>	—	-11.8%	-8.9%
IF Metall (LO)	93	339	<b>224</b>	384	+291	-8.5%	-9.9%
Municipal workers (LO)	100	340	<b>226</b>	270	+170	-13.8%	-9.2%
Seko (LO)	104	349	<b>193</b>	278	+174	-13.7%	-10.7%
Food workers (LO)	102	359	327	287	+185	-15.8%	-16.7%
Transport workers (LO)	106	361	296	306	+200	-12.8%	-14.9%
Commercial employees (LO)	95	346	305	335	+240	-15.1%	-15.2%
Wood and forest workers (LO)*	96	365	325	420	+324	-17.4%*	-11.5%
Graphical workers (LO)*	110	364	325	420	+310	-17.4%*	-16.2%
Maintenance workers (LO)	100	351	351	325	+225	-15.3%	-12.8%
Building workers (LO)	116	366	296	425	+309	-11.9%	-11.3%
Hotel and restaurant workers (LO)	97	361	397	430	+333	-35.3%	-31.0%
Alfa (independent)	115	366	305	450	+335	-13.7%	—
Theatre (TCO)	99	375	405	405	+306	-26.2%	-15.6%
Musicians (LO)	115	415	415	415	+300	-37.7%	-18.5%

Notes: €1 = SEK 9.2 (Swedish crowns) in 2007; SEK 9.6 in 2008; SEK 100 = about €10.4 (2008). Monthly fees. Fees up to SEK 155 in italics. Fees SEK 160-230 in bold.

\* The TCO unions of commercial employees (HTF) and employees in manufacturing industry (Sif) merged in January 2008 into Unionen; the unemployment funds of graphical workers and wood and forest workers merged in April 2008 into the GS fund; the respective unions merged in June 2009 into the union GS.

\*\* 31 December 2006 -31 December 2008.

The net fee for hotel and restaurant workers thus rose from SEK 58 (SEK 97 minus 40% tax reduction) to SEK 361. In contrast, the Saco fund AEA had to raise its net fee considerably less, from SEK 56 (SEK 90 minus 40%) to SEK 240. According to the new government measures, the AEA fee should be SEK 320, but on the initiative of AEA the parliament declared this unlawful with fees yielding more to the unemployment insurance than what was paid as unemployment benefits. Consequently, AEA and two other funds covering groups of workers with very low unemployment rates – teachers and financial and insurance sector employees (the two latter with a common fund) – did not have to raise their fees as much as others. These three white-collar funds had about 830 000 members or 25% of members of union unemployment funds (31 December 2006).

The declining unemployment among AEA members made it possible to reduce the fund fee to SEK 150 in May 2008. AEA members top the wage league and so it is not surprising that it experienced much smaller membership losses (5% in 2007) than the fund for hotel and restaurant workers (26%) (Table 6, below).

Owing to the considerably increased fees of most unemployment funds, from January 2007 the union-led funds lost 10% (344 000) of their members in the course of the year (Table 3). Of these, 300 000 were union members and 44 000 directly affiliated. As already mentioned, the average decline of LO funds was 11%. Union-led blue-collar funds in manufacturing managed better (–8%) than those in construction (–10%), the public sector (–11%) and private services (–14%). The fall in TCO funds was also smaller in manufacturing (–8%) than in private services or the public sector (both –12%).

Looking at individual LO unions, the Hotel and Restaurant Workers' Union experienced one of the heaviest losses in 2007 (Table 6). Both men and women left this female-dominated union in large numbers (–19% on average). The same was the case in the similarly female-dominated LO union of commercial employees (–12%) and the male-dominated Union of Transport Workers (–11%). All these unions are in the private service sector. In contrast, the male-dominated IF Metall lost a much smaller share of its members (–6%) in 2007. The largest Swedish union, that of municipal workers – which is female-dominated – lost relatively few members (–6%). The food workers' union was rather unusual in manufacturing industry with regard to its heavy losses (–11%), partly caused by high fund and union fees, partly by higher unemployment owing to intensified international competition in the food industry.

As is evident from Table 2, union density among blue-collar workers between 2006 and 2007 fell more in private services than in manufacturing or the public sector. One of the largest falls occurred among building workers, from 82% to 77%. The Building Workers' Union lost almost 8% of its members in 2007 (Table 6). Two factors were particularly important. First, the boom in the building sector in 2007 led some workers to believe that union membership was less of a priority. Secondly, on top of the rise in the fund fee in January 2007, four months later the union had to raise the union fee

proper, owing to the abolition of so-called inspection fees after a European Court of Human Rights judgment. In the period 2006-2008, the union density of building workers fell by 9 percentage points, from 82% to 73% (Table 2). Among blue-collar workers, the category 'other private services' also experienced a large drop, from 66% to 57%.

**Table 6: Unemployment among fund members, 2007-2009, and change in the number of members in selected unemployment funds and unions, 2007-2008**

	Unemployment (%)**				Change in number of members***			
	Jan. 2007	Jan. 2008	Jan. 2009	July 2009	Funds 2007	Unions 2007	Funds 2008	Unions 2008
Teachers (TCO)	1.3	1.0	1.1	2.7	-3.8%	-1.7%	-0.3%	-1.0%
AEA (Saco)	1.7	1.3	1.5	2.1	-5.3%	-1.1%	+3.1%	+1.7%
Finance and insurance (TCO)	1.4	1.2	1.5	1.9	-5.8%	-4.0%	+2.8%	+2.4%
Electricians (LO)	1.8	1.2	3.5	4.3	-9.9%	+1.2%	+2.2%	+1.1%
Municipal employees (TCO)	2.4	2.1	2.1	2.1	-15.3%	-4.7%	-3.9%	-3.4%
Commercial employees (TCO)*	4.6	-	-	-	-14.3%	-10.4%	-	-
Manufacturing industry (TCO)*	3.4	-	-	-	-8.3%	-5.0%	-	-
Unionen (TCO)*	-	2.7	3.3	4.4	-	-	-1.7%	-2.1%
IF Metall (LO)	5.2	3.6	7.3	10.2	-6.1%	-6.4%	-2.6%	-3.7%
Municipal workers (LO)	3.9	3.2	3.5	3.2	-10.7%	-6.0%	-3.5%	-3.3%
Seko (LO)	5.9	4.6	4.7	3.5	-11.4%	-7.8%	-2.8%	-3.0%
Food workers (LO)	8.1	5.7	6.8	5.9	-12.5%	-11.1%	-3.8%	-6.3%
Transport workers (LO)	5.1	3.8	5.6	5.3	-11.2%	-11.2%	-1.9%	-4.3%
Commercial employees (LO)	6.1	4.6	5.4	5.5	-11.6%	-11.8%	-4.0%	-3.8%
Wood and forest workers (LO)	6.4	5.0	8.2	8.3	-12.4%	-5.8%	-4.9%*	-6.1%
Graphical workers (LO)	5.8	4.3	8.2	8.3	-13.2%	-9.5%	-4.9%*	-7.4%
Maintenance workers (LO)	7.9	6.4	7.0	6.6	-12.1%	-8.0%	-3.6%	-5.2%
Building workers (LO)	6.8	5.1	10.2	10.5	-10.3%	-7.8%	-1.7%	-3.4%
Hotel and restaurant workers (LO)	8.7	7.4	9.1	8.8	-26.2%	-19.1%	-12.4%	-14.8%
Theatre (TCO)	8.0	6.3	8.4	13.0	-15.9%	-11.1%	-12.2%	-5.0%
Musicians (LO)	6.4	4.8	6.9	9.5	-20.9%	-21.0%	-21.3%	-12.1%

Notes:

\* The TCO unions of commercial employees (HTF) and employees in manufacturing industry (Sif) merged on 1 January 2008 into Unionen; the unemployment funds of graphical workers and wood and forest workers merged in April 2008.

\*\* Unemployed as a percentage of fund members; 'part-time' unemployed and unemployed working just a few hours excluded.

\*\*\* Change in the number of members (in percentage terms) between 31 December and 31 December the following year.

## Three categories of workers leaving funds most frequently

Three categories of workers left unemployment funds more frequently than others in 2007. First, low-paid workers facing considerably higher fund fees, above all LO members in the private service sector, among them hotel and restaurant workers, maintenance workers and transport workers. Despite a high risk of unemployment, many felt they could no longer afford to be members of an unemployment fund and/or a trade union.

Another category of employees abstained from fund membership for the opposite reason, namely well-paid workers with only a small risk of unemployment and relatively small fund fees. Among blue-collar workers, the electricians are unusual in this respect. With an unemployment rate of only 1-2% in 2007, 10% of electricians left the unemployment fund, while the membership of the Electricians' Union grew a little (Table 6).

The third category is workers with relatively secure jobs, but with only a few years to retirement. Many public sector blue-collar workers and professional employees belong in this category. Six out of ten Saco members are employed in the public sector. The calculations of many Saco members probably factored in the low risk of unemployment (Table 6) – all state employees are covered by the 1990 Job Security Agreement, doubling the notice period in comparison to the Law on Employment Protection. A comparison between funds demonstrates that persons aged 60-64 were over-represented in 2007 among men and women leaving the Saco fund, the AEA (IAF 2007: 17).

From a survey covering the period 1 September 2006-1 September 2008, it is evident that many older persons left unemployment funds. That is nothing new, since once one reaches 65 one has to give up membership. As expected, the *increase* in the number of drop-outs among 63-64-year-olds was much smaller than among those aged 55-62, but the outflow speeded up considerably also among persons aged 15-54 (SO 2008a).

The membership decline depended not only on the frequency of drop-outs, but also on the number of persons choosing not to join a fund. The largest fall in the number of new members occurred in the age group 15-34. Altogether, unemployment funds (including the independent Alfa Fund and the four funds for employers and the self-employed) lost 150 000 members aged 55-64 and 350 000 of those aged 15-54 between September 2006 and September 2008. Total losses were therefore about half a million during these two years. The decline started shortly after the centre-right victory in the September 2006 election. Two years later, it almost ceased under the influence of the rapidly deteriorating business cycle, except for some funds with very high fees. At the end of 2008, the number of non-members of unemployment funds was 1.34 million persons or 29% of the labour force, implying rapid expansion since the end of 2006, when the share was 17%. This development was caused both by the shrinking number of fund members and by labour force growth of 150 000 since the end of 2005, most of



whom were young people. Many opted not to join an unemployment fund. As we have seen, the membership losses of trade unions were most pronounced among the young.

Although the centre-right government has put its plans for compulsory membership on ice, rapidly increasing unemployment and the high proportion of uninsured persons may in future justify such a move. However, if, in that event, the system of union-run unemployment funds is retained in order to pressure unions to moderate their wage claims, the outcome would be to change the whole nature of the funds. Compulsory membership would deprive the funds of their character as voluntary organisations – the membership fee would in practice be transformed into a tax. In the meantime, from July 2009 the government relaxed the benefit conditions: the rule of 12 months' fund membership before becoming entitled to benefits was temporarily replaced by a 6-month rule. The government also increased its contribution to financing insurance, but rising unemployment forced three LO funds (commercial employees, GS, and hotel and restaurant workers) to raise their fees instead of lowering them by SEK 50, which the government had held out as a possibility. Only one LO fund, that of municipal workers, was able to cut its fee by SEK 50, but on the other hand the fee was raised as late as May of the same year.

## Polarised fund fees from mid-2008

Although there were differences between funds at the beginning of 2007, the considerable increase in *all* fund fees was striking. Due to declining unemployment, many funds had gradually lowered their fees, above all the three white-collar funds – which already at the start of the year had the lowest fees – but also one LO fund, that of electricians.

From July 2008, the centre-right government again altered the system of financing unemployment insurance by introducing a stronger link between membership fees and the rate of unemployment among the members of a fund. Henceforth, every fund had each month to pay an 'unemployment fee' (replacing the 'raised membership fee') to the state, equal to 33% of the income-related benefits paid by the fund during the month. Funds with many unemployed members had to raise their membership fees even further. The total maximum membership fee must not exceed the basic fee (mostly about SEK 100) plus SEK 300. Consequently, the members of some funds have to pay about SEK 400 a month. Most fund fees were lowered, at least temporarily.

In the second half of 2008 (Table 5), union unemployment funds could be divided into three groups with regard to the level of fees (for union members):

*Funds with a monthly fee of SEK 155 at most:* AEA (Saco unions and the TCO nurses' union), the funds associated with the TCO unions of teachers, financial employees and insurance employees and the fund of the LO union which organises electricians.



*Funds with a fee of about SEK 190-225*, associated with four TCO unions of public sector employees, three private sector TCO unions (among them the largest white-collar union in Sweden, Unionen), an independent white-collar union and two LO unions (IF Metall and the Municipal Workers' Union).

*Funds with a fee of about SEK 280-415*, associated with the unions of white-collar workers in forestry and agriculture (TCO), building workers, painters, transport workers, paper workers, commercial employees in LO, graphical workers, wood and forest workers, maintenance workers, food workers, hotel and restaurant workers, theatre employees (TCO) and musicians.

The group with the lowest fees included all Saco unions, four TCO unions and one LO union. In the middle group, there were seven TCO unions, two LO unions and one independent white-collar union. The group with the highest fees contained two TCO unions and 11 LO unions. The first group was dominated by white-collar unions, in particular those recruiting university-educated professionals, while the third group was dominated by blue-collar unions. The middle group was a mixed group – although white-collar unions made up the majority, it also contained the two largest blue-collar unions in Sweden.

In 2008, the membership decline slowed down with regard to both unions and unemployment funds owing to fee reductions on the part of many funds and, at the end of the year, the rapidly deteriorating business cycle (Table 6). The increasingly diverging fund fees – and so also diverging total union fees – were reflected in divergent membership development with regard to national unions and union confederations. Already in 2007, there were large differences between LO, TCO and Saco/AEA with regard to membership losses in funds and unions. In both 2007 and 2008, LO was exposed to the largest losses (Tables 3 and 6). In 2007, the number of members fell by almost 8%, on average, with an 11% fall in the case of LO funds, but 'only' 5% with regard to the TCO unions. In relative terms, the difference was still greater between the decline in Saco union membership of 1% in 2007 and that of the AEA Fund, at 5%. Some convergence occurred in 2008, in the sense that the average overall decline of unions and unemployment funds was the same (–2%).

In 2008, LO unions lost twice as high a proportion of their members as TCO unions did (and twice as high a proportion of fund members), while Saco *increased* as much as TCO declined. In terms of more precise data, the divergence between LO and TCO widens still further: in 2008, TCO lost just 1.75% (in 2007, 5%), but LO as much as 4% (in 2007, 7.7%).

Another indicator of divergence is obtained when comparing the development of union density for blue-collar and white-collar workers: from 2006 to 2007 there was a large decline in both cases, but from 2007 to 2008 the fall was substantially greater among blue-collar workers (from 74% to 71%) than among white-collar workers (from 73% to 72%)

– Table 2). In addition, there were growing differences between unions and between unemployment funds. The Municipal Workers' Union, which in July 2008 reduced its fund fee from SEK 337 to SEK 220, halved its losses (from 6% in 2007 to 3% in 2008), while the Hotel and Restaurant Workers' Union, which had to raise its fund fee from SEK 361 to SEK 397, continued to lose members (19% in 2007 and 15% in 2008 – Table 6).

A comparison of union density by industry also shows increasing divergence in 2008. While the fall in manufacturing slowed down, that was not the case among blue-collar workers in private services: in both 2006-2007 and 2007-2008, density decreased by 4 percentage points (Table 2). Union density among building workers declined almost as much from 2007 to 2008 as from 2006 to 2007. The small losses of blue-collar manufacturing unions in 2008 may be attributed partly to the sharply worsening economic situation during the autumn. In addition, in July 2008, IF Metall was able to cut its fund fee from SEK 330 to SEK 224. As is evident from Table 5, the fees of all LO funds in private services remained at a very high level throughout 2008.

In January 2009, the *total* union fee (including fund fee) still exceeded SEK 600 per month in all LO unions in the private service sector, reaching almost SEK 700 for the Hotel and Restaurant Workers' Union and even more for the Maintenance Workers' Union. The total union fees for building workers and food workers also exceeded SEK 700. In contrast, the total union fees of the two largest Saco unions, the Association of Graduate Engineers and the National Union of Teachers, were SEK 360 and SEK 400, respectively. Among some TCO unions the figure was lower than SEK 400.

The fact that the union fee proper – that is, excluding the fund fee – of LO unions is, almost without exception, higher than corresponding TCO and Saco fees underlines the difference between blue-collar and white-collar unions. In addition, the wages of many white-collar workers, particularly university-educated professionals, are twice as high (or more) than those of most full-time hotel and restaurant employees. The considerably increased fund fees from January 2007 raised the total union fees of a number of LO unions to such high levels that many workers felt that they could no longer afford to pay or, alternatively, that union membership fees were not value for money.

On the other hand, the Electricians' Union expanded its membership. The members of this union had the lowest fund fee within LO, while their wages considerably exceeded those of members of low-wage LO unions. Up to May 2009, IF Metall was located somewhere in the middle within LO, with regard to fees, wages and membership decline. From May 2009, the IF Metall Fund had to raise its fee from SEK 209 to SEK 384, as a result of which the total union fee approached SEK 700 per month. In contrast to the Municipal Workers' Union and most other unions, IF Metall has no supplementary 'income insurance'. Owing to the rapidly increasing unemployment in 2009, such insurance would have been very expensive and raised the union fee by at least SEK 150 per month. The income insurance provided by the Municipal Workers'

Union is much less expensive due to lower unemployment and lower wages among its members, many of whom earn less than the unemployment insurance ceiling.

The reduction of fund fees (SEK 50 per month) enacted by the government in July 2009 in itself increased the differentiation between funds as the relative reduction was greatest with regard to the funds with the lowest fees. With rapidly accelerating unemployment, particularly in export industries, IF Metall was not the only fund that had to raise its fees considerably. In May 2009, the fund managed by the Building Workers' Union raised its fee from SEK 296 to SEK 425. Together with the union fee proper, that makes a total of about SEK 850 per month. Both the Municipal Workers' Union and IF Metall moved from the middle group to the group with the highest fund fees. A month earlier, the Hotels and Restaurants Fund had increased its fee to SEK 415, resulting in a total union fee of SEK 710.

The polarisation of wage- and salary-earners in terms of fund fees was further reinforced when the Saco fund AEA and the TCO funds of teachers and of finance and insurance employees lowered their fees to SEK 90 in July 2009. The TCO fund of municipal employees also reduced its fee. By so doing, it moved from the middle group to the same group as AEA. The AEA fee is now back at the same level as before 2007, while the members of the IF Metall Fund have to pay more than ever. The polarisation in unemployment funds tends to be self-reinforcing, as members leave the expensive funds (reducing their revenues) and university-educated professionals from TCO funds gravitate to AEA (the largest unemployment fund in Sweden) owing to its low fee.

The gap between high-wage and low-wage workers with regard to fund fees also has an ethnic dimension, since foreign-born workers are over-represented among blue-collar workers in the private service sector – in other words, in industries with many low-paid workers, a high risk of unemployment and very high fund fees. Excluding the wholesale and retail trade, in 2008, foreign-born workers comprised 25% of blue-collar workers in private services, while more than one-third of members of the Hotel and Restaurant Workers' Union were born abroad (2004 figures). In the two-year period 2007-2008, the union lost almost one-third of its members and the unemployment fund more than one-third. From 2006 to 2008, the blue-collar union density in the hotels and restaurants sector fell from 52% to 40%, more than in any other industry, including construction.

In the same period, the overall decline of union density was greatest among foreign-born workers, with exception of Nordic immigrants. Private sector union density declined by 5 percentage points among both native Swedes and Nordic immigrants, but by almost twice as much among non-Nordic immigrants, or from 69% in 2006 to 60% in 2008 (the average for all private sector workers was six points, from 71% to 65%). Besides immigrants, there is a high share of young workers in private services, not least in hotels and restaurants. In this context, the large membership drop among young workers is not surprising (Table 1).

## Accelerating erosion of the Swedish Ghent system

A number of developments are undermining the Swedish Ghent system:

- the growing proportion of non-union workers directly affiliated to union unemployment funds and the rapidly increasing share of union members not affiliated to an unemployment fund;
- the heavy membership decline, which, in 2007, hit the unemployment funds more than the unions, while in 2008 they were affected more or less equally as the decline continued, but to a lesser degree;
- the hollowing-out of benefits;
- the expansion of supplementary insurance schemes financed and managed by the unions themselves (not by union unemployment funds) in order to compensate for low benefits for those earning more than the ceiling of the unemployment insurance, that is the highest monthly wage compatible with benefits amounting to 80% of previous earnings.

Even before 2007 many fell through the ceiling of the insurance, which had not been raised since 2002, despite increased wages. From January 2007 the ceiling was *lowered* to SEK 18 700 per month. For an unemployed metalworker with a previous monthly wage of SEK 25 000 this implies a monthly benefit of SEK 14 960 (80% of SEK 18 700) *before* tax. The absence of 'job tax deduction' (introduced to stimulate job-seeking) results in a relatively high tax for the unemployed. To avoid further rises in the union fee, IF Metall belongs to the small group of unions with no supplementary income insurance. Such insurance may function as an incentive to join a union. Many LO unions introduced supplementary insurance in 2007. Most Saco unions and several TCO unions had income insurance before 2007.

Both the hollowing-out of benefits and the growth of union supplementary insurance are contributing to undermine the legitimacy of the Swedish Ghent system. In 2007, more than 50% of unemployed fund members received benefits corresponding to less than 80% of previous earnings. In autumn 2008, three-quarters of full-time employees who became unemployed received less than 80% in benefits (SO 2008b). The heavy membership losses in 2007 constitute clear evidence of the legitimacy crisis which arose when fund fees were raised substantially. The membership losses undermined legitimacy even further. The large number of persons choosing to remain outside the funds, together with the growing number of young people and immigrants in the labour force, caused the share of unemployed people entitled to fund benefits to decrease from 77% in 2000 to 57% in 2008 (Ura 2008:4 p. 110). As a consequence, the municipalities had to increase social benefits.

Like the Hotel and Restaurant Workers' Union and the Municipal Workers' Union, most of the members of the Commercial Employees' Union (LO) are women, mainly

low-paid and many part-timers. In the retail trade (non-durable goods), as many as six out of ten work part-time and often 10% of their net wage is required to pay union and fund fees (*Svenska Dagbladet*, 8 September 2007). Consequently, it is not surprising that in 2007 around 12.5% of members left the union. From April 2008, the benefit period for unemployed part-timers was reduced from 300 days to 75 days. The reasons were to prevent unemployment insurance from functioning as a complementary wage and to encourage part-timers to seek full-time jobs. The government hoped that the new scheme would push employers into recruiting more full-time workers, but this has not happened and the burden falls almost exclusively on part-timers themselves, three-quarters of whom are women.

## Differentiated fees to influence wage formation

During the period 1989-2006, unemployment funds redistributed membership fees in a solidaristic way. Together with the high level of state subsidies, this meant that there was virtually no connection between fees and the unemployment rate among the members of a fund (Holmlund and Lundborg 1999: 403). The aim of abolishing the redistribution system and raising fund fees significantly, particularly in industries hit by severe unemployment, was to influence wage formation. The Swedish economists Bertil Holmlund and Per Lundborg argued that unemployment-related fund fees would work well as a 'policy that raises the marginal cost of wage increases' and would thereby be 'unambiguously good for employment' (*ibid.*: 413). The idea was that, by putting pressure on unions to lower their wage claims, more jobs would be created. They also asserted a more direct effect of reducing government support to unemployment funds. In a Ghent system, the level of state subsidy of unemployment insurance is considered 'one of the crucial factors' influencing union density. Reduced subsidies would have a negative impact on union membership and consequently result in more moderate wage increases as the balance of power shifted between the social partners. Conversely, heavily subsidised Ghent systems 'always raise the unionisation rate' and weaken wage moderation (or increase wage pressure – *ibid.*: 412).

To summarise, a system with lower state subsidies would (i) deter trade unions from high wage claims, and (ii) weaken unions as they will lose members as a result of increased fund fees caused by the decreased state subsidies and in case of increased unemployment. The assumption is that union fees in a Ghent system will increase about as much as fund fees.

Both low benefits and raised fees are aimed at moderating wage increases. Increased fund fees are thought to function as a kind of penalty tax on wage increases which tend to increase unemployment. In addition, unions risk losing members. The size of fund fees, therefore, should be linked to the level of unemployment among the members of each fund. In January 2007, however, *all* fund fees were raised significantly, although

to a lesser extent in the case of AEA and a few TCO funds. That was logical as the government used the increased fees partly to finance the simultaneous cut in income taxes, which on the other hand benefited only the employed. As a result, the raised fund fee in practice functioned as (i) a reversed job tax deduction, and as (ii) a kind of tax on fund membership itself. It appears paradoxical that fund fees were raised sharply and in most cases remained at a very high level in a year distinguished by relatively low and declining unemployment. The good economic prospects accelerated the membership losses of unemployment funds and unions, as some workers considered the risk of unemployment and the need for union support to be small.

According to Holmlund and Lundborg, the effect of heavily subsidised Ghent systems in raising union density and weakening wage moderation is reinforced if the workers are strongly risk averse (1999: 142). In that case, unemployment is perceived as a threat to be taken seriously and workers are inclined to take action to avoid it or at least to minimise its effects. The very heavily subsidised Swedish Ghent system up to 2007 and the existence since 1974 of the Act on Employment Protection, which assigned unions important negotiating tasks in case of redundancies, put before risk averse workers the choice of joining or not joining an unemployment fund and/or a trade union. Both funds and unions could be expected to attract more (risk averse) workers during depressions than in good times. That is exactly what has happened in Sweden in the last 20 years. During the strong labour market of the late 1980s, union density declined, turning upwards again during the deep depression of the early 1990s. Since the mid-1990s, the Swedish labour market has recovered and union density again declined.

The relatively low unemployment in 2007 certainly reinforced the membership losses of unions and unemployment funds. Secondly, the 2007 bargaining round was distinguished by *less* wage moderation than any other round since the 1997 Industry Agreement, which marked a turning-point in gearing down the previously high nominal wage increases. The Commercial Employees' Union (LO), in particular, managed to lift the wages of its many low-income members in 2007. The ambition of LO was to obtain especially large wage increases for unions with many low-paid women, such as the Municipal Workers' Union, the Commercial Employees' Union and the Hotel and Restaurant Workers' Union. In contrast to many other groups, unemployment among hotel and restaurant workers was high (7-9%) in 2007. Considering that the Hotel and Restaurant Workers' Union won a substantial wage increase in its national agreement for 2007-2010, government policy did not appear to be very successful. If this and other unions with many low-paid members had accepted lower wage increases, they would probably have risked still larger membership losses. Swedish research on the motives of workers for joining or leaving unions or for retaining their membership concludes that not only the size of the membership fee, but also the experienced *utility* of membership plays a prominent role among considerations with regard to belonging to a trade union or not (Bruhn 1999; Kjellberg 2001). Unions organising large low-paid groups also have an interest in raising wages to encourage members to feel that they can afford to pay fees.



From July 2008, fund fees became more closely linked to unemployment levels, which caused a sharper differentiation between the fund fees of different categories of workers. In general, high-wage employees had to pay the lowest fees, while low-wage groups of blue-collar workers now paid the highest fees. This pattern was appearing increasingly before mid-2008, but now it was heightened. The rapidly deteriorating economic crisis in autumn 2008 and winter 2009 resulted in lay-offs in the Swedish engineering sector of a magnitude not seen since the depression years of the 1930s. In this way, well-paid blue-collar workers were also hit by rising unemployment and higher fund fees.

To avoid further mass redundancies – or at least to check their acceleration – in March 2009, IF Metall signed a historic temporary ‘Crisis Agreement’ with the Engineering Employers’ Association and other employers’ associations. The one-year agreement, which might be considered a supplement to the regular three-year agreement 2007-2010, opens the way for local negotiations on reducing working time by up to 20% and a corresponding reduction of the monthly wage, although hourly wages should not be affected. Such local agreements may include unpaid in-house training.

A combination of extremely pressing circumstances more or less forced IF Metall to accept an agreement which is reminiscent of German opening clauses. First, as many as 25% of the members of the IF Metall Fund were expected to become unemployed in the near future. Secondly, the low ceiling of unemployment benefits meant that many unemployed IF Metall members received benefits to the value of only 50-60% of their previous wage. Besides high fund fees and low benefits a third component of government policy influenced the Crisis Agreement, namely the reluctance to subsidise severance pay and training in enterprises in order to limit lay-offs. The old system of state-subsidised severance pay was abolished in 1995 by a Social Democratic government. Fourthly, compared to other countries, Swedish legislation is extremely generous with regard to the duties of employers in case of closing plants. Compared to many other countries their costs are very low in such cases. Rapidly deteriorating order books therefore tempted transnational companies to close their operations in Sweden. Threatened by lay-offs and closures, many workplace unions were willing to accept wage cuts. That certainly influenced the readiness of the union to conclude a frame agreement as a basis for local negotiations. The Crisis Agreement was, therefore, a result of both the deep economic crisis and a number of components of government policy.

Leaving collective bargaining aside and instead looking at individual behaviour, the remodelled Swedish Ghent system may have a dampening influence on wage formation in other ways than mentioned so far. The reduced benefits and sharpened sanctions against people not accepting work that might be offered to them may depress wages in parts of the labour market. Both the reduced benefits and the ‘job deduction’ (reduced taxes for employed persons) are aimed at stimulating (or pressuring) the unemployed to get a job. To the extent that reduced wages are accepted by jobseekers (so-called reservation wages), both the output of workers and output in terms of jobs (demand for labour) might be stimulated.

## Conclusions

Owing to the profound changes in unemployment insurance made by the centre-right government, which came to office in September 2006, the erosion of the Swedish Ghent system has accelerated. The considerably increased fees of union unemployment funds, aimed at pressuring unions to moderate their wage claims, have caused massive membership losses in both unions and funds. In 2007, union unemployment funds lost almost twice as many members as the unions did. In a period of one year, union density declined by 4 percentage points, which is unique in modern Swedish history and remarkable also from an international perspective. Blue-collar unions in private services were particularly hard hit.

In 2008, membership losses were less extreme, but trade unions now lost almost as many members as the union unemployment funds. Union density declined by 2 percentage points. In the course of two years, density thus fell by 6 percentage points, from 77% in 2006 to 71% in 2008. Private sector density dropped from 71% to 65%, implying a union density considerably lower than the density of employers' associations, which in 2008 covered 80% of private sector employees.

A new phenomenon in 2007 was the rapidly growing share of union members standing outside unemployment funds, some because they could not afford to pay the high fees, others due to what they considered a low risk of unemployment. In 2008, both the direct affiliation of non-union members to funds and the share of union members abstaining from fund membership expanded.

The massive membership losses in 2007 were caused by the sharply raised fees of *all* union unemployment funds, although a differentiation of fees took place subsequently. In July 2008, the differentiation was reinforced considerably as the government now linked fund fees more closely to unemployment among the members of each fund. The aim was to get raised fund fees to function as a kind of penalty tax on wage increases that result in rising unemployment. The strongly socially segregated Swedish union structure, together with higher unemployment among blue-collar workers in comparison to white-collar workers, meant that the increased differentiation of fund fees resulted in a growing social polarisation. In general, blue-collar workers in the private service sector have to pay the highest fees, while their wages are among the lowest in Sweden. Conversely, the members of the white-collar Saco fund AEA, many of whom are at the upper end of the wage scale, pay considerably less due to low unemployment among its members. In the wake of the present economic crisis, large groups of well-paid blue-collar workers saw their fees go up significantly from May 2009, in particular the members of the IF Metall Fund and the Building Workers' Fund.

The reinforced differentiation of fund fees from July 2008 took place too late to influence the 2007 bargaining round, which resulted in three-year agreements – 2007-2010 –



which contained *larger* annual wage increases than during the preceding ten years. In particular, blue-collar unions with many low-paid members were successful, despite relatively high unemployment among members and high fund fees. In March 2009, the changes to the Ghent system, including the reinforced fee differentiation, finally appeared to be catching up with trade unions and wage formation. Rising fund fees and the low income ceiling for unemployment benefits were two important circumstances which pushed IF Metall into signing the historic Crisis Agreement in March 2009. Although hourly wages were unaffected, the agreement opened the way for local agreements on 20% shorter hours without compensation. Despite the deep economic crisis the government refused to restore or modify unemployment insurance (fund fees, benefit levels) or to reintroduce state-subsidised severance pay or grant financial support for training in the workplace. Together with the rapidly rising unemployment in the heavily export-oriented Swedish manufacturing industry, the actions – and inaction – of the government explain the birth of the Crisis Agreement.

The centre-right government – led by the Moderate (formerly Conservative) Party (Moderata Samlingspartiet), calling itself ‘the New Labour Party’ – has avoided appearing openly anti-union and on the whole supported the union side in the *Laval* case. It has also refused to comply with strong employer demands for restricted rights in industrial disputes and what in practice would mean abolishing the Law on Employment Protection. Nevertheless, by changing the Swedish Ghent system the government caused a fall in union density with no parallel in modern Swedish history. Secondly, a number of other components of government policy paved the way for the historic March 2009 Crisis Agreement. When the Confederation of Swedish Enterprise (SN) later in the same month refused to continue negotiations on a new basic agreement, prominent SN representatives declared that, besides changed legislation, agreements at lower levels, such as the Crisis Agreement, might be a better alternative than a basic agreement between peak organisations. If the employers’ demands were met, it would mean expanded state regulation of industrial relations (dispute rights, and so on), increased decentralisation and flexibilisation of wage formation and employment conditions, and thereby also a shift of power from employees and unions to employers.

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