Attacks on union organizing

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Attacks on Union Organizing
Reversible and Irreversible Changes to the Ghent-systems in Sweden and Denmark

Anders Kjellberg and Christian Lyhne Ibsen

Introduction

In this chapter, we analyse the motivation and consequences of Swedish and Danish reforms of the Ghent-systems. While still among the best organized in the world, Swedish and Danish trade unions have experienced declining densities in the recent two decades. We trace this decline to institutional changes to the Ghent-system in both Sweden and Denmark by bourgeois governments.

A key explanation for the relatively high union densities in the two countries is the union administered unemployment benefit systems, which have created a norm for employees of having dual-membership of both unemployment insurance funds and trade unions (Due and Madsen 2007; Due et al. 2010). After the reforms, more and more workers would chose to free-ride on the collective agreements that unions have negotiated with employers. Institutional changes to the Ghent-system of unemployment insurance, thus, weakened unions in both countries.

In Sweden, the bourgeois attack on union organizing involved an increase in unemployment insurance costs by raising fund fees considerably in January 2007, and by the tighter aligning of the fees with the risk of unemployment from July 2008. By reducing the incentive to join unemployment insurance funds, the incentive to join unions also diminished and union densities fell dramatically, from 77% in 2006 to 71% in 2008 (table 1). The introduction of differentiated fund fees then caused a very dissimilar development of union density among blue-collar workers...
compared to white-collar workers due to the considerably higher rate of unemployment among the former. Starting from an equal density in 2006 (77%), the blue-collar density fell to 66% in 2013, while the white-collar density, after dropping to 72% in 2008-09, recovered to 73% in 2010-13. In the private sector, the contrast is even more marked.

In Denmark, the attack came in a different way. The government abolished the traditional requirement for employees to join unemployment insurance funds within their occupations in 2002. By allowing cross-occupational funds to tap into the hitherto occupational monopolies of the traditional occupational unemployment insurance funds, a new market for unemployment insurance – and thus, an alternative to union administered funds – was created. Consequently, cross-occupational unemployment funds offered membership of wage-earner organisations that are not party to collective agreements and, therefore, can offer low-cost memberships. Especially, the LO-related unions were hit hard by the competition that made the secular decline due to structural changes in the labour market even worse. In 2000, LO-related unions accounted for 62.4% of all union members. By 2015, the LO-share of union members was down to 46.7%. By contrast, the alternative unions went from 3.6% of all union members in 2000 to 14% in 2015.

While the effects of the reforms on union densities for traditional unions were dramatic in both countries, the reversibility of the reforms turned out to be quite different. In Sweden, the increase in membership fees could be rolled back and the unemployment benefit has been increased. In contrast, the Danish liberalization of unemployment has proven irreversible – even under a Social Democratic government – and wage-earners continue to flow into the alternative organisations, while the LO-related unions continue to bleed members.

The chapter is structured as follows. First, we describe the similar causes of high union density in the two countries. Second, we analyse the Swedish reforms and the effects they had on union densities for different groups of workers. The Swedish analysis shows that the reforms in Sweden – while dramatic – were reversible when the political climate changed. Despite this, the cleavage between white-collar and blue-collar union densities is still growing. Third, we analyse the Danish reforms and the effects they had on union density. In Denmark, the changes have proven irreversible with the effect that Danish trade unions that negotiate collective agreements are now in fierce competition with alternative organisations.
Similar causes of high union densities in Denmark and Sweden

Figure 1 shows the development of union density across selected OECD countries in 1994 and 2013. Clearly, the Ghent-countries, Belgium, Denmark, Finland, Iceland and Sweden stand out as countries with high union densities. Norway does not have a Ghent-system. From 1994 to 2013, we also see that the general trend has spread to Sweden and Denmark with substantial declines in both countries. In the following, we will show how this decline was not only a secular decline, but also politically manufactured. First, we provide some background on the similar causes for high union density in Denmark and Sweden. It is appropriate to view the Danish, Finish Norwegian and Swedish labour market models as versions of the Nordic ‘family’ which share multiple common features that are conducive to high rates of unionization.

**Source:** OECD.stat 2016 based on various national sources (surveys or administrative data) compiled by Jelle Visser

**Note:** Union density refers to share of union members out of total number of wage and salary earners

*Figure 1. Union density across selected OECD-countries 1994 and 2013.*
A key common feature of the Danish and Swedish models is the union-led state-supported unemployment funds, usually labelled as Ghent systems. In countries with non-mandatory union membership, unionization is subject to free-rider problem when the public goods produced by trade unions – typically the collective agreement – can be enjoyed at no extra cost and with no exclusivity by non-members (Olson 1965). The Ghent system solves this problem by providing a selective incentive – unemployment insurance for the individual – when union and unemployment fund membership are viewed as one (Due and Madsen 2007; Lind 2009). As we will see, the Danish and Swedish Ghent systems are far from identical, although both, like the Finnish counterpart, have promoted an internationally very high union density. The Ghent-system for decades made high union density relatively resilient to both economic cycles and structural changes in the labour markets. In contrast to non-Ghent countries, union density in the past even tended to increase during recessions and decline in times of tight labour markets (Björklund et al. 2015, 273; Pedersen 1990).

Another basic characteristic is the key role of collective agreements, which means that trade unions together with employer associations account for a significant part of the labour market regulation. This is based on a high coverage of collective agreements and a high density of trade unions and employer associations. The regulation by the labour market parties themselves is often called self-regulation in contrast to state regulation (Due et al. 1993). Neither of the two countries, for example, has legislation on minimum wages or state mechanisms to extend collective agreements to whole industries. Such legislation could be considered a sign of union weakness.

Moreover, Danish and Swedish industrial relations share the combined centralization and decentralization distinguished by co-operative labour market parties (Due et al. 1993). Together with the high density of employer associations, it has prevented a fragmentary union coverage and promoted a high coverage of collective agreements. Through decentralization, referring to the extensive coverage of union workplace organizations, unions are brought close to the rank-and-file members (Kjellberg 2009 a). The close articulation of bargaining at central and local level is called centralized decentralization in Denmark (Due et al. 1993), and in Sweden described as combined centralization and decentralization (Kjellberg 1992). Union presence at workplaces is important for recruiting and keeping members through face-to-face contact and by giving the union a
capability of providing results in interaction with the members directly at the workplace. The local union of course has a clear role also when central agreements are implemented by local negotiations. In countries with no or few industry-wide agreements, as in the UK, workplace unions tend to be weakened and union density to be low. Both one-sided decentralization and one-sided centralization appear to retard the rate of unionization.

In contrast to most countries, Scandinavian countries have a socially divided union structure, containing a confederation dominated by blue-collar unions (LO), a confederation of professional associations recruiting graduates (Danish AC; Swedish Saco) and another confederation of white-collar unions (Danish FTF, Swedish TCO) recruiting both graduates and non-graduates. This pattern is most pronounced in Sweden, where it is reinforced by the wide definition of blue-collar workers (Kjellberg 2000). The number of affiliates to the LOs has been reduced considerably by mergers, particularly in Denmark. As a result, the historically very fragmented Danish LO, which included many occupational unions, has become more similar to its Swedish equivalent, but never shifted to pure industrial unionism (Due and Madsen 2001). In both countries, the relatively homogeneous social composition of each union is conducive to solidarity among the different categories of workers and facilitates membership recruitment.

The Danish union movement, however, is challenged by several emerging yellow unions, which are not covered by the Basic Agreements between union confederations and employer confederations and have a negligible role – if any – in collective bargaining. Alternative unionism, among them the Christian union, Krifa, had very modest membership figures throughout the 20th century, but exploded in membership after the recent reforms of the unemployment funds. Such alternative unions never prospered in Sweden and the recent reforms did nothing to change this. We reflect on this difference below in the comparative analysis.

Finally, the high proportion of public sector employees, which usually have a higher rate of unionization than private sector workers, is also conducive to a high union density in the Scandinavian countries. Often this is driven by strong profession-based unions in the public sector, strong public collective bargaining systems and lower labour turnover (Due et al. 2010).
Analysis

The data on unionisation reported in the analysis is based on previous research by the authors. The figures for Sweden are primarily based on calculations of labour force survey data and union membership data from the trade unions (see Kjellberg 2013 for more on the data and methods). The figures for Denmark are primarily based on calculations of administrative data provided by Statistics Denmark and union membership data from the trade unions (see Ibsen et al. 2011 for more on the data and methods). The figures for Sweden and Denmark are not calculated in the same way and cross-national comparisons are only indicative. Rather than comparisons of levels of union densities across countries, we are mostly interested in intra-country trends over time and similarities and differences of these trends across countries.

The remodelling of the Swedish unemployment insurance

Never before in the Swedish history did government intervention have such a negative impact on union density as the actions taken by the centre-right government in 2007 and 2008. It involved significantly raised fees to unemployment funds from January 2007 and a closer link between the fees and the unemployment in each fund from July 2008 (Kjellberg 2011 a). To pave the way for this, the government dismantled the system of solidaristic redistribution of fees between the funds. Secondly, tax deductions on fees to unions (25%) and unemployment funds (40%) were abolished.

The incentive to join unions diminished and union densities fell dramatically, from 77% in 2006 to 71% in 2008 (table 1). In the years 2007 and 2008, Swedish unions lost in all 245 000 members, or 8% of active union members. Considering the long-term decline in union density – on average less than one percentage point per year from 1999 to 2006 –, it is remarkable from both a short- and a long-term perspective that such a large subsequent drop of six percentage points occurred in the course of just two years. In the preceding two-year period, the decline had been limited to two percentage points (from 79% in 2004 to 77% in 2006), but then the union density suddenly began to fall three times faster. About two thirds of the six-point drop in 2007 and 2008 could be attributed to the remodelled Swedish unem-
The changed composition of the labour force was one of the long-term developments causing the preceding gradual union decline. Another was the gradual erosion of the dual-membership of unions and union funds starting in the 1980s.

Table 1. Union membership and union density in Sweden 1985-2015.

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<tr>
<td>1985</td>
<td>2.004</td>
<td>1.108</td>
<td>21</td>
<td>21</td>
<td>3.352</td>
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<tr>
<td>1990</td>
<td>1.962</td>
<td>1.144</td>
<td>20</td>
<td>21</td>
<td>3.388</td>
</tr>
<tr>
<td>1993</td>
<td>1.955</td>
<td>1.148</td>
<td>29</td>
<td>21</td>
<td>3.412</td>
</tr>
<tr>
<td>1994</td>
<td>1.753</td>
<td>1.045</td>
<td>35</td>
<td>79</td>
<td>3.232</td>
</tr>
<tr>
<td>1995</td>
<td>1.587</td>
<td>1.040</td>
<td>42</td>
<td>87</td>
<td>3.133</td>
</tr>
<tr>
<td>2000</td>
<td>1.442</td>
<td>975</td>
<td>425</td>
<td>87</td>
<td>2.922</td>
</tr>
<tr>
<td>2005</td>
<td>1.385</td>
<td>958</td>
<td>420</td>
<td>83</td>
<td>2.856</td>
</tr>
<tr>
<td>2006</td>
<td>1.318</td>
<td>963</td>
<td>427</td>
<td>86</td>
<td>2.829</td>
</tr>
<tr>
<td>2007</td>
<td>1.267</td>
<td>1.043</td>
<td>454</td>
<td>94</td>
<td>2.898</td>
</tr>
<tr>
<td>2010</td>
<td>1.271</td>
<td>1.061</td>
<td>486</td>
<td>101</td>
<td>2.926</td>
</tr>
</tbody>
</table>

Remarks. Membership in 1000s, including unemployed union members. Pensioners, students and in Saco also self-employed are excluded. Union density refers to employees (i.e. excluding unemployed) 16-64 years excluding full-time students working part-time (employed union members as a per cent of employed workers).

Sources. Information from union headquarters (number of union members) and Statistics Sweden (labour force surveys on union density).

1. The average annual decline from 1993 to 2006 was just 0.6-0.7 percentage points among blue-collar workers and 0.5 percentage points among white-collar workers. In the seven years 1999-2006 it varied from zero to just over 1 percentage point, and was significantly greater among blue-collar workers (on average almost 1 percentage point per year) than among white-collar workers (0.5 percentage points). As a result, blue-collar density (84% in 1999, 77% in 2006) and white-collar density (80% in 1999, 77% in 2006) converged.
The losses of union unemployment funds were larger or 399,000 fewer members (minus 11%) at the end of 2008 than two years earlier (table 2). The independent Alfa Fund, whose fee was higher than that of almost all union funds, lost 12,000 members (minus 14%) and the funds for employers and self-employed 51,000 (minus 27%). The proportion of the labour force outside unemployment funds became almost twice as large in the space of a few years: from 16% at the end of 2005 to 30% at the end of 2008 or in numbers from about 700,000 to 1,400,000 people.

The government made the unemployment insurance less attractive also by hollowing out benefits. From January 2007, compensation levels were reduced and unemployed recent graduates were entitled to no benefits at all. In 2008, the benefits for part-timers looking for a full-time job were worsened. Furthermore, the ceiling of the insurance (the highest monthly wage compatible with benefits amounting to 80% of previous earnings) was not adjusted upwards between 2002 and September 2015. This resulted in an expansion of supplementary insurance schemes financed and managed by the unions themselves in order to compensate for low benefits for those earning more than the ceiling. The blue-collar LO unions IF Metall and the Construction Workers’ Union, risking high unemployment among their members, have no such schemes as they would be very expensive and cause greatly increased union fees. The expanding white-collar TCO union Unionen has recruited many new members by its income insurance, which is not a financial burden for the union due to the relatively low unemployment among the members.

With considerably raised fund fees in 2007, both blue-collar and white-collar unions lost several members in this year. From 2006 to 2007, the union density fell as much among white-collar workers as among blue-collar workers, or by 3.4 and 3.5 percentage points respectively (table 1). Only when the government in July 2008 more closely linked fund fees to the unemployment rate for each fund, did the higher unemployment among blue-collar workers compared to white-collar workers polarize fees in socio-economic terms. Since the subsequent economic crisis hit private sector blue-collar workers harder than other employees, the socio-economic polarization of fees was further widened, which in turn was reflected in the development of union density. The increasingly differentiated fund fees – and thereby also total union fees – were accompanied by an increasingly divergent trend in membership of blue-collar and white-collar unions. From 2007 to 2010, the blue-collar density decreased by 5 percentage points in contrast to a very small white-collar decline.

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<tbody>
<tr>
<td>LO funds</td>
<td>1.837</td>
<td>1.823</td>
<td>2.004</td>
<td>1.878</td>
<td>1.738</td>
<td>1.719</td>
<td>1.533</td>
<td>1.484</td>
<td>1.464</td>
<td>1.489</td>
<td>1.509</td>
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<tr>
<td>TCO funds</td>
<td>1.299</td>
<td>1.355</td>
<td>1.280</td>
<td>1.203</td>
<td>1.112</td>
<td>1.095</td>
<td>0.979</td>
<td>0.958</td>
<td>0.970</td>
<td>1.004</td>
<td>1.012</td>
</tr>
<tr>
<td>AEA fund</td>
<td>221</td>
<td>271</td>
<td>319</td>
<td>427</td>
<td>595</td>
<td>596</td>
<td>564</td>
<td>582</td>
<td>628</td>
<td>678</td>
<td>687</td>
</tr>
<tr>
<td>(Saco)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Other union funds</td>
<td>23</td>
<td>21</td>
<td>27</td>
<td>92</td>
<td>103</td>
<td>104</td>
<td>92</td>
<td>91</td>
<td>96</td>
<td>98</td>
<td>98</td>
</tr>
<tr>
<td>Alfa fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>26</td>
<td>77</td>
<td>86</td>
<td>75</td>
<td>74</td>
<td>74</td>
<td>91</td>
<td>97</td>
</tr>
<tr>
<td>Employers' funds</td>
<td>51</td>
<td>85</td>
<td>135</td>
<td>168</td>
<td>182</td>
<td>185</td>
<td>145</td>
<td>134</td>
<td>140</td>
<td>132</td>
<td>131</td>
</tr>
<tr>
<td>Density all funds</td>
<td>78,0%</td>
<td>77,1%</td>
<td>85,0%</td>
<td>84,5%</td>
<td>84,4%</td>
<td>82,6%</td>
<td>72,0%</td>
<td>70,2%</td>
<td>70,6%</td>
<td>70,6%</td>
<td>70,6%</td>
</tr>
<tr>
<td>Density employees' funds</td>
<td>84,9%</td>
<td>82,7%</td>
<td>90,7%</td>
<td>87,6%</td>
<td>89,1%</td>
<td>87,1%</td>
<td>75,9%</td>
<td>74,2%</td>
<td>74,5%</td>
<td>75,1%</td>
<td>74,9%</td>
</tr>
<tr>
<td>Density union funds</td>
<td>84,9%</td>
<td>82,7%</td>
<td>90,7%</td>
<td>87,0%</td>
<td>87,2%</td>
<td>85,0%</td>
<td>74,1%</td>
<td>72,4%</td>
<td>72,9%</td>
<td>73,1%</td>
<td>72,7%</td>
</tr>
<tr>
<td>Directly affiliated to union funds</td>
<td>ca 3%</td>
<td>6,4%</td>
<td>11,1%</td>
<td>14,2%</td>
<td>15,1%</td>
<td>15,3%</td>
<td>16,2%</td>
<td>18,5%</td>
<td></td>
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</table>

Remarks. Memberships in 1000s per 31. December. Labour force (including employers and self-employed) 16-64 years, yearly averages 1990–2000, last quarter of the year 1985, 2005–2015. Density of all funds is calculated by dividing the number of persons in all funds by the labour force aged 16-64 (persons older than 64 years can’t be members of Swedish unemployment funds). Density of employees’ funds is calculated by dividing the number of members in union funds + the Alfa fund by the number of employees + unemployed persons in the labour force.

Sources. IAF (The Swedish Unemployment Insurance Board), labour force surveys and own calculations.
With respect to the entire period 2006-2015, white-collar union density declined by three percentage points: from 77% to 74% (table 1). Among blue-collar workers, the decline was more than four times larger: from 77% to 63%. The blue-collar drop was particularly strong among hotel and restaurant workers (from 52% to 28%) and construction workers (from 81% to 65%; Kjellberg 2013). The union density declined significantly more among temporary workers (from 63% to 41% in 2005-2015) than among those with permanent employment (from 83% to 71%).

In the private sector, the white-collar union density was almost the same in 2015 (68%) as in 2006 (69%), which meant an almost complete recovery after the drop to 65% in 2007 and 63% in 2008. Before the remaking of the unemployment insurance, the union density of blue-collar workers in the private sector clearly exceeded that of the white-collar workers: 74% and 69% respectively in 2006. Four years later, both had dropped to 65% implying double the decline among blue-collar compared to white-collar workers. After another four years, the union density of white-collar workers in the private sector surpassed that of blue-collar workers by nine percentage points: 68% and 59% respectively in 2015. An evident inversion, thus, had taken place since 2006.

Considering the even more massive membership losses of union unemployment funds, three categories of workers stand out in 2007 (Kjellberg 2009 b).

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.

The third category is workers with relatively secure jobs, but with only a few years to retirement. Many public sector blue-collar workers and public sector professional employees belong to this category. Six out of ten Saco members were employed in the public sector. In 2007, when all fund fees were doubled or more, the Saco fund AEA and also the Saco unions lost members. Considering the continuous increase in numbers of

2. Refer to blue-collar workers in the first quarter of the year (Larsson 2015).
professional employees in the labour force, the latter is remarkable. When adding decreased inflow and increased outflow, membership losses of unemployment funds were most frequent among the youngest (aged 16-24) and the oldest (aged 60-64). The decline was particularly conspicuous among workers with low income, who accounted for 60% of total losses during the two-year period 2007 and 2008 (Kjellberg 2014 b).

In 2007, a new phenomenon that appeared was the rapidly growing proportion of union members abstaining from membership of unemployment funds – some of them because they could not afford to pay the high fees, while others felt they were exposed to a very low risk of unemployment. In 2008, both the proportion of union members staying outside unemployment funds and the share of those directly affiliated to unemployment funds (that is without being union members) expanded. It should be observed that the Swedish Ghent system was weakened as a union recruitment instrument long before 2007. Up to the 1980s, not many people were aware about the possibility of joining a union unemployment fund without being a union member. The newspaper Expressen launched a campaign to encourage workers to choose this option in the early 1980s. At first, the share of private sector white-collar workers doing so expanded rapidly. In the 1990s, direct affiliation to union funds spread to blue-collar workers and to public sector employees. The norm for dual-membership of funds and unions was particularly weakened at workplaces without “union clubs” (Kjellberg 2001). From 1993 to 2006, the average rate of direct affiliation increased from 6% to 15% (table 2). During the same period, the union density gradually declined. The considerably raised fund fees in 2007 caused massive membership losses of both unions and union unemployment funds. The density of the latter dropped from 87% to 76% in one year or considerably more than the union density decline by four percentage points (table 1). In 2007, also the number of individuals directly affiliated to union funds decreased, although the average share remained unchanged at 15%. From 2007 to 2010, this share increased fastest among LO funds (from 11% to 16%), but it was still highest among the white-collar TCO funds (20%) and AEA, the fund of professional employees common for Saco and the TCO union of nurses (23% in 2010, 27% in 2015).

Direct affiliation to union funds – not competition from alternative unions/funds – has undermined the recruitment of members to the traditional Swedish unions. The expanding direct affiliation limited the market for alternative unions/funds, in particular as no political initiatives were taken to allow competing funds. The largest alternative union, a breakout
from the syndicalist SAC, merely has one thousand members. SAC itself, founded after the LO defeat in the big 1909 strike, today comprises just a few thousands members. Most members of its cross-occupational unemployment fund are directly affiliated. The aim of the independent and cross-occupational Alfa fund, founded in 1998, is to provide the basic unemployment insurance to those not affiliated to any fund. At the end of 2015, the Alfa fund merely accounted for 2.7% of the total number of fund members.

In January 2014, fund fees were restored to about the same levels as before 2007. It was done by the same centre-right government which seven years earlier had raised the fees considerably. The restoration was part of a compromise in which the unions promised to conclude agreements on “vocational introduction”. Before that, the Confederation of Swedish Enterprise had left the tripartite talks on a “Job Pact” due to dissatisfaction with the fact that the Law on Employment Protection would not be changed. The leading government party, labeling themselves “the New Moderates” and “the new labour party”, however, stood by its policy not to make any major changes to this law. The government had invested a lot of prestige in the Job Pact. What remained of it was the compromise with the unions. This could be seen as a way for the government to save face regarding both the failure with pact and the increasingly criticized system of differentiated fund fees.

The critique stemmed not only from the Federation of Insurance Funds (SO), the unions and the social democratic party, but also from the Swedish Fiscal Policy Council, appointed by the government itself and headed by the leading economist Lars Calmfors. According to Calmfors and Marthin (2011) it now appeared clear that the differentiated fees, contrary to expectations, did not influence wage formation at all (see below). Secondly, hundreds of thousands of persons had left the funds. The finance minister Anders Borg admitted that the reform “had not been quite successful” (Kjellberg 2014 a, 63). A report from the Ministry of Finance noted no positive effects on employment. Therefore, the large number of people outside the unemployment funds became a burden on the government. The original plans of the reform included compulsory fund membership, but were never implemented. There are several possible reasons: (1) the fund fee would in practice be a new tax contrary to the government’s policy on tax reductions, (2) already in the autumn 2006, several thousand persons left the funds when they got to know what would happen with the fees from January 2007; to force them back would
not be very popular, and (3) to put an end to union unemployment funds as voluntary associations would challenge the unions even more.

The almost absent recovery of fund members in 2014, despite the abolishment of the raised and differentiated fees, may be explained by the successively deteriorating benefits. This might change as the ceiling of the unemployment insurance was by the social democratic government adjusted upwards in September 2015. Given the socio-economically polarized fees, the effects of the reduced fees were, as could be expected, largest among blue-collar workers. The Hotel and Restaurant Fund grew by 15% in 2014. All other LO funds increased much less or even continued to lose members. The largest fee reduction occurred in the Hotel and Restaurant Fund (from SEK 390 to 140), while the fees of most white-collar funds were not affected at all. Also in 2015, the Hotel and Restaurant Fund stands out with 11% membership growth (Kjellberg 2014 b). The two largest funds, the white-collar AEA and the Unionen fund, grew by merely 1% each.

The making of a market for unions and unemployment insurance in Denmark

In 2002, the incoming centre-right government led by Anders Fogh Rasmussen passed a law allowing cross-occupational unemployment funds (Lov om Tværfaglige a-kasser), thus, breaking the traditional de facto monopoly of occupational-based unemployment insurance in Denmark (Due et al. 2010). The law should turn out to be catastrophic for the trade unions that are party to collective agreements with employers – especially the LO-related unions representing the most disadvantaged workers in the Danish labour market. The reform added to the existing decline in union membership by introducing free-choice and competition between organisations. The Ghent-system was already under pressure due to reforms that scaled-back the early-retirement scheme (efterløn) which had

3. A 3% growth occurred in 2013 despite the very high fee, SEK 390 per month. It might be attributed to the considerable expansion of the hotel and restaurant industry.
4. Workers in Denmark were never forced to join a union when signing up for unemployment insurance (a-kasse). The Danish constitution (Grundloven) secures the freedom to organise (§ 78) – both the positive and negative freedom. Nevertheless, in 2006, the European Court of Human Rights ruled that there had been a violation of Article 11 (freedom of association) of the European Convention on Human Rights in the cases Sørensen v. Denmark and Rasmussen v. Denmark. The ruling referred to the Danish practice of closed shops. Since 2006, and in response to the ruling, closed shops have been unlawful in Denmark.
served as an important recruitment mechanism for unemployment funds. Moreover, in 2010, the centre-right government put a cap on tax deductions on fees to unions at 3,000 DKK, which hit the traditional unions with higher fees hard. Altogether, reforms in the 2000s of the unemployment insurance systems were historically bad for traditional unions.

Table 3. Union membership and union density in Denmark 1985-2015.

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</thead>
<tbody>
<tr>
<td>LO</td>
<td>1.119</td>
<td>1.208</td>
<td>1.167</td>
<td>1.142</td>
<td>955</td>
<td>867</td>
<td>844</td>
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<tr>
<td>FTF</td>
<td>309</td>
<td>332</td>
<td>358</td>
<td>361</td>
<td>358</td>
<td>346</td>
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</tr>
<tr>
<td>AC</td>
<td>74</td>
<td>132</td>
<td>150</td>
<td>163</td>
<td>157*</td>
<td>209</td>
<td>209</td>
</tr>
<tr>
<td>LH</td>
<td>24</td>
<td>75</td>
<td>80</td>
<td>76</td>
<td>83</td>
<td>97</td>
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</tr>
<tr>
<td>Alternative Unions5</td>
<td>13</td>
<td>53</td>
<td>68</td>
<td>94</td>
<td>173</td>
<td>236</td>
<td>253</td>
</tr>
<tr>
<td>Outside Confederations6</td>
<td>161</td>
<td>62</td>
<td>55</td>
<td>57</td>
<td>98*</td>
<td>54</td>
<td>57</td>
</tr>
<tr>
<td>Total</td>
<td>1.700</td>
<td>1.862</td>
<td>1.870</td>
<td>1.893</td>
<td>1.804</td>
<td>1.803</td>
<td>1.807</td>
</tr>
<tr>
<td>Total (excl. Alternative Unions)</td>
<td>1.687</td>
<td>1.809</td>
<td>1.802</td>
<td>1.799</td>
<td>1.631</td>
<td>1.567</td>
<td>1.554</td>
</tr>
</tbody>
</table>

Labour Force                        | 2.434| 2.547| 2.614| 2.640| 2.676| 2.605| 2.670|
Union Density                       | 69,8%| 73,1%| 71,5%| 71,7%| 67,4%| 69,2%| 67,7%|
Union Density (excl. Alternative Unions) | 69,3%| 71,0%| 68,9%| 68,1%| 60,9%| 60,2%| 58,2%|

Remarks: Memberships of unions and Labour Force reported as 1000s of persons. Memberships are per 1st of January in the year. Since 2011, we use Labour Force Survey 4th quarter figures, i.e. 2011: 4th quarter 2010. Before 2011, we used 1st quarter of the year in question. Labour force consists of employed and unemployed aged 15-64 years. Union density is calculated by dividing the membership figures with labour force figures for any given year.
Sources: Ibsen et al. 2015 based on data from Danish Statistics and Labour Force Survey.

6. The organisations are not considered alternative as they bargain collective agreements.
The 2002-law created a new market for alternative trade unions and unemployment insurance funds that had hitherto played a very marginal role in Denmark. By the time of the reform, these alternative organisations – that are typically not party to any collective agreements – represented only a small fraction of workers. In 2015, they represented around 14% of all trade union members in Denmark – see table 1 above. The main reason for this success is the Ghent-effect. Workers choose the alternative unions due to a significantly lower price for the Ghent-package – union membership + unemployment insurance – compared to traditional unions. The latter provides collective goods such as negotiating and enforcing collective agreements, administering educational programmes and lobbying politicians and this comes with a price (Due et al. 2010; Ibsen et al. 2012). Indeed, a recent survey reports that 78% of former HK/3F members stated that price was the main reason for changing to an alternative union (Høgedahl 2013, 24). Because collective agreements and the other activities cover workers irrespectively of union membership, members of the alternative unions get the public goods that members of traditional unions pay for. In other words, since the reform the Danish system suffers from serious free-rider problems that used to be cleared with the de facto monopoly of providing occupational unemployment insurance (the selective incentive).

As can be seen from table 3, overall union density has been relatively stable over the recent three decades (1985-2015), peaking in 1995 at 73,1% of the dependent labour force and then dropping to 67,7% in 2015. In cross-national comparison, this decline is neither exceptional nor big (OECD. stat 2016). However, if we deduct the alternative unions that are rarely party to collective bargaining, the union density rate is down from 71% in 1995 to 58,2% of the labour force in 2015. The table also shows that FTF (confederation for salaried workers) and AC (academics) have increased their membership figures – largely owing to changes in the employment structures towards longer educated workers – while the LO-related unions have lost 364.000 members since 1995 (30%). The decline is evidently due to structural changes in the labour market with fewer unskilled workers in the Danish labour market. Recent studies, however, show that the LO-unions were losing ground within their key constituencies of the labour market before the 2002-reform (Toubøl et al. 2015). Nevertheless, the competition from the alternative unions is undeniable. Since 2000, the alternative unions went from 3,6% of all union members in 2000 to 14% in 2015 – or from 68.000 members to 253.000 members.
The 2002-law was especially problematic for LO-related unions representing unskilled/short-education workers - notably 3F (General Workers’ Union) and HK (Commercial and Clerical Workers Union). First, because workers in these unions are typically in low-paid jobs and, therefore, have the greatest economic incentive to save money on the union fee (Ibsen et al. 2011). Second, low skill workers often do not benefit from decentralised wage bargaining (Due et al. 1993), which makes the local union work less relevant for them. Hereby, decentralized wage bargaining arrangements probably diminishes the incentive to be a member of the negotiating union. Third, HK suffers from the so-called 50-% rule which stipulates that HK has to organise at least 50% of HK-related jobs in a workplace before the collective agreement applies. This evidently drives the bargaining coverage down, which has a negative knock-on effect on the incentive to be member of the negotiating trade union.

Indeed, 3F and HK have suffered from the largest membership declines since 2002. In 2004, 3F had 337,783 members and HK had 266,214 members. A decade later, 3F is down to 253,430 members (-25%) and HK now has 193,547 members (-27%) - and the decline in membership has been compensated by numerous absorptions of smaller unions by 3F and HK. In other words, the decline would have been even more dramatic had these absorptions not taken place (Zeuthen 2015). The competition from the alternative unions is fierce. In 2000, the alternative unions organised 6,4% of all unskilled union members. By 2008, the alternative unions organised 15,3% of unskilled union members. Moreover, in 2000 7,6% of workers with vocational education in commerce (predominately HK-area) were members of the alternative unions. In 2008, the share was up to 14% (Ibsen et al 2011, 107). In transport-related jobs (typical 3F area), the alternative unions increased their membership share of the workers by 14 percentage points 1995-2012, whereas the LO-related unions lost 26 percentage points in the same period (Toubol et al. 2015).

It is typically workers under 45 years that have joined the alternative unions. In 2000, the alternative unions had similar shares of union members across all age groups. By 2008, this had changed dramatically. Over 20% of young union members aged 18-24 years were now members of alternative unions – against only 5,8% before the reform in 2000 (Ibsen et al. 2011, 112). Similar shares had developed for the 25-34 year old. From 35 year old to 39 years old, the share is 13,6% and for 40-44 years old the share is 13,6%. For 45-49 years old, the share is 10,5 and for the older age groups, the shares are below 10% (Ibsen et al. 2011, 112). Probably, the
higher share of alternative union membership among young workers can be attributed to their shorter and looser attachment to the labour market. Alternative unions are cross-occupational and have virtually no representation at the workplace. Once a young worker gets a foothold into stable employment within her/his occupation and within a work environment with social customs about unionization (Booth 1985), then the probability for joining a traditional union increases (Ibsen 2013; Ibsen et al. 2012). The transition into a stable job arguably happens with age. Moreover, older workers that are already members of a traditional union are probably less likely to change to an alternative compared to a young person who has never been a union member. In other words, there is probably some inertia in decisions about union membership (Budd 2010).

The propensity of alternative membership seems to be negatively related to income. The alternative unions were especially popular with low-income wage-earners. In the first income decile, 25% of all double-members (union membership + unemployment fund) belonged to an alternative organisation in 2008. In 2000, only 9.5% belonged to the alternative organisation. Conversely, the shares of alternative members in three top income deciles are approximately 10% in 2008. As noted above, the negative relationship between alternative membership and income can be explained with the lower membership fee in the alternative organisations (Ibsen et al. 2011, 119).

Also, more wage-earners opted for single-membership of either trade unions or unemployment insurance funds during the 2000s. 9% of wage-earners in 2008 were sole union members (up from 7.9% in 2000) and 12.3% were sole unemployment fund members in 2008 (up from 10.4% in 2000) (Ibsen et al. 2011, 46). The increase in single-membership points to a weakening of the Ghent-effect which might be attributed to the introduction of ‘free-choice’ of labour market organisations and to the low risk of unemployment during this decade (Lind 2009; Due and Madsen 2007).

Danish trade unions – specifically the LO-unions – were already showing signs of membership decline before the reforms (Toubel et al. 2015). However, this trend was clearly exacerbated by, the Danish 2002-reform which has had a clearly negative effect for the traditional unions. Taken together with the steady decline in replacement rates of unemployment benefits (benefits are not adjusted with wage developments) and the various reforms of the early retirement scheme, the reform has reduced the incentive to have unemployment insurance and, thus, weakened the Ghent-effect. The reform, moreover, has proven irreversible. When the
Centre-Left government came into power in 2011, there were no serious attempts to roll back cross-occupational unemployment insurance. The only change was an increase of the tax exemption on union membership fees, but the monetary effect of this change is minor compared to the price difference between alternative and traditional unions. In other words, competition from alternative trade unions is there to stay in Denmark.

Comparison and Perspectives

In the following, we first reflect on what the comparative analysis tells us about the Ghent-effect. Next we consider the aims and consequences of the union membership reforms in Sweden and Denmark.

In both Sweden and Denmark, the Ghent-effect on union membership has proven very sensitive to reforms. The Ghent-systems theoretically solve the free-rider problem in unionization by providing a selective incentive to union/unemployment insurance (Due and Madsen 2007). Some authors have shown that the Ghent-system is one of the key explanations for cross-national divergences in union densities (Checchi and Visser 2005). Our analysis clearly shows that wage-earners in Sweden and Denmark, indeed, reacted to the changed selective incentive of unemployment insurance by opting out of union membership – or in the case of Denmark choosing the cheaper alternative union. While neither the Swedish nor the Danish government dismantled the Ghent-system, they produced noticeable effects in a relatively short period of time by tweaking the design of the systems. Our analysis nuances the literature on Ghent-systems by showing how specific rule-changes can have effects for particular groups by changing incentives.

Clearly, the reforms – while different in design – had similar consequences for the organizational strength of traditional unions. In Sweden, the reforms entailed significantly raised fees to unemployment funds from January 2007 and a closer link between the fees and the unemployment in each fund from July 2008. In Denmark, the 2002-reform allowed for cross-occupational unemployment insurance funds, which turned the Ghent-effect against the traditional unions. Suddenly, they were competing over members with organisations that could offer a substantially lower price for the Ghent-package (unemployment insurance + union membership). While these reforms are thus quite different, they did nevertheless have similar consequences. Union densities started to drop for low
skill/low wage, blue-collar workers, and young workers did not join the traditional unions to the same extent as before. Organisatorially, it was the LO-unions that were hit hardest.

Our analysis also shows – in line with other research (Due et al. 2010; Høgedahl 2013; Ibsen et al. 2012) – that reforms can exacerbate existing trends. Specifically, we find that the reforms have pushed a ‘mental’ effect, whereby wage-earners no longer accept ‘dual-membership’ of union and unemployment insurance as the only option. Wage-earners begin to opt for single-membership – they begin to act as ‘consumers’ (Ibsen 2013). The reforms – perhaps intentionally – highlighted that membership is an individual (economic) decision – something which goes counter to the ideology of most traditional unionism. Clearly, however, this economistic logic appeals more to some segments of the workforce than to others. Some workers will be relatively immune to changes in incentives due to professional or ideological reasons (Due et al. 2010).

We argue that by turning the Ghent-effect against traditional unions, the selective incentive inherent in unemployment insurance could be used for political/ideological aims.

The Swedish government’s principal aim for significantly raising and differentiating fund fees was to press unions with high fund fees to moderate their wage claims (Kjellberg 2009 b; 2011). Increased fund fees were thought to function as a kind of penalty tax on wage increases that caused growing unemployment. Economists argued that unemployment-related fund fees would work well as a “policy that raises the marginal cost of wage increases” (part of them would disappear because of higher fees) and would thereby be “unambiguously good for employment” (Holmlund and Lundborg 1999, 413). Secondly, a more direct effect was anticipated. 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 (Holmlund and Lundborg 1999, 412). To summarise, a system with lower state subsidies would (1) deter trade unions from high wage claims, and (2) weaken unions as they will lose members as a result of increased fund fees caused by the decreased state subsidies and through increased unemployment.
Both in the 2007 and 2010 Swedish bargaining rounds, LO unions with many low-wage members and high fund fees, such as the Hotel and Restaurant Workers’ Union, in fact obtained higher wage increases than all others. According to the economic theory that inspired the government, collective bargaining should not be coordinated. In reality, however, wage negotiations are coordinated within the blue-collar confederation LO, in the Confederation of Swedish Enterprise and within the manufacturing industry between, among others, the largest private sector union in Sweden, Unionen (TCO), the largest private sector LO union (IF Metall) and the largest Saco union (the Association of Graduate Engineers). A corresponding coordination takes place between the employers’ associations in the manufacturing industry. Furthermore, there is a norm in the Swedish labour market that the export industry should function as a wage-leader. This norm is even written into the statutes of the Mediation Office, which is assigned an important coordinating role in “promoting an efficient wage formation process”. In the 2011-2012 bargaining round, for example, the industry norm of 2.6% wage increases made a big impact on the whole labour market.

Despite large variations in Swedish fund fees in the manufacturing sector during the bargaining rounds, wage increases in practice have been identical within this sector, irrespective of the level of fund fees. Had the wage claims been influenced by the size of the fees, then the manufacturing sector would have been unable to “set the mark” in bargaining rounds. At the end of 2010, the members of the Association of Graduate Engineers, for example, paid SEK 90 per month to their unemployment fund. The fund fee for members of Unionen (TCO) was SEK 196. All this was far below the SEK 390 fee paid by IF Metall members. Considering the failure of the remodelled Swedish unemployment insurance to moderate wage claims in bargaining rounds, it cannot be precluded that the main motive of the reform was to weaken the unions, and in particular the LO unions. In any case, the considerably raised and differentiated fund fees definitively had such consequences.

In Denmark, the 2002-reform meant that more wage-earners had left the core organisations in the Danish collective bargaining system. Moreover, the most vulnerable wage-earners – low-skilled, young and low-income – were most likely to be either unorganised or members of the alternative unions. There is a paradox in this development. The most vulnerable should benefit from the traditional union movement as collective bargaining increases terms and conditions above the market-clearance (Calmfors and
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Driffil1988) – however, the most vulnerable are also the most likely to be free-riders due to tighter budgets. More importantly perhaps, low skill groups might not perceive the benefits of belonging to the traditional unions, since representatives of traditional unions might not be present at their workplaces (e.g. in retail, hotels and restaurants, transport).

There is another paradox in the reform. By stressing free-choice of organisation, the Danish centre-right government wanted to promote competition between unemployment insurance funds – and, thus, better service. However, trade unions work for the exact opposite, i.e. neutralizing the competition between organisations to avoid down-ward pressure on terms and conditions of employment. The alternative unions with the exception of the Christian union, Krifa – have very few collective agreements and these are usually not at par with the LO-union agreements (3F 2012). In other words, the extent of competition between agreements is modest.

More importantly, the traditional unions are generally weakened by lower membership rates which could – in the future – have knock-on effects on terms and conditions in several ways. First, in sector-level bargaining, the threat of strike is weakened when several industries have few members. Notably, LO-unions used to be able to ‘shut-down the country’, using strikes by transport workers. However, with a lower proportion of transport workers in LO-unions, this threat is not as credible as before. Second, with decentralized wage bargaining, wage increases beyond the minimum wage levels in sector level agreements depend on union representatives at the company level. With fewer members, there might not be any union representatives for local bargaining. Third, employers might not give in to union demands in companies with few or no union members. Fourth, the legitimacy of traditional unions vis-à-vis governments depends on their representativeness and political resources. With fewer members both representativeness and political resources will dwindle.

The crucial difference between the remaking of the Danish and Swedish Ghent systems is that in Denmark only the established unions lost members, in Sweden both unions and unemployment funds lost a large number of members. For the Swedish centre-right government, the large union decline, at least the massive membership losses of LO unions, probably was a desired outcome. The even stronger decline in unemployment funds certainly was not. With no benefits from unemployment funds, a growing number of individuals had to get income support from the municipalities. From the summer 2012 the other parties in “the alliance government” began openly to criticize the re-modelled Ghent system.
In Denmark, unemployment funds overall lost members up until the economic crisis in 2009, but the losses were modest. The main consequence of the Danish reforms was a new market space for alternative unions. One reason for the irreversibility of the Danish reforms might, therefore, be that unemployment insurance coverage rates in Denmark did not plummet – the alternative organisations merely took over. Moreover, once the option for alternative organisations is opened and wage-earners get used to it, it is hard to take it away again. Thus, any reversals of the reforms could have been criticized for doing the traditional organisations a favour. And as Social Democrats in Denmark have done much to distance themselves from criticism of camaraderie with union officials, doing traditional unions favour was not politically viable.

Reforms in both countries have – willingly or not – succeeded in weakening the traditional union movement – especially at the bottom of the skill distribution. At the time of writing, the Swedish unions are, however, in a comparatively better position than their Danish colleagues. The reversal of the reforms has – in conjunction with organizing initiatives – put a halt to union decline and for the first time in 25 years, LO-unions experienced increased membership. Conversely, the Danish traditional unions are stuck with competition over members and have to ‘share’ the Ghent-effect with substantially less expensive organisations. This difference between Sweden and Denmark underlines how important legislative changes are to union membership and, thus, also how crucial the balances between politics and organisations are for Scandinavian labour markets (Andersen et al. 2014).

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Trine Pernille Larsen & Anna Ilsøe (red.)

Den Danske Model set udefra

Jurist- og Økonomforbundets Forlag
2016
DEN DANSKE MODEL
SET UDEFRA

Komparative perspektiver
på dansk arbejdsmarkedsregulering

Et festskrift til professor emeritus Jesper Due
og professor emeritus Jørgen Steen Madsen

Jurist- og Økonomforbundets Forlag
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