Contested Welfare Institutions -
The Conservative Attack on the Swedish Ghent System

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Abstract
The Swedish unemployment insurance was for a long time one of the most generous in Europe and, furthermore, marked by exceptionally low employee contributions. At the end of 2013, things looked quite different. Generosity had strongly declined, less than one-third of the unemployed were eligible for unemployment benefits and the once solidarity-oriented insurance system had deteriorated into a highly differentiated one, in which low-wage workers had to pay the highest contributions. What can explain this degeneration of Swedish unemployment insurance? The main thesis of the paper is that it was not so much structural factors but the special institutional design of the insurance scheme, more precisely the strong position of trade unions within the so-called Ghent system, which provoked attacks by the bourgeois parties and, after the end of social democratic hegemony, ultimately led to the system’s erosion. Thus, in a sense, the generosity of the unemployment insurance became a victim of a more fundamental conflict about union strength. To understand the political conflicts surrounding the Ghent system and the different reform strategies chosen by the rightist parties it is necessary to take a historical as well as conflict-based perspective on the welfare state, which stresses the contentious character of welfare institutions as well as their structuring impact on political power struggles.

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1. Introduction

The Swedish unemployment insurance was for a long time one of the most generous in Europe and, furthermore, marked by exceptionally low employee contributions. Though membership in the insurance system was voluntary, the number of unemployed entitled to unemployment benefits was high in international comparison. At the end of 2013, things looked quite different. Generosity had strongly declined and net replacement rates had fallen below the EU average. Moreover, less than one-third of the unemployed were eligible for income related unemployment benefits. Most notably, the once solidarity-oriented insurance system had deteriorated into a highly differentiated one, in which most low-wage workers had to pay considerably higher contributions than employees from high-wage occupations. This comes as quite a surprise given the often proclaimed egalitarian nature of the Swedish welfare state. So what can explain the degeneration of the once generous and solidaristic Swedish unemployment insurance?

A faltering economy and the resulting fiscal pressures offer an obvious explanation. In fact, Sweden was hit by a serious economic crisis in the early 1990s, which led to a steep rise in unemployment and put the Swedish welfare state under enormous fiscal stress. Although it is hard to deny that high unemployment increased reform pressures, a socioeconomic explanation suffers from serious weaknesses. Above all, the drastic decline in coverage and the depreciation of unemployment benefits happened mainly after 2000, i.e. long after the Swedish economy had bounced back from the big economic crisis of the early 1990s. Moreover, the unemployment insurance stands out from other insurance schemes of the Swedish welfare state which did not see a similar deterioration.

Thus, the main thesis of the paper is that it was not so much structural factors but systematic political decisions (and non-decisions) that led to the deterioration of the Swedish unemployment insurance. Besides ideologically driven political actors, the special institutional design of the Swedish unemployment insurance played a crucial role in the process. Based on the Ghent system, the insurance consists of several voluntary unemployment funds. As most of these funds are closely linked to unions, they traditionally constitute an extremely important recruitment tool for the trade union movement. Thus, the political debate about the Swedish
unemployment insurance was not just, as in many other advanced welfare states, about costs and negative work incentives but also about union power. Accordingly, the Conservative-led bourgeois bloc combined its retrenchment efforts with attacks on the Ghent system. After a frontal assault on the Ghent system was repelled by the Social Democrats in the 1990s, the center-right ‘Alliance for Sweden’ chose a more subtle strategy by hollowing out the existing system. The result of these efforts was, among other things, a considerable increase of unemployment contributions for employees, especially for many low-wage workers, who therefore left their unemployment funds and, thus, lost their entitlement to unemployment benefits. In a sense, the generosity of the unemployment insurance became thus a victim of a deeply ideological conflict about union strength.

To better understand the political conflicts surrounding the Ghent system and the different reform strategies chosen by the rightist parties it is helpful to take a historical-institutionalist perspective on the welfare state, which stresses the contentious character of welfare institutions (Korpi 2001) as well as their structuring impact on political power struggles. As welfare institutions in many ways shape citizens’ interests and values, political actors can deliberately try to design and change these institutions in their favor. However, in these efforts political actors are themselves influenced and constrained by the existing welfare structures. The case of the Swedish unemployment insurance offers a powerful example of deliberate attempts to change the existing institutional structure in one’s favor as well as the problems and constraints reformers face.

The paper is structured as follows: First, a conflict-based perspective on the creation and change of welfare institutions is outlined that stresses the importance of those institutions and their design for corporatist actors, especially labor interests. The next section offers a theoretical explanation as well as empirical evidence why the Ghent is a particularly labor-friendly form of unemployment insurance system. This is followed by a detailed analysis of the creation, expansion and erosion of the Swedish Ghent system. The central aim of this section is to demonstrate how the generosity of the Swedish unemployment insurance is intertwined with a deep-rooted ideological battle for the institutional design of the insurance system. Finally, it is shown how the recent bourgeois reforms widened social inequalities within the Ghent system.

2. A Conflict-Based Perspective on Welfare Institutions

From a functionalist perspective the creation as well as the reform of welfare institutions is primarily a political reaction to socioeconomic changes (e.g. Zöllner 1963; Wilensky 1975).
Thus, the creation and expansion of social insurance programs all over Europe at the end of the 19th and in large parts of the 20th century can be seen as an inevitable (and universal) reaction to cushion the negative effects of industrialization, urbanization and individualization and to secure the viability of the capitalist system. Correspondingly, more recent retrenchment efforts are reactions to declining resources by the state to finance expensive welfare programs as well as to the growth-hindering effects of overstretched welfare states in a globalized economy. Following this perspective, policy experts and political actors are primarily engaged in ‘puzzling’, i.e. trying to find the ‘right’ solutions to objective problems of capitalist societies (Heclo 1974: 305). Although the functionalist logic is, to a certain extent, capable of explaining general trends in welfare state development, it is blind for the great variations in welfare structures among advanced democracies and, moreover, neglects the self-reinforcing effects provoked by many welfare institutions.

To account for the great variations in welfare state size and welfare structures among similar countries it is necessary to adopt a conflict-based perspective that emphasizes the role of power, power asymmetries and conflicts of interest. As power resource theory convincingly argues the relative strength of labor and capital in the economic arena and of allied leftist and rightist parties in the political arena is of major importance for institutional formation (e.g. Korpi 1983; Esping-Andersen 1990; Huber/Stephens 2001). From this perspective political as well as welfare institutions “can […] be seen as outcomes of recurrent conflicts of interest, where the parties concerned have invested their power resources in order to secure favourable outcomes. Such institutions thus need not be viewed as neutral or objective arrangements for conflict resolution. Instead, the ways in which they were created and function reflect the distribution of power in society” (Korpi 1983: 19). Though welfare institutions might, from this point of view, still serve the common good, they are intended to do so in accordance with the interests of their political creators.

There are different ways in which such ‘biased’ welfare institutions can serve those interests. First, as the welfare state is a well-known instrument to redistribute financial resources, welfare programs can be used by political parties to channel money into the pockets of their electoral clientele, hoping to secure its support in future elections. Second, by changing the incentive structure through welfare reforms political actors can hope to steer citizens’ preferences and behavior in the ideologically desired direction (Korpi/Palme 1998; Bonoli/Palier 2000). A good example is the British ‘Social Security Act 1986’ implemented

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1 In the longer run, well entrenched welfare structures may even alter citizens’ perceptions of what is just and appropriate (Rothstein 1998; Mau 2003).
under Thatcher, which heavily subsidized private pension schemes and, thus, set strong incentives to opt out of the simultaneously retrenched public pension system (Pierson 1994: 60-64; Bonoli 2000: 78-79). Finally, and most importantly for this paper, institutional welfare reforms can significantly alter the balance of power between labor and business interests by strengthening the bargaining position of one side at the expense of the other. A classic example is the creation of an unemployment insurance which, besides aiming at reducing the negative effects of unemployment for society as a whole, strengthens the bargaining position of unions by lifting the reservation wage. This demonstrates that welfare institutions themselves can become important power resources for the labor movement.² Moreover, as the actual impact of a welfare program on power relations is dependent on its concrete institutional design, one can expect intense political battles about the central parameters of welfare institutions. Apart from the apparently relevant benefit structure and benefit generosity, the often neglected methods of financing (taxes, social contributions or individual fees) are a highly contentious issue (see Manow 2010; Bandau 2014). A third element, that is so far also underexposed but nonetheless crucial in the context of this paper, is the organizational structure of welfare programs.³ This should be obvious, as the participation of social partners or private actors in the administration of welfare programs can be an extremely valuable source of power for those actors (Korpi 1983: 18-20; Moe 1990: 221-222). On the one hand they might profit financially, which is of key importance for actors from the private sector. On the other hand, the partial or even full control over insurance programs or connected institutions like labor exchanges may not only offer some kind of veto power in the reform process, but can also be an excellent means to bind respectively recruit members. Although this also applies to employers’ associations, it is especially important for trade unions, whose bargaining power depends mainly on their membership numbers. Moreover, in contrast to capital interests, the relative strength of labor rests, first and foremost, on workers’ ability to organize (Korpi 1983: 16-17).

At this point, it is important to note that the common incorporation of employers and unions in the administration of insurance programs, characteristic of conservative welfare states (Ebbinghaus 2010), generally leads to some form of reconciliation of labor and business interests. While the involvement in such programs can nonetheless be a source of organizational strength for both sides, of greater relevance in the context of this paper are welfare

² Though most classical welfare programs are due to their decommodifying character compared to pure market solutions favorable for labor, there exist, of course, market-based welfare arrangements that strongly benefit business interests. Famous examples are the US health system and most funded pension schemes.

³ Of course, benefit generosity, methods of financing and organizational structures do not exist separately from one another but are closely interlinked (see e.g. Bonoli/Palier 2000 and Bandau 2014).
programs under the exclusive or at least predominant control of either labor or business interests. In this case, the interests of both sides as well as the favored policies of the affiliated political parties on the issue should clearly diverge and conflicts surrounding those programs should be very intense. As discussed in the next section, the Ghent system, due to its specific organizational structure, represents an ideal test case for those expectations.

3. The Ghent System as a Crucial Source of Union Power
In contrast to compulsory state-run insurance systems, the Ghent system, named after the Belgian city where it was first implemented, consists of voluntary unemployment insurance programs that are run by unions. The Ghent system is widely seen as a crucial power resource for the labor movement (Rothstein 1992; Western 1993, 1997; Ebbinghaus/Visser 1999; Scruggs 2002). The theoretical argument is that the control over voluntary unemployment programs offers unions a powerful means to recruit members, especially as personal contributions are generally quite modest due to heavy subsidies by the state. This results in strong incentives for employees – particularly for individuals confronted with a high risk of unemployment – to join one of the voluntary schemes and the affiliated unions which profit in form of high membership numbers. A theoretical problem for this argument is the fact that membership in a voluntary unemployment program is possible without union membership in most countries (Clasen/Viebrock 2008). This problem will be dealt with after a closer look at the empirical evidence.

- Table 1 -

A first empirical support for the presented argument comes from a cross-country comparison of union density (see Tab. 1). All four countries with a union density of more than 60 percent have a Ghent system, while Belgium, which can be classified as a partial Ghent system (Western 1997: 53-55), has the sixth highest union density. The table indicates that “it is possible to have a fairly strong union movement without a Ghent system, but that in order to have really strong unions, such a system is necessary” (Rothstein 1992: 42; for a QCA with the same result see Ebbinghaus/Visser 1999: 150-152). While statistical analyses that control for economic and political factors confirm the strong correlation between the existence of a Ghent system and high union density (Rothstein 1992; Western 1993; Ebbinghaus/Visser 1999), the direction of the causal link remains unclear. So it is possible that historically strong unions led to the introduction of a Ghent system. In addition, the fact that four of the five
‘Ghent countries’ are Nordic countries might point to the overriding influence of cultural factors.

The first point is not only refuted by a look at the changes in union density displayed in Table 1 but also by the analyses of other authors which demonstrate that union growth without a Ghent system is only possible if unions possess other institutional power resources like access to the workplace (Ebbinghaus/Visser 1999: 152). This is also confirmed by comparisons of the developments in culturally similar countries (see also Western 1997: 56-59). Figure 1A shows that Norway, which abolished its Ghent system in 1938, was the only Scandinavian country where union density stagnated and even declined after 1960. The comparison of Belgium and the Netherlands, which shifted to a completely compulsory system in 1952, yields an even clearer picture. Starting from a similar level, union density rose in Belgium but considerably declined in the Netherlands (see Fig. 1B). Moreover, as expected, the differences are especially accentuated in times of high unemployment. In contrast to an accelerated decline in other countries, union density generally rises in countries with a Ghent system in times of economic depression (Western 1993; Scruggs 2002).

- Figure 1 -

The special incentive structure of the Ghent system can be exemplified by the Swedish case. After union density had steadily risen for many decades, there was a slight drop in the late 1980s, a time of full employment. When a deep economic crisis hit the Scandinavian country in the early 1990s, union density did not decline further, as seen in similar cases, but rose again until the economy recovered in the mid-1990s (see Fig. 1B). Thus, “from the mid-1980s to the mid-1990s, unionisation followed a markedly contra-cyclical pattern” (Kjellberg 2009: 484) which is only understandable in the light of the existence of union-run unemployment funds with affordable membership fees even for the less well-off. However, why this contra-cyclical pattern did not hold during the Great Recession is one of the questions that have to be answered in the remainder of this paper.

Though union membership is not required in order to join an unemployment program in Sweden as well as in most other ‘Ghent countries’, surveys show that “unemployment insurance cover is widely considered a major, if not the most important, factor for joining a

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4 A similar point is made by Scruggs (2002) who shows that the unemployed are clearly underrepresented in the union movements of most countries but that this is not generally the case in countries with a Ghent system – just another indication of the considerably different incentive structure in those countries.

5 For the same period, a similar pattern can be observed in the Finnish case.
trade union” (Clasen/Viebrock 2008: 445). Reasons for the high percentage of dual membership are a traditionally strong identification with the trade union movement, the widely held perception that unemployment insurance cover is conditional on union membership (often caused by a blurred separation between unions and unemployment insurance schemes), as well as country-specific incentives. For example, in the Danish case this concerns the easier access to employment services for union members. In Sweden, union members can instead benefit from additional benefits in the case of unemployment (Clasen/Viebrock 2008: 445-447).

To sum up, evidence from cross-country as well as within-country analyses shows that the Ghent system is an ideal recruitment instrument for the union movement whose importance can hardly be overrated. Accordingly, labor unions will fiercely protect this institutional power resource against attacks from the capital side, which on its part will be eager to weaken and destroy the Ghent system. Given the traditionally strong connection between unions and social democratic parties in the Nordic countries, the Ghent system and its features are supposed to be at the center of the political conflicts surrounding welfare institutions.

4. The Epic Battle for the Ghent System in Sweden

The history of the Swedish Ghent system and the political struggles surrounding it can be divided into four episodes of different length: 1) The introduction of the Ghent system in 1934 as well as the preceding political debates, 2) the expansion of the union-led unemployment insurance system under social democratic hegemony until the late 1980s, 3) the frontal assault on the Ghent system by the bourgeois minority government in the early 1990s, and 4) a more cautious but more successful approach to hollow out the Ghent system under the Conservative-led ‘Alliance for Sweden’ after 2006. All episodes demonstrate on the one hand how political actors intentionally tried to shape welfare institutions in accordance with their preferences, and how they were on the other hand restrained by the same welfare institutions. Moreover, especially the two last episodes show how the recent deterioration of the Swedish unemployment insurance is directly connected to the political battle about union power.

4.1 Intentional Creation by the Social Democrats in 1934

The introduction of state subsidies to the unemployment funds (a-kassor) administered by the unions in 1934 was preceded by over a decade of intense political debates about the issue. Given the high unemployment numbers and the strong class polarization of the time, the observable conflict constellation is hardly surprising. One the one side stood the Social
Democrats (SAP) backed by the trade union movement, first and foremost the blue-collar Swedish Confederation of Trade Unions (Landsorganisationen i Sverige, LO), who demanded the introduction of an unemployment insurance and mostly favored the Ghent model. On the other side gathered the bourgeois parties and employers’ representatives who strictly opposed the Social Democratic initiatives and advocated a continuation of the public relief work for the unemployed (Heclo 1974: 92-97).

As Rothstein (1992) has convincingly shown, both sides – but especially some leading Social Democrats – were deeply aware of the fact that the outcome of the conflict would considerably influence the future balance of power between labor and business interests. The existing system of public relief works was vehemently opposed by the labor movement because the wages paid under this system were far below the union rate. This resulted in a downward pressure on wages and, therefore, was “a paramount threat to union control over the supply of labor” (Rothstein 1992: 47; see also Unga 1976). Accordingly, the proposals of the Social Democrats gave the unemployment funds and, thus, the unions control over job placement, what meant that workers would no longer be forced to accept jobs below the union wage (Rothstein: 48; Western 1997: 60). The potential of the unemployment funds as an important recruitment instrument for the unions was seen by leading Social Democrats like Gustav Möller. In 1930, the later Minister of Social Affairs argued that, even though there would be some disadvantages compared to a compulsory system in the beginning, the labor movement should push for a Ghent system as it would “force men into the unions” (G. Möller quoted in Unga 1976: 118; see also Möller 1926; Rothstein 1992: 49). Those were exactly the reasons why the bourgeois parties, especially the Conservatives and the Farmers’ Party, who represented business and farmer interests, fiercely opposed any Social Democratic initiative for creating a union-run unemployment insurance system (Unga 1976: 98-120).

In contrast to Möller’s statement, the SAP officially demonstrated openness concerning the type of the unemployment insurance in 1930. However, this was mainly due to tactical reasons, what became apparent when the SAP returned to power in 1932. The new Social Democratic government almost immediately pushed for the introduction of the Ghent model – but lacked a parliamentary majority. Here, the SAP profited from cracks in the bourgeois bloc, more precisely deep divisions among the Liberals (Heclo 1974: 102-104). To gain the necessary support from the Liberals, who still favored a state-run system, the SAP made a

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6 By openly demanding the introduction of compulsory unemployment insurance in opposition, the Social Democrats hoped to prevent the Liberal government, which was ambivalent on the issue, from starting a serious policy initiative in this direction (Unga 1976: 118).
number of sweeping concessions. Those comprised state oversight of the unemployment funds, the rejection of employer contributions and very low benefit levels (Edebalk 1975). Painful as these concessions may have been, they excellently demonstrate the awareness within the SAP of the relevance of institutional design: “In sum, the Social Democrats compromised greatly about the content of the scheme (i.e. the actual policy) in order to be able to institutionalize an insurance scheme that would greatly enhance their future organizational strength” (Rothstein 1992: 48). In short, short-term policy gains were sacrificed for the long-term gains resulting from an advantageous institutional structure.

4.2 Expansion under Social Democratic Hegemony

As a direct result of the substantial concessions to the Liberals, membership in the state-subsidized unemployment funds remained pretty low. Besides the falling unemployment due to the proto-Keynesian economic policy of the SAP, the main reason was that the financial incentive for most unions to join the new program was rather limited, as the offered state contribution was quite low (and the fear of losing the autonomy from government authority quite high) (Heclo 1974: 127-128; Rothstein 1992: 50). But as Möller had correctly anticipated, once initiated the system would grow with the political help of the Social Democrats. As it happens, under the mounting pressure of the trade unions for higher state contributions, the Social Democrats started a reform initiative that, in 1941, led to a substantial increase in state subsidies (Heclo 1974: 128-130). The result of the reform (and additional reform measures in 1944) was an increase in the number of trade unions participating in the Ghent system as well as a connected rise in unemployment fund membership. Thus, whereas there were only 14 state-subsidized unemployment funds with about 200,000 members in 1940, the number rose to 33 unemployment funds with over 800,000 members in 1945 (Erici/Roth 1981: 229).

In the postwar years, responsibility for all aspects of employment policy shifted to the newly created national Labor Market Board. As a consequence, unions lost direct control of labor exchanges on the one hand, but on the other gained a majority in the division of the Labor Market Board which supervised unemployment insurance. Almost at the same time, the final report of an investigatory commission proposed the introduction of compulsory insurance in order to cover all workers. After intense debates within the labor movement⁷, the LO and the unemployment funds’ formal interest organization (Samorganisation, SO) refused to endorse

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⁷ The reason for the debates was that more radical parts of the union movement “supported the state program as a means of freeing unions to become more aggressive economic advocates rather than insurance organizations” (Heclo 1974: 134).
the commission proposal, whereupon the SAP government decided to hold on to the Ghent system (Heclo 1974: 133-134; Edebalk 2008: 4-5). Moreover, the Social Democrats, from this point on, did everything to increase the attractiveness of the unemployment funds in order to boost insurance coverage. The corresponding policy consisted of gradual increases in benefit generosity without raising membership fees.

In addition, the SAP used its hegemonic position to block every attempt by the bourgeois parties to introduce a state-run scheme. This is exemplified by the quite comprehensive reform of 1974. When the Center Party, followed by the other bourgeois parties, demanded the creation of a basic unemployment insurance to cover all workers in the 1960s, the Social Democratic government reacted by appointing an investigatory commission. The essential point is that the government by formulating a convenient directive, from the outset, prevented any proposals that would outright replace the existing Ghent system by compulsory insurance. Instead, following the final proposal, the voluntary unemployment funds were complemented by a form of unemployment assistance (kontant arbetsmarknadstöd, KAS) for the unemployed without insurance (Anderson 1998: 266; Edebalk 2008: 11-12). However, at the same time, the Ghent system was strengthened by the increase and extension of unemployment benefits, partly financed by larger state subsidies as well as newly introduced employer contributions. Moreover, membership in an unemployment fund was made obligatory for working-age union members. Finally, a reform by the bourgeois government that raised contributions for unemployment fund members was immediately reversed by the Social Democrats, when they returned to power in 1982. Instead, employer contributions were raised further, while unemployment benefits became de facto open-ended (Anderson 1998: 266-268; Edebalk 2012).

Taken as a whole, Social Democratic policies concerning the expansion of the Ghent system proved highly successful until the late 1980s (see Fig. 2). Unemployment fund membership rose steadily and reached 3.5 million in 1990. As Figure 2 shows, union membership rose almost perfectly in line with unemployment fund membership, confirming the close relation presented in section 3. In connection with the policies described in this section, the figures point to a form of power-based policy feedback: The trade unions, which profited substantially from the existence of unemployment funds, used their influence to urge the SAP to protect and improve the Ghent system. The SAP, which is traditionally closely intertwined with the unions, especially the powerful blue-collar LO, fulfilled the unions’ demands and increased incentives to join the unemployment funds, what in turn increased union strength and thus the unions’ ability to demand further reforms in their favor. Employees profited in the form of an
unemployment insurance that combined low contributions with generous benefits. Thus, as a result of Social Democratic reforms, the system was made more and more attractive for low-income earners, as the low membership fees were combined with remarkably high replacement rates, whereas the upper benefit ceiling only affected the better-off (see below). Finally, the low membership fees also prevented high-income earners with a low risk of unemployment from leaving the Ghent system, in this way securing solidarity as well as the stability of the voluntary insurance system.

4.3 Frontal Attack by the Rightist Bloc in the Early 1990s

In 1990, the Swedish unemployment system consisted of 42 unemployment funds which covered nearly 80 percent of the labor force. The main reasons for this high coverage rate under a voluntary insurance system were, on the one hand, the extremely low membership fees that ranged from 9 SEK to 40 SEK (about 1 EUR to 4 EUR) per month (SCB 1992: 303), and on the other the, in international comparison, high generosity of the unemployment insurance. This resulted mainly from a nominal replacement rate of 90 percent and the de facto absence of a time limit due to the possibility to renew eligibility to unemployment benefits by participating in active labour market programs. The insurance system was mainly financed through taxes and employer contributions, which flowed into the so-called Labor Market Fund and were subsequently distributed according to the needs of the individual unemployment funds (Boesby et al. 2002: 11-17).

When the bourgeois government under the Conservative Carl Bildt came to power in 1991, Sweden was in the midst of an economic crisis and unemployment was rapidly rising. Under these dire economic conditions, the government not only doubled membership fees and lowered the nominal replacement rate to 80 percent, but also started a frontal assault on the Ghent system as a whole. For this purpose an investigatory commission, in which neither Social Democrats nor unions had any voting rights, was appointed to formulate a plan for the creation of a compulsory unemployment insurance (Direktiv 1992:24). The commission delivered and the Bildt government, in the face of the looming 1994 election, immediately

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8 Most persons, who nonetheless abstained from unemployment fund membership, had either a really low risk of unemployment or such a low affiliation to the labor market that they would not fulfill the working conditions for unemployment benefit receipt (Boesby et al. 2002: 11).
9 Due to the existence of an upper benefit ceiling the real replacement rate was considerably lower for employees with high incomes (Sjöberg 2011: 221-222)
10 The official limit was 300 days for workers under 55 years of age and 450 days for older workers.
pushed for the reform. Besides increasing membership fees, freezing employer contributions and setting a clear time limit for benefit receipt, the selected reform plan included the creation of a state-run unemployment fund that would be in competition with the existing union-run funds (Proposition 1993/94:80, 1993/94:209). However, the crucial point was that “the state fund would have a competitive advantage versus the union funds in that wage earners would pay no extra membership fee while those remaining in the union run funds would continue to pay membership fees” (Anderson 1998: 293). In short, this meant nothing less than the end of the Ghent system.

Unsurprisingly, the Social Democrats and the LO were furious. While the latter mobilized tens of thousands of their members to protest against the reform bill, the SAP accused the government of class warfare. For example, SAP’s labor spokesman Johnny Ahlquist saw the reform as an attack on “something that has always been a thorn in the side of the [main employer association] SAF and the Conservatives, namely the historical bond between unemployment funds and trade unions” (J. Ahlquist quoted after Riksdagens Protokoll 1993/94:44, own translation). The government, instead, pointed first and foremost at the 30 percent of the unemployed who were, at that time, not entitled to unemployment benefits, to justify its reform proposal (Direktiv 1992:24). However, representatives of the Conservatives made no secret of the fact that the reform was also directed at union power. For instance, in a direct answer to Ahlquist, the Conservative spokeswoman declared that “the unemployment insurance in its existing form is a union monopoly that belongs to the unions’ political empire build by the Social Democrats” (S. Rembo quoted after Riksdagens Protokoll 1993/94:44, own translation). Besides criticizing the unemployment funds’ role as a recruitment instrument for the unions, the bourgeois government blamed the Ghent system for distorting wage formation by passing the costs of unemployment almost entirely on taxpayers and employers (Direktiv 1992:24). As we will see in the next section, this kind of argument would play an important role in the bourgeois reforms after 2006.

11 Representatives of the Left Party (Vänsterpartiet) shared this view, accusing the SAF and the Conservatives of intending “to shatter the social solidarity and the class solidarity that is build into the design of the union-led unemployment funds” (H. Andersson quoted after Riksdagens Protokoll 1993/94:44, own translation).

12 Here, two things have to be noted: First, Sweden’s voluntary system fared in this respect better than many European countries with compulsory insurance systems. For example, in Britain, at that time, over 80 percent of the unemployed were not entitled to unemployment benefit, while in Germany almost 60 percent of the unemployed did not receive Arbeitslosengeld. Second, the plan proposed by the Bildt government included tighter eligibility rules whereby many unemployed would have lost their entitlement.

13 Although the Minister of Labor, Börje Hörnlund of the Center Party (Centerpartiet), was more cautious in his statements, he also emphasized the advantages of the competition provoked by the new – and, as mentioned, structurally privileged – state-run fund (Riksdagens Protokoll 1993/94:44).
Even though the Bildt government did not command a majority in the Riksdag, it was – after a rather chaotic reform process – due to abstention of many delegates of the right-wing populist New Democracy able to pass the institutional reform in June 1994 (Anderson 1998: 276-295). In the end, however, the bourgeois government did not succeed in its efforts for a destruction of the Ghent system. As promised in the election campaign, the newly elected Social Democratic government, with support of the Left Party, immediately reversed the bourgeois reform in December 1994. Membership fees were lowered and, most importantly, the state-run unemployment fund abolished.

In short, the frontal attack on the Ghent system led by the Conservatives failed due to the resolute resistance of the SAP as well as the Left Party which were supported by the unions. In 1998, the SAP government under Göran Persson even further strengthened the unions’ position within the insurance system. The KAS was replaced by the so-called ‘basic insurance’ (grundförsäkring). In contrast to KAS, the basic insurance was integrated into the administration of the unemployment funds, i.e. the funds took over payments for those of their members who did not fulfill the working conditions for receipt of unemployment benefits. In 1998, the SAP government under Göran Persson even further strengthened the unions’ position within the insurance system. The KAS was replaced by the so-called ‘basic insurance’ (grundförsäkring). In contrast to KAS, the basic insurance was integrated into the administration of the unemployment funds, i.e. the funds took over payments for those of their members who did not fulfill the working conditions for receipt of unemployment benefits.14

Apart from this, the Social Democrats kept the institutional structure of the unemployment insurance system untouched until their electoral loss in 2006. Although the insurance system, at that time, was a bit less generous than in the early 1990s (Sjöberg 2011: 222), its popularity with workers was unbroken, what is demonstrated by the fact that unemployment fund membership was higher than in the early 1990 and remained at the high level of about 3.8 million from 1996 to 2006.

### 4.4 Hollowing Out under the ‘Alliance for Sweden’ after 2006

Under the label ‘Alliance for Sweden’ the four bourgeois parties regained power in 2006, this time commanding a majority in the Riksdag. In his first government declaration, the new Conservative Prime Minister Fredrik Reinfeldt announced another push for a mandatory unemployment insurance (Riksdagens Protokoll 2006/07:6), but no appropriate action followed, except for the formation of a ‘Social Insurance Commission’ (Parlamentariska socialförsäkringsutredningen) that will not present a reform proposal before January 2015. Instead, the government chose a new, more subtle strategy to attack the Ghent system, namely by raising costs and lowering benefits for fund members.

14 In addition, under the pressure of the bourgeois parties the government introduced the Alfa-kassan, an unemployment fund independent of the union movement. In contrast to the former plans of the Bildt government, the independent fund had, of course, no competitive advantage over the union-led funds.
Concerning cuts to benefit levels, there were some substantial changes as well as one important form of policy drift. On the one hand, the nominal replacement rate was lowered from 80 to 70 percent after 200 days of unemployment and, for unemployed persons with children, to 65 percent after 300 days (Proposition 2006/07:15). On the other hand, contrary to demands of the Social Democrats, the upper benefit ceiling, which had not been raised since 2002, was not lifted but even cut from 730 SEK to 680 SEK for the first hundred days of unemployment. Apart from this reduction, the upper ceiling remained at 680 SEK from 2007 to 2013. Though the nominal replacement rate remained unchanged after 2007, this led to a steady decline of real replacement rates for an ever-growing part of the unemployed (see Fig. 3). For example, the real replacement rate for a single average earner had fallen to 44 percent in 2012, only twelve percentage points above the level of basic insurance (NOSOSCO 2013: 78). Here, it proved crucial that automatic uprating of the upper benefit ceiling had been abolished under the Bildt government in the early 1990s (and afterwards not been reintroduced by the Social Democrats), because this provided perfect conditions for policy drift.

- Figure 3 -

In addition, the access to unemployment benefits was made harder in many different ways. First of all, the possibility to renew eligibility to unemployment benefits once by participating in active labor market measures was abolished, i.e. the maximum duration was now set at 300 days (450 days for parents). Next, the eligibility rules to receive unemployment benefits were tightened. Although there were a number of modifications, the most important change was the abolition of qualifying for unemployment benefits through periods of study, which affected up to 18 percent of the unemployed (Sjöberg 2011: 218). Finally, conditionality concerning job search was also tightened. However, the hardest blow to the Ghent system occurred on the financing side, in the form of a massive increase in membership fees for all employees. While employer contributions were lowered, unemployment fund membership fees were raised by the introduction of an ‘increased financing fee’ (förhöjd finansieringsavgift) for all fund members (Proposition 2006/07:15: 2). Under the changed financing rules, fund members were supposed to cover half of the expenses of unemployment insurance. However, as the unemployment rate differed among the occupational groups covered by the individual unemployment funds, this meant

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15 ‘Policy drift’ occurs “when groups with the ability to block change effectively resist the updating of policy over an extended period of time in the face of strong contrary pressure and strong evidence that policy is failing to achieve its initial goals” (Hacker/Pierson 2010: 168; see also Streeck/Thelen 2005: 24-26).
that the employees with the highest risk of unemployment would have to pay the highest contributions under the new system (see below). This link of membership fees to sectoral unemployment was further tightened by the abolition of the so-called ‘balancing fee’ (utjämningsavgift) through which better-off unemployment funds had until then compensated unemployment funds which bore higher costs. Finally, because unemployment fund as well as union membership fees were no longer tax deductible (Proposition 2006/07:1: 163), the increase hit employees even harder.16

So how did the center-right government justify these reform measures? The regularly stated argument, already mentioned in the context of the 1994 reform, was that the Ghent system in its original form distorted wage formation by passing the costs of unemployment almost entirely on taxpayers and employers and, thus, caused unemployment. For instance, in an opinion piece for Dagens Nyheter Finance Minister Anders Borg and two of his Conservative cabinet colleagues claimed that “a clear coupling of the membership fee of an unemployment fund to the employment in the according sector will contribute to the fact that the social partners will pay more attention to employment and unemployment in wage negotiations” (Borg et al. 2008, own translation). The government’s reaction to a sharp rise in the number of uninsured unemployed during the Great Recession confirms the government’s conviction. Indeed, membership fees were lowered for most employees but, at the same time, the introduction of the so-called ‘unemployment fee’ (arbetslöshetsavgift) (Proposition 2008/09:1: 24-25) strengthened the link between individual contributions and sectoral unemployment even further. However, the Conservative-led government was well aware that its reforms would weaken the unions in a much more direct way. Thus, the authors of the economic model, which underlay the Conservative reforms, unmistakably stated that “a rise in the share of benefits financed by union members is likely to reduce wages as well as union membership” (Holmlund/Lundborg 1999: 397). An investigation by the previous Social Democratic government on the Swedish Ghent system came to the same conclusion (Näringsdepartementet 2005).

- Figure 4 -

16 At the same time, a form of income tax allowance (jobbskatteavdraget) was introduced which should strengthen work incentives and especially help workers with lower wages (though high-income earners also profited from this tax reduction).
In the last respect, government policy proved highly successful. Whereas the effect of the reforms on wage formation did never materialize\textsuperscript{17}, the consequences for many trade unions were nevertheless extremely painful. As Figure 4 demonstrates, unions and unemployment funds witnessed unprecedented membership losses in 2007 and 2008. Moreover, the share of union members outside union unemployment funds rose from 3.7 percent in 2006 to 9.1 percent in 2008 (Kjellberg 2009: 487) – another sign of the deterioration of the Ghent system.\textsuperscript{18} In sum, whereas the frontal attack in the early 1990s had failed and fund membership had actually risen afterwards, the policy mixture of higher membership fees on the one side and a steady devaluation of unemployment benefits by policy drift on the other considerably weakened union strength. In other words, changing workers’ incentive structures ultimately proved much more devastating to trade unions than a direct attack on union power.

5. Rising Social Inequalities in Membership Fees and Insurance Coverage

The politically induced shock described in the previous section did not hit all unions and workers in the same way. This becomes quite obvious when blue-collar workers (LO, about 1.5 million members in 2010), university-graduates (Saco, about 620,000 members) and other white-collar workers (TCO, about 1.2 million members) are considered separately (see Tab. 2). Apparently, blue-collar unions were hit most severely by the bourgeois reforms. LO unions as well as the affiliated unemployment funds lost about 15 percent of their members, while the (originally low) share of union members without unemployment fund membership more than tripled. TCO unions also lost a substantial share of their members, whereas Saco and the affiliated AEA registered a slight rise in membership numbers. In part, this can be explained by structural factors but, as we will see below, the uneven rise in membership fees played a more important role.

- Tables 2 and 3 -

As the blue-collar LO and white-collar TCO encompass a wide range of occupational groups with differing incomes and, most importantly, differing risks of unemployment, a closer look at individual unions and unemployment funds is needed to capture the growing inequalities

\textsuperscript{17} One potential reason for the absence of more wage moderation – wage increases, at that time, were not lower but even higher than in the previous bargaining rounds – is that the decision to join or leave a union is, as research shows, not only motivated by costs but also by the utility of membership (Kjellberg 2009: 500). Thus, unions, whose members were affected by strong fee rises, had an interest in setting positive incentives for union membership by negotiating substantial wage increases.

\textsuperscript{18} To prevent their members from completely leaving the union, many unions allowed their members to leave the affiliated unemployment fund without giving up union membership.
within the Swedish Ghent system. An appropriate overview is given in Table 3, which covers fund membership fee rises as well as membership losses (and gains). Concerning membership fees, there are two notable observations. First, while membership fees rose substantially for all employees as a result of the reforms of January 2007, polarization among funds also increased from 29 to 175 SEK. Second, this polarization considerably exacerbated after the introduction of the so-called ‘unemployment fee’ in mid-2008. As intended by the Reinfeldt government, the steepest increase in membership fees happened in occupations plagued by the highest unemployment rates. Thus, whereas the fees of the high-skilled members of AEA (unemployment rate of 2.1 percent in 2010) returned to its original level of 90 SEK in 2009, most members of LO unions saw sharp increases. Examples are hotel and restaurant workers (10.5 percent, 18.3 percent including partially the unemployed), wood and graphical workers (10.2 percent), building workers (11.5 percent) and maintenance workers (8.3 percent). Artists, a group that generally faces high job insecurity, were faced with the highest membership fees. Even a cursory look at those groups reveals that they are not only faced with a high risk of unemployment but that most of those occupations are marked by below average wages. In short, the employees with the lowest incomes had to pay the highest unemployment contributions under the new rules.

Unsurprisingly, as columns eight and nine of Table 3 illustrate, the combination of low wages and high membership fees – which were, as mentioned, no longer tax deductible – provoked many of the affected employees to leave their unemployment funds and/or their unions. This not only weakened the unions but also meant that a great number of people lost unemployment insurance coverage. However, corresponding to the unequally distributed membership losses, especially many low-skilled workers suffered from lack of insurance coverage in the case of unemployment. For instance, more than one third of hotel and restaurant workers, who faced a relatively high risk of unemployment and thus were, in principle, more reliant on unemployment insurance than other occupational groups, left the respective unemployment fund and lost coverage. The same applies to a smaller extent to other LO groups with a higher than average risk of unemployment like wood and forest workers, maintenance workers and commercial employees.

Finally, even for those low-wage earners, who despite increased financial costs decided to adhere to fund membership, the probability of being entitled to unemployment benefits in the case of need dropped considerably. This is illustrated by a comparison of the actual coverage

19 Apart from low-paid workers, especially well-paid employees with a small risk of unemployment and older workers with relatively secure jobs abstained from fund membership (Kjellberg 2009: 493).
of the members of two particularly hard hit LO funds and of two funds for high-income
groups, namely the Saco fund AEA and the fund for managers and supervisors which is not
affiliated to a union (see Fig. 5). While all four funds had a comparable coverage rate of their
unemployed members of slightly above 50 percent at the end of 2006, things looked
completely different at the end of 2013. At that time, still about half of the unemployed
members of AEA and the fund of managers and supervisors were entitled to unemployment
benefits, whereas the coverage of the members of the two LO funds had dropped below 40
percent. Apart from structural changes, a main reason for this divergence was changed
eligibility criteria, for instance the shorter benefit duration, which affected low-skilled
workers with less stable job careers more severely than high-skilled workers. Moreover, given
the fact that the LO funds lost a substantial share of their members in the covered period, the
actual number of hotel and restaurant workers and commercial employees without insurance
coverage is considerably higher than Figure 5 indicates.20

- Figure 5 -

To sum up, the bourgeois hollowing out of the Ghent system, which was primarily directed at
breaking union strength and “improving” wage formation, undermined the logic of the
original system by fundamentally changing the underlying incentive structure. Under the new
rules, workers on low incomes had generally to pay the highest fund fees and, as a conse-
quence, chose to abstain from fund membership more frequently than other fund members.
This in connection with changed eligibility rules led to a rising social inequality concerning
unemployment insurance coverage. In the long run, this may – as hoped for by the Conserva-
tives – even lead to higher pressures on the wages of low-skilled workers, as the absence of a
comprehensive unemployment insurance is supposed to lower the reservation wage.

6. Conclusion

The paper has demonstrated that the recent deterioration of the Swedish unemployment
insurance is a direct result of policies pursued by the rightist bloc under the leadership of the
Conservatives. However, the vigor with which especially the Conservatives attacked the
existing system as well as the concrete ways in which they did so, can only be understood if
one considers the special institutional design of the unemployment insurance system, namely

20 As immigrants are over-represented among low-skilled workers, they were also disproportionately affected by
the bourgeois policies (Kjellberg 2011: 84-85).
its composition of voluntary unemployment funds run by unions. This organizational structure significantly intensified the typical partisan conflicts about work incentives and cost reductions by linking it to a more fundamental conflict about union strength. As the Ghent system served as an extremely important power resource for the union movement, the Conservative attack on the unions coincided with an assault on the insurance coverage of employees, especially low-skilled workers, and more generally on the logic underlying the Ghent system.

In a more general sense, the presented analysis of the establishment, expansion and erosion of the Swedish Ghent system points to at least three aspects that are, until now, underexposed but nonetheless of great significance for welfare state research (for more details concerning the first two points see Bandau 2014). First, political conflicts – and in particular partisan conflicts – as well as the resulting reforms in the era of welfare retrenchment and restructuring are deeply shaped by the design of the existing welfare institutions (see also Rothstein/Steinmo 2002). As demonstrated, the strong position of trade unions within Swedish unemployment insurance led to conflict patterns that clearly deviate from conflicts in other European welfare states. For instance, the, at first sight, paradoxical observation that the Social Democrats vehemently defended a voluntary insurance system against bourgeois reform plans to introduce an obligatory insurance system is only understandable in the context of the Ghent system. Interestingly, recent studies of the Danish Ghent system point to similar conflict patterns (Jensen 2014: 102-111; Klitgaard/Nørgaard 2014). Moreover, concerning conflict intensity, the consensus-based approach chosen in Swedish pension politics in the 1990s, which stands in stark contrast to the presented case study, also has its roots in the different organizational structures of both insurance programs, more precisely the fact that Swedish pension insurance is not controlled by the unions (see Anderson 2001).

Second, while the existing institutions structure conflicts and reforms, they are themselves the products of previous policies. This means that, without neglecting the emergence of unintended consequences (Pierson 2004: 103-132), farsighted political actors like the Social Democrat Gustav Möller may under certain circumstances be able to design welfare institutions in a way that substantially constrains their political successors’ room to maneuver and, ideally, even forces political opponents to sustain the existing welfare programs. Policy feedback plays an important role in this regard. In the presented case, the implementation of the Ghent system strengthened trade unions and the allied Social Democrats which, in turn, used their enhanced power to further expand the system. Consequently, to break this circle, the Conservatives started a frontal attack on the Ghent system in the early 1990s. When this
effort failed due to the common resistance of Social Democrats, Left Party and unions, the Conservatives adjusted their strategy by concentrating on a modification of workers’ incentive structures. In successfully doing so, they not only changed the dynamics of the Ghent system but also affect the policy options of future Social Democratic governments.21

Finally, the presented case study gives a good impression of the fact that the absence of manifest conflict does neither prove the existence of a consensus among political actors nor the irrelevance of power. As Korpi (2001) points out, the behaviorist limitation on manifest conflicts misses other, more subtle dimensions of power which are helpful to fully understand the development of welfare institutions. Following this critique, Lukes’ (1974) distinction between three dimensions of power is an adequate heuristic to disclose the power relations surrounding the Ghent system. The first dimension of power, i.e. manifest conflict about the welfare program, is observable in the years preceding the creation of the system in 1934 as well as the conflict-prone period since 1991. Although open conflict is nearly absent in the decades between those periods, power nonetheless plays a key role in the expansion of the Ghent system. Due to its hegemonic position, the SAP controlled the political agenda and was, thus, able to block every serious reform initiative by the bourgeois parties (second dimension of power). However, the escalation of the conflict in the early 1990s demonstrates that the Social Democrats and the LO, despite their success in bringing most workers to join unemployment funds, were never able to convince their political opponents of the appropriateness of the Ghent system, which would have meant a comprehensive exercise of power of the third dimension.

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21 Due to the increasing number of unemployed not entitled to unemployment benefits and the pressure of the unions, the Reinfeldt government repealed the reform of membership fees in 2013. As a consequence, fund fees returned to its original, moderate levels in January 2014. However, in contrast to the reform of 2007, this did not result in a significant change in fund membership numbers.
References


### Table 1: Union Density in International Comparison (in Percent)

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<th></th>
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<td>Iceland</td>
<td>93.0</td>
<td>79.4</td>
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<td>–</td>
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<td>72.1</td>
<td>68.3</td>
<td>67.6</td>
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<td>38.8</td>
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<td>10.0</td>
<td>7.6</td>
<td>–12.0</td>
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</table>

* State-controlled system but unions play a strong role in the administration of unemployment benefits.

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

**Source:** OECD Statistics

### Table 2: Changes in Union and Fund Membership for LO, TCO and Saco, 2006-2010

<table>
<thead>
<tr>
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<th>Unions</th>
<th>Unemployment Funds</th>
<th>No Fund Membership in 2010 (2006)</th>
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<tr>
<td>LO</td>
<td>-15.7%</td>
<td>-15%</td>
<td>6.4% (1.5%)</td>
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<td>TCO</td>
<td>-6.2%</td>
<td>-11%</td>
<td>10.6% (4.6%)</td>
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<tr>
<td>Saco / AEA</td>
<td>+6.9%</td>
<td>+5%</td>
<td>11.3% (8.5%)</td>
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<tr>
<td>Others</td>
<td>+8.3%</td>
<td>-8%</td>
<td>19.5% (2.5%)</td>
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<tr>
<td>All</td>
<td>-8.8%</td>
<td>-10%</td>
<td>9.1% (3.7%)</td>
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**Note:** LO excluding ‘Electricians’, TCO excluding ‘Association of Health Professionals’.

**Source:** Kjellberg 2011
<table>
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<th>Membership Fees (SEK)</th>
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<td>AEA (^c)</td>
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\(^a\) LO unions.  
\(^b\) TCO unions.  
\(^c\) Saco unions and TCO union of nurses.  
\(^d\) „Unionen“ resulted from a merger of the TCO union of commercial employees (HTF) and the TCO union of employees in manufacturing industry (Sif) in January 2008. The fund of wood workers and the fund of graphical workers merged into ‘GS’ in April 2008.  
Note: 9 SEK ≈ 1 EUR  
Sources: Kjellberg 2009, 2011; IAF
Figure 1: Union Density in Scandinavia as well as Belgium and the Netherlands, 1960-2009

Source: OECD Statistics
Figure 2: Union and Unemployment Fund Membership in Sweden, 1960-1990

Sources: Erici/Roth 1981: 229; Statistiska centralbyrån; Visser 2013

Figure 3: Net Replacement Rates in the Swedish Unemployment Insurance, 2001-2012

Notes: NR = Nominal replacement rate (days 1-200), RR67 = Net replacement rate for single with 67% of average wage (no children), RR100 = Net replacement rate for single with average wage (no children), RR150 = Net replacement rate for single with 150% of average wage (no children).
Sources: IAF; OECD Statistics (Benefits and Wages)
Figure 4: Changes in Union and Unemployment Fund Membership, 2006-2010

Source: IAF (own calculation)

Figure 5: Insurance Coverage of Unemployed Fund Members (4 Funds), 2006-2013

Sources: IAF; Arbetsförmedlingen (own calculation)